Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 28-Mar-2018 | Report No: PIDISDSA24239

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Micronesia, Federated States of	P161969	Project for Strengthening Public Financial Management	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EAST ASIA AND PACIFIC	29-Mar-2018	30-May-2018	Governance
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	The Federated States of Micronesia	Department of Finance and Administration	

Proposed Development Objective(s)

The objective of the project is to improve tax administration and the completeness, reliability and timeliness of financial reports of the National and State Governments.

Components

Strengthening the PFM Environment
Financial Management Information System (FMIS)
Revenue Management System (RMS)
Change Management and Human Resource Development
Project Management

Financing (in USD Million)

Financing Source	Amount
Borrower	0.50
IDA Grant	11.00
Total Project Cost	**11.50**

Environmental Assessment Category

B - Partial Assessment

Decision

The review did authorize the preparation to continue

Other Decision (as needed)

Not applicable.

B. Introduction and Context

Country Context

1. **The Federated States of Micronesia (FSM) is a small, remote, geographically dispersed Pacific Island country (PIC).** Like many PICs, FSM faces significant inherent structural challenges to developing an economy that can sustain government functions and effective service delivery. FSM has a population of approximately 102,453 scattered over an ocean area of 3.0 million square kilometers. The country is heavily reliant on external assistance, with on budget grant income estimated to account for 47.4% of total revenues (32.6% of GDP) in 2016. FSM has few resources, and exports are heavily concentrated on fish. High import dependency exposes the country to global economic shocks and price spikes. FSM is particularly vulnerable to accelerated sea-level rise and is prone to natural hazards. As with other Pacific Island Countries (PIC), FSM suffers from gender inequalities in terms of access to economic opportunities and markets, access to endowments, women's voice and agency, and vulnerability to emerging risks[1]. The PIC governments, in partnership with the development community, are working in various ways to reduce these gender inequalities however, overall analysis and policy making with respect to poverty reduction and shared prosperity in the PIC-9 are severely constrained by the paucity and low quality of data, particularly gender-disaggregated data.

2. **A sovereign country since 1986, FSM is a federation that gives significant power to the four State governments – Pohnpei, Chuuk, Kosrae and Yap.** Each State has its own executive and legislative bodies and exercises considerable autonomy to manage its domestic affairs. Most public services are delivered at the State level. FSM maintains deep ties and a cooperative relationship with the United States of America (USA) through the Compact of Free Association. Due to the federal structure and large geographical distances, accomplishing policy decisions at the national level is complex, as consensus across the national and the state governments is required.

3. **While domestic revenue has grown in recent years, mainly driven by higher fishing royalties, FSM remains heavily dependent on aid – primarily through the Compact of Free Association – to meet both recurrent and development financing needs.** As mentioned above, grants contributed 47.4% of total revenue in 2016; By comparison, they contributed 55.6% in 2004. Since 1986, the Compact has provided large external financial transfers to support the Government in delivering key services, particularly education and health and substantial public-sector investment at the State level. Under an Amended Compact agreement, FSM has been receiving payments of an inflation-adjusted US$92.7 million per year starting in 2004, with US$76.2 million in the form of grants, US$16.0 million to be placed in a Compact Trust Fund, and US$500,000 for an annual audit. After the Amended Compact expires in 2023, investment income from the Trust Fund is expected to replace the grants.

4. **The Government of the FSM is currently facing a challenging socioeconomic and fiscal situation**. This is characterized by: a decreasing population due to out migration, which has had an impact on the supply

[1] World Bank: Consolidated Country Gender Action Plan for nine Pacific Island Countries FY17-21

of a skilled labor force; limited economic growth prospects; and real reductions in the Amended Compact grant fund flows; culminating in limited opportunities for domestic revenue generation. Even under optimistic growth projections, the FSM will still face a significant shortfall in public finances from FY2024 due to the underfunding of the Compact Trust Fund. An additional fund, the FSM Trust Fund, was created by Congress in 1999. The National Government has made significant contributions to the FSM Trust Fund over the last three years as it has become clear that the Compact Trust Fund will not provide sufficient income in FY2024 to replace the Compact sector grant funding levels. Helping to address this situation through strengthening public financial management and increasing domestic revenues, will be crucial for FSM's long-term fiscal sustainability.

