

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
1. Institutional Risks			
1.1 Policy			
Political environment and policy framework conditions become unfavorable.	M	<p>The project concept has been cleared by the chief minister of Punjab, showing the highest level of political ownership.</p> <p>A high-level project steering committee, headed by the chair of the Planning and Development Board, has been constituted to oversee the project and provide policy guidance. The committee will review the project performance periodically and take decisions to provide policy support.</p> <p>ADB will continue to work closely with the elected representatives, who are fully on board and supportive of the project in both cities. The CIUs will keep the elected mayors (heads of municipal corporations) informed of the project's progress. At the provincial level, the PMU will regularly consult with relevant stakeholders.</p>	PMU and CIUs
Infrastructure needs change over years due to change of political leaderships at city and provincial level.	H	ADB will continue dialogue with relevant stakeholders throughout project implementation to ensure commitment and support by any political leaderships.	PMU and CIUs
The Government of Punjab is not able to hand over the responsibility of urban service delivery to new urban service companies in each city due to slow approval processes.	H	All preparatory work to establish Section 42 (nonprofit) public companies have been completed. Organigrams, policies, and job descriptions for key staff, required for the formation of the urban services companies were prepared. The Government has also agreed to allocate its budget for the company's operations. ADB will finance the recruitment of a firm that will provide dedicated services for smooth transition of urban services to the new companies.	PMU and CIUs
2. Organizational Risks			
2.1 Financial Management			
Inadequate capital funding and revenue streams to cover capital costs, and operation and maintenance	M	ADB will provide the capital cost of construction and equipment as well as technical assistance, while the	Executing agencies,

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costs, can lead to poor service quality and undermine new investments.		<p>Government of Punjab will provide funds for the operations of the urban services companies.</p> <p>Prepaid and postpaid metering and revenue from water supply will contribute to the long-term financial sustainability of the urban services companies.</p> <p>The newly established companies will receive 10% of the increased revenue from the three bus terminals rehabilitated under the project.</p>	PMU, and CIUs
Financial management capacity is weak. Weakness includes inadequate finance professionals, noncompliance with project legal requirements, insufficient audit arrangements, and inadequate understanding of ADB requirements.	M	<p>Based on the financial management assessment, a financial management action plan (Project Administration Manual) has been agreed with the Government of Pakistan.</p> <p>Key financial management personnel will be placed at the PMU and CIUs before fund disbursement.</p> <p>The internal audit function will be outsourced to a chartered accounting firm for effective internal audit of the PMU and CIUs.</p> <p>ADB will provide financial management training regarding disbursement, financial reporting, and audit requirements.</p> <p>The PMU will regularly monitor expenditures. Any deviations will require justification and approval by the LG&CD Department.</p> <p>A computerized accounting and asset management system will be developed and put in place.</p> <p>The auditors general of Pakistan and ADB will jointly review audit requirements.</p>	PMU and CIUs
Counterpart funds are lacking or delayed—ADB will provide \$200 million and the government will provide \$50 million equivalent as counterpart funds for the project.	M	<p>The executing agency will have the responsibility to ensure adequate and timely release of counterpart funds.</p> <p>The PMU will prepare a 3-year project budget and update it annually. Based on this, the Government of Punjab will</p>	Executing agency

