

Strengthening Climate Information and Multi-Hazard Early Warning Systems for Increased Resilience in Azerbaijan

Annex 7

Risk Assessment and Management

RISK ASSESSMENT AND MANAGEMENT

1. Risk factors and mitigations measures (max. 2 pages)		
<p><i>Please describe financial, technical and operational, social and environmental and other risks that might prevent the project/programme objectives from being achieved. Also describe the proposed risk mitigation measures.</i></p> <p>For probability: High has significant probability, Medium has moderate probability, Low has negligible probability For impact: High has significant impact, Medium has moderate impact, Low has negligible impact</p>		
Selected Risk Factor 1		
Category	Probability	Impact
Technical and operational	Medium	Medium
Description		
<p>Political instability or insecurity that disrupts project implementation, such as territorial tensions with neighbouring countries.</p>		
Mitigation Measure(s)		
<p>The risk of political instability and insecurity affecting project delivery will be mitigated by continuous monitoring, multi-stakeholder engagement, and the establishment of an active Project Steering Committee providing high-level oversight and guidance. Project personnel will monitor any evolving security situation closely and apply internal UN security standards (MOSS standards) to ensure the safety of staff, contractors, community members, and – insofar as possible – project outcomes. If necessary, an emergency management/contingency plan will be developed and implemented to ensure continuation of the project in support of its intended outcomes.</p> <p>Regarding potential for changes in national or local government due to political unrest that could impact of project implementation, this risk will be minimised through regular engagement with government stakeholders to ensure they are kept up to date on the project's progress and outputs. In addition, the project includes awareness-raising and information dissemination activities designed to improve local understanding on the value of climate services and early warning systems, which will contribute to enhanced buy-in and commitment to continue project implementation.</p>		
Selected Risk Factor 2		
Category	Probability	Impact
Technical and operational	Low	High
Description		
<p>Low uptake and inadequate engagement from government entities and other stakeholders. This may result from insufficient coordination between national stakeholders during project implementation, limited integration of local knowledge and viewpoints, lack of understanding of the applications of project outputs, and/or weak commitment due to prioritisation of other issues.</p>		
Mitigation Measure(s)		
<p>The National Hydrometeorological Service (NHMS) in the Ministry of Ecology and Natural Resources will be the main national counterpart in the project, which is at the request of the Government of Azerbaijan. The National Framework for Climate Services (NFCS) and National Climate Outlook Forums (NCOFs) will provide a dedicated inter-institutional coordination mechanism and platform for interaction between key stakeholders. The project team will prioritise meaningful engagement of different ministries and stakeholders (including through the Project Steering Committee) in development and implementation of climate information services and the multi-hazard early warning system (MHEWS), as well as support enhanced interaction between producers and end-users of climate information. This will contribute</p>		

to improved understanding of the project benefits and provide incentive for its continuation. Furthermore, as evidenced in the Summary of Stakeholder Consultations (see Annex 13), critical buy-in with key stakeholders and actors has already been established.

Selected Risk Factor 3

Category	Probability	Impact
Technical and operational	Low	Medium

Description

Underutilisation of climate services and early warning system developed: Once climate services and MHEWS have been established, there is a risk that they are under-utilised, under-staffed, or lack sufficient maintenance and are therefore not viable for long-term operations.

Mitigation Measure(s)

The project will strengthen the institutional capacity of key national actors, particularly NHMS, to ensure that it will be sufficiently resilient to address and cope with staff turnover. Training and capacity building are included to upskill multiple members of staff to ensure that the loss of a single staff member will not stall progress. Furthermore, options to broaden training into soft skills will provide an incentive for staff to stay beyond the duration of the project, as demand for new skills is created. The project will strengthen local capacities and co-develop an Operation and Maintenance (O&M) Plan to facilitate that the new climate services and MHEWS are maintained, and any issues are addressed proactively. Financial sustainability beyond the project implementation period will be facilitated through the development of a national financial strategy for sustainable climate services, which will facilitate a long-term sustainable business model for the provision of effective climate services.