Sectoral and Institutional Context

5. **Public Financial Management (PFM) systems, processes and institutions in FSM are decentralized.** The FSM constitution is the supreme law of the land. Each State has its own constitution, legislature, and governor, as well as separate legislative and judicial systems.[2] Their compositions/structures vary. Expenditure responsibilities at the national level are primarily concerned with policy-making, the regulatory environment, national functions, and oversight. Key national PFM legislation includes the Financial Management Act, Budget Procedures Act, Public Contracts Act, Income Tax Law, Revenue Administration Act, Customs Act, National Public Service System Act, and National Public Auditor Act. The Finance Management Act is supplemented by regulations, manuals and operating procedures. The main agencies responsible for National Government PFM are the Department of Finance and Administration (DoFA); Overseas Development Assistance, Compact Management Division, and Personnel under the President's Office; Congress; and the Office of the National Public Auditor (ONPA). Similar arrangements exist in the States, each having its own PFM legislation (including Financial Management Act, regulations, and procedures); a State Public Auditor, and offices for the delivery of finance, administration, and budget functions. Customs and Tax Administration (CTA) in DoFA is responsible for national tax collection and compliance and has four State field offices. Each State has its own revenue division for the administration of local taxes. National and State regulations include both common and unique requirements. As an example, accounting and control requirements are similar while procurement thresholds differ for every government.

6. **Raising domestic revenues is critical to secure FSM's fiscal sustainability.** With one of the lowest tax to GDP ratios[3] in the Pacific, there is significant scope to increase domestic revenues through tax administration and policy reforms. FSM has a simple tax system and current legislation consists of two main laws: (a) the FSM Income Tax Law 1983 which includes a wage and salary tax, and a gross revenue tax; and (b) the Customs Act 1996 which covers customs and excise duties. Sales tax are being collected at the State level on goods, and there is no tax on services. Modernization of the current legislation and introduction of new tax laws would contribute significantly to domestic revenue mobilization efforts. Similarly, efficiency of tax administration is constrained by outdated information systems and manual processes.

[2] World Bank Federated States of Micronesia: Public Expenditure Analysis, June 2016
[3] Last 5-year tax revenue to GDP ratio for FSM: 11.6% (2012), 12.1% (2013), 18.9% (2014), 12.3% (2015), 12.9% (2016). The sudden increase in 2014 was largely due to a one-off payment of US$22 million by a captive insurance company

7. **Improving budget execution processes and systems is required for better oversight of public finances that can contribute to fiscal sustainability**. Recent assessments, including the 2016 PEFA assessment[4] of the National Government and a 2015 performance audit by the ONPA identified critical shortcomings in the current PFM systems and processes particularly the financial management information system (FMIS) in use. A commercial accounting software, FundWare, was implemented across the five governments between 2006-2008, but it is operated as five discrete systems without any integration. The system is being phased out by its supplier and is no longer available for new purchase. Each government has separate support contracts with an individual consultant and requests for enhancements and addition have not been favorably met. Concerns on the current FMIS include limited use of available functionalities due to lack of user capacity, no monitoring of user access rights, lack of disaster recovery plans and inadequate security protocols. The National and State governments are unable to reap expected benefits of an FMIS in the form of timely availability of comprehensive information that can support planning, budgeting, monitoring and most importantly inter-governmental coordination on resource allocation. In-year budget reports for submission to Congress, as required by the Financial Management Act, cannot be produced. Preparation of information to respond to budget execution related queries from Cabinet, Congress or line departments is a laborious manual process using only some basic reports from FundWare. Similarly, production of government statistics is also not supported by information from the system in the absence of appropriate budget classification. All five governments have been meeting the single audit submission requirement[5] with considerable external support but the auditor's reports have consistently noted errors in application of certain accounting treatments, absence of required disclosures and deficiencies in internal controls leading to identification of questionable costs. Missing documentation and outstanding reconciliation among various records are the most common observations.

