

SUMMARY OF PROJECT PERFORMANCE

A. Background

1. **Development challenges.** A major challenge facing the Marshall Islands is achieving fiscal sustainability when grants under the Compact of Free Association with the United States expire in 2023. Weak management of public finances and state-owned enterprises (SOEs) constrain the government's ability to strengthen its fiscal position, and improve financial planning and resource allocation for sector priorities.¹ However, the Marshall Islands lacks the institutional capacity to implement public financial management (PFM) and SOE reforms effectively.

2. **Current project.** The current project, an Asian Development Fund grant of \$2 million, was approved on 15 October 2017 and became effective on 19 October 2017.² The project closing date is 31 December 2020. The grant is (i) helping the Ministry of Finance (MOF) to prioritize and implement the Marshall Islands' PFM Reform Roadmap,³ and (ii) providing operational support to SOE reforms. The project is aligned with the following impact: more effective governance achieved in the Marshall Islands, in line with the National Strategic Plan.⁴ The project outcome will be improved PFM. The outputs will be (i) the MOF's institutional capacity to implement the PFM Reform Roadmap strengthened, and (ii) the MOF's institutional capacity to implement SOE reforms strengthened.

3. **Additional financing.** The additional financing will build on the work undertaken under the current project, and scale up and consolidate PFM and SOE reforms. The outputs of the additional financing will remain the same as the current project.

4. **Roadmap implementation.** To achieve the first output, the reform coordination unit (RCU) will focus on three reform components in the Roadmap under the additional financing project:

- (i) **Improved tax administration.** The current tax system has several loopholes, as evident from tax arrears that have accumulated over time but cannot be accurately estimated.⁵ A tax reform commission was formed in 2008 and completed a report in 2010.⁶ The RCU will review and update the report for phased implementation. In addition to assisting with a focus on tax arrears, the RCU will also work with the MOF to explore the introduction of value-added taxes to bring in new tax revenue. This is expected to lead to tax reform legislation.
- (ii) **Strengthened accounting systems.** In 2018, the Marshall Islands secured financing from the World Bank for a new financial management information system (FMIS), which has the potential to significantly improve major government processes such as budgeting, procurement, performance monitoring, and reporting.⁷ A critical component of a new FMIS will be a well-designed chart of accounts (COA). Although the current FMIS (4Gov) had some elements of a COA,

¹ Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2).

² Asian Development Bank (ADB). 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Republic of the Marshall Islands for the Public Financial Management Project*. Manila.

³ Government of the Marshall Islands. 2014. *Public Financial Management Reform Roadmap, 2014–2016*. Majuro.

⁴ Government of the Marshall Islands. 2014. *National Strategic Plan, 2015–2017*. Majuro.

⁵ The tax–GDP ratio in the Marshall Islands was only 14.4% in 2018, compared with a Pacific average of 20.2%.

⁶ Government of the Marshall Islands. 2014. *Republic of the Marshall Islands: A Holistic Approach to Reforming the Tax and Revenue System*. Majuro.

⁷ International Development Association. 2018. *Marshall Islands: Project to Strengthen Budget Execution and Financial Reporting Systems*. Washington, DC.

allowing for the generation of automated reports such as basic financial statements and program-level reports, these were not pursued fully either during the initial setup or as part of the maintenance process over the years. The RCU will ensure the integrity of financial data as the Marshall Islands moves from 4Gov to the new FMIS, including by mapping the old COA codes to the new COA codes and by conducting investigations to support the changeover.

- (iii) **Strengthened public financial management legal and policy framework.** The MOF requires technical expertise to support the planning and management of reform measures, with a focus on fiscal planning. With assistance from the Graduate School USA, the Marshall Islands is preparing a long-term fiscal strategy for sustainable economic development. In coordination with this strategy, the Marshall Islands needs assistance to draft legislation for a fiscal responsibility act. The current legislation is outdated and does not consider present economic conditions. Under the supervision of the MOF, the RCU will prepare an updated fiscal responsibility bill to improve fiscal transparency.

5. Additionally, human resources capacity is a cross-cutting enabler of the implementation of the Roadmap. The RCU has undertaken a review of MOF positions and related job descriptions. An identified need at the MOF is the capacity to complete timely and results-oriented performance reviews, which directly link personal performance to organizational performance. The MOF also seeks to move toward a performance-based management framework, which is one of the 30 reform areas under the Roadmap. The RCU will improve the performance management process, including through the introduction of standardized performance criteria and standardized performance evaluation tools for MOF employees and capacity building of the MOF human resources staff to conduct performance reviews.

