



Completion Report

Project Number: 47264-001
Technical Assistance Number: 8581
June 2020

Strengthening Public Sector Management in the North Pacific

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TECHNICAL ASSISTANCE COMPLETION REPORT

TA Number, Country, and Name: TA 8581-REG: Strengthening Public Sector Management in the North Pacific		Amount Approved: \$1,500,000	
		Revised Amount: \$2,062,000	
Executing Agency: Asian Development Bank	Sources of Funding: Technical Assistance Special Fund: \$1,500,000 Government of Australia: \$562,000	Amount Undisbursed: \$272,191	Amount Used: \$1,789,809
TA Approval Date: 16 December 2013	TA Signing Date: 16 December 2013	TA Completion Date	
		Original Date: 31 December 2016	Latest Revised Date: 15 December 2018
		Financial Closing Date: 01 July 2019	Number of Extensions: 2
		TA Arrangement: Regional	
TA Type: Policy and Advisory TA	Nature of Activity: Capacity development; Policy advice		

Description

The developing member countries (DMCs) of the Asian Development Bank (ADB) in the North Pacific—the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), and the Republic of Palau—have longstanding compacts of free association with the United States. The FSM and the RMI entered into their respective compacts in 1986, with Palau following in 1994. Compact renewals for the FSM and the RMI were executed seamlessly under Compact II (2004–2023), while approval of Palau's renegotiation under its Compact Review Agreement (CRA) was delayed with initial discussions beginning in 2010 and United States congressional approval coming only in 2018. A major concern for all three North Pacific countries is the decrement in annual Compact grants toward their scheduled expiration after 2023 and the corresponding adverse impacts on fiscal sustainability and service provision. The amended compacts for the FSM and the RMI established Compact Trust Fund (CTF) aimed at building long-term budgetary self-reliance. The CTFs are targeted to accumulate enough assets by 2023 to generate annual investment returns that can offset expiring Compact grants. However, given lower-than-expected returns early on in the amended compact period, the CTFs' accumulation rates remained off-track to achieve target asset levels.

Against this backdrop, strengthening public sector management has been identified as a critical priority for all three North Pacific DMCs, with long-term plans put in place aimed at better managing limited resources while ensuring an acceptable standard of public service delivery. Individually, the countries identified critical public sector management reform areas requiring support from ADB and other development partners. These include (i) strengthening public financial management (PFM) policies and processes, (ii) improving service delivery through public service reforms, (iii) strengthening economic analysis to support policy development and inform better decision making, (iv) strengthening planning capacities to put the long-term visions of the countries into operation, and (v) advancing state-owned enterprise (SOE) reforms to improve performance.

Expected Impact, Outcome, and Outputs

The expected technical assistance (TA) impact was increased self-reliance and fiscal sustainability across the North Pacific economies. The intended outcome was more efficient macroeconomic and fiscal management. The TA targeted six outputs: (i) improved public financial management through implementation of prioritized activities in PFM reform plans, focusing on budget processes and financial reporting, (ii) improved public administration systems through institutional and human resource development of the public service, (iii) strengthened economic analytical capacities through sustained policy advice, (iv) strengthened planning capacities by supporting medium- and long-term planning and developing linkages with annual budget processes, (v) improved SOE performance through restructuring and capacity development, particularly in financial management, and (vi) enhanced regional sharing of knowledge and best practices with knowledge-sharing events and exchange programs between the North Pacific countries.

Implementation Arrangements

The TA was originally planned for implementation over a period of 3 years from 1 January 2014 to 31 December 2016, financing up to 35 person-months of international consultant inputs and 15 person-months of national consultant inputs. The TA was designed to flexibly address the needs and priorities of the participating governments, hence consulting

services requirements were planned to be determined on a case-by-case basis, through regular monitoring by relevant country team leaders and sector and thematic specialists during ADB missions.

