Republic of the Marshall Islands

COUNTRY ECONOMIC MEMORANDUM AND PUBLIC EXPENDITURE REVIEW

Maximizing opportunities, enhancing sustainability

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Abbreviations and Acronyms

ADB	Asian Development Bank
AIM	Air Marshall Islands
CA	Competent Authority
CBR	Correspondent banking relationship
CEM	Country Economic Memorandum
CSO	Community service obligations CTF Compact Trust Fund
CSGs	Compact Sector Grants
DRM	Disaster risk management
EEZ	Exclusive economic zone
EPA	Economic Partnership Agreement
EU	European Union
EMIS	Education management information system
FMA	Financial Management Act
FMIS	Financial management information system
FRDMA	Fiscal Responsibility and Debt Management Act
FSM	Federated States of Micronesia
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GoRMI	Government of RMI
HCI	Human Capital Index
HRM	Human resource management
HRMIS	HRM information system
ICT	Information, communication and technology
LMIS	Labor market information system
MEC	Marshalls Energy Company
MERIS	Medical Records Information System
MISAT	Marshall Islands Standards Assessment Test
MIMRA	Marshall Islands Marine Resources Authority
MISC	Marshall Islands Shipping Corporation
MOEST	Ministry of Education, Sports and Training
NAP	National Adaptation Plan
NCDs	Non-communicable diseases
NDMO	National Disaster Management Office Nitijela RMI parliament
OMR	Overseas medical referrals
PNA	Parties to the Nauru Agreement
PER	Public Expenditure Review
PFM	Public financial management
PICs	Pacific Island Countries
PITP	Pacific Islands Tuna Provisions
PSS	Public School System
RMI	Republic of the Marshall Islands
RPL	Recognition of Prior Learning
SOEs	State-owned enterprises
SOV	Sovereign virtual currency
TRAM	Tax and Revenue Reform and Modernization Commission
US	United States of America
VDS	Vessel Day Scheme

Executive Summary

1. **This joint Country Economic Memorandum (CEM) and Public Expenditure Review (PER) aims to support the Government of the Republic of the Marshall Islands (GoRMI) to identify a prioritized and sequenced set of reforms to drive increased economic growth, resilience and fiscal sustainability.** The study has two objectives. First, to improve understanding of the challenges, opportunities and risks to achieving sustainable economic growth and job creation in the Republic of the Marshall Islands (RMI). Second, to improve the management of public resources to support long-term economic development, fiscal sustainability and service delivery. The assessment aims to balance the need for reform to drive higher prosperity and resilience with GoRMI's limited capacity to design and implement reforms and provide public goods and services. The reform priorities identified are also consistent with the RMI's National Strategic Plan 2020–30, which articulates the nation's vision to build a resilient, productive and self-supportive RMI.

2. **This Executive Summary is structured in three sections.** The first section provides a brief background to RMI and the structure of the economy. The second section summarizes the key issues and challenges to achieving GoRMI's long-term development objectives under five themes: (i) the management of public finances; (ii) public service delivery; (iii) the fisheries sector; (iv) the labor market and labor mobility; and (v) disaster resilience and climate change. The final section outlines key recommendations under the same five themes.

3. **RMI is one of the world's smallest and most isolated nations.** Located approximately midway between Hawaii and the Philippines, the country consists of 29 atolls. The nation covers an area of around 2 million square kilometers (around the size of Mexico) but has just 181 square kilometers in land area (around the size of Washington, DC). The population totals around 54,000, of which 28,000 (53 percent) reside in Majuro (the country's capital) and 10,000 (18 percent) in Ebeye. These two urban centers are among the mostly densely populated in the world, following 30 years of unplanned urbanization. Almost all of the territory is less than two meters above sea level, making RMI one of the most vulnerable nations in the world to climate change and sea level rise.

4. **Human development indicators are low relative to regional peers and the nation's income level.** RMI is a middle-income country with Gross National Income (GNI) of US$4,838 per capita. Yet, human development is low for the nation's income level. In 2020, RMI's Human Capital Index (HCI) was 0.42, meaning that a child born in RMI in 2020 will be 42 percent as productive when they grow up compared to what they would have been if they had enjoyed complete education and full health. This places RMI as the second lowest in the Pacific region in terms of human capital development, reflecting a combination of poor education and health outcomes. The poverty headcount ratio is estimated to be 7.2 percent. However, this masks large differences within the nation, with 21.2 percent of the rural population living in poverty, compared to just 2.3 percent in Majuro.

5. **Average economic growth has been low by global standards and subject to high volatility.** Over the past 15 years, real Gross Domestic Product (GDP) has grown by a modest 1.5 percent on average. Growth has also been volatile, with deep recessions in fiscal year 2008 (FY08) and FY11 to FY12 offset by growth spurts over the periods FY09 to FY10 and FY15 to FY19. Fluctuations in growth are directly related to changes in aid-financed construction, public service-related activity and the fisheries sector. Labor productivity has grown at 0.6 percent per year, on average, over the past 15 years. On the demand side, fluctuations in growth are driven by investment in public infrastructure and the fisheries sector. Net exports counterbalance fluctuations in domestic demand, given RMI's reliance on imported goods and services. The structure of the economy, both by production and expenditure, is similar to that of other Pacific Island Countries (PICs).[1]

6. **The economy is dominated by the public sector.** In RMI—as in many other small-island states—the limited economic incentives for private sector development mean that delivery of many core goods and services falls to the public sector. Consequently, the public sector accounts for around 40 percent of GDP and half of formal sector employment. State-owned enterprises (SOEs) are active in most of the key economic sectors, including energy, transport, information, communication and technology (ICT), agriculture and banking. Private sector activity focuses on the fisheries sector, wholesale and retail trade, and construction.

7. **Throughout this study RMI's economic performance is benchmarked against its Pacific neighbors.** RMI, like other PICs, shares similar challenges and opportunities as other small and remote island economies: limited natural resources, a narrowly based economy, large distances to major markets, a dispersed population and vulnerability to external shocks. Aside from these characteristics, the economic structure of RMI and many of the PICs is also heavily influenced by their reliance on foreign assistance and—more recently—fisheries sector revenues. Hence, in this study, RMI is benchmarked to the PICs when considering cross-country comparisons of economic performance. The Federated States of Micronesia (FSM), Palau and Kiribati are considered RMI's closest 'structural' peers (that is, countries with a broadly similar economic structure). This is due to the impacts of their respective Compacts with the US on their economic and fiscal foundations (FSM and Palau), and the impacts of fisheries sector revenues on their fiscal framework (FSM, Palau and Kiribati). Kiribati's atoll nature makes it further relevant for comparison with RMI. Fiji and Samoa, as the most developed of the PICs, represent 'aspirational' peers (countries with similar economic geography that have achieved superior development outcomes). In some instances, small-island Caribbean nations are also used as aspirational peers.

1 The PICs comprise Fiji, Kiribati, Palau, Federated States of Micronesia, RMI, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

KEY ISSUES AND CHALLENGES

8. **The scheduled expiration of financial assistance under the RMI's Compact of Free Association ('the Compact') with the United States (US) in 2023 poses a major risk to RMI's economic growth and development.** Under current arrangements, annual Compact Sector Grants (CSGs) and access to US Federal Government programs are scheduled to expire in 2023, with the CSGs to be replaced by annual distributions from the Compact Trust Fund (CTF). However, the corpus of the CTF is not sufficient to deliver annual distributions that will fully offset the CSGs. Furthermore, the CTF distribution rules create the possibility of highly unstable annual distributions. Such volatility—including the potential for years with zero distributions—would have severe negative consequences for macroeconomic stability and public service delivery. The expiration of Compact-related assistance could precipitate a significant structural change in the RMI's economy and fiscal framework, as grants and programs from the US account for around 35 percent of GoRMI annual revenues. In a worst-case scenario, the expiration of this financial assistance could lead to a fiscal adjustment equivalent to 13 percent of GDP, an economic contraction of up to 10 percent, a 13 percent reduction in formal sector jobs, and an increase in outmigration.

