



Technical Assistance Report

Project Number: 54059-001
Knowledge and Support Technical Assistance (KSTA)
December 2020

Assessing and Improving Policy Response to Economic Shocks in the North Pacific

This document is being disclosed to the public in accordance with ADB's Access to Information Policy.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
DMC	–	developing member country
FCAS	–	fragile and conflict-affected situations
FDI	–	foreign direct investments
GDP	–	gross domestic product
SMEs	–	small and medium sized enterprises

NOTES

- (i) The fiscal year (FY) of the Governments of the Federated States of Micronesia, Palau, and the Republic of the Marshall Islands ends on 30 September. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2020 ends on 30 September 2020.
- (ii) In this report, “\$” refers to United States dollars.

Vice-President	Ahmed M. Saeed, Operations 2
Director General	Leah C. Gutierrez, Pacific Department (PARD)
Deputy Director General	Emma Veve, PARD
Team leader	Paul Curry, Principal Operations Coordination Specialist, Office of the Director General (PAOD), PARD
Team members	<p>Tahmeen Ahmad, Financial Management Specialist, Public Financial Management Division (PFFM), Procurement, Portfolio and Financial Management Department (PFFD)</p> <p>Katherine Barrameda, Operations Coordination Officer, PAOD, PARD</p> <p>Joana Custodias, Counsel, Office of the General Counsel (OGC)</p> <p>Julian Alexander Doczi, Procurement Specialist, Procurement Division 2 (PFP2), PFFD</p> <p>Anna Fink, Economist (Regional Cooperation), Regional Cooperation and Integration Thematic Group (SDTC-RCI), SDCC</p> <p>Leigh Halliwell, Senior Financial Control Specialist, Technical Assistance Section (CTLA-TA), Controller's Department</p> <p>Christopher Morris, Principal Social Development Specialist, NGO and Civil Society Center (NGOC), Sustainable Development and Climate Change Department (SDCC)</p> <p>Rommel Rabanal, Public Sector Economist, PASP, PARD</p> <p>Vivek Raman, Senior Operations Coordination Specialist (Innovation and Knowledge), Knowledge Advisory Services Center (SDCC-KC), SDCC</p> <p>Rachana Shrestha, Public Management Specialist, Governance Thematic Group (SDTC-GOV), SDCC</p> <p>Edelisa Ternida-Castillejos, Operations Assistant, PAOD, PARD</p>

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.

CONTENTS

	Page
KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE	
I. INTRODUCTION	1
II. ISSUES	1
III. THE TECHNICAL ASSISTANCE	3
A. Impact and Outcome	3
B. Outputs, Methods, and Activities	3
C. Cost and Financing	4
D. Implementation Arrangements	4
E. Governance	5
IV. THE PRESIDENT'S DECISION	5
APPENDIXES	
1. Design and Monitoring Framework	6
2. Cost Estimates and Financing Plan	8
3. List of Linked Documents	9

KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 54059-001
Project Name	Assessing and Improving Policy Response to Economic Shocks in the North Pacific	Department/Division PARD/PAOD
Nature of Activity Modality	Capacity Development Regular	Executing Agency Asian Development Bank
Country	REG (FSM, PAL, RMI)	
2. Sector	Subsector(s)	ADB Financing (\$ million)
✓ Public sector management	Public administration	0.75
	Total	0.75
3. Operational Priorities		Climate Change Information
✓ Strengthening governance and institutional capacity		GHG Reductions (tons per annum) 0
		Climate Change impact on the Project Low
		ADB Financing
		Adaptation (\$ million) 0.00
		Mitigation (\$ million) 0.00
		Cofinancing
		Adaptation (\$ million) 0.00
		Mitigation (\$ million) 0.00
Sustainable Development Goals		Gender Equity and Mainstreaming
SDG 1.5		No gender elements (NGE) ✓
SDG 8.1		
		Poverty Targeting
		General Intervention on Poverty ✓
4. Risk Categorization	Low	
5. Safeguard Categorization	Safeguard Policy Statement does not apply	
6. Financing		
Modality and Sources		Amount (\$ million)
ADB		0.75
Knowledge and Support technical assistance: Technical Assistance Special Fund		0.75
Cofinancing		0.00
None		0.00
Counterpart		0.00
None		0.00
Total		0.75
Currency of ADB Financing: US Dollar		

