

Project Administration Manual

Project Number: 50295-002

Grant Number: XXXX

26 July 2019

Republic of the Marshall Islands: Public Financial Management Project

ABBREVIATIONS

ADB	Asian Development Bank
AVI	Australian Volunteers International
DMF	design and monitoring framework
EMP	Environmental Management Plan
FAR	Fixed Asset Register
FMA	Financial Management Assessment
FMIS	financial management information system
GASB	Governmental Accounting Standards Board
GL	General Ledger
MOF	Ministry of Finance
PAM	Project Administration Manual
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
RCU	Reform Coordination Unit
RMI	Republic of the Marshall Islands
RRP	Report and Recommendation of the President
SGE	some gender elements
SOE	state-owned enterprise
SOP	Standard Operating Procedures

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Project Administration Manual Purpose and Process

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with government and Asian Development Bank (ADB) policies and procedures. The PAM includes references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The Ministry of Finance (MOF) in the Republic of the Marshall Islands is wholly responsible for the implementation of ADB financed projects, as agreed jointly between the recipients and ADB, and in accordance with the policies and procedures of the government and ADB. ADB staff is responsible for supporting implementation including compliance by the MOF in the RMI of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At grant negotiations, the recipients and ADB shall agree to the PAM and ensure consistency with the grant agreement. Such agreement shall be reflected in the minutes of the grant negotiations. In the event of any discrepancy or contradiction between the PAM and the grant agreement, the provisions of the grant agreement shall prevail.

After ADB Board approval of the project's report and recommendation of the President (RRP) changes in implementation arrangements are subject to agreement and approval pursuant to relevant government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the PAM.

I. PROJECT DESCRIPTION

1. 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). The RMI depends heavily on external development assistance. A major challenge is achieving fiscal sustainability when grants under the Compact of Free Association with the United States expire in 2023.¹ Weak management of public finances and state-owned enterprises (SOEs) are critical factors constraining the government's ability to strengthen its fiscal position, and improve financial planning and resource allocation for sectoral priorities. However, RMI lacks the institutional capacity to effectively implement public financial management (PFM) and SOE reforms.

2. ADB is supporting the RMI government through a \$2 million project grant to enhance the institutional capacity of the Ministry of Finance (MOF) to effectively implement PFM and SOE reforms. The proposed additional financing of \$0.5 million will help to scale up and extend the benefits of the ongoing project by further helping the Ministry of Finance (MOF) to prioritize and implement reforms to strengthen PFM in line with the scope of the original project.

3. The impact of the overall grant will be more effective governance achieved in the RMI, in alignment with the National Strategic Plan.² The outcome will be improved public financial management. The outputs will be: (i) institutional capacity to implement the PFM Reform Roadmap strengthened;³ and (ii) institutional capacity to implement SOE reforms strengthened.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

4. Implementation plans have been prepared and cover (i) project readiness activities; (ii) activities to ensure that the project becomes effective in a timely manner; and (iii) the overall implementation plan. These plans are set out below. The plan will be reviewed and updated on an annual basis during the program implementation period.

Table 1: Project Readiness Plans (Overall project)

Indicative Activities	Months							Responsible Individual/Unit/ Agency/Government
	1	2	3	4	...	26	27	
ADB staff review								ADB
Grant negotiations								ADB, MOF
Establish implementation arrangements								ADB, MOF
Advance contracting								ADB, MOF
ADB Board consideration								ADB
Signing of grant agreement								ADB, MOF
Governments' legal opinion provided								RMI legal counsel
Grant effectiveness								ADB, MOF
ADB Board consideration (additional financing)								ADB
Additional financing effectiveness								ADB, MOF

¹ Fiscal balances (including grants) show only a small deficit averaging 1.4% of gross domestic product (GDP) during FY2012–FY2017. However, budgetary grants are about a third of GDP, and the fiscal deficit (excluding grants) over the same period was almost 31% of GDP.

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

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

* The project is expected to start in October 2017, and October-December 2017 counts as the 1st quarter of Year 1. It is expected to continue till December 2020, and October-December 2020 counts as the 1st quarter of Year 4. The last annual audit report is expected within 6 months of closing.

PFM = public financial management, RCU = Reform Coordination Unit, SOE = state-owned enterprise.

Source: Asian Development Bank

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations: Roles and Responsibilities

Project Implementation Organizations	Management Roles and Responsibilities
PFM Reform Steering Committee	<ul style="list-style-type: none"> • Members of the PFM Reform Steering Committee include (i) Chief Secretary; (ii) Secretary for Finance; (iii) Economic Policy Planning and Statistics Office; (iv) Office of the Auditor General; (v) Office of the Attorney General; (vi) Public Service Commission. • The Steering Committee will oversee the overall project implementation at the national level ensuring consistency with policies of the government. • Provide strategic guidance on the project implementation and advise on any needs for adjustment of scope through bi-annual meetings. • Provide overall program direction and any required policy guidance. • Ensure policy and other significant issues affecting implementation are dealt with promptly. • Review and advise on the implementation progress and necessary actions to be taken by concerned agencies, organizations, and institutions.
Executing Agency (Ministry of Finance)	<ul style="list-style-type: none"> • Responsible for the overall management and coordination of the project. • Oversight of grant disbursements, submission of withdrawal applications to ADB, ensuring these are properly accounted for, and retention of supporting documents. • Facilitate payment of counterpart funds. • Provide guidance and support to the RCU on budgetary and financial matters, including reporting. • Responsible for preparing the annual project financial statements and recruitment of an independent auditing firm for annual audit of project financial statements. • Provide RCU with adequate time and in-kind support to meet project commitments and as authorized by the government.
Implementing Agency, Reform Coordination Unit (Advisor and Other Individual Consultants)	<ul style="list-style-type: none"> • RCU is headed by an Advisor, and consists of individual consultants (4 for PFM and 1 for SOE reforms). RCU to include 5 more individual short term consultants under additional financing. • Advisor to supervise, monitor, and assess the performance, outputs, and outcomes of RCU consultants against the criteria, standards, and targets specified in their Terms of Reference. • Monitor progress of project activities against the targets set in an annual workplan (derived from an updated PFM Reform Roadmap and training plan), and prepare bi-annual progress reports including issues (if any) to the Secretary for Finance. • Provide guidance to the MoF on PFM and SOE reforms as required. • Lead preparation of key reform activities, including updated PFM Reform Roadmap, and a training plan, training programs, and outreach activities • Lead development partner coordination on PFM reform issues, liaising with other partners as needed to obtain funding and technical assistance. • Organize communication of reforms to stakeholders (including public). • Carry out day to day implementation activities in specified areas/functions to support and facilitate reform implementation. • Prepare supporting documents for replenishment of Advance account, financial statements, and arrangements for the annual audit in close consultation with MOF officials. • Work closely with MOF and other government agencies to build functional capacity. • Perform other duties and tasks as may be assigned by the Secretary for Finance.
ADB	<ul style="list-style-type: none"> • Advance contracting activities for RCU consultants. • Advisory support to MOF and RCU • Regular supervision and monitoring of RCU • Payment to RCU consultants with MOF clearance and validation

ADB = Asian Development Bank; MOF = Ministry of Finance; PFM = public financial management; RCU = Reform Coordination Unit; SOE= state-owned enterprises.

Source: Asian Development Bank.

B. Key Persons Involved in Implementation

Executing Agency
Ministry of Finance

Maybelline Bing
Secretary of Finance
Email address: mayabing@gmail.com

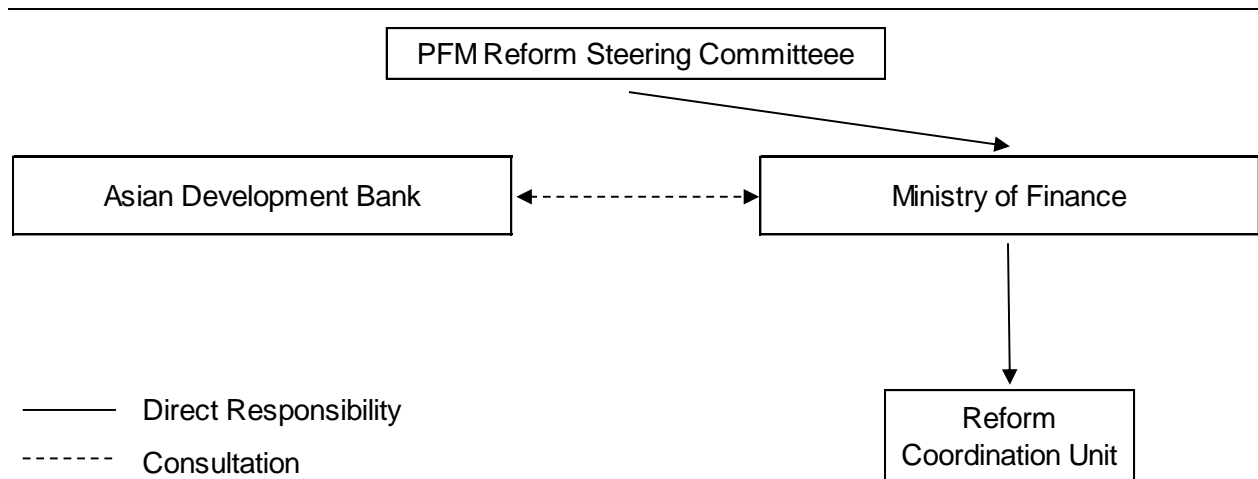
ADB
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Department

Emma Veve
Director
Email address: eveve@adb.org

Mission Leader

Ananya Basu
Principal Economist, PARD
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C. Project Organization Structure



Source: Asian Development Bank

IV. COSTS AND FINANCING

6. The ongoing project is estimated to cost \$2.3 million. The Government requested an amount of \$2.0 million in the form of grant from the ADB's Asian Development Fund. The Government agreed to contribute an estimated \$0.3 million as counterpart funds during implementation towards the project in the form of taxes and duties, and recurrent costs in the form of office space including utilities, and miscellaneous administration and support staff.