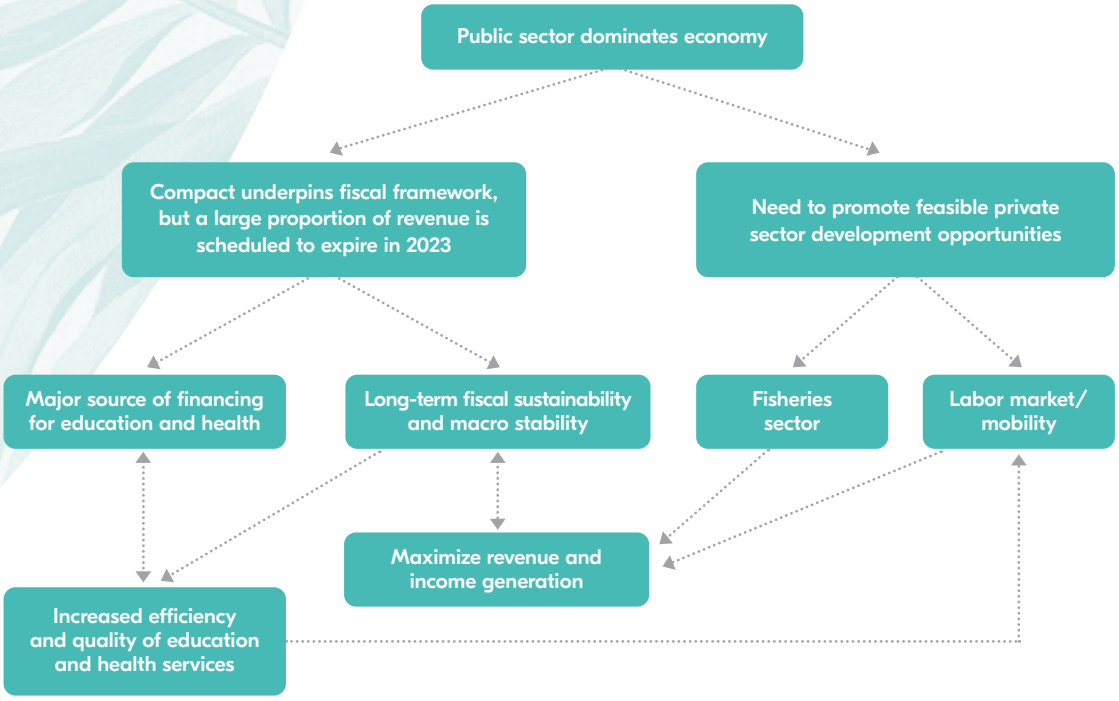
9. **GoRMI and the US Government have begun negotiations to amend the financial agreement of the Compact, with early indications suggesting that key pillars of the existing arrangements are likely to be retained.** The likely continuation of substantial financial assistance post-FY23 has reduced the risk that RMI will face a 'fiscal cliff' that would necessitate a significant fiscal adjustment. Thus, this study assumes that US financial support to RMI—particularly to the health and education sectors—will remain broadly constant over the medium term. Nevertheless, the details of the scope, size and duration of any agreement remain uncertain. Consequently, measures to increase economic growth and incomes, enhance fiscal sustainability and improve the efficiency and equity of public service delivery remain central to the RMI's long-term development prospects and economic stability.

10. **RMI, like other PICs, faces a unique economic geography that makes achieving sustainable economic growth particularly challenging.** Extreme remoteness, small size, geographic dispersion, limited natural resources and increasing climate and disaster vulnerability are the binding constraints to achieving sustainable, inclusive growth in the PICs, including RMI (World Bank, 2011; 2017). These characteristics result in very high costs of production for both the private and public sectors. They also limit the range of economic activities where RMI can be competitive to areas where natural resource rents outweigh the high costs of production.

11. **The consequences of these structural characteristics, coupled with the uncertainty regarding long-term fiscal sustainability, highlight the importance of a development strategy that aims to reduce the disadvantages imposed by geography while maximizing the benefits of RMI's limited economic opportunities.** RMI's unique economic geography limits the effectiveness of traditional development strategies, such as manufacturing-based, export-led growth. Consequently, reforms to improve the business environment are necessary but unlikely to be sufficient to ensure global competitiveness, given the costs imposed by size and distance from markets. A key implication is that reforms should be targeted toward reducing the disadvantages imposed by geography, and on economic opportunities that are less affected by these disadvantages. This highlights the importance of a development strategy focused on: (i) the role of the public sector as a key supporter of economic activity and source of formal sector employment; (ii) the need for, and sound management of, development assistance to sustain public goods and services and standards of living; (iii) maximizing the benefits of natural resources (fisheries), including through development of the private sector; and (iv) taking full advantage of domestic and overseas labor opportunities available to Marshallese citizens (given that Marshallese have open access to the US labor market under the Compact).

12. **The dominance of the public sector in the economy, combined with the implications for long-term fiscal and macroeconomic stability of a change in the financial aspects of the Compact, provide robust motivation for a combined CEM and PER.** This strong interdependence is summarized in Figure 1, which provides a concise organizing framework for the combined CEM and PER. Low historical growth and the predominant role of the public sector in key sectors of the economy highlight the need to focus on feasible private sector development opportunities to promote income generation, job creation and greater shared prosperity. The two most prominent of these opportunities are in the fisheries sector and via strengthening the domestic labor market and maximizing the benefits of labor mobility. Achieving long-term fiscal sustainability and macroeconomic stability will require focused efforts to: (i) maximize income and public revenue generation; and (ii) increase the efficiency and quality of education and health service delivery. The former is closely related to the development and management of the fisheries sector, domestic labor market and skills, and tax policy. Regarding the latter, education and health services are crucial public-sector enablers to build human capital and increase the quality of the domestic labor pool. This is necessary for RMI to take full advantage of the domestic and overseas labor opportunities available to Marshallese citizens.

Figure 1: A concise organizing framework for the combined CEM/PER



13. **Aside from RMI's economic geography, access to land, public infrastructure (particularly in the transport, electricity and ICT sectors) and the underdeveloped financial sector are key constraints to economic growth and private sector development.** While broad-based reforms to address these constraints are unlikely to trigger higher economic growth in isolation, relaxing these constraints can reduce production costs and increase service quality for both the private and public sectors. This can help to increase competitiveness in the fisheries sector, unlock new opportunities for Marshallese workers, and improve the efficiency and quality of public (and private) service delivery.

14. **RMI also needs to manage the effects of key risks to growth and sustainability to ensure these do not undermine long-term development goals.** RMI faces three key risks to growth and sustainability: (i) climate change and natural hazards; (ii) the scheduled expiration of the Compact-related grants in 2023; and (iii) the dual burden communicable and non-communicable diseases (NCDs). For example, a 0.5-meter sea level rise could lead to regular flooding of 90 percent of Rairok Islet—the site of Majuro's international airport (World Bank, 2021). Estimates of the best- and worst-case climatic scenarios over the coming 20 years suggest that the annual cost of priority actions in coastal and infrastructure adaptation are 9–25 percent of GDP (World Bank, 2017). In the worst-case scenario, the ending of all Compact-related grants would result in a large macroeconomic shock, resulting in a substantial fall in output, employment and core public service delivery. This highlights the need for a long-term fiscal adjustment to bolster long-term

fiscal sustainability. Over the long term, the economic burden of NCDs is projected to more than double, from 6.3 percent of GDP in 2015 to 13.6 percent of GDP by 2040 (Hou et al., 2016). Policy measures to address these risks and reduce their costs will be crucial to ensure that their effects do not undermine development gains. In addition to these emerging risks, authorities also need to carefully consider the potential risks to macroeconomic stability from national policy settings, such as the planned introduction of the Sovereign virtual currency (SOV). Introduction of the SOV could heighten the risk of RMI losing its last remaining US dollar correspondent banking relationship (CBR), which could lead to significant negative economic impacts.

