

Simplified Approval Process

Annex 7: Risk assessment and management



RISK ASSESSMENT AND MANAGEMENT

1. Risk factors and mitigations measures (max. 2 pages)		
<p>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.</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>		
Difficulty in establishment and operationalisation of a cooperation platform between health and climate / Interdisciplinary cooperation		
Category	Probability	Impact
Governance	Medium	Medium
Description		
Establishing lasting cooperation between sectoral institutions can be hampered by a lack of understanding and openness for cooperation. This can reduce efficiency and thus the likelihood that the project will deliver the expected results.		
Mitigation Measure(s)		
SPC has experience in building mutual trust and understanding between sectors that traditionally operate in silos, including defining the roles and responsibilities for future decision-making and joint projects implementation. The location of SPC regional office in Pohnpei increases presence on the ground and the ability to facilitate this.		
Difficulty in sourcing of technologies and other inputs for project activities		
Category	Probability	Impact
Technical and operational	Medium	Medium
Description		
Procurement of technologies and services in FSM is complicated given the diverse, dispersed geographies of FSM as well as constrained supply chains from COVID-19 aftermath.		
Mitigation Measure(s)		
The procurement will be handled with the established procurement protocols and experience of SPC in FSM, through its Micronesia Regional Office (MRO). A specialised procurement officer will ensure the effective and timely sourcing of technologies and inputs for the project. As part of the PMU, this procurement officer will be based in the DHSA national office, which will provide operational advice on the process. SPC has a long-lasting experience in the procurement of technologies in the region, including managing the challenges faced by distance, supply chain disruptions, fluctuating prices and others.		
Infrastructure/physical investments such as water tanks are not maintained post project		
Category	Probability	Impact
Technical and operational	Low	High
Description		
Infrastructure/physical investments such as water tanks are not maintained post project, limiting their effective lifecycle and minimising the impact of the project.		
Mitigation Measure(s)		
The project will develop specific O&M manuals that will be available to the communities in order to ensure that the technical knowledge to maintain the infrastructure is available. Moreover, through activity 3.1.2 the project will provide maintenance training and support, ensuring that the necessary skills are also available at the local level, therefore ensuring the operational sustainability of these interventions.		
Natural hazards causing chaos and collapse of the project		
Category	Probability	Impact
Technical and operational	Medium	High

Description		
<i>Natural hazards can damage or incapacitate the health system or prevent communities from engaging in the project.</i>		
Mitigation Measure(s)		
<i>Adverse event is beyond the control of project management. However, weather forecasts will be monitored, and necessary adaptation measures will be taken in case of natural disaster.</i> <i>The project can be paused when such events occur. Once resumed, the project could upgrade existing activities to contribute to the recovery.</i>		
COVID-19 constraints for engagement and operations		
Category	Probability	Impact
Technical and operational	Medium	Medium
Description		
<i>Depending on the timeline of the programme, stakeholder engagement could still be constrained by COVID-19 and the resulting shifts in staff and protocols.</i>		
Mitigation Measure(s)		
<i>The SPC team has been adaptive and proactive in finding pathways to engage with needed stakeholders at the local level during the COVID-19 pandemic by leveraging highly effective national consultants and local networks. This foundation will help the programme to proactively plan for alternative pathways for stakeholder engagement and implementation.</i>		
Instability in targeted communities		
Category	Probability	Impact
Governance	Low	Medium
Description		
<i>The emergence of a conflict or a change of leadership could lead to delays or unwillingness to engage with component 3 of the project.</i>		
Mitigation Measure(s)		
<i>The SPC team will be maintaining strong relationships and good communication with public bodies at all levels so that the approach to engagement can be adapted. Throughout the project, the executing entity will work to ensure the ongoing buy-in of political counterparts as this topic is of great importance for human lives and health and is above all political turmoil.</i>		
Local communities and individual households don't support or engage in project activities		
Category	Probability	Impact
Technical and operational	Medium	High
Description		
<i>Local communities and individual households are not cooperative as beneficiaries of project activities and so they partially adopt the measures to prevent VWF-borne diseases, thus reducing the impact of the project.</i>		
Mitigation Measure(s)		
<i>The project team, including national, state and local health and EPA departments will make great efforts to clarify the causalities between climatic factors and VWF borne diseases. In addition, the team will conduct systematic training on the need to adopt simultaneous actions and practices to prevent their spread. The gender co-benefit of the project also mitigates this risk, empowering women by engaging them in project activities.</i>		
Geographic remoteness of selected vulnerable communities		
Category	Probability	Impact
Technical and operational	High	Medium
Description		

