

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. The risk assessment for the proposed Guangxi Baise Vocational Education Development Project has been conducted in accordance with the Asian Development Bank's governance and anticorruption policy to identify risks associated with implementation of the proposed project. Mitigation measures built into the project design are identified and the residual risk with the mitigation measures in place is assessed.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<b>1. Public Financial Management</b>		
<b>A. Inherent Risks</b>		
1.1. Country-specific risks Inadequate financial management, management, and skills capacity	L	(i) There are sufficient resident skills, expertise, and experience in most areas for timely and successful implementation. In addition, there is a high-level coordinating body in the government to systematically and critically assess directions and outcomes of the project. (ii) Training will be given to the PMO and local financial staff to familiarize them with ADB.
1.2. Entity-specific risks Inadequate understanding of roles of the executing agency, implementing agency, and other agencies	L	(i) A clear organizational structure of the executing agency and/or implementing agencies is already established in relation to the project, and the separation of roles and responsibilities between parties are clear. (ii) Work plans of core activities for the executing agency and/or implementing agency personnel are well developed.
1.3. Project-specific risks (i) Implementing agencies lack experience with ADB projects. (ii) Some capacity building components will be partly managed by individual project TVET schools.	M	(i) Consulting support and training to be provided, including in the following areas: a. ADB disbursement procedures, and b. project accounting requirements. (ii) Detailed procedural guidance to be put in place in advance of loan effectiveness. (iii) PMO will oversee local project activities by requiring implementing agency plans and cost estimates to be approved by them.
<b>Overall Inherent Risks</b>	<b>L</b>	
<b>B. Control Risks</b>		
1.4. Implementing entity's financial management policies and procedures for the project are inadequate.	M	Written financial procedures will be developed for the project and reviewed by suitably experienced GZAR officials.
1.5. Funds flow Weak adherence to ADB guidelines as concerns to disbursement and withdrawal of project funds by the executing and implementing agencies.	L	(i) Executing agency to liaise regularly with ADB to ensure that ADB guidelines are followed. (ii) Interagency coordination at all levels to discuss the loan disbursement performance. (iii) Separate accounts to be maintained for all project components financed by ADB and the government.
1.6. Staffing (i) High staff turnover and inadequate financial management skills. (ii) Implementing agency accounting staff lacks adequate understanding of ADB requirements.	M	(i) Provide thorough training on ADB's disbursement procedures and project accounting requirements. (ii) Oversight of disbursement by experienced financial staff at the executing agency and GZAR level. (iii) Guidance and support from the management support consultant.

1.7. Accounting Policies and Procedures Account and bank reconciliations are not performed in a timely manner.	L	Qualified and trained staff will undertake account and bank reconciliations on a periodic basis. Minor weaknesses identified in the FMA will be addressed prior to the project commencing.
1.8. Internal audit Inadequate capacity in the Internal Audit Department	M	All implementing agencies' financial activities are routinely subject to internal audit coverage, but there is scope to enhance capacity by modernizing auditing methods.
1.9. External audit External auditors do not perform their functions adequately.	L	Independent external auditors acceptable to ADB will be appointed by the executing agency to audit project accounts and compliance with financial covenants on an annual basis.
1.10 Reporting and monitoring Regular financial reports suitable for user needs are not prepared.	M	(i) The executing agency will make comprehensive progress reports (including financial) to ADB semiannually. (ii) Consultancy support to advise improvements needed to financial management reporting.
<b>Overall Control Risk Assessment</b>	<b>M</b>	
<b>2. Procurement</b>		
2.1 Procurement capacity is low, leading to irregularities.	M	(i) Use of a specialist tendering company and a project readiness consultant will enhance capacity. (ii) Training in ADB procurement procedures during project preparations.
2.2 Lack of professionalism in the procurement function	M	(i) PMO to appoint a procurement specialist. (ii) Use of an accredited specialist tendering company will enhance professionalism and provide training. (iii) Specialist procurement staff seconded to implementing agency PIUs. (iv) Use of accredited experts for bid evaluations.
2.3 Delays in the procurement process	M	(i) Training in project management and planning. (ii) Use of standard bidding documents and ADB advance contracting facility. (iii) Advice and support of tendering company and consultants.
2.4 Non-performance by contractors or suppliers	L to M	(i) Use of performance guarantees. (ii) Investigation and monitoring of past performance.
<b>Overall Procurement Risk Assessment</b>	<b>M</b>	
<b>3. Other Project Implementation Risks</b>		
3.1 TVET proves inaccessible and/or unattractive to the potential student population.	M	Central government is strongly supportive of TVET development. The project design is intended to improve the quality and relevance of TVET courses and to improve the employability of TVET graduates.
3.2 The commitment of TVET institutions to implementing change in teaching and learning methods is not sustained.	M	TVET improvement strategies have been developed through a consultative process that indicated a strong recognition of the need to improve, and with the strategies individually reviewed and finalized with the participation of the schools themselves.
3.3 Insufficient interest by BMG in integrating the pilot innovations and disseminating experiences and materials	M	BMG is willing to give a loan assurance that they will actively disseminate the pilot results and seek to make them models of best practice. ADB's ongoing policy dialogue on the pilot activities with BMG.

3.4 Delays in counterpart funding	L	(i) Covenanted assurances from BMG for the timely provision of counterpart funding, together with BMG and local governments' strong and improving fiscal capacity. (ii) Direct coordination between PMO and BFD.
<b>Overall Other Implementation Risks</b>	<b>M</b>	
<b>4. Governance and Corruption Risks</b>		
4.1 Corruption in the procurement process	L to M	(i) As identified under procurement risks (see Section 2 above). (ii) Involvement and inspections of local supervision and anticorruption departments in cities and provinces. (iii) Increased transparency in the procurement process (see 4.7).
4.2 Lack of clarity in responsibility for anticorruption measures	L	(i) ADB contracts will contain clauses to make contractor responsibilities and consequences clear. (ii) PAM includes anticorruption responsibilities, measures, and procedures.
4.3 Failure to enforce anticorruption measures	L	(i) The government has introduced an integrity program that targets prevention and punishment. (ii) Anticorruption offices (discipline and inspection offices) have a clearly defined set of responsibilities to investigate and prosecute.
4.4 Numerous standards for the behavior of public officials and the complex language of regulations	L	(i) ADB guidelines, and loan and contract documents will stipulate what constitutes unacceptable behavior. (ii) Anticorruption training is identified as a capacity building need under the loan.
4.5 Constrained capacity to conduct an effective audit of ADB-financed projects	L	(i) Scope of project audit and audit certification to include compliance with loan conditions. (ii) ADB to receive and review annual audit reports (including any appropriate follow up).
4.6 Existence of conflicts of interest	L to M	(i) No apparent institutional conflicts of interest have been identified during the project preparations. (ii) Local government regulations require officials to declare conflicts of interest.
4.7 Lack of transparency	L to M	(i) Loan conditions to promote greater transparency and public availability of information, including the project procurement plan and contracts awards. (ii) Government officials in the PRC are now being required to declare personal and family wealth.
<b>Overall Corruption and Governance Failure Risk Assessment</b>	<b>L to M</b>	
<b>Overall Implementation Risk</b>	<b>M</b>	

ADB = Asian Development Bank, BFD = Baise Finance Department, BMG = Baise Municipal Government, FMA = financial management assessment, GZAR = Guangxi Zhuang Autonomous Region, H = high, L = low, M = moderate, PAM = project administration manual, PIU = project implementation units, PMO = project management office, PRC = People's Republic of China, S = substantial, TVET = technical and vocational education and training.  
Source: Asian Development Bank estimates.