



**The World Bank**

Strengthening systems for budget execution and financial reporting systems in the Republic of Marshall Islands (P163131)

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# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

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Concept Stage | Date Prepared/Updated: 22-Sep-2017 | Report No: PIDISDSC22150



**BASIC INFORMATION**

**A. Basic Project Data**

Country Marshall Islands	Project ID P163131	Parent Project ID (if any)	Project Name Strengthening systems for budget execution and financial reporting systems in the Republic of Marshall Islands (P163131)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date Jan 29, 2018	Estimated Board Date Apr 30, 2018	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) The Republic of the Marshall Islands	Implementing Agency Ministry of Finance	

**Proposed Development Objective(s)**

The Development Objective of the proposed project is to improve reliability and timeliness of government financial reporting.

**Financing (in USD Million)**

Financing Source	Amount
Borrower	0.50
IDA Grant	5.00
<b>Total Project Cost</b>	<b>5.50</b>

Environmental Assessment Category C-Not Required	Concept Review Decision Track II-The review did authorize the preparation to continue
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Other Decision (as needed)



## **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 5 isolated islands (24 of which are inhabited) and has a total land mass of just 181 km<sup>2</sup> set in an area of over 1.9 million km<sup>2</sup> in the Pacific Ocean. The population of the RMI is estimated at 53,000, of which the two largest urban centers, Majuro (the nation’s capital) and Ebeye, have populations of 28,000 and 9,614, respectively.

2. The RMI is a sovereign nation in a “Compact of Free Association” (CFA) agreement with the United States. The first CFA was signed in 1983 and continued through 2003. An amended CFA became effective on May 1, 2004, and runs till 2023. No Compact financing is assured beyond the life of the current CFA arrangement, which presents a key challenge to the country’s fiscal sustainability. While a Compact Trust Fund (CTF) was established to replace Compact grants from 2024 onward, based on current projections, contributions to the CTF are inadequate to assure a smooth transition, and annual CTF income can be expected to fall short of what is needed to replace Compact grants in 2024.

3. The 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 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. Moreover, geographical characteristics, including populations centered on small, low-lying atolls, make the country extremely vulnerable to natural disasters.

4. These barriers have led to an undiversified economic base and persistent current account deficits. With limited export and domestic production opportunities, public administration and social services constitute the largest share of the economy – approximately 45 percent of GDP. The fisheries sector comprises around 10 percent of GDP, while manufacturing makes up less than 2 percent. Copra and fisheries are the most significant exports, while the country is almost completely reliant on imports for food, fuel, and other basic needs. With substantial constraints to export-led growth, the Marshall Islands is heavily dependent on aid and other fiscal transfers. The current account deficit is largely financed by grant inflows. Aid and fiscal transfers, primarily from the US, support reasonable though declining standards of living for most the population.

5. Climate change screening has confirmed that this project is not exposed to climate and geohazards now or in the future. Improving financial management capacity may slightly improve the country’s resilience to prepare for and respond to future disasters.

### Sectoral and Institutional Context

6. A Public Expenditure and Financial Accountability (PEFA) assessment for RMI was done in 2012, and the scores assessed were overwhelmingly poor in nearly all areas. A Public Financial Management (PFM) Reform Roadmap was formulated for a three-year period, but its time horizon has been extended to 2020. Formal adoption occurred in August 2014. A National PFM Steering Committee was established in April 2016 for monitoring and facilitating the Roadmap’s implementation.



7. The PFM Reform Roadmap has 30 sets of initiatives. Development Partners (DPs) have emphasized the need for prioritization and sequencing to match the absorptive capacity. The Ministry of Finance (MoF) has taken the lead to identify six “Key Areas” for focus as listed below, with human resource (HR) management as a cross cutting area.

- i. Accounting
- ii. Medium Term Budgeting Framework Improvement
- iii. Procurement System Improvement
- iv. Aid coordination and Management Improvement
- v. Tax Administration and Non-Tax Revenue Management Improvement
- vi. SOE Oversight and Management Improvement

8. In 2014, the Government of RMI developed a medium-term plan, the National Strategic Plan (NSP) which extends to 2020. The objective of the NSP is *to achieve sustainable, equitable and measurable development reflecting the priorities and culture of the Marshallese people*. The plan is wide ranging as it seeks to achieve this objective through an improved quality of life for every citizen in all areas including, but not limited to, health, education, energy, food security, law and order, gender equality, employment opportunities and disaster mitigation. Good governance appears as a separate sector in the NSP including PFM Reform as one of the strategic areas<sup>1</sup>, with the target to implement the PFM Reform Roadmap and reduce the extent of audit findings in annual audit.

9. *Development Partner Assistance*. Several resources are available to the MoF for supporting its PFM reform agenda. However, the government is yet to establish a formal mechanism for coordination among the Development Partners (DP). Currently the MoF is looking to refine and update the PFM Reform Roadmap which can then serve to provide a framework for DP coordination.

