



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 10-Mar-2020 | Report No: PIDC27367

**BASIC INFORMATION****A. Basic Project Data**

Country Marshall Islands	Project ID P171517	Parent Project ID (if any)	Project Name Digital Republic of the Marshall Islands Project (P171517)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date Jul 28, 2020	Estimated Board Date Sep 30, 2020	Practice Area (Lead) Digital Development
Financing Instrument Investment Project Financing	Borrower(s) Republic of the Marshall Islands	Implementing Agency Ministry of Finance, Ministry of Transport and Communication, Marshall Islands National Telecommunications Authority	

Proposed Development Objective(s)

To expand access to the internet, promote private sector investment in climate resilient digital services, and establish the critical foundations for digital government services and the digital economy in the Recipient's territory.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	28.00
Total Financing	28.00
of which IBRD/IDA	28.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	28.00
IDA Grant	28.00



Environmental and Social Risk Classification

Moderate

Concept Review Decision

Track II-The review did authorize the preparation to continue

B. Introduction and Context

Country Context

- 1. The Republic of the Marshall Islands (RMI) is one of the world’s smallest, most isolated, and vulnerable nations.** The country consists of 29 atolls and five isolated islands (24 of which are inhabited) and has a total land mass of just 181 km² set in an area of over 1.9 million km² in the Pacific Ocean. The population of the RMI was estimated at 58,413 in 2018¹. The two largest urban centers, Majuro (the nation’s capital) and Ebeye, have populations of 28,000 and 11,000, respectively (2017). RMI was consolidated into the Trust Territory of the Pacific Islands governed by the United States (US) during the Second World War. It became self-governing in 1979 and achieved formal independence in 1986. Economic growth accelerated to about 3.5 percent in FY2017 (ending September 30) with a strong pick-up in fisheries and construction. Macroeconomic forecasts predict continuous economic growth of 2.5 percent in FY2018 and about 1.5 percent over the medium term. The fiscal surplus was projected to narrow to 1.75 percent of GDP in FY2018 and turn into a deficit of 1.5 percent by FY2023, as government spending is expected to continue growing strongly while fishing license revenues remain stable in nominal terms.² The fishing sector remains the main source of revenue, representing 18 percent of GDP in 2017. Infrastructure development, public administration and education were the main drivers of GDP growth in 2017.
- 2. With substantial constraints to export-led growth, the RMI is heavily dependent on aid and other fiscal transfers.** The current account deficit is largely financed by grant inflows. Aid and fiscal transfers come primarily from the US. The first Compact of Free Association (CFA) agreement with the US was signed in 1983 and continued through 2003. An amended CFA became effective on May 1, 2004, providing approximately US\$37 million in grants per year through the Compact Sector Grants (CSGs). Though the CSGs are scheduled to cease after 2023, the US and the RMI governments will enter into negotiations on the financial aspects of the Compact post 2023. The CFA remains in force in perpetuity. While a Compact Trust Fund (CTF) has been established to replace CSGs from 2024 onward, current projections point to inadequate contributions to the CTF to assure a smooth transition. Annual CTF income can be expected to fall short of what is needed to replace the CSGs in 2024, which presents a key challenge to the country’s fiscal sustainability.
- 3. RMI faces many of the development challenges common to small, remote economies with dispersed populations.** Small size and remoteness increase the costs of economic activity and make it difficult to achieve economies of scale. Remoteness also imposes significant transport costs that increase the costs of trade and fundamentally constrain competitiveness of exports of goods and services in world markets. These same factors also increase the cost and complexity of providing public services. RMI is also one of the most vulnerable countries to climate change and rising sea levels. Geographical characteristics, including populations centered on small, low-lying atolls, make the country extremely vulnerable to natural and climate related disasters. Climate change

¹ World Development Indicators (2018)

² IMF, 2018 Article IV Report



imposes high costs and may even threaten the physical viability of some areas of both the main islands and more remote outer islands.

