GRANT NUMBER D322-MH

Financing Agreement

(Project to Strengthen Budget Execution and Financial Reporting Systems)

between

REPUBLIC OF THE MARSHALL ISLANDS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
AGREEMENT dated as of the Signature Date between REPUBLIC OF THE MARSHALL ISLANDS ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient a grant, (which is deemed as Concessional Financing for the purposes of the General Conditions), as set forth or referred to in this Agreement, in an amount equivalent to six million two hundred thousand Special Drawing Rights (SDR 6,200,000) ("Financing"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

2.04. The Payment Dates are April 15 and October 15 in each year.

2.05. The Payment Currency is Dollar.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Effectiveness Deadline is the ninety (90) days after the Signature Date.

4.02. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is its minister at the time responsible for finance.

5.02. For purposes of Section 11.01 of the General Conditions: (a) the Recipient’s address is:

Ministry of Finance
P.O. Box D
Majuro
Republic of the Marshall Islands 96960; and

(b) the Recipient’s Electronic Address is:

Facsimile: 692-625-3607
E-mail: finsec@rmimof.com

5.03. For purposes of Section 11.01 of the General Conditions: (a) The Association’s address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and
(b) the Association’s Electronic Address is:

Telex: 248423 (MCI)  Facsimile: 1-202-477-6391  E-mail: cdpngpacific@worldbank.org

AGREED as of the Signature Date.

REPUBLIC OF THE MARSHALL ISLANDS

By

[Signature]

Authorized Representative

Name: Brenson S. Wase
Title: Minister of Finance
Date: July 18, 2018

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: Michel Kuf
Title: Country Director
Date: 21 June 2018
SCHEDULE 1

Project Description

The objective of the Project is to improve the completeness, reliability and timeliness of government’s annual financial statements, and the availability of reliable socio-economic statistics.

The Project consists of the following parts:

Part 1: Strengthening the Public Financial Management Environment

(a) Carrying out a program of activities designed to align and strengthen the Recipient’s legal and regulatory framework and internal procedures governing budget formulation and execution and financial reporting, including: (i) reviewing the existing legal and regulatory framework and internal procedures, and developing recommendations to strengthen said framework and procedures; (ii) developing a new chart of accounts; and (iii) preparing or updating, as the case may be, a Procedures Manual.

(b) Carrying out a program of activities designed to strengthen the Recipient’s legal and regulatory framework and internal procedures governing public procurement, including: (i) reviewing the existing legal and regulatory framework and internal procedures, and developing recommendations to strengthen said framework and procedures; (ii) preparing implementing rules and regulations for the Recipient’s revised legal and regulatory framework for public procurement; and (iii) standardizing public procurement documents, forms and templates.

Part 2: Financial Management Information System

Carrying out a program of activities designed to procure, design and implement a new Financial Management Information System (FMIS) for the Ministry of Finance, Ministry of Health and Human Services, and Public School System offices in Majuro and Ebeye, and other public offices as may be identified by the PFM National Steering Committee and agreed in writing by the Association, including: (i) conducting a review of the current FMIS security and functionality, and addressing urgent operational requirements identified in said review; (ii) conducting a system requirements study and identification of technical and functional specifications for the new FMIS; (iii) procuring and implementing the new FMIS software and associated electronic document management system; (iv) preparing sites within the existing public offices for FMIS utilization, including office connectivity, refurbishment, and hardware installation; (v) procuring and installing hardware necessary for FMIS use; (vi) identifying and supporting arrangements necessary for data centers for primary and disaster recovery centers; (vii) end-user training on FMIS usage for relevant government staff and technical support; (viii) subscriptions for telecommunications services necessary for reliable FMIS performance;
(viii) preparing and implementing a policy framework to ensure secure use and storage of FMIS information and technology assets; and (ix) technical assistance on public financial management, information technology security, and technical support as required.

Part 3: Change Management and Human Resource Development

(a) Carrying out a program of activities designed to support the preparation and implementation of a communications and change management strategy for the efficient implementation of the new FMIS, including: (i) preparing a communications and change management strategy; and (ii) stakeholder and public communication, engagement and outreach activities.