7. The additional financing project is estimated to cost \$0.55 million. The Government has requested an amount of \$0.5 million in the form of grant from the ADB's Asian Development Fund. The Government will contribute an estimated \$0.05 million as counterpart funds during implementation towards the project in the form of taxes and duties, and recurrent costs in the form of office space including utilities, and miscellaneous administration and support staff.

A. Cost Estimates Preparation and Revisions

8. The cost estimates were prepared in close consultation with the Ministry of Finance staff in the RMI.

B. Key Assumptions

9. The following key assumptions underpin the cost estimates and financing plan.

- (i) Exchange rate: RMI uses the US dollar as their official currency;
- (ii) Price contingencies are based on cumulative inflation over the implementation period and are as follows.

Item	2017	2018	2019	2020
Foreign rate of inflation	1.5%	1.5%	1.5%	1.5%
Domestic rate of inflation	0.0%	1.1%	0.5%	1.0%

Source: Asian Development Bank.

C. Detailed Cost Estimates by Expenditure Category

Table 3: Detailed Cost Estimates by Expenditure Category (Overall Project)

Items	Gross (\$)	% of Total Base Cost
A. Investment Costs \a		
Consulting Services	2,323,300	85.5%
Training and Capacity Building	82,369	3.0%
Subtotal (A)	2,405,669	88.5%
B. Recurrent Costs		
Office Operations	146,800	5.4%
Miscellaneous Admin & Support staff	166,056	6.1%
Subtotal (B)	312,856	11.5%
Total Base Cost \b	2,718,525	100.0%
C. Contingencies \c		
Physical Contingencies	70,656	2.6%
Price Contingencies	60,820	2.2%
Subtotal (C)	131,476	4.8%
Total Project Cost (A+B+C)	2,850,000	

^a In mid-2019 prices. Currency of RMI is US\$.

^b Includes taxes and duties of \$138,000 to be financed from government resources as part of the cash/kind contribution.

^c Physical contingencies are estimated at 3.0% for consulting services. Price contingencies are computed at 1.5%–1.6% on foreign exchange costs and 0.5%–1.1% on local currency costs, and includes provision for potential exchange rate fluctuation under the assumption of purchasing power parity exchange rate.

Source: Asian Development Bank

D. Allocation and Withdrawal of Grant Proceeds

Table 4A: Allocation and Withdrawal of Grant Proceeds (Ongoing Project)

Sl.No.	Item	Total Amount Allocated for ADB Financing (US\$)	Percentage and Basis for Withdrawal from the Grant Account
1	Consulting Services, Training and Capacity Building, and Recurrent Costs	2,000,000	100% of total expenditure claimed
Total Project Cost - ADB Grant		2,000,000	

Source: Asian Development Bank

Table 4B: Allocation and Withdrawal of Grant Proceeds (Additional Financing Project)

Sl.No.	Item	Total Amount Allocated for ADB Financing (US\$)	Percentage and Basis for Withdrawal from the Grant Account
1	Consulting Services, Training and Capacity Building, and Recurrent Costs	500,000	100% of total expenditure claimed
Total Project Cost - ADB Grant		500,000	

Source: Asian Development Bank

E. Detailed Costs Estimates by Financier

Table 5A: Detailed Costs by Financier (\$) (Ongoing Project)

Item	ADB		Government of RMI				Total Costs
	\$	%	Tax	Non-Tax	Total	%	
A Investment Costs \a							
1 Consulting Services	1,756,756	94%	108,000	1,944	109,944	6%	1,866,700
2 Training and Capacity Building	30,000	100%	0	0	0	0%	30,000
Subtotal (A)	1,786,756	94%	108,000	1,944	109,944	6%	1,896,700
B Recurrent Costs							
1 Office Operations	82,800	61%	0	54,000	54,000	39%	136,800
2 Miscellaneous Admin & Support staff	20,000	13%		136,056	136,056	87%	156,056
Subtotal (B)	102,800	35%	0	190,056	190,056	65%	292,856
Total Base Cost \b	1,889,556	86%	108,000	192,000	300,000	14%	2,189,556
C Contingencies \c							
1 Physical Contingencies	58,750	100%	0	0	0		58,750
2 Price Contingencies	51,695	100%	0	0	0	0%	51,696
Subtotal (C)	110,444	100%	0	0	0	0%	110,444
Total Project Cost (A+B+C)	2,000,000	87%	108,000	192,000	300,000	13%	2,300,000
% Total Project Cost		87%				13%	100.0%

Notes:

^a In mid-2019 prices. Currency of RMI is US\$.

^b Includes taxes and duties of \$108,000 to be financed from government resources as part of the in-kind contribution.

^c Physical contingencies are estimated at 3.0% for consulting services. Price contingencies are computed at 1.5%–1.6% on foreign exchange costs and 0.5%–1.1% on local currency costs, and includes provision for potential exchange rate fluctuation under the assumption of purchasing power parity exchange rate.

^d Office operations financed by ADB can cover small items like computers for consultants, basic office furniture, and printer paper, toner, etc.

Table 5B: Detailed Costs by Financier (\$) (Additional Financing Project)

Item	ADB		Government of RMI				Total Costs
	\$	%	Tax	Non-Tax	Total	%	
A Investment Costs \a							
1 Consulting Services	426,600	93%	30,000	0	30,000	7%	456,600
2 Training and Capacity Building	52,369	100%	0	0	0	0%	52,369
Subtotal (A)	478,969	94%	30,000	0	30,000	6%	508,969
B Recurrent Costs							
1 Office Operations	0	0%	0	10,000	10,000	0%	10,000
2 Miscellaneous Admin & Support staff	0	0%	0	10,000	10,000	0%	10,000
Subtotal (B)	0	0%	0	20,000	20,000	0%	20,000
Total Base Cost \b	478,969	91%	30,000	20,000	50,000	9%	528,969
C Contingencies \c							
1 Physical Contingencies	11,906	100%	0	0	0	0%	11,906
2 Price Contingencies	9,125	100%	0	0	0	0%	9,125
Subtotal (C)	21,031	100%	0	0	0	0%	21,031
Total Project Cost (A+B+C)	500,000	91%	30,000	20,000	50,000	9%	550,000
% Total Project Cost		91%				9%	100.0%

Notes:

^a In mid-2019 prices. Currency of RMI is US\$.

^b Includes taxes and duties of \$30,000 to be financed from government resources as part of the in-kind contribution.

^c Physical contingencies are estimated at 3.0% for consulting services. Price contingencies are computed at 1.5%–1.6% on foreign exchange costs and 0.5%–1.1% on local currency costs, and includes provision for potential exchange rate fluctuation under the assumption of purchasing power parity exchange rate.

F. Detailed Cost Estimates by Outputs (Overall Project)

Table 6: Detailed Cost Estimates by Outputs

Item	Amount ^a in US\$	% of Total Base Cost
A: Investment Costs ^b		
Output 1: Institutional capacity to implement the PFM Reform Roadmap strengthened	2,287,002	84%
Output 2: Institutional capacity to implement SOE reforms strengthened	431,523	16%
Subtotal (A)	2,718,525	100%
B. Contingencies		
1. Physical	70,656	
2. Price ^c	60,820	
Subtotal (B)	131,475	
Total Project Cost (A+B)	2,850,000	

^a In mid-2019 prices. Currency of RMI is US\$.

^b Includes taxes and duties of \$138,000 to be financed from government resources as part of the in-kind contribution.

^c Physical contingencies are estimated at 3.0% for consulting services. Price contingencies are computed at 1.5%–1.6% on foreign exchange costs and 0.5%–1.1% on local currency costs, and includes provision for potential exchange rate fluctuation under the assumption of purchasing power parity exchange rate.

G. Detailed Cost Estimates by Year (Overall Project)

Table 7: Detailed Cost Estimates by Year (\$)

Item	Total	2017	2018	2019	2020
A. Investment Costs					
1 Consulting Services	2,323,300	93,335	896,016	539,328	794,621
2 Training and Capacity Building	82,369	0	12,000	22,474	47,895
Subtotal (A)	2,405,669	93,335	908,016	561,802	842,515
B. Recurrent Costs					
Office Operations	146,800	11,400	45,600	47,600	42,200
Miscellaneous Admin & Support staff	166,056	13,005	52,019	54,019	47,014
Subtotal (B)	312,856	24,405	97,619	101,619	89,214
Total Base Cost	2,718,525	117,740	1,005,635	663,420	931,729
C. Contingencies					
1 Physical Contingencies	70,656	2,938	28,200	16,481	23,037
2 Price Contingencies	60,820	433	12,774	17,603	30,009
Subtotal (C)	131,476	3,371	40,974	34,084	53,047
Total Project Cost (A+B+C)	2,850,000	121,110	1,046,609	697,505	984,776
% Total Project Cost	100%	4%	37%	24%	35%

^a Project implementation is expected to begin in the last quarter of 2017.

