



Climate PFM At-a-Glance: REPUBLIC OF MARSHALL ISLANDS

USD\$81.08 Million 2018 Recurrent Budget
 USD\$45.5 Million 2018 Development Budget
 USD\$82.0 Million Compact Funds

US\$174 Million Gross Domestic Production (GDP)
 US\$ 1,578 (2015) GDP/Per Capita

110,500 (2015) Population
 Fish and Copra: Main Export

Marshall Islands has:

- Picked up growth due to strong fisheries and construction activities;
- Strengthened the Anti Money Laundry/Counter Financial Terrorism;
- Undertaken PFM reforms in light of the Compact Funds 2023 expiration; and
- Some challenges still remain.

Public Finance Management is key to:

- Effective economic management;
- Achieving development outcomes; and
- Accessing climate change and disaster risk management (CCDRM) finances.

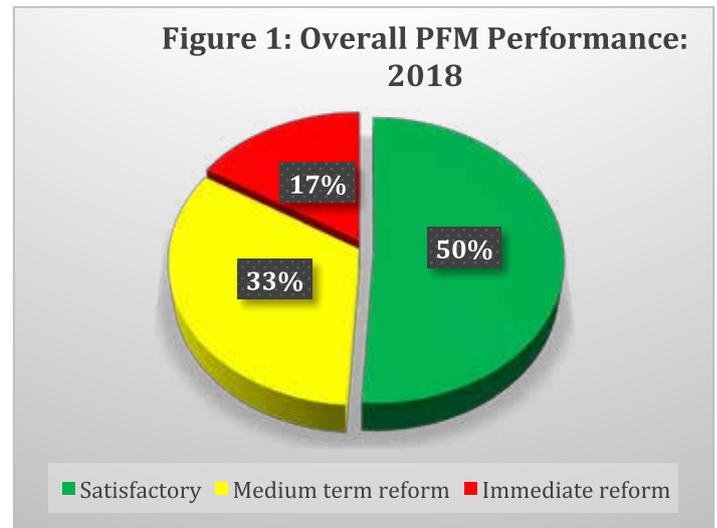
A summary of PFM performance and key areas for reforming are identified in the consolidated PFMS issues matrix¹.

Country's Strategic Direction

With economic growth picking-up and the expected expiration of the USA compact funds in 2023, it is timely for the government to capitalise on the current PFM reform programs. This will strengthen the fiscal position. Guided by the Strategic Development Plan Framework 2003-2018, the 2015-17 National Strategic Plan was developed with emphasis on five key sectors including climate change. These key strategies provided the development guidance for CCDRM and the formulation of the "Tile Til Eo 2050 CC Strategy". This strategy does not distinguish between adaptation and mitigation actions, but set a clear direction for progressing towards net zero greenhouse gas emissions by 2050 as well as transitioning to an economy that is resilient.

Public Finance Management Performance

The PFM analysis shown in figure 1 below indicated a 50% satisfactory performance, albeit about 33% requires policy monitoring of what has been developed and implemented to avoid slippage of progress made thus far. About 17% of the overall PFM system will require immediate reform actions in the policy mechanical areas of PFM such as strengthening internal control, establishing procurement transparency mechanisms, integrating priorities into the budget final document, monitoring and evaluation (M&E) and improving fiscal reporting. Figure 2 shows the PFM performance under each identified common challenge and where key reform actions should be prioritised.



Further look into the machinery of the PFM, the analysis finds RMI shared 5 common challenges faced by other PICs.

