



## Concept Paper

---

Project Number: 50295-001  
April 2017

# Proposed Grant Republic of the Marshall Islands: Public Financial Management Project

## CURRENCY EQUIVALENTS

The currency of the Republic of the Marshall Islands is the United States dollar.

## ABBREVIATIONS

ADB	–	Asian Development Bank
CSO	–	community service obligations
FMIS	–	Financial Management Information System
MOF	–	Ministry of Finance
PEFA	–	Public Expenditure and Financial Accountability
PFM	–	public financial management
PFTAC	–	Pacific Financial and Technical Assistance Centre
PSDI	–	Private Sector Development Initiative
RCU	–	Reform Coordination Unit
RMI	–	Republic of the Marshall Islands
SOE	–	state-owned enterprise

## NOTES

- (i) The fiscal year (FY) of the Government of Republic of the Marshall Islands and its agencies ends on 30 September. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2017 ends on 30 September 2017.
- (ii) In this report, "\$" refers to US dollars.

<b>Vice-President</b>	S. Groff, Operations 2
<b>Director General</b>	X. Yao, Pacific Department, Pacific Department (PARD)
<b>Director</b>	E. Veve, Pacific Urban, Social Development and Public Sector Management Division
<b>Team leader</b>	A. Basu, Principal Economist, PARD
<b>Team members</b>	J. Dela Cruz, Operations Assistant, PARD Y. Li, Counsel (Sovereign Operations), OGC R. Rabanal, Senior Economics Officer, PARD L. Tora, Country Economist, PARD
<b>Peer reviewers</b>	H. Mukhopadhyay, Principal Public Management Specialist, CWRD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## CONTENTS

## Page

### PROJECT AT A GLANCE

### PROBLEM TREE

I.	THE PROJECT	1
	A. Rationale	1
	B. Proposed Solutions	2
	C. Proposed Financing Plans and Modality	3
	D. Implementation Arrangements	4
II.	PROJECT PREPARATION AND READINESS	4
III.	DELIBERATIVE AND DECISION-MAKING ITEMS	5
	A. Risk Categorization	5
	B. Project Procurement Classification	5
	C. Scope of Due Diligence	5
	D. Processing Schedule and Sector Group's Participation	6
	E. Key Processing Issues and Mitigating Measures	6

