



Regional: The Economic Impacts of the End of Compact Grant Assistance

Project Name	The Economic Impacts of the End of Compact Grant Assistance	
Project Number	52215-001	
Country	RegionalMicronesia, Federated States ofPalauMarshall Islands	
Project Status	Active	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA 9675-REG: The Economic Impacts of the End of Compact Grant Assistance	
	Technical Assistance Special Fund	US\$ 225,000.00
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development Knowledge solutions	
Sector / Subsector	Public sector management - Public expenditure and fiscal management	
Gender Equity and Mainstreaming	No gender elements	
Description	<p>The Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), and the Republic of Palau (PAL) face economic and fiscal uncertainties as they approach the end of their respective agreements with the Government of the United States (US) under the Compacts of Free Association (the Compacts) in fiscal years 2023/2024. One of the key feature of the Compacts is the grant assistance which support a variety of sectors, such as education, health, infrastructure, public sector capacity building, private sector development and environment. FSM, PAL, and RMI will have to fund these sectors when the US grant assistance is discontinued.</p> <p>In addition to grants, another key feature of the Compacts is the establishment of the compact trust funds which are meant to provide the FSM, PAL and RMI governments with a continuing source of income after fiscal years 2023/2024. In May 2018, the US Government Accountability Office (GAO) issued a report on the proposed actions required by the governments of FSM and RMI to prepare for the transition to compact trust fund income. The report highlighted that due to the countries' heavy dependence on the US compact grants and programs, accounting for about 33% and 25% of FSM and RMI's respective revenues for fiscal year 2016, the countries will require significant budgetary support to transition to relying on its own trust fund income in the long term. ADB's analysis of the trust fund rules and sustainability in FSM and RMI showed a decline in the overall trust fund size, indicating insufficient resources to support the countries' expected drawdowns in the long run.</p> <p>ADB's operations in the Pacific are increasing rapidly. Its total portfolio doubled every five years -- from \$500 million in 2005, \$1 billion in 2010, \$2 billion in 2015 -- and is now more than \$2.88 billion. For the North Pacific, the portfolio had similarly increased during the same period -- from \$50 million in 2005 to \$91 million in 2015 -- and is projected to reach more than \$200 million in 2019-2021. As ADB's Pacific operations continue to grow, it is important to understand the scale of development assistance required to support the governments of FSM, RMI and PAL after the termination of the compact grant assistance. The proposed small-scale knowledge and support TA will: (i) identify the range of potential reductions in US government assistance to FSM, PAL and RMI, (ii) analyze the potential fiscal and economic shocks for FSM, PAL and RMI, and (iii) identify the range of preparatory and mitigating actions that could be taken by FSM, PAL and RMI, the US government and development partners, including the potential positive effects of a coordinated effort by the parties.</p>	

Project Rationale and Linkage to Country/Regional Strategy

The Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), and the Republic of Palau (PAL) face economic and fiscal uncertainties as they approach the end of their respective agreements with the Government of the United States (US) under the Compacts of Free Association (the Compacts) in fiscal years 2023/2024. One of the key feature of the Compacts is the grant assistance which support a variety of sectors, such as education, health, infrastructure, public sector capacity building, private sector development and environment. FSM, PAL, and RMI will have to fund these sectors when the US grant assistance is discontinued.

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Impact Increased understanding by all relevant stakeholders of the potential impacts resulting from the termination of the US compact grant assistance.

Project Outcome

Description of Outcome Awareness of the governments of FSM, PAL and RMI of the uncertainties and potential fiscal and economic shocks resulting from the termination of the US compact grant assistance increased.

Progress Toward Outcome

Implementation Progress

Description of Project Outputs Written report on the fiscal and economic impact of the termination of the US compact grant assistance delivered by 4th Quarter of 2019. Information sessions to convey analysis and findings made, including pertinent data, to key stakeholders conducted by 1st Quarter 2020.

Status of Implementation Progress (Outputs, Activities, and Issues)

Geographical Location Marshall Islands - Nation-wide; Micronesia, Federated States of - Nation-wide; Palau - Nation-wide

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Business Opportunities

Consulting Services Output-based contracts will be considered in the engagement of consulting services. The TA will provide 12-person months of international consulting services. The Graduate School USA (GSUSA) will be engaged as an international consulting firm in accordance with ADB's Procurement Policy (2017, as amended from time to time) and its associated staff instructions using single source selection and biodata technical proposal. Under para. 86(ii) of the Staff Instructions on ADB Administered Consulting Services, single source selection method is appropriate due to GSUSA's experience of exceptional worth in undertaking the assignment. GSUSA -- through its Economic Monitoring and Analysis Program (EconMAP) -- has been working with government counterparts in the RMI and the FSM since 2006, and Palau since 2011, on compiling and updating economic and finance statistics. GSUSA's annual Economic Statistics compendiums and Economic Reviews are generally accepted as the authoritative source of official economic and finance statistics for all three countries. These publications are widely used in informing governments' and key development partners' macroeconomic monitoring efforts, including ADB's Pacific Economic Monitor and Asian Development Outlook series, as well as the International Monetary Fund's Article IV Consultations and Staff Visits, among others. EconMAP is supported by a strong team of economists, well versed in the dynamics and economic environment of these countries, which allows access to information required for the study.

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Timetable

Concept Clearance	-
Fact Finding	20 Aug 2018 to 23 Aug 2018
MRM	-
Approval	06 Dec 2018
Last Review Mission	-
Last PDS Update	10 Dec 2018

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Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
225,000.00	0.00	0.00	0.00	0.00	0.00	225,000.00	-	0.00

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