

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: PAHQ

TA No. and Name TA 3668 RMI: Fiscal, Financial and Economic Advisory Services			Amount Approved: \$950,000		
			Revised Amount: -		
Executing Agency: Ministry of Finance		Source of Funding: TASF	TA Amount Undisbursed \$18,696.19	TA Amount Utilized \$931,303.81	
Date of Report			TA Completion Date		
Approval	Signing	Fielding of Consultants	Original	Actual	
7 June 2001	22 June 2001	18 August 2001	31 May 2004	21 July 2004	
			Account Closing Date		
			Original	Actual	
			31 May 2004	12 October 2004	

Description

The Republic of the Marshall Islands (RMI) experienced a severe financial crisis in 1996 as revenues from the Compact of Free Association (Compact) with the United States were reduced. With the assistance of the ADB, the RMI undertook a series of reforms. This involved implementing a Public Sector Reform Program (PSRP) in 1997-2000. In 2000 a newly elected, reform-minded, Government requested assistance to continue reforms and negotiate a new economic assistance package under the Compact. In June 2001, the RMI and the ADB signed an agreement for loans of \$12.0 million for the Fiscal and Financial Management Program (FFMP) (ADB Loan Nos. 1828/1829(SF)-RMI) to continue reforms and negotiate a new economic assistance package. To assist the implementation of the FFMP, the ADB provided piggyback technical assistance for Fiscal, Financial and Economic Advisory Services (FFEAS) (ADB TA No. 3668-RMI). The objectives of the FFEAS reflected the objectives of the FFMP which were to (i) ensure a sustainable income flow for future generations, (ii) strengthen public sector financial and economic management, (iii) stabilize the fiscal position, (iv) improve the effectiveness of the public service, and (v) enhance the policy environment for the private sector.

Objective and Scope

The main objective of the TA was to assist the Government in implementing the FFMP by providing (i) fiscal and financial advisory services and program coordination, (ii) economic strategy advice, and (iii) capacity building for an efficient public service. The TA was needed because of the limited capacity of the RMI public service to implement the FFMP and to undertake the necessary reforms. The main tasks of the TA directly related to the objectives of the FFMP.

Specific TA tasks were to (i) prepare for budget self-sufficiency and create the conditions for sustainable development, (ii) create and strengthen the Economic Policy, Planning and Statistics Office (EPPSO), (iii) strengthen the Budget Office of the Ministry of Finance to improve its capacity and budget management, (iv) review the Marshall Islands Intergenerational Trust Fund (MIITF), (v) investigate the feasibility of establishing micro-credit institutions, (vi) suggest a program of strengthening the competitive environment in RMI, and (vii) investigate the feasibility of introducing a prestigious civil service cadre. The TA and the FFMP loans were designed after wide stakeholder consultation reflecting the findings and recommendations of the "Meto 2000" report prepared under TA 3284-RMI: Preparation of a Pacific Islands Economic Report.

The objective was relevant but far too extensive and ambitious to be fully carried out within the TA timeframe. Specific terms of reference were not detailed by commencement of the TA. Stakeholder participation varied, but the arrangements made by the executing agency (EA) were satisfactory.

Evaluation of Inputs

The TA involved a series of inputs to address the major tasks. Most of the resources were expended in the conduct of the TA. The TA financed a total of 10 international consultants for approximately 31 person-months of consulting services. Consultants, who were recruited on an individual basis and through firms, consisted of a (i) fiscal management specialist/program coordinator, (ii) economist, (iii) budget adviser, (iv) tax adviser, (v) tax audit trainer, (vi) public sector management specialist, (vii) trust fund specialist, (viii) investment banking specialist, and (ix) an infrastructure economist. The banking/private sector specialist and the health care management specialist were not recruited. The private sector tasks, including looking at the issues related to micro-credit, were addressed in other TA, while the health management issues were addressed internally by the Government.

Resources devoted to the Compact negotiations and related issues led to a successful negotiation of a new 20-year economic assistance package. The Compact included design of the Medium-Term Budget and Investment Framework (MTBIF) and initial introduction of performance budgeting, preparations for the MIITF, establishment of the EPPSO and the negotiation of a new economic assistance package with the United States. The economy of individual consultancy inputs varied greatly. A local part-time staff assisted the Program Coordinator to coordinate inputs. Program coordination was provided on an intermittent basis and proved a cost effective mechanism for program implementation. Despite this, local coordination by the EA was inconsistent and led to some delays in recruitment of consultants and implementation.