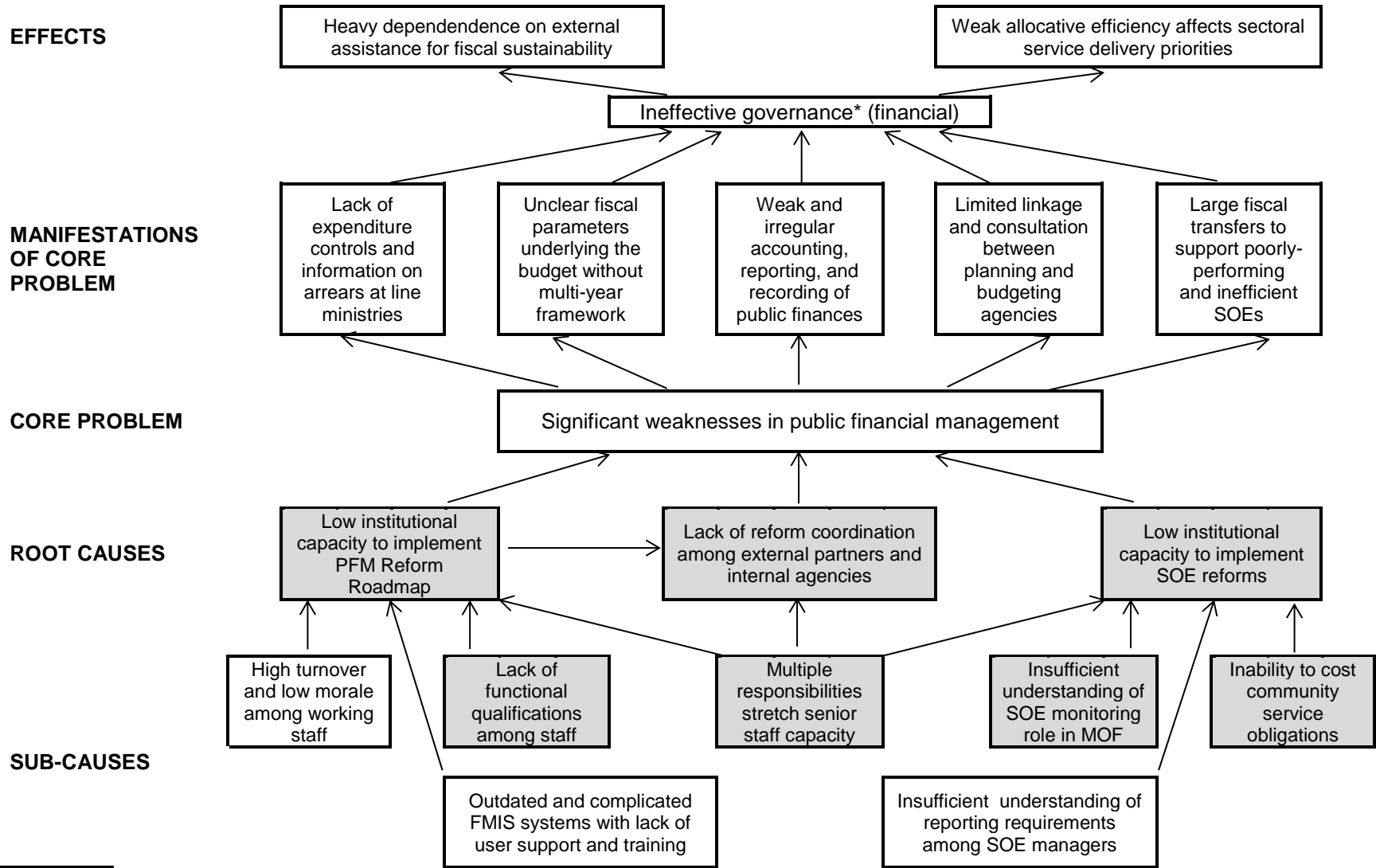
### APPENDIXES

1.	Design and Monitoring Framework	7
2.	Project Procurement Classification	9
3.	Initial Poverty and Social Analysis	10

## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 50295-001	
<b>Project Name</b>	Public Financial Management Project	<b>Department /Division</b>	PARD/PAUS
<b>Country Borrower</b>	Marshall Islands, Republic of Republic of the Marshall Islands	<b>Executing Agency</b>	Ministry of Finance
<b>2. Sector</b>		<b>ADB Financing (\$ million)</b>	
✓ <b>Public sector management</b>	Public expenditure and fiscal management Reforms of state owned enterprises		1.60 0.40
		<b>Total</b>	<b>2.00</b>
<b>3. Strategic Agenda</b>		<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
<b>4. Drivers of Change</b>		<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional development Public financial governance	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Implementation International finance institutions (IFI)		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
<b>6. Risk Categorization:</b>		Low	
<b>7. Safeguard Categorization</b>		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>2.00</b>	
Sovereign Project grant: Asian Development Fund		2.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.30</b>	
Government		0.30	
<b>Total</b>		<b>2.30</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		No	
Use of country public financial management systems		No	

## PROBLEM TREE



\* A cross-cutting theme of the Republic of Marshall Islands National Strategic Plan 2015–2017 is achieving effective governance.

MOF = Ministry of Finance; FMIS = Financial Management and Information System; PFM = public financial management, SOE = state-owned enterprise.

Source: Asian Development Bank



## I. THE PROJECT

### A. Rationale

1. **Key challenges.** The Republic of the Marshall Islands (RMI) faces natural disadvantages, exposure to shocks and internal bottlenecks that limit growth prospects. It is classified as a fragile and conflict-affected situation by the Asian Development Bank (ADB). A major challenge is achieving fiscal sustainability when grants under the Compact of Free Association with the United States expire in 2023.<sup>1</sup> Ineffective financial governance—including weak management of public finances and state-owned enterprises (SOE)—is a key factor constraining the government’s ability to strengthen its fiscal position, and improve financial planning and resource allocation for sectoral priorities. Accordingly, a cross-cutting theme of the RMI National Strategic Plan 2015–2017 is “ensuring and applying the practice of good governance principles to achieve effective governance”. Public financial management (PFM) and SOE reforms are two strategic areas through which good governance will be achieved.<sup>2</sup> However, RMI lacks the institutional capacity to implement PFM and SOE reforms effectively.

2. **Weak PFM framework.** In 2012, a Public Expenditure and Financial Accountability (PEFA) study reviewed the RMI’s PFM framework, and highlighted significant weaknesses.<sup>3</sup> In 2016, an assessment further found that over the last several years, the Ministry of Finance (MOF) has been through a period of high turnover and loss of senior staff, and has received diminished support for 4Gov, the RMI’s Financial Management Information System (FMIS).<sup>4</sup> The report recommended that TA be mobilized to: (i) strengthen professional accounting capacity, (ii) improve human resource development, training and processes in order to address staff turnover/vacancies and low staff morale, and (iii) ensure an FMIS acquisition process to replace 4Gov that provides a system/software solution to meet the RMI’s requirements.

3. **PFM Reform Roadmap.** Based on the PEFA, the government developed a PFM Reform Roadmap 2014–2016 (the Roadmap), consisting of 30 reform components, including non-system measures for strengthening coordination and oversight, and capacity building.<sup>5</sup> In December 2015, following general elections, the Roadmap was endorsed by the Cabinet. A PFM Reform Steering Committee chaired by the Chief Secretary was established in March 2016 to provide high-level management. The MOF leads efforts to implement the Roadmap.

