



The World Bank

Strengthening Public Financial Management II (P181237)

Appraisal Environmental and Social Review Summary

Appraisal Stage **(ESRS Appraisal Stage)**

Date Prepared/Updated: 10/14/2024 | Report No: ESRSA03645

**I. BASIC INFORMATION****A. Basic Operation Data**

Operation ID	Product	Operation Acronym	Approval Fiscal Year
P181237	Investment Project Financing (IPF)	FSM Strengthening PFM II	2025
Operation Name	Strengthening Public Financial Management II		
Country/Region Code	Beneficiary country/countries (borrower, recipient)	Region	Practice Area (Lead)
Micronesia, Federated States of	Micronesia, Federated States of	EAST ASIA AND PACIFIC	Governance
Borrower(s)	Implementing Agency(ies)	Estimated Appraisal Date	Estimated Board Date
The Federated States of Micronesia	Department of Finance and Administration	23-Sep-2024	13-Dec-2024
Estimated Decision Review Date	Total Project Cost		
31-Aug-2024	13,000,000.00		

Proposed Development Objective

To improve fiscal management practices and increase fiscal transparency at the national government level.

B. Is the operation being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project Activities

The project aims to improve fiscal management practices and promote transparency at the level of the National government. It will focus on developing or revising legislation, guidelines, procedures, and templates related to various aspects of budgeting, including revenue forecasting, as well as procurement, transparency, internal audit, and financial reporting. Building upon the achievements of the previous Project for Strengthening Public Financial Management (P161969), this initiative will further expand the implementation of the Financial Management Information System across government departments and continue to enhance human resource capacity to strengthen core competencies in



Public Financial Management (PFM). It will additionally introduce new platforms and partnerships to support targeted PFM reform areas.

D. Environmental and Social Overview

D.1 Overview of Environmental and Social Project Settings

The project will finance activities to enhance the public financial management (PFM) in the Federal States of Micronesia (FSM), a small and geographically dispersed Pacific Island country (PIC). The project will finance activities to enhance PFM, expand core financial management information systems (FMIS), enhance human resource capacity and capabilities, and support project management and central implementation unit (CIU) operations.

All the activities of the project are technical assistance type of activities. Component 1 will support the improvement of practices to carry out budgeting, financial reporting, internal audit (IA) and procurement within DOFA. The component will support the review, development or update of procedures and templates for fiscal management related to these areas and provide on-the-job learning to support their implementation. It will also provide technical assistance for a legislative review to identify revisions which may be necessary to support envisioned reforms. Component 2 support increased efficiency and automation of public finance processes through the expanded use of the FMIS implemented under PFM I to additional government Departments and agencies. Activities will also focus on expanding automation of procurement, internal audit and other selected public finance areas, thereby improving overall operational efficiency, transparency, and timeliness in managing public resources. Component 3 aims to build on the initiatives to strengthen human resource capacity, foster communications and carry out change management established under PFM I by continuing competency development activities, engaging in continued internal and external communications, and carrying out in citizen engagement activities. Component 4 will support the overall project management. This will include PIU staff, office equipment and furniture, and finance external audits.

The project is not expected to support any physical activities, or feasibility studies/technical design for future investment projects. Therefore, the project is not expected to have any direct impact on natural habitats or cultural heritage sites, and any activity that leads to involuntary resettlement and Indigenous Peoples issues.

D.2 Overview of Borrower's Institutional Capacity for Managing Environmental and Social Risks and Impacts

The project implementing agency, DOFA, has broad experience in implementing donor-funded projects and engaging with donor partners. DOFA is the implementing agency for PFM I and has satisfactorily carried out project management to navigate critical legislative, technical, and procurement hurdles. DOFA will be the implementing agency for the Project and will coordinate efforts with State governments and other stakeholders. DOFA will also coordinate efforts from other key institutions such as the Department of Environment, Climate Change and Emergency Management, the Department of Transportation, Communications & Infrastructure, sectoral Departments.

DOFA, through the CIU, has the fiduciary responsibility for all the World Bank projects in FSM. The existing institutional structure in the CIU was established to provide cross-cutting functions to all World Bank-financed projects and will be used to carry out the procurement, financial management, communications, M&E, environmental and social safeguards, and disbursement functions for the Project. As the project only involves technical assistance activities with little/or no environmental and social impacts, the PIU/CIU's experience and capacity is considered adequate.

**II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS****A. Environmental and Social Risk Classification (ESRC)**

Low

A.1 Environmental Risk Rating

Low

The environmental risk rating is assessed to be low. The project aims to strengthen the public financial management (PFM) in FSM through technical assistance activities. It does not support any civil works, or any feasibility studies/technical design for future physical infrastructure as a result of this project. It will also focus on opportunities to enhance linkages between resource allocation and environments and social policies through integration of environmental and social sustainability into budgeting and procurement. Therefore, the Project is expected to have minor or negligible adverse environmental and social impacts, rather it will further enhance the environmental and social sustainability of country's public financial management practice. Other components of the project focus on capacity building and project management, the environmental risks are deemed to be minor and negligible.