(b) Carrying out a program of activities designed to strengthen the Recipient’s human resource capacity to use the FMIS, including: (i) preparing a competency framework for public financial management related roles within the government; (ii) preparing a training plan of the Ministry of Finance, and developing training courses and partnerships; (iii) providing technical assistance to build capacity in select areas identified through the preparation of the above-described competency framework, including internal audits.

Part 4: Household Income and Expenditure Survey (HIES) implementation

Carrying out a program of activities designed to strengthen the Economic Policy Planning and Statistical Office’s capacity to conduct household income expenditure surveys (HIES), including: (i) preparing for and undertaking survey activities and data collection; technical assistance for data analysis and dissemination; and (ii) technical assistance and training to increase the statistics capacity of the Economic Policy Planning and Statistical Office.

Part 5: Project Management

Carrying out a program of activities designed to support and increase the capacity of the Ministry of Finance and the Economic Policy Planning and Statistical Office to manage and implement the Project, including supporting Project coordination, monitoring and evaluation, reporting, procurement, financial management, audit, safeguards management, and technical operation.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

PFM National Steering Committee

1. The Recipient shall provide oversight and strategic guidance for Project implementation through the PFM National Steering Committee in accordance with the provisions of this Agreement and the Project Implementation Manual.

2. To this end, the Recipient shall maintain until the Closing Date, the PFM National Steering Committee, chaired by its Chief Secretary (or such other person which the Association has confirmed in writing to the Recipient as acceptable to the Association), comprised of representatives from, inter alia, the Ministry of Finance, Auditor General's Office, the Public Service Commission, the Office of the Attorney General, the Office of the President, and the Economic Policy Planning and Statistical Office, and with an institutional framework, functions, and resources satisfactory to the Association as shall be required for the Project.

3. The Recipient shall provide technical advice and recommendations to the PFM National Steering Committee through the PFM Working Group in accordance with the provisions of this Agreement and the Project Implementation Manual.

4. To this end, the Recipient shall maintain until the Closing Date, the PFM Working Group, chaired by the Secretary of Finance (or such other person which the Association has confirmed in writing to the Recipient as acceptable to the Association), comprised of representatives from, inter alia, the Ministry of Finance, the Economic Policy Planning and Statistical Office, the Ministry of Health and Human Services, and the Public School System, and with an institutional framework, functions, and resources satisfactory to the Association as shall be required for the Project.

Project Implementation Unit

5. The Recipient shall maintain until the Closing Date the Project Implementation Unit within the Ministry of Finance with mandate, composition and resources satisfactory to the Association, which shall be responsible for providing day to day management of Project implementation in accordance with the provisions of this Agreement and the Project Implementation Manual. Without limitation to the generality of the foregoing, the Project Implementation Unit shall be chaired by the Secretary of Finance (or such other person which the Association has confirmed in writing to the Recipient as acceptable to the Association), and shall
also include the following key staff, or be supported by specialists within the Ministry of Finance each with terms of reference, qualifications and experience satisfactory to the Association: (a) a Project Manager; (b) an Assistant Project Coordinator; (c) additional technical specialists as may be needed; (d) a procurement specialist; (e) a safeguards specialist; (f) a communications specialist; (g) a monitoring and evaluation experts; and (i) a financial management specialist.

HIES Implementation Team

6. The Recipient shall maintain until such date as is required for the effective implementation of Part 4 of the Project as agreed in writing by the Association, the HIES Implementation Team, within the EPPSO, with mandate, composition and resources satisfactory to the Association, which, with support from the Project Implementation Unit, shall be responsible for implementation of Part 4 of the Project in accordance with the provisions of this Agreement and the Project Implementation Manual. Without limitation to the generality of the foregoing, the HIES Implementation Team shall be chaired by the Director of EPPSO (or such other person which the Association has confirmed in writing to the Recipient as acceptable to the Association) and include the following minimum key staff, each with terms of reference, qualifications and experience satisfactory to the Association: (a) a HIES manager; (b) a fiscal officer; (c) an assistant project coordinator; and (d) technical specialists as required.

