

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

| Risk Description  | Rating | Mitigation Measures  | Responsibility                            |
|---|--------|--|---|
| <b>Technical</b>  |        |  |   |
| Ineffective mobilization of support from APGs   | M      | Community empowerment specialists, PAFO and DAFO staff, and nongovernment organizations will work with local governments to engage APGs.   | PIC, IAs, NPMO                            |
| Catastrophic events damage infrastructure or interrupt implementation.  | M to S | The project design incorporates climate-resilient construction and maintenance techniques.   | PIC, IAs, NPMO                            |
| <b>Economic and Financial</b>   |        |  |   |
| Declining demand for rice and vegetables from the Lao PDR because of competition from external markets and stringent quality requirements by importing countries  | M to S | The project will promote awareness of farmers, APGs, and agribusinesses on export standards and ways to compete with external markets, and will strengthen their quality-testing capacity in line with the requirements of importing countries.  | PIC, NPMO, and IAs                        |
| The country's high vulnerability to regional or global slowdowns hurts market demand. The financial and economic viability of investments, particularly in the premium and organic rice, vegetable, and biofertilizer markets, may decline.   | M      | Project investments in agricultural extension and farm mechanization will enable crop diversification and improve yields and productivity. The project will train farmers and farmer groups on ways to interpret market information. With increased yields and diversification to high-value crops, and with improved market efficiency and knowledge, the financial impact on individual households is expected to be positive.<br>Risks associated with the sustainability and development of the biofertilizer market are addressed through support to processing and quality certification, and extension services and training programs on organic agriculture. | PSC, NPMO, PIC, IAs                       |
| <b>Governance</b>   |        |  |   |
| <b>(a) Financial management</b><br>Weak regulatory systems and skills; inadequate financing of O&M leading to premature infrastructure deterioration:<br>(i) MOF exerts insufficient control, particularly over provincial public expenditure;<br>(ii) weak internal and external auditing procedures and | S      | NPMO and IA staff will be trained in project accounting and auditing procedures to conform with ADB requirements. Any financial staff changes will be agreed with ADB. Preparation of a viable and realistic O&M plan will be a condition for subproject selection, with preference for subprojects with committed O&M funding. Robust designs and good quality control will reduce the O&M burden.<br><br>Multidonor support for public financial management will be mobilized, focusing on strengthening central and provincial government capacities for budget planning, formulation, and execution.   | ADB, MAF, MOF, IAs, and external auditors |

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| (iii) poor quality of administrative capability (as the public sector is patronage-based and civil service underperforms and is hampered by low salaries and unclear boundaries of responsibility).  |        | <p>The project will adhere to ADB's regulatory framework with respect to financial management, reporting, procurement, accounting, auditing, and the provisions of the grant agreement. The project team, in collaboration with ADB's LRM, will train staff on internal and external auditing.</p> <p>Compliance with ADB's regulatory framework will be monitored by review missions, and followed up regularly with respective agencies and individuals, including external auditors. This procedure has worked well in the past and in ongoing ADB projects.</p> <p>The government is implementing a Governance and Public Administration Reform Program through the Prime Minister's Office.</p>  |                                   |
| <b>(b) Procurement</b><br>Weak regulatory systems and staff skills in the absence of training; language difficulties, especially as regards commercial and legal terms; and frequent staff turnover.                                       | M      | <p>The start-up procurement consultants will train the NPMO and other relevant staff on ADB procurement guidelines. ADB will provide additional training, and the LRM will pre-review consulting recruitment and national competitive bidding contracts.</p> <p>Procurement arrangements that have proven satisfactory under other MAF projects funded by ADB will be continued under the project. Procurement staff changes will be agreed with ADB.</p>   | NPMO, PIC, IAs                    |
| <b>(c) Corruption</b><br>The Lao PDR was ranked 135th out of 180 countries in the Transparency International Corruption Perception Index in 2017.<br><br>The public perception is that corruption and patronage are widespread and rising. | S      | <p>Project accounts will be closely monitored with two reviews annually. Mechanisms for reporting corruption are in place. ADB will build awareness among stakeholders (MAF-NPMO, PAFOs, and DAFOs) of its Anticorruption Policy, and strengthen the capacity for external audits. Corruption will be curbed following the principles of GACAP II.</p> <p>The government has assured ADB that implementation of the project shall conform to all applicable ADB policies, including anticorruption measures, as detailed in the PAM and grant documents. The government promulgated the Anti-Corruption Law, 2005, which defines the principles, rules, and measures for the prevention and countering of corruption. Laws have since been passed to strengthen public expenditure and financial management, including the State Audit Law, 2007.</p> | ADB, MAF, MOF, Government SWG-ARD |

