

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The Republic of the Marshall Islands (RMI) relies heavily on overseas development assistance, as do other small Pacific economies. The United States (US) is the main development partner. In October 2004, the RMI and the US signed a 20-year agreement—the amended Compact of Free Association—under which the government receives annual grant payments and access to federal support programs. In return, the US government retains rights to support the foreign affairs and defense of the RMI. Between 2004 and 2012, the US provided about \$30 million annually to education, health, and infrastructure development. The Asian Development Bank (ADB); Australia; the European Union (EU); Japan; and Taipei,China also provide grant assistance to the RMI.

2. Given the annual decline of the US Compact grants and their planned expiration in FY2023, development partners are focused on providing assistance to the RMI to help in achieving long-term economic and fiscal sustainability, including financial and technical support for public sector reform. Several development partners are involved in public financial management (PFM) and related reforms (Table). Given capacity limitations, however, the Ministry of Finance (MOF) is not in a position to play an effective coordination role.

Table: Major Development Partners

| Development Partner | Project Name / Focus | Duration | Amount (\$ million) |
|---|--|-----------|---------------------|
| Asian Development Bank | Implementation of the National Development Plan 2012–2015 | 2012 | 0.2 |
| | Public Sector Program Loan | 2010–2012 | 14.5 |
| | Supporting the Public Sector Program | 2010–2012 | 0.9 |
| US UNDP | Fiscal and Financial Management Program | 2001–2002 | 12.0 |
| | Improving Economic Management | 2000–2002 | 15.6 |
| International Monetary Fund Pacific Financial Technical Assistance Centre | Good Governance Technical Assistance | 2000–2001 | 0.4 |
| | Expanding Coverage of Budget Documents | 2017 | ... |
| World Bank | Policy-Based Budget Preparation and Developing Marshall Islands Fiscal Model | 2016 | 0.1 |
| | Tax Administration Technical Assistance | 2014 | ... |
| World Bank | Improving Public Financial Management Information Systems | 2018–2022 | 5.0 |
| | Human Resources Development and Improvement | 2017–2018 | ... |

... = data not available, UNDP = United Nations Development Programme, US = United States.

Source: Asian Development Bank.

3. The International Monetary Fund (IMF) has provided technical assistance (TA) for fiscal management, banking legislation, banking supervision, economic statistics, and reporting systems for banking statistics through the Pacific Financial Technical Assistance Centre (PFTAC) since 2005. The Tax and Revenue Reform and Modernization Commission prepared its recommendations with technical support from the PFTAC. PFTAC experts continue to provide TA for budget preparation and analysis through periodic visits to the RMI.

4. The World Bank is preparing a \$5.0 million PFM project grant, with World Bank board approval expected in 2018. The project is designed to support medium-term objectives of systems

improvement, including an improved Financial Management Information System, and other capacity building activities related to ensuring a smooth transition to and operation of the system. The World Bank's project will also include procurement systems improvement, and human resource capacity enhancement through funding for formal training.

5. The US Department of Interior is the point of contact for the Compact grants. Grants can be made available for specific investments, and also for hiring long-term consultants. The Office of the Auditor General has benefitted from this mode of support. The US Graduate School is under contract with the US Department of Interior to annually allocate around 5 weeks of technical support, which is generally provided on request from the government. The US Graduate School convenes a semiannual conference of finance executives, with content driven by current and emerging issues in accounting and financial reporting.

6. The EU is providing energy sector budget support, and plans to make TA available; some of the TA could be directed to support the PFM Roadmap. Australia's Department of Foreign Affairs and Trade provides TA in accounting and financial management across Pacific countries under the Pacific Technical Assistance Mechanism Phase 2; a consultant under the TA is now helping the Ministry of Education transition towards independent financial management. Australian Volunteers International is fielding a short-term consultant beginning in 2017, who is expected to address human resource development in the MOF, including through the development of a human resource upgradation plan. At the MOF's request, assistance for PFM support from New Zealand has been deferred pending the PFM Reform Roadmap update.

