

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
1. Institutional Risks			
1.1 Policy			
1. Political environment and policy environment conditions become unfavorable.	M	<p>The project scope and approach have been cleared by the Chief Minister of KPK, as a manifestation of the highest level of political ownership.</p> <p>Project Management Unit with robust oversight body has been constituted to manage this risk and provide policy guidance as needed. It will review the project performance periodically and take decisions to provide the required policy support.</p> <p>ADB will continue to work closely with the elected representatives who are fully on board and supportive of the project in all five cities. The CIUs will keep the board members of WSSCs informed of the project's progress. At the provincial level, PMU will consult regularly with relevant stakeholders.</p>	PMU and CIUs
2. Commitment to infrastructure development diminishes at the city and provincial levels.	M	ADB will continue dialogue with stakeholders to ensure that the project remains relevant throughout implementation.	PMU and CIUs
3. Start-up of WSSC operations delayed because of the large scale of the project.	M	Advance procurement is ongoing for the recruitment of CIU staff. They will immediately support WSSCs.	PMU and CIUs
2. Organizational Risks			
2.1 Financial Management			
4. Weak financial management including inadequate finance professionals, insufficient internal audit arrangements, use of manual systems for accounting and financial reporting, and issues identified.	S	<p>GOKP agreed to centralize project financial management and funds flow at the PMU. GOKP also agreed to (i) allocate additional human resources for financial management for the project and (ii) undertake a financial management action plan to strengthen the PMU's financial management governance, systems and internal controls, staff resources, and accountability arrangements.</p> <p>ADB will provide financial management training regarding disbursement, financial reporting, and audit requirements.</p> <p>PMU will monitor expenditures on a monthly basis. Any deviations will require justification and approval by LGE&RDD.</p> <p>Computerized accounting and asset management system will be developed and put in place.</p>	PMU and ADB

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		Auditor General of Pakistan and ADB will jointly review audit requirements as part of ADB's performance monitoring criteria.	
5. Lack or delay in the counterpart funds due to logistical challenges on disbursements and GOKP's internal control and governance	M	<p>GOKP approved the allocation of budget during ADF FY2021 exercise, but ADB will closely monitor and coordinate with AIIB on cofinancing operations</p> <p>The PMU will be responsible for ensuring adequate and timely release of counterpart funds to CIUs, consultants, and contractors.</p> <p>PMU will prepare 5-year project budget and update it on an annual basis. Based on this, GOKP will allocate sufficient budget from counterpart funds and release on a timely basis.</p>	PMU
3. Procurement			
3.1 Procurement Planning			
6. Procurement risk still exists.	S	<p>Through ADB's PRF, GOKP has achieved the following procurement readiness including: (i) completion of detailed engineering designs, bill of quantities, and consultant TORs; (ii) completion of procurement documents and master bidding documents with the GOKP's approval; and (iii) establishment of the PMU in September 2019 and its exposure to ADB operations—including procurement. The project has already achieved high procurement readiness, with the completion of seven of 11 bidding documents for advance procurement (worth about 53% of total ADB/AIIB financing) for 2021–2022 procurement.^a</p> <p>Despite the above, the overall procurement risk is assessed as substantive mainly because of the large volume of project and contract managements across five cities.</p> <p>The GOKP agrees to apply the following additional mitigation measures: (i) increasing staff positions within the PMU; (ii) recruiting additional national/international procurement specialists to support the PMU; (iii) engaging external consultant firms for oversight and support to the PMU (including preparation and prior review of all bidding documents and contracts for goods, civil works, and services before contract awarding); and (iv) building procurement good practices in coordination with ADB.^b All procurement of civil works, goods, and consulting services will follow the ADB Procurement Policy (2017, as amended from time to</p>	PMU, CIUs