With additional financing amounting to \$562,000 secured from the Government of Australia through the Department of Foreign Affairs and Trade, a change on the TA's scope and implementation arrangements was approved on 2 June 2014 to provide additional assistance on (i) implementation of revenue reforms in the RMI and Palau, (ii) enhancement of the financial management information system (FMIS) in Palau, (iii) procurement of a suitable human resource management information system (HRMIS) for RMI, and (iv) support to conduct a household income and expenditure survey (HIES) in Palau. Subsequent changes to implementation arrangements were undertaken, first on 11 February 2016 to facilitate procurement of the RMI HRMIS, and again on 2 June 2016 to also allow for procurement of an FMIS for the RMI Kwajalein Atoll local government. The TA's completion date was also extended two times to enable further support and conduct of key activities. An initial extension of the completion date from 31 December 2016 to 31 December 2017 was approved on 19 October 2016, while a subsequent extension to 15 December 2018 was approved on 4 December 2017.

Conduct of Activities

The first TA activities commenced in early 2014, with a macroeconomist and a public financial management specialist supporting the development of the FSM 2023 Action Plan. The plan outlines a roadmap to address fiscal and economic challenges leading up to and after the expiration of the economic provisions of the Compact in 2023. It adopts a two pillar growth strategy for the next 2 decades, with the government aiming to accelerate spending of Compact infrastructure grant arrears to stimulate the economy in the short- to medium-term, while undertaking structural reforms to develop key growth drivers, such as tourism and agriculture, for longer-term growth. The plan reaffirms the need for tax and tax administration reforms with expenditure control through improved public administration. Simulations of the impact of tax reforms and expenditure control, developed by the public financial management specialist, were fully integrated into the plan's long-term fiscal sustainability assessment. The plan was formally launched by the FSM President and state governors in November 2014 and remains a key strategic document that guides overall development policy. The macroeconomist has also been retained by the FSM national government as a long-term advisor even well after the conclusion of this TA assignment. Subsequent TA support to the FSM included engagement of a debt management specialist in July 2015 to provide inputs to preparation of a draft public debt management bill (along with policy explanatory note based on the bill), which helped inform the government in their discussions with ADB and the World Bank regarding reclassification of FSM as a grants-only country under both organizations; a compliance advisor to review financial management regulations engaged in February 2017; and a public administration and compensation expert engaged in early-2018 to explore measures to raise the efficiency and productivity of the public service.

For the RMI, TA support initially came in April 2016 through a planning and economic specialist who continued ADB's support to the implementation and monitoring of the National Strategic Plan from previous TA.¹ The specialist provided advisory services with emphasis on capacity building and transfer of knowledge and skills to local staff through the selection of work and training programs for government officials. Further, the planning and economic specialist also helped streamline planning coordination between various agencies, including the Office of the Chief Secretary, Ministry of Foreign Affairs, Office of Compact Implementation, and the Ministry of Finance (MOF). The TA then supported the procurement of an HRMIS for the Public Service Commission starting in mid-2016. An international aid coordination specialist was engaged to lead the development of an effective national aid coordination mechanism, inclusive of an organizational structure and supporting policy and strategy framework. Consultations led by the specialist contributed to strengthening of the newly created Department of International Development Assistance (DIDA) under the MOF. As the TA uncovered significant further opportunities to support PFM strengthening in the RMI, a follow-on ADB project was designed to provide expanded capacity development.² In April 2017, three experts—a human resource specialist, a financial management specialist, and a procurement expert—were engaged to support the government in planning a program of institutional strengthening and capacity building activities within the MOF, now supported by the ongoing ADB project. Procurement of the Kwajalein Atoll Local Government FMIS was completed in September 2018.

In Palau, the TA supported the conduct of the 2014 HIES, which updates results from a previous HIES in 2006 and a mini census in 2012. Results of the 2014 HIES are available in a report published in the Palau Bureau of Budget and Planning website. Support for the 2014 HIES allowed for compilation and analysis of updated sex-disaggregated socio-economic data on households in Palau. Results were published by the Secretariat of the Pacific Community in the

¹ ADB. 2012. *Technical Assistance to Marshall Islands for Strengthening Economic Policy and Planning: Supporting the Implementation of the National Development Plan, 2012–2015*. Manila.

² ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to Marshall Islands: Public Financial Management Project*. Manila; and ADB. 2019. *Additional Financing: Marshall Islands: Public Financial Management Project*. Manila.

Palau 2013/2014 HIES Gender Profile, which shows that only 41% of Palauan women are engaged in paid work, with an average pay gap of 18% in favor of men relative to women in professional jobs. These results can help inform Palau's development policies moving forward to further promote gender equity and economic empowerment of women. Further, a human resource management and organizational specialist was engaged in April 2015 to support strengthening of Palau's public administration systems to enable more responsive, efficient, and accountable service delivery. This included support to the Palau Public Utilities Corporation in developing its corporate plan and human resource management plan, supporting improved utility performance. Two additional experts—an economist and a public financial management specialist—were engaged in early 2018 to support an update of the medium-term budgeting framework, which was first prepared under a previous ADB TA.

A total of 14 individual consulting contracts, covering 175.5 person-months, plus 1 resource person contract were procured through the technical assistance. Performance evaluation reports for all consultants engaged have been completed. In general, the consultants performed well in their respective assignments, with 5 receiving "excellent" ratings; 8 receiving "satisfactory" ratings; and 1 receiving a "generally satisfactory" rating. Consultants were selected in accordance with the Guidelines on the Use of Consultants (2013, as amended from time to time).

The RMI HRMIS was procured through shopping modality at a cost of \$110,190. For the RMI Kwajalein Atoll Local Government FMIS, total costs were \$67,983 (inclusive of \$35,826 for hardware and \$32,157 for software components), also procured using the shopping modality. All procurement was undertaken in accordance with the Procurement Guidelines (2015, as amended from time to time).

Technical Assistance Assessment Ratings

Criterion	Assessment	Rating
Relevance	The TA responded to a pressing need for PFM reforms to promote economic and fiscal sustainability in the North Pacific, made paramount by the impending expiration of Compact financial assistance by 2023.	Highly relevant
Effectiveness	Although results for CTF balances and average economic growth are mixed, improved fiscal sustainability is clearly demonstrated by all three countries achieving average annual fiscal surpluses during 2016–2019—FSM (equivalent 17.0% of gross domestic product); RMI (3.5%); Palau (3.9%)—that are above the 2.0% outcome-level performance target in the design and monitoring framework (Appendix 1).	Effective
Efficiency	The TA achieved its intended outcome while delivering most of its planned outputs, with savings amounting to about 15% of the approved total amount, inclusive of additional financing.	Efficient
Overall Assessment	Given its highly relevant response to an urgent need for PFM reforms; its effective interventions contributing to greatly improved fiscal positions across the three countries; and efficient use of available resources, the TA is rated successful in achieving its desired impact.	Successful
Sustainability	A regional approach to strengthening PFM provided an effective platform for knowledge-sharing and distilling lessons that can support replicability and sustainability of interventions across the three countries. The follow-on RMI PFM Project demonstrates both the effectiveness of previous interventions and a sustained appetite to continue on with the reform agenda.	Likely sustainable

Lessons Learned and Recommendations

Design and/or planning	Design of future TA can benefit from country-level fragility assessments to inform more strategic approaches to building long-term capacities for effective governance across small island developing states.
Implementation and/or delivery	The original implementation period of 3 years, though relatively extensive, looks short in hindsight given the breadth of coverage areas (6 outputs across 3 countries). Prospective regional TA should allow for longer implementation periods in view of capacity building requirements in the Pacific.
Management of staff and consultants	Selection of consultants who have extensive Pacific experience not only ensures the relevance of policy advice provided, but also increases the likelihood that work styles and communication approaches fit within respective country contexts. This helps achieve improved results particularly in longer-term capacity building activities.

