



# Technical Assistance Report

---

Project Number: 43321-03  
PATA  
July 2010

## Republic of the Marshall Islands: Supporting Public Sector Program

Asian Development Bank

## CURRENCY EQUIVALENTS

The currency unit of the Republic of the Marshall Islands is the US dollar.

## ABBREVIATIONS

ADB	–	Asian Development Bank
EPPSO	–	Economic Policy, Planning and Statistics Office
IMF	–	International Monetary Fund
MEC	–	Marshalls Energy Company
MOF	–	Ministry of Finance
PFTAC	–	Pacific Financial Technical Assistance Centre
SOE	–	state-owned enterprise
TA	–	technical assistance

## TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	<b>Policy and advisory technical assistance</b>
Targeting classification	–	<b>General Intervention</b>
Sector (subsectors)	–	Public Sector Management (Energy, Finance and Public Sector)
Themes (subthemes)	–	<b>Economic growth</b> (promoting economic efficiency, improving fiscal management and creating enabling business environment); Governance (improving efficiency, transparency and accountability and reducing wasteful expenditures and corruption); Capacity development (strengthening public service, economic and fiscal planning and management of state-owned enterprises)
Location impact	–	National (High), urban (high), rural (low)
Partnerships	–	The US and ADB have agreed to work closely on the prepaid meter installation under a separate TA and Japan Fund for Poverty Reduction projects. IMF/PFTAC will play a leading role on assisting the government on revenue reform. The Australian Agency for International Development will work closely with ADB to support the RMI's public sector reform. European Union, Japan, and Taipei,China agreed to adopt a common approach with ADB and are currently exploring an opportunity for a formal partnership agreement. The World Bank will continue to provide technical support to improve MEC's financial and technical management.

## **NOTES**

- (i) The fiscal year (FY) of the Government of the Marshall Islands and its agencies ends on 30 September. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2009 ends on 30 September 2009.
- (ii) In this report, "\$" refers to US dollars, unless otherwise stated.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## **I. INTRODUCTION**

1. During the reconnaissance mission fielded by the Asian Development Bank (ADB) in December 2009, the Government of the Republic of the Marshall Islands (RMI) requested ADB to provide a policy and advisory technical assistance (TA) to be piggybacked to the Public Sector Program (the Program)<sup>1</sup> to address key policy concerns and capacity constraints.

## **II. ISSUES**

2. The RMI Finance Minister has underlined the need to improve fiscal management. There are continued weaknesses in public expenditure management, particularly due to the rising wage bill. Until recently, public service reform has been a low priority on the agenda of the government. Against soaring public expenditures, government's revenue performance has remained weak, aggravated by a non-compliance rate of 30-40% in tax payments. Enforcement of existing tax laws is still limited. As a result, the government's contribution to the Compact Trust Fund, that is intended to generate a revenue stream that can replace United States Compact grants in FY2024, has been below required levels. In addition, the management of the state-owned enterprises (SOEs) has been poor with most incurring operational losses and requiring large government subsidies. The Marshalls Energy Company (MEC) faces many operational deficiencies in power generation, distribution, oil storage and trading. It also has problems with financial management with regard to collection efficiency, system loss, debt management and payroll. MEC has to find ways to reduce and eventually eliminate government transfers and subsidies and reduce its current balance of commercial debt.

3. There is lack of harmony between economic planning and statistics management and budget formulation and execution. The medium-term budget and investment framework needs to be revised and expanded to cover key ministries. Annual and medium-term budgets have to be linked directly to the goals and objectives of the longer-term planning framework. The management of statistics has to be consolidated and integrated to provide timely and reliable inputs into the planning, budgeting and monitoring and evaluation processes. This will require a review of the current fragmented institutional framework with a view to enhancing economic policy, planning, and statistics by incorporating the Economic Policy, Planning and Statistics Office (EPPSO) into the Finance Ministry to merge fiscal and economic planning and management.