Selected Risk Factor 4

Category	Probability	Impact
Technical and operational	Low	Medium

Description

Insufficiently tailored climate services and MHEWS: There is a risk that the project does not sufficiently tailor climate information and early warning products to the needs of users, which would limit the impact potential and utilisation of the project outputs. This risk could also arise from ineffective forecasting of climate-related hazards and their impacts for specific sectors.

Mitigation Measure(s)

The project will establish a User Interface Platform (UIP) to facilitate regular dialogue between NHMS and climate information users to help NHMS to better understand the information requirements of stakeholders and support end-users to better understand climate information and early warnings. The UIP will facilitate that stakeholder needs and priorities are identified, and that co-production of climate services addresses user demands.

The project will engage with end-users – including vulnerable and/or marginalised groups and other users at the last mile – to assess user understanding and ensure that products/services provided are applicable and useful. A two-way feedback mechanism will be established as part of the MHEWS to verify that warnings have been received and that they are both understood and actionable. In addition, the project includes a dedicated sub-activity to co-develop a socially inclusive, child- and gender-responsive communication strategy, which specifically aims to ensure that information is tailored and targeted for dissemination to the most vulnerable population groups.

Selected Risk Factor 5

Category	Probability	Impact
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Technical and operational	Low	Medium
Description		
<p>Risk of Prohibited Practices undertaken with project funds and/or fiduciary management risks that could impede the delivery of project outputs and lead to escalation of costs.</p>		
Mitigation Measure(s)		
<p>At the request of the Government of Azerbaijan, UNEP will act as executing Entity through its Regional Office for Europe, thereby minimising the risk of prohibited practices. Furthermore, UNEP undertakes Fiduciary Capacity Due Diligence Assessments for Technical Partners that will be involved in project implementation. These assessments include an evaluation of the following policies of the partners:</p> <ol style="list-style-type: none"> 1. The Anti-Fraud and Anti-Corruption Framework, 2. Anti-Fraud and Anti-Corruption Policies, 3. Anti-Money Laundering and Counter-Financing of Terrorism, and 4. Sexual Exploitation, Abuse, and Harassment. <p>Subsequently, clauses pertaining to prohibited practices and remedial measures are embedded in the legal agreements that UNEP will sign with Technical Partners. For partners who fall under the high-risk category, special clauses are included to enforce compliance. All Agreements will include warranties and caveats to <i>inter alia</i> ensure compliance with the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat, as well as the Green Climate Fund Policy on Prohibited Practices.</p> <p>As part of the AE's training efforts, project staff and stakeholders will be presented with various examples of fraudulent activities and will be guided through the process and channels for reporting any breach of an integrity policy, whether via the UN Office of Internal Oversight Services (OIOS) or the Independent Integrity Unit at the GCF. For example, during the project inception workshop, there will be a dedicated session on prohibited practices where the project staff and stakeholders are trained on integrity policies, such as the following:</p> <ol style="list-style-type: none"> 1. The GCF Policy on Prohibited Practices, 2. The Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat, 3. The UNEP Anti-Fraud and Anti-Corruption Guidance, 4. Anti-Money Laundering and Counter-Financing of Terrorism, and 5. Sexual Exploitation, Abuse, and Harassment. <p>Furthermore, UNEP will set up a Project Management Unit (PMU) in Baku, Azerbaijan, which will undertake the day-to-day operations of managing the project. The PMU will be responsible for regularly monitoring and ensuring compliance with AML/CFT regulations, fraud prevention, and integrity protocols. It will also conduct regular meetings and training sessions with the Technical Partners to ensure strict adherence to the policies.</p> <p>During implementation, UNEP will also closely monitor the financial management of the project using the established monitoring and evaluation procedures and financial reporting mechanism, including an annual audit, and establish internal controls for the project and project fund management.</p>		
Selected Risk Factor 6		
Category	Probability	Impact
Forex	Medium	Medium
Description		
<p>Foreign exchange risks and cost instability: There is a risk that changes in foreign exchange rates and cost fluctuations for items purchased at international level will negatively impact the financial performance of the project.</p>		
Mitigation Measure(s)		

A clause in the Funded Activity Agreement (FAA) should be added stating that “In case of significant exchange gain/loss, the Accredited Entity (AE) should immediately inform the donor and the donor will take appropriate action by mutual agreement with the AE within the approved financing amount.” Potential changes in foreign exchange rates and item costs are also incorporated in the project budget, including as part of the contingency funds.