The Government was satisfied with the inputs provided under the TA, but expressed concerns that the TA resources were insufficient to address all areas in sufficient depth to ensure sustainability. The performance of the ADB is rated as satisfactory, though the performance of the EA is rated as less than satisfactory. The individual consultants interacted well with the Government, departments and officials.¹

Evaluation of Outputs

The main outputs of the TA included (i) the design and implementation of the MTBIF, (ii) the completion of the FFMP, (iii) the establishment of EPPSO, (iv) improvements in the budget system to become more performance oriented, (v) the initial design and investment of the MIITF, (vi) improvements to the Compact economic assistance package, and (vii) tax advice and strengthened tax audit training. Implementation of performance budgeting was considered too ambitious given the resources available under the TA, so the outputs focused on consolidating the MTBIF and introducing performance budgeting concepts into the key health and education ministries. The outputs in the budgeting area needed longer-term TA commitment over a number of budget cycles for consolidation. Despite significant inputs into public sector management, few outputs were discernible. While a review of public service pay scales was completed, the recommendations were not affordable, while the feasibility study for the establishment of a system of prestigious civil service cadre was not completed.

Though RMI expressed satisfaction with consultant reports, many recommendations resulted in no action. The slow recruitment of permanent and qualified staff to EPPSO was a major concern. The Government also initially failed to follow the agreed recommendations for the management and investment of the MIITF. Minor concerns were raised about some of the recommendations of the investment banking specialist and the trust fund specialist, which could be attributed to the consultants exceeding their specific terms of reference. Tax advice was not acted upon and advice from the tax adviser conflicted with corresponding advice from the Pacific Financial Technical Assistance Centre. Few of the public service recommendations have led to substantive action. Overall, the Government considered the achievement of the outputs of the TA partly satisfactory. All outputs were generally delivered in time though to variable quality.

Overall Assessment and Rating

Overall, the TA provided significant support in the negotiation of the Compact and improvements to public financial management. The TA was rated as relevant because it was consistent with the goals of the FFEAS and supported the FFMP loans. The TA was rated as efficacious in achieving the immediate objectives, since progress was made in establishing the MTBIF and also other budget reforms, as well as establishing EPPSO. The TA was rated as less than efficient since despite the successes, there was insufficient follow through on the recommendations of the consultants. The output of the TA was rated less than sustainable because of the lack of progress in consolidating EPPSO and also the lack of improvements to the management of the public service. The establishment of EPPSO is the subject of additional TA which is needed to make the office sustainable. Correspondingly the lack of progress in EPPSO, the Public Service Commission and the civil service, in general, means that the institutional impacts are rated as moderate. The overall assessment of the TA is therefore rated as partly successful.

Major Lessons Learned

There are two major lessons learned. The first lesson is that the TA should have been more focused.

The second lesson is that full sustainability in many of the TA areas needs a longer and deeper commitment by the Government. For example, the improvements to the budget would require input over a number of budget cycles to ensure the adequate implementation of improved budget practices, without which the improvements will be transient and often last for only as long as the TA is available. Correspondingly, improvement in service delivery needs a longer-term commitment in order to change the culture of the civil service.

Recommendations and Follow-Up Actions

In line with the lessons learned, future TA design should focus more closely on priority issues to allow for the greatest impact from the limited resources available. Accordingly, these resources may need to be provided over a longer timeframe in order to foster the necessary institutional and capacity building to ensure sustainability. Additional TA is needed to address issues with the efficiency and productivity of the civil service and this should be carried out in a fully participatory manner. As a follow up to the recommendations, additional TAs are being provided to institutionalize EPPSO, through a participatory task force and to help develop the civil service. Concept proposals have been prepared for submission to the Governance and Cooperation Fund (GCF) and the Poverty and Environment Program (PEP) channel funds to increase ownership and effective demand for improved public service delivery through participatory processes.

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¹ The RMI expressed some concerns that the investment-banking specialist did not consult closely enough with the Government.