



Country Operations Business Plan

November 2008

Marshall Islands
2009–2011

Asian Development Bank

CURRENCY EQUIVALENTS

The Marshall Islands uses the US dollar as its currency.

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
COBP	–	country operations business plan
CSPU	–	country strategy and program update
EA	–	Executing Agency
IA	–	Implementing Agency
RMI	–	Republic of the Marshall Islands
TA	–	technical assistance
WPC	–	Weakly Performing Country

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 September. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY 2008 ends on 30 September 2008.
- (ii) In this report, "\$" refers to US dollars.

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I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY

1. Since the inception of the Country Strategy and Program Update (CSPU) 2007–2011,¹ the development of the Republic of Marshall Islands (RMI) has been affected by the recent global economic downturn. The President of the RMI declared a state of economic emergency in July 2008 in response to increased fuel and food prices. The Government has virtually no reserves to cope with the ongoing commodity price increases and is not able to adjust to unforeseen effects of the current global financial turmoil. The 2008 Asian Development Outlook (ADO) *Update* highlights the deteriorating macro-economic conditions of RMI.² Inflation rate is estimated to be the highest among the 14 PDMCs reaching 12.5% in 2009, up from 2.4% in 2008. The GDP growth rate in 2007 was 3.5% but the rate is expected to contract by 2.2% in 2008 -one of only two PDMCs with a negative growth outlook.

2. Since 2004, RMI has fallen into arrears with the Asian Development Bank (ADB). RMI's debt-to-GDP ratio remains high at 65% of GDP and its debt service as a share of the General Fund Revenues amounts to 32%,³ indicating that the country is beyond a safe debt threshold.

3. In October 2008, a no-confidence motion was tabled by the opposition party. The motion was ultimately withdrawn and since then, the Government has reaffirmed that the ongoing partnership defined in the CSPU 2007-2011 remains relevant, but requires a minor adjustment to reflect the Government's responses to the global economic downturn.

4. Overall, RMI exhibits characteristics underpinning poor performance and fragility, including (i) weak institutions, development management capacities, and governance systems, (ii) heavy reliance on imported commodities and a poor ability to cope with economic downturns, (iii) persistent debt repayment problems, and (iv) significant vulnerability to climate change. The country was ranked in the 5th quintile in the 2006 and 2007 Country Performance Assessments (CPAs).⁴ In addressing the binding development constraints, this Country Operations Business Plan 2009-2011 (COBP) seeks to incorporate ADB's Approach to Engaging with Weakly Performing Countries (WPCs).⁴

5. COBP 2009-2011 prioritizes the technical assistance (TA) and policy advice for (i) increasing public sector productivity with emphasis on basic social services; (ii) adaptation to global climate change; and (iii) enhancing the environment for private sector investment, job creation, and growth. The above three priorities are part of the core priority areas identified in the ADB's Strategy 2020. Due to its arrears with ADB, no lending is proposed in this COBP, nor was it proposed in the CSPU.

II. INDICATIVE LENDING AND NONLENDING PROGRAMS

A. Lending Program

6. As stated above, no lending is proposed under this COBP.

¹ ADB. 2006. *Country Strategy and Program Update (2007–2011): The Marshall Islands*. Manila.

² Asian Development Outlook, Page 209, <http://www.adb.org/Documents/Books/ADO/2008/Update/StatApps.pdf>

³ 2007 CPA Document for RMI.

⁴ ADB. 2008. Annual report on the 2007 CPA exercise. ADB. 2007. Annual report on the 2006 CPA exercise.

⁵ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries*. Manila.

B. Nonlending Program

7. New TAs during the period 2009-2011 will address improving: (i) economic planning and management to help RMI cope with on-going financial turmoil; (ii) RMI's capacity to cope with climate change; and (iii) the environment for private sector development. An indicative assistance pipeline for nonlending products for 2009-2011 is in Table A1.1.

8. ADB is considering an indicative annual TA program of about \$500,000 in 2009-2011. The nonlending pipeline has been designed to improve fiscal and debt management. ADB will consider processing new TA only when the Government demonstrates clear commitment to implementing the program. The Government's commitment to new TA projects will be assessed based on (i) a request letter that indicates the Government's clear commitment to the project and to the measurable outcome indicators, (ii) reduction in the budget allocation of wages and travel expenses by 5%,⁶ and (iii) assessment by ADB of Government capacity and commitment at the Executing Agency (EA) and Implementing Agency (IA) levels.