I. INTRODUCTION

1. This knowledge and support technical assistance (TA) will strengthen the capacity of North Pacific developing member countries (DMCs)¹ to assess and improve the responses to future external shocks. The TA will examine the ongoing coronavirus disease (COVID-19) pandemic's effects on the flow of external resources (remittances and foreign direct investment [FDI]); demographics, including outmigration; and small and medium sized enterprises (SMEs), and propose actions to mitigate future shocks. Outcomes are linked to the Asian Development Bank (ADB) Strategy 2030, Operational Priority 6.1 and Sustainable Development Goals 1.5 and 8.1.²

2. The TA is included in the 2020 pipeline of the Pacific Regional Cooperation Operations Business Plan 2021–2023 and is part of ADB's Comprehensive Response to the COVID-19 Pandemic in the Pacific.³

II. ISSUES

3. **COVID-19 poses a continued risk.** The COVID-19 pandemic has presented unprecedented health, social, and economic challenges requiring country, regional, and global intervention and collaboration to mitigate its negative effects. To date, the pandemic has resulted in more than 62.4 million confirmed cases and over 1.4 million fatalities worldwide.⁴ As fragile and conflict-affected situations (FCAS), the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) struggle to deliver basic services under normal circumstances. Palau, while not classified as an FCAS, shares many of the same limitations. These governments have worked diligently to respond effectively to COVID-19 and address the health and economic impact of the pandemic, but the effort has stretched these countries' capacity even further. While confirmed cases in the North Pacific DMCs have been limited to those identified in border quarantine, governments have had to take a significant steps to mitigate the risk of transmission and make a number of policy decisions to try to protect their economies, and their citizens, from the economic impact of the pandemic. The North Pacific DMCs have imposed lockdowns and travel restrictions to prevent community transmission of COVID-19, and these decisions continue to have a widespread economic impact.

4. **Complex economic implications.** As long as travel restrictions persist, the economies of the Pacific DMCs, particularly the smallest and least developed, will continue to be negatively impacted. Each of the North Pacific DMCs are projected to record successive economic contractions during FY2021 and FY2022.⁵

- a. **Federated States of Micronesia.** Extended border closures amid the pandemic resulted in an economic contraction of 5.4% in FY2020 and is forecast to translate to a further 1.8% decline in FY2021. Travel and quarantine restrictions have prevented purse seine fishing vessels, which are required to transship their catch outside the reef, from docking. Transshipment output is expected to fall by more

¹ The North Pacific DMCs are the Federated States of Micronesia, Palau, and the Republic of the Marshall Islands.

² Operational Priority 6.1: Improved public and corporate sector management functions and financial stability; SDG 1.5: By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters; and SDG 8.1: Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries.

³ ADB. 2020. *ADB's Comprehensive Response to the COVID-19 Pandemic*. Manila.

⁴ World Health Organization. 2020. *WHO Coronavirus Disease (COVID-19) Dashboard*. <https://covid19.who.int/> accessed on 1 December 2020.

⁵ ADB. 2020. *Asian Development Outlook 2020 Update: Wellness in Worrying Times*. Manila.

than a third from FY2020 to FY2021. Container vessel visits have also fallen, especially to the two smaller states of Yap and Kosrae. Fishing license fee revenues are expected to decline from 20.6% of GDP in FY2019 to 18.0% in FY2020 and 16.2% in FY2021. Trade and travel restrictions are also affecting small-scale exporters of fish and other agricultural products, which are transported by air cargo. Further, current travel restrictions and the border closures impact the supply of construction materials and constrain the travel of skilled workers, resulting in project delays (e.g., construction of PetroCorp's coconut processing project in Chuuk).