6. **State-owned enterprise reform implementation.** Under the second output, the RCU will help empower women to serve on SOE boards. While women are well represented in government, with the first female president of the Marshall Islands in office since 2016, and several female heads of ministries, only 12 out of 57 SOE board directors are women as of June 2019. The government seeks to introduce more balanced gender representation at boardroom level (subject to qualifications), and women's representatives have specifically asked for boardroom training so they are better placed to compete, as implementation of the SOE Act, 2015, calls for skills-based selection of directors.⁸ The RCU will provide additional training, using customized tools to focus on SOE governance skills for women. This will be undertaken in coordination with gender champions in the Office of the Chief Secretary and the Ministry of Culture and Internal Affairs (Gender Development Division).

B. Performance of the Project

7. The current project is considered to be performing well. The RCU envisaged under the current project is established and fully staffed. It comprises four international consultants: (i) an advisor, (ii) two financial management specialists (accounting), and (iii) an SOE monitoring and community service obligation (CSO) expert. The CSO expert has combined the responsibilities originally outlined for two consultants because of the difficulty of finding suitable qualified candidates willing to be based in Majuro for extended periods. Additionally, the RCU includes two national consultants: (i) a budget specialist and (ii) a human resource specialist. The RCU is now a recognized and fully functional unit based in Majuro and reporting to the MOF, providing advice and technical assistance to the government.

⁸ Government of the Marshall Islands. 2015. *State-Owned Enterprises Act, 2015*. Title 52 – Associations Law. Majuro.

1. Delivery of Expected Outputs

8. The RCU has submitted biannual progress reports on time. ADB's assessment is that considerable work has been undertaken within a short period. The government's capacity remains a critical issue, and continued support from senior officials in the government is needed to sustain progress and step up momentum. Key achievements are summarized below (paras. 9–10).

Output 1: MOF's institutional capacity to implement the Public Financial Management Reform Roadmap strengthened

9. The RCU has contributed to nine reform components in the PFM Reform Roadmap: (i) a strengthened PFM legal and policy framework, (ii) improved cash management, (iii) improved local government financial management, (iv) PFM reform communications and training, (v) improving the management of the Government of the Marshall Islands imprest accounts, (vi) an improved budgeting framework, (vii) the introduction of a performance-based management framework, (viii) annual reporting by line ministries, and (ix) improved payroll management. The major reforms are as follows:

- (i) **Budgeting framework and performance-based management framework**
 - (a) Starting in 2018, for the fiscal year (FY) 2019 budget, all ministries were required to present their budget submissions (with assistance from the RCU as needed) using the Performance-Based Portfolio 3-Year Budgeting Format by Outputs to provide clear expectations of spending and results over the medium term.
 - (b) With inputs from the Pacific Financial Technical Assistance Centre, a new budget worksheet to assist with budget estimates was developed and rolled out. The worksheet provided for each line ministry to summarize funding by source.
 - (c) Training on the updated budgeting format was provided within the MOF and to all line ministries and/or agencies that prepare an annual budget.
- (ii) **Cash and Expense Management**
 - (a) Effective 1 August 2018, a new Procedures Manual on Grants and Sub-grants Management became effective, to address the root causes (i.e., lack of policies and guidelines) of most of the repeat audit findings of the government. Internal controls covered in the manual will ensure that the government's general fund is reimbursed in a timely manner, thus ensuring sufficient daily cash levels to meet payment obligations. The new report templates released to sub-grantees will improve transparency regarding how recipient organizations use grant money.
 - (b) A draft procedures manual for embassies' imprest accounts was prepared and submitted to the Ministry of Finance and Ministry of Foreign Affairs management for final approval. The manual will improve and standardize reporting mechanisms in place for embassies and/or consulates.
- (iii) **Financial management information system**
 - (a) Based on consultations with all MOF divisions, the RCU developed a proposed integrated FMIS model and/or process diagram and a chart of accounts framework, which were presented to the MOF management and the World Bank team working on the recently approved PFM project, which aims to replace the current FMIS. This preliminary work will help reduce

the work to be done by the World Bank appraisal mission, and ensure that Marshall Islands inputs are considered during the FMIS design stage.