4. **Roadmap implementation.** While the authorities are committed to reforms, the Roadmap lacks systematic prioritization. Together with high turnover of staff and insufficient capacity in MOF, this has meant that the Roadmap remains a wish list, with limited implementation progress. Senior MOF staff are stretched, handling multiple responsibilities. Lower-level MOF staff are largely college graduates with Liberal Arts backgrounds, with inadequate knowledge of economics or accounting. Understanding of the FMIS system is weak, except among staff trained in information technology who know how to operate 4Gov but lack the non-systems financial knowledge required to generate appropriate reports.

5. Insufficient capacity has also constrained MOF’s ability to play an effective coordination role to implement the Roadmap. First, there are weaknesses in internal coordination on PFM

---

<sup>1</sup> Fiscal balances (including grants) show only a small deficit averaging 1.4% of gross domestic product (GDP) during FY2012–FY2016. However, budgetary grants are about a third of GDP, and the fiscal deficit (excluding grants) over the same period was almost 31% of GDP.

<sup>2</sup> Republic of the Marshall Islands. 2014. *National Strategic Plan 2015–2017*. Majuro.

<sup>3</sup> Republic of the Marshall Islands. 2012. *PEFA Public Financial Management Performance Report*. Majuro.

<sup>4</sup> Graduate School USA. 2016. *Republic of the Marshall Islands. Ministry of Finance Risk Assessment*. Majuro.

<sup>5</sup> Republic of the Marshall Islands. 2014. *Public Financial Management Reform Roadmap 2014–2016*. Majuro.

issues between agencies such as MOF, the Economic Policy Planning and Statistics Office, the Office of Compact Implementation in the Ministry of Foreign Affairs, and line ministries. Agencies outside MOF have insufficient understanding of their financial reporting responsibilities and are often unable to comply with core financial regulations. Second, there is a need for better donor coordination. Key partners supporting PFM reforms include ADB, the World Bank, the Pacific Financial Technical Assistance Centre (PFTAC), and the European Union. MOF must establish an effective coordination mechanism among them to ensure that PFM reform efforts achieve timely results, while avoiding duplication or contradictory advice.

6. **Fiscal burden of SOEs.** Moreover, the SOE sector, presently comprising 11 public enterprises, continues to underperform. Stemming SOE losses and hence the requirement for substantial fiscal transfers is considered a critical part of overall PFM reforms. The government provides subsidies to SOEs to fund community service obligations (CSOs), with non-commercial objectives related to delivery of public services. Annual transfers to SOEs during FY2010–FY2014 averaged 4.8% of gross domestic product, among the highest in the Pacific, and exceeded capital expenditures each year. However, the government is not in a position to determine whether the subsidies to SOEs are funding CSOs or SOE inefficiencies.

7. **SOE Act implementation.** The SOE Act of RMI was adopted in October 2015 to strengthen corporate governance and monitoring of SOEs, with support from ADB through its Private Sector Development Initiative (PSDI).<sup>6</sup> The SOE Act contains a corporate governance framework (although elected officials can remain on SOE boards). The PSDI TA is providing assistance for the implementation of the SOE Act, including on greater transparency, accountability, and disclosure among SOEs. Although the MOF is responsible for implementing the SOE Act, capacity limitations and insufficient understanding within MOF of their SOE monitoring role have constrained effective implementation. Line ministries and senior managers from SOEs are also often unable to meet the Act's reporting and accountability requirements.

8. **Government's request.** In February 2016, the government requested ADB for an institutional strengthening project that would support MOF's efforts to implement overall PFM reforms. Following this request, a \$2 million ADF project grant was included in ADB's lending pipeline for 2017,<sup>7</sup> which would: (i) help MOF to prioritize and implement RMI's PFM Reform Roadmap, and (ii) provide operational support to SOE reforms complementing the policy and legislative support being provided by PSDI.

## B. Proposed Solutions

9. ADB proposes to support the RMI government through a project grant to address the low institutional capacity of the MOF to implement PFM and SOE reforms effectively. The impact will be more effective governance achieved in the RMI, in alignment with the national strategic plan (para. 1). The outcome will be improved public financial management. The outputs will be: (i) institutional capacity to implement the PFM Reform Roadmap strengthened; and (ii) institutional capacity to implement SOE reforms strengthened.<sup>8</sup>

10. **Support for Roadmap implementation.** To achieve the first output, a Reform Coordination Unit (RCU) reporting to the Secretary for Finance will be established.

---

<sup>6</sup> ADB. 2010. *Republic of the Marshall Islands: Supporting Public Sector Program*. Manila; ADB. 2010. *Pacific Economic Management–Enhanced Economic Management (Subproject 2)*. Manila; and ADB. *Pacific Private Sector Development Initiative Phase II*. Manila.

<sup>7</sup> ADB. 2016. *Marshall Islands 2017–2019. Country Operations Business Plan*. Manila.

<sup>8</sup> The design and monitoring framework is in Appendix 1.



(i) An international consultant will be hired as Advisor to MOF on matters related to PFM reforms. The Advisor will be substantially based in Majuro (i.e., 7–8 months a year) for the project duration, and report to the Secretary for Finance as RCU team leader. The Advisor will also supervise the other consultants in the RCU.

