

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. The Asian Development Bank (ADB) conducted a country-level risk assessment for Pakistan in 2009 as part of the country partnership strategy, 2009–2013.¹ The assessment pointed out potential risks from continuous macroeconomic deterioration and weak governance at the central and provincial levels, and recommended improving financial management and strengthening accountability and governance to stabilize the economy and avoid corruption.

2. A financial management assessment and procurement capacity assessment were conducted for the National Highway Authority (NHA) as part of project preparation. Country-level and project-level risks and their management plans are summarized in the table.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
A. Public Financial Management		
1. Government's continuous unbalanced public investments in favor of road construction rather than road maintenance	Medium	The NHA will expand the toll base and rationalize tolls, the revenue from which is allocated to the road maintenance fund.
2. Weak financial management arrangements	High	Tolls and auxiliary road revenue are the NHA's only revenue source. However, they constitute less than 20% of the NHA's road construction and maintenance expenditure. The rest is financed from the government subsidy. The NHA will expand PPP-based road construction to reduce the government subsidy.
3. Unsustainable growth of NHA debt	Medium	The government subsidy is accounted for as a borrowing in the NHA's balance sheet. With insufficient toll revenue, the NHA cannot service the debt and its balance sheet accumulates unserviceable debts. The NHA will ask the government to equitize the debt and clean its balance sheet.
B. Project Management		
1. Lack of counterpart funds	Medium	The government will accord transport infrastructure a top priority in the country's resource allocation. The NHA will expand PPP-based road construction to reduce the government subsidy.
2. Unbalanced provincial development	Medium	The government will continue its efforts to ensure balanced provincial development, focusing on the underdeveloped provinces of Balochistan and Khyber Pakhtunkhwa.
3. Unsustainable public investment for the road sector in Balochistan	Medium	The federal government tries to rebalance public investment, which was formerly skewed to provinces that did not face security risks. A national consensus is reached on the importance of engaging with underdeveloped provinces to contain political and religious insurgents.
4. Development partners assistance for road sector shrinks because of political instability and lack of strong will for reform	Medium	A peaceful change of government lessens the concern of the international community regarding political instability. The government convinces development partners of its seriousness to reform the sector.

¹ ADB. 2009. *Country Partnership Strategy: Pakistan, 2009–2013*. Manila.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
C. Project Implementation		
1. Delay in commencement of civil works	Medium	Since the project is to rehabilitate existing roads, no crucial safeguard issue will be entailed. The NHA has prepared detailed design and procurement documents, and will synchronize loan effectiveness with commencement of civil works. Public consultation has been widely conducted to address the concerns of affected people living along the project area. ADB approved advanced contracting and retroactive financing to ensure project readiness.
2. Inadequate safeguard arrangement	Low	The project will not involve significant impacts on the natural and social environment along the project area. During civil works, the NHA and the construction supervision consultant will implement the environmental management plan, monitor the implementation process, and submit to ADB the safeguard monitoring reports regularly.
D. Procurement		
1. Delay in procurement procedures	Medium	The NHA is familiar with ADB's procurement guidelines and requirements. The new government assures no political intervention in bidding for large-scale public works.
2. Limited interest of qualified international contractors and consultants participating in the project because of security risks	High	The NHA has learned that civil works contracts, even in relatively safe places, cannot attract internationally renowned contractors. In many cases, joint ventures of medium-sized international firms and qualified local firms carried out the works. A few local firms have proved their competence to build roads as designed. Civil works contracts are packaged to be suitable for the same joint venture arrangement between medium-sized international firms and competent local firms.
3. Weak performance of consultants/contractors	Low	The NHA has learned that, once locked in with poorly performing contractors and consultants, it is extremely costly to terminate the contract and bring a new contractor on board. The NHA will put strong emphasis on screening incompetent contractors through rigorous technical evaluations.
E. Governance		
1. Noneconomic consideration of contractor/consultant selection	High	The new government is strongly committed to eradicate corrupt practices. The National Accountability Bureau is fully empowered to enforce the National Anticorruption Ordinance to prevent, detect, investigate, and prosecute of cases involving corruption, corrupt practices, misuse/abuse of powers, misappropriation of property, kickbacks, and commissions. The National Accountability Bureau plays its role properly.
2. Collusion between NHA and contractors/consultants	Medium	The NHA maintains separate project records and accounts adequate to identify the goods and services financed from the loan proceeds, financing resources received, expenditures incurred for the project, and use of local funds, including adequate internal controls and financial reporting arrangements. The project accounts and related financial statements will be audited annually in accordance with national and international auditing standards by the Auditor General of Pakistan and by a chartered accountant. .
Overall	Medium	