RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. The Asian Development Bank conducted a country-level risk assessment for Pakistan in 2015 as part of the country partnership strategy, 2015–2019.[1] A financial management assessment and procurement risk assessment were conducted for the Federal Board of Revenue as part of project preparation. Country-level and project-level risks and their management plans are summarized below.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
A. Public Financial Management		
1. The gap between projected and actual revenues and expenditures leads to expenditure cuts and to unpredictability of allocations for development programs.	Medium	The Government of Pakistan is gradually improving its systems for project design, implementation, and monitoring. The Asian Development Bank (ADB) is discussing technical assistance on monitoring and evaluation with the Planning Commission, which is responsible for approving allocations for the public sector development program. Other partners such as the European Union, United Nations Development Programme, and the Department for International Development (DFID) of the United Kingdom are also providing support for results-based development programs at the federal and provincial levels. ADB will coordinate with the government to (i) ensure government's commitment to successfully implementing development programs by aligning its project support with government priorities, (ii) make feasible projections for yearly disbursement of counterpart funds, and (iii) strengthen monitoring of disbursements and results.
2. Insufficient capacity of, and authority given to, internal financial control and audit units within line ministries, departments, and agencies could reduce their effectiveness in financial management, control of expenditures, and accountability, raising the risk of misuse of funds.	Medium	ADB will make provisions for financial management and audit, including assistance for capacity development, for counterpart agencies in ADB projects, as required.
B. Vulnerability to Corruption		
1. The scope for political interference, and delays in appointments of key officials in integrity institutions and sector entities, especially at the provincial level, may reduce their effectiveness, raising the risk of inappropriate use of public funds.	Medium	Several development partners are providing support for legal and judicial reforms. All ADB projects will be effectively insulated from corruption risks in accordance with ADB's Anticorruption Policy (1998, as amended to date).
C. Project Implementation		
1. Few internationally qualified contractors and consultants are interested in the civil works or construction supervision because of security concerns.	Medium	Other than in Wagha, a settled area free of security concerns, civil works will be directly contracted to the National Logistics Cell or the Frontier Works Organization. For all three border points, an engineering–procurement–construction contract will be adopted to concentrate responsibility to turnkey contractors while reducing

[1] Asian Development Bank. 2015. Country Partnership Strategy: Pakistan, 2015–2019. Manila.

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		the role of supervision consultants. By involving the Frontier Works Organization and National Logistics Cell, which have full access to project sites and working relationships with other security agencies like the Frontier Corps and tribal powers, international contractors and consultants will have unhindered access to Torkham and Chaman, located at security-sensitive Afghanistan border and be given satisfactory assurance on their security.
2. Local tribal powers disturb construction works outside of government's control.	Medium	In the course of project preparation, local tribal people were fully engaged. They were convinced that the project would bring huge benefits to the local community both during project implementation (in the form of increased jobs from construction works) and after completion of the project (in the form of increased trade and opportunities to create local businesses).
3. The executing agency does not have adequate experience in implementing ADB projects and is not yet conversant with ADB's rules, procedures, and safeguard requirements.	High	The implementation arrangement was devised to bolster the executing agency's knowledge of and experience with ADB's rules, procedures, and safeguard requirements. The National Logistics Cell, an experienced border point facility designer, builder, and manager, or the Frontier Works Organization, a proven civil works contractor, will construct the Torkham and Chaman facilities with minimum supervision from the project management unit (PMU), which will serve as the implementing agency. The expertise of the PMU will be complemented by the project management consultant (PMC), which will be recruited externally. Safeguards capacity building of the executing agency will be included in the terms of reference of the PMC.
D. Procurement		
1. The absence of standard bidding documents and subordinate regulations for public procurement may reduce competition, consistency, and transparency in the procurement process, leading to inflated costs and low value for money in public investments.	Medium	ADB is providing technical assistance to the Public Procurement Regulatory Authority (PPRA) for designing country-level standard bidding documents, which will set all bid-related requirements such as ways to open bids, evaluate bids, and institute mechanisms for ethics and anticorruption.
2. Inadequate capacity of procurement practitioners, the lack of a professionalization program for procurement practitioners, and frequent transfer of procurement staff, especially in the provinces, may lead to delays in procurement, decreased efficiency, and lack of credibility of the procurement process.	Medium	ADB is providing technical assistance to the PPRA for (i) preparation of training modules to be used in procurement training programs conducted at the National Institute of Procurement, and (ii) capacity development for the PPRA and one key procuring agency on a pilot basis. ADB will continue to hold procurement workshops annually, and to encourage compliance with its Procurement Guidelines (2015, as amended from time to time) in ADB projects.
3. The absence of a streamlined procurement process, inadequate	Medium	The adoption of standard bidding documents will help increase consistency, transparency, and efficiency in procurement. ADB will also assist the

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internal controls, and ineffective grievance redressing mechanisms, especially at the provincial level, could lead to delays in procurement, and time and cost overruns.		government to assess various procurement models to improve procurement efficiency for strategic investments in key sectors such as energy and transport.
4. The executing agency has never implemented any ADB financed project, and it lacks a permanent procurement department or unit. The executing agency relies on PMUs to implement foreign-assisted projects. The PMU for the proposed project will be established after approval of ADB and/or the government. It takes a long time to recruit PMU staff and build its capacity to manage major procurement, which can result in implementation delays.	High	The project is designed to engage the PMC to assist the executing agency in project startup activities, including procurement. The engagement of the PMC will be fast-tracked using advance contracting under ADB's Procurement Guidelines. At an early stage of procurement, the ADB project team will assist in advertising expression of interest, short-listing firms, issuing the request for proposal, evaluating proposals, and awarding the contract for the PMC. The PMC will assist in establishing the PMU and developing its capacity.
5. The executing agency is unfamiliar with ADB's Procurement Guidelines.	High	In coordination with the PPRA, a series of training programs will be conducted for relevant executing agency and PMU staff, whose knowledge and skills will be reinforced through procurement workshops to be organized by ADB.
E. Governance		
1. Countrywide law and order situation remains unstable.	Medium	The new government is committed to restoring law and order, and there has been a decline in the incidence of terror attacks. The geopolitical environment in the South and Central Asia region is also changing to the benefit of Pakistan (e.g., the new governments of both Afghanistan and India are actively engaging Pakistan, while the Government of the United States continues its support of Pakistan's effort to incapacitate Taliban forces the near Afghanistan border. In addition, development partners are cooperating with the government in restoring law and order.
2. Security situation at borders deteriorates, leading to closing of border points either by Pakistan or by a neighboring country.	Medium	The geopolitical environment in the South and Central Asia region is changing to promote cooperation, rather than traditional hostility and standoff, with surrounding countries like Afghanistan and India.
3. Local tribal powers disturb border point operation beyond federal government's control.	Medium	Consultations have been conducted during project design and will continue throughout project implementation. At the Torkham border control point, the government agreed to a 99-year land lease agreement with local tribal people. It is expected that the project will promote local job opportunities and income generation activities, which will serve as a mitigating factor to the martial tendencies of the local tribal powers.
Overall	**Medium**	