15. **While the COVID-19 pandemic has caused acute economic and fiscal pressures, the crisis has not fundamentally changed the key drivers, challenges, and opportunities to deliver higher long-term incomes and living standards.** Strict border-entry policies drove the economy into recession in FY20, with output projected to contract further in FY21, resulting in substantial job losses. Yet, large parts of government revenues are relatively protected from the downturn in domestic activity—particularly development partner grants and fisheries sector revenues—limiting the fiscal shock. Overall, the crisis is not expected to have long-term detrimental effects on the fisheries sector or the opportunities to access higher incomes in both the domestic and US labor markets. However, the crisis has delayed the fiscal consolidation required to protect long-term fiscal sustainability. It has also diverted limited GoRMI capacity from long-term priorities, such as efforts to improve health and education outcomes and enhance resilience to climate change.

(I) FISCAL SUSTAINABILITY AND SERVICE DELIVERY

16. **Despite the need to build fiscal buffers to support long-term fiscal sustainability, the recent structural increase in fisheries sector revenues has financed a rapid increase in current spending.** GoRMI revenues from fishing license fees increased from US$1.5 million (1 percent of GDP) in FY09 to US$30 million (over 13 percent of GDP) in FY20. This was due to implementation of the Parties to the Nauru Agreement (PNA) purse seine Vessel Day Scheme (VDS)—a regional scheme that establishes the minimum daily price to fish in regional waters and limits the total number of fishing days sold. Despite the risks regarding long-term fiscal sustainability, these windfall revenues fueled a 57 percent increase in current spending over the period FY14 to FY20 (equivalent to 10 percent of GDP). This reflected an increase in repairs and maintenance spending, but also large transfers to SOEs, local governments, and to the social security system to address its large unfunded liabilities. Despite the expansionary fiscal policy, GoRMI registered an average surplus of 2.4 percent of GDP over this period.

17. **While fiscal resources have expanded rapidly, public financial management (PFM) remains weak.** The tax regime is distortionary, inefficient and lacks buoyancy (that is, responsiveness of tax revenues to increases in GNI). The fiscal framework lacks expenditure controls and a long-term fiscal strategy. Consequently, windfall fisheries sector revenues have not been used to bolster long-term fiscal sustainability. The legislative and institutional frameworks that govern public borrowing are also weak. The CTF distribution rules create the possibility of highly unstable annual distributions. Finally, the current financial management information system (FMIS) is outdated and lacks key budget preparation and commitment control modules, inhibiting accurate and timely reporting and the timely exercise of expenditure controls.

18. **Given the importance of the public sector to the economy, improving the quality of spending in core public service functions, such as human resource management (HRM) and procurement, is important to providing efficient service delivery.** As in other PICs, the wage bill in RMI accounted for around a third of total spending in FY20 (21 percent of GDP), making its management critical to overall fiscal sustainability. Public servants are also a key input to public services, like education and health care, which in turn are critical to development—to improving people's security, health, skills, and livelihood opportunities. Fair, effective, and efficient civil service HRM systems and processes are thus crucial to support service delivery.

19. **Despite having relatively good control of the overall wage bill compared to its peer countries, GoRMI faces several challenges regarding public sector remuneration and HRM.** The public sector wage bill has remained contained over the past 15 years, with average wages and the headcount increasing only modestly. As a result, the overall wage bill has fallen as a share of spending and GDP. However, various ministries report that the manual public-sector HRM processes are inefficient, opaque and are among the most serious constraints to improved service delivery. This reflects several challenges: an outdated remuneration framework; delays in implementing an integrated HRM information system (HRMIS); inefficient and ineffective recruitment and promotion; and weak performance management.

20. **Procurement remains a key bottleneck for efficient service delivery.** The current legislative framework for procurement is outdated, implementing regulations have never been issued, and a 2017 compliance audit found serious deficiencies in the implementation of procurement policies. Overall, this has led to procurement processes that are highly inefficient and fragmented, with line ministries citing procurement inefficiencies as a key constraint to service delivery.

21. **Efficient and equitable public service delivery in the social sectors is crucial to build human capital and to take full advantage of RMI's limited opportunities to generate higher income and jobs.** Given the RMI's economic geography, service delivery in the education and health sectors is predominantly financed and provided by government. Over the past 15 years social sector spending has remained high as a proportion of total

spending, relative to RMI's level of income, and compared to RMI's peer countries. Yet, outcomes are low and have improved only modestly over that period. As a result, RMI's HCI is among the lowest in the Pacific and low for its level of income. Given the high level of spending and uncertainties regarding the size of the resource envelope post-FY23, improving human capital outcomes will need to come from greater spending efficiency. Improving RMI's human capital is crucial to fully exploit the development opportunities presented by the fisheries sector and domestic and overseas labor markets.

22. **Low education quality and completion rates are symptoms of an inefficient education system that fails to prepare Marshallese youth for a productive life.** The key challenges are: (i) limited early childhood education; (ii) a low secondary school completion rate; (iii) low education quality, with most students not meeting minimum national standards across all subjects; and (iv) misalignment of secondary and post-secondary education with the needs of the labor market. The result is an education system where children are ill-prepared to enter primary school, most do not complete secondary school, and even while they attend school, the quality of education is not sufficient to prepare them to enter the labor market (either domestically or overseas). As a result, education sector spending is highly inefficient. These challenges are compounded by a lack of professional development and training for teachers and principals, insufficient autonomy for schools regarding their operational budgets, and the limited involvement of local communities in education governance.

23. **The health sector faces several challenges to improve outcomes and spending efficiency stemming from its hospital-centric service delivery model and financing architecture.** The key challenges are: (i) low quality of primary level health care; (ii) a shortage of trained health professionals and insufficiently trained staff, particularly at the primary level; and (iii) a high level of fragmentation in health programs and financing. Health services are provided at three levels: health dispensaries (clinics), two hospitals (in Majuro and Ebeye), and overseas medical referrals (OMR) for tertiary level care. Quality of care at dispensaries is low, which is linked to the low level of training of health assistants and a lack of basic supplies. These are due to very limited budget, which reflects the low priority given to primary health care. As a result, patients go to the hospital for services that should be provided in a dispensary. Hospital care is expensive to deliver. Delivering essential services at the hospital level is thus highly inefficient. There is a shortage of trained health professionals across the sector, but the challenge is most acute at dispensaries. Finally, the health system is structured based on RMI's health financing architecture. This results in considerable overlap across health programs and fragmentation in planning, budgeting and resource management. This leads to inefficiencies and limits the responsiveness of health spending to emerging priorities, as rigidities in health financing sources determine expenditure priorities. The result is a health system that delivers outcomes and access to services that are low relative to RMI's level of income and public spending on health.

(II) THE FISHERIES SECTOR

24. **The fisheries sector is a key driver of economic activity and a crucial source of GoRMI revenues.** With an exclusive economic zone (EEZ) of around two million square kilometers, just 181 square kilometers in land area (less than 0.001 percent of its EEZ), RMI is keenly aware of the importance of its tuna resources. Representing over 15 percent of GDP, fluctuations in fisheries output are an important contributor to the volatility of overall economic growth. Furthermore, surging fishing license fees now represent 20 percent of GoRMI revenues. Prudent management of RMI's purse seine VDS allocation, and fishing resources more generally, is thus crucial for economic growth and public finances. This study outlines a two-pronged approach to maximize the development gains from the fisheries sector: (i) coordinated actions to strengthen regional integration while maximizing rents; and (ii) domestic actions to maximize income and jobs and enhance the enabling environment for private sector development.