## **III. THE TECHNICAL ASSISTANCE**

4. The TA is consistent with the ADB's Country Operations Business Plan 2010-2012<sup>2</sup> and the Pacific Strategy 2010-2014.<sup>3</sup> In addressing the binding development constraints in the country, the TA seeks to incorporate ADB's Approach to Engaging with Weakly Performing Countries.<sup>4</sup>

### **A. Impact and Outcome**

5. This is a piggybacked TA and the impact and the outcome of the TA are the same as those of the Program. The impact of the Program will be a more efficient and effective public

---

<sup>1</sup> The proposed Program is scheduled for Board consideration on 17 August 2010.

<sup>2</sup> ADB. 2010. *Country Operations Business Plan. Marshall Islands, 2010-2012*. Manila.

<sup>3</sup> ADB. 2009. *ADB's Approach to Assisting the Pacific (2010-2014)*. Manila.

<sup>4</sup> ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries*. Manila.

sector. The outcome will be the achievement of fiscal sustainability. The TA will provide the necessary assistance to implement the Program.

## **B. Methodology and Key Activities**

6. The TA will provide four advisors and corresponding domestic consultants to work with the Public Service Commission, Ministry of Finance (MOF), MEC, and other relevant agencies to ensure compliance with the policy matrix, build conditions for sustainability of the reform process described in the Report and Recommendation of the President, provide inputs for capacity building at all levels, conduct workshops and seminars as needed, and to produce manuals and guidelines as appropriate. The duration of the TA is from mid-August 2010 through to 31 August 2013.

7. The TA will support RMI to achieve the following five outputs, and associated activities:

- i. improved medium-term fiscal outlook: (a) completed fiscal analysis for the preparation of budget targets in FY2011/2012 and preparation of the medium-term fiscal outlooks, (b) implementation of RMI debt management guidelines, (c) government endorsement of the fiscal outlook, the debt management guidelines and their dissemination, and (d) integration of statistical and planning functions of EPPSO with the MOF budget planning;
- ii. restraint of recurrent expenditure: (a) implementation of Comprehensive Adjustment Program (CAP) action plans, (b) translation of CAP report and action plans to FY2012/FY2013 budget, and (c) completion of public sector workforce audit;
- iii. increased tax revenue: (a) translation of the Tax and Revenue Reform and Modernization (TRAM) action plans to FY2012/FY2013 budget, and (b) completion of TRAM action plans;
- iv. improved performance of SOEs: (a) completion of SOE analysis, (b) government endorsement of the SOE study and SOE good practice principles, (c) dissemination of SOEs study document, (d) initial implementation of SOE good practice principles, (e) completion of SOE reform action plans; and
- v. stakeholder participation and consultation: (a) preparation and implementation of a public consultation program.

## **C. Cost and Financing**

8. The TA is estimated to cost \$700,000 equivalent. It is proposed that the ADB provides \$600,000 equivalent on a grant basis from the Technical Assistance Special Fund (TASF-IV). The Government will finance \$100,000 through provision of in-kind contributions (such as the provision of office accommodation, transport and logistical support for consultants). The detailed cost estimates are presented in Appendix 1.

Source	Amount (\$)
TASF	600,000
Government Financing	100,000
<b>Total Cost</b>	<b>700,000</b>

Source: ADB staff estimates.

#### D. Implementation Arrangements

9. ADB will be the executing agency for the TA. The resources will be utilized to support RMI for the implementation of the Program. The TA will also complement efforts by other development partners including the United States, Australia, Japan, Taipei, China, European Union, International Monetary Fund, the World Bank and United Nations agencies. The TA will finance the services of 4 international consultants for 16 person-months and corresponding national consultants. ADB will engage the consultants through quality-based selection in accordance with the *Guidelines on the Use of Consultants* (April 2010, as amended from time to time). The TA is expected to commence in mid-2010 and will be completed by August 2013. Each international consultant will be required to submit an inception report one week from commencement and a final report within 2 weeks of completion of the assignment. The proceeds of the TA will be disbursed in line with the *TA Disbursement Handbook* (May 2010, as amended from time to time). All equipment will be procured in accordance with ADB's *Procurement Guidelines* (April 2010, as amended from time to time). Upon TA completion, all equipment purchased will be provided to the RMI Government. The TA activities will be disseminated through workshops, reports, publications and the Government's website.

#### IV. THE PRESIDENT'S DECISION

10. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$600,000 on a grant basis to the Republic of the Marshall Islands for Public Sector Reform, and hereby reports this action to the Board.