- b. **Marshall Islands.** The Marshall Islands economy is estimated to have contracted by 5.5% in FY2020, with a further 1.4% decline projected for FY2021. Prior to the pandemic, Majuro was the world's busiest tuna transshipment port, boosting the transport services sector, while also providing ancillary services such as fish containerization, food and supplies provisioning, and net repair among others, to 400–500 purse seiners. A tuna loining plant in Majuro also contributed most of the total manufacturing output. During the early stages of global travel restrictions, ships that have transited through COVID-19 affected countries were prohibited from entering the RMI's ports, disrupting the fisheries supply chain. A subsequent requirement for fishing and carrier vessels to spend at least 14 days at sea (including travel) prior to entry continues to limit transshipment activity in Majuro port. For example, transshipment services associated with the export of sashimi-grade tuna are trending lower by 50%. Estimates show that both domestic purse seine fishing and tuna loining operations were reduced by about 30% in FY2020 and are seen to remain below pre-COVID-19 levels in FY2021. Although fishing license revenues are estimated to have achieved the pre-pandemic projection of \$30 million (14% of GDP) in FY2020, the potential adverse impact of prolonged travel restrictions on demand for vessel days is projected to reduce fishing license fee collections by 13% in FY2021.
 - c. **Palau.** With annual tourism receipts reaching the equivalent of 40%–50% of gross domestic product (GDP), Palau is among the most tourism-driven economies not only in the Pacific but globally. However, the tourism industry has struggled in recent years, though had started to show signs of recovery. From a peak of nearly 170,000 tourists (for a tourist–resident ratio of 9.5:1) in fiscal year FY2015, arrivals declined to less than 90,000 by FY2019. From October 2019 to January 2020 (the first 4 months of Palau's fiscal year), visitor arrivals were already equivalent to 46.4% of FY2019 full-year arrivals. However, the COVID-19 pandemic saw total arrivals fall by 53% to below 42,000 in FY2020, the fifth consecutive year of decline. This drove an overall economic contraction of 13.8%. If travel remains restricted until the end of FY2021—a plausible scenario if Palau opts to remain closed to tourism until a COVID-19 vaccine becomes widely available—annual arrivals could fall further, even below 10,000 during this fiscal year. This would push the economy into another sharp contraction of about 13.2% in FY2021.
5. **The impact of economic shocks on labor.** About 1.6% of the population of the North Pacific DMCs migrates to the United States each year under the terms of free movement in their respective Compact Agreements with the United States, and it is uncertain how the COVID-19 pandemic with the challenges in health care and weak health systems in these countries will impact this outmigration going forward. While remittances can increase during crises periods such as the ongoing pandemic, the pandemic's severe impacts on global labor markets, if prolonged,

can result in an overall decline in remittances through job losses for migrant workers. As of June 2020, nearly one-third of the world's labor force (32%) were living in countries where workplace closures were required (except for essential industries) and about 42% reside in countries where some workplace closures are required.⁶ In 2019, the Republic of the Marshall Islands received the highest remittances in the North Pacific in terms of GDP and per capita share.⁷ Inward flows of skilled labor also play a critical role in the north Pacific, being essential to support infrastructure investments which are an important driver of growth in both FSM and RMI. Such projects are expected to be delayed because of ongoing travel restrictions on workers.

6. **Multisectoral coordination critical.** An effective response to any significant economic shock, including the COVID-19 pandemic, requires a well-informed multisector approach. Ministries responsible for agriculture, finance, health, small business, social protection, and trade, need to work together, along with the private sector and civil society organizations, to collectively develop and deliver on policy responses. Mechanisms for effective whole of government coordination are weak in the North Pacific, while the communication channels between government and the private sector and civil society are not well developed.