<i>Vulnerable communities are mainly located in outer atolls that are very far from main islands/atolls. Transportation to these remote areas is a significant challenge.</i>		
Mitigation Measure(s)		
<i>Under the project, vulnerable communities in remote areas will be engaged in the development and implementation of certain activities. This engagement will include communicating project needs based on the relative geographic isolation of their community. SPC has well established and efficient procurement protocols and teams that will adjust to transportation needs accordingly.</i>		
Loss of political will slowing down the implementation of the project		
Category	Probability	Impact
Governance	Low	High
Description		
<i>The focus of political leaders can get dispersed and reduced political will can hinder the smooth implementation of the project, especially with regard to the first component.</i>		
Mitigation Measure(s)		
<i>Both national and states governments perceive VBD, WBD and FBD as major threats for the future well-being of their constituencies. This risk will be mitigated through ongoing cooperation and communication with stakeholders at national and state level.</i>		
2. AML/CFT* and Prohibited Practices compliance due diligence assessment (max. 1 page)		
Category	Probability**	Impact***
ML/TF	Low	HIGH (>20% OF PROJECT VALUE)
Sanctions	Low	HIGH (>20% OF PROJECT VALUE)
Reputational	Low	MEDIUM (5.1-20% OF PROJECT VALUE)
Prohibited Practices	Low	MEDIUM (5.1-20% OF PROJECT VALUE)
<p>*Anti-Money Laundering/Countering the Financing of Terrorism</p> <p>**H: High (has significant probability), M: Medium (has moderate probability), L: Low (has negligible probability)</p> <p>*** H: High (has significant impact), M: Medium (has moderate impact), L: Low (has negligible impact)</p> <p>¹ Money Laundering/Terrorist Financing</p> <p>² Sanction prohibitions of the United Nations, or other relevant sanctioning authorities (including the World Bank Debarred List)</p> <p>³ In the context of Money Laundering/Terrorist Financing and Prohibited Practices</p> <p>⁴ Abuse, Conflict of Interest, Corrupt, Retaliation against Whistleblowers or Witnesses, as well as Fraudulent, Coercive, Collusive, and Obstructive Practices</p>		
<u>Describe each risk identified which should be derived from the AML/CFT integrity due diligence assessment as well as the prohibited practices due diligence assessment. This includes including corruption, fraud, abuse, retaliation against whistleblowers and any other coercive, collusive or obstructive practice. Also provide the controls and measures to mitigate each identified risk.</u>		
<u>If the Executing Entity is different from the Accredited Entity, please include an annex providing further KYC details, e.g. on the beneficial ownership/control structure, and exposure to Politically Exposed Persons (PEPs) etc.</u>		
<p>The SPC has adopted Finance Policies for anti-money laundering and counter-terrorism financing to prescribe the principles and minimum safeguards to protect SPC from being misused for money laundering or terrorism financing.</p> <p>Although the risks of money laundering and terrorism financing are considered low for FSM, SPC will take steps to ensure that its funds are not used to finance any illegal acts related to money laundering or terrorism financing. The Director-General will implement a continuous risk-based approach to identify, assess and understand SPC's money laundering and terrorism financing risks, and will take appropriate steps to mitigate those identified risks.</p> <p>The SPC will undertake due diligence in engagement with the development partner, supplier, implementation partner or any other entity involved in the activities of the SPC to ensure the identity and safeguard the practices of the entity.</p> <p>SPC will follow its standard due diligence process throughout project implementation. These requirements reflect SPC's commitment to exclude access to entities that engage in illicit activities, with the general conditions of contracts and grants issued by SPC reflecting the right to terminate such agreements with immediate effect where the other entity is</p>		

involved in fraud or corruption, money-laundering, terrorism financing, activities non-compliant with child protection, activities undermining human rights, and/or sexual harassment, sexual abuse or sexual exploitation.

