



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 19-Jan-2021 | Report No: PIDA30711



BASIC INFORMATION

A. Basic Project Data

Country Marshall Islands	Project ID P171517	Project Name Digital Republic of the Marshall Islands Project	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 08-Feb-2021	Estimated Board Date 30-Apr-2021	Practice Area (Lead) Digital Development
Financing Instrument Investment Project Financing	Borrower(s) Republic of the Marshall Islands	Implementing Agency Ministry of Finance, Ministry of Transport and Communication, Ministry of Culture and Internal Affairs - Gender Development Office	

Proposed Development Objective(s)

To expand access to the internet, promote private sector investment in climate resilient digital services, and establish the critical foundations for digital government services and the digital economy in the Recipient’s territory.

Components

- Component 1. Public Private Partnership and Market Structure Reform
- Component 2. Digital Government Platforms and Digital Skills
- Component 3. Enabling environment for Digital Government, Digital Economy and Cybersecurity
- Component 4. Project Implementation Support

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	35.50
Total Financing	35.50
of which IBRD/IDA	28.00
Financing Gap	0.00

DETAILS



Private Sector Investors/Shareholders

Equity	Amount	Debt	Amount
Government Contribution	28.00		
IDA (Credit/Grant)	28.00		
Non-Government Contributions	7.50		
Private Sector Equity	7.50		
Total	35.50		0.00

Payment/Security Guarantee

Total	0.00
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Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

- The Republic of the Marshall Islands (RMI) is one of the world’s smallest, most isolated, and vulnerable nations.** The country consists of 29 atolls and five individual islands (24 out of these 34 atolls and islands are inhabited). It has a total land mass of just 181 km² set in an area of over 1.9 million km² in the Pacific Ocean. The population of RMI was estimated at 58,413 in 2018,¹ of which 28,000 (53 percent) reside in Majuro (the nation’s capital) and 10,000 (18 percent) in Ebeye, the two largest urban centers. RMI was consolidated into the Trust Territory of the Pacific Islands governed by the United States (U.S.) during the Second World War. It became self-governing in 1979 and achieved formal independence in 1986. Economic growth registered 3.6 percent in FY2018 (ending September 30) and is projected to have accelerated to over 5 percent in FY2019 due to a strong pick-up in fisheries and construction. The economic impacts of the COVID-19 pandemic are expected to drive the economy into recession in FY2020 and FY2021, though economic growth is forecast to be about 1.5 percent over the medium term. The fishing sector remains the main source of revenue, representing 13 percent of GDP in 2018.

¹ World Development Indicators (2018)



2. **With substantial constraints to export-led growth, the RMI is heavily dependent on aid and other fiscal transfers.** The fiscal surplus registered 2.5 percent of Gross Domestic Product (GDP) in FY2018, but is projected to turn into a deficit of 1.5 percent by FY2023, as government spending is expected to continue growing strongly while fishing license revenues remain stable in nominal terms.² The current account deficit is largely financed by grant inflows. Aid and fiscal transfers come primarily from the US. The first Compact of Free Association (CFA) agreement with the US was signed in 1983 and continued through 2003. An amended CFA became effective on May 1, 2004, providing approximately \$37³ million in grants per year through the Compact Sector Grants (CSGs). Though the CSGs are scheduled to cease after 2023, the US and the RMI governments have entered into negotiations on the financial aspects of the Compact post 2023. The CFA remains in force in perpetuity. While a Compact Trust Fund (CTF) has been established to replace CSGs from 2024 onward, current projections point to inadequate contributions to the CTF to assure a smooth transition. Annual CTF income is expected to fall short of what is needed to replace the CSGs in 2024, which presents a key challenge to the country's fiscal sustainability.

3. **RMI faces many of the development challenges common to small, remote economies with dispersed populations.** Small size and remoteness increase the costs of economic activity and make it difficult to achieve economies of scale. Remoteness also imposes significant transport costs that increase the costs of trade and fundamentally constrain competitiveness of exports of goods and services in world markets. These same factors also increase the cost and complexity of providing public services. RMI is also one of the most vulnerable countries to climate change and rising sea levels. Geographical characteristics, including populations centered on small, low-lying atolls, means that over 99 percent of the population lives along the coastline, rendering a considerable portion of the country's economy, infrastructure, and livelihoods highly vulnerable to natural hazards such as cyclones and climatic hazards such as sea level rise. According to the Intergovernmental Panel on Climate Change's (IPCC) 4th Assessment Report, the effects of rising sea level are "likely to be of a magnitude that will disrupt virtually all economic and social sectors in small island nations" such as RMI. Temperatures in the Pacific are projected to increase between 1.4 and 3.1°C.⁴ Climate change imposes high costs and may even threaten the physical viability of some areas of both the main islands and more remote neighboring islands.⁵