9. In accordance with ADB's WPC Approach, provided Government commitment is demonstrated, ADB will continue to favor longer term TA aimed at strengthening core capacities and functions. Overall, the COBP 2009-2011 supports fiscal stability and prudent macroeconomic management to revive economic growth and reduce hardship. The COBP will also support civil society institutions promoting good governance and development results.

III. SUMMARY OF CHANGE TO LENDING AND NONLENDING PROGRAMS

10. The proposed nonlending programs are consistent with CSPU 2007-2011.

11. **Coping with Global Economic Downturn and Price Increases.** The TA would support identification of medium- to long-term plans to adjust to the global economic downturn and price escalation. These plans will (i) draw on assessment of current and future requirements for macro-economic policy measures; (ii) examine the possible business opportunities for key private sectors to support macro-economic policy directions; and (iii) scope capacity development activities. These plans will encompass fiscal measures and initiatives in the energy, transport, and social sectors, and the associated awareness and capacity building activities.

12. **Coping with Climate Change.** The TA will formulate a climate change adaptation plan and assist with (i) analyzing the impacts of climate change on food security; (ii) formulating adaptation plans; (iii) facilitating dialogue on climate threats and responses; (iv) building capacity to address climate change; and (v) establishment of cross-societal partnerships among key decision makers. The TA also will foster partnerships among the development partners, particularly in the area of renewable energy.

13. **Private Sector Development.** Continuing results achieved under TA 4439 (footnote 6), the TA is designed to improve the environment for private sector development. The outcomes of the TA comprise (i) introduction of a secured transactions bill and establish an electronic filing office, (ii) build capacity and strengthen the Land Registration Authority established with the assistance of a previous ADB TA, (iii) enhance the capacity of the Administrative Barriers Working Group to dialogue with the private sector, and (iv) identify and implement road maps to achieve improved access to finance.

⁶ 2008 IMF Article IV page 9.

14. The indicative assistance pipeline for 2009-2010 is in Appendix 1 and additional information on proposed indicative nonlending products and services for 2009 is in Appendix 2.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

15. For 2009, the following internal personnel resources are expected to be required to implement the proposed business plan: (i) professional staff members (2 person-months), and (ii) administrative staff members (3 person-months).

V. RESULTS-BASED MONITORING

16. The CSPU results framework 2007-2011 remains valid and will help additional TA design and monitoring. Quarterly progress reports will be presented to the Government and ADB. This has proven to be an effective approach for monitoring and reporting on the progress of other existing TA projects. During the 2008 DMC orientation program held in ADB headquarter, RMI and PARD discussed the future strategies. PARD aims to increase its country visit to promote more active engagements with the country. As has been demonstrated, independent domestic monitoring can also help build domestic capacities.

17. The future challenges call for more efforts to improve the monitoring of the project impacts through implementation of the result-based monitoring framework. Measures which will be taken to build a knowledge base in project administration and portfolio management in RMI include (i) organizing more frequent country assessment missions and a monthly consultative meeting with respective counterparts; (ii) focusing more on results and/or impacts during project implementation; (iii) developing the capacity of executing and implementing agencies (EAs and IAs) with the help of RMI staff resources; (iv) emphasizing feedback from the country portfolio review to country programming and TA for improving project design; (v) strengthening the EA–RMI relationship; and (vi) strengthening consultation with other donors, in particular USA, Taipei,China, and Japan to share project implementation experiences and lessons learned.