(ii) A team of 4 full-time national consultants will be hired as RCU members. The positions are tentatively expected to cover accounting, budgeting, human resources and treasury systems, and will be finalized during project preparation. They will be local individuals who can potentially stay on beyond the project duration (funded by the government or partners), becoming a sustainable project management unit for reforms.

11. The RCU will support Secretary for Finance to coordinate internally across government agencies and externally among development partners to prioritize and implement PFM reforms. Under the oversight of the Secretary for Finance, the RCU will first prepare a sequenced and prioritized action plan based on the Roadmap. The plan can provide a foundation for better coordination between development partners and the government on core PFM reforms such as improving the annual budgeting process, advancing the establishment of a medium term budgeting framework, strengthening public procurement, appropriate FMIS acquisition and capacity and organizational development. The RCU will also provide advisory services on human resource development and training, and process improvements within MOF. The RCU will be responsible for regular updates of the National Strategic Plan in alignment with the current budget; hands-on functional training on the budget, accounting and auditing processes to MOF and line ministries; and preparing a plan to upgrade human resources to bring MOF's staff strength and skills in line with the requirements of the Financial Management Act. The human resource plan will contain appropriate provisions for training female staff and appointing additional qualified women.

12. **Support for SOE reforms.** To achieve the second output, the project grant will support the appointment of an international SOE reform expert with experience in establishing SOE monitoring functions, and an international SOE reform expert with experience in costing and contracting CSOs, for a period of 6 months each. The two experts will report to the Secretary for Finance, and work closely with PSDI. The first expert will help establish and train an SOE monitoring unit within MOF. Capacity within the unit will be built to monitor SOE performance and ensure the government gets value-for-money from its fiscal support to SOEs. The second expert will help identify and cost legitimate CSOs so that fiscal transfers can be restricted to legitimate CSOs and/or CSOs can be contracted out. The CSO costing will take into account public service delivery targets of SOEs, which are largely involved in providing utilities, banking, transportation and telecommunications services to the population.

13. **Alignment with country strategy.** The proposed project is consistent with ADB's Pacific Approach 2016-2020, which serves as the overall Country Partnership Strategy for the RMI, and supports (i) PFM improvements in order to achieve the outcome of greater resilience to external economic and financial shocks, and (ii) increased financial efficiency of SOEs in order to achieve the outcome of a more conducive environment for business.<sup>9</sup>

### C. Proposed Financing Plans and Modality

14. The total cost of the project is estimated to be \$2.3 million. The RMI government has requested a grant of \$2.0 million from ADB's Special Funds resources.<sup>10</sup> The government will

<sup>9</sup> ADB. 2016. *Pacific Approach 2016–2020*. Manila.

<sup>10</sup> The RMI is an Asian Development Fund grant country.

provide support, including staff time, office space and supplies, transportation, secretarial assistance, and other in-kind contributions estimated at \$0.3 million. The PFM Roadmap reforms are estimated to account for \$1.6 million of ADB financing, and the SOE reforms for the remainder. There is no immediate partner cofinancing. However, the project will act to improve donor coordination, as the RCU (once established) can help to channel donor funds towards appropriate PFM activities and coordinate with parallel financed initiatives. In this respect, additional partner financing for RMI's PFM reforms is expected to be mobilized during project implementation.

**Table 1: Tentative Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
Asian Development Bank		
Special Funds (Asian Development Fund) resources (grant)	2.0	87
Government (in-kind contributions)	0.3	13
<b>Total</b>	<b>2.3</b>	<b>100</b>

Source: Asian Development Bank estimates.

## **D. Implementation Arrangements**

15. The MOF is expected to function as both the executing and the implementing agencies. Consultant recruitment is proposed to be delegated to ADB. The PFM Reform Steering Committee will provide oversight and strategic guidance to the RCU. A separate project management unit is not envisaged.

**Table 2: Indicative Implementation Arrangements**

<b>Aspects</b>	<b>Arrangements</b>
Indicative implementation period	November 2017–October 2020
Indicative completion date	31 October 2020
<b>Management</b>	
(i) Executing agency	Ministry of Finance
(ii) Implementing agency	Ministry of Finance

Source: Asian Development Bank estimates.

16. For the RCU, the project is expected to mobilize 24 person-months of an individual international consultant as Advisor, and 144 person-months of 4 individual national consultants. For SOE reforms, the project is additionally expected to mobilize 12 person-months of 2 individual international consultants. All consultants will be recruited following ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Project disbursements will be in accordance with ADB's Loan Disbursement Handbook (2015, as amended from time to time).

17. Consultants will be required to submit annual progress reports to the MOF. Specific technical outputs will be outlined in the consultants' terms of reference. Evaluation of their performance will also be based on the findings of assessments by ADB and development partners, such as ADB's country performance assessment score (quality of budgetary and financial management) for the RMI and the next PEFA study. Additional financing by ADB may be considered if the project is judged to perform well.

