

Simplified Approval Process

Annex 7: Risk assessment and management



RISK ASSESSMENT AND MANAGEMENT

1. Risk factors and mitigations measures (max. 2 pages)

Please describe financial, technical and operational, social and environmental and other risks that might prevent the project/program from being achieved. Also describe the proposed risk mitigation measures.

The principal risks of the project lie in the uptake and utilization of climate-adaptive farming by households. Reviews of the sector highlighted the issue of one-off uncoordinated projects falling short of addressing country wide issues and creating lasting impact in the program and policy areas undertaken to date, there is yet to be a holistic and nation-wide examination of how the food sector will be impacted by climate change sufficiently thorough to provide an evidence base for future work and to direct adaptive measures. Behavior change is difficult to engender and sustain, particularly when those behaviors are tied to diet and consumer preferences (e.g., imported food, preferences, etc.). This barrier is exacerbated by the potential risks of climate change which may make the preference for imported food even more prevalent if adaptive measures aren't proactively taken. To mitigate this risk, the project focuses on creating more holistic connections at the governance and policy level, but also at the level of individual households and communities by creating demonstration gardens, nurseries, and other community assets; developing school curriculum and opportunities for community engagement; and leveraging key elements and frameworks of past projects and ongoing business models to provide for greater connectivity.

The main risk factors identified for the project include:

- Limited uptake of climate smart agriculture techniques and technology
- Climate limited target locations
- Limited support for climate smart agriculture policies
- Underperformance of selected techniques, seeds, and technologies
- Limited market development and access
- Governance and budget uncertainty following the end of the Compact

Selected Risk Factor 1: Limited uptake of climate smart agriculture techniques and technology

Category	Probability	Impact
Technical and operational	Low	High
Description		
Household uptake of climate smart agriculture is limited		
Mitigation Measure(s)		
To ensure the probability of this risk factor being low, the following measures have been integrated into the design of the project. The project includes extensive community engagement highlighted by demonstration farms, nurseries, and curriculum for school children to promote behavior change and long-term behavioral shifts. Further the project focuses significant effort on developing value chains, market access, and connecting to other business models and programs which increases the potential for new sustainable livelihoods and the long-term uptake of new technologies and practices. Specific research components dedicated to tailoring climate-smart agriculture packages to local communities will additionally reduce the risk.		
These measures reduce the risk to 'Low'.		

Selected Risk Factor 2: Climate change or other natural disasters limit available land for integration of climate-smart agriculture

Category	Probability	Impact
Technical and operational	Medium	High
Description		
Climate change, particularly storm surge or king tides, accelerates quicker than systems can respond and limits area available for agriculture and/or households plant in climate risky areas.		
Mitigation Measure(s)		
To ensure the probability of this risk factor being low, the following measures have been integrated into the design of the project. The project includes assessments detailed and descaled at the community level is one of the first major undertakings of the project which will allow for		

informed targeting of project activities to proactively respond to the changing risk of climate change. Additionally, early warning localized climate information for decision-makers is another project focus which can help to inform decisions in the face of climate change. These measures reduce the risk to 'Low'.

Selected Risk Factor 3: Limited support for climate smart agriculture policy development

Category	Probability	Impact
Governance	Low	Medium
Description		
Engagement at various levels of governance is limited or even hostile to the development of climate smart agriculture policies		
Mitigation Measure(s)		
To ensure the probability of this risk factor being low, the following measures have been integrated into the design of the project. Outreach and advocacy at the state and national level of governance on the benefits of climate smart agriculture will be completed. Targeting and support for advancement of policies will also be initiated in order to increase engagement. Lastly, the College of Micronesia is engaging in training and other project activities increases the legitimacy of the activities in the eyes of policymakers. These measures can reduce the impact to 'Low'		

Selected Risk Factor 4: Selected seed varieties, techniques, and technologies don't function optimally in FSM communities

Category	Probability	Impact
Technical and operational	Low	Medium
Description		
<i>Grid materials or other corporate assets such as vehicles or phones get stolen or broken ; electricity theft occurs</i>		
Mitigation Measure(s)		
To ensure the probability of this risk factor being low, the following measures have been integrated into the design of the project. Feasibility research has been conducted to identify potentially applicable technologies, seed varieties, and techniques which will be tested and refined in FSM communities before being deployed on a broader scale. Additionally, the expertise of College of Micronesia researchers and extension agents will be leveraged in technology and practice selection. These measures can reduce the impact to 'Low'.		

Selected Risk Factor 5: Underdeveloped markets and market access

Category	Probability	Impact
Technical and operational	Medium	High
Description		
The adaptation and resiliency outcomes for the project are contingent on creating channels that households can buy and sell local produce. Local produce can be marketed effectively, but if those channels are slow to form or underutilized project success will be hampered.		
Mitigation Measure(s)		
To ensure the probability of this risk factor being low, the following measures have been integrated into the design of the project. The project will actively interface with local, national and international stakeholders throughout the duration of the project to identify key opportunities for market linkages. Existing business models and programs will be engaged to create near-term opportunities that can be expanded. Outreach and advocacy will also be conducted along with the engagement of individual households and communities to specifically identify and address market linkages. Lastly, the project will proactively work to identify policy and regulation gaps and work to address those early-on in policy discussions. These measures can reduce the impact to 'Low'.		

