

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
1. Continuation of COVID-19 pandemic and global economic slowdown adversely affects Palau's economic growth rate and creates a shortfall in fiscal revenue	H	To mitigate the impact of COVID-19, the government has prioritized (i) a revised budgetary allocation for emergency supplies and additional screening and testing; and bridging revenue shortfalls to maintain critical public services (health and social assistance programs); (ii) loans to affected businesses, (iii) unemployment benefits; (iv) wage funding for temporary employment schemes by the public sector and nongovernment organizations; and (v) expanded lifeline utility subsidies. These measures are funded by the public budget and estimated at 8% of GDP. The government has also augmented its public deficit by increasing its expenditure and borrowings to 67% GDP.	MOF
2. Poor coordination between government departments limits reform impact	H	Continuous and long-term engagement under the program and other projects by ADB, all levels of government, and development partners will sustain reform momentum to achieve program objectives.	ADB
3. Inadequate legal and regulatory framework for SOEs' compliance assurance and performance monitoring	M	Continuous and long-term engagement by ADB (PSDI) with the MOF to develop legal and regulatory framework for SOEs' compliance assurance and performance monitoring.	MOF, ADB (PSDI)
4. Inadequate institutional accountability and audit capacity in the public sector, including monitoring of contingent liabilities	S	MOF updates fiscal responsibility legislation, the medium-term budget strategy, and the external debt management strategy. PEA is mandated to monitor power purchase agreements with independent power producers, reconciling their terms with PPUC's financial position and capacity. ADB TA will support establishment of business analytics, performance disclosure, and reporting for PPUC, which can be replicated for other SOEs in Palau.	MOF, OPA, ADB
5. Weak capacity of PPUC and MOF delays implementation of key reforms	M	ADB engages with the government through regular consultations and undertakes performance monitoring of PPUC to assess capacity development requirements in a timely manner. TA support is provided.	MOF, PPUC, ADB
6. Not fully functional accounting and auditing procedures of PPUC may put the benefits of the program at risk	L	ADB support to MOF and PPUC through targeted policy actions, and effective monitoring under the program and attached TA project.	MOF, PPUC, ADB
7. Corruption in public sector management and institutions, including procurement practices	M	Palau is a member of the OECD Anti-Corruption Initiative for Asia and the Pacific and adopted a legal and institutional framework that designates checks and balances in its procurement system. ADB will ensure that project stakeholders are aware of where they can report allegations of fraud and corruption, or procurement-related complaints. ADB explained ADB's Anticorruption Policy (1998, as amended to date) to the MOF, PPUC, PEA, and project steering committee. The Procurement Law designates procurement officers at the national and state levels to oversee procurement. Also involved are the attorney general and state counterparts, who must certify the form and legality of all contracts.	MOF, ADB
Overall	Moderate		

ADB = Asian Development Bank, COVID-19 = coronavirus disease, GDP = gross domestic product, H = high, L = low
M = moderate, MOF = Ministry of Finance, OECD = Organisation for Economic Co-operation and Development,
OPA = Office of Public Auditor, PEA = Palau Energy Administration, PPUC = Palau Public Utility Corporation, PSDI =
Pacific Private Sector Development Initiative, S = substantial, SOE = state-owned enterprise, TA = technical assistance.
Source: Asian Development Bank