## **II. PROJECT PREPARATION AND READINESS**

18. It is proposed that advance contracting be undertaken for consultants, to enhance project readiness. No project design advance or new TA grant or loan is required. Due diligence work will be conducted using existing TA (para. 21). Retroactive financing is not planned.

### III. DELIBERATIVE AND DECISION-MAKING ITEMS

#### A. Risk Categorization

19. The project is categorized as “low risk” because (i) the amount financed by ADB is below \$200 million (\$2 million); (ii) ADB has a sound record of implementation of advisory TA undertaking similar tasks in the Pacific region,<sup>11</sup> (iii) the MOF has experience with ADB project implementation,<sup>12</sup> and (iv) the proposed safeguard categorization is other than A.

#### B. Project Procurement Classification

20. The project procurement classification is proposed as “B”. Only individual consultants will be procured under the project. Contracts are not complex or high value, and the executing and implementing agency are the same. It is proposed that consultant recruitment be delegated to ADB by the RMI authorities.

#### C. Scope of Due Diligence

21. The following due diligence work will be undertaken during project development, using funds from TA 8581-REG: *Strengthening Public Sector Management in the North Pacific*.

**Table 3: Proposed Due Diligence**

Due Diligence Outputs	To be undertaken by
Financial management assessment	TA grant
Economic analysis	Staff
Safeguard screening and categorization results	Staff
Initial poverty and social analysis	Staff
Project administration manual	Staff (with consultant inputs)
Risk assessment and management plan	Staff (with consultant inputs)
Sector assessment	Staff (with consultant inputs)

Source: Asian Development Bank estimates.

22. The sector assessment will be undertaken in-house. This will be informed by a skills gap assessment of the MOF, currently under way using TA 8581-REG. The output of the skills gap assessment is expected to be a skills and staffing audit report clearly articulating the gaps, as well as the skills and staffing profile required to perform the core PFM functions. The assessment will highlight any gender issues in MOF staffing. This will also be used by the RCU to subsequently draw up a plan to upgrade MOF’s human resources, and as a basis for assessing achievement of outputs when the project closes. The financial management and procurement capacity of the MOF will be assessed using individual consultants under TA 8581-REG. The economic due diligence will be undertaken by staff.

<sup>11</sup> ADB has provided successful TA supporting PFM and SOE reforms in other small Pacific countries facing similar capacity constraints, including: Kiribati [ADB. 2008. *Republic of Kiribati: Economic Management and Public Sector Reform* (TA 7166–KIR)]; and Tuvalu [ADB. 2008. *Tuvalu: Capacity Development for Public Financial Management* (TA 7161–TUV)]. The RMI also previously received TA to prepare an official debt management strategy and a law on fiscal responsibility, as well as capacity building on fiscal management, through the Pacific Economic Management regional technical assistance facility [ADB. 2009. *Pacific Economic Management–Response to the Global Crisis* (Subproject 1) (TA 7280–REG)]; and ADB. 2010. *Pacific Economic Management–Enhanced Economic Management* (Subproject 2) (TA 7681–REG)], which were likewise rated as highly successful.

<sup>12</sup> The MOF has experience as the executing agency in several ADB projects including the *Marshall Islands: Public Sector Program—Subprograms 1 and 2*. While the executing agency was rated less than satisfactory under the program, risks are mitigated since the proposed PFM project has a simpler design and ADB will work closely with the MOF on consultant procurement and management.

23. The project is confirmed as category C for environment, indigenous peoples and involuntary resettlement since the project proposes only advisory inputs. The project is also proposed to be categorized as having some gender elements. Measures to ensure benefits to women will be incorporated in the project design, including (i) preference to appointing women in the RCU and SOE Monitoring Unit; (ii) at least 35% women receiving PFM training services; (iii) reduced skills gap particularly for women staff within MOF through hands-on functional training; and (iv) priority to costing CSOs for basic social services that impact women disproportionately.

#### D. Processing Schedule and Sector Group's Participation

24. Table 4 presents the proposed processing schedule. Assistance and advice from the sector groups will be sought on an ongoing basis, as required.

**Table 4: Processing Schedule by Milestone**

Milestones	Expected Completion Date
1. Grant fact-finding	30 June 2017
2. Staff review meeting	15 July 2017
3. Grant negotiation	29 July 2017
4. Board consideration	29 September 2017
5. Grant signing	30 October 2017

Source: Asian Development Bank estimates.

#### E. Key Processing Issues and Mitigating Measures

25. The following are the key risks and proposed mitigation measures during processing.

**Table 5: Issues, Approaches and Mitigation Measures**

Key Processing Issues	Proposed Approaches and/or Mitigation Measures
1. Mobilization of consultants delayed due to selection procedures / clearances.	Consultant recruitment is proposed to be delegated to ADB, and advance contracting will be used. ADB's local development coordination office will help to follow up with any MOF clearances required.
2. Lack of coordination among development partners leads to contradictory advice or duplication of efforts.	ADB will work closely with World Bank and other partners during project preparation, and the RCU will help with partner coordination after it is functional.
3. Administrative commitment to the proposed project design decreases, as alternative reform priorities emerge.	ADB has discussed the proposed design with the authorities at high levels, including the Minister of Finance and the PFM Reform Steering Committee, and has their support. The project will be processed in close coordination with the authorities.