8. **Significant improvements are needed in the legal and institutional framework governing the PFM systems.** Recent technical assistance from the Asian Development Bank (ADB-TA) has supported a review of financial management regulatory framework for the National Government to align with the requirements of the Uniform Guidance[6]. The work led to identification of substantial gaps and needed updates in several areas including for example, treasury, revenues, procurement processes (including increased thresholds), and modernization to allow for electronic bank transfers and off-site storage of financial records through cloud technology for example. Amendments and updates to the Financial Management Act, regulations, and DoFA standard operating procedures are in various stages of approval[7]. FM regulatory framework in the States is similarly in need of review for which DoFA anticipates technical assistance from the European Union.

[4] Public Expenditure and Financial Accountability (PEFA) self-assessment conducted by DoFA in 2016. The report has not undergone quality assurance processes. Scores assessed for fourteen (14) of the thirty (30) indicators were below satisfactory level i.e. 'C' or 'D'.
[5] A single audit is due for submission to the US Department of the Interior's Office of Insular Affairs within nine months of the end of fiscal year.
[6] The FSM government has adopted accounting principles generally acceptable in the United States of America (US GAAP) and adheres to the requirements set by the Governmental Accounting Standards Board of the United States of America (US GASB). The external auditor is required to report on compliance with the "Uniform Guidance" regarding Compact funds i.e. US Office of Management and Budget (OMB) *Compliance Supplement* and *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, cost Principles and Audit Requirements of Federal Awards*.

[7] Proposed amendments to the Financial Management Act are currently before Congress and expected to be promulgated in March 2018. The revised Financial Management regulations are undergoing a process of public consultation.

9. **There is a shortage of skilled staff to effectively manage the PFM systems.** Over the past few years, DoFA has experienced staff turnover. Qualified staff are leaving for better paid, less demanding jobs and the remaining staff are overworked and underqualified. Training opportunities for staff are almost nonexistent on both the operation of the system and on technical topics regarding accounting and financial reporting. 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.

10. **In January 2015, the FSM States and National Leadership Conference endorsed the FSM 2023 Action Plan (2023 Action Plan), to address the fiscal and economic challenges leading up to and post FY2023.** It is based around the mutual principles of the Amended Compact which are to "promote the economic advancement, budgetary self-reliance, and economic self-sufficiency" of the FSM. The Action Plan includes a long-term fiscal reform strategy and a long-term sustainable growth strategy with the emphasis on private sector led growth. Without any reforms the States in FSM will face serious fiscal deficits from FY2024 onwards. The 2023 Action Plan recognizes that "effective PFM is central to creating a relationship of mutual trust and shared consensus between government and citizens". Sharing information with the public and enhancing fiscal transparency are key efforts of the 2023 Action Plan. The main components of fiscal transparency include: a) development of clear roles, responsibilities, structures and functions of Government; b) public availability of fiscal information at clearly specified times; c) an open budget process covering preparation, execution, and reporting; and d) assurance of integrity in the quality of information through independent assessment.

11. **In addition, a PFM Roadmap was formulated and finalized in 2017 for implementation in 2018-2020.** The PFM Roadmap sets out plans to improve overall governance, reduce corruption and improve efficiency and effectiveness of financial systems and procedures. The National Government aims to improve current systems, to better align resources and accountability towards development results, and to present a sound basis for development partners to provide general budget support. The actions identified for achieving these objectives are: a) implementing a new financial management information system (including integrating a budget module and automating customs and tax systems); b) undertaking a complete review of the Financial Management Regulations; c) improving reporting standards (including developing a new website); and d) continuing to devote efforts to staff capacity development. The implementation and monitoring of the PFM Roadmap is led by the Division heads in DoFA. Implementation of the PFM Roadmap has been included as a component of the 2023 Action Plan. On the revenue side, several reforms are underway following recommendations from IMF-PFTAC[8]. These include the reorganization of the CTA towards a function-based revenue administration and the implementation of compliance improvement measures[9].

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The objective of the project is to improve tax administration and the completeness, reliability and timeliness of financial reports of the National and State Governments.