4. **RMI is at "moderate to high risk" for COVID-19 cases due to its close transport links with the United States and quarantine compliance issues at points of entry.** In October 2020, RMI reported its first COVID-19 cases, when one worker arriving from the U.S. tested positive for the coronavirus at a U.S. military base on Kwajalein Atoll. Three additional repatriated citizens have also tested positive. There have been no community transmissions. RMI's remoteness has bought the country time in preventing a COVID-19 outbreak, but the prevention strategies put in place have had significant economic consequences. Since March 8, 2020, RMI has prohibited all international arrivals by land and sea and suspended nearly all commercial air transport. A COVID-19 outbreak would place considerable strain on an already under-resourced health care system.

² IMF, 2018 Article IV Report

³ \$ denotes USD, unless indicated otherwise

⁴ Refer: <https://climateknowledgeportal.worldbank.org/country/marshall-islands/climate-data-projections> (accessed on December 1, 2020).

⁵ The term neighboring islands, previously referred to as 'Outer Islands', refers to the islands and atolls of the Marshall Islands except Majuro and Ebeye.



COVID-19 isolation wards have been set up in both Majuro and Ebeye hospitals. However, there is very limited tertiary care capacity and medical provider/patient ratios are below World Health Organization's recommended guidelines. The Government has mobilized its National Disaster Committee and has developed the RMI Coronavirus (COVID-19) Pandemic Preparedness and Response Plan.

Sectoral and Institutional Context

5. **The majority government-owned Marshall Islands National Telecommunications Authority (NTA) is the sole supplier of telecommunications services in RMI.** The National Telecommunications Authority Act of 1990 established NTA as the exclusive provider of domestic and international telecommunications services in the Marshall Islands. NTA currently employs 133 staff and has total annual revenues of approximately \$9.3 million. The Government owns approximately 68 percent of NTA. The remaining shares are held by the Marshall Islands Marine Resources Authority (15 percent), a government entity; the Bank of Marshall Islands (7 percent), a private bank; and private individuals (9 percent). The Act sets out the objectives, functions and powers of NTA to provide telecommunications services in RMI, but there is no modern regulatory framework permitting competition, providing for independent regulatory supervision of NTA or protecting the interests of users of telecommunications services. There are no laws to support digital services and build trust in a modern digital economy, such as for digital transactions, e-commerce, data protection, cybersecurity or cybercrimes.
6. **Very limited access to high-speed Internet constrains the ability of individuals and businesses to unlock the full potential of a digital economy.** Majuro and Ebeye were connected via spurs to the HANTRU-1 submarine cable system in 2010, financed by a loan from the United States Rural Utilities Service (RUS). However, available capacity on the HANTRU-1 cable system is not being utilized effectively due to the poor quality of terrestrial fixed and wireless services, sometimes referred to as middle and last mile services, which are also needed to connect users to the Internet. With approximately 12,000 voice and mobile data subscribers,⁶ RMI's mobile penetration rate of approximately 20 percent is one of the lowest in the Pacific and very low by global standards. While until very recently only basic voice and SMS services were available, mobile broadband penetration rates on Majuro and Ebeye have grown recently with the roll-out of 4G/LTE services. The majority of fixed broadband customers, approximately 2,000 premises, only have access to asymmetric digital subscriber line (ADSL) services at low bit rates (1 Mbps). Voice and data services on the neighboring islands is severely constrained, which has led to a substantial and increasing digital divide between the main centers and the neighboring islands.
7. **High cost of digital services is a serious issue.** Access to high-speed Internet is limited and costly for both residential and business users. Fixed broadband is provided via digital subscriber line (DSL) over copper lines. Only low-end ADSL packages are available, with services offered in the \$49.95/month range for 1 Mbps. This speed of 1 Mbps is not considered a broadband service under the common standards adopted by the US and Europe, which mandate minimum speeds of 25 Mbps and 30 Mbps respectively. The affordability target for entry-level broadband services in developing countries is less than 2 percent of monthly gross national income (GNI) per capita (International Telecommunication Union – UNESCO Broadband Commission). The cost of

