

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
1. Slow financial closure of subprojects because of weaknesses in the infrastructure sector or in the balance sheets of other financial institutions that have historically lent to the infrastructure sector	S	The indicative project amount is 2.6x the size of the tranche, so even if there is a slowdown in financial closures, there is sufficient redundancy to ensure disbursement of the tranche.	IIFCL
2. IIFCL's portfolio quality deteriorates because of weakness in India's infrastructure sector	M	IIFCL performs its own risk assessment for each project and given its infrastructure specialization has performed better than peers. Additionally, IIFCL typically lends in consortium and can leverage the risk appraisal of the lead bank in the consortium. Finally, ADB will provide support in conjunction with this tranche to review and strengthen IIFCL's credit risk management framework.	IIFCL, ADB
3. ADB funding is used for a subproject with significant (category A) safeguard impacts because the subproject was erroneously classified as having "some" impacts (category B) or other operational errors (category B)	S	With ADB's assistance, IIFCL has established an environment and safeguards management unit that has performed well, and the attached technical assistance will further deepen its capacity. Additionally, IIFCL will use ADB templates to classify subprojects.	IIFCL, ADB
4. Facility not fully utilized because of poor management	L	IIFCL's project management unit has undergone training on ADB project administration procedures and can draw on their experience from ADB's two earlier IIFCL facilities.	IIFCL
5. IIFCL is unsustainable because the government withdraws support	L	Strong business development, underwriting, and risk management are the keys to IIFCL's sustainability as it evolves its financing modalities to meet market needs. IIFCL has established a credible record of business	IIFCL

Risk Description	Rating	Mitigation Measures	Responsibility
		development and its relatively stronger performance during the infrastructure downturn suggests capable underwriting.	
6. IIFCL incurs losses because of rupee depreciation	M	IIFCL borrows in both local and foreign currency. Although it swaps at least 75% of its foreign borrowings into rupees, its borrowings have a longer maturity than the maximum available swap, so IIFCL is exposed to foreign exchange rate risk when it rolls over maturing swap contracts. IIFCL can mitigate this risk by laddering its maturing swaps so that only a portion matures in any given year.	IIFCL
7. IIFCL cannot materially integrate its management information systems because of the incompatibility of legacy systems	S	ADB will, through the attached technical assistance, advise on and verify the integration of the management information system.	IIFCL, ADB
8. Governance risk because of developing financial management	M	IIFCL's governance and risk management systems continue to evolve from the first tranche. Moreover, ADB has included a covenant for additional improvements to IIFCL's management information system.	IIFCL
9. IIFCL's focus is compromised because of alleged or actual incidents of fraud	S	Supported by project covenants and the attached technical assistance, IIFCL will reduce fraud risk by strengthening its internal audit, risk management, and management information systems.	IIFCL

Note: Project design and monitoring framework was adjusted to align with the new guidelines.

ADB = Asian Development Bank, H = high, IIFCL = India Infrastructure Finance Company Limited, L = low, M = moderate, S = substantial.

Source: Asian Development Bank.