

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
1. Continuation of COVID-19 pandemic and global economic slowdown—along with Palau’s elevated vulnerability to disasters—adversely affects prospects for economic growth and creates continuing risks for shortfalls in fiscal revenue.	S	MOF continues its comprehensive recovery measures, such as (i) gradual winding back of fiscal stimulus measures, (ii) social safety net programs, and (iii) enhanced health protocols and vaccination program. The post-program partnership framework will help sustain the ongoing policy dialogue and PPUC reform momentum toward economic recovery in 2022 and 2023. ADB worked with the government to replenish Palau’s contingent disaster financing instrument in November 2020 through a new phase of the Pacific Disaster Resilience Program, restoring the country’s ability to access quick-disbursing financing in the event of a disaster or health emergency. The post-program partnership framework will help sustain the ongoing policy dialogue and reform momentum for economic recovery in 2022–2023.	MOF
2. Poor coordination between government departments limits reform impact.	M	The program steering committee, led by MOF and comprising representatives from all relevant ministries and OEK, has been set up to strengthen cross-ministry coordination on program implementation. 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.	MOF, ADB
3. Inadequate capacity to implement legal and regulatory frameworks for SOE performance monitoring	S	Continuous and long-term engagement by ADB (PSDI) with MOF to reform the legal and regulatory framework for SOEs’ compliance assurance and performance monitoring including for PPUC. The post-program partnership framework will help sustain the ongoing policy dialogue on MOF’s enhanced capacity for 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.	MOF, OPA, ADB
5. Weak capacity of PPUC and MOF delays implementation of key reforms	M	ADB engages with the government through ongoing PSDI support and capacity-building activities prioritized for PPUC and MOF to enhance the reporting and governance framework. The post-program partnership framework will help expedite implementation of reform commitments.	MOF, PPUC, ADB (PSDI)
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 has 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 its Anticorruption Policy (1998, as amended to date) to the MOF, PPUC, PEA, and project steering committee. The Procurement Law designates national and state procurement officers to oversee procurement. The	MOF, ADB

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		attorney general and state counterparts must certify the form and legality of all contracts.	
Overall	Moderate		

ADB = Asian Development Bank, COVID-19 = coronavirus disease, L = low, M = moderate, MOF = Ministry of Finance, OECD = Organisation for Economic Co-operation and Development, OEK = Olbiil Era Kelulau, 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.

Source: Asian Development Bank.