

UPDATED RISK ASSESSMENT AND RISK MANAGEMENT PLAN

| Risk Description | Rating | Mitigation Measures | Responsibility |
|--|--------|--|-----------------|
| 1. Inadequate maintenance of road assets | S | <p>The following mitigation measures will be implemented through the investment program:</p> <ul style="list-style-type: none"> (i) a revised asphalt pavement standard that exceeds the typical standard, which will reduce maintenance requirements and increase long-term economic efficiency; (ii) climate change adaptation measures, which have been considered in road designs and cost estimates (i.e., culverts, drainage, retaining walls, and concrete pavement); (iii) 3-year (5-year for national roads) performance-based maintenance contracts; (iv) expansion of the road asset management system to include rural access roads for effective road maintenance planning and budgeting; (v) a technical maintenance capacity development program for local road agencies; and (vi) policy measures (to be undertaken by the government over the MFF implementation period) to ensure financial sustainability, based on proposals for feasible policy alternatives for the improvement of sustainability. | RDA, MOHRP, ERD |
| 2. Insufficient budget allocation under the fiscal consolidation | S | <p>The government is implementing fiscal consolidation under the ongoing IMF program. Externally funded projects are included in budget allocations, which means sufficient budget allocation is required to implement the proposed investment program.</p> <p>To ensure implementation, the Cabinet approved the investment program and related disbursement projections in January 2017. The ERD also confirmed the investment program budget requirement. Based on the Cabinet approval and confirmation, the RDA gives priority in the annual budget request to the investment program (over other RDA projects).</p> <p>A phased procurement approach with close coordination between the RDA and relevant ministries has helped in controlling budget requirements under the fiscal consolidation. With this cautious approach, all contract packages</p> | MOHRP, RDA, ERD |

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| | | <p>are either awarded or in the procurement process, and the government and the RDA continue to give the higher priority in the annual budget allocation to the committed contracts.</p> <p>Under the proposed investment program, ADB will finance 100% of civil works expenditures, and the government will only finance taxes and duties (and part of contingencies, if any). This arrangement will ease the government's financial burden to provide counterpart funding.</p> <p>The draft loan agreement also includes a covenant requiring the government to make available adequate counterpart funds to meet additional costs and to ensure the RDA has sufficient funds to satisfy liabilities under the project.</p> | |
| 3. Implementation delayed by extreme weather conditions | M | Negative impacts of extreme weather on implementation and potential countermeasures have been identified in the initial environmental examination. More detailed site-specific risks and countermeasures will be duly considered in the environmental management plan. | RDA, Contractors |
| 4. Sufficiently qualified contractors may not participate in the project | L | ADB is closely monitoring the procurement process. Procurement of civil works is open to foreign firms, although rural access road civil works can be constructed by domestic firms. Procurement for the civil works is scheduled to be conducted in a phased manner with due consideration given to (i) the capacity of the construction industry and firms, and (ii) the implementation of the first investment program. ^a | RDA |

S = substantial, M = moderate, L = low.

ADB = Asian Development Bank, ERD = External Resources Department, IMF = International Monetary Fund, MFF = multitranches financing facility, MOHRP = Ministry of Highways, Road Development, and Petroleum Resources Development, RDA = Road Development Authority.

^a ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranches Financing Facility to the Democratic Socialist Republic of Sri Lanka for the Integrated Road Investment Program*. Manila.

Source: Asian Development Bank.