---

[8] IMF/PFTAC Technical Assistance Report, April 2017

[9] A pilot focusing on excise tax risk of the tobacco sector has proven to be a success. Excise on cigarettes increased by 86.58 percent in 2015 and continued to increase by a further 13.36 percent in 2016.

Key Results

12. The achievement of the PDO will be measured through the following PDO level results indicators:
    a) In-year budget reports prepared and published by National and all four State governments to meet quality and timeliness criteria of “B” score for PI-28 based on PEFA Framework[10]
    b) Revenue Management System installed and in use by CTA for improved accounting for revenue to meet criteria of “B” score for PI-20.3 based on PEFA Framework
    c) New FMIS used for preparation of budget and recording of revenue and expenditure transactions by National and all State governments

D. Project Description

13. The project is designed to respond to the government’s most urgent needs under the PFM Roadmap in collaboration with support being provided by other Development Partners. The project will be implemented under five complementary components briefly described below.

Component 1: Strengthening the Public Financial Management Environment (US$ 350,000)

14. The objective of this component is to strengthen the public financial management (PFM) environment by ensuring that the legal and regulatory framework and the procedural guidance for business processes governing budget formulation, budget execution and financial reporting for revenues and expenditures are internally consistent, aligned with the applicable accounting guidance and streamlined for efficiency. The scope will include all five governments, each of which has its own set of regulations and procedures. The US government reporting requirements are very specific and complex. However, there are well established guidelines and frameworks in place which can serve as a resource when updating the government procedures and regulations.

15. The project will finance the: a) Review of legal and regulatory framework leading to preparation of a proposal for amendments to existing laws and regulations or new guidance, as required, for approval by the competent authority at both National and State level; b) Formulation of a new chart of accounts with appropriate structure and classification to facilitate management, statistical and fiscal reporting across the National and State governments; and c) Updates to existing Operation Manuals in each government, to the extent necessary, to lay out functional roles and responsibilities including specific responsibilities related to the operation of FMIS. In the design of the new chart of accounts, necessary provisions will be made to allow tracking of special programs such as those directed at encouraging gender parity. To support ongoing efforts in medium term budgeting and performance monitoring, the new FMIS will include capabilities to support data collection on outputs and beneficiaries, including gender disaggregated information.

Component 2: Financial Management Information System (FMIS) (US$ 5,145,000)

16. The objective of this component is to implement a new financial management information system (FMIS) which will support effective management of public resources and improve financial reporting for management and accountability. Project scope will include the DoFA office of the National Government

[10] https://pefa.org/sites/default/files/PEFA%20Framework_English.pdf

in Palikir and its branch offices in each State, State Finance offices and one line ministry, either at the National or State level. The extent of functions to be decentralized to line ministries and the identification of line ministries will be determined by the Steering Committee in accordance with the procedures detailed in the Project Implementation Manual (PIM) and with the prior written agreement of the Association. Given the low capacity environment, a gradual, incremental sequencing strategy will be used in building up the new system which will include modules for budget preparation, commitment control and cash management, general ledger, payroll, fixed assets, accounts payable, accounts receivable and financial reporting.

17. The project will finance: a) the conduct of a system requirements study to determine technical and functional specifications for a new FMIS; b) the procurement and implementation of FMIS (Commercial-Off-The-Shelf, "COTS" package) at key sites including a document management system; c) site preparation; d) hardware, including servers, personal computers, networking and other accessories; e) data center11 arrangements for primary and disaster recovery centers12; f) end-user training on system usage and technical support; g) subscriptions for Service Level Agreement with telecom provider; h) preparation of a policy framework (policy, standards and guidance) for security and usage of IT assets (hardware, software, internet) in government offices; and i) technical consultants on PFM, IT security, networking and technical support.

Component 3: Revenue Management System (RMS) (US$ 1,945,000)

18. The objective of this component is to improve the efficiency and effectiveness of revenue management for the National Government of FSM.

19. There is a clear need for modernization of the IT system if CTA is to improve its efficiency and effectiveness in revenue management. In the absence of an ongoing revenue modernization program, a phased approach is proposed. Discussions with CTA and DoFA confirmed that the immediate priority is the automation of tax accounting, and as capacity is increased, the expansion of automation to compliance and taxpayer services. In the first phase of project activities, the project will finance the procurement and implementation of an RMS using a COTS solution developed by specialized RMS providers. Implementation of the RMS is usually independent from the FMIS. However, parallel implementation of the RMS and FMIS will facilitate smoother integration of the RMS to the larger FMIS. Scope includes the central CTA office and its branch offices in the States.

