

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

| Risk Description | Risk Assessment | Mitigation Measures or Risk Management Plan |
|--|-----------------|--|
| Procurement | | |
| Delay in obtaining landing permit and license in Guam | Low | Guam is US territory, and a number of conditions must be met for landing permit and license approval. The project will leverage the partnership with SEA-US to expedite the process. |
| Weak procurement and financial reporting capacity of newly established BSCC | Medium | BSCC is a newly established state-owned corporation. It will engage an experienced PMU to support it in contract and financial management. ADB will oversee the procurement process. Palau will not have any imprest account for the project cost. ADB will disburse directly to the supplier and consulting firm against the withdrawal application. Such arrangements will minimize financial management issues. |
| Delay in implementation because of lack of legal agreement between MicroPal and SEA-US parties | Medium | Legal and technical consultants funded by the ADB and the World Bank are already on board to draft the contract agreement between MicroPal and SEA-US parties. It will cover implementation and operation arrangement of the submarine cable system. |
| Lack of consortium financing delays implementation of the SEA-US | High | Globe telecom (the Philippines) and Telin (Indonesia) are the two financiers for the SEA-US. Initial due diligence on available financial statements and external credit ratings for these two companies show sound financial status to support the investment. |
| Unavailability of commitment funds required after signing the contract by MicroPal with SEA-US parties | High | Palau has provisioned funds in the FY2016 budget to pay the initial deposit. |
| Delay caused by long dispute resolution process among SEA-US, NEC Corporation, and Palau during implementation and operation | Medium | An industry standard dispute resolution mechanism is in place for all submarine cable vendors. Palau will put a similar mechanism in place for its contract with SEA-US and NEC Corporation. |
| Governance | | |
| Limited experience of the government in implementing ADB projects, particularly procurement | High | The proposed project is the second ADB project for Palau. ADB has provided TA to help Palau prepare the project. During implementation, ADB will closely monitor progress. The procurement packages are designed to minimize the number of contracts to be managed. The PMU budget includes hiring implementation specialists to help implementation agencies. A simplified disbursement process for all direct payments to suppliers and consultants will minimize financial management and bookkeeping issues. |
| Monopoly or collusion among local supplier(s) prevents decrease in retail internet price | Medium | TA from the World Bank is helping Palau implement its ICT policy and set up the office of the regulator. The regulator is scheduled to be in place by the end of Q1 2017 and will ensure fair and competitive pricing for retail users. |

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|---|------------------------|--|
| Inefficient and ineffective BSCC corporate governance process prevents decrease in wholesale internet price | Medium | BSCC is a newly established state-owned enterprise, setting up its governance process. The project will engage an experienced group of consultants to help BSCC establish its organizational structure and internal processes. If necessary, ADB will help BSCC with TA to be more efficient. |
| Financial Management | | |
| Limited government accounting structure to provide detailed expenditure | Medium | BSCC will maintain separate detailed project accounts. |
| Lack of BSCC staff to manage finance and accounting. | High | The PMU will have experienced financial management consultants to support BSCC to set up practices, systems, and procedures to manage accounting. A time-bound action plan has been prepared to ensure proper handover of documents and training for BSCC permanent staff. |
| Integrity | | |
| Misuse of funds during implementation | Low | There is no imprest account for the project. All funds will be paid directly to the suppliers against validated withdrawal applications. |
| Inappropriate practice in procurement process | Low | The main procurement component for the project, concerning the submarine cable system, has already been decided to be direct contracting. Other procurement items are relatively small and will be supervised by ADB. |
| Asset Management | | |
| Lack of guidelines, policy, and capacity to manage the assets around submarine cable | Medium | An experienced PMU will help BSCC establish relevant guidelines and practices to manage its assets. There will be sufficient time for the PMU to train and develop capacity within the BSCC staff to maintain it after implementation. BSCC will leverage knowledge and experience from SEA-US parties to maintain the cable system. |
| Unavailability of internet service as a result of environment and climate change | Medium | Most of the submarine cable lies on the deep seabed and is not affected by weather disruptions. The landing station location and construction will be determined taking into consideration possible weather disruption and natural calamities. |
| Overall | Medium | |

ADB = Asian Development Bank, BSCC = Belau Submarine Cable Corporation, ICT = information and communication technology, PMU = project management unit, Q = quarter, SEA-US = Southeast Asia–United States west subsystem, TA = technical assistance, US = United States.

Source: Asian Development Bank.