25. **While there are several opportunities to increase national income, the sector also faces important challenges.** Aside from the challenges associated with RMI's economic geography, the sector also faces challenges related to: the long-term decline in tuna resources in RMI's EEZ due to climate change; inefficient financial incentives; a lack of access to the European Union (EU) market for exports; high workforce turnover; and increased regional competition for fish transshipment. Some of these challenges can be addressed through policy action. The long-term decline in RMI's tuna resources suggest that it is in the nation's benefit to pursue closer regional cooperation to maximize the long-term benefits from the jointly managed resource.

(III) AN UNSKILLED LABOR FORCE

26. **The acute shortage of skilled workers constrains private sector development and limits the opportunities for Marshallese to access better quality jobs, both domestically and overseas.** The RMI's domestic labor pool is currently unable to provide enough workers with the appropriate skills, experience, and personal traits and attitudes required by the private sector. As a result, businesses are forced to look abroad for skilled workers. However, recent changes to the legal framework regarding foreign workers have made this process more complicated in some cases. The unemployment rate remains high, despite unmet private sector demand for unskilled labor. Furthermore, Marshallese living in the US have lower household income relative to other migrant groups, primarily reflecting their lower skills base. Yet inward international remittances to RMI are significant, have been increasing over time, and are predominantly directed towards low income areas—highlighting their role in alleviating poverty.

(IV) CLIMATE CHANGE AND NATURAL DISASTERS

27. **Climate change and natural hazards pose a serious threat to achieving RMI's development goals in the short to medium term and threaten the nation's existence in the long term.** RMI is already one of the most vulnerable nations in the world to natural hazards, including tropical storms, droughts and flooding. Climate change has the potential to raise the frequency and intensity of these threats. It also brings new threats, particularly in the form of sea level rise. With most land less than two meters above sea level, sea level rise threatens to make numerous parts of the country uninhabitable over the next 30 years. One study indicates that land on which three-quarters of the population currently live could be below the annual flood level by 2050 (Australian Bureau of Meteorology and CSIRO, 2014). Climate change adaptation and disaster risk mitigation and management are thus central issues for policy, livelihoods and households but the high costs of adaptation require careful strategic choices. Transformational adaptation and resilience measures will be needed in the short, medium, and long term.

RECOMMENDATIONS

28. **A summary of the recommendations is provided below and in Table 1.** The key recommendations are summarized under five themes: (i) the management of public finances; (ii) public service delivery; (iii) the fisheries sector; (iv) the labor market and labor mobility; and (v) climate change.

(I) ENHANCE FISCAL STABILITY AND SUSTAINABILITY

29. **Achieving long-term fiscal sustainability and macroeconomic stability will require focused efforts to: (i) maximize public revenue generation; (ii) strengthen the discipline, transparency and efficiency of the fiscal framework; and (iii) increase the efficiency and quality of spending, particularly education and health service delivery.** The first is closely related to the development and management of fisheries resources and long-considered tax policy reform. The second involves unwinding the recent increase in recurrent spending—including through measures to improve the efficiency and accountability of SOEs—combined with reforms to strengthening core PFM frameworks regarding planning and budgeting, fiscal responsibility, debt management, procurement and HRM. Regarding the third, education and health services are crucial public-sector enablers for building human capital and increasing the quality of the domestic labor pool to take full advantage of the domestic and overseas labor opportunities available to Marshallese citizens.

30. **Ensuring long-term fiscal sustainability and macroeconomic stability will require a fiscal adjustment of 5—6 percent of GDP over the period FY22 to FY35.** The expected continuation of US financial support has alleviated the pressure for a sharp fiscal adjustment in the short term. However, US support is unlikely to continue indefinitely. Consequently, there is a need to undertake a multi-pronged fiscal adjustment of 5—6 percent of GDP over the coming 15 years to maintain long-term fiscal sustainability. Starting early will allow for gradual adjustments to be phased in, while also helping to build fiscal buffers sooner and to higher levels over the long term. The adjustment could be achieved by partially reversing the recent increase in recurrent spending (around 4—5 percent of GDP) while preserving spending on health and education. On the revenue side, implementing growth-friendly tax reform and improving revenue administration could also contribute to the fiscal adjustment (around 1 percent of GDP). This adjustment would help to build the CTF to a level that would allow for future annual disbursements equivalent to the CSGs, while protecting the real value of the CTF.

31. **Achieving the necessary long-term fiscal adjustment will require reform to increase tax revenue by modernizing the tax regime and improving its efficiency.** To this end, the recommendations from the Tax and Revenue Reform and Modernization Commission (TRAM) from 2010 should be revisited, including: (i) reforming personal income tax; (ii) introducing a net profits tax; (iii) introducing a consumption tax to replace the gross revenue tax; and (iv) replacing existing import duties with excise taxes. Efforts to improve revenue administration and implementation capacity should also continue. Increasing 'sin taxes' (excise tax rates on tobacco, alcohol and sugar-sweetened beverages) should also be considered to promote behavior change and address the NCDs crisis.

32. **There is a need to modernize and strengthen the legislative and institutional frameworks that govern, and provide discipline to, the design of fiscal policy, planning and budgeting, and borrowing decisions.** The Financial Management Act (FMA) needs to be reviewed and modernized to be consistent with current practices in budgeting, accounting and reporting. Regulations to support implementation of the FMA should be developed and adopted. The proposed Fiscal Responsibility and Debt Management Act (FRDMA) and associated regulations include several measures designed to improve the consistency and sustainability of long-term fiscal management and enhance accountability. They also strengthen the rules governing borrowing and debt management. The revised FMA, FRDMA and their regulations—currently under preparation with support from a World Bank-funded project—should be enacted in the short to medium term. Efforts to embed and strengthen the medium-term planning and budgeting framework, including the linkages between capital and recurrent spending, should be continued.

33. **Securing long-term fiscal sustainability will also require sustained efforts to reduce current expenditure, including SOE subsidies.** Implementation of a medium-term expenditure framework which limits spending growth would promote stability and enhance fiscal and economic sustainability. In the event of a negative fiscal shock,

a medium-term framework would allow for a more gradual spending adjustment and avoid rapid cuts, reducing economic volatility. In the short term, greater spending discipline will need to include efforts to improve the performance of, and reduce subsidies to, the SOE sector. To improve the efficiency of SOEs, community service obligations (CSOs) for the four key SOEs—Air Marshall Islands (AMI), Marshall Islands Shipping Corporation (MISC), Tobolar Copra Processing Authority and Marshalls Energy Company (MEC)—should be finalized and implemented in the short term. This is being supported by Asian Development Bank (ADB)-funded technical assistance. CSOs should be extended to other SOEs in the medium to long term, along with close monitoring and adjustments to CSOs as required.

34. **The efficiency of the copra subsidy[2] should be carefully evaluated in the short term, and reform to the scheme considered in the medium to long term.** The rapid increase in the copra subsidy in recent years represents a significant fiscal threat. The subsidy is highly inefficient, and its effectiveness to protect livelihoods in neighboring islands is an open question.[3] Establishing a formal social protection mechanism or redirecting the subsidy to incentivize production of staple foods could be more efficient mechanisms to support livelihoods. The latter could also help address malnutrition which causes stunting in children and NCDs in adults—two key challenges to building human capital in RMI.

35. **Reform to the CTF distribution rules can help to enhance fiscal independence and stability.** The current CTF distribution rules create the possibility of highly unstable annual distributions post-FY23. Alternative rules provide greater stability and sustainability of the CTF corpus but at the cost of lower annual distributions to the budget. Reform of the CTF rules will require an act of the US Congress. GoRMI should seek amendments to the CTF rules as part of the Compact negotiations. An optimal result would be a change in the rules coupled with additional funding to increase the CTF corpus relative to the target annual distributions.