Sectoral and Institutional Context

4. **Very limited access to high-speed Internet constrains the ability of individuals and business to unlock the full potential of a digital economy.** The majority Government-owned Marshall Islands National Telecommunications Authority (NTA) is the sole supplier of telecommunications services in RMI. There is no modern regulatory framework supporting competition, providing for independent regulatory supervision of NTA or protecting the interests of users of telecommunications services. Majuro and Ebeye were connected via the HANTRU-1 submarine cable system in 2010, with financial support from the United States Rural Utilities Service (RUS). However, available capacity on the HANTRU-1 cable system is not being utilized effectively due to the poor quality of terrestrial fixed and wireless services. At only 11 percent³, RMI's mobile penetration rate is one of the lowest in the Pacific and very low by global standards. Mobile broadband penetration rates are even lower and are currently estimated at between 0.5 to 1 percent, based on the most recent data from NTA's last annual report (2018). The majority of fixed broadband customers, approximately 2,000 premises, only have access to asymmetric digital subscriber line (ADSL) services at low bit rates (1 Mbps). Mobile coverage largely offers only basic voice (GSM) services concentrated on Majuro and Ebeye. In the past two years, 4G/LTE has been rolled out around main population centers, but most people are unable to access 4G/LTE services due to lack of compatible handsets and the high cost of services. The primary 4G/LTE users are visitors to Majuro who can afford the high data tariffs and access charges. Most local people still rely exclusively on basic GSM services. Poor network performance significantly constrains the ability of RMI to rollout out digital services, create new income-generating opportunities and provide better access to public and private sector services.
5. **Cost of digital services is also a serious issue.** Access to high-speed Internet is limited and costly for both residential and business users. Fixed broadband is provided via digital subscriber line (DSL) over copper lines. Only low-end ADSL packages are available, with services offered in the US\$49.95/month range for 1 Mbps. This speed of 1 Mbps is not even considered a broadband service under the common standards adopted by the US and Europe, which mandate minimum speeds of 25 Mbps and 30 Mbps respectively. The affordability target for entry-level broadband services in developing countries is less than 2 percent of monthly gross national income (GNI) per capita (ITU – UNESCO Broadband Commission). The cost of broadband services in RMI is well above this threshold. The cost of entry-level 256 kbps ADSL service, which is well below what is typically considered a broadband service, constitutes 12.56 percent of monthly GNI per capita, although given the large average household size (6.8 people per household), this constitutes 1.86 percent of GNI/Household. Globally in developing/emerging markets, entry-level mobile broadband services typically cost below US\$1 to US\$5 per GB. In comparison, in RMI the cost for a basic entry-level monthly mobile broadband service was around US\$22 for a 5GB package as of March 2018, corresponding to 5.6 percent of the GNI per capita, which remains well above the 2 percent GNI/capita target of the ITU – UNESCO Broadband Commission.
6. **Three distinct development priorities for the sector have been adopted by Government to stimulate digital development and increase access to digital services.** Market structure reforms, including the repositioning of NTA and improved connectivity infrastructure, are the first and most urgent. These reforms will focus on introducing sustainable, reliable, quality telecommunication services at affordable prices. This requires structural changes to make the sector more attractive to competition in the retail market—specifically, the provision of services by one

³ GSMA Intelligence data, accessed on January 30, 2020



or more operators to Government, businesses and citizens. Implementation of these reforms will require separating out existing telecommunication assets into core essential facilities, which would be placed into an open-access entity. Access to these assets would be made available on the same cost-based terms to any licensed operator. The remaining assets would be transferred into a new retail-related business and privatized, with a possible period of exclusivity for a sole private operator, followed by an open and competitive market. As part of these reforms, new investment is also needed in the main centers and on the outer islands to support the rollout of new climate-resilient infrastructure that will support the delivery of quality, affordable connectivity services to more people.

- 7. Developing digital government and the digital economy are prerequisites to bringing digital services to the people.** Building on improved connectivity, the second priority is for Government, its public service providers (e.g. health and education services) and its citizens to get better use out of the enhanced technology and services. This entails smarter Government processes as well as changes to enable the people of RMI to access Government services and processes through digital interaction. Cabinet has recently established the Information Governance Taskforce (IGTF), which will be the focal point coordinating a whole of government response to the design and rollout of digital government. Law reform, people development and citizen engagement are also essential to build support for reform and build trust in online services. The third priority is for legal and regulatory reforms to support the proposed market structure reforms and the rollout of digital services. There are currently no laws on e-commerce, cybercrimes, harmful digital communications or cybersecurity, which are all essential to build trust in the digital economy. A community engagement strategy is currently under preparation to develop a broad public understanding of the reasons for the reforms, the benefits, and how any expressed community concerns will be addressed.