20. Modules to be implemented in the first phase include: a) Taxpayer Registration; b) Payments Processing; c) Returns Processing; d) Taxpayer and Revenue Accounting; and e) Debt Management. By implementing these five core modules first, a solid foundation will be in place that can meet the immediate needs of DoFA in revenue accounting management. This foundation will enable the CTA staff to identify and implement business process improvements enabled by the RMS and automate a large volume of work

[11] Data center is a facility used to house computer systems/ servers and associated components, such as telecommunications and storage systems. It generally includes redundant or backup power supplies, redundant data communications connections, environmental controls (e.g. air conditioning, fire suppression) and various security devices.

[12] A disaster recovery center is a location where an organization can relocate following a disaster, such as fire, flood, security threat or other disruptive event. This is an integral part of the disaster recovery plan and wider business continuity planning of an organization. A backup, or alternate, site can be another data center location operated by the organization, or contracted via a company that specializes in disaster recovery services.

currently being carried out manually, such as returns processing and reporting. However, strong technical assistance from an experienced tax administration specialist will be required to achieve these benefits. The second phase, to be initiated in consultation with DoFA, will include the implementation of compliance related activities and new taxpayer services opportunities. Eventually, there will be a need to undertake a comprehensive institutional, policy and administrative assessment to identify opportunities for revenue gains.

21. The project will finance: a) the conduct of a system requirements study to determine technical and functional specifications for an RMS; b) the procurement and implementation of RMS COTS package at CTA central and branch offices in the States; c) site preparation; d) hardware, including servers, personal computers, networking and other accessories; e) end-user training on system usage and technical support; and f) technical consultants on tax administration.

Component 4: Change Management and Human Resource Development (US$ 1,360,000)

22. The objective of this component is to support the successful implementation of FMIS and RMS with active stakeholder engagement and development of individual competencies and institutional capacity needed to sustain FMIS and RMS operations and related PFM functions. The project will support capacity-building in DoFA and other agencies with key roles in the public financial management cycle such as the Office of the National Public Auditor (ONPA). This component will have two subcomponents.

Subcomponent 4.1: Change Management (US$ 860,000)

23. The introduction of an FMIS, especially the replacement of an existing system, is a disruptive change affecting stakeholders across the public sector. During the implementation stage, service delivery is likely to deteriorate before it improves as understanding of the new system increases. This subcomponent will support the preparation and implementation of a communications and change management strategy. A local agent for change will be based in each State Finance office to facilitate the implementation of the project, monitor progress and arrange for appropriate response to any issues as they arise. A senior official in each government will be designated as the change champion to lead the transition. Regular outreach activities will be conducted to inform stakeholders of progress and upcoming activities. With support from the communications specialist in the Central Implementation Unit (CIU), communications material using traditional and social media will be produced for dissemination, seeking feedback and establishing user forums.

24. The project will finance: a) preparation of a gender-sensitive communications and change management strategy; b) the design, production and delivery of communication materials using traditional and social media; c) outreach events to disseminate information regarding the project interventions; d) establishment of user forums and feedback platforms; and e) update of the DoFA website including the creation of links / pages for each State to facilitate information dissemination.

Subcomponent 4.2: Human Resource Development (US$ 500,000)

25. The objective of this subcomponent is to support the usage of the FMIS and sustainability of project interventions through a Human Resource (HR) Development strategy to build a pool of staff possessing the competencies needed to achieve desired outcomes from PFM systems, processes and institutions.

The US government's competency frameworks established for accountants and other finance professionals will be a useful resource. The strategy will include a review of the HR management policy environment relevant to the project objectives for example staff incentives, position descriptions, career development, scholarships etc., and recommend areas for improvement. The project activities will build upon work done on HR management under a recent technical assistance from ADB for the National Government and Pohnpei State.