36. **Implementation of the new FMIS will support effective management of public resources and improved financial reporting and accountability.** It will do so by allowing the automation and integration of key underlying processes for budget formulation, budget execution and financial reporting. The provision of accurate and comprehensive budget reports is critical to support effective planning, budgeting and monitoring, and ultimately, improved service delivery. Implementation of the new FMIS is a priority in the short term. Embedding the new system and businesses processes, along with the required ongoing capacity building and training, should be pursued over the medium and long term. This is supported by an ongoing World Bank-funded project.

2 GoRMI pays a fixed, subsidized price per pound to incentive copra production. The subsidy is generally viewed as a quasi-social protection scheme, to the extent that it serves as a transfer to households in non-urban areas.

3 'Neighboring islands' refers to atolls, islands and communities outside of the two urban centers of Majuro and Ebeye.

37. **Substantial technical assistance and public consultations will be required to achieve this ambitious but necessary reform agenda.** Given GoRMI's capacity constraints, long-term technical assistance will be required to support the design and implementation of these key PFM reforms. Many are already being supported by development partners. Those that are not should be prioritized for external support. Another key challenge to realizing these reforms is securing public support. Ineffective communication was a major factor that derailed tax reform in 2010. Sustained, meaningful public dialogue—supported by technical analysis and advice—will be crucial to achieve politically supportable and administratively feasible reform, particularly to the tax system and SOE management.

(II) ACHIEVE EFFICIENT AND EQUITABLE SERVICE DELIVERY

Improving public sector human resource management

38. **A comprehensive review and modernization of the GoRMI pay scales is required to ensure they are consistent with minimum wage legislation and restore equity across skills sets and pay bands.** The pay scale for public servants has been fixed since FY97, with no adjustment for any cost-of-living changes over the subsequent two decades. As the minimum wage has increased, progressively more levels of the public service pay scale have fallen below the minimum wage. In response, it appears that public servants have been pushed to levels above their job or qualifications to avoid paying wages below the minimum wage. This is likely to have led to an increase in inequity across the public service (that is, where employees with lower skills and responsibilities are now paid the same as employees with higher skills and responsibilities). Such distortions can have adverse impacts on the public service's ability to attract, retain and motivate the people it needs and to deliver the performance it wants.

39. **To support improved productivity and service delivery, implementation of the HRMIS is a priority in the short term, while a gradual shift towards a performance-based HRM system should be pursued in the longer term.** GoRMI purchased an HRMIS in 2016, but it has yet to be fully implemented. Full implementation of the HRMIS, and interoperability with the new FMIS, are priority actions to support streamlined and effective approaches to managing all aspects of HRM. Effective performance management, including merit-based recruitment and promotion, are crucial to incentivize and reward good performance. In the medium and longer term, GoRMI should gradually strengthen the foundational components of a performance-based HRM system, including job descriptions and titles, and job evaluation frameworks.

Strengthen procurement to improve value for money

40. **Modernizing the legal framework and processes for procurement are essential to improve the value for money of public expenditure and reduce delays that inhibit service delivery.** Reform is urgently needed to modernize the legal framework and streamline business processes and procedures, which can help to improve the cost effectiveness and timeliness of purchases. Technical assistance under a World Bank-funded project is supporting this reform. In line with implementation of the new FMIS, GoRMI should also move to electronic, system-based procurement recording and approvals, which should streamline administration and reduce delays.

Improve education quality and efficiency

41. **Improving education quality and efficiency will require a focus on improving access to early childhood education, the quality of teaching, and the collection and use of data to inform policy and resource allocation.** At around 23 percent of total spending (over 15 percent of GDP), RMI's education system has ample resources relative to regional peers and global averages. Yet, increased inputs are not translating into improved learning outcomes. This indicates that more attention is needed to improve how services are being delivered. Spending allocations by level of education (early education, primary, secondary and tertiary) and by type of spending (wage bill, operational, capital) are not inappropriate, and there is no clear evidence of wastage. Given the expected overall fiscal envelope post-FY23, improving learning outcomes will require doing more with the current level of resources. This will require difficult tradeoffs. Priority areas for improvement are: (i) access to early childhood education; (ii) the quality of teacher/student interactions in the classroom; and (iii) the collection and use of integrated school-level data to inform policy, planning and budgeting.

42. **To better prepare children for primary school, GoRMI should continue to expand the delivery of early childhood stimulation, while also prioritizing the development and implementation of public preschool education.** In the short term, the Ministry of Education, Sports and Training (MOEST) should continue efforts to improve the coverage and quality of the home-based parental support program for vulnerable households in Majuro and Ebeye. In the medium and longer term, MOEST should continue to develop the institutional, regulatory, physical and human resources required to improve the quality of existing private preschools and establish new public preschools. Both are being supported by an ongoing World Bank-funded project. Authorities may need to reprioritize some aid-funded capital works for primary schools towards establishing new public preschools; and investigate the potential for shared facilities.

43. **Improving the quality of primary and secondary education will require improvements in teaching via enhanced professional development support for principals and teachers.** Aside from family socioeconomic characteristics, teachers are the most important factor affecting student learning. Numerous studies have shown that improving the quality of instruction via teacher training and coaching/mentoring can have large and persistent impacts on learning outcomes (Piper & Korda, 2010; Pianta, 2011; Paxson & Schady, 2010). Given widespread poor learning outcomes, such training should focus on up-skilling teachers to effectively undertake regular classroom assessments to evaluate student progress against a set of core skills and standards. This should be complemented by training on differentiated instruction (teaching to support students at different levels of proficiency) and multi-level teaching—especially for teachers in neighboring islands. However, given RMI's dispersion, centralized coaching/mentoring will be extremely costly. Instead, professional development for principals should focus on enhancing their pedagogical leadership and better equipping them to provide teachers with regular observation, feedback and coaching/mentoring. Support is currently being provided by an ADB-funded project.

44. **The Public School System (PSS) should expand and improve the collection and analysis of data on schools, students, teachers and funding to better inform policy design and resource allocation.** Integrated school-level data is essential to evaluate the efficiency of spending and inform resource allocation and policies to improve learning outcomes. Issues with the quality and timeliness of data undermine transparency, accountability, and the ability of authorities to set priorities and allocate resources to improve performance. The PSS should continue to focus on improving the education management information system (EMIS), including directly linking school-level data of different types so that it can be accessed in a format that facilitates analysis. At a minimum, this should include data on school funding, enrolments, Marshall Islands Standards Assessment Test (MISAT) scores, teacher qualifications and the school environment. Additional data should also be collected to determine the type and modality of training and support most needed by teachers and principals to enhance learning outcomes.

45. **In the longer term, PSS should review and amend the school funding allocation mechanism to ensure that it is transparent, consistent and tied to the needs of schools and students.** At present, financing for private and public schools is based on separate formulas, with the public-school funding formula not clearly formalized. Both formulas only partially take into account the needs of schools and students. The formulas should be reviewed and amended to ensure that they: (i) provide efficient and equitable funding that is based on each school's characteristics; and (ii) incentivize improved performance at the school level.

46. **The MISAT should also be reviewed and revised to ensure that it is fully aligned to the curriculum and adequately measures student performance.** To improve learning outcomes, authorities need a reliable instrument to measure what students know and evaluate whether recent interventions are leading to improved outcomes. A review should assess the extent to which the MISAT: (i) aligns to the primary and secondary curriculum; and (ii) accurately measures the desired learning outcomes. It should also seek to expand the usefulness of the MISAT to track learning trends over time and create linkages with regional and international assessments (such as the Pacific Islands Literacy and Numeracy Assessment). This could be done by including common items across years.

Strengthen the health system

47. **Strengthening the delivery of a prioritized package of cost-effective essential services at the primary level can help improve health system efficiency and reduce the dual burden of disease.** This will require the upskilling of health assistants through more comprehensive pre-service training, as well as periodic in-service training, and reforms to the supply chain to address stock-outs of essential supplies. These reforms should be accompanied by a revision of the medical referral system to ensure that patients are not referred to the hospital for services that could be delivered at health dispensaries (including gate keeping at the dispensary level for residents of Majuro and Ebeye), as well as a revision of the curricula for pre-service training of health assistants. These reforms could deliver a triple win for the health system by reducing: (i) the cost of service delivery; (ii) the burden on hospital staff; and (iii) the future cost on the health system from NCDs.