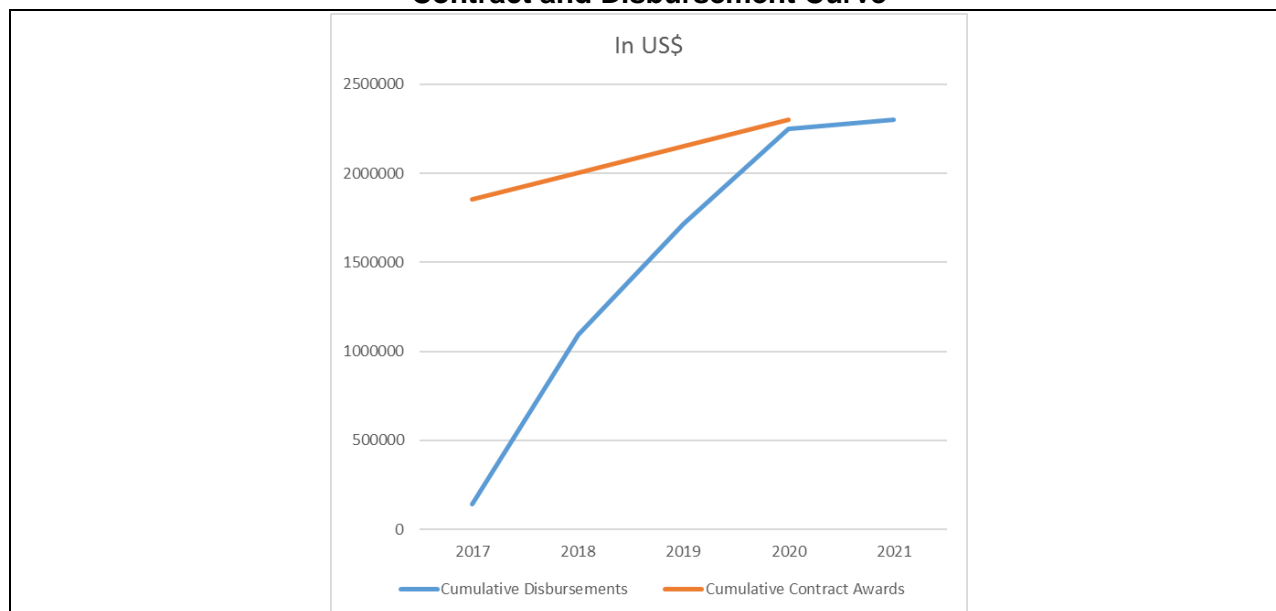
^b In mid-2019 prices. Currency of RMI is US\$. Includes taxes and duties of \$108,000 to be financed from government resources as part of the in-kind contribution.

^c Physical contingencies are estimated at 3.0% for consulting services. Price contingencies are computed at 1.5%–1.6% on foreign exchange costs and 0.5%–1.1% on local currency costs, and includes provision for potential exchange rate fluctuation under the assumption of purchasing power parity exchange rate.

H. Contract and Disbursement S-Curve

Ongoing project

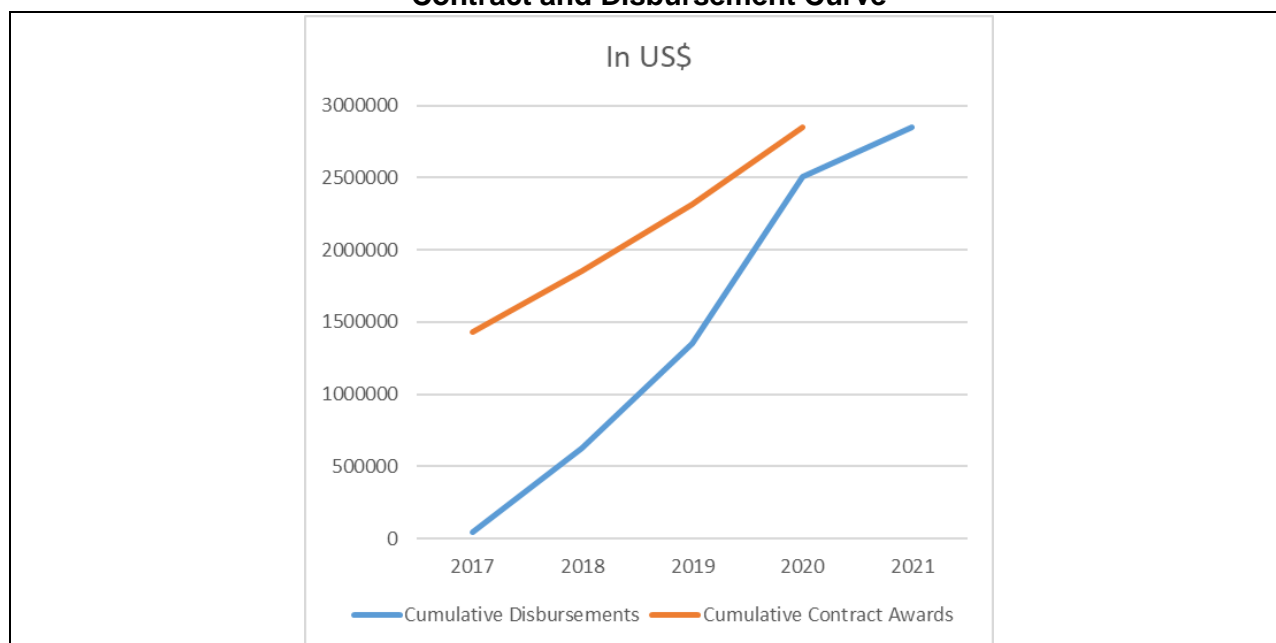
Contract and Disbursement Curve



Note: Disbursements are expected to be completed by the first quarter of 2021, with an indicative project closing date of 31 December 2020.

Overall Project (including additional financing)

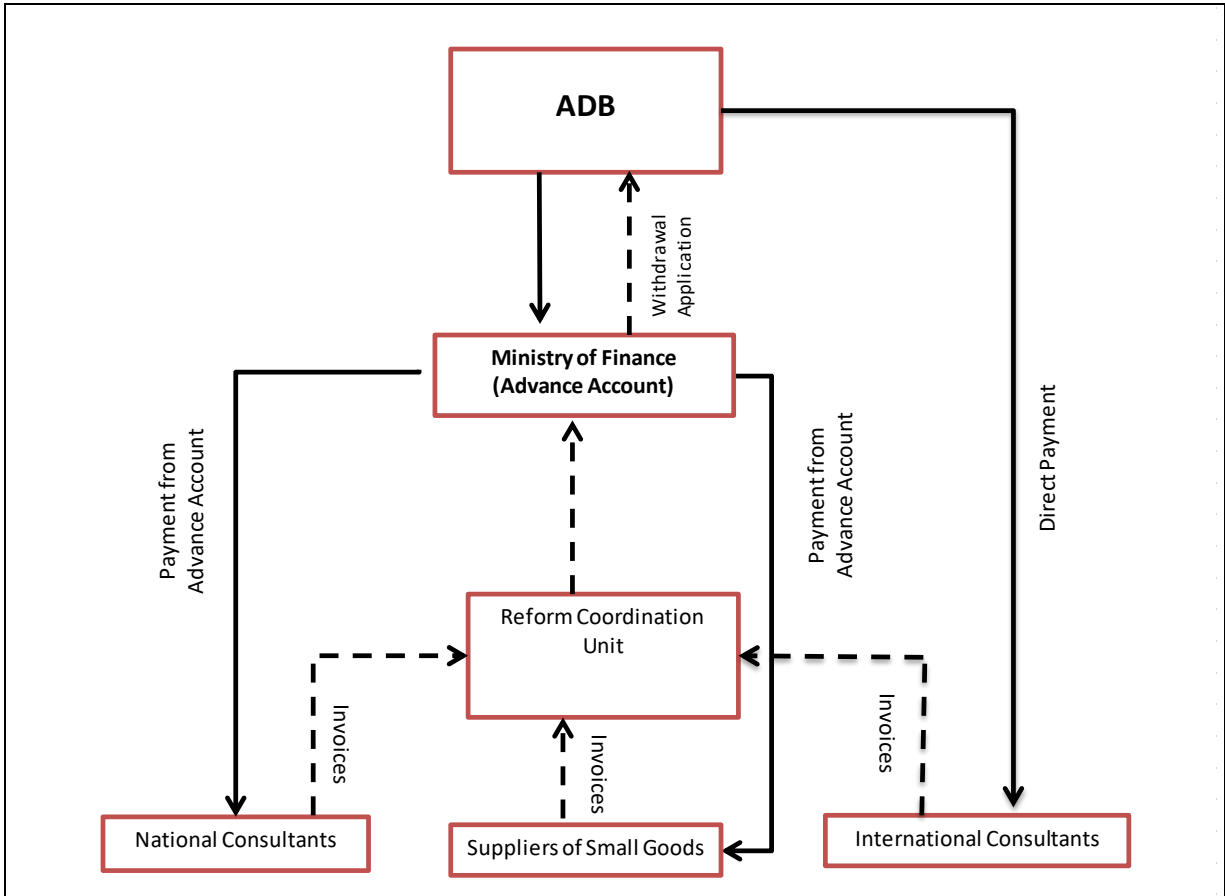
Contract and Disbursement Curve



Note: Disbursements are expected to be completed by the first quarter of 2021, with an indicative project closing date of 31 December 2020.

I. Fund Flow Diagram

10. Please see paras. 19-24 for details on the flow of funds.



V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

11. A financial management assessment (FMA) of the project was carried out in May 2017, in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects and Financial Due Diligence: A Methodology note⁴ under the project preparatory technical assistance. The FMA considered the capacity of the Ministry of Finance as the Executing Agency and the RCU as the Implementing Agency. The FMA has been reviewed by and with other donor partners include EU, World Bank and the Pacific Forum Secretariat. Partners are using this document to inform and coordinate their own ongoing PFM reform efforts in the RMI with the ongoing ADB RCU work program.

