

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<b>Procurement, Regulatory, and Operational</b>		
EESL's lack of experience in implementing ADB-funded project	Medium	EESL has ongoing programs from other bilateral organizations and with their own funds. Capacity building to help EESL adhere to ADB's disbursement, procurement, and financial management policies and procedures, including in managing an imprest account
Delay in project completion	Medium	Completion delays could arise due to the large number of projects EESL is planning to implement from 2015–2020. These projects would be implemented in many states and would involve different focus areas, like domestic appliances, LED bulbs, tube lights and ceiling fans, streetlights, and agricultural pump sets. While EESL has a strong technical, legal, and management team that monitors project implementation schedules, which has resulted in a good implementation track record, it needs to ramp up its management capacity manifold to achieve its business plan objectives. EESL has taken advance action to scale up its internal systems, employee strength, and information systems, which would help it maintain its project implementation plans.
Regulatory changes	Low	EESL has been working with state regulators in the power sector, wherever required, to ensure that appropriate regulations are adhered to. For instance, it follows the appropriate guidelines for disposing of old appliances.
Procurement delays	Medium	<p>The absence of standard bidding documents for public procurement may reduce competition, consistency, and transparency in the procurement process, leading to inflated costs and low value for money in public investments. ADB will thus provide assistance to EESL for designing standard bidding documents, which will prescribe to all bid-related requirements to ensure compliance with ADB guidelines. ADB will review the first two bidding documents. Since EESL has no prior experience with ADB investments, ADB will conduct a series of training programs and procurement workshops for EESL staff.</p> <p>Since some of the EESL's current procurement practices are not compliant with ADB Procurement Guidelines (2015, as amended from time to time), EESL will use ADB Procurement Guidelines for the procurement of goods with ADB funds. It will, however, continue using its own various government departments' compliant guidelines for procurement using its own funds.</p>
Lack of operation and maintenance	Low	EESL ensures the commitment of the manufacturer and/or supplier to provide operations and maintenance support during the project period, on a back-to-back basis.

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Rebound effect	Medium	Consumers might offset energy savings from efficiency measures with increased usage or other behaviors. EESL conducts massive awareness campaigns to educate users on efficient use of energy and more efficient technologies.
<b>Financial Risks and Management</b>		
Uncertainty on timely revenue collection	Low	EESL's revenue profile is predicated on the premise of sharing energy savings with its customers along with earning a reasonable return on its debt and equity invested in the projects. Consequently, revenue risk for EESL is considered to be low.
Funding and liquidity: delay in receipt of payments from customers	High	EESL's business plan envisages raising about Rs890 billion by FY2020, whereas it has risen about Rs15 billion as of FY2016. EESL's fund mobilization plan appears challenging. Also, most of EESL's project payments come from urban local bodies and distribution companies, which are known to have uncertain cash flows, leading to delayed payments to EESL. While EESL's security for such payments seems to be adequate (escrow account, state government guarantee, letter of credit), continued payment delays could lead to working capital issues for it. EESL needs a robust treasury department to manage cash flows. EESL has also agreed to establish a framework for escrow account monitoring in areas relating to the establishment of escrow accounts, deposit of funds, enforcement of payment terms in the event of default. The framework would also monitor government guarantees and letters of credit. EESL has also committed to maintaining certain ratios relating to debt and equity, debt service coverage ratio, and the current ratio to address this risk.
Transaction risk	Low	EESL enters into contracts with customers and manufacturers and/or suppliers, and most of the obligations of EESL towards customers are transferred to the manufacturers and/or suppliers on a back-to-back basis, with some of the residual risks remaining with EESL. To ensure fair allocation of transaction risks, EESL has committed to undertake a legal and commercial audit of all agreements with customers to ensure appropriate risk allocation in the areas of force majeure and termination.
Foreign exchange risk	Medium	While EESL's current foreign currency borrowing is not substantial, it could contribute to a significant portion of its debt in the future. Considering that EESL's revenue is entirely in Indian rupees, uncovered foreign exchange exposure could lead to exchange losses in the future. EESL is in the process of formulating a foreign exchange risk management framework to deal with this risk.
<b>Governance</b>		
Governance	Low	EESL maintains solid, transparent financial management and procurement systems. ADB has performed its standard Know-Your-Customer assessment and found no material integrity concerns.
<b>Overall</b>	<b>Low</b>	

ADB = Asian Development Bank, EESL = Energy Efficiency Services Limited, LED = light-emitting diode.  
Source: Asian Development Bank.