48. **In the short term, authorities should focus on improving the coverage of essential services in hospitals and clinics in Majuro and Ebeye and gradually roll-out these programs to neighboring islands.** First, GoRMI should establish a package of cost-effective primary health services to be piloted in Majuro and Ebeye. Over the longer term, the package should be extended to dispensaries and via outreach. Training curricula and the list of essential supplies (equipment and medicines) should be revised to ensure the readiness of health facilities to deliver the package of essential services. This reform agenda is being supported by a World Bank-funded project.

49. **While the reliance on OMR schemes is justified given the high per capita cost of delivering specialized services in RMI, the management of these schemes should be improved.** In the medium term, the Medical Records Information System (MERIS) should be updated to include financial data. This information should then be used to monitor the unit cost of referrals per condition, compare costs between different providers of OMR, and inform decision making on which services are eligible for medical referrals and where to send patients. The pre-negotiated OMR agreement with a provider in the Philippines represents a positive step and should be evaluated to understand its financial implications. Multi-country agreements with other PICs should also be explored, as such arrangements could reduce the cost of these schemes.

50. **To the extent possible, GoRMI should seek to consolidate US financial assistance to the health sector into a single block grant. The way the health system is financed matters. Spending trends are heavily influenced by the sources of revenue for the health sector.** Given the multiple sources of financing, the overall envelope is highly atomized. Furthermore, as several funding sources have strict expenditure eligibility criteria, health financing is rigid. Rigidities limit the health system's capacity to effectively respond to emerging needs and implement needed reforms. To address this constraint, GoRMI should seek to consolidate US Federal Government grants for health programs and Compact-related health sector grants into a single block grant. This will improve the fungibility of health spending, allowing GoRMI to respond to emerging needs and to implement health system reforms that cannot be financed using vertical, disease-specific grants. Moreover, the consolidation of funding streams can facilitate the consolidation of procurement practices that are inefficient.

(III) MAXIMIZE THE BENEFITS FROM FISHERIES RESOURCES

51. **At the regional level, reforms to strengthen the property rights characteristics of the VDS have the potential to increase the average vessel day price, allowing PNA members—including RMI—to capture a higher proportion of the rents.** Regional cooperation between PICs to limit access to their EEZs by fishing vessels has significantly enhanced their ability to capture resource rents in the form of access fees. Further reforms that provide greater flexibility and transferability of a VDS day would make the access right more valuable. Such reforms comprise: (i) increasing 'pooling' of VDS days (multiple PNA members jointly selling a portion of their VDS days and allowing the purchasing vessel to use these days in any of their EEZs); (ii) extending the duration of tuna fishing rights beyond one year; and (iii) allowing transferability of tuna fishing rights between authorized users (that is, permitting the exchange of VDS days on a secondary market). Implementation of these reforms could lead to an annual increase in RMI fisheries sector revenues of US$10–21 million (4.6–9.3 percent of GDP).

52. **At the domestic level, there are three key opportunities to maximize the benefits from the tuna fisheries.** These comprise: (i) enhancing the effectiveness of current fiscal incentives to the sector; (ii) strengthening the enabling environment for domestic value-added activities; and (iii) carefully managing the planned pilot project to create an RMI consolidated tuna trading company.

53. **Cost/benefit evaluations are necessary to determine the effectiveness of current financial incentives and—if financial incentives are to continue—GoRMI should consider adjusting their structure to directly incentivize domestic activity.** In an attempt to catalyze broader economic development and job creation, over the past decade GoRMI has provided financial incentives to fishing companies to base their vessels in Majuro and invest in on-island processing activities. However, these incentives do not appear to have delivered the expected benefits. In the short term, GoRMI should undertake detailed assessments of the benefits and costs of the current incentive arrangements to make an informed decision about the extent to which foregone revenues are generating net economic and social benefit for RMI. Foregone revenues should also be weighed against alternative uses of these resources, such as additional investments in the social sectors, critical infrastructure, and projects to strengthen climate and disaster resilience. Based on the detailed assessment, GoRMI should consider whether the incentives should remain, and if so, consider amending their structure to directly incentivize the desired activity (for example, via a rebate scheme based on the volume of fish processed). In the longer term, all financial incentives should be periodically reviewed to ensure they are achieving their desired objectives. In an optimal case, the incentives should be time bound.

54. **Securing duty-free access to the EU market could provide additional incentives for investment in onshore tuna processing.** Market access can be a major determinant in attracting investment in tuna processing. To obtain access to the EU market, exporting countries must meet EU-set standards regarding fishing sustainability, food safety and labelling. Meeting these standards involves the establishment of an entity, known as a Competent Authority (CA), that provides independent verification that the EU requirements are met. Certification of the Marshall Islands Marine Resources Authority (MIMRA) as RMI's CA is a priority in the short term. Even if RMI meets EU requirements, RMI exports of value-added tuna products would attract a 20.5 percent duty. This is too high to make RMI processed tuna exports competitive. However, these duties could be reduced or removed as part of bilateral Economic Partnership Agreement (EPA) with the EU. Passage of an EPA (or interim-EPA) in the medium term could encourage additional domestic investment and fish processing. In the region, Papua New Guinea, Fiji and Solomon Islands have approved CAs and interim-EPAs allowing duty-free EU market access for their fish exports.

55. **The pilot project to form an RMI-based consolidated tuna trading company represents a compelling opportunity to maximize the development impacts of the RMI's natural resources.** Under a radical reimagining of the industry, GoRMI is planning to create a trading company (named Pacific Islands Tuna Provisions, PITP) that will retain ownership of harvested fish, contracting harvesting, processing, distribution and marketing operations along the value chain. Financed by GoRMI's private sector joint-venture partners, PITP is designed to derive a higher proportion of the rents from tuna resources caught in RMI's EEZ, compared to the income generated via selling RMI's VDS days.

56. **However, there are also significant potential risks, which go beyond the immediate financial risks of the venture. As a pilot project, PITP is designed to test the feasibility of the concept.** If the pilot demonstrates positive results and there is interest in scaling up the initiative, then GoRMI should seek independent legal, financial and technical advice on the proposed model. Crucially, authorities should avoid providing any financial commitment or guarantee to the venture. If PITP demonstrates success, it may be in RMI's long-term interest to expand the project to other PNA members, given the projected long-term decline in RMI's tuna resources.

57. **Retaining MIMRA's independence is crucial to ensuring that RMI continues to maximize the benefits from its fisheries resources.** In 2019, a bill was introduced to the Nitijela (RMI parliament) to allocate all fisheries sector revenues to the General Fund, with MIMRA to receive an annual transfer as part of the budget process. If implemented, this reform would seriously undermine MIMRA's administrative and financial autonomy, which could have significant implications for its management. Maintaining MIMRA's legal and operational independence is crucial to ensure that it retains its commercial focus and can continue to attract and invest in the quality management, technical staff and technology necessary to efficiently and effectively manage RMI's fisheries resources.

(IV) STRENGTHEN THE LABOR MARKET AND LABOR MOBILITY

58. **Improving the quality of education and skills, and linking training with labor market needs, are necessary to improve employability and access to quality jobs both at home and overseas.** This requires strengthening education and training quality and access at all levels. The upskilling agenda must include a focus on both technical skills and qualifications, as well as soft skills commonly used in the workplace. Improved labor market information is key to resolving the skills mismatch and better resourcing vocational training. To this end, authorities should establish a labor market information system (LMIS) that includes a database of skills (for example, job seekers, school leavers and higher education graduates) and labor market needs. This information can be used to inform policy, and to provide incentives to training providers to deliver courses focused on occupational skills that are demanded by employers domestically and in key areas of the US. In the medium term, training programs to increase the supply of semi-skilled workers are more likely to yield economic gains, including in construction, wholesale and retail trade, and food manufacture (including fish processing). The LMIS information should also be used to improve the alignment of occupational skills offerings at secondary school with post-secondary providers and labor market needs. Finally, a more comprehensive skills needs assessment would be useful to further investigate the skills (both soft and hard) that Marshallese workers are currently lacking and substituted by foreign workers. This reform agenda is being supported by a World Bank-funded project.