A.2 Social Risk Rating

Low

The social risk is classified as Low. Whilst the project aims to deliver a range of benefits, project activities have the potential to generate minimal, predictable, mitigatable social risks and impacts, low in magnitude. The project does not envisage any physical infrastructure works that require land acquisitions or resettlements. All the project activities are confined to software system development, human resources and capacity development for effective public financial management that will provide better services to the stakeholders and institutions. The project (component 3.2) will finance citizen engagement, and communication strategies as well as implementation and maintenance of the DOFA website, and further enhancement of the website to facilitate responses to citizen feedback. A project stakeholder engagement plan (SEP) has been prepared to guide communication and engagement activities. The TORs that are to be developed for TA activities will be reviewed to ensure adequate social risk management measures are included and reflective in the ESCP.

B. Environment and Social Standards (ESS) that Apply to the Activities Being Considered**B.1 Relevance of Environmental and Social Standards****ESS1 - Assessment and Management of Environmental and Social Risks and Impacts**

Relevant

ESS1 is relevant for the project. The potential E&S risks of the project are considered to be minor and negligible. The project will not support any physical civil works, or feasibility studies/technical design for future investment projects. The technical assistance activities is expected to have minor or negligible environmental and social impacts. Furthermore, it is expected to further enhance the environmental and social sustainability of country's public financial management through integration of ES considerations into budgeting and procurement. The environmental and social considerations will be integrated into the TORs for all project tasks. The projects will also adhere to existing labor contract management under Bank procurement's guidelines and process. ESCP will be developed to ensure the implementation of these commitments. The GRM includes measures to provide support for any instances of sexual exploitation, abuse, or harassment.



ESS10 - Stakeholder Engagement and Information Disclosure	Relevant
<p>A Project Stakeholder Engagement Plan (SEP), including a Grievance Mechanism (GM), has been prepared. Day to day activities will mainly involve Government agencies and financial stakeholders and communications will take place through normal business practices such as meetings and emails. External engagement with community will be limited but will be the focus on citizen engagement activities under Component 3. The SEP, which includes the GRM, will be updated, disclosed, and implemented throughout the project life cycle.</p>	
ESS2 - Labor and Working Conditions	Relevant
<p>The project will mostly involve civil servants (government staff appointed from the implementing and concerned agencies at all levels), though there will be some direct workers (consultants hired for TA activities) and contracted workers (service providers, employees of consulting firms), but is not anticipated to involve any primary suppliers or community workers. Direct and contracts workers will be subject to World Bank procurement practices. Given the low risks associated with the Project, and with labor and working conditions associated with project activities, a labor management procedure is not considered necessary though adherence to ESS2 is stipulated in the ESCP and relevant measures included in the POM.</p>	
ESS3 - Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
<p>This standard is not considered relevant.</p>	
ESS4 - Community Health and Safety	Not Currently Relevant
<p>This standard is not considered relevant.</p>	
ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
<p>This standard is not considered relevant.</p>	
ESS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
<p>This standard is not considered relevant.</p>	
ESS7 - Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
<p>This standard is not considered relevant.</p>	
ESS8 - Cultural Heritage	Not Currently Relevant
<p>This standard is not considered relevant.</p>	
ESS9 - Financial Intermediaries	Not Currently Relevant



This standard is not considered relevant.

B.2 Legal Operational Policies that Apply**OP 7.50 Operations on International Waterways**

No

OP 7.60 Operations in Disputed Areas

No

B.3 Other Salient Features**Use of Borrower Framework**

In Part

This project can be considered as "partial use of the Borrower framework", given the low environmental and social risk of the envisaged activities. The project also has a built-in activity of incorporation of ES considerations into government budgeting and procurement procedures, which is a good capacity building opportunity to enhance the country system. Therefore, this project would fit the "partial use of borrower framework" from environmental perspective, where additional gap filling measures is built into the ESCP.

Use of Common Approach

No

Involvement of other development partners is not currently envisaged.

C. Overview of Required Environmental and Social Risk Management Activities**C.1 What Borrower environmental and social analyses, instruments, plans and/or frameworks are planned or required by implementation?**

A Stakeholder Engagement Plan (SEP) and ESCP has been prepared which includes commitments to incorporate environmental and social considerations into the TORs for all the technical assistance tasks; adhere to ESS2 provisions for direct and contracted workers, including OHS and GRM; and publicly disclose information about project activities, engage relevant stakeholders, and mechanism to receive and address feedback and grievances in accordance with the SEP.

III. CONTACT POINT**World Bank**

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V. APPROVAL

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