

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
1. Weaknesses in public governance constrain achievement of key development objectives	M	The country partnership strategy for Nepal, 2013–2017 mentions the government’s recognition of the importance of good governance to investment and growth. ^a The government has initiated reforms on public financial management and procurement at the national and local levels. ADB, in collaboration with other development partners, will strengthen the capacity of integrity institutions such as the Commission for the Investigation of Abuse of Authority and the National Vigilance Centre.	ADB, MOF
2. Political uncertainties can adversely affect project implementation	M	The prolonged political transition in Nepal and the adoption of a federal system by the government along with associated potential disruptions may affect project implementation as well as work in public institutions. Risk can be managed by frequent monitoring and adjusting the project implementation arrangements, as needed.	ADB, MOF, SFDB
3. Macroeconomic situation deteriorates and affects SFACs’ ability to repay loans to SFDB, which affects SFDB’s financial strength ^b	M	Nepal has maintained macroeconomic stability with the help of remittance income. Remittance inflows increased by 10.5% in FY2018 from FY2017 and remained strong in the first quarter of FY2019. The country’s average GDP growth of 4.6% during FY2009–FY2018 has the potential to increase, considering Nepal’s natural resources, young population, and strategic geographic location. ^c Financial analysis	MOF, SFDB

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		of SFDB shows that SFDB's NPL level must have a compound annual growth rate of 257.97% to breach capital requirements.	
4. Outdated core banking system, IT, and MIS at SFDB and SFACs	H	The core banking system and MIS will be upgraded and integrated with real-time MIS. A business continuity plan and disaster recovery plan will be established.	SFDB, SFACs
5. SFDB's heavy dependency on short-term borrowings from financial institutions results in unpredictable and volatile interest rate structure	M	Long-term borrowing from external sources should be prioritized to establish a more stable interest rate structure. External borrowing sources will be explored, and a medium-term financing plan will be established.	SFDB
6. Weak capacity in financial management of SFDB and SFACs could undermine project implementation	M	<p>The attached TA will support SFDB and SFACs in building capacity in all aspects of financial management, including credit appraisal and risk management.</p> <p>Required project reporting will provide early warning of deteriorating credit quality.</p> <p>Audited statements of utilization of funds and audited financial statements of SFDB and SFACs will be collected.</p>	ADB, SFDB, SFACs
7. Inadequate human resources in SFDB's internal audit department may increase risks in financial management	M	SFDB's internal audit department will be strengthened and its capacity will be developed as per ADB's project administration requirements under the attached TA.	SFDB
8. SFDB's and SFACs' limited institutional experience on enterprise financing may result in inability to disburse	M	The attached TA will enhance institutional capacity of SFDB and SFACs on enterprise financing including product	ADB, SFDB

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the fund or monitor effective utilization of funds		design, pricing, and risk management. SFACs will be selected based on their past experience, financial and management capacity, and proper fund utilization plan.	
9. SFACs default on their SFDB loan	M	On-site and off-site monitoring of SFACs' portfolio will be conducted at least twice a year. Regular and structured reporting on SFACs' portfolio will be conducted.	SFDB, ADB
10. The policies on KYC and risk management are yet to be approved, which may affect SFDB's risk management	M	The policies and procedures of KYC and risk management will be approved.	SFDB

ADB = Asian Development Bank, FY = fiscal year, GDP = gross domestic product, H = high, IT = information technology, KYC = know-your-customer, M = moderate, MIS = management information system, MOF = Ministry of Finance, NPL = nonperforming loan, SFAC = small farmers agriculture cooperative, SFDB = Small Farmers Development Bank, TA = technical assistance.

Note: The FY of the Government of Nepal ends on 15 July. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ends on 15 July 2019.

^a ADB. 2013. *Nepal: Country Partnership Strategy, 2013–2017*. Manila.

^b Sana Kisan Bikas Laghubitta Bittiyasanstha Ltd or commonly called SFDB.

^c ADB. 2019. *Country Information Note: Nepal*. Manila (Last updated 14 August 2019).

Source: ADB.