### **Financial Management Information System (FMIS)**

10. The financial management information system (FMIS) allows the automation and integration of integral underlying processes around budget formulation and execution. The government has identified the need to upgrade its current FMIS as a critical element for achieving the objectives of the Key Areas. In its current form, the MoF is unable to benefit from the timely availability of information necessary for supporting planning, budgeting and monitoring. The Government has been using a commercial accounting software, called 4-Gov, as the government’s financial management information system (FMIS) since 2003. The system is centralized within the MoF and all the financial documentation is being forwarded to the MoF for processing. The Government pays around USD 80,000 per annum to the software supplier for support services.

11. The high staff turnover and lack of institutional mechanisms for continuity have resulted in a gradual decline in the overall user knowledge of 4-Gov. Without a current set of Standard Operating Procedures, new employees to the MoF do not have clear guidance on system usage. In some cases, previous staff have left without passing along their daily procedures. The resulting loss of institutional knowledge is evident, especially in the quality of data input and in the lack of consistent application of accounting principles in basic operations. A critical System Administrator role is lacking and partially being fulfilled by the staff in Information Technology (IT) function who have basic knowledge of technical aspects of the system but not on its functionality.

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<sup>1</sup> Strategic areas for Good Governance Sector in NSP: (i) Public Administration; (ii) Public Financial Management and Reform; (iii) Law, Justice and Public Safety; (iv) Legal and Regulatory; (v) SOE Management and Reform; (vi) Macroeconomic Planning.



12. While the usage of the existing system can be improved through training of MoF staff and enhancing security and internal control structure, the software is unfortunately phasing out. In 2015, MoF requested some enhancements to the software, including the acquisition of an HR module and a requisitioning module to speed up authorizations. However, the supplier declined this request due to its diminished capacity to service new clients. It will continue to provide support for existing modules for the foreseeable future. The current system can continue to operate and provide the necessary information for government operations for a few years. This would provide sufficient time for a new system to be procured, installed and successfully transitioned. For the migration of legacy data and to ensure a smooth transition, it is important that the current system should be operating effectively before it feeds into any new system.

#### Relationship to CPF

13. The project is in line with the Regional Partnership Framework (RPF) FY17-21 for 9 Pacific island countries (PIC9), including RMI, which identified the following Focus Areas for the World Bank's support, namely: (i) Fully exploiting the available economic opportunities; (ii) Enhancing access to employment opportunities; (iii) Protecting incomes and livelihoods; and (iv) Strengthening the enablers of growth opportunities (macroeconomic management, infrastructure and addressing knowledge gaps). Specifically, the project supports the fourth, cross-cutting Focus Area with the objective to *develop and maintain frameworks to improve fiscal management*. The project will help put in place and strengthen the necessary underlying public financial systems, which are "key to improving the management and efficiency of public expenditure" as noted in the RPF, and would help the government achieve fiscal sustainability. The assistance will be coordinated with other Development Partners, including the ADB, IMF, EU and the US government, and focus on providing support in areas where the Bank has a comparative advantage.

### **C. Proposed Development Objective(s)**

14. The Development Objective of the proposed project is to improve reliability and timeliness of government financial reporting.

#### Key Results (From PCN)

15. Project beneficiaries include the Ministry of Finance (MoF), Office of the Auditor General and line ministries. Viewing and limited data-entry access will be provided to line ministries depending on need and volume. The project will support improvement in systems, processes and procedures around budget formulation and execution covering internal controls, procurement, accounting and financial reporting. This will include building human resource capacity and strengthening human resource management functions in the Ministry of Finance. The project will contribute to strengthening the government's capacity to manage public resources efficiently and effectively to deliver services.

16. The tentative list of key development performance indicators are:
- In-year budget execution reports are prepared and published for every quarter.
  - Annual financial statements are prepared and submitted for audit within 4 months of year-end.
  - New Financial Management Information System (FMIS) implemented and used for producing information to support budget formulation, financial reporting and monitoring of internal controls.
  - Reduction in costs classified as "questionable" in audit findings.
  - Manuals providing functional responsibilities and competency requirement for various user roles are prepared and adopted.



- Training program for all user roles related to new FMIS established.

#### **D. Concept Description**

17. The Government of the Republic of the Marshall Islands (RMI) requested the Bank to support the Ministry of Finance (MoF)'s medium-term objectives of systems improvement, including an improved Financial Management Information System (FMIS) and other capacity building activities related to the smooth transition and operation of the FMIS, as well as support for improvement in overall business procedures especially related to procurement functions. Overarching priority is the need to enhance the underlying FMIS and the capacity to use it, but the project will be an opportunity to holistically support better PFM outcomes. The FMIS is the primary tool used for recording, monitoring and reporting budget execution.

18. Achievement of the objectives in the PFM Roadmap will require more than a change in hardware and software. As learnt from experience<sup>2</sup> in supporting several governments in FMIS interventions across the world, it is essential to recognize that any FMIS can only deliver on expected benefits of technology if it is supported by an appropriate legal, regulatory and monitoring framework.