12. The RMI's PFM is based on the basic legislative framework under the RMI Code. The Code covers basic executive, legislative and judicial procedures and has a separate chapter on financial management, also referred to as the Financial Management Act of RMI. PFM arrangements were assessed using the 2012 PEFA for the RMI.⁵ The PEFA finds several challenges including frequent budget changes signifying issues of expenditure control, inadequate links between planning and budgeting and inadequate information on spending efficiency. The national government's financial statements are prepared based on US Government Accounting Standards since they must report to the US due to substantial grant funding through the Compact of Free Association with the US. The RMI's financial statements are audited by Deloitte.

13. The 4Gov financial management information system (FMIS) is used by the RMI. It is a windows-based modular FMIS that has been used for the past ten years or so, and the RMI is considering the migration to a more advanced and user-friendly FMIS. The FMIS is in effect a modified double entry accounting system with receipts being posted on an actual basis when received, and with payments based on accrual accounting. The FMIS consists of several modules for accounts payable, procurement (purchase requisitions and purchase orders), payroll, inventory, cash receipts and budget. Reports can be produced of at any time of the budget and cumulative spending to date. The cumulative spending cannot exceed the budget. Certain modules which should be used, such as bank reconciliation and fixed assets, are not used due to the lack of knowledge on their use and the functions are being done manually, off-system, which is inefficient and error-prone. The RCU continues to provide training to MOF staff regarding budgeting and grants management. This training is designed to be user-friendly and adaptable to the current manual and 4GoV system, and to coordinate with the anticipated FMIS updates (expected in 2020)

14. Periodic progress financial reporting to management is minimal. At the end of the financial year, a Trial Balance is obtained from the FMIS and, once all reconciliations are complete, is handed over to Deloitte who prepares the financial statements in the format suitable for US

⁴ ADB 2005: Financial Management and Analysis of Projects.

ADB 2009: Financial Due Diligence, A Methodology Note.

ADB 2015: Financial Management Technical Guidance Note.

⁵ Under the PEFA framework, performance is assessed in relation to seven dimensions of public financial management: (i) credibility of the budget; (ii) comprehensiveness and transparency; (iii) degree to which the budget is prepared with due regard to government policy; (iv) predictability and control in budget execution; (v) accounting, recording and reporting; (vi) external scrutiny and audit operations; (vii) appropriateness of development partner practices in country; and (viii) intergovernmental fiscal relationships.

Government requirements and audit of the final government financial statements. This is unusual as the auditor prepares as well as audits the financial statements, but has been the practice for many years. One of the main reasons for this unusual practice is that there is a lack of trained accounting staff in the MOF, who can finalize the accounts of the MOF.⁶ The RCU accountants assisted in closing the financial books of the government for FY2018 but preparation of the consolidated financial statements continues to be done by Deloitte. The RCU is now designing a comprehensive governmental accounting training program, tailored for RMI transactions and accounts, that will bring a group of select MOF staff to a level of accounting expertise that will allow them to prepare and read financial statements in future. Additionally, the RCU proposes that additional support is needed for the long-term to support MOF staff and build capacity within MOF and component units to prepare financial statements under US GAAP.

15. Although the FMIS has a Fixed Asset Register (FAR) module, the FAR is maintained off-system on MS Excel spreadsheets at the MOF, which inevitably results in reconciliation issues with the General Ledger (GL) in the FMIS. In addition, fixed assets are not tagged and annual verification of fixed assets is not carried out at MOF. The RCU is assisting in the reconciliation of the FAR, which is still maintained on MS Excel spreadsheets. Furthermore, the RCU has been coordinating with the Procurement-Fixed Assets Manager and relevant Ministries on the tagging and annual verification of fixed assets. A procedures manual is being developed and trainings of MOF staff will be conducted afterwards.

16. The RMI has recently acquired funding under a World Bank project to upgrade the FMIS, although due to some issues, the project management unit is not yet in place. The RCU has advised on the specifications of the proposed FMIS against which bids will be invited, and has undertaken support work to help RMI in preparation of the project. The RCU considers that there is potential for the new FMIS to be a robust and effective management tool that will eliminate many of the existing inefficiencies and weaknesses—but only if it is carefully planned and implemented.

17. In the MOF, the Standard Operating Procedures (SOP) were prepared by an external consultant in 2015 and approved by the Minister of Finance. These are specific policies, procedures and controls to be adhered to in processing transactions in accordance with best practice. A centralized public sector payroll is maintained by MOF. In addition, payments of the various government departments/ministries are also centralized at MOF. The RCU has worked to update the SOPs and has so far released the Procedures Manual on Grants and Sub-grants Management and the Embassy Imprest Accounts Manual. The manuals for Payroll Management and Fixed Assets Management are currently being finalized.

18. A Financial Management Internal Control and Risk Management Assessment, based largely on International Standard on Auditing 400 Risk Assessment and Internal Control, was conducted on the existing structure, staffing, resources and procedures of the MOF. The results, including pre-mitigation risks and recommendations for risk mitigation measures, are summarized in Table 8.

⁶ This has been discussed with MOF staff, and the provision of two accountants in the RCU who will provide capacity building support will help the MOF develop the ability to finalize the MOF's accounts.

Table 8: Financial Management Internal Control and Risk Management Assessment

Risk Type	Risk Assessment Rating*	Risk Description	Mitigation Measures
A. Inherent Risk (the susceptibility of the project financial management system to factors arising from the environment in which it operates, such as country rules and regulations and entity working environment (assuming absence of any counter checks or internal controls)).			
1. Country-specific Risks	Substantial	PEFA report 2012 notes several PFM challenges.	The RMI is reasonably well versed in ADB procedures and can replicate this experience where needed, with ADB support. The project will address PFM challenges, and help to reduce these risks. Accounting and auditing systems for the project will follow standards acceptable to ADB.
2. Entity-specific Risks	Substantial	Lack of skilled staff, especially at managerial level.	The project is financing several consultancy positions (on board at or soon after project start-up by November 2017 and available throughout the life of the project) so that required skills can be developed.
Overall Inherent Risk	Substantial		
B. Control Risk (the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported).			
1. Project implementation	Moderate	Government departments/ministries with limited experience in implementing projects	Project funded RCU staff will assist deputized staff at the MOF. This is designed to promote knowledge transfer under the project.
2. Staffing	Substantial	Difficulty in attracting and retaining qualified and experienced staff.	The RCU will assist and provide regular training on disbursement and financial reporting requirements in MOF through the life of the project.
3. Accounting Policies and Procedures	Substantial	Weaknesses in accounting policies.	The project accounts will be audited separately by qualified auditors. MOF will work with the RCU. US GASB which is acceptable to ADB will be used for the project.
4. Internal Audit	Substantial	Weak internal auditing practices.	MOF has recruited internal Auditor, and the RCU also consists of qualified staff, Internal control procedures for all the functions of the MOF, which also includes the activities, connected with the project. The internal auditor would ensure that the internal controls are in place and are operating efficiently
5. External Audit	Moderate	Weak external auditing practices.	Project financial statements will be subject to statutory audit in conformity with the policies of ADB for the audit of the project accounts
6. Reporting and Monitoring	Substantial	Inadequate and irregular reporting.	RCU consultants submit regular reports to ADB in accordance with terms of reference. ADB is fielding regular missions to supervise the project.
7. Information systems	Substantial	The 4Gov FMIS is dated with little vendor support. Many processes are done off-system	The project will not use the FMIS and this will have no impact on the project financial statements
Overall Control Risk	Substantial		

B. Disbursement

19. The ADB administered grant proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time),⁷ and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available at: http://wpqr4.adb.org/disbursement_elearning. Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

20. The RCU consultants will prepare payment claims, which will be verified and certified by MOF. MOF will also certify the time sheets (for time-based contracts) or outputs (for output-based contracts) of the consultants. ADB will generally pay the international consultants using direct payment procedures. The national consultants will be paid through an advance account.

21. The MOF will establish and manage an advance account to pay national consultants and for small project expenses. The advance accounts for the ongoing project and the additional financing project will be separate. The advance accounts will be utilized for training materials, workshops, and operational expenses of the project. It will be used exclusively for ADB's funds. Withdrawal applications will be prepared by RCU, and verified and submitted by MOF. The currency of the advance account is in US dollars. The MOF has the capacity to administer the advance accounts, and will be assisted by the RCU as needed.

22. The MOF will establish the advance account in its name and is accountable and responsible for proper use of advances to the advance account. The total outstanding advance to the advance account should not exceed the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming 6 months, or \$100,000, whichever is less. The MOF may request for initial and additional advances to the advance account{s} based on an Estimate of Expenditure Sheet⁸ setting out the estimated expenditures to be financed through the account for the forthcoming 6 months. Supporting documents should be submitted to ADB or retained by MOF in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time) when liquidating or replenishing the advance account.

23. Before the submission of the first withdrawal application, MOF should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the government, together with the authenticated specimen signatures of each authorized person. The minimum value per WA is stipulated in the *Loan Disbursement Handbook* (2017, as amended from time to time). Individual payments below such amount should be paid (i) by the government and subsequently claimed to ADB through reimbursement, or (ii) through the advance fund procedure, unless otherwise accepted by ADB. The borrower should ensure sufficient category and contract balances before requesting disbursements.

24. All disbursements under government financing will be carried out in accordance with regulations of the government. The government contribution to project costs will be budgeted for in each project year.

⁷ Loan Disbursement Handbook: <http://www.adb.org/Documents/loan-disbursement-handbook>

⁸ Estimate of Expenditure sheet is available in Appendix 8A of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),

C. Accounting

25. The MOF, with assistance from the RCU, will maintain, or cause to be maintained, separate books and records by funding source, for all expenses incurred on the project. The RCU will prepare consolidated project financial statements in accordance with the US Governmental Accounting Standards Board (GASB) accounting laws and regulations which are consistent with international accounting principles and practices.