59. **Support for Marshallese to enter the workforce, thereby gaining valuable soft skills and workplace experience, should also be a priority.** Individualized job counselling services and intermediation services which connect job seekers with employers can assist low-skilled Marshallese to secure formal sector employment. A temporary wage subsidy which is currently planned for low-skilled jobseekers can also help to provide work experience to this group and connect them with employers.

60. **Many of the reforms related to upskilling the workforce would support Marshallese seeking work in the US.** Improved education and vocational training, coupled with better development of English language proficiency and soft skills required in the workplace, can place Marshallese migrants on an improved footing in the US labor market. This will have long-term benefits for both migrants and for sending households in RMI. Support and guidance for prospective migrants relating to job searching can help to increase employment in the US. Labor market information from key US markets can inform education and training decisions. Authorities should consider establishing employment intermediation services that extend across international boundaries, as occurs in countries like the Philippines. Improved information on migration from RMI and on barriers to low-cost remittance should also be collected with a view to informing policy. A focus on Recognition of Prior Learning (RPL) would also be of value, enabling Marshallese with vocational skills gained in the workplace to gain recognition of these through formal qualifications, thereby improving their ability to secure quality employment (including on the US Army's Kwajalein military base in RMI).

61. **Reforms to clarify and streamline the process for employing foreign workers are warranted as RMI will always be reliant on foreign labor to some extent due to its small population.** First, a review of the Labor (Non-Resident Workers) Act 2018 is required. The legislation has reportedly made it more difficult to bring back foreign workers who have left RMI at the end of a previous work contract, requiring a three-year waiting period before a worker can return to RMI in some cases. This requirement is a constraint on the domestic private sector. A review of the Act and the implementation of supporting r-egulations could help to clarify the law and strengthen the consistency of its application. Second, streamlining separate work permit and visa applications would help to speed up processing times for foreign worker permit applications.

(V) ENHANCE RESILIENCE TO THE EFFECTS OF CLIMATE CHANGE AND NATURAL DISASTERS

62. **The challenge for RMI is the need to address both immediate disaster risks alongside planning for longer term adaptation needs.** In the short term, this requires strong disaster risk management (DRM) planning, better early warning systems for multiple hazards, and improved collection and use of multi-hazard information to guide urban planning and public infrastructure options. These needs are articulated in the National Disaster Management Office (NDMO) Roadmap, which identifies priority infrastructure, equipment, strategies, action plans and procedures which require strengthening. Activities should be prioritized in line with the Roadmap. There is also a need to better integrate DRM, resilience and climate change adaptation considerations across all national, sector and corporate plans, and the budget process.

63. **Resilience to climate change requires a strong adaptation framework and plan, adoption of a national building code, and deeper consideration on land use and planning.** To guide GoRMI's long-term adaptation planning, GoRMI has begun preparations of a National Adaptation Plan (NAP) which will include an assessment of medium- and long-term adaptation needs, a prioritized and costed set of investment projects, an analysis of financing options, and a framework for community engagement on longer-term adaptation needs and pathways. Implementation of the NAP is vital to ensure both short- and longer-term resilience. Enhanced adaptation will also require the adoption of a national building code and strengthened zoning plans to improving the resilience of commercial, government and residential buildings. Given the long-term threat of land loss due to sea level rise, there is also a need to consider large-scale or complex land reform, while protecting the social, political and cultural values reflected by customary land tenures. Finally, setting frameworks for community engagement in adaptation planning is important to ensure that citizens are included in decision making regarding how to respond to long-term climate change. Engagement processes could potentially build on existing initiatives such as the Reimaanlok framework, which support community engagement practices for coastal adaptation to climate change in neighboring islands. Some of these activities are currently being supported by World Bank technical assistance.

64. **While climate change and natural disasters have an overall negative impact on RMI, implementation of climate adaptation measures would not only help to protect jobs, but also create new jobs primarily in the construction sector.** For all the opportunities and threats discussed, there will also be increased demand for highly specialized technical and managerial skills. While, at present, many of these skills are imported, with adequate investments in education and training it could be possible to fill at least some of these positions locally.

CONCLUSION

65. **Addressing RMI's substantial development needs will require a two-pronged strategy to: (i) maximize development partner grants and international climate financing; and (ii) strengthen the budget process and project prioritization.** The nation's substantial development needs mean that GoRMI faces some difficult policy tradeoffs. Securing long-term fiscal sustainability requires the accumulation of fiscal buffers. Aged public infrastructure requires substantial maintenance and/or replacement. Addressing the urgent need to improve the quality of education and health services requires financial and technical resources. Finally, enhancing resilience to climate change requires substantial investment. Annual financing needs for these priority areas are well over 10 percent of GDP. Closing this financing gap will require efforts to maximize development partner and international climate financing. Authorities should seek all financing on grant terms, given RMI's high risk rating under the IMF/World Bank Debt Sustainability Analysis. These large financing needs also reinforce the importance of carefully assessing the effectiveness of the copra subsidy and incentives in the fisheries sector. They also highlight the need to improve the quality of current spending and to address rigidities and inefficiencies that limit the responsiveness of spending to emerging priorities. Finally, continued efforts to strengthen the budget process—particularly regarding project screening, appraisal and selection—are important to ensure GoRMI's scarce resources (both domestic and development assistance) are allocated to achieve maximum social returns.

66. **Maximizing the impact of development assistance will also require concerted efforts to build GoRMI capacity for project management and implementation.** In recent years, World Bank and ADB financing to RMI has more than doubled. Additional financing will be needed to meet RMI's substantial development needs. Yet, GoRMI's limited capacity is already stretched (in FY19, GoRMI recorded over 200 separate aid-financed activities, each with their own rules and reporting requirements). The pressure for more (and increasingly complex) projects will require concerted efforts by development partners to: (i) build GoRMI's long-term capacity for project management and implementation; (ii) provide complementary capacity to support GoRMI; (iii) enhance donor coordination (including joint projects); and (iv) consider the role of budget support to complement project financing. In the absence of these measures, there is a risk that increasing financing could be accompanied by a decline in development effectiveness.