In the case of the Azerbaijani manat, it should be noted that the currency is pegged to the US dollar. No foreign exchange risks are therefore expected in this regard.

2. AML/CFT* and Prohibited Practices compliance due diligence assessment (max. 1 page)

Category	Probability**	Impact***
ML/TF	Low	LOW (<5% OF PROJECT VALUE)
Sanctions	Low	LOW (<5% OF PROJECT VALUE)
Reputational	Low	LOW (<5% OF PROJECT VALUE)
Prohibited Practices	Low	LOW (<5% OF PROJECT VALUE)

*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

At the request of the Government of Azerbaijan, UNEP will act as executing Entity through its Regional Office for Europe, thereby minimising the risk of prohibited practices. UNEP will set up a PMU in Baku, Azerbaijan, which will undertake the day-to-day operations of managing the project. The PMU will be responsible for regularly monitoring and ensuring compliance with AML/CFT regulations, fraud prevention, and integrity protocols.

Furthermore, the project will benefit from the expertise of a coalition of Technical Partners who have long-standing experience and expertise on-the-ground in Azerbaijan, thereby enhancing coherence and complementarity. Technical Partners will be sub-contracted by UNEP in its capacity as Executing Entity, in line with UNEP's procedures and policies. UNEP will enter into a Project Cooperation Agreement (PCA) or UN-to-UN Transfer Agreement with each Technical Partner, as relevant. These will include clauses pertaining to prohibited practices and remedial. For partners who fall under the high-risk category, special clauses are included to enforce compliance. All Agreements will include warranties and caveats to inter alia ensure compliance with the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat, as well as the Green Climate Fund Policy on Prohibited Practices.

Prior to signing Agreements, UNEP undertakes Fiduciary Capacity Due Diligence Assessments for Technical Partners that will be involved in project implementation. These assessments include and evaluation of the following policies of the partners:

1. The Anti-Fraud and Anti-Corruption Framework,
2. Anti-Fraud and Anti-Corruption Policies,
3. Anti-Money Laundering and Counter-Financing of Terrorism, and
4. Sexual Exploitation, Abuse, and Harassment.

For Technical Partners to be involved in project implementation, UNEP has undertaken the first-level due diligence assessment as follows:

- UNESCO International Centre for Theoretical Physics (ICTP) – UNEP has previously conducted a Due Diligence assessment on ICTP, which is a UNESCO institute and hence a UN entity. It is also important to note that UNESCO has signed the UN Mutual Recognition Statement. ICTP scored low risk on most areas assessed in the previous assessment.
- Danish Hydraulic Institute (DHI) – UNEP has previously conducted a Due Diligence assessment (Fiduciary Risk Assessment) on DHI and rated the entity as low risk for the following criteria assessed: Legal,

Organisational Structure and Staffing, Accounting Policies and Procedures, Fixed Assets and Inventory, Financial Reporting and Monitoring, and Procurement.

- Finnish Meteorological Institute (FMI) – UNEP has initiated the process to conduct a Due Diligence assessment on FMI.
- UNICEF – UNICEF is registered in the UNEP Partners Portal. As a UN System Organisation, there is no requirement to provide legal or financial status documentation or Partner Declaration. However, in respect to the GCF Guidelines and Rules and Regulations, we have requested UNICEF to complete a Simplified Due Diligence Assessment for the proposed project.
- Regional Environmental Centre for the Caucasus (REC Caucasus) – REC Caucasus has been added to the UNEP Partners Portal. The Headquarters (HQ) of REC Caucasus are located in Tbilisi, Georgia. The organisation also has branch offices in Yerevan, Armenia and Baku, Azerbaijan. UNEP has already conducted a Due Diligence assessment for Branch in Azerbaijan, which will be updated prior to signing the legal instrument for the proposed project.

3. Other potential risks in the horizon

No other potential risks are foreseen at the time of proposal preparation.