

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<p>Political economy Prolonged political transition may affect formulation and approval of the R&R policy and establishment of the institutional structure required to implement the R&R program, including the project</p>	High	Development partners continue the dialogue with the government and key stakeholders to make sure that the R&R program can move forward under ongoing political processes. An SPV is expected to be established, and to be provided with adequate financial and approval authority through an ordinance or the 2015 Earthquake R&R Act, to allow the SPV to execute the R&R program successfully. An officer at the senior secretary level will be responsible for day-to-day affairs with the support of line ministries, technical experts, and consultants.
<p>Weak interagency coordination between national agencies and stakeholders may undermine effective implementation of the R&R program</p>	Medium	The Government of Nepal has set up the National Level Disaster Management Committee to steer the R&R program. It will act as a policymaking body and provide advice and guidance on reconstruction to the proposed SPV, and will coordinate with line agencies to formulate, implement, and monitor the program. Until the SPV is established, the Ministry of Finance will be the executing agency for the project. The procurement procedures for emergency and relief operations are flexible and relaxed to a certain degree, and this will ease coordination of efforts.
<p>Implementation capacity Low implementing capacity of the government may curtail fast-track implementation of the R&R program and subprojects, including timely completion of due diligence required for subprojects</p>	High	To fast-track implementation, the project will (i) support the new executing agency with project management consultants to help manage, monitor and evaluate, and report on project progress; and (ii) establish ministerial PIUs to provide technical, financial, and institutional support. PIUs will be reinforced with consultants to assist the implementing agencies with design, construction supervision, safeguard application, procurement, financial management, and reporting. PIUs will further establish district implementation units by drawing on experts from the consulting team to support construction supervision and on-site assistance, and expedite implementation. A DIMU will coordinate and monitor R&R program implementation at district level. It will oversee and report on technical compliance during implementation and redress grievances. ADB and consultants will support the executing and implementing agencies in procurement, disbursement, financial management, and safeguard policies and procedures.
<p>Weak capacity of implementing agencies for procurement and contract management</p>	Medium	Adequate consulting support will be provided to overcome the capacity constraints of the executing and implementing agencies with regard to procurement and contract management. The executing agency will periodically review and monitor progress of procurement and ongoing contracts to ensure timely completion of works.

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Low implementing capacity of contractors may delay delivery of large-scale emergency reconstruction and rehabilitation works within the scheduled period	High	The qualification requirements will be reduced since works are simple and repetitive, and skilled labor is in short supply. Contractors will receive training on preparation and submission of compliant and responsive bids and on contract conditions, especially variations, extra work orders or repeat orders; orders for additional delivery or modifications; time extensions; liquidated damages; bonus and contract amendments. To ensure contractors' cash flow, an advance of 20% will be provided against a reputable bank's guarantee.
Financial management Compliance with the financial management system may not be fully satisfactory	High	The executing agency will set up a unified web-based project monitoring and management information system in the PMU, PIUs, and district counterparts to monitor implementation, fund flows, accounting, audit and reporting functions within 1 year of project start. The attached technical assistance will also provide support for operationalizing an electronic tracking system of expenditures and outputs under the R&R program to promote transparency and reduce administrative burden. Dedicated full accounting staff shall be part of the PMU, and also of the SPV once it has been established.
Anticorruption measures Corruption-related issues may arise covering all aspects of project-financed activities	Medium	The R&R program has a monitoring and reporting mechanism that will promote better transparency. Disclosure of information about the use of funds will be required of the executing and implementing agencies. The DIMU, to be headed by the chief district officer and supported by technical, social, and legal experts to oversee and report on compliance, will also redress grievances. This will serve as one means to handle corruption-related concerns. Transparency will be further encouraged by representatives of civil society organizations (e.g., the Ward Citizens' Forum), donor representatives, and nongovernment organization, all of which will join DIMU in rotation.
Collusion to overprice bids	Medium	PMU and PIUs will carry out technical audits of randomly selected sample of subprojects twice a year. The reports will be shared with the Ministry of Finance, Commission for Investigative Abuse of Authority, and ADB on a confidential basis. Contractors will be required to display basic contract information at each construction site.
Other risks Difficulty in mobilizing labor and machinery, especially to remote areas at higher altitudes, because of damage and disruption to access roads	High	Executing and implementing agencies will prepare contract cost estimates, keeping in mind appropriate tender premiums, as applicable, especially for more difficult work in remote locations or at higher altitudes, to ensure adequate contractor participation. Scheduling of labor and machinery mobilization will take into account the monsoon and winter season. Given the difficult topography, realistic timeframes for mobilization of labor and machinery have been agreed upon.

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Delay in execution of works because of a limited working season and unpredictable and harsh weather conditions	High	The implementation schedule will factor in seasonal weather conditions, including the monsoon season, and expected snowfall in the fourth quarter of 2015, which will lead to snowmelt and runoff in spring and summer seasons, which often triggers further landslides and erosion, potentially damaging reconstructed infrastructure. Project construction activities will be scheduled in such a way that the available working season is efficiently utilized. Access and climate challenges will be managed by prioritizing reconstruction needs; so for this emergency loan, only those works that can realistically be completed in the given timeframe are included. Financial and human resources will be allocated to project areas for certain periods contingent on when and to what extent extreme weather conditions could restrict works. Works with longer timeframes will be scheduled under longer-term reconstruction programs, which the government is preparing, or under future ADB loans.
Lack of sufficient construction material and equipment may lead to delays in construction	Medium	To the extent possible, the project will source locally available materials (climate and earthquake resilient) and equipment for rebuilding. Where or when necessary, the executing agency will facilitate required statutory clearances to ensure adequate availability of construction materials for civil works under the project—this will need to be done in a way that does not crowd out other buyers (e.g., communities, individual households).
Lack of sustainability of infrastructure and physical assets rebuilt under the project	High	The assets will be transferred to the respective line ministry and/or the community to ensure utilization and maintenance. Line ministries will be encouraged to provide special operation and maintenance allocations in their annual budgets to ensure long-term sustainability.
Risk of further natural disasters and their adverse impact on regional economies	Medium	The underlying principle of the government's R&R policy is to build back better. The R&R program will incorporate higher building standards to withstand earthquakes, and climate proofing of existing infrastructure, including schools. While this will improve some infrastructure in the rebuilt parts of the project area, the country will remain at risk, and other unprotected areas will continue at high risk.
Overall	High	This is a high-risk environment, but the Government of Nepal, with the support of ADB and other development partners, is taking credible measures to manage the risks.

ADB = Asian Development Bank, DIMU = district implementation monitoring unit, PIU = project implementation unit, PMU = project management unit, R&R = rehabilitation and reconstruction, SPV = special purpose vehicle.
Sources: Asian Development Bank.