(iv) **Human resources management**

- (a) In addition to the finance secretary, who is a woman, two women have been appointed to management positions: the assistant secretary of tax and revenues and the acting director of the Division of International Development Assistance.
- (b) A complete audit of all job descriptions, undertaken in August 2018, revealed 100 job positions, 86 of which are documented.
- (c) Time and attendance audits were also conducted, resulting in 30% of employees being put on *at risk* status. One-on-one consultation with these employees was adopted as the first approach to manage the attendance issue.

(v) **Training sessions**

- (a) Twelve trainings and workshops were conducted in 2018, with a total attendance of 281 individuals. Some 45% or 126 attendees were female, which exceeds the design and monitoring framework target of 35%.
- (b) All the training sessions conducted in Majuro were condensed and conducted for Ebeye-based MOF employees and sub-grantees in August 2018.

Output 2: MOF's institutional capacity to implement state-owned enterprise reforms strengthened

10. Under this output, the RCU has contributed to two reform components in the PFM Reform Roadmap: (i) improved SOE oversight, and (ii) PFM reform communications and training. The major accomplishments are as follows:

- (i) In line with the design and monitoring framework indicator, an SOE monitoring unit consisting of two staff was established in the MOF in May 2018. The RCU is working with these two staff and building their capacity to function independently. However, these staff are still new and require handholding to undertake their responsibilities.
- (ii) Formal and informal training has been provided to SOEs (and the monitoring unit) on their responsibilities and the SOE Act, 2015, through the delivery of several training sessions.
- (iii) The RCU has assisted nine SOEs with planning and three SOEs with CSO costing and contract preparation.
- (iv) The RCU has prepared five how-to manuals and 26 monitoring tools, documents, and templates, including for (i) the code of conduct for SOEs, (ii) the performance-based contract for SOE management, (iii) board performance assessment. Training has been provided using these manuals.
- (v) The RCU has prepared work plans and quarterly and/or annual reports (and formats) for the SOE monitoring unit.
- (vi) The RCU has drafted a process for directors' selection based on skills, best practice, good governance, and adaptation to the Marshall Islands.
- (vii) The RCU has contributed to multiple ad hoc proposals, policies, and procedures relating to SOEs.

2. Satisfactory Implementation Progress

11. Cumulative contract awards totaled \$1.715 million (85.8% of ADB financing) as of 30 June 2019 and cumulative disbursements totaled \$0.843 million (42.1% of ADB financing), against 53.1% time lapsed. The contracting process for the five international consultants was delegated to ADB, and all contracts were awarded by November 2017, within a month of project effectivity. One contract (for the SOE reform expert) had to be terminated because of unforeseen reasons, but the workstream was not affected as the CSO reform expert took on the responsibilities through a contract variation. The other three international consultants were recruited at below cost estimates. The national consultants were recruited using government processes and their contracts were finalized in March–April 2018.

3. Satisfactory Compliance with Safeguard Policy Requirements

12. The project is classified *category C* for environment, indigenous peoples, and involuntary resettlement because it only includes advisory inputs. The project complies with the requirements of ADB's Safeguard Policy Statement (2009).

4. Successful Management of Risks

13. Major risks do not threaten successful implementation of the project. The risk of nonavailability of suitable consultants on time was managed since the MOF delegated the consultant recruitment process to ADB while making the final hiring decisions, and advance contracting was used. As a result, the international consultants for the RCU were mobilized within 3 months of project approval. Similar approaches to the hiring of consultants are envisaged under the additional financing.

5. On Track Rating

14. The project is rated *on track*. The audited annual financial statements for FY2018 have been received with an unqualified opinion from the independent auditor, and disclosed publicly.

C. Conclusion

15. Given the successful performance of the project, the government has requested additional financing to scale up and consolidate activities under the current project, while maintaining its overall scope. All activities and outputs proposed under the project will contribute to effective implementation of PFM and SOE reforms (paras. 4–6), as outlined in the updated PFM Reform Roadmap 2014–2016 (para. 2). Additional financing for the project complies with ADB eligibility criteria.⁹ It is considered a suitable modality since the proposed activities are strongly linked to the design of the current project, and contribute to the same outputs and outcomes related to improved PFM. Implementation arrangements also remain unchanged, with additional individual consultants expected to be recruited as part of the RCU, under the oversight of the MOF.

⁹ Report and recommendation of the President (para. 9).