

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
Financial Management and Sustainability			
Financial sustainability of NEA	Substantial	<p>The ERC started operations in the country in May 2019. In early 2020, NEA submitted its tariff petition under the ERC's new tariff regulations. The ERC issued its first tariff order on 15 June 2020, reducing the tariffs for high-consuming residential users and increasing the high-tension (voltage) industrial tariffs as among the first measures under its comprehensive tariff rationalization agenda. These steps are likely to enhance electricity demand and increase NEA's turnover. NEA's commitment to reduce distribution losses and load shedding, together with government-backed financial restructuring plans, has allowed NEA to post net profits since FY2017 (ended 15 July 2017). NEA posted a net profit of NRs11 billion for FY2020 (unaudited financials) as compared to NRs9.8 billion for FY2019.</p> <p>NEA will file regular tariff applications to the ERC, in accordance with ERC regulations. An international firm engaged by NEA for assistance in tariff filings is likely to address some of the issues raised by ERC in the June 2020 tariff order, resulting in a more favorable tariff order for NEA in 2021.</p>	MOF and NEA
Noncompliance with the NFRS and poor fixed asset management	Substantial	<p>NEA complied with most of the provisions of the NFRS for FY2019. It will fully comply with the NFRS once asset verification and revaluation are completed. NEA has hired Deloitte Touche Tohmatsu India LLP as the external consultant to carry out physical verification of assets and inventories, prepare a fixed asset register, and carry out valuation of fixed assets and inventories.</p>	NEA

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		The process of asset valuation is supported by the World Bank. Progress was affected by COVID-19-related lockdowns. The expected revised target for completion of this activity is by July 2022.	
Limited automation of financial management systems and delayed implementation of ERP	Substantial	NEA's previous bidding process for hiring an ERP implementation partner could not succeed, primarily because of the significant difference between the cost estimates by NEA and bids received. At the request of NEA, ERP implementation is included in the additional financing. Having learned from experience, NEA is planning to segregate the financial management information system and the revenue management system into separate packages, while revising the cost estimates significantly. The additional financing will support consulting services for preparation of revised bid packages and complete implementation of ERP.	NEA
Foreign exchange risk	Moderate	NEA has drafted a risk management policy to address its potential exposure to foreign exchange risk. The draft is under interdepartmental review. NEA plans to adopt this policy within FY2021, following approval from its board of directors.	NEA
Procurement			
Procurement and contract management	Moderate	NEA established a project management directorate, which will be supported by project implementation consultants. A strategic procurement plan, including a procurement plan, was prepared and will be updated regularly. ADB will regularly review procurement progress.	NEA
Technical and Other Risks			
Delay in the completion of planned energy generation	Low	Substation and distribution system investments have been identified and packaged for	NEA

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projects may underutilize the transmission and distribution networks.		parallel implementation. ADB financing will facilitate faster start-up of time-critical physical investments.	
Political and security situation could delay project completion.	Low	The improvement of electricity supply is a high priority for the government and, as such, the government's high-level coordination committee will support timely implementation of the project activities.	NEA
Exponential growth in COVID-19 cases prolongs impact on global value chains beyond projections, which could delay procurement of goods and services, and slow down project implementation.	Low	The project has an implementation period of 5.5 years. With major physical work not expected to commence at least until June 2021, COVID-19 is not expected to cause any significant delays or cost increases. However, given the evolving trend and severity of the COVID-19 pandemic, ADB and NEA will regularly review its potential impact on the project.	ADB and NEA

ADB = Asian Development Bank, COVID-19 = coronavirus disease, ERC = Electricity Regulatory Commission, ERP = enterprise resource planning, FY = fiscal year, MOF = Ministry of Finance, NEA = Nepal Electricity Authority, NFRS = Nepal Financial Reporting Standards.

Source: ADB.