B. Project Implementation Manual

1. The Recipient shall prepare and adopt, by no later than three (3) months after the Effective Date, a manual, in form and substance acceptable to the Association, setting forth the arrangements and procedures for implementation of the Project, including: (a) the institutional arrangements for day to day execution of the Project; (b) the arrangements for the implementation of the Environmental and Social Management Plan; (c) budgeting, disbursement, and financial management arrangements; (d) procurement arrangements and the Procurement Plan; (e) Project monitoring, reporting, and evaluation arrangements; (f) performance indicators for the Project; (g) the division of responsibilities and cooperative arrangements between the PFM National Steering Committee, the PFM Working Group, Project Implementation Unit, HEIS Implementation Team, the Ministry of Finance, the Ministry of Health and Human Services, Public School System, and EPPSO; and (h) the procedures and arrangements for identifying and involving additional public offices as may be required for the Project (“Project Implementation Manual”).

2. The Recipient shall ensure that the Project is implemented in accordance with the provisions of the Project Implementation Manual.
3. The Recipient shall obtain from the Association written agreement prior to assigning, amending, abrogating, or waiving the Project Implementation Manual, or any provision thereof, or permitting any entity participating in the implementation of the Project to do so.

4. In the event of any conflict between the provisions of the Project Implementation Manual and those of this Agreement, the provisions of this Agreement shall prevail.

C. Safeguards.

1. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Environment and Social Management Plan ("ESMP").

2. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall, in accordance with terms of reference satisfactory to the Association: (a) monitor the status of compliance with the ESMP; and (b) prepare and furnish to the Association, as part of each Project Report, a report on the results of such monitoring activities during the period covered by said Project Report, (or in addition to Project Report if circumstances warrant) giving details of:

   (a) measures taken in furtherance of the ESMP;

   (b) conditions, if any, which interfere or threaten to interfere with the effective implementation of the ESMP; and

   (c) remedial measures taken or required to be taken to address such conditions.

3. The Recipient shall carry out with due diligence all remedial measures agreed with the Association so as to ensure the proper implementation of the Project in accordance with the ESMP.

4. The Recipient shall ensure that:

   (a) all terms of reference for any technical assistance or studies carried out under the Project are consistent with the Association’s environmental and social safeguard policies, as well as the Recipient’s own laws relating to the environment and social aspects; and

   (b) in drafting any regulations, guidelines, corporate procedures, policies, standards or labelling and carrying out capacity building activities under the Project, due attention is given to said policies and laws.
6. In the event of a conflict between the provisions of any of the ESMP and those of this Agreement, the provisions of this Agreement shall prevail.

D. **Annual Work Plans and Budgets**

1. The Recipient shall prepare and furnish to the Association not later than:
   
   (a) four (4) months after the Effective Date (or such later date as the Association may agree); and
   
   (b) August 31 of each year for every subsequent year during the implementation of the Project (or such later date as the Association may agree);

   for the Association’s no-objection, an Annual Work Plan and Budget containing all eligible Project activities and corresponding expenditures, inclusive of Operating Costs, proposed to be included in the Project in the Recipient’s following calendar year, including a specification of the source or sources of financing for all corresponding expenditures, and environmental and social safeguard measures taken or planned to be taken in accordance with the provisions of Section I.C of this Schedule.

2. The Recipient shall ensure that the Project is implemented in accordance with the Annual Work Plan and Budget accepted by the Association for the Recipient’s respective calendar year; provided, however, that in the event of any conflict between the Annual Work Plan and Budget and the provisions of this Agreement, the provisions of this Agreement shall prevail.

3. The Recipient shall not make or allow to be made any change to the Annual Work Plan and Budget without prior no-objection in writing by the Association.

Section II. **Project Monitoring, Reporting and Evaluation**

1. The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

2. **Mid-Term Review**

   The Recipient shall: (a) not later than January 31, 2021 (or such other date as the Association may agree in writing), prepare and furnish to the Association a mid-term report, in such detail as the Association shall reasonably request, documenting progress achieved in the carrying out of the Project during the period preceding the
date of such report, taking into account the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section II, and setting out the measures recommended to ensure the continued efficient carrying out of the Project and the achievement of its objective during the period following such date; and (b) review with the Association such mid-term report, on or about the date one month after its submission, carry out a mid-term review of the Project, and thereafter take all measures required to ensure the continued efficient implementation of the Project and the achievement of its objectives, based on the conclusions and recommendations of the mid-term report and the Association's views on the matter.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to: (a) finance Eligible Expenditures; and (b) repay the Preparation Advance; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, non-consulting services, consulting services, Training and Workshops, and Operating Costs for the Project</td>
<td>5,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Refund of Preparation Advance</td>
<td>700,000</td>
<td>Amount payable pursuant to Section 2.07 (a) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>6,200,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date.