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK^a

Country Development Goals		Country Strategy Outcomes		Key Areas of ADB's Intervention	Risks
Country-Level Outcomes	Key Constraints	Country Strategy Outcomes	Outcome Indicators		
Strategic Priority 1: Enhanced Private Sector Environment					
Ease priority constraints to business and cope with current price escalation	Weak property rights for movable property and land	Strengthened land registration operations and increased land registrations Establish secure transactions regime	Land Registration Authority registrations and recordings increase from 400 in 2006 to 700 by 2008 New laws in place and operative by 2008	On-going <ul style="list-style-type: none"> • ADB TA 4439 • USDOJ funding of Ministry of Research and Development's private sector operations Future <ul style="list-style-type: none"> • Extension of TA 4439 	Absorptive capacity of local counterpart
	Regulatory barriers	Reduced administrative barriers	Time taken to issue business licenses reduced by 30% by 2008	On-going <ul style="list-style-type: none"> • ADB TA 4439 Future <ul style="list-style-type: none"> • Extension of TA 4439 	
	Unnecessarily high transaction costs	Reduced administrative barriers	Time taken to issue business licenses reduced by 30% by 2008	On-going <ul style="list-style-type: none"> • ADB TA 4439 Future <ul style="list-style-type: none"> • Extension of TA 4439 	
	Misunderstanding of role of private sector and lack of communication, including policy dialogue between Government and business	Increased Government-business discussion A policy-informed cabinet	Weekly Government business forum EPPSO policy briefs to cabinet	On-going <ul style="list-style-type: none"> • ADB TA 4439 • ADB-funded retreats • Proposed EPPSO II ADB TA • RMI Chamber of Commerce • AusAID-funded economist Future <ul style="list-style-type: none"> • Extension of TA 4439 	

Country Development Goals		Country Strategy Outcomes		Key Areas of ADB's Intervention	Risks
Country-Level Outcomes	Key Constraints	Country Strategy Outcomes	Outcome Indicators		
	Weak commercial code	Relevant laws updated	Bankruptcy and liquidation laws updated and publicly available by end 2008	On-going <ul style="list-style-type: none"> • ADB TA 4439 • RETA 6202 • RETA 6162 Improving Legal Business Future Extension of TA 4439	
Raise the demand for better education and other public services	Weak MOE personnel management	Improved planning, including completion of MOE personnel audit	Audit report to chief secretary by September 2008	On-going <ul style="list-style-type: none"> • Proposed ADB TA to pilot and implement collaborative public services delivery 	Current commodity price increases effect to budget allocation to relevant sectors
	Lack of incentives to improve personnel performance	Systems of personnel performance accountability established Systems of performance awards established	From 2007, MOE annual reports track improvements in personnel performance levels Performance awards system established and annually awarded starting 2007	On-going <ul style="list-style-type: none"> • Proposed ADB TA to pilot and implement collaborative public services delivery 	
	Unreliable progress indicators	Strengthened education statistics	Reliable standardized test and examinations implemented by 2008	On-going <ul style="list-style-type: none"> • Proposed ADB TA to pilot and implement collaborative public services delivery • ADB TA 4199 Future <ul style="list-style-type: none"> • Proposed EPPSO II ADB TA • USDOJ-funded performance budgeting 	

Country Development Goals		Country Strategy Outcomes		Key Areas of ADB's Intervention	Risks
Country-Level Outcomes	Key Constraints	Country Strategy Outcomes	Outcome Indicators		
	Lack of coping mechanism to the price increases	Road map documents on energy and macroeconomics to be prepared	Regular consultations with the Government	<p>On-going</p> <ul style="list-style-type: none"> • RETA 6477 to prepare energy strategy documents <p>Future</p> <ul style="list-style-type: none"> • Proposed EPPSO II ADB TA 	
	Weak policy and sector strategy and ongoing policy dialogue with civil society	<p>Continuation of government–civil society dialogue on education and vocational training</p> <p>Strengthened education policy analyses and policy formulation</p>	New MOE sector strategy prepared in 2006 in participatory manner, incorporating input from nongovernmental suppliers of services and addressing civil society concerns	<p>On-going</p> <ul style="list-style-type: none"> • Proposed ADB to pilot and implement collaborative public services delivery • ADB TA 4199 <p>Future</p> <ul style="list-style-type: none"> • Proposed EPPSO II TA • NZAID-funded PRIDE sector strategy formulation in 2006 	
	Poor delivery of welfare services to youth at risk	Government outsourcing of welfare services to youth at risk via National Youth Council	From 2006 onwards, nongovernment organizations and businesses provide increasing range of demand-driven welfare services to youth at risk	<p>On-going</p> <ul style="list-style-type: none"> • Proposed ADB TA to pilot and implement collaborative public services delivery • Proposed RETA to strengthen vocational skills training 	
RMI to develop clear climate change adaptation plans	Lack of climate change adaptation plans and strategy	<p>Develop Climate Change Adaptation Strategy</p> <p>Pacific Regional Climate Change Conference</p>	<p>Regular reporting to ADB prepared and adopted by the Parliament</p> <p>Pacific Regional Climate Change Conference planned and organized Majuro Declaration signed</p>	<p>Future</p> <ul style="list-style-type: none"> • A new TA to be prepared 	