D. Auditing and Public Disclosure

26. The MOF will subject the detailed consolidated project financial statements to be audited in accordance with International Standards on Auditing and with the Government's audit regulations, by an independent auditor acceptable to ADB. The audited project financial statements together with the auditors' opinion will be submitted in the English language to ADB within 6 months of the end of the fiscal year by the MOF.

27. ADB's guidelines require that the recipient and the project executing agency have the required financial statements for each year prepared under an acceptable financial reporting framework audited by an independent auditor acceptable to ADB and that the audit be conducted in accordance with auditing standards that are also acceptable to ADB. The annual audit report for the project accounts will include an audit management letter and audit opinions which cover (i) whether the project financial statements present a true and fair view or are presented fairly, in all material respects; (ii) whether grant proceeds were used only for purposes of the project; and (iii) the level of compliance for each financial covenant contained in the legal agreements for the project. Only one set of project financial statements will be prepared and audited, comprising both the original financing and proposed additional financing.

28. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal program supervision, and followed up regularly with all concerned, including the external auditor.

29. The MOF has been made aware of ADB's policy⁹ approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements. ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

30. Public disclosure of the project financial statements, including the audit report on the project financial statements, will be guided by ADB's Access to Information Policy (2018).¹⁰ After

⁹ ADB approach and procedures regarding delayed submission of audited project financial statements (APFS): a) when audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (i) the audit documents are overdue; and (ii) if they are not received within the next six months, requests for new contract awards and disbursements such as new replenishment of advance accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed; b) APFS have not been received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of advance accounts, processing of new disbursement, and issuance of new commitment letters. ADB will (i) inform the EA of ADB's actions; and (ii) advise that the grant may be suspended of the audit documents are not received within the next six months; c) when APFS have not been received within 12 months after the due date, ADB may suspend the grant.

¹⁰ Available from <https://www.adb.org/documents/access-information-policy>

review, ADB will disclose the project financial statements for the project and the opinion of the auditors on the financial statements within 14 calendar days of the date of their acceptance by posting them on ADB’s website. The Audit Management Letter will not be disclosed.

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting and Retroactive Financing

31. All advance contracting will be undertaken in conformity with ADB Procurement Guidelines (2015, as amended from time to time) and ADB’s Guidelines on the Use of Consultants (2013, as amended from time to time). The issuance of invitations to bid under advance contracting will be subject to ADB approval. The government of the RMI has been advised that approval of advance contracting does not commit ADB to finance the project.

32. **Advance contracting.** In order to expedite project implementation, the government has requested advance contracting actions to proceed with the selection of the new RCU consultants under additional financing. Advance contracting allows the commencement of recruitment activities prior to signing of the grant agreement but does not allow for the award of contract until the grant becomes effective. The government wishes to delegate selection of consultants to ADB. ADB will prepare terms of reference, advertisements, and select the RCU consultants, in close consultation with the government and with government approval. However, the government will be responsible for engaging the consultants, and administration and monitoring of their contracts, with support from ADB. The RCU consultants will report to the MOF.

33. **Retroactive financing.** There will be no retroactive financing under this project.

B. Procurement of Goods, Works, and Consulting Services

34. An updated 18-month procurement plan indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines is in Section C.

35. For the RCU, the ongoing project has mobilized 22 person-months of a senior individual international consultant as Advisor. Also, four individual consultants have been recruited: two senior national consultants for 33 person-months each and two international consultants for 22 person-months each. Consultants are submitting bi-annual progress reports to the MOF for their performance review. Evaluation of their performance will also consider the findings of assessments by ADB and development partners, such as ADB’s country performance assessment for the RMI and the next PEFA study. For SOE reforms, the project has additionally mobilized 15 person-months of an individual international consultant. Under the additional financing, short term international consultants on an intermittent basis are expected to be mobilized for 385 person-days. Only one contract is expected to exceed \$100,000.

C. Procurement Plan

Basic Data

Project Name: Public Financial Management Project (PFMP)	
Project Number: 50295-002	Approval Number: TBD
Country: Republic of Marshall Islands	Executing Agency: Ministry of Finance
Project Procurement Classification: B	Implementing Agency:
Project Procurement Risk: Low	Reform Coordination Unit

Project Financing Amount: US\$ 2,850,000 ADB Financing: US\$ 2,500,000 Cofinancing (ADB Administered): Nil Non-ADB Financing: US\$ 350,000 (Government) (in-kind)	Project Closing Date: 31 December 2020
Date of First Procurement Plan: 13 October 2017	Date of this Procurement Plan: 20 June 2019

1. Methods, Thresholds, Review and 18-Month Procurement Plan

a. Procurement and Consulting Methods and Thresholds

36. Except as ADB may otherwise agree, the following process thresholds shall apply to procurement of goods and works:

Procurement of Goods and Works		
Method	Threshold	Comments
International Competitive Bidding for Goods	US\$ 1,000,000 and Above	Not applicable. No major goods packages are proposed to be procured
National Competitive Bidding for Goods	Between US\$ 100,001 and US\$ 999,999	Not applicable. No major goods packages are proposed to be procured
Shopping for Goods	Up to US\$ 100,000	Not applicable. No major goods packages are proposed to be procured
International Competitive Bidding for Works	US\$ 3,000,000 and Above	Not applicable. No major goods packages are proposed to be procured
National Competitive Bidding for Works	Between US\$ 100,001 and US\$ 2,999,999	Not applicable. No major goods packages are proposed to be procured
Shopping for Works	Up to US\$ 100,000	Not applicable. No major goods packages are proposed to be procured

Consulting Services	
Method	Comments
Quality- and Cost-Based Selection for Consulting Firm	Not applicable since only individual consultants are being recruited
Individual Consultant Selection	ICS

b. Goods and Works Contracts Estimated to Cost \$1 Million or More

37. The following table lists goods and works contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value	Procurement Method	Review	Bidding Procedure	Advertisement Date	Comments
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

c. Consulting Services Contracts Estimated to Cost \$100,000 or More

38. The following table lists consulting services contracts for which the recruitment activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value	Recruitment Method	Review (Prior/Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments
CS-08	Tax consultant (technical)	120000	ICS	Prior	Q3 2019		Budget includes cost of office operations, communications, reports, vehicle

						Contract Award	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Consulting Services							
Package Number	General Description	Estimated Value	Awarded Contract Value	Recruitment Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Comments
CS-01	International Advisor to MOF	519076	462000	ICS	Q3 2017	9 Nov 17	C. Yanckello/ 15 Nov 17
CS-03	International CSO reform expert	155932	382000	ICS	Q3 2017	9 Nov 17	D. Drake/ 15 Nov 17
CS-04	RCU team member (international 1)	290028	237000	ICS	Q3 2017	8 Nov 17	N. Lopez/ 16 Nov 17
CS-05	RCU team member (international 2)	290028	275000	ICS	Q3 2017	9 Nov 17	M. Jabagat/ 16 Nov 17
CS-06	RCU team member (national 1)	174500	174500	ICS	Q3 2017	26 Apr 18	A. Yamaguchi-Eliou/ 10 May 18
CS-07	RCU team member (national 2)	174500	174500	ICS	Q3 2017	20 Mar 18	C. Debrum/ 2 Jul 18

CS = consulting services, CSO = community service obligation, ICS = individual consultants selection, MOF = Ministry of Finance, Q3 = third quarter, RCU = reform coordination unit, SOE = state-owned enterprise.

2. Completed Contracts

Goods and Works								
Package Number	General Description	Estimated Value	Contract Value	Procurement Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Date of Completion	Comments

Consulting Services								
Package Number	General Description	Estimated Value	Contract Value	Recruitment Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Date of Completion	Comments
CS-02	International SOE reform expert	155932	10000	ICS	Q3 2017	9 Nov 17	14 Mar 2018	P. Cordukes/ Terminated by MOF

D. Consultants Terms of Reference

1. Ongoing project

Advisor (One Individual International Consultant: 22 person-months)

41. **Qualifications and experience.** The Advisor will be an international consultant, possessing a Master's Degree, or equivalent, in Economics, Accounting, Business, Public Administration or related fields. She or he must possess at least 15 years of relevant work experience with governments or development partners on PFM reform design and implementation. Relevant experience working with development partners and in Pacific island countries will be considered an advantage.

42. **Duties and responsibilities.** The specialist's responsibilities will include, but not be limited to, the following.

- (i) Support the MOF by providing policy advice on PFM reforms, responding to evolving reform needs and political windows of opportunity.
- (ii) Lead the preparation of a prioritized and updated PFM Reform Roadmap action plan, in consultation with partners, MOF, and particularly, Division of International Development Assistance.
- (iii) Assist the MOF in coordinating across development partners to implement the PFM Reform Roadmap, including securing partner funding for critical reforms.
- (iv) Improve coordination within government on PFM reforms and processes.
- (v) Ensure that public financial management reform and improvement activities are appropriately sequenced, monitored and reported while advising the Secretary and the Minister of any potential problems.
- (vi) Assist the Accounting Division in the MOF in preparing and examining financial statements and overseeing accounting and reporting systems to ensure accuracy and compliance with the regulations and laws.
- (vii) Assist the Budget Division in the MOF in preparing budget plans to ensure appropriate and efficient allocation.
- (viii) Monitor and provide technical support to the MOF to ensure accurate economic and financial forecasting.
- (ix) Support the MOF in the preparation and presentation of key annual budget documents (including Annual National and Supplementary Budget documents).
- (x) Assist and advise MOF in the establishment of the SOE monitoring unit, and other actions related to SOE monitoring.
- (xi) Lead preparation of a training and capacity-building plan for the MOF, with attention to gender issues.
- (xii) Support in organizing, designing, implementing, and monitoring training programs (workshops and seminars) in consultation with MOF.
- (xiii) Support MOF in effectively communicating PFM issues with government stakeholders, development partners, the private sector, and the general public.
- (xiv) Support the effective implementation of ADB's PFM Project in the RMI, including on financial management and disbursement.
- (xv) Coordinate, supervise and assure the quality of the work and outputs of RCU functional specialists/consultants.
- (xvi) Lead preparation of bi-annual review reports on the RCU's work and progress made against the PFM Reform Roadmap and training plan, including a summary

- of major achievements, status of key activities, summary findings of any assessments, and the approval status of work.
- (xvii) Other tasks requested by MOF and ADB to implement the program.