Selected Risk Factor 6: Executing Entity procurement capacity

Category	Probability	Impact
Technical and operational	Medium	Medium
Description		
<i>FSM government procurement system is cumbersome and lengthy and does not sufficiently meet international standards.</i>		

Mitigation Measure(s)		
To ensure the probability of this risk factor being low, the following measures have been integrated into the design of the project. The project has been designed so that MCT as a GCF accredited entity will carry out all procurement for the project. Additionally, no funds from the GCF will flow directly into Executing Entities financial management systems/bank accounts. These measures can reduce the impact to Low.		
Category	Probability	Impact
Technical and operational	Low	Medium
Description		
<i>The College of Micronesia-FSM is accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges and thus meets financial and administrative standards</i>		
Mitigation Measure(s)		
To ensure the probability of this risk factor remains low, the following measures have been integrated into the design of the project. The project has been designed so that MCT as a GCF accredited entity will carry out all procurement for the project. While the risk level for COM-FSM is low, for consistency and efficiency of implementation, all procurement will be done by MCT. Additionally, no funds from the GCF will flow directly into Executing Entities financial management systems/bank accounts. These measures can reduce the impact to Low.		
2. AML/CFT* and Prohibited Practices compliance due diligence assessment (max. 1 page)		
Category	Probability**	Impact***
ML/TF	Low	HIGH (>20% OF PROJECT)
Sanctions	Low	HIGH (>20% OF PROJECT)
Reputational	Low	HIGH (>20% OF PROJECT)
Prohibited Practices	Low	HIGH (>20% OF PROJECT)
*Anti-Money Laundering/Countering the Financing of Terrorism		
**H: High (has significant probability), M: Medium (has moderate probability), L: Low (has negligible probability)		
*** H: High (has significant impact), M: Medium (has moderate impact), L: Low (has negligible impact)		
¹ Money Laundering/Terrorist Financing		
² Sanction prohibitions of the United Nations, or other relevant sanctioning authorities (including the World Bank Debarred List)		
³ In the context of Money Laundering/Terrorist Financing and Prohibited Practices		
⁴ Abuse, Conflict of Interest, Corrupt, Retaliation against Whistleblowers or Witnesses, as well as Fraudulent, Coercive, Collusive, and Obstructive Practices		
To ensure the probability of this risk factor being low, the following measures have been integrated into the design of the project.		
<u>Money Laundering/Terrorist Financing:</u>		
The Micronesia Conservation Trust (MCT) has Board of Trustees approved policies in place that include anti money laundering and terrorism policies. These policies have also been reviewed and accepted by the GCF as part of the accreditation process. MCT will be responsible for procurement for the project and there will be limited transfers of funds outside of the FSM. All MCT contracts include the following clause: 1.2. Compliance with anti-terrorism laws: The Contractor agrees that he/she will use any funds received under the contract in compliance with all applicable antiterrorist financing and asset control laws, regulations, rules and executive orders including, but not limited to, the USA Patriot Act of 2001 and Executive Order 13224.		
Sanctions prohibitions of the United Nations, or other relevant sanctioning authorities		
MCT's policies require that the relevant project staff conduct searches against the US Office of Foreign Assets Control, Specially Designated Nationals and Blocked Persons List (https://www.treasury.gov/ofac/downloads/sdnlist.pdf) for stakeholders and vendors before entering into contracts. Vendor list updates also include this search. No contracts are issued to individuals or entities who are on this list or on the United Nations Security Council Consolidated List (https://scsanctions.un.org/fop/fop?xml=htdocs/resources/xml/en/consolidated.xml&xslt=htdocs/resources/xsl/en/consolidated.xsl)		
<u>Reputational in the context of Money Laundering/Terrorist Financing and Prohibited Practices</u>		

[MCT has policies regarding the disclosure of funding decisions and offers a publically available mechanism to file complaints and grievances. MCT also has an agreement with the FSM Public Auditor to assist with investigating and mitigating complaints in an independent and unbiased manner.](#)

Prohibited Practices

[In addition to requiring that Board and Staff disclose any potential conflicts of interest and require that they recuse themselves from any related decisions, MCT also has a whistleblower protection policy and an employee code of good conduct. All employees sign a Deed upon assumption of their responsibilities and complete and sign annual declarations disclosing any potential conflicts of interest.](#)

[Additionally, the MCT Deputy Executive Director just completed the](#) GCF IRM Virtual Program on Grievance Redress Mechanisms, improving MCT's capacity to receive and handle project-related concerns and complaints. This will help to ensure that the reputation of the project remains low.

3. Other potential risks in the horizon

FSM is an under-resourced country that is highly dependent on the US Compact of Free Association (COFA) funding. COFA currently funds 80% of state budgets and over 90% of its funding is allocated for health and education. After 2023, however, this funding source will no longer be available leading to an estimated annual financing gap of about US\$1.5 billion (35-45% of current national government expenditures). Against this backdrop, there is a fair amount of uncertainty at the national and state levels of governance, particularly for budgeting and strategy. Swings in policy, priorities, and budgeting threaten the project if not proactively hedged against.