7. ADB support to the RMI for PFM and state-owned enterprise (SOE) reforms began in the late 1990s; the project builds on achievements from previous ADB public sector management support. Through two subprograms under the Public Sector Program (PSP),¹ ADB assisted the RMI to successfully adopt and implement a comprehensive recovery plan to improve the performance of the Marshalls Energy Company (MEC). This contributed to a steady reduction in government subsidies to MEC, which fell to \$475,000 as of fiscal year 2015, after averaging about \$1 million per year over the previous 5 years. The proposed project grant seeks broader reductions in government subsidies by laying the groundwork for similar efficiency gains for other SOEs in the Marshall Islands, which are a major fiscal drain.

8. ADB also assisted the government to adopt several good practice principles as a basis for improving SOE corporate governance. ADB regional TA has helped the Marshall Islands develop SOE policy and legislation, while ADB has also helped the country complete a public sector workforce audit and planning exercise, and achieve various expenditure targets through its policy-based lending. TA has been provided to support implementation of the government's new national development plan.² ADB has helped the government develop a financial management model, periodically clear its audit backlogs, and, through the national development coordination officer, provides ongoing technical support on accounting to the MOF.

9. The proposed project grant incorporates lessons from prior ADB assistance.³ First, the PSP was overly ambitious in scope, given the country's historically slow reform pace and lengthy

¹ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Loan for Subprogram 1, and Technical Assistance Grant to the Republic of the Marshall Islands for the Public Sector Program*. Manila; and ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to the Republic of the Marshall Islands for the Public Sector Program*. Manila.

² ADB. 2011. *Marshall Islands: Strengthening Economic Policy and Planning: Supporting the Implementation of the National Development Plan, 2012-2015*. Majuro.

³³ ADB. 2014. *Marshall Islands: Public Sector Program—Subprograms 1 and 2. Completion Report*. Manila.

approval procedures, while the design and monitoring framework included overly ambitious targets that were unrealistic and thus not achieved. Accordingly, the proposed project is flexible with regard to reforms (as reflected in the design and monitoring framework), to allow the government to implement the program in stages. Second, the PSP demonstrated the benefits of on-the-ground support required for policy dialogue and donor coordination. While several development partners were involved in PFM reforms during the PSP, reforms were undertaken individually, by issue (e.g., expenditure management, taxation, and SOE reform) rather than holistically. To address this, the proposed grant will establish a reform coordination unit to be based largely in Majuro, to coordinate among multiple development partners.

B. Institutional Arrangements and Processes for Development Coordination

10. Development assistance is coordinated through bilateral and multilateral consultations, often directly with line ministries. The MOF Division of International Development Assistance manages external development partner activities (technical and loan assistance), US Compact expenditures and funds from development partners. The RMI lacks a dedicated aid coordination unit to prioritize and monitor assistance flows, or to follow up on consultations. ADB consults with other development partners when preparing the country operations business plan, shares the content and thrust of its recent TA initiatives, and makes preliminary analyses and concept papers available for review and observations. Coordination takes place through visits to embassies in Majuro, telephone conferences, and e-mails.

C. Achievements and Issues

11. ADB is working closely with key development partners on the PFM project, through: regular consultations with the World Bank, which is preparing a parallel project to address PFM issues; periodic discussions with PFTAC, including in Majuro; and regular contacts between the ADB development coordination officer (based in Majuro) and other partners.

12. However, government-led coordination mechanisms are not well developed, which reflects limited resources for coordination in the small government administration. Ministries, agencies, and departments have varying capacity, which impacts funding proposal quality and the ability to engage effectively in coordination activities. Establishment of the Reform Coordination Unit under the project is expected to improve coordination on PFM reforms.

D. Summary and Recommendations

13. Development partners are keen to harmonize their development programs for maximum benefit to socioeconomic development in the Marshall Islands. To optimize development coordination, there should be periodic aid consultation meetings chaired by the government. The government and development partners should build close collaboration to further increase aid effectiveness. Logical prioritization and sequencing of reforms within and across sectors and subsectors among government ministries, agencies, and departments and partners remains a priority given the thin administrative and policy-making capacity and limited aid resources. Efforts to improve coordination of policy reforms led by central government agencies with sector reforms and investments should be undertaken to ensure consistency, avoid gaps, and maximize synergies.