ADB = Asian Development Bank; AusAID = Australian Agency for International Development; COBP = country operations business plan; CSP = country strategy and program; CSPU = country strategy and program update; EPPSO = Economic Policy, Planning, and Statistics Office; MOE = Ministry of Education, NZAID = New Zealand's Aid & Development Agency, PRIDE = Pacific Regional Initiatives for the Delivery of Basic Education, RETA = regional technical assistance, RMI = Republic of the Marshall Islands, TA = technical assistance, USDOJ = United States Department of the Interior.

Note: The original results framework is in ADB. 2006. *Country Strategy and Program Update (2007–2011): The Marshall Islands*. Manila.

^a The theoretical and empirical underpinning for the summary results management framework is presented in Duncan, R. and Steve Pollard. 2002. A Framework for Establishing Priorities in a Country Poverty Reduction Strategy. *ERD Working Paper Series No. 15*. Manila: ADB. The paper summarizes growth theory and development experience over the past 40 years, supporting the argument that civil and social order, rules and regulations, and good governance provide important underpinnings for the formation of effective markets. In turn, effective markets provide important underpinnings for pro-poor investment to yield positive results. Good management, policies, and institutions are important prerequisites for development lending. The architecture of the state supports the architecture for lending. This argument is proven in small, fragile Pacific states that have been comparatively well-funded and well-advised but remain underdeveloped. The summary results management framework argues that improved public sector policies, practices, and other institutional arrangements in the short term (1–3 years) are essential for public and private transactions, as well as markets, to be strengthened in the medium term (4–9 years), so that investments might yield results in the long term (10 years and more). Earlier strategic analyses that remain relevant to this CSPU are the preparation of road maps for private sector and social sector development, and RMI development problem and objective trees.

^b These indicators are being tracked and reported on by independent consultants under ADB. 2004. *Technical Assistance to the Republic of the Marshall Islands for Improving the Environment for Private Sector Development*. Manila (TA 4439-RMI) and ADB. 2006. *Technical Assistance to the Republic of the Marshall Islands for Pilot Collaborative Public Services Delivery*. Manila (TA 4794-RMI).

Source: Asian Development Bank.

INDICATIVE ASSISTANCE PIPELINE

Table A1.1: Indicative Assistance Pipeline for Nonlending Products and Services, 2009-2010

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2009							
Multisector							
1. Coping with Global Economic Downturn and Price Escalation	PAHQ	PATA	JSF	500.00		0.00	500.00
Subtotal				500.00		0.00	500.00
Environmental Sustainability							
1. Coping with Climate Change	PAHQ	CDTA	CEFPF or CCF	500.00		0.00	500.00
Subtotal				500.00		0.00	500.00
Total				1,000.00		0.00	1,000.00
2010							
Multisector							
1. Private Sector Development	PAHQ	PATA	JSF	500.00		0.00	500.00
Total				500.00		0.00	500.00

ADB = Asian Development Bank, CDTA = capacity development technical assistance, JSF = Japan Special Fund, PARD = Pacific Department, PATA = policy and advisory technical assistance, CEFPF = Clean Energy Financing Partnership Facility, CCF= Climate Change Fund.

Source: Asian Development Bank.

SUMMARY INFORMATION ON PROPOSED INDICATIVE NONLENDING PRODUCTS AND SERVICES FOR 2009

Project Name	Description
Coping with Global Economic Downturn and Price Escalation	<p>Goal The technical assistance (TA) will identify, develop, and implement a short-, medium-, and long-term response plan to the global economic turmoil and commodity price increases.</p> <p>Major Components The TA's components include (i) preparation of a macroeconomic policy framework and supportive sector plans, including energy plan, and social safety net to respond to the implications of the global financial crisis; (ii) development and implementation of mitigation plans; and (iii) development and implementation of public awareness and consultation plan.</p> <p>Expected Outputs and Outcomes (i) Undertake a rapid impact assessment and identify the appropriate mix and sequencing of short- and medium-term policies needed to support RMI, with a focus on fiscal adjustments to the economic downturn; (ii) strengthen social safety nets; and (iii) awareness building workshops and