ADB = Asian Development Bank; PFM = public financial management; RCU = Reform Coordination Unit.

Source: Asian Development Bank.

26. ADB will coordinate closely with partners to ensure that respective reform efforts are complementary. The World Bank is also expected to provide support for PFM activities in RMI in 2018, with an initial focus on the FMIS and reporting processes. Additionally, PFTAC is expected to provide assistance to the government in developing a medium term fiscal framework. Once established and functional, the RCU can provide advice and inputs on the adoption of the most appropriate fit-for-purpose FMIS solution, as well as help to identify and implement core non-systems improvements that will be needed to ensure a timely and user-friendly replacement for 4Gov. The RCU can work with PFTAC, to build MOF's capacity to undertake fiscal work.

## DESIGN AND MONITORING FRAMEWORK

<b>Impact of the Project</b>			
More effective governance achieved* (*RMI National Strategic Plan 2015–2017)			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
<b>Outcome</b>			
Public financial management improved	<p>By the end of 2020</p> <p>a. Country performance assessment score for quality of budgetary and financial management increased by 0.5 points Baseline: 3.0 (2016)</p> <p>b. Number of D/D+ scores in PEFA falls by 5 or more Baseline: 21 of 35 (2012)</p> <p>c. Fiscal transfers to SOEs decline Baseline: 6.4% of GDP (2015)</p>	<p>a. ADB annual report on the country performance assessment exercise</p> <p>b. PEFA report or equivalent assessment</p> <p>c. IMF Article IV reports</p>	<p>External shocks undermine reform efforts and shift government attention away from the reform program.</p> <p>Political commitment to public financial management decreases.</p>
<b>Outputs</b>			
1. Institutional capacity to implement PFM Reform Roadmap strengthened	<p>By the end of 2020</p> <p>1a. At least 3 functional training sessions a year provided by RCU, with women comprising at least 35% of trainees Baseline: Training not provided (2017)</p> <p>1b. At least 6 Roadmap reforms certified implemented, as per updated and sequenced Roadmap action plan Baseline: Not certified (2017)</p> <p>1c. Skills gap in MOF assessed to be lower Baseline: Results from 2017 skills gap assessment undertaken under project preparatory TA<sup>a</sup> (2017)</p>	<p>1a. Annual progress reporting by MOF</p> <p>1b. Annual progress reporting by MOF, corroborated by development partners</p> <p>1c. Updated skills assessment to be undertaken end-2020 (including functional skills)</p>	<p>Mobilization of consultants delayed due to timely non-availability of suitable qualified experts.</p> <p>Lack of or delay in partner TA to support implementation of PFM Reform Roadmap undermines reform pace.</p>
2. Institutional capacity to implement SOE	<p>By the end of 2020</p> <p>2a. SOE monitoring unit established and staffed</p>	<p>2a. Cabinet order / decision</p>	

<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
reforms strengthened	<p>within MOF, including at least 35% women staff Baseline: Not established (2017)</p> <p>2b. Report with cost assessment of legitimate CSOs prepared Baseline: Not prepared (2017)</p>	2b. Copy of report with CSO costs	
<p><b>Key Activities with Milestones</b></p> <ol style="list-style-type: none"> <li>1. Contract consultants under project grant by Q4 2017</li> <li>2. Prepare prioritized and updated action plan based on PFM Reform Roadmap by Q1 2018</li> <li>3. Prepare a training plan for MOF by Q2 2018</li> <li>4. Assess costs of legitimate CSOs by Q2 2018</li> <li>5. Establish SOE monitoring unit within MOF by Q3 2018</li> <li>6. Provide PFM policy and technical advice and capacity development through RCU (Q1 2018 to Q4 2020)</li> <li>7. Progress reporting by MOF on performance of RCU by Q4 2018, Q4 2019 and Q4 2020</li> </ol> <p><b>Project Management Activities</b></p> <p>Continue regular monitoring and supervision until Q4 2020            Manage contracts from Q4 2017 until Q4 2020            Provide timely progress reports until Q4 2020            Carry out regular accounting and annual audits</p> <p><b>Inputs</b></p> <p>ADB: \$2.0 million (grant)            Government: \$0.3 million (in-kind contributions)</p> <p><b>Assumptions for Partner Financing</b></p> <p>NA</p>			

ADB = Asian Development Bank, CSO = community service obligations, DMF = Design and Monitoring Framework, GDP = gross domestic product, MOF = Ministry of Finance; PEFA = public expenditure and financial accountability; PFM = public financial management; RCU = Reform Coordination Unit; RMI = Republic of the Marshall Islands; SOE = state-owned enterprise

Q = quarter

Source: Asian Development Bank.