26. A competency framework will be developed to benchmark the minimum skillsets required in each job function (both in DoFA and for equivalent finance roles across other departments) followed by a rapid skill gap assessment to form the basis of a training plan. Training will cover key areas, such as budgeting, accounting, reporting, to equip the staff with the range of skills to fully and effectively utilize the enhanced functionality of the new system. Gender-disaggregated data will be captured for project beneficiaries for which activities will be designed as gender-neutral i.e. providing equal opportunities for education and training to the current and potential employees, and developing associated human resources policies which promote gender parity.

27. Training will include end-user training in the use of the FMIS; technical training for administration and management of the FMIS (information security, networking, application software) and training on the use of information from the system for fiscal analysis and planning. Use of embedded trainers and development of e-learning courses will be considered in addition to partnerships with local, regional and international institutions for delivery of certification and degree courses in required areas of competencies and tailored courses for public financial management.

28. The project will finance: a) Preparation of a competency framework for PFM related roles across the State and National Governments; b) Preparation of a training plan for existing staff in National and State Finance offices; c) Development of training partnerships and bespoke training courses with local and international institutions; d) Short-term technical assistance to build capacity in selected areas; and e) Engagement of a firm for internal audit and capacity building to start working in the fifth year of project life.

Component 5: Project Management (US$ 2,200,000)

29. The objective of this component is to support overall project management and coordination. Since design and roll-out of FMIS will cause disruption across the respective governments, strong leadership will be critical. The Project 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. A Project Implementation Unit (PIU) will be established with specific responsibilities to support and coordinate implementation of project activities. This component will also support the strengthening of the Central Implementation Unit (CIU) in DoFA which will monitor and coordinate all development partner-funded projects. A technical advisor has been engaged to serve as the Program Manager for CIU which will include staff with skills necessary for fiduciary, communications, safeguards and institutional development to enhance the ability of the DoFA to manage project funds and ensure that these are used efficiently for intended purposes. Costs of such services will be shared among the development partner-financed projects through a simple mechanism acceptable to the World Bank. The PIU will work in coordination with the CIU for financial management, procurement, safeguards, communications and monitoring. The project will finance: a) contract staffing for the project; b) consultancies and non-consultancies; c) office and other equipment; d) travel and operational costs; and e) training and

workshops.

E. Implementation

Institutional and Implementation Arrangements

30. **The National Department of Finance and Administration (DoFA) is the implementing agency.** Within DoFA, the Project Implementation Unit (PIU) established under the Assistant Secretary of Treasury will be responsible for managing the project, including coordination with other development partner funded projects and activities. In addition, the Central Implementation Unit (CIU) under the Assistant Secretary for International Investment and Finance will be responsible for supporting and monitoring development partner-funded projects. Staffing in CIU will be augmented to build a fungible pool of skills for financial management, procurement and safeguards expertise as well as other technical cross cutting skills such as communications. In addition to a technical advisor to serve as the Program Manager for CIU, a dedicated Project Manager is being recruited for the PFM PIU.

31. Three main bodies constitute the project governance arrangements, which are: 1) a *Steering Committee* to provide strategic guidance and decisions for the implementation of the Project; 2) an *Inter-governmental Working Group* comprising technical leads in finance, budget and IT functions from the National and each of the State governments for horizontal coordination across all; and 3) a *Project Implementation Unit* (PIU) housed in DoFA to be responsible for the day-to-day operations and supervision of project consultants, and to support the proceedings of Steering Committee and the Inter-governmental Working Group. Within each government, a Technical Working Group of users will be the forum for detailed discussions on aspects specific to each department. The PIU is to facilitate the coordination across and within governments. Together, these bodies should provide platforms for inter-governmental collaboration, two-way communication of information among stakeholders at each level of government and coordination among departments and agencies to be impacted by the changes.

32. A Task Force to oversee the implementation of the PFM project, notably the new FMIS, was established through a resolution in the 2016 Finance Conference held in Kosrae, and this inter-governmental body also serves as the Project's Steering Committee, given the close coordination and collaboration required among the National Government and the four State governments to implement the project. An Inter-governmental Working Group will be established for detailed deliberation on system design, features, functionality, and so on, which can ensure harmonization and horizontal coordination across all governments, and prepare and recommend issues for decision to the Steering Committee. Representatives in the Inter-governmental Working Group shall be drawn from Technical Working Groups formed in each government, including at least one regular representative and additional participants relevant to the agenda of each meeting.