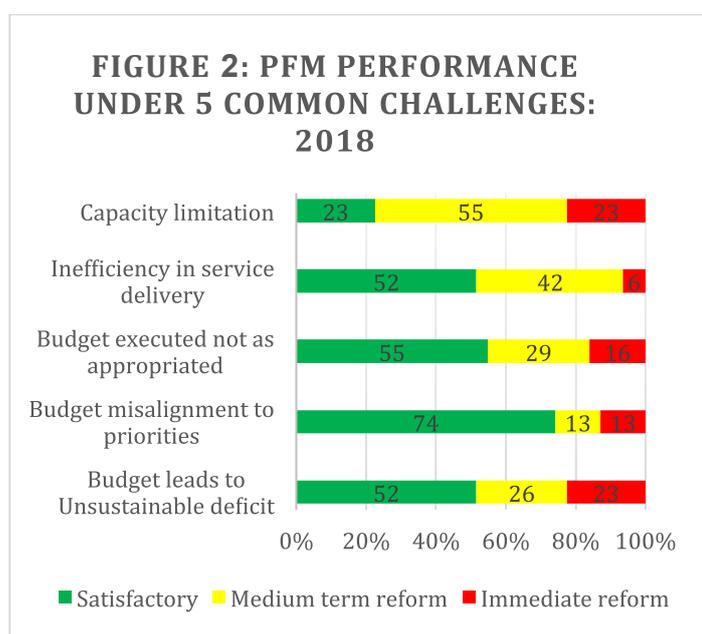
These are namely;

1.	Unrealistic budget leads to unsustainable deficits
2.	Budget misalignment with priorities
3.	Budgets executed not as appropriated
4.	Inefficiency in service delivery
5.	Capacity limitation

¹ A traffic-light-coding single matrix consolidated PFMS issues guided by PEFA and PCCFAF identified weaknesses. The RED requires immediate reform actions (1 to 2 years); GREEN – shows satisfactory performance and ongoing monitoring to avoid slippage and Yellow: implies medium policy actions.

PFM performance by common challenges

Overall, PFM performs satisfactorily illustrated by the green colour coding presented in figure 2 below according to each common challenge with the exception of the capacity limitation and budget management. These are areas that needed to be addressed to ensure good progression of the PFM reforms, especially in climate finance fiduciary areas. Although challenges remain, it is very encouraging to note that the formation of the Reform Coordination Unit will certainly provide the much needed momentum to ensure reform activities are implemented, as anticipated, particularly in procurement, project management and oversight.



Addressing capacity limitation

Capacity limitations are frequently cited as key constraint to obtaining “best practice” performance standard for PFM. The following are suggested actions to address capacity constraint in the Marshall Islands.

1. Prioritise capacity to areas that matter most in achieving development outcomes and meeting CCDF funds fiduciary criteria;
2. Improve access to capacity building, supplementation and substitution opportunities;
3. Improve infrastructure capabilities;
4. Secure political support of all stakeholders involved in PFM reforms (leadership/commitment); and
5. Alignment of donors’ aid modalities to country’s strategies - coordination and harmonization.

Suggested key PFMS reform Areas

The economy has performed well after several disasters, however risks remain stemming from external and domestic shocks potentially to affect grand financing, remittances and revenues from tourism. Addressing these risks necessitate to reform the PFM operatives to ensure progress is made according to expiration of the Compact funds. This is calling for development of appropriate medium-term planning and budgeting, robust accountability and budget control and efficient process of accountable usage of public funds. The country has received a GCF grant of US\$29.9 million, combined with a US\$12.2 million grant from ADB for a renewable energy project.

The following are suggested key PFMS areas to consider reforming immediately (within 1 – 2 years timeframe):

- a. Integrating priorities into the budget and revamping of the accounting coding system;
- b. Developing a M&E framework to measure policy reform performance against desired results;
- c. Strengthening internal control and internal audit;
- d. Strengthening procurement by establishing an independent appealing body, recording database and reporting; and
- e. Developing asset and project management processes, guidelines and framework and consolidate aid coordination management.

Highlights of available Support Programs

- DFAT/GIZ CFRP Project consolidated the PFM issues into a matrix and validated the areas that need to be reformed.
- ADB/PFTAC can provide assistance towards strengthening budget management, monitoring, procurement and asset management.
- World Bank can provide assistance jointly with ADB and others on areas within their line of support.

Key documents

- The Strategic Development Plan Framework 2003-2018
- The National Strategic Plan 2015-2017
- PEFA Reports and Pacific Country Peer Review
- Pacific Climate Change Finance Assessment Report (2014)
- Tile Til Eo 2050 Climate Change Strategy
- National Climate Change Policy Framework (2011)
- PFM Consolidated Issues Matrix