Public Finance Specialist (budget) (One Individual National Consultant: 33 person-months)

43. The specialist's responsibilities will include, but not be limited to, the following.
- (i) Work with development partners engaged in PFM reforms, especially on the budgeting side.
 - (ii) Support improvements in the medium-term budgetary framework, and linkage with the corporate and sector planning processes.
 - (iii) Guide better budget documentation, including through inclusion of forward year estimates, macroeconomic outlook, macrofiscal targets and strategy, sector strategies, new policy initiatives, savings measures, fiscal risks, commitments, guarantees and other contingent liabilities.
 - (iv) Develop MOF Standard Operating Procedures for the Budget Division.
 - (v) Review existing operational budgetary processes, identify process gaps, recommend and implement process improvements (subject to approval of MOF).
 - (vi) Undertake a robust budget monitoring and analysis process such as but not limited to an analysis of the budget versus actual revenues/expenditure to provide timely and strategic advice to MOF and other ministries/agencies.
 - (vii) Provide hands-on functional training to MOF staff in preparing budget documentation and reports.
 - (viii) Provide advice and support to MOF and RCU Advisor, and perform other relevant tasks as assigned.
 - (ix) Support the implementation of the ADB PFM Project.

Financial Management Specialists (accounts) (Two Individual International Consultants: 22 person-months each)

44. The specialists' responsibilities will include, but not be limited to, the following.
- (i) Review MOF accounting practices and identify shortcomings and areas for improvement.
 - (ii) Help to improve the application of accounting principles in routine government processes.
 - (iii) Work with MOF and line ministries to improve cash and asset management.
 - (iv) Help the government's internal auditor, and strengthen external audit.
 - (v) Monitor and update financial records in line items and budgets.
 - (vi) Assist in the implementation of audit recommendations, review financial reports and make recommendations as necessary.
 - (vii) Reconcile subsidiary accounts with control accounts on a monthly basis.
 - (viii) Ensure all transactions are booked in compliance with accounting files and regulations.
 - (ix) Assist in the monitoring of development partner funds.
 - (x) Recommend process improvements and identify core PFM functionalities that can serve as minimum requirements in a potential new FMIS.
 - (xi) Advise on easy to understand guidelines and a manual on any new FMIS
 - (xii) Provide hands-on functional training to MOF staff in preparing relevant accounting documentation and reports.

- (xiii) Develop MOF Standard Operating Procedures for the Accounting Division.
- (xiv) Develop and recommend a schedule or calendar of key tasks for the Accounting Division to ensure timely and accurate posting to the General Ledger.
- (x) Undertake a robust actual revenue and expenditure analysis process to provide timely and strategic advice to MOF and other ministries/agencies.
- (xv) Provide advice and support to MOF and RCU Advisor, and perform other relevant tasks as assigned.
- (xvi) Support the implementation of the ADB PFM Project.

Human Resource Specialist (with PFM background) (One Individual National Consultant: 33 person-months)

45. The specialist's responsibilities will include, but not be limited to, the following.
- (i) Support preparation of a plan to upgrade human resources to bring MOF's staff strength and skills in line with the requirements of the Financial Management Act, in coordination with development partners.
 - (ii) Ensure that human resources development plan contains appropriate provisions for training female staff and appointing / promoting qualified women.
 - (iii) Obtain external supplement for training and work process improvements including development of MOF Standard Operating Procedures.
 - (iv) Provide advisory services on payroll management.
 - (v) Provide advisory services on the development and implementation of a new Human Resources Management Information System.
 - (vi) Provide hands-on functional training to MOF staff in preparing relevant documentation and reports.
 - (vii) Work with MOF and Public Services Commission to improve performance management and performance-based review of staff.
 - (viii) Provide advice and support to MOF and RCU Advisor, and perform other relevant tasks as assigned.
 - (ix) Support the implementation of the ADB PFM Project.

State-owned Enterprise Monitoring Expert (One Individual International Consultant: 6 person-months)

46. The expert's responsibilities will include, but not be limited to, the following.
- (i) Develop a tool to capture and allow analysis of the performance of the individual SOEs and portfolio as a whole.
 - (ii) Develop spreadsheets to record and analyse financial data, and provide training to MOF staff.
 - (iii) Develop financial and non-financial key performance measures for SOE performance.
 - (iv) Undertake training on the preparation and use of the key accountability documents
 - (v) Develop a director selection process for recommendation to the Cabinet.
 - (vi) Develop templates for statement of corporate intent (SCI) and business plan (BP) in consultation with MOF for use by the SOEs.
 - (vii) Assist four SOEs (selected in consultation with MOF, but with preference for the SOEs that receive the largest government subsidies) to prepare SCIs and BPs in accordance with the requirements of the SOE Act.

Community Service Obligation Expert (One Individual International Consultant: 6 person-months)

47. The expert's responsibilities will include, but not be limited to, the following.
- (i) Work with the MOF and build upon the existing CSO budget model to identify and contract CSOs.
 - (ii) Assist SOEs identify any CSOs that they are currently undertaking using the definition of CSO in the SOE Act to guide this work.
 - (iii) Assist SOEs to cost the CSOs, with focus on the SOEs receiving larger subsidies.
 - (iv) Assist in the development of performance based contracts, listing the CSOs being undertaken with sufficient specificity to develop performance measures relating to those CSOs; the cost per CSO (or group of CSOs); funding mechanisms; monitoring arrangement; and performance measures.

2. Additional financing project

48. All consultants will be hired under the ICS recruitment method. The advisor is already working for the RCU, and a contract variation will be prepared.

Advisor (Contract Variation) (One Individual International Consultant: 3 person-months)

49. The advisor provides valuable assistance in all project areas, as well as ongoing planning, budgeting and reporting areas that are closely aligned with the PFM project. His ongoing coordination with the World Bank missions over the past year have been important to ensuring that the ADB PFM project and the World Bank project continue to align as needed for effective implementation over the coming years. Under the variation, the advisor's responsibilities will include the following.

- (i) Ensure alignment and coordination of the PFM projects for the RMI (ADB and World Bank) as well provide the additional support to link National Strategic Planning to the PFM project
- (ii) With WB consultants, coordinate ongoing MOF and RCU efforts regarding FMIS design and implementation (Grant Management, Chart of Accounts, and other ongoing work with MOF staff)
- (iii) With MOF, Office of Chief Secretary (OCS) and Economic Planning Policy and Statistics Office (EPPSO) coordinate and build capacity regarding the update revision and alignment of the National Strategic Plan (NSP) with ongoing PFM/FMIS reforms and annual/medium term budgeting including financial reporting
- (iv) Coordinate and build capacity with MOF, OCS, EPPSO and Line Ministries regarding the alignment of Sector Planning/Strategies with ongoing PFM/FMIS reforms and revised NSP including financial reporting
- (v) With MOF and relevant ministries and agencies coordinate sector-based financing reforms (Climate Financing, Infrastructure Financing et al) are coordinated within annual/medium term budgeting. MTBIF and ongoing PFM/FMIS reforms
- (vi) Coordinate and build capacity with MOF, NSP/SDG Committee and Line Ministry budget focal points the alignment of PFM/FMIS reforms with the MTBIF and annual/medium term budgeting (performance-based budgeting) including reporting
- (vii) Support SOE training targeted to getting women on SOE boards.

Accountant (Chart of Accounts Mapping) (One Individual International Consultant: 90 person-days)

50. The accountant's responsibilities will include, but not be limited to, the following.

- (i) Map existing Chart of Accounts (COA) to the new COA covering all segments. Prepare complete documentation of the mapping.
- (ii) Conduct a thorough review of the balances and nature of existing General Ledger (GL) accounts. Map old GL accounts to the GL accounts in the new COA.
- (iii) Assist in the mapping of the program classification segment of the COA.
- (iv) Assist in the Government Finance Statistics (GFS) and Classification of the Functions of Government (COFOG) mapping of the COA.
- (v) Clean-up redundant or unnecessary COA codes such as dormant cost centers, fund codes, etc. Ensure that balances in the old codes are investigated, accounted for and documented.
- (vi) Assist in the review and clean-up of databases and tables in the current FMIS (vendors, purchase orders, payroll database, etc.)
- (vii) Work with all relevant divisions in the Ministry of Finance and other ministries and government agencies to ensure complete and accurate mapping of financial data to the new COA.