19. As noted in the RPF, the Marshall Islands, and islands throughout the Pacific, face significant challenges in recruiting and retaining domestic expertise. In "micro-states" such as the Marshall Islands, the size of the population and the pull of opportunities overseas only increase this challenge. In view of these significant capacity constraints, some strategies to achieve sustainability are considered for this project:

- Prioritization and sequencing of reform which may take a longer time but avoids placing too much strain on the thin capacity on ground
- Capacity building strategy, using a combination of delivery modalities
- "Smartsourcing" accounting functions to address persistent shortage of qualified personnel, instead of trying to build in-house capacity for all functions
- FMIS implementation using Commercial off-the-shelf (COTS) software with minimum customization to manage complexity, cost, user skill levels, supplier technical support availability
- Remote hosting for FMIS to manage cost of disaster recovery and maintenance
- Possible combination of procurement package with other Pacific countries seeking to acquire a new FMIS such as Federated States of Micronesia and Republic of Palau to attract larger pool of bidders and provide incentive for suppliers to provide better technical support and services.

20. The proposed project will have four components and tentatively USD 5 million IDA financing:

- **Component 1: Improvement in PFM processes.** The objective of this component is to strengthen the PFM environment i.e. the processes, procedures and regulations governing budget formulation, execution and financial reporting. The component would support review of Chart of Accounts, existing legal framework for PFM, existing financial management (FM) regulations and effectiveness and efficiency of internal controls. This would lead to either the design of new documents such as chart of accounts or amending existing procedures such as accounting manuals etc.

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<sup>2</sup> [World Bank Study](#): "Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn't", April 2011.



- **Component 2: FMIS design and implementation.** The objective of this component is to implement a new financial management information system (FMIS) which will support effective management of public resources. The component would support specification, procurement and implementation of FMIS. In addition to a new software, the project will fund the required hardware including a data center, generators and a disaster recovery site for operational continuity.
- **Component 3: Human Resource Management and Capacity Building.** The objective of this component is to address capacity constraints created largely due to high turnover rate and difficulty in retention of qualified technical staff in both finance and IT skills. The project will support the implementation of a holistic strategy for capacity building and the optimum use of resources available, both under the project as well as from other sources i.e. government and development partners. In addition to the MoF, the project will support the strengthening of the human resource management function for the Office of the Auditor General (OAG). For the OAG, training and guidance through the Pacific Association of Supreme Audit Associations (PASAI) can also be explored.
- **Component 4: Project Management.** The objective of this component is to support overall project management and coordination. There will need to be strong change management, especially for the roll-out of the new FMIS. Since design and roll-out of FMIS will cause disruption across the government, strong leadership will be critical. The PFM Steering Committee will need to play a proactive role to serve as a trusted forum to allow sharing of information and achieving collaboration and coordination across various stakeholders. An operational focal point within each agency will be responsible for implementation.

## SAFEGUARDS

### A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will provide technical assistance to the Government of RMI, mainly the Ministry of Finance (MoF). All work will be carried out within Government offices in Majuro, RMI.

### B. Borrower's Institutional Capacity for Safeguard Policies

The Directorate of International Development Assistance (DIDA) team has prepared the RMI Pacific Resilience Project (RMI PREP) and are currently preparing the RMI Energy Sector Development Project. They have attended World Bank safeguards policy training workshops in Majuro and have worked closely with the World Bank safeguards specialists to scope safeguards issues on investment projects. The team has skills to manage safeguards consultants and review safeguards instruments. Capacity to disclose instruments and conduct public and stakeholder consultations on investment projects is present. DIDA is in the process of recruiting a full-time safeguards advisor for RMI PREP, who will have the time and resources to advise on other development projects including this one.

### C. Environmental and Social Safeguards Specialists on the Team

Wolfhart Pohl, Environmental Safeguards Specialist  
Gerardo Pio Francisco Parco, Environmental Safeguards Specialist  
Penelope Ruth Ferguson, Environmental Safeguards Specialist



Ross James Butler, Social Safeguards Specialist

**D. Policies that might apply**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	This project will not support the drafting of policies, strategies, laws and/or regulations which are likely to have environmental and social impacts when implemented through future programs or projects or involve the design and/or provision of capacity building to support the MoF or any other agencies to carry out activities that have potentially significant social and environmental impacts. There will be no engineering designs or construction of physical infrastructure as a result of this project. This project is classified as Category C and no safeguards instruments will be prepared for appraisal or during project implementation.
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

**E. Safeguard Preparation Plan**

Tentative target date for preparing the Appraisal Stage PID/ISDS

Jan 18, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

No specific safeguards-related studies are required and no safeguards instrument will be prepared.





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**APPROVAL**

Task Team Leader(s):	Saeeda Sabah Rashid, Robert J. Gilfoyle
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**Approved By**

Practice Manager/Manager:	Robert R. Taliercio	06-Sep-2017
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Country Director:	Mona Sur	27-Sep-2017
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