<sup>a</sup> A baseline skills gap assessment is presently under way, financed by TA 8581-REG: *Strengthening Public Sector Management in the North Pacific*. Findings from this assessment will be used to derive quantitative indicators that can be used in the final Design and Monitoring Framework.

## PROJECT PROCUREMENT CLASSIFICATION

Characteristic	Assessor's Rating:
Is the procurement environment risk for this project assessed to be <i>high</i> based on the country and sector and/or agency risk assessments?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are multiple (typically more than three) and/or diverse executing agencies and/or implementing agencies envisaged during project implementation? Do they lack prior experience in implementation under an ADB-financed project?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are multiple contract packages and/or complex and high-value contracts (compared with recent externally financed projects in the developing member country [DMC]) expected?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Does the project plan to use innovative contracts (public–private partnership, performance-based, design and build, operation and maintenance, etc.)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are contracts distributed in more than three geographical locations?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are there significant ongoing contractual and/or procurement issues under ADB (or other externally) financed projects? Has misprocurement been declared in the DMC?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Does the DMC have prolonged procurement lead times, experience implementation delays, or otherwise consistently fail to meet procurement time frames?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown
Do executing and/or implementing agencies lack capacity to manage new and ongoing procurement? Have executing and/or implementing agencies requested ADB for procurement support under previous projects?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown
<b>Regional department's overall recommendation (Ananya Basu)</b>	
Overall project categorization recommended	<input type="checkbox"/> Category A <input checked="" type="checkbox"/> Category B
<b>OSFMD's recommendation (Rafael Nadyrshin)</b>	
Confirmed (dated 10 April 2017)	

**INITIAL POVERTY AND SOCIAL ANALYSIS**

Country:	Republic of the Marshall Islands	Project Title:	Public Financial Management Project
Lending / financing modality:	Project Grant	Department/ Division:	PARD/PAUS

**I. POVERTY IMPACT AND SOCIAL DIMENSIONS**

**A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy**

The project impact is more effective financial governance in the Republic of the Marshall Islands (RMI). One of the 10 themes in the RMI's National Strategic Plan (NSP) 2015-2017 is "ensuring and applying the practice of good governance principles to achieve effective governance". The RMI's Vision 2018 also prioritizes improving governance. The project outputs will be improved institutional capacity to implement the public financial management (PFM) Reform Roadmap and state-owned enterprise (SOE) reforms. The NSP's six strategic areas under the good governance theme include PFM reforms and SOE management and reforms. This is consistent with the Vision 2018 strategies to strengthen the financial and fiscal system, and create a favorable investment climate.

The project is also aligned with: (i) ADB's Strategy 2020 which features good governance and capacity development as a key driver of change, (ii) ADB's Midterm Review of Strategy 2020 which commits that ADB will help strengthen governance systems and institutional capacities to support effective, timely, and corruption-free delivery of public services. It is consistent with ADB's Pacific Approach 2016-2020, which serves as the overall Country Partnership Strategy for the RMI, and supports (i) PFM improvements in order to achieve the outcome of greater resilience to external economic and financial shocks, and (ii) increased financial efficiency of SOEs in order to achieve the outcome of a more conducive environment for business. Under ADB's 2013 Fragile and Conflict-Affected Situations (FCAS) operational plan, ADB will provide greater capacity-building and institutional-strengthening support to FCAS like the RMI.

**B. Poverty Targeting**

General Intervention  Individual or Household (TI-H)  Geographic (TI-G)  Non-Income MDGs (TI-M1, M2, etc.)

The proposed project does not target a specific segment of the population of the RMI. It is intended to benefit the general public through improved and more effective governance.

**C. Poverty and Social Analysis**

1. Key issues and potential beneficiaries.

An ADB Assessment of Socio-Economic Vulnerability in the Marshall Islands (2015) showed poverty incidence at 38.4% for basic needs at population level and 36.6% at the household level. Income poverty in the RMI is greater in the outer islands than in the major urban centers. The key issues facing the population are the lack of economic opportunities, employment, or access to capital and technology, as well as the high cost of interisland transport and the formidable challenge of initiating longer-term sustainable and inclusive growth. The gross domestic product, budget, and balance of payments depend on foreign grants and transfers, especially under the Compact of Free Association with the United States (US). The real economy is centered on the service sector, with productive sectors like agriculture, industry, construction, and energy playing relatively minor roles. The public sector dominates the economy and its growth, leaving the private sector to play a secondary role. With the gradual decrease of Compact grants and the potential for declining wage income from the US military base in Kwajalein, economic prospects and poverty trends are likely to worsen unless the government carries out fiscal and public sector reforms. The diversification of the economy and a dynamic environment for private sector growth will open up opportunities for income and employment growth.

The primary beneficiaries are the people of the RMI, who will benefit from long-term fiscal sustainability of the government.