Knowledge building	Where possible, future TA should seek out opportunities to support the production of critical documents (e.g., the FSM 2023 Action Plan and the 2014 Palau HIES). This will help gradually bridge data gaps and lags that remain prevalent across the Pacific.
Stakeholder participation	Participation of respective government counterparts started with the development of implementation arrangements for the TA. This allowed for firm commitments from implementing agencies to ensure that government counterpart staff are always available to participate in TA activities and ensure ownership and knowledge transfer.
Partnership and cofinancing	Additional cofinancing from the Government of Australia allowed for expanded support that strengthened TA outputs, particularly the RMI HRMIS and the Palau HIES. Annual progress reports were provided to the Government of Australia on the status of key technical assistance initiatives. If possible, opportunities for cofinancing should be identified earlier on to further strengthen TA design through better-planned activity schedules from the start of implementation.
Replication and/or scaling up	The RMI PFM project demonstrates a viable avenue for scaling up TA interventions in other Pacific DMCs. Inclusive of additional financing, the RMI PFM project has allocated \$2.5 million to sustaining support for critical public sector management reforms in the country.
Post-TA financial resource	A follow-on ADB knowledge and support TA on the economic impacts of the end of compact grant assistance was approved in December 2018 to help further build the knowledge base that can be drawn upon for future assistance. ³
Other lessons	Future TA can harness ADB's strengthened in-country presence across the subregion, through Pacific Country Offices, to further improve coordination of activities and outputs.

Follow-up Actions

The economic crises brought on by the coronavirus disease (COVID-19) pandemic threatens the fiscal sustainability gains supported by the TA. Although there have been no COVID-19 cases in any of the North Pacific economies, border closures and restrictions on the mobility of people, commodities, and equipment are likely to cause deep economic contractions and fiscal deficits in the near-term. Further technical assistance and complementary budget support operations from ADB and other development partners will be crucial in bridging near-term financing needs and avoiding any winding back of hard-won gains in strengthening PFM across the North Pacific. Over the longer-term, even stronger government commitment and development partner coordination will be necessary to tackle more complex PFM and broader public sector management reforms.

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³ ADB. 2018. *Technical Assistance for The Economic Impacts of the End of Compact Grant Assistance*. Manila.

DESIGN AND MONITORING FRAMEWORK

Impact: Increase self-reliance and achieve fiscal sustainability		
Results Chain	Performance Indicators with Targets and Baselines	Achievements
Outcome More efficient macroeconomic and fiscal management	a. Economies of the RMI, the FSM, and Palau achieve average growth of 3.0% by FY2016 (FY2013 baseline: 2.1%) b. Sustainable fiscal balance achieved, with fiscal surplus average of 2% of GDP (or more) in FY2016 (FY2012 baseline: average overall fiscal surplus 1%) c. Improvements in the PEFA ratings to C+ for composition of expenditure; classification of the budget; timeliness, value for money, and controls in procurement and regularity of accounts reconciliation; and oversight of aggregate fiscal risk from other public sector entities by 2016. (2010 baseline: C) d. Improvements in the PEFA ratings to C+ for multi-year perspectives in fiscal planning, effectiveness of internal audit, and quality and timeliness of annual financial statements by 2016. (2010 baseline: D+)	a. During FY2016–FY2019, average GDP growth was 1.7% in the FSM; 3.1% in the RMI; and -1.1% in Palau b. During FY2016–FY2019, average fiscal surpluses were equivalent to 17.0% in the FSM; 3.5% in the RMI; and 3.9% in Palau c. No updated PEFA assessments for the FSM, the RMI, and Palau d. No updated PEFA assessments for the FSM, the RMI, and Palau
Outputs 1. Improved public financial management 2. Improved public administration systems 3. Strengthened economic analytical capacities 4. Strengthened planning capacities 5. Improved SOE performance	1a. Successful implementation of 50% of reforms under the PFM plan by 2016. 2a. HRMIS for RMI and Palau selected and ready for implementation by 2015. 3a. Timely analyses to support policy development and inform decision-making. 4a. Rolling medium-term plans to operationalize long-term development plans leading up to the end of the Compact. 5a. Decrease in government transfers to SOEs for RMI and Palau by 5% by 2016.	1a. Draft public debt management bill under consideration by the FSM congress as of May 2019; Update of the FSM financial management regulations; Support to RMI Ministry of Finance in planning a program of institutional strengthening and capacity building activities (now supported by the G0547/0658-RMI: Public Financial Management Project) 2a. HRMIS for the RMI in place as of 2016 3a. Analysis of 2014 Palau HIES survey results published in the Palau Bureau of Budget and Planning website 4a. The FSM's 2023 Action Plan was completed in November 2014 5a. Transfers to Palau Public Utilities Corporation increased from \$1.2 million in FY2013 to \$3.4 million in FY2016 but has since fallen to \$1.9 million by

