

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
<b>Country Risk</b> 1. The project is negatively affected by the COVID-19 pandemic.	L	The Government of the PRC has been effective in controlling COVID-19 outbreaks.	NA
<b>Country Macroeconomic Risk</b> 2. The banking sector is negatively affected by unforeseen economic slowdowns from shocks.	M	The Government of the PRC has been effective in controlling COVID-19 outbreaks and the resulting economic slowdowns. Furthermore, the Government of the PRC is promoting a green economic recovery and likely will sustain green finance during the project implementation period in 2020–2026. Hebei Province is an industrial hub of the PRC and its economic foundation is strong enough to weather the macroeconomic risks.	NA
<b>Project Implementation and Counterparty Risk</b> 3. The PRC counterparties, including the Ministry of Finance, Hebei Provincial Government, Xingtai City Government, and Bank of Xingtai, do not have sufficient technical and project implementation capacities to successfully execute the project.	M	The Ministry of Finance and the Hebei Provincial Government have sufficient experience in implementing development assistance programs. While the Xingtai City Government and the Bank of Xingtai have not implemented development assistance programs in the past, the Government of the PRC's public finance and project administration system is efficient and effective. The implementing agency (the Bank of Xingtai) has agreed to contribute up to \$1 million equivalent, including the procurement of the green finance IT system, to develop its institutional capacity, demonstrating its strong commitment to implement the project.	ADB, Hebei Provincial Government, Xingtai City Government, and the Bank of Xingtai
<b>Governance Risk</b> 4. The project suffers financial loss and other irregularities from the lack of governance and other anticorruption practices.	L	The Government of the PRC's well-established procurement, anticorruption, and financial management framework means that the project governance risk is	ADB, Hebei Provincial Government, Xingtai City Government,

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		not high. Integrity due diligence has been conducted on the Bank of Xingtai and found the integrity risk is low to medium.	and the Bank of Xingtai
<b>Green Finance Policy Change Risk</b> 5. The Government of the PRC begins to ignore green finance and climate finance.	L	With massive infrastructure developments largely accomplished, government policy in the PRC is focusing more on cleaning up the environment and gradually shifting to more service-oriented industries. The government is unlikely to reverse its environmental protection agenda.	The Government of the PRC
<b>Green Finance Market and Demand Risk</b> 6. Demand for green finance declines in Hebei province.	L	Demand for green finance is driven largely by the government policy to improve environmental conditions nationwide. Even with the outbreak of COVID-19, the Government of the PRC is promoting a green recovery. Given the heavy industrial base in the Hebei Province and the need for industrial transformation for the province to become less energy intensive, demand for green finance in Hebei will continue to rise.	The Government of the PRC and Hebei Provincial Government
<b>The Bank of Xingtai Institutional Risks</b> 7. The Bank of Xingtai's limited institutional experience leads to subproject safeguard reviews that do not meet the ESMS and ADB's Safeguard Policy Statement (2009) guidelines.	M	Through engagement with ADB in developing the project, the Bank of Xingtai has established a dedicated safeguard unit and assigned two full-time safeguard staff. The project's capacity development component will help further strengthen the bank institutionally, particularly in relation to the ESMS. Several rounds of training has also been carried out during loan processing and will continue to be undertaken during project implementation.	ADB, Hebei Provincial Government, Xingtai City Government, and the Bank of Xingtai
8. The Bank of Xingtai does not substantially implement the capacity development component	L	ADB will closely monitor the capacity development component through regular project reviews	ADB, the Government of the PRC, and

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aligned with the project design.		and periodic portfolio review missions.	the Bank of Xingtai
9. A limited qualified green finance lending pipeline negatively affects the Bank of Xingtai's effort to become a leading green bank in the PRC.	L	The strong commitment from the Bank of Xingtai to fulfill its mandate to the Hebei Provincial Government will serve as a strong incentive for it to identify subprojects across the province. As a province characterized by the dominance of heavy industries, the need for Hebei to transform itself into a more environmentally friendly economy is strong, which will ensure a steady supply of subprojects for green financing.	ADB and the Bank of Xingtai
10. The Bank of Xingtai has not had experience working on MDB projects and is not proficient in managing the disbursement, reporting, monitoring, and auditing requirements as required by MDBs, including ADB.	M	The Bank of Xingtai has agreed to attend ADB trainings to gain knowledge on ADB's processes and improve the bank's institutional capacity. During implementation (especially at the early stage), ADB will help the Bank of Xingtai improve the skills of its staff to enable the bank to meet ADB's requirements.	ADB and the Bank of Xingtai
11. Because the Bank of Xingtai does not hedge its euro borrowing from ADB, and the euro interest rate and euro–yuan exchange rate are prone to drastic changes, the bank may face foreign exchange losses.	M	The bank will strengthen its risk and foreign exchange management capacity. ADB's proposed loan of €170 million (CNY1,382 million) accounted for only 1.5% of the bank's total balance sheet of CNY92,744 million (€753,925 million), and 2.9% of the total loan book of CNY47,661 million (€387,441 million) as of 13 August 2020. The risk is manageable. In addition, during loan negotiations, ADB has clarified with the borrower that the local currency conversion option will be available during the loan repayment period. <sup>a</sup>	ADB and the Bank of Xingtai
<b>Overall</b>	<b>M</b>		

L = Low, M = moderate.

ADB = Asian Development Bank, COVID-19 = coronavirus disease, ESMS = environmental and social management system, IT = information technology, MDB = multilateral development bank, NA = not applicable, PRC = People's Republic of China.

<sup>a</sup> ADB. 2008. *Guidelines for Conversion of Loan Terms for ADB LIBOR-Based Loans*. Manila.

Source: Asian Development Bank.