2. Impact channels and expected systemic changes.

The project will contribute to poverty reduction in several ways. First, better PFM systems and more rigorous SOE management will reduce fiscal deficits; improve government capacity to deal with external shocks; and create foundations for sustainable, equitable, and inclusive pro-poor economic growth. This will improve prospects for a



smooth transition to the post-Compact era, which could otherwise create social and economic tension as public expenditure and employment shrink and poverty and deprivation worsen. Second, improving the efficiency of SOEs will reduce the burden that cash transfers place on the budget, and make additional resources available for development. Community service obligations (CSO) are crucially important, as underfunded CSOs are one of the key factors driving poor financial performance in SOEs. Also informal CSOs have a negative fiscal impact. There is little transparency and accountability around their identification and funding and their true cost and effectiveness in delivering the desired social policy outcome cannot be measured. Costing legitimate CSOs as supported under the project will be a critical first step towards reducing fiscal transfers. It will allow the government to identify the costs of inefficiencies, adjust subsidies, and contract out CSOs.

The RMI's NSP's themes include empowering people and communities to reduce the incidence of "access related" poverty through improvements in all areas including social, economic environment, governance and infrastructure, and ensuring that outer islands populations receive access to all necessary services allowing all RMI citizens to enjoy high quality of life. External shocks also tend to affect the poor more adversely. Additional resources for development will allow the government to meet the NSP's poverty- and access-related objectives, and greater resilience to shocks will benefit the poor. Greater efficiency and effectiveness in the public sector will lift the quality of education and health care, which currently absorb about half the budget.

3. Focus of (and resources allocated in) the PPTA or due diligence.

The primary focus of the due diligence will include: (i) a skills gap analysis of the Ministry of Finance with respect to its PFM responsibilities and (ii) project preparatory due diligence.

4. Specific analysis for policy-based lending.

NA

## II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?

There are no specific gender issues related to the sector. RMI's score on the Gender-related Development Index in 2008 was 0.708, giving RMI an 8th place ranking out of the 14 countries in the Pacific, which is a relatively lower ranking than in 2002. The 2009 MDG Progress Report showed that female participation in wage labor has increased over time. In 1967 only 14.9% of females in the labor force were actively participating in some type of formal, wage labor. This rate essentially doubled by 2011, reaching 35%. While the trend is encouraging, the 2011 RMI Census detailed report indicates that the RMI is a long way from achieving employment gender parity. Nonetheless, the RMI has made significant progress in improving female primary and secondary educational attainment. The outstanding issues are the status of female health, violence against women and girls, limited access to reproductive and sexual health-care and family-planning services, and a rising incidence of teenage pregnancy.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes  No Please explain.

The project does not directly target gender equality or empowerment of women. In a general sense, women will benefit from the elements of the program design that contribute to poverty reduction (see section C above). The RMI National Gender Policy (2013) is designed to advance gender equality and ensure women in the RMI have an enabling environment to enjoy their human rights. In hiring of consultants, the project will encourage the selection of qualified women.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes  No Please explain

The project will contribute to improved and effective governance in the RMI. This will benefit both men and women.

4. Indicate the intended gender mainstreaming category:  GEN (gender equity)  EGM (effective gender mainstreaming)

SGE (some gender elements)  NGE (no gender elements)

The project will include design measures to benefit women such as preference to women during employment and their participation in skills services and trainings. Currently, women make up just under a third of MOF staff. Costing to CSO for basic services which will benefit women and other vulnerable groups will also be prioritized.

## III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The ultimate beneficiaries will be the people of the RMI. The project objectives are aligned with the NSP, which was consulted within the RMI.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

The project design does not require participation of the poor and excluded groups. Information will be shared with the public as appropriate, on the PFM reforms. The RMI is launching a website on SOEs, which will provide information. PFM reports (like the PEFA) will be shared, unless considered confidential.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

- Information generation and sharing  Consultation  Collaboration  Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed?  Yes  No

The project design does not require participation of the poor and excluded groups.

**IV. SOCIAL SAFEGUARDS**

**A. Involuntary Resettlement Category**  A  B  C  FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement?  Yes  No The project will not involve civil works and result in any involuntary resettlement impacts.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

- Resettlement plan  Resettlement framework  Social impact matrix
- Environmental and social management system arrangement  None

**B. Indigenous Peoples Category**  A  B  C  FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples?  Yes  No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain?  Yes  No

3. Will the project require broad community support of affected indigenous communities?  Yes  No

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

- Indigenous peoples plan  Indigenous peoples planning framework  Social Impact matrix
- Environmental and social management system arrangement  None

**V. OTHER SOCIAL ISSUES AND RISKS**

1. What other social issues and risks should be considered in the project design? NA

- Creating decent jobs and employment  Adhering to core labor standards  Labor retrenchment
- Spread of communicable diseases, including HIV/AIDS  Increase in human trafficking  Affordability
- Increase in unplanned migration  Increase in vulnerability to natural disasters  Creating political instability
- Creating internal social conflicts  Others, please specify \_\_\_\_\_

2. How are these additional social issues and risks going to be addressed in the project design? NA

**VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT**

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?

- Yes  No

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence?

NA.