

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
Public Financial Management^a Poor financial health of NEA with recurrent losses and debt "overhang"	S	(i) Financial Restructuring Plan to convert debt to equity; (ii) annual inflation-linked tariff adjustments, taking into account cost reduction and efficiency improvement; and (iii) continued government contributions in the interim to cover NEA's operational viability gap	NEA, GOV
Regulatory function does not ensure cost-reflective tariffs (wholesale and retail).	S	(i) The ETFC needs to evolve into an independent regulatory agency free from political interference. To do so successfully, ETFC should receive advisory services and capacity building; (ii) The government is pursuing various policy reforms where the issue of cost-effective tariffs will be addressed.	GOV
Weak record keeping, accounting, and reporting	M	ERP-based IFMIS to be implemented by 31 December 2019	NEA
Weak internal controls and corporate governance	S	(i) FCGO to assign experienced and trained accountants to the project, enhance internal audit functions, and help reduce turnover of deputed accountants; (ii) ADB review missions to ensure that audit observations are acted on and that remedial measures are taken as needed; (iii) NEA to resolve audit issues; and (iv) revised risk-based internal audit manual to be approved by the Audit Committee	NEA, GOV, ADB
Weak internal audit	M	Revised risk based internal audit manual to be approved by the Audit Committee	
Weak foreign exchange risk management	M	NEA's foreign currency borrowings are not substantial at present. But because the Government of Nepal now intends to relend ADB's loan on back-to-back terms with additional service charge, foreign currency loans could contribute a larger portion of NEA's debt in the future. NEA will prepare a foreign exchange risk management policy relating to the hedging of both foreign currency and interest rates	NEA
Delayed approval and release of the budget	M	Timely release of budget by MOF and FCGO, and release of agreed project budget tranches (even when the budget is not passed on time)	GOV
Procurement Procurement and contract management	M	The Project Management Directorate was established and will be supported by project preparatory TA and project implementation consultants. A procurement plan was prepared and will be updated annually. ADB will regularly review procurement progress	NEA
Insufficient contractor	L	Capacity building in contract management,	NEA

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performance oversight, monitoring and evaluation		to be supported via project implementation services	
Lack of decision-making capacity to review and respond to contractors' claims and variations	M	Procurement support to be provided via (i) TA 9144-NEP through Q4 2017, and (ii) project implementation services to be funded by the project	NEA, ADB
Escalation of costs due to contract variation and renegotiation after awarding of contract	M	(i) Contract variation requires pre-approval of ADB; (ii) independent spot checks of the procurement process by ADB and the Project Management Directorate; (iii) NVC to conduct random technical audits; and (iv) CIAA to maintain scrutiny over NEA operations	NEA
Corruption and Other Risks			
Noncompliance with set rules and laws, including delivery of substandard equipment	M	Dialogue with NEA and line ministries to consider establishing pre-delivery inspection and/or test laboratory for equipment at time of purchase; third-party inspections can be conducted as an interim alternative	NEA, GOV
Prices of construction materials increase more than expected.	M	Hedging strategies to be considered based on anticipated volatility in market prices of key materials (aluminum, steel, copper)	NEA
Energy sector governance does not evolve, effective coordination is missing, and full project benefits not realized due to delay in other planned generation, transmission and distribution projects.	S	NEA and the government will continue to implement reforms and obligations under prior commitments to ADB and other development partners, and respond positively to the continuing policy dialogue with ADB in this regard. Government to set up high-level coordination committee to liaise with different agencies involved in urban infrastructure and service delivery NEA and the government will also continue pushing for other generation, transmission and distribution projects implementation in parallel.	GOV
Additional energy is not available to deliver to Kathmandu Valley before distribution system rehabilitation is complete.	L	Substation and distribution system investments have been identified and packaged for parallel implementation. Retroactive finance will facilitate faster start-up of time-critical physical investments	NEA, GOV
Implementation is significantly delayed due to political and security situation.	M	The improvement of electricity supply is high priority for the government and as such the high-level coordination committee will ensure timely implementation of the project activities.	NEA, GOV
Overall	Moderate		

ADB = Asian Development Bank, CIAA = Commission for Investigation of Abuse of Authority, ERP = Enterprise Resource Planning, ETFC = Electricity Tariff Fixation Commission, FCGO = Financial Comptroller General's Office, GOV = Government of Nepal, H = high, IFMIS = Integrated Financial Management Information System, L = low, M = moderate, MOF = Ministry of Finance, NEA = Nepal Electricity Authority, Q = quarter, S = substantial, TA = technical assistance.

^a The complete financial management action plan is given in the Project Administration Manual.

Source: Asian Development Bank.