In addition, SPC's Procurement, Grants, Risks and Assets Section verifies the financial status of any such entities, ensuring that they are legally registered and have financial reports annually verified and certified by a registered Chartered Accountant. SPC's AML/CTF policy is administered through due diligence checks. Additional checks are carried out by SPC's banks in line with the relevant AML-CTF laws for New Caledonia, including the EU directive "Directive (UE) 2018/843 du Parlement européen et du Conseil du 30 mai 2018 modifiant la directive (UE) 2015/849 relative à la prévention de l'utilisation du système financier aux fins du blanchiment de capitaux ou du financement du terrorisme ainsi que les directives 2009/138/CE et 2013/36/UE". This has been implemented in French law by "Ordonnance n° 2020-115 du 12 février 2020 renforçant le dispositif national de lutte contre le blanchiment de capitaux et le financement du terrorisme" with provisions for New Caledonia set out in Chapitre III : Dispositions relatives à l'outre-mer (Article 17).

Suspected cases of money laundering or terrorism financing can be reported to the Deputy Director-General (Operations, & Integration), the Director of Finance, Head of Internal Audit or the Legal Team. Any cases of suspected ML/TF would be reported to the Audit and Risk Committee as part of its regular monitoring.

SPC also maintains a fraud and misconduct register. SPC reports any fraud or suspicious transactions to the relevant regulatory authorities of the country in question, which may or may not be the police, or a specific banking regulator, for full investigation. The standard terms and conditions in supplier contracts, implementing partner and grant agreements include anti-fraud clauses.

SPC's Manual of Staff Policies (section XI.H) outlines the following measures for addressing fraud and corruption risks: zero tolerance for fraud and corruption, definitions of fraud and corruption, prevention and detection, reporting and maintenance of a fraud register. Under Chapter II Code of Conduct, duties and obligations of the Manual of Staff Policies, SPC staff are expected to maintain the highest ethical standards in their conduct. This are reflected in Section B(5) of SPC's Procurement Policy which minimises fraud and corruption through: accountability and transparency, perceived impropriety and influence, conflicts of interest and perceptions of bias, and confidential and proprietary information.

SPC's internal audit team undertakes planned fraud control assessments to develop fraud control plans. SPC's Financial Regulations as approved by the Committee of Representatives of Governments and Administrations provides overall governance on financial affairs. The Director-General has ultimate responsibility to ensure adherence to these regulations. SPC's legal frameworks and policies provide for controlling fraud risks. SPC staff are made aware of the content and their obligations to comply with these policies as part of the induction process when joining SPC. Moreover, contractors are required, through standard terms in their contracts, to comply with SPC policies relating to controlling fraud and corruption.

Fraud is further controlled through reporting of allegations of fraud to complaints@spc.int. This information is available on the SPC website on the "Accountability" page. Any fraud allegations are reported to the Audit and Risk Committee. The fraud register is managed by the Internal Audit team.

This project has low risk for money laundering, as it will follow SPC's policies and procedures, under which there have been no records of such activities taking place.

There are currently no international sanctions against FSM.

No individual or entity that is listed on any United Nations Security Council (UNSC) sanctions list, including the UN Consolidated Sanctions list will be involved in any manner with the project or its activities, either as a counterparty, implementer, or beneficiary.

As for the prohibited practices, the SPC has set up procedures for their avoidance including a whistle-blower policy. Manuals and emails for reporting of prohibited practices can be found here - <https://www.spc.int/accountability>.

3. Other potential risks in the horizon

Please describe other potential issues which will be monitored as “emerging risks” during the life of the projects (i.e., issues that have not yet raised to the level of “risk factor” but which will need monitoring). This could include issues related to external stakeholders such as project beneficiaries or the pool of potential contractors.

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