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|   |        | The project will raise awareness that the National Legislative Assembly has set up a hotline for ordinary citizens to report suspected cases of inappropriate behavior or corruption. With these measures, the substantial risk identified in the CPS can be mitigated to <i>moderate</i> .  |   |
| <p><b>(d) Capacity and institutional</b><br/>Weak enforcement of regulations and low implementation capacity; high turnover of staff.</p> | M      | <p>Project preparatory technical assistance will continue until grant effectiveness to assist with the selection of consultants and build capacity of national and provincial project office staff. Implementation will be phased in accordance with district capacity. The NPMO and PIU project accountants will undergo capacity building through classroom and on-the-job training.</p> <p>MAF and the PAFOs are experienced in project implementation. The geographic scope of the project was selected based on provinces having participated in ADB projects.</p> <p>The government has committed to meeting the staff requirements for project management and to assigning only qualified and experienced staff. The government will provide ADB with the terms of reference and curriculum vitae of all proposed key and professional staff for ADB's review and concurrence prior to assigning staff. The PIC will provide the necessary support until local staff skills are adequately developed. With such measures, the moderate risk identified in the CPS can be mitigated to <i>low</i>.</p> | ADB, donor coordination through the PSC, NPMO, and Government SWG-ARD |
| Inadequate interministerial coordination, and fragmentation of support to value chains  | M      | PIC to raise awareness among key agencies of the links between the structural and nonstructural measures, and on integrated approaches for supporting value chains.  | PIC   |
| Limited implementation capacities at the provincial and district levels to meet all ADB and project requirements.                         | M to S | Project preparatory technical assistance will continue until grant effectiveness to assist with consultant selection and build capacity of national and provincial project office staff. Implementation will be phased in accordance with district capacity. PIC will provide support in reviewing design, elaborating tender documents, and managing contractors.   | EA, PSC, NPMO, PIC, PPIU  |
| <b>Poverty, Social, and Gender</b>  |        |  |   |
| There is a perception that the government and IAs may give less priority to   | L      | The project has prepared a poverty reduction and social strategy, detailed poverty and social impact analysis, gender action plan for gender mainstreaming, and a  | NPMO, PIC   |

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| mainstreaming social inclusion and gender into value chain development. |        | detailed gender analysis. These documents, together with training on social inclusion and gender mainstreaming in the project's capacity building programs, will address and mitigate any risks and issues that may arise during implementation. The identified low level of risk is confirmed and maintained. |                |
| <b>Overall implementation risk</b>                                      | M      | Having considerable experience in implementing ADB projects, the EA and IAs have in place multiple systems for managing risks. With stronger involvement of provincial and district administrations and a results-driven approach, the risk identified as moderate can be mitigated to <i>low</i> .            |                |

ADB = Asian Development Bank, APG = agricultural production group, CPS = country partnership strategy, DAFO = District Agriculture and Forestry Office, EA = executing agency, GACAP II = Second Governance and Anticorruption Action Plan, GMS = Greater Mekong Subregion, H = high, IA = implementing agency, LRM = Lao Resident Mission, L = low, M = moderate, MAF = Ministry of Agriculture and Forestry, MOF = Ministry of Finance, NPMO = National Project Management Office, O&M = operation and maintenance, PAM = project administration manual, PAFO = Provincial Agriculture and Forestry Office, PIC = project implementation consultant, PIU = project implementation unit, PPIU = provincial project implementation units, PSC = project steering committee, S = substantial, SWG-ARD = Government Sector Working Group on Agriculture and Rural Development.

Source: Asian Development Bank.