Relationship to CPF

- 8. The Project is closely aligned with the World Bank's twin goals of ending extreme poverty and boosting shared prosperity.** The transition to digital government services is predicated on shared prosperity, particularly improving access for the most vulnerable people, including citizens (men and women) living in remote areas. The project will facilitate increased access to high quality, low cost digital connectivity services, which is important for social and economic growth and development. There is a strong relationship between access to broadband services and economic growth. Links between extreme poverty and lack of access to basic public services are well established. In RMI and other small, remote island nations, digital communications services are the essential lifeline connecting families, providing access to basic services and linking people to markets. Improving access to the internet and expanding the availability of digital government services is a high priority for Government and a core focus of this Project.
- 9. The Regional Partnership Framework (RPF) for FY17-FY21, which was discussed by the Board of Directors in February 2017, covers nine small Pacific Island Countries (PIC9), including RMI.** The RPF identifies four areas of focus for these PIC9 as: (1) fully exploiting the available economic opportunities; (2) enhancing access to economic opportunities; (3) protecting incomes and livelihoods; and, (4) strengthening the enablers of growth and opportunities (macro-economic management, infrastructure and addressing knowledge gaps). The Project will support the third focus area, specifically (i) objective 4.2 that aims to increase access to basic services and improved connectivity infrastructure – including expanding access to broadband services – and (ii) objective 4.3 that addresses knowledge gaps and data issues. Through the strategic development of digital technologies and provision of public data, the Project will support more efficient and effective management of government



institutions which would contribute to improved development outcomes in multiple sectors and programs supported under the RPF.

C. Proposed Development Objective(s)

To expand access to the internet, promote private sector investment in climate resilient digital services, and establish the critical foundations for digital government services and the digital economy in the Recipient's territory.

Key Results (From PCN)

10. Progress will be measured against the following PDO-level results indicators:

- People provided with access to the Internet (number) (disaggregated by gender)⁴
- Expanded access to internet services on outer islands (percentage of outer islands with internet access)
- Private sector investment in climate resilient digital services mobilized (yes/no)
- Digital government strategy adopted (yes/no)
- Regulatory framework for digital services adopted (yes/no)

D. Concept Description

11. The Project components will be structured as follows:

12. **Component 1. Market Structure Reform (US\$16 million).** This component is designed to strengthen national digital connectivity and trigger substantial new private sector-led investment, expand coverage and support the introduction of better climate and disaster connectivity services and lower pricing. It will focus specifically on facilitating new private sector investment, establishing disaster and climate resilient national backbone networks in Majuro and Ebeye, connecting all outer islands to 4G LTE services and supporting specific job creation initiatives as part of the transition to the digital economy.
13. **Component 2. Digital Government Platforms and Digital Skills (US\$6.5M).** This component will finance a range of interventions and investments focused on priority government services and initiatives (eHealth, e-education, outer islands) beginning with the development and implementation of a Digital Government Strategy (DGS) under the supervision of the IGTF. The DGS will be linked to priority business process reviews, the development of government enterprise architecture and the rollout of a national government portal and priority digital services.
14. **Component 3. Enabling environment for Digital Government and Digital Economy (US\$4M).** This component will provide technical assistance for the development of the legal and regulatory enabling environment needed to underpin the investments in digital government and the digital economy. It will also provide ongoing support on traditional regulatory priorities for the telecommunications sector, particularly to promote investment, technological innovation and evolution, and the long-term interests of users of digital services.
15. **Component 4. Project Implementation Support (US\$1.5M).** This component will finance a Project Implementation Unit (PIU). The location of the PIU will be confirmed during Project preparation and appraisal, but is expected to

⁴ World Bank Corporate Results Indicator



be located within the Ministry of Transportation and Communications (MTC). The PIU will be responsible for overall Project management and coordination.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

16. The environmental and social impacts of the project are expected to be moderate and can be managed with standard mitigation measures. The environmental risks are minor and relate primarily to managing construction and community health and safety impacts during installation and maintenance. During operation, the social impacts are likely to result from increased connectivity which may lead to greater cyber-bullying, exposure to illicit material, and risks relating to unequal access based on gender, age or ability. Social benefits, such as access to information, education and employment can be managed through effective social assessment, and stakeholder engagement with a focus on improving and removing gaps to access for all (including the vulnerable groups). The risk of sexual exploitation and abuse/sexual harassment (SEA/SH) is assessed as low. The project is not expected to employ a significant migrant workforce and worker behavior can be informed by appropriate training and code of conduct. SEA/SH service providers are available in RMI and will be consulted during project preparation. A new Special Purpose Vehicle (SPV) will be established to own core infrastructure assets (HANTRU cable access rights, property easements, ground leases, new fiber to the home, etc.) over which Government will have residual rights to protect the national interest. The economic and daily operational interests will be managed by private sector operator(s) under a Public Private Partnership (PPP) agreement. The remaining retail focused assets of NTA will be privatized. The private operator(s) involved in managing the SPV will be required to comply with all ESF requirements as part of the PPP agreement. The private operator(s) will not be identified until project implementation and therefore a capacity assessment is not possible during project preparation. A moderate risk rating is proposed primarily because the project is not complex and/or large, does not involve activities that have a high potential for harming people or the environment, and is located away from environmentally or socially sensitive areas.

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APPROVAL

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