7. **Data for decision making lacking.** In responding to COVID-19, governments across the Pacific have struggled in understanding the full extent of adverse impacts due to data and information gaps. Filling in these gaps—particularly in the areas of possible demographic shifts, outmigration and remittances trends, and patterns of business activity as reflected in inflows of foreign direct investment and registrations of small and medium enterprises, among others—can help governments better target social assistance measures toward the most vulnerable households and businesses that most need support during economic downturns or crisis periods. Over the longer-term, improved data gathering and analysis will help strengthen evidence-based policymaking toward more responsive governance and efficient public service delivery.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

8. The TA is aligned with the following impact: readiness of the North Pacific DMCs to respond to COVID-19 and future shocks improved.⁸ The TA will have the following outcome: enhanced knowledge and awareness to improve policy responses to future economic shocks in the North Pacific DMCs.⁹

B. Outputs, Methods, and Activities

9. **Output 1: Assessments of the policy response to the COVID-19 pandemic conducted.** The response of each of these three DMCs to the economic shock of COVID-19 will be reviewed with a view to drawing lessons for future such events and identifying areas of weaknesses and proposing actions for strengthening the response and planning for recovery.

⁶ *International Labour Organization*. 2020. ILO Monitor: COVID-19 and the world of work (5th Edition). 30 June.

⁷ ADB. 2020. *COVID-19 Impact on International Migration, Remittances, and Recipient Households in Developing Asia*. Manila.

⁸ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁹ The design and monitoring framework is in Appendix 1.¹⁰ The TA will coordinate with the DMCs' national statistical offices, agencies and organizations, such as FSM Statistics Office, Palau's Office of Planning & Statistics within the Ministry of Finance, RMI's Economic Policy, Planning and Statistics Office, and Pacific Community's Statistics for Development Division.

This assessment will consider factors including data availability, budget responsiveness, and human resource availability.

10. **Output 2: Data collected on key economic indicators for future shocks.** The TA will work with relevant ministries and/or agencies, to collect statistical and administrative data critical to decision making and which has been identified as lacking.¹⁰ This may include data in areas such as demographics (including outmigration), remittances, foreign direct investment, and small and medium size enterprises, which are currently weak in the North Pacific DMCs. The TA will also propose mechanisms to sustain regular collection of the data. The TA will present its findings to each of the governments of the Federated States of Micronesia, Palau, and the Republic of the Marshall Islands.

C. Cost and Financing

11. The TA is estimated to cost \$750,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6). The key expenditure items are in Appendix 2.

D. Implementation Arrangements

12. ADB will administer the TA. The TA will be implemented from March 2021 to February 2023. The Pacific Department's Office of the Director General will select, supervise, and evaluate consultants. The TA will require a total of 24 person-months of international consulting services inputs.¹¹ TA resources will be disbursed following ADB's *Technical Assistance Disbursement Handbook* (2020, as amended from time to time). The implementation arrangements are summarized in the table.

Implementation Arrangements			
Aspects	Arrangements		
Indicative implementation period	March 2021–February 2023		
Executing agency	Office of the Director General, Pacific Department, ADB		
Consultants	To be selected and engaged by ADB		
	Firm: Quality-and cost-Based Selection (QCBS) with simplified technical proposal (STP)	24 person-months	\$31,000/month
Procurement	None		
	Not applicable	Not applicable	Not applicable
Advance contracting	None		
Disbursement	Disbursement of TA resources will follow ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	Not applicable		

Source: Asian Development Bank.

¹⁰ The TA will coordinate with the DMCs' national statistical offices, agencies and organizations, such as FSM Statistics Office, Palau's Office of Planning & Statistics within the Ministry of Finance, RMI's Economic Policy, Planning and Statistics Office, and Pacific Community's Statistics for Development Division.

¹¹ Terms of Reference (accessible from the list of linked documents in Appendix 3).