Results Chain	Performance Indicators with Targets and Baselines	Achievements
6. Enhanced regional sharing of knowledge and best practices	6a. Regional mechanism for regular sharing of best practices in public sector management by 2015.	FY2018. Subsidies to RMI SOEs remain elevated, but are being addressed through specification of fully costed community service obligations under the RMI PFM project 6a. A regional workshop on aid coordination planned, but did not push through
Actual Key Activities with Milestones (including additional financing) 1. Improved public financial management 1.1 Development of a public debt management bill for the FSM. 1.2 Review and updating of the FSM Treasury's financial management regulations. 1.3 Preliminary analyses of institutional strengthening and capacity building requirements in the areas of financial management, procurement, and human resource management in preparation for the RMI. 1.4 Procurement of FMIS for the Kwajalein Atoll local government in RMI and enhancement of Palau's FMIS. 2. Improved public administration systems 2.1 Review of institutional and organizational options for reform of the FSM and Palau public service (including the Palau Public Utilities Corporation). 2.2 Procurement of HRMIS for the RMI Public Service Commission. 3. Strengthened economic analytical capacities 3.1 Economic analysis advisory support on updating Palau's medium-term budgeting framework. 4. Strengthened planning capacities 4.1 Development of the FSM 2023 Action Plan. 4.2 Development of an effective national aid coordination mechanism through a strengthened Department of International Development Assistance in the RMI. 4.3 Capacity building and knowledge transfer to local staff (in the RMI Office of the Chief Secretary, Ministry of Foreign Affairs, Office of Compact Implementation, and the Ministry of Finance) on national planning. 5. Improved SOE performance 5.1 Preparatory work for the RMI PFM Project, which has subsequently taken forward the task of identifying and fully costing legitimate community service obligations for SOEs toward reducing transfer requirements. 6. Enhanced regional sharing of knowledge and best practices 6.1 None.		
Actual Inputs Asian Development Bank: \$1,500,000 Government of Australia: \$562,000		

ADB = Asian Development Bank, FMIS = financial management information system, FSM = Federated States of Micronesia, FY = fiscal year, GDP = gross domestic product, HIES = household income and expenditure survey, HRMIS = human resource management information system, PEFA = public expenditure and financial accountability, PFM = public financial management, RMI = Republic of the Marshall Islands, SOE = state-owned enterprises.
Source: Asian Development Bank.

TECHNICAL ASSISTANCE COST

Table A2.1: Technical Assistance Cost by Activity
(\$'000)

Item	Amount ^a		
	Original ^b	Revised	Actual
1. Consultants	1,350.0	1,550.0	1,410.2
2. Goods	0.0	196.0	179.6
3. Training, seminars and/or conferences	70.0	70.0	0.0
4. Surveys	0.0	200.0	200.0
5. Miscellaneous TA administration	5.0	33.0	0.0
6. Pilot testing	0.0	0.0	0.0
7. Contingency	75.0	13.0	000.0
Total	1,500.0	2,062.0	1,789.8

TA = technical assistance

^a Includes ADB-financed funds and ADB fully administered cofinanced funds.

^b Original estimated cost in the TA report.

Source: Asian Development Bank estimates.

Table A2.2: Technical Assistance Cost by Financier
(\$'000)

	ADB	Government of Australia	Total Cost
1. Original ^a	1,500.00	0.00	1,500.00
2. Revised	1,500.00	562.00	2,062.00
3. Actual	1,298.53	491.28	1,789.81
4. Unused	201.47	70.72	272.19

^a Original estimated cost in the technical assistance report.

Source: Asian Development Bank estimates.