

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risks	Assessment without Mitigation	Management Plan or Measures	Assessment with Mitigation
<b>Financial Management</b>			
Weak public financial management capacity within the government	High	<p>ADB has been supporting strengthened PFM systems through the Economic and Public Sector Reform Program,<sup>a</sup> which introduced the Public Service Act and Public Finance Management Act 2002, and more recently through development of the Strategic Development Plan Eight 2006/07–2008/09.<sup>b</sup> ADB's country partnership strategy, 2007–2012<sup>c</sup> focuses on improved fiscal governance for macroeconomic stability.</p> <p>At the project level, ADB's grant proceeds will be used for a submarine cable system contract, and the direct payment method will be used for disbursement.</p>	Low
Weak financial management capacity in TCL as a start-up company	Medium	<p>TCL has entered into a formal agreement with TCC to use TCC's finance division for accounting, expenditure control, and financial reporting. TCC has a well-functioning finance division with qualified staff, systems, and processes that can manage the project funds.</p> <p>External audit terms of reference shall include a review of the project internal controls.</p> <p>ADB and the World Bank will require quarterly unaudited interim financial reports. A joint financial management supervision of the project will be carried out twice in the first 12 months following the first disbursement, then as determined by the risk assessment.</p>	Low
<b>Procurement</b>			
Weak regulatory framework for public procurement and weak capacity of TCL to manage a complex procurement process	High	<p>The government will oversee the procurement process (following the new Treasury instructions on procurement) for any deviation in the procurement process followed by TCL supported by TCC, a public enterprise.</p> <p>TCL retains a submarine cable specialist to develop the technical specification and support the bidding process.</p> <p>To reduce the complexity of the procurement process, ADB and the World Bank will closely coordinate the procurement process for a single contract based on agreed procedures in the memorandum of understanding.</p> <p>ADB and the World Bank will provide assistance in bidding document development, bidding and evaluation procedures, and contracts.</p> <p>TCL will hire an international construction</p>	Low

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		supervision consultant to oversee the contract management.	
<b>Anticorruption</b>			
Vulnerabilities to corruption in construction and operations	Medium	International supervision consultants will manage design and bidding activities.  ADB and the World Bank will intensively monitor and review procurement activities.  Forensic audits will be conducted of suspected corruption cases.	Low
<b>Institutional and Regulatory Risks</b>			
Weak regulatory capacity to ensure open and fair access and cost-based pricing	High	Up-front TA from the World Bank identified key areas of improvement in regulatory environment  The World Bank will provide TA for (i) telecommunications policy, legal and regulatory development, and on the legal and regulatory environment for internet and e-transactions; and (ii) regulatory capacity building  MIC will closely monitor TCL's compliance with the license terms and conditions.	Medium
Unclear governance arrangement of TCL in relation to TCC	High	The government will oversee the TCL's transition plan from the construction to operation phase.  The government will separate TCL from TCC by converting it to a public enterprise. ADB will monitor TCL's operational independence throughout the project implementation.	Medium
<b>Cross-Border Infrastructure</b>			
Risk arising from cable landing in the Fiji Islands	Medium	TCL's connection to FINTEL's backhaul will be a parallel connection to ensure no interruption to the Tonga connection in case of a disruption in the Fiji Islands' domestic networks.  TCL will explore direct purchasing of SSCN capacity without going through FINTEL.  TCL will ask TCC and Digicel to maintain a certain amount of satellite capacity as a backup connection regardless of the source (political changes, earthquake, cable cut caused by human activities, etc.)	Low
<b>Overall</b>	<b>Medium</b>		<b>Low</b>

ADB = Asian Development Bank, FINTEL = Fiji International Telecommunications Limited, MIC = Ministry of Information and Communication, PFM = public financial management, SSCN = Southern Cross Cable Network, TA = technical assistance, TCC = Tonga Communications Corporation, TCL = Tonga Cable Limited.

<sup>a</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Tonga for the Economic and Public Sector Reform Program*. Manila.

<sup>b</sup> Government of Tonga. 2006. *Strategic Development Plan Eight 2006/07-2008/09. Looking to the Future, Building on the Past*. Nuku'alofa.

<sup>c</sup> ADB. 2007. *Country Partnership Strategy: Tonga, 2007–2010*. Manila.

Source: Asian Development Bank.