

### RISK ASSESSMENT AND RISK MANAGEMENT PLAN

<b>Risk Description</b>	<b>Rating</b>	<b>Mitigation Measures</b>	<b>Responsibility</b>
<p><b>COVID-19 outbreak in the FSM</b></p> <p>The pandemic potentially reaching the FSM may lead to realignment of resources away from social assistance to fund additional spending to contain direct health impacts.</p>	Substantial	The FSM government is building the health system's capacity to respond to any potential outbreak, including through preparation of quarantine and isolation facilities across all four states and expanding COVID-19 testing capacities.	DHSA and development partners (including ADB)
<p><b>Further external shocks, including from disasters</b></p> <p>The FSM's vulnerability to disasters and climate change impacts highlights a risk of a potential further shock that will exacerbate the economic and social impacts of the ongoing COVID-19 crisis.</p>	Substantial	The government is also looking to identify additional disaster risk financing options and all four states have adopted Joint State Action Plans for climate change. ADB is preparing a program to improve disaster risk management and provide quick-disbursing funds in the event of a disaster.	Government of the FSM, with support from development partners (including ADB)
<p><b>Institutional capacities for effective governance stretched too thin</b></p> <p>Capacity constraints coupled with demands for active government response in several fronts can lead to poor execution and monitoring of the HEALS program</p>	Substantial	Given current limitations in technical, human, and institutional capacities for service delivery—which are common in small island developing states and fragile situations—the ESP and SPP will mostly use existing implementation mechanisms and disbursement channels already established for the US Pandemic Unemployment Assistance program to reach target beneficiaries. This will eliminate potential duplication of efforts toward maximizing utilization of available capacities. Further, the government will employ temporary staff to assist during implementation. ADB will support the implementation, including monitoring of gender activities and collection of sex-disaggregated data through ongoing technical assistance in the Pacific.	ADB and other development partners
<p><b>Public financial management: weaknesses with the reliability and timeliness of financial reporting</b></p>	Moderate	Ongoing support for (i) updating the FSM's financial management regulations (including for procurement) to streamline relevant regulatory guidance and business process; and (ii) the introduction of financial and management information systems.	Government of FSM (National and States), with World Bank support
<p><b>Weaknesses in inter-government coordination</b></p> <p>Persistent coordination issues between the national and the</p>	Moderate	A Program Steering Committee is set up to meet regularly to provide updates and discuss program's results and outcomes.	Government of the FSM, with support from development

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four state governments can negatively impact the efficiency of the program in delivering timely assistance.			partners (including ADB)
<p><b>Delays in distribution of assistance</b></p> <p>Potential gaps in inter-agency coordination may delay delivery of assistance and relief measures to intended beneficiaries</p>	Low	DFA is tasked as the lead agency for coordinating implementation of the C-HAP, ESP, and SPP. DFA is coordinating with various agencies, including DHSA, DRD, and FSM Development Bank—through the Program Steering Committee—to ensure that funding for assistance and relief programs reach intended beneficiaries in a timely manner.	Government of the FSM, with support from development partners (including ADB)
<p><b>Longer-than-anticipated lockdown periods</b></p> <p>Economic and social impacts of the COVID-19 crisis will be more severe if international travel restrictions are more prolonged than projected under the program’s macro-fiscal framework</p>	Low	HEALS and the FSM programs it supports (C-HAP, ESP, SPP) are designed to respond to anticipated economic and social impacts of international travel restrictions that can last up to September 2021. This conservative assumption is made to allow the FSM the option of possibly waiting until a viable COVID-19 vaccine is widely available in the market before full reopening to international travelers.	Government of the FSM, with support from development partners (including ADB)
<p><b>Delays in program implementation</b></p> <p>The nature of the COVID-19 crisis demands rapid disbursement of ADB financing to help government counter the most adverse economic and social impacts</p>	Low	The new CPRO modality allows for expedited program processing, ADB’s in-country presence, through the FSM Pacific Country Office, strengthens coordination during both program processing and implementation, supporting an accelerated timeline for disbursement.	ADB
<b>Overall</b>	<b>Moderate</b>		

ADB = Asian Development Bank, COVID-19 = coronavirus disease, CPRO = COVID-19 Pandemic Response Option, C-HAP = COVID-19 Health Action Plan, DFA = Department of Finance and Administration, DHSA = Department of Health and Social Affairs, DRD = Department of Resource and Development, ESP = economic stimulus program, FSM = Federated States of Micronesia, HEALS = Health Expenditure and Livelihoods Support, SPP = social protection programs.

Source: Asian Development Bank.