51. Minimum qualifications:

- Bachelor's degree in Accounting (CPA is desirable but not required)
- At least 10 years of experience working in an Accounting role or a COA-related project
- Highly adept at MS Excel (knowledge of MS Excel macros or MS Access will be considered an advantage)
- Highly organized and analytical

Tax Expert (Legal) (One Individual International Consultant: 75 person-days)

52. The expert's responsibilities will include, but not be limited to, the following.

- (i) Review of current Tax Laws (Income Tax Act of 1989 and Non-Revenue related Acts and regulations).
- (ii) Provide advice on current tax structuring.
- (iii) Develop implementing rules and regulations (IRR) for the following areas: tax arrears, tax collection, and tax audit.
- (iv) Review and provide advice on Value-Added Tax imposition.
- (v) Prepare draft legislation for submission to cabinet

53. Minimum qualifications:

- Bachelor's degree or equivalent in a relevant field (economics, finance, public policy, accounting)
- LLM degree or equivalent
- Tax lawyer by background and trade
- At least 15 years of experience working in a similar setting (Pacific countries preferred)

Tax Expert (Technical) (One Individual International Consultant: 120 person-days)

54. The expert's responsibilities will include, but not be limited to, the following.

- (i) Develop templates for revenue projections
- (ii) Review monthly return for GRT and withholding tax
- (iii) Verifying correctness of withholding tax calculation
- (iv) Propose other structural and institutional arrangements necessary for enhancing tax compliance
- (v) Provide training to staff on proposed structural and institutional arrangements
- (vi) Assist in preparing for FMIS implementation of Tax Module

55. Minimum qualifications:

- Master's degree or equivalent in a relevant field (economics, finance, public policy, accounting)
- At least 15 years of experience on tax policy and administration working in a similar setting (Pacific countries preferred)

Legal Expert for Fiscal Responsibility Legislation (One Individual International Consultant: 60 person-days)

56. The expert's responsibilities will include, but not be limited to, the following.

- (i) Review existing legislation, regulations, policies, diagnostic reports and other references relevant to fiscal, financial, procurement and public resource management in the RMI
- (ii) Consult with key stakeholders on fiscal, financial, procurement, and public resource management practices and challenges
- (iii) Develop draft bill for a Fiscal Responsibility Act, to either supplement or replace or consolidate existing legislation
- (iv) Work with the Public Financial Management (PFM) Steering Committee and relevant Nitijela committees to prepare draft bill for introduction in Fall 2019 session
- (v) Include aspects focusing on both the short and longer term fiscal management of disaster risk, including assignment of fiscal responsibility for contingent liabilities borne by government

57. Minimum qualifications:

- Master's degree or equivalent in a relevant field (economics, finance, public policy, accounting)
- LLM degree or equivalent
- At least 15 years of experience working in a similar setting (Pacific countries preferred)

Human Resources Expert (One Individual International Consultant: 40 person-days)

58. The expert's responsibilities will include, but not be limited to, the following.

- (i) Develop standardized performance criteria for MOF performance review
- (ii) Develop standardized performance evaluation tools for MOF HR
- (iii) Capacity development for MOH HR regarding use of performance evaluation tools
- (iv) Pilot of performance evaluation tools
- (v) Establishment of criteria for the Employee Productivity Database
- (vi) Build Capacity of MOF HR Department to conduct performance reviews and coordinate the results into the Employee Productivity Database

Minimum qualifications:

- Master's degree in Organizational or Personnel Management (or equivalent)
- At least 15 years of experience working in personnel management and performance monitoring
- Background in training and capacity development
- Experience in working in a multi-cultural environment

VII. SAFEGUARDS

59. **Social safeguards.** Based on the ADB *Social Policy Statement 2009*, the safeguards categorizations for the project are as follows: (i) as no resettlement is envisaged, the project is categorized as C for resettlement and (ii) for indigenous people, the project is categorized as C since the dominant populations of the is indigenous to the islands. The project activities are designed to benefit the entire population. The project will implement effective ways to design and deliver project information to the stakeholders to ensure social inclusiveness and effective communication.

60. **Environment.** Project is categorized as C as no significant environmental impacts are expected. An Environmental Management Plan (EMP) is not required.

61. **Prohibited investment activities.** Pursuant to ADB's Safeguard Policy Statement (2009), ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the Safeguard Policy Statement (2009).

VIII. GENDER AND SOCIAL DIMENSIONS

62. The RMI is among the Pacific Islands Countries-11 (PIC-11) group i.e. those with the smallest populations. Pacific countries are also the world's most isolated, distinguishing them from other small countries and small island developing states. They are more isolated and more remote than any other island groupings, including those in the Caribbean. The combination of smallness and extreme isolation produces a set of development challenges that are unique. A culture of community and family sharing means that it is difficult to measure the incidence of extreme deprivation and hunger in most Pacific countries. An ADB Assessment of Socio-Economic Vulnerability in the Marshall Islands (2015) showed poverty incidence at 38.4% for basic needs at the population level and 36.6% at the household level.

63. The project will contribute to poverty reduction in several ways. Better PFM systems will align budget allocations with sectoral priorities, reduce fiscal deficits, and improve government capacity to deal with external shocks. Improving the efficiency of SOEs will reduce the fiscal burden of transfers, and make additional resources available for development. More transparent identification and funding of CSOs will help the government to minimize the costs of inefficiencies, adjust subsidies, and contract out CSOs. Additional resources for development will allow the government to meet the National Strategic Plan's poverty- and access-related objectives, and improve the quality of education and health care which currently absorb about half the budget. Greater resilience to shocks will benefit the poor.¹¹

¹¹ The National Strategic Plan'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.

64. At the Initial Poverty and Social Analysis stage the project was classified as having “some gender elements” (SGE). The project addresses potential gender inequality risks and promotes women’s empowerment through provision of targets for women’s participation in project activities and in MOF management positions (subject to qualifications), as well as opportunities to be recruited as RCU consultants. Of 78 staff working in the MOF as of June 2017, 39.7% were women. However, women were under-represented in MOF management, with only 3 women (including the Secretary) among the 16 management positions (Secretary, Assistant Secretary, Division/Section Head) occupied in the Majuro and Ebeye Finance offices. The plan to upgrade MOF’s human resources includes positive discrimination measures in recruitment and promotions.¹² The RCU was tasked to ensure that women make up at least 35% of trainees in formal training sessions that they organize and provide, for MOF staff and line ministries/agencies. In the hiring of consultants for the RCU, the project encouraged the selection of qualified women. Furthermore, women will benefit from the elements of the program design that contribute to poverty reduction.

65. The gender actions are being implemented by the MOF and the RCU, and results so far have been encouraging. The RCU has prepared a training plan, and conducted 12 trainings and workshops in 2018 against a DMF target of at least 3 a year. Of the 281 attendees for these training sessions, 126 (or 45%) were female, which is in excess of the DMF target of 35%. As of May 2019, the share of MOF male staff with accounting, computing, business administration degree and/or diplomas has reached 43.1% against a fiscal year (FY)2017 baseline of 38.2%, and that for female staff has reached 58.8% against an FY2017 baseline of 45.1%. In line with the DMF targets, two additional women have been appointed to management positions: Assistant Secretary of Tax and Revenues and Acting Director of the Division of International Development Assistance. Of the 6 RCU consultants presently in position, 4 are women—including both national consultants.

66. The additional financing project is also proposed as having some gender elements. In the hiring of new RCU consultants, the project will encourage the selection of qualified women. 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 RMI in office since 2016, and several female heads of ministries, there are only 12 women directors from a total of 57 on SOE boards. The government seeks to introduce a more balanced gender representation at boardroom level (subject to qualifications), and women’s representatives have specifically asked for boardroom training so that they are better placed to compete, as implementation of the SOE Act calls for skills-based selection of directors¹³ The RCU will provide additional training, using specifically-prepared 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 Ministry of Culture and Internal Affairs (Gender Development Division). The additional financing project includes activities and targets to raise the share of women in SOE boards above the current baseline of 21.5%. Biannual progress reports prepared by the RCU presently include sex-disaggregated data and reporting on gender actions, and this practice will continue.

67. The PFM reform steering committee provides overall guidance, and will continue to receive briefings on gender aspects as part of their overall bi-annual briefings. The Advisor will ensure that progress against gender targets is monitored and reported. The RCU will work with

¹² The plan to upgrade MOF’s human resources is to be prepared by a short-term consultant from the Australian Volunteers International (AVI) who is expected to start work in 2017. The RCU consultant will work closely with AVI in preparing and implementing the plan. Positive discrimination measures for women will be incorporated in the plan as warranted, based on objective analysis and discussions with the authorities.

¹³ Republic of the Marshall Islands. 2015. *State-Owned Enterprises Act, 2015*. Majuro.

the gender focal point in the RMI (the Women's Affairs Unit has a gender specialist). Sex disaggregated data on training participation will be collected by the RCU, and all project participant reports will also contain sex disaggregated data information as appropriate.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

68. ADB and the Government of the RMI have agreed on a set of indicators for project performance in relation to its impact and outcome, consistent with the design and monitoring framework (DMF). The RCU will assist the RMI in monitoring and evaluating progress towards the performance targets in the DMF, safeguard issues, covenants of the grant agreement, and other aspects of the project that are subject to performance monitoring.

A. Project Design and Monitoring Framework

69. The updated DMF is in Appendix 1.

B. Monitoring

70. **Project performance monitoring.** At the commencement of project grant implementation, the RCU has developed a comprehensive prioritized and updated PFM Reform Roadmap. This was followed by preparation of a comprehensive time-bound training plan for the MOF, covering both hands-on functional training to be imparted on the job and structured training sessions to be conducted by RCU consultants. These are the basic documents against which project performance is monitored.

71. **Compliance monitoring.** Compliance with policy, legal, financial, economic, environmental, social, and other covenants contained in the program legal agreements will be monitored by the MOF and all involved agencies will be required to advise the MOF of any circumstances that result or will likely result in non-compliance. The MOF will report to ADB on any likely non-compliance. ADB will monitor compliance through a review of the RCU's bi-annual progress reports and through selective follow-up discussions or more detailed reviews during review missions to the RMI.