13. **Consulting services and ADB's procurement.** Output-based terms of reference will be considered. ADB will engage an international consulting firm following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.

E. Governance

14. Procurement risk is minimized since ADB will recruit consultants.

IV. THE PRESIDENT'S DECISION

15. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$750,000 on a grant basis for Assessing and Improving Policy Response to Economic Shocks in the North Pacific, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Impact the TA is Aligned with Readiness of the North Pacific DMCs to respond to COVID-19 and future pandemics improved. (Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific) ^a			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
Outcomes Knowledge and awareness to improve policy responses to future economic shocks in the North Pacific DMCs enhanced	a. By 2023, governments use TA identified data in decision making (Baseline = none) (OP 6.1) b. By 2023, governments implement key recommendations from country assessments (Baseline = none) (OP 6.1)	Country Preparedness or Response Plans	R: Unavailability of data sources R: May not be easily understood or well-received by target audience
Output 1. Assessments of the policy response to the COVID-19 pandemic responses conducted	1. By 2022, country assessments on economic response to the COVID-19 conducted (Baseline = 0)	1. Consultants' Progress Reports	R: Unavailability of resource persons and/or data sources
2. Data collected on key economic indicators for future shocks	2a. By 2023, reports distributed to the FSM, Palau and RMI governments (Baseline = 0) 2b. By 2023, final country reports uploaded on adb.org and other appropriate social media channels (Baseline = 0)	2a. Printed copy inventory 2b. adb.org	R: Unavailability of data sources R: Poor internet connectivity resulting in limited access to online material
Key Activities with Milestones 1. Assessments of the policy response to COVID-19 pandemic responses conducted. 1.1 Engage an international consulting firm to undertake the assessments. (Q1 2021) 1.2 Conduct consultations with relevant ministries and key agencies. (Q2 2021) 1.3 Draft country assessments, including lessons learned, of the pandemic response. (Q4 2021) 1.4 Support dialogue with key government officials on assessment results. (Q1 2022) 2. Data collected on key indicators for future shocks. 2.1 Engage an international consulting firm to undertake the data collection. (Q1 2021) 2.2 Develop administrative sources or survey materials to gather data on key indicators, i.e., demographics, outmigration, remittances and FDIs, SMEs. (Q2 2021) 2.3 Conduct research and surveys in coordination with relevant institutions and/or ministries. (Q3 2021–Q2 2022) 2.4 Provide recommendations on how to maintain and update these key economic data on a regular basis. (Q2 2022)			

- 2.5 Support dialogue with the FSM, Palau and RMI governments on the findings made. (Q3 2022)
- 2.5 Develop and finalize the reports for publication. (Q4 2022)
- 2.6 Present analysis and findings to the governments of the FSM, Palau and RMI via information sessions or knowledge sharing activities. (January–February 2023)

Inputs

ADB: \$750,000

ADB = Asian Development Bank, COVID-19 = coronavirus disease, DMC = developing member country, FDI = foreign direct investment, FSM = Federated States of Micronesia, OP6.1 = entities with improved management functions and financial stability, R = risks, RMI = Republic of the Marshall Islands, SME = small and medium sized-enterprise, TA = technical assistance.

^a Asian Development Bank. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

Source: ADB.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	453.0
b. Out-of-pocket expenditures	
i. International travel ^b	120.0
ii. Surveys	15.0
iii. Miscellaneous administration and support costs ^c	15.0
2. Printed external publications	2.0
3. Training, seminars, workshops, forum and conferences ^d	70.0
4. Contingencies	75.0
Total	750.0

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF 6).

^b Includes costs for international travel and miscellaneous travel expenses.

^c Includes photocopying, logistical and administrative costs, and other costs related to dissemination of information and public relations.

^d Includes costs for venue and equipment rental, presentation materials, land transportation/in-city transport and other associated costs for conducting the information sessions or knowledge sharing activities.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=54059-001-TARreport>

1. Terms of Reference for Consultants