33. For project management, the PFM PIU and the CIU will work closely under the supervision of the Assistant Secretary for Treasury and Assistant Secretary for Investment and International Finance respectively. The Project Manager to be recruited for the PFM PIU will be responsible for coordination with the CIU, which will manage shared project services, such as procurement and financial management, and with other development partner initiatives supporting PFM modernization efforts, such as the ADB and EU. Costs of services provided by the CIU will be shared among the World Bank-funded projects.

.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

Under Component 2 the project may fund local area network (LAN) cabling between government buildings in urban centres in each of the four States. The project may also fund small building renovations for the installation of the data center in each State. All works will be carried out in urban environments. The cabling will be within buried conduits along road reserves and will require some trenching activities in urban areas. No sensitive receptors will be affected. There may be some inconveniences to pedestrians and drivers during trenching and health and safety risks to bystanders and workers that will require consultation and risk management.

G. Environmental and Social Safeguards Specialists on the Team

Gerardo Pio Francisco Parco, Environmental Safeguards Specialist
Penelope Ruth Ferguson, Environmental Safeguards Specialist
Ross James Butler, Social Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	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 DoFA or any other agencies to carry out activities that have potentially significant social and environmental impacts. The project may fund minor building renovations and underground network cabling to improve the IT capacity of the Government of FSM. Most impacts have been assessed as minor in the ESMP, but moderate or major impacts could occur from uncontrolled run off, waste management and the use of land for trenching without landowner permission. The project is classified Category B and an ESMP has been prepared to manage the potential impacts from the small scale works, including a

		consultation plan and instructions for the Contractor's bid documents.
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	

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
Moderate impacts could occur from uncontrolled run off, waste management and major social impacts could arise from the use of land for trenching without gaining appropriate landowner permission. These impacts are readily avoided or managed by good Contractor management and appropriate consultation with stakeholders. There are no large scale, significant and / or irreversible impacts.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
There are no potential indirect and or long term impacts anticipated.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
There are no relevant project alternatives.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
The borrower engaged a consultant to prepare a practical ESMP to assist with managing Contractors once the scope of work is confirmed. DoFA is in the process of recruiting an experienced, full time safeguards advisor who will be based in a Central Implementation Unit in Palikir, Pohnpei to support the World Bank portfolio. This person will provide timely advice to the Project Manager and take responsibility for implementing the safeguards-related tasks.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
The FSM Telecommunications Corporation will be a key stakeholder for network cabling, since they manage the terrestrial network. The building owner(s) and occupants will be interested and affected stakeholders and will be

identified during project implementation (since the building renovation locations is not yet known). Those affected by any cable laying will similarly be identified during project implementation. The ESMP contains a consultation plan to identify and consult with affected parties during the design phase and prior to construction starting. The key issues are to avoid nuisances such as noise, dust and property or road access restrictions, and avoiding accidents.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
24-Mar-2018	27-Mar-2018	

"In country" Disclosure

Micronesia, Federated States of
27-Mar-2018

Comments

Disclosed on the DoFA website (http://dofa.gov.fm/fsm-project-for-improving-performance-in-public-financial-management-pafim/)

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
Yes

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

CONTACT POINT

World Bank

Saeeda Sabah Rashid
Sr Public Sector Spec.

Robert J. Gilfoyle
Sr Financial Management Specialist

Borrower/Client/Recipient

The Federated States of Micronesia
Sihna Lawrence
Secretary
lawrence.sihna@gmail.com

Implementing Agencies

Department of Finance and Administration
Senny Philip
Assistant Secretary
senny.phillip@ymail.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Saeeda Sabah Rashid Robert J. Gilfoyle

Approved By

Safeguards Advisor:		
Practice Manager/Manager:	Fily Sissoko	28-Mar-2018
Country Director:	Michel Kerf	28-Mar-2018