**COST ESTIMATES AND FINANCING PLAN**  
(\$ '000)

Item	Total Cost
<b>A. Asian Development Bank Financing<sup>a</sup></b>	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants (16 person–months)	320.0
ii. National Consultants (16 person–months)	24.0
b. International/Local Travel	200.0
2. Equipment <sup>b</sup>	20.0
3. Contingencies	36.0
<b>Subtotal (A)</b>	<b>600.0</b>
<b>B. Government Financing</b>	
1. Office Accommodation, Transport and Logistical Support	100.0
<b>Subtotal (B)</b>	<b>100.0</b>
<b>TOTAL</b>	<b>700.0</b>

<sup>a</sup> Financed from the Technical Assistance Special Fund (TASF-IV).

<sup>b</sup> Equipment includes computers, printers and office supplies.

Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The proposed work under this TA will be implemented in a phased manner, in line with the implementation of the two program clusters, over the period 2010 to 2013. All consultants will be briefed by staff of the Government of the RMI and ADB prior to commencing work. Consultants will be required to review all relevant literature prior to beginning work, including the following: *Marshall Islands: Country Operations Business Plan 2010-2012* (ADB, 2010); *Marshall Islands: Public Sector Program* (ADB, 2010) *Republic of the Marshall Islands: 2009 Country Performance Assessment* (ADB, 2009); and *International Monetary Fund (IMF) Republic of the Marshall Islands Staff Report for the 2009 Article IV Consultation* (IMF, 2009).
2. **Public Service Management Adviser** (international, 4 person-months) will work closely with the Public Service Commission and will: (i) undertake a work force audit; (ii) prepare a workforce adjustment plan; (iii) prepare and implement a training and capacity development plan for the Public Service Commission and other concerned agencies; (iv) undertake a situational audit of service delivery in key sectors; (v) prepare an operational plan for improved service delivery in key sectors; and (vi) assist in the preparation of a plan for a reformed civil service.
3. **Budget and Fiscal Management Expert** (international, 6 person-months) will work closely with the Ministry of Finance, and will assist in: (i) strengthening the administration of budget reform; (ii) strengthening fiscal management; (iii) review, revision and expansion of the medium-term budget and investment framework; (iv) preparation of a long-term budget and investment framework; (v) preparation of three-year rolling budget framework; (vi) integration of statistical functions of EPPSO with MOF budget planning, and (vii) the preparation of the FY2012 and 2013 budget.
4. **Revenue Collection and Enforcement Adviser** (international, 4 person-months) will be responsible for all aspects of revenue collection and legal enforcement in RMI, including: (i) working with staff at the Division of Customs, Treasury, Revenue and Taxation to encourage the voluntary payment of taxes owed; (ii) assembling the necessary documentation when enforcement becomes necessary; (iii) formulating demand letters, commencing litigation to collect taxes as needed; (iv) recommending changes to the laws and regulations of the RMI that will assist in the transparency and collection of taxes owed; and (v) advising the Minister of Finance, the Secretary of Finance, the Assistant Secretary and other officials and employees of the government on all tax matters.
5. **Energy Sector Financial Adviser** (international, 2 person-months) will work closely with Marshalls Energy Company (MEC) to: (i) provide “on-the-job” training of key staff in order to develop and strengthen internal financial control procedures and to facilitate monitoring of major elements such as billing and cash collection, receivables, provision of doubtful debts, the write-off of bad debts, and financing of future capital investment projects; (ii) design and implement an annual corporate budget process and an in-year budget monitoring process, identifying relevant Board interventions in the process; (iii) prepare and help implement the MEC’s Comprehensive Recovery Plan for improved financial management of MEC; (iv) prepare and help implement a management development plan for MEC; (v) prepare and help implement a plan to rehabilitate core assets and strengthen asset management; (vi) assist MEC in the development of a longer-term financial planning capacity model and support MEC in the second year to update annual financial forecasts; (vii) provide training to the Board on the use of the financial forecasts as a key “governance” tool; and (viii) prepare and help implement a plan to rehabilitate core assets and strengthen asset management.



6. **Other Experts** (2 nationals, 16-person months, intermittent). The TA will provide approximately 16 person-months of intermittent national consulting services to support the implementation of the Program.