⁶ NTA data, October 2020



broadband services in RMI is well above this threshold. The entry-level 1 Mbps ADSL service constitutes 12.56 percent of monthly GNI per capita, although given the large average household size (6.8 people per household) it is more affordable at 1.86 percent of GNI/Household. Globally in developing and emerging markets, entry-level mobile broadband services typically cost below \$1 to \$5 per GB. In comparison, the cost for a basic entry-level monthly mobile broadband service in RMI was around \$22 for a 5 GB package as of March 2018. This corresponds to 5.6 percent of the GNI per capita. Average revenue (ARPU) per voice and mobile broadband connection is approximately \$23, compared to less than \$9 in other small Pacific nations such as Tonga, Samoa and Vanuatu.

8. **Poor network performance continues to significantly constrain the ability of RMI to rollout out digital services, create new income-generating opportunities and provide better access to public and private sector services.** It also significantly constrains economic, jobs and educational opportunities which are driven by digitalization. By developing and increasing utilization of high quality, lower price broadband services, substantial social benefits will be achieved, including more accessible telecommunication services for both retailers and end users, better access to information resources, education, training, development of electronically-delivered services, such as digital government administration (reducing time and effort to carry out administrative procedures), and overall improved productivity. A strong positive relationship is also observed between internet connectivity and employment mobility,⁷ which includes significant new job creation and job growth,⁸ positive effects on the reemployment probabilities,⁹ and improved labor force participation rates of married females.¹⁰ The ability to work and access training opportunities remotely is also improved, which increases economic and social resilience, particularly for geographically remote countries and during adverse shocks such as COVID-19.¹¹
9. **Government has long recognized the need to improve digital services in RMI.** Analytical work to examine the benefits of sector reform began in 2010 and numerous attempts were made over many years to open up the market to competition. In 2017, the Government retained international expert advisers to undertake a major review of telecommunications in RMI and to identify options to improve sector performance. This technical assistance was financed under the World Bank ICT Technical Assistance Project (P132119). The wide-ranging work covered technical, financial, legal, social and economic issues and took two years to complete. Stakeholder consultations focused on the customer experience and the potential benefits of improved access to digital services. The final telecommunications sector options report¹² was delivered in 2019 and identified a wide range of deficiencies, including the poor quality of services, lack of availability, unaffordability and the lack of an adequate legal, regulatory and institutional environment to encourage investment in new services and protect users. The report concluded that: (i) telecommunication infrastructure in RMI is in a poor state

⁷ Stevenson, *The Impact of the Internet on Worker Flows* (2006)

⁸ Shapiro and Hassett, *The Employment Effects of Advances in Internet and Wireless Technology: Evaluating the Transitions from 2G to 3G and from 3G to 4G* (2012)

⁹ Gurtzgen, Nolte, Pohlan and van den Berg, *Does the Internet Help Unemployed Job Seekers Find a Job? Evidence from the Broadband Internet Expansion in Germany* (2018)

¹⁰ Dettling, *Broadband in the Labor Market: The Impact of Residential High-Speed Internet on Married Women's Labor Force Participation*, Federal Reserve Board, Washington, D.C. (2015)

¹¹ Özden, *Who on Earth Can Work from Home*, World Bank Working Paper (2020)

¹² Telecommunications Sector Options Report, Great Village International Consultants Inc. (2019)



and needs significant modernization; (ii) services and service quality are poor and increasingly expensive on a comparative basis, which will get worse if no action is taken; and (iii) the relative poor performance of the sector reflects the structural difficulties inherent in a locally-owned government monopoly telecommunications company, which has a limited ability to source investment capital, expertise and the latest technology.