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		time) and the Procurement Regulations for ADB Borrowers (2017, as amended from time to time).	
3.2 Bid evaluation, award of contract and contract management			
7. Officials who work in the urban sector use their influence to direct contract awards to selected companies. Inflated prices (e.g., capital works, vehicles, and equipment) fund kickbacks to officials, which can compromise quality of works and/or services.	M	Same as previous comments. All issues were addressed during PRF. All procurement will follow the principles of the ADB Procurement Policy (2017, as amended from time to time) and the Procurement Regulations for ADB Borrowers (2017, as amended from time to time). Additional consultants will be hired under the project. ADB will provide support if and when needed	PMU, CIUs, and ADB
8. In case of construction contracts, selection and award of contract to the lowest bidder, followed by change orders increasing the price, or changing the specifications, or reducing the quality or volume of goods and services can pose a corruption risk. Renegotiation, if not transparent, presents opportunities for making illegal gains.	M	Same as previous comments. All issues were addressed during PRF. For the procurement of works, plants, and goods, the ADB standard bidding documents for the procurement of goods dated June 2021 or later will be used.	PMU, CIUs, and ADB
9. Falsification of inspection certificates and quality tests can pose corruption risks.	M	Necessary legal clauses and requirements will be added in procurement documents and contracts In addition to the ADB Anticorruption Policy, the Khyber Pakhtunkhwa Public Procurement Regulatory Authority Act, 2012; the Khyber Pakhtunkhwa Public Procurement of Goods, Works, and Services Rules, 2014–Amended; and the National Accountability Bureau of Pakistan Act will provide the legal framework for action against any malpractice.	PMU, CIUs, and ADB
4. Human Resources and Assets			
4.1 Adequate Resources			
10. WSSCs and PMU cannot provide adequate services if they do not have sufficient means (assets and equipment) and professional staff (human resources)	M	Advance procurement includes institutional procurement and PMU/CIU staff recruitment, which will provide additional resources.	LGE&RDD
11. Capacity developments are delayed	S	Incentive schemes will be devised in the capacity building programs to ensure that they are carried out as planned. ADB will closely monitor progress.	PMU LGE&RDD
5. Sector Operations			
5.1 Customer Interface			
12. Undue connection delays can provide opportunities for utility staff to ask for bribes to install water connections. Utility staff may also ignore or conceal illegal connections in exchange for side payments from customers.	M	In the service and asset management agreements, realistic timelines have been set for providing connections or disconnections, and other services. The project GRM will be available to address any customer's concerns in this regard.	PMU and CIUs support LGE&RDD
13. Poor maintenance of complaint records and undue delay in attending to complaints can push	M	Monitoring systems will be established to help in tracking any delays and take effective measures.	

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customers to pay unofficial fees to hasten resolution of complaints.			
5.2 Integrity and Governance			
14. Pakistan's score for control of corruption, government effectiveness, and regulatory quality remains low.	M	Federal and provincial governments have initiated reforms to strengthen governance. In addition, several federal anticorruption watchdogs (e.g., National Accountability Bureau) comprise provincial provisions. The project GRM will address any project-related grievances or corruption. ADB will also work with relevant partners to provide capacity development. The project is also subject to regular reviews by provincial audit review by the KPK auditor general's office.	PMU with ADB's support
5.3 Other issues			
15. GOKP approval and endorsements for day-to-day operational matters are delayed.	S	Project implementation will follow a realistic schedule. Working with ADB's Pakistan Resident Mission, the project team will liaise closely with relevant government agencies.	PMU with ADB's support
16. Payment for compensations and resettlement are delayed.	M	GOKP has transferred the budget (approx. \$7 million equivalent) for this purpose to district governments while independent valuation processes are also ongoing to facilitate the payment processes. During PRF implementation, GOKP organized over 30 consultation meetings in potentially affected areas across five project cities. Outcomes of these meetings were well documented in 36 safeguard documents which GOKP has prepared and disclosed. To support the continued engagements with the communities affected and enhance capacity of government officials, two additional expert consultants have been mobilized. Fully staffed GRM have also been established ahead of the project approval and they have been engaging with the communities. These efforts will justify <i>moderate</i> rating to mitigate the risks effectively.	GOKP
Overall	M		

ADB = Asian Development Bank, ADF = Asian Development Fund, AIIB = Asian Infrastructure Investment Bank, CIU = city implementation unit, FY = fiscal year, GOKP = Government of Khyber Pakhtunkhwa, GRM = grievance redress mechanism, KPK = Khyber Pakhtunkhwa Province, LGE&RDD = Local Government Elections and Rural Development Department, M = moderate, PMU = Project Management Unit, PRF = project readiness financing, S = substantial, TOR = terms of reference, WSSC = water and sanitation services company.

^a Advertisements will commence in August 2021.

^b ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Islamic Republic of Pakistan for the Punjab Intermediate Cities Improvement Investment Project*. Manila. The project administration unit of the Punjab project will share procurement good practices with the project team. ADB will facilitate such good practice sharing.