72. **Gender and social dimensions monitoring.** The RCU and MOF will ensure that the social and gender related design measures and targets are implemented, properly resourced and monitored. Sex disaggregated data on training participation will be collected by the RCU, and all project participant reports will also contain sex disaggregated data information as appropriate. The RCU will ensure that specific targets and sex-disaggregated indicators are incorporated into bi-annual progress reports to update ADB's Project Performance Monitoring System (PPMS).

C. Evaluation

73. ADB with the government will review project implementation at least once a year. At the end of the first year of implementation, ADB and the government have undertaken a comprehensive review of the scope, implementation arrangements, achievement of scheduled targets, and progress on the agenda for policy reform and capacity-building measures. Feedback from the PPMS outputs have been analyzed. Within 6 months of physical completion of the project, the RMI MOF will submit a project completion report to ADB.

D. Reporting

74. The RCU, through the MOF, is providing ADB with bi-annual progress reports in a format consistent with ADB's project performance reporting system including (a) progress achieved by output as measure through the indicator's performance targets, (b) key implementation issues and solutions; (c) updated procurement plan and, (d) updated implementation plan for next 12 months. There will be formal bi-annual progress reporting against the updated Roadmap and the training plan (as well as continuous informal consultations between MOF, the RCU, and ADB). The RCU has been making presentations to the PFM Reform Steering Committee at least on a bi-annual basis, reporting achievement against plans, and apprising the Committee of any issues related to project implementation. A project completion report within 6 months of physical completion of the project will be provided by the MOF. To ensure projects continue to be both viable and sustainable, the project accounts together with the associated auditor's report should be adequately reviewed.

E. Stakeholder Communication Strategy

75. There will be regular flow of project activity and timeline information to all government stakeholders and development partners involved, inviting feedback during project discussions, meetings, training sessions and identification of reforms. The updated Roadmap and training plan will be available on the government website. As part of its reforms, the RCU will coordinate with other development partners to establish a dedicated website for the MOF, highlighting PFM reforms.

X. ANTICORRUPTION POLICY

76. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.¹⁴ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants, and other service providers. Individuals and/or entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.¹⁵

77. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB financed activity and may not be awarded any contracts under the Project.¹⁶

78. To support these efforts, relevant provisions are included in the grant agreement and the bidding documents for the project. These include:

- (i) The governments shall ensure that all agencies involved in the project, comply with ADB's Anticorruption Policy (1998, as amended to date); and,
- (ii) In furtherance of the principles of transparency, participation, accountability, and zero-tolerance for corruption, the RCU shall maintain a relevant web-site that describes the project in order to provide the public with information on the project and project progress.

79. During project preparations a risk assessment and risk management plan were prepared in accordance with the ADB's Second Governance and Anticorruption Action Plan. The

¹⁴ ADB. 1998. *Anticorruption Policy*. Manila (<https://www.adb.org/documents/anticorruption-policy>)

¹⁵ ADB's Integrity Office web site: <http://www.adb.org/integrity/unit.asp>

¹⁶ Anticorruption sanctions list available at: <https://lnadbg4.adb.org/oga0009p.nsf>

assessment was that, while pre-mitigation risks for the project were substantial, with the implementation of appropriate mitigation measures, as discussed and agreed, the overall governance risk level was moderate. The risk management plan is a separate linked document to the Report and Recommendation to the President (RRP).

XI. ACCOUNTABILITY MECHANISM

80. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make an effort in good faith to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.¹⁷

XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

81. Normally, projects are expected to be implemented as approved by the Board. However, flexibility should be built into project design to allow changes in project scope and implementation arrangements in response to unexpected changes in circumstances during implementation. Moreover, project design should be receptive to changes in project scope and implementation arrangements that would improve the development impact and reflect stakeholder interests during implementation. Midterm review missions assess the appropriateness of the project scope and implementation arrangements in detail. The government, the executing agency, or ADB may propose changes in scope and implementation arrangements.

82. All revisions/updates during course of implementation should be retained in this Section to provide a chronological history of changes to implementation arrangements recorded in the PAM.

Date	Change
June 2019	Additional financing of \$550,000 incorporated

¹⁷ Accountability Mechanism.<http://www.adb.org/Accountability-Mechanism/default.asp>

ANNEX 1: REVISED DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Ongoing project More effective governance achieved ^a			
Overall project Unchanged			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Ongoing project Public financial management improved	Ongoing project By the end of 2021: a. Country performance assessment score for quality of budgetary and financial management increased by 0.5 points (2016 baseline: 3.0) b. Number of D/D+ scores in PEFA falls by six or more ^b (2012 baseline: 21 of 35) c. Fiscal transfers to SOEs decline to 5.9% of GDP (2015 baseline: 6.4% of GDP)	a. ADB annual report on the country performance assessment exercise b. PEFA report or equivalent assessment c. International Monetary Fund Article IV reports	External shocks divert political and administrative attention and capacity away from reforms.
Overall project Unchanged	Overall project Unchanged		
Outputs Ongoing project 1. The MOF's institutional capacity to implement the PFM Reform Roadmap strengthened	Ongoing project By the end of 2020: 1a. At least six road map reforms implemented, as per updated road map action plan (2017 baseline: Not implemented) 1b. At least three training sessions per year provided by the RCU, with women comprising at least 35% of trainees	1a. Certification by the MOF (by means of Cabinet orders, government decisions, MOF memoranda, as appropriate), and corroborated by development partners 1b. Biannual progress reporting by the RCU	Lack of timely availability of good consultants for the RCU undermines reform efforts. Lack of or delay in partner technical assistance to support implementation of PFM Reform Roadmap or MOF human resources upgradation plan undermines reform pace.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Overall project Unchanged</p> <p>Ongoing project 2. The MOF's institutional capacity to implement SOE reforms strengthened</p>	<p>(2017 baseline: Training not provided)</p> <p>1c. Shares of MOF male and female staff in position holding accounting, computers, or business administration degree and/or diploma increases (2017 baseline: 38.2% of male staff and 45.1% of female staff in position)</p> <p>1d. Share of women staff in MOF management positions (secretary, assistant secretary, division and/or section head) increases, subject to qualifications (2017 baseline: 18.7% of staff in position)</p> <p>Overall project Unchanged, and in addition</p> <p>1e. Revised fiscal responsibility bill approved by PFM Reform Steering Committee (2018 baseline: not revised)</p> <p>1f. Draft tax administration legislation approved by PFM Reform Steering Committee (2018 baseline: not drafted)</p> <p>Ongoing project By the end of 2020: 2a. SOE monitoring unit established and staffed within the MOF (2017 baseline: Not established)</p> <p>2b. Report prepared, identifying and assessing legitimacy and cost of CSOs for at least 4 selected SOEs (2017 baseline: Not prepared)</p>	<p>1c. Biannual progress reporting by the RCU</p> <p>1d. Biannual progress reporting by the RCU</p> <p>1e. Committee decision</p> <p>1f. Committee decision</p> <p>2a. Cabinet or ministerial decision, or equivalent</p> <p>2b. Copy of report</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Overall project Unchanged	Overall project Unchanged, and in addition 2c. Share of women directors on SOE boards increases, subject to qualifications (2018 baseline: 21% of directors in position)	2c. Biannual progress reporting by the RCU	
Key Activities with Milestones <ol style="list-style-type: none"> 1. The MOF's institutional capacity to implement the PFM Reform Roadmap strengthened <ol style="list-style-type: none"> 1.1 Contract consultants under original project grant by Q4 2017. 1.2 Prepare prioritized and updated action plan based on PFM Reform Roadmap by Q2 2018. 1.3 Prepare a training plan (for training to be provided by the RCU) for the MOF and other relevant government agencies by Q2 2018, including gender targets and actions. 1.4 Contract consultants under additional financing between Q4 2019 and Q1 2020. 1.5 Prepare revised fiscal responsibility bill and draft tax administration legislation by Q3 2020. 1.6 Provide PFM policy and technical advice and capacity development through RCU (Q1 2018–Q4 2020). 1.7 Report to the MOF (and ADB through the MOF) on RCU performance by Q2 2018, Q4 2018, Q2 2019, Q4 2019, Q2 2020, and Q4 2020. 2. The MOF's institutional capacity to implement SOE reforms strengthened <ol style="list-style-type: none"> 1. Prepare report on CSO costs and legitimacy by Q3 2018. 2. Establish SOE monitoring unit within the MOF by Q3 2018. 			
Project Management Activities Continue regular monitoring and supervision until Q4 2020 (ADB and MOF). Manage contracts from Q4 2017 until Q4 2020 (MOF, with ADB support). Provide timely biannual progress reports until Q4 2020 (RCU to MOF, and to ADB through the MOF). Carry out regular accounting and annual audits (MOF).			
Inputs ADB grant: \$2,000,000 (ongoing) \$500,000 (additional) \$2,500,000 (overall) Government of the Marshall Islands (in-kind contributions): \$300,000 (ongoing) \$50,000 (additional) \$350,000 (overall)			
Assumptions for Partner Financing Not applicable			

ADB = Asian Development Bank, CSO = community service obligation, GDP = gross domestic product, MOF = Ministry of Finance, PEFA = public expenditure and financial accountability, PFM = public financial management, Q = quarter, RCU = reform coordination unit, SOE = state-owned enterprise.

^a Government of the Marshall Islands. 2014. RMI National Strategic Plan 2015–2017. Majuro.

^b For the PEFA assessment and scoring methodology, please visit the PEFA resource center (<https://pefa.org/>).

Source: Asian Development Bank.