10. **Three strategic options for addressing sector deficiencies were identified and evaluated according to implementation risks.** These options included continuing to operate NTA on a “business as usual” basis, contracting an external manager to operate NTA or repositioning NTA as a Public Private Partnership (PPP). The report concluded that the lowest risk option was to reposition NTA as a PPP. This option would trigger substantial new private sector-led investment, significantly expand coverage, including for neighboring islands, and deliver better services and lower pricing. It would also eliminate the need for ongoing financial contributions by the government. The findings and recommendations of the telecommunications sector options report were accepted by the Government in May 2019 and work to validate the report and to prepare for implementation began in late 2019. A Cabinet Project Steering Committee (PSC) was established to lead this process and take overall responsibility for the digital development agenda in RMI. The PSC is the focal point coordinating a whole of government response to the PPP transaction and market structure reforms, the design and rollout of digital government across government, and the enabling legal and regulatory reforms. It has responsibility for the design and implementation of the Digital RMI Project and reports directly to the Cabinet on key issues and milestones.
11. **The PSC has focused the preparatory work around three priority workstreams.** These include (i) the PPP transaction and associated market structure reforms; (ii) digital government and the digital economy; and (iii) the enabling legal and regulatory reforms to support the market structure reforms and the rollout of digital services.
12. **The first priority, the PPP transaction and market reforms, will introduce sustainable, reliable, quality telecommunication services at affordable prices.** An experienced private sector operator will be selected competitively to install new climate-resilient infrastructure, decommission obsolete infrastructure and provide telecommunications services throughout RMI. The selected private sector operator (sometimes also referred to as “CustomerCo”) will mobilize its own private capital, but will also receive payments from Government on achieving specified time-bound performance and infrastructure build milestones. Long-term, strategic national telecommunications infrastructure (core fiber infrastructure and towers) will be placed in a new open-access entity called InfraCo which will be owned by Government. The PPP contract will grant the private operator a three-year period of exclusivity during the build period to complete these reforms before the market is opened to competition. However, once competition starts, CustomerCo and any other private providers who enter the market will be responsible for providing communications services to users. InfraCo will provide cost-based and non-discriminatory access to the core fiber infrastructure and related facilities to CustomerCo and any other provider who wishes to provide telecommunication services to citizens.
13. **The second priority, building on improved connectivity, is for Government, its public service providers and its citizens to get better use out of the enhanced technology and services.** This work is focused on improved



Government processes as well as changes to enable the people of RMI to access Government services (e.g. health and education) digitally. The development and implementation of a Digital Government Strategy will ensure that RMI accesses the benefits of the modernization of the digital infrastructure and services in Majuro and Ebeye, and on the neighboring islands. People development and citizen engagement are essential elements to build support for reform and build trust in online services. A community engagement strategy is currently under preparation to develop a broad public understanding of the reasons for the reforms, the benefits, and how any expressed community concerns will be addressed. The engagement strategy will distinguish between the broad differences in technology use maturity (and likely concerns) of the two main populated islands and the neighboring islands.

14. **The third priority is for the development and implementation of the enabling legal and regulatory reforms to support the proposed market structure reforms and the rollout of digital services.** The existing Telecommunications Act will be repealed and replaced by a modern legal framework to provide investment for the implementation of the PPP transaction, support the introduction of competition, protect the interests of customers and ensure the delivery of affordable and high-quality connectivity services throughout RMI. A Telecommunications Officer position will be established with responsibility for market regulation following the end of the PPP build period and the commencement of competition. Laws on e-commerce, cybercrimes, harmful digital communications and cybersecurity will also be developed and introduced to support the rollout of digital services and build trust in the digital economy.

15. **The Project responds to gender gaps in access to and use of digital infrastructure and digital services in RMI.** Project activities are designed to mitigate gender inequalities that may arise from improved digital infrastructure and e-services provisioning. This is a key objective of the Project's support to the Gender Development Office (GDO) within the Ministry of Culture and Internal Affairs. A gender and social inclusion assessment was conducted during preparation and included consultation with key stakeholders to determine the opportunities and risks associated with the Project. While there is no evidence of an existing gender gap in RMI to access the internet or digital services, persistent inequalities in terms of economic opportunity, violence against women and girls, and participation in leadership and decision-making were identified. If allowed to persist, these gender gaps, can impact women's ability to benefit from the socio-economic impact of enhanced digital infrastructure and services. Currently, there is no sex disaggregated telecommunications data in RMI and no legal or regulatory provisions which require the collection of sex disaggregated data. The Project will also respond to this gap by supporting the capacity of the GDO to collect relevant sex-disaggregated data as well as to mitigate issues and concerns associated with harmful digital communications that can disproportionately affect gender minorities.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To expand access to the internet, promote private sector investment in climate resilient digital services, and establish the critical foundations for digital government services and the digital economy in the Recipient's territory.