Table 1: CEM/PER summary of recommendations

*Priority actions listed in **orange***

Objective	Short-term action (1–2 years)	Medium-term action (2–4 years)	Longer-term action (4+ years)
FISCAL STABILITY AND SUSTAINABILITY			
Establish a modern PFM legal framework that supports a prudent, transparent and disciplined fiscal regime	• Finalize and implement the **Fiscal Responsibility and Debt Management Act** (FRDMA) and associated **regulations**. • Revise, modernize and implement the **Financial Management Act** (FMA) and regulations.	• Revise, modernize and implement the new **Public Procurement Code and associated regulations**.	• Seek the **consolidation of health sector funding into a single block grant**, to reduce fiscal rigidities and ensure health spending is responsive to sector needs.
Strengthen planning and spending execution to support public sector effectiveness	• Continue to embed and **strengthen the medium-term planning and budgeting framework**, including the linkages between capital and recurrent spending.		
	• **Implement the new FMIS**, including an upgraded Chart of Accounts, and ensure interoperability with the HRMIS.	• Gradually transition existing GoRMI financial management systems to the **new FMIS** (including PSS and MOHHS from Abila to the new FMIS).	
Enhance revenue mobilization to create fiscal space	• Develop and implement **broad tax reform strategies** (revisit the **TRAM** recommendations) including: (i) reforming the personal income tax; (ii) introducing a net profits tax; (iii) introducing a consumption tax to replace the gross revenue tax; and (iv) replacing existing import duties with excise taxes. • **Increase 'sin taxes'** (excise tax rates on tobacco, alcohol and sugar-sweetened beverages) to raise revenue and promote behavior change to address the NCDs crisis. • **Amend the CTF distribution rules**.		
Improve efficiency of SOEs and transparency of resource allocation	• Finalize and implement the **CSOs** for four key SOEs. • Review the **Tobolar (copra) subsidy**.	• Monitor implementation of the first phase of SOE **CSOs** and adjust as required. • Finalize and implement **CSOs** for another set of SOEs. • Consider **(partial or full) replacement of the copra subsidy** with an alternative structure for adaptive social protection payments, including via alternative mechanisms (such as a cash transfer program or greater funding for public services) or via incentives to produce alternative crops for domestic markets.	
EFFICIENT AND EQUITABLE SERVICE DELIVERY			
Strengthen public-sector HRM and systems to improve service delivery and reward performance	• Update the **PSC remuneration framework**. • Roll out the **HRMIS** while ensuring interoperability with the new FMIS.	• **Strengthen the foundations for performance-based HRM**, including job titles, job descriptions, and job evaluation framework.	• Design and begin implementation of a PSC **Performance Management System** that introduces performance-based remuneration incentives.
Improve education system quality and efficiency	• Increase access to **early childhood education** via expanded delivery of early childhood stimulation and the establishment of public pre-schools. • Strengthen **professional development support for principals and teachers**, including: (i) coaching/mentoring training for principals; and (ii) classroom assessment and differentiated (i.e. multi-level) teaching skills for teachers.		
	• **Collect, compile and analyze data on students, teachers, schools and funding** (including by grouping data at the school level) to improve policy design and resource allocation.	• Disseminate **School Report Cards** and establish **School Boards** in all schools to encourage greater community participation in school management and performance.	• Review and revise the **school funding allocation mechanism**. • **Review and revise the MISAT exam** to ensure the instrument is fully aligned to the curriculum and adequately measures student performance.
Strengthen the delivery of essential health services	• Develop a **package of essential health services** for both urban and neighboring island areas. **Implement a pilot** of the package in Majuro and Ebeye. **Review health assistant's training curricula** accordingly.	• Expand implementation of the **package of essential health services to neighboring islands**, potentially using alternative service delivery models. • Upskill health assistants—such as via the Health Assistant Training Program—to be able to address more complex cases, particularly the management of NCDs.	
Review the Medical Referral Schemes		• **Update the Medical Records Information System** (MERIS) to include financial data and monitor the costs of inter-island and off-island referrals.	• **Evaluate the Third-Party Administration scheme in the Philippines** and consider similar arrangements in other destinations.

Objective	Short-term action (1–2 years)	Medium-term action (2–4 years)	Longer-term action (4+ years)
MAXIMIZE THE BENEFITS FROM FISHERIES RESOURCES			
Maximize returns in the fisheries sector via deeper regional cooperation	• **Advocate for reforms to strengthen the purse seine Vessel Day Scheme** to maximize the economic benefits derived by the PNA members, including in the following areas: (i) increasing "pooling" of VDS days; (ii) extending the duration of tuna fishing rights (e.g. from one year to three, five or even ten years); and (iii) allowing transferability of tuna fishing rights between authorized users.		
Enhance the effectiveness of domestic fishing vessel and processing incentives	• Undertake a **detailed assessment of the benefits and costs of the current incentive arrangements** to determine if the incentives are delivering sufficient net social benefit to justify their continuation.	• **Based on the detailed assessment, consider**: (i) amending/removing the incentives; or (ii) replacing the existing incentive arrangements with a rebate-based scheme to processing facilities based on tonnage of fish processed.	• **All incentives should be periodically reviewed** and presented to the Nitijela. (In an optimal case, the incentives should also be time bound).
Strengthen the enabling environment for catch onshoring and domestic processing	• MIMRA complete the accreditation process for establishing an **RMI Competent Authority**.	• Seek to negotiate an **Interim Economic Partnership Agreement with the EU** to increase market access for domestically landed and processed fish exports.	
Implement the pilot for a domestic tuna trading company, avoiding GoRMI financial liability	• **Implement the pilot project** with the understanding that if it demonstrates positive results and there is interest to fund a scaled-up initiative, external funding will be utilized and there will be no commitment or guarantee of GoRMI or MIMRA funds.		• If the pilot demonstrates positive results and there is external funding to scale up the initiative, GoRMI should **seek independent legal, financial and technical advice on the proposed model**, paying particular attention to political and reputational risks.
STRENGTHEN THE LABOR MARKET AND LABOR MOBILITY			
Strengthen the skills profile of the Marshallese workforce to improve employability and address domestic skills gaps	• Develop and implement a **regular labor market survey and skills needs assessment**, with information from key destination areas in the US to be added over time. • Improve **alignment of occupational skills offerings at secondary school** with post-secondary providers and labor market needs.		
	• Establish a basic **Labor Market Information System (LMIS)**. • **Enhance employment intermediation services** offered by the NTC's Employment Center.	• Support development of **new vocational training courses that fill skills gaps** based on analysis of LMIS data. • **Enhance (and in some cases establish) counselling services** in secondary schools, TVET providers, and NTC Employment Centers which offer career guidance/job coaching and referral services to education/training providers and employers. • Establish a **work placement scheme** for low skilled jobseekers.	• Develop a **Recognition of Prior Learning system** for RMI in key occupations, selected through the LMIS and including a focus on work available on the Kwajalein military base.
Maximize the benefits from open access to the US labor and education markets	• Support training of **English skills** for adults using the existing process for NTC-funding of short courses..	• **Establish employment services to facilitate overseas employment**, such as job search support services for Marshallese and outreach activities to US employers to encourage direct recruitment.	• **Establish employment intermediation services for migrants to the US in NTC.**
Clarify the legal framework and streamline processes to employ foreign labor to help address skills gaps	• **Streamline separate work permit and visa applications** for foreign workers.	• **Review the Labor (Non-Resident Workers) Act 2018** with a view to resolving the ambiguity regarding repatriated workers.	

Objective	Short-term action (1–2 years)	Medium-term action (2–4 years)	Longer-term action (4+ years)
ENHANCE RESILIENCE TO THE EFFECTS OF CLIMATE CHANGE AND NATURAL DISASTERS			
Establish robust adaptation planning that supports resilience to natural hazards and climate change	• Continue to **strengthen the integration of disaster risk management, resilience and climate change adaptation considerations across all national, sector and corporate plans**.		
	• Finalize development of the **National Adaptation Plan**, including initial stakeholder consultation.	• Implement, monitor and review the **National Adaptation Plan**.	
Improve capacity for disaster early warning and response	• Implement **strengthening of National Disaster Management Office (NDMO)** as set out under the NDMO Roadmap to improve NDMO capacity.	• Update and operationalize **Standard Operating Procedures (SOPs)** for the NDMO to improve Emergency Preparedness and Response, including emergency communication, and multi-hazard early warning messaging and communications. • With the support of development partners, develop a **package of contingent financing instruments** to support disaster resilience appropriate for RMI's risk profile.	
Strengthen building and infrastructure planning and construction to account for current and future natural hazards	• Strengthen and implement **zoning plans (implementation of the Planning and Zoning Act 1987)** and develop **building codes and regulations** that support: (i) multi-hazard and risk-informed planning, development and maintenance across public, private and commercial buildings; and (ii) improved resilience of key infrastructure (especially health facilities, schools, ports and key road sections).		
	• Devise **a land management and administration plan** that proposes steps towards a broader national policy dialogue on land for public purposes (state land) that would enable longer-term adaptation options.		

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