2. The Closing Date is September 25, 2023.
APPENDIX

Definitions

1. “Annual Work Plans and Budgets” means the annual work plans and budgets (including related cash forecasts) for the implementation of the Project, referred to in Section I.D.1 of Schedule 2 to this Agreement.

2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.


4. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.

5. “Chief Secretary” means the head of the Recipient’s Chief Secretary Office, established and appointed in accordance with Article VII, Section 2 of the Constitution of the Marshall Islands 1979.


7. “Environmental and Social Management Plan” or “ESMP” means the environmental and social management plan for the Project, dated March 22, 2018, prepared and adopted by the Recipient which sets forth details of measures to manage potential environmental and social risks and mitigate, reduce and/or offset adverse environmental and social impacts associated with the implementation of activities under the Project, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, its terms, and including a pest management plan, as the same may be amended and supplemented from time to time with the prior agreement of the Association.

8. “Financial Management Information System” and “FMIS” means the centralized system referred to in Part 2 of Schedule 1 to this Agreement, comprised of the computer programs, databases, associated processes, procedures and technology platforms that enable government finance and accounting staff to carry out their day-to-day operational tasks.

10. “HIES Implementation Team” means the team the Recipient’s team for the implementation of the household income and expenditure survey activities, described in Section I.A.6 of Schedule 2 to this Agreement.


12. “Ministry of Health and Human Services” means the Recipient’s Ministry of Health and Human Services, or any successor thereto.


15. “Operating Costs” means reasonable incremental expenditures incurred on account of Project implementation and based on Annual Work Plans and Budgets approved ex ante by the Association, including leasing and/or routine repair and maintenance of vehicles, equipment, facilities and office premises, fuel, office supplies, utilities, consumables, communication expenses (including postage, telephone and internet costs), translation, printing and photocopying expenses, bank charges, publications and advertising expenses, insurance, meeting expenses, travel, subsistence and lodging expenses, administrative staff, project implementation support personnel, and other administrative costs directly related to the Project, exclusive of salaries of the Recipient’s civil service, sitting fees, bonuses, fees and honoraria or equivalent payments.

16. “PFM National Steering Committee” means the Recipient’s Public Financial Management (PFM) National Steering Committee, established and operating pursuant to the terms of reference endorsed by the Recipient’s Cabinet Decision C.M. 204(2016) dated December 1, 2016, and whose responsibilities under the Project are set out in Section I.A.2 of Schedule 2 to this Agreement.

17. “PFM Working Group” means the Recipient’s Public Financial Management (PFM) Working Group, established and operating pursuant to the terms of reference endorsed by the Recipient’s Cabinet Decision C.M. 204(2016) dated
December 1, 2016, and whose responsibilities under the Project are set out in Section I.A.4 of Schedule 2 to this Agreement.

18. "Preparation Advance" means the advance referred to in Section 2.07(a) of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on October 13, 2017 and on behalf of the Recipient on October 15, 2017.

19. "Procedures Manual" means the manual to be prepared or updated under Part I(a)(iii) of the Project, that sets forth the functional roles and responsibilities relevant to the Recipient’s financial management and budget execution activities.


21. "Project Implementation Manual" means the Recipient’s manual referred to in Section I.B. of Schedule 2 to this Agreement.

22. "Project Implementation Unit" means the Recipient’s Project implementation unit referred to in Section I.A.5 of Schedule 2 to this Agreement.

23. "Public School System” means the Recipient’s Public School System within the Ministry of Education, established pursuant to the Marshall Islands Public School System Act 2013 [14 MIRC Ch.3], or any successor thereto.


25. "Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.

26. "Training and Workshops” means activities to be carried out by the Recipient, based on terms of reference acceptable to the Association, for facilitating, conducting, and/or undertaking domestic and overseas training and workshops under the Project, the reasonable costs of which include: costs of training or workshop materials; equipment and venue rental; and per diem, accommodation, and transportation for those attending the training or workshop, and honoraria for trainers.