Key Results

16. **PDO Level Indicators.** To monitor progress toward the PDO, the following set of indicators have been identified:

- People provided with access to the Internet (number) (disaggregated by gender)¹³
- Expanded access to internet services on neighboring islands (percentage of neighboring islands with internet access)
- Private sector investment in RMI (number)
- Reduction in hours lost per year by end users due to climate events (percentage decrease)
- Reduction in CO2 emissions per end user (percentage)
- Digital government strategy adopted (yes/no)
- Regulatory framework for digital services adopted (yes/no)

D. Project Description

17. The Project components will be structured as follows:

18. **Component 1. Public Private Partnership and Market Structure Reform (US\$25.5M, of which US\$18M IDA and \$7.5M private capital).** This component will support a program of activities designed to trigger substantial new private sector-led investment to strengthen national digital connectivity infrastructure, expand coverage, introduce better climate and disaster connectivity services, and lower prices.

19. **Component 2. Digital Government Platform and Digital Skills (US\$6M).** This component will support a program of activities designed to develop the Government's digital capabilities and enhance digital skills, focusing particularly on the changing nature of digital infrastructure and digital services. Key priorities include support for the development of a digital government strategic framework, job creation and digital skills initiatives, a digital identification platform, secure government network systems, selected priority digital services, and strengthening the capacity of the Gender Development Office within the Ministry of Culture and Internal Affairs to carry out activities designed to increase participation in the digital economy on a gender informed basis.

20. **Component 3. Enabling environment for Digital Government, Digital Economy and Cybersecurity (US\$2.5M IDA).** This component will strengthen the legal and regulatory enabling environment for digital government and the digital economy, particularly cybersecurity, cybercrime, data protection, digital ID, digital transactions, e-commerce and Netsafe principles and practices. It will also provide ongoing support for traditional telecommunications regulatory priorities to promote investment, technological innovation and evolution, and the long-term interests of users of digital services.

¹³ World Bank Corporate Results Indicator



21. **Component 4. Project Implementation Support (US\$1.5M IDA).** This component will provide financing for the Project Implementation Unit (PIU) within the Ministry of Transportation and Communications (MTC) to support project management and administration.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

The environmental and social impacts of the project are moderate and can be managed with standard mitigation measures. The environmental risks are minor and relate primarily to managing construction and community health and safety impacts during installation of telecoms infrastructure, including fiber cable network, and maintenance. During operation, the social impacts are likely to result from increased connectivity which may lead to greater cyber-bullying, exposure to illicit material, and risks relating to unequal access based on gender, age or ability. Social benefits, such as access to information, education and employment can be managed through effective stakeholder engagement with a focus on improving and removing gaps to access for all (including the vulnerable groups). The ESMP confirms the risk of sexual exploitation and abuse/sexual harassment (SEA/SH) is low due to small worker numbers and presence of services provides if any incident were to take place. The project is expected to employ a relatively small number of workers during construction worker behavior can be informed by appropriate training and implementation of a code of conduct. SEA/SH service providers are available in RMI and will be consulted throughout project implementation. A moderate E&S risk rating is proposed primarily because the project is not complex and/or large, does not involve activities that have a high potential for harming people or the environment, and is located away from environmentally or socially sensitive areas.

E. Implementation

Institutional and Implementation Arrangements

22. The Project will be implemented over a seven-year period. The PSC will oversee the implementation of all components. The Ministry of Finance (MOF) will be responsible for implementing Component 1. MTC will implement Subcomponents 2(a)-(e) and Components 3 and 4. The Gender Development Office will be responsible for Subcomponent 2(f), which is focused on strengthening actions and initiatives on gender. MOF and MTC will work closely with the Ministry of Justice in implementing Subcomponent 1 (PPP transaction and associated market structure reforms) and Subcomponent 3(b) (legal and regulatory framework for Digital Government and the Digital Economy). MOF and MTC have experience implementing World Bank Projects. MTC is currently the implementing agency for the Marshall Islands Maritime Investment Project (MIMIP).

23. A PIU will be established within MTC to coordinate overall Project implementation. A Project Manager has been hired to lead the PIU, supported by additional project officers as needed. The Project Manager is also supported by a local Project Director who has been hired to coordinate local stakeholder engagement. The



PIU will facilitate collaboration among the implementing agencies (IAs) and other Project stakeholders. The Project Manager will work with the Project Director to coordinate with the Central Implementation Unit (CIU) program manager to ensure timely provision of services and support to the IAs on financial management, procurement, environmental and social risk management, monitoring and evaluation, and communications. The CIU is operational, and has accumulated sufficient experience on procurement, financial management, budgeting, disbursements, environmental and social risk management, among others. It will also take on responsibility in the near-term for monitoring and evaluation (M&E). The role of the CIU in providing core fiduciary support to all World Bank projects in RMI.

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APPROVAL

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