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		allocate sufficient budget from counterpart funds and release it on a timely basis.	
Approvals and endorsements are delayed beyond the stipulated time frame for project implementation.	H	The project adopts a realistic implementation period. The project team will work closely with the ADB Pakistan Resident Mission to maintain active and ongoing liaison with relevant government agencies and project implementing and executing agencies.	LD&CD Department and PMU
3. Procurement			
3.1 Procurement Planning			
The absence of procurement professionals and competent engineers can lead to less effective procurement and contract management.	H	<p>All procurement will follow procurement principles embodied in ADB's Procurement Guidelines (2015, as amended from time to time).</p> <p>The project management consultant engaged through advance procurement will assist the PMU in procurement.</p> <p>The engineering, procurement, and construction management consultant will undertake detailed engineering design, prepare bidding documents, and provide resident supervision during procurement.</p>	PMU, CIUs
3.2 Bid Evaluation, Award of Contract, and Contract Management			
Officials who work in the sector use their influence to direct contract awards to selected companies. Inflated prices (e.g., capital works, vehicles, and equipment) fund kickbacks to officials, which can compromise the quality of works and/or services.	H	<p>All procurement will be carried out following ADB's Procurement Guidelines (2015, as amended from time to time).</p> <p>For the procurement of works, plants, and goods, ADB's standard bidding documents for the procurement of goods dated December 2016 or later edition will be used.</p>	PMU, CIUs, and OSFMD
In the case of construction contracts, the selection and award of contracts to the lowest bidder, followed by change orders (increasing the price, changing the specifications, or reducing the quality or volume of goods and services) can pose corruption risks. Renegotiations, if nontransparent, present opportunities for making illegal gains.	M	<p>The project management consultant engaged through advance procurement will assist the PMU in procurement.</p> <p>The engineering, procurement, and construction management consultant will undertake detailed engineering design, prepare bidding documents, and provide resident supervision during the procurement and implementation of the project.</p>	PMU, CIUs, and OSFMD
Falsification of inspection certificates and quality tests can pose corruption risks.	M		PMU, CIUs, and OSFMD

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		<p>An independent validator, as part of the audit and finance and performance management consultant, will verify all expense claims.</p> <p>In addition to ADB's Anticorruption Policy (1998, as amended to date), Punjab's Anticorruption Ordinance 1961, Prevention of Corruption Act, 1947, and National Accountability Bureau of Pakistan Act, will provide a legal framework for action against any malpractice.</p>	
4. Human Resources and Assets			
4.1 Adequate Resources			
<p>Urban services companies do not have adequate means (assets and equipment) and number of professional staff (human resources) to provide services adequately.</p>	M	<p>The government has agreed that assets and staff will be transferred to the new urban services companies. When necessary, consulting services are available to support urban services companies.</p> <p>Strengthening of local government academies in Lala Musa and Lahore, and human resources training under the project, will augment the capacity of the relevant staff.</p>	LG&CD Department
<p>Capacity development and institutional strengthening do not take place at the desired pace.</p>	H	<p>The allocation of significant resources has been agreed and made to support the new companies to strengthen their institutional framework and governance structure, develop staff capacity, and improve their operational efficiency and sustainability. ADB will monitor progress closely.</p>	PMU and Urban Unit
5. Sector Operations			
5.1 Customer Interface			
<p>Inadequate tariff affects cost recovery and financial sustainability.</p>	H	<p>In addition to a time-bound financial sustainability action plan which will be implemented by the government, the project will support public awareness campaigns and social media activities. These activities will highlight that improved urban services need to be linked with cost recovery tariffs. With ADB's support, policy dialogue for gradual and continuous volumetric tariff increases will be implemented.</p>	PMU, CIUs and new companies
<p>Undue connection delays can provide opportunities for utility staff to ask for</p>	M	<p>Strict timelines have been set for providing connections or</p>	New companies

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bribes to install water connections. Utility staff may also ignore or conceal illegal connections in exchange for side payments from customers.		disconnections, and other services in service and asset management agreements. A grievance redress mechanism will be available to address complaints in this regard.	with PMU and CIU support
Poor maintenance of complaints records and undue delay in attending to complaints can push customers to pay unofficial fees to hasten resolution of complaints.	M	<p>A management information system will be established at urban services companies to help track delays and take effective measures.</p> <p>The LG&CD Department will set up an independent regulator for municipal services to set and monitor services standards.</p>	LG&CD Department
Overall	M		

ADB = Asian Development Bank; CIU = city implementation unit; H = high; LG&CD = Local Government and Community Development; M = moderate; OSFMD = Operations Services and Financial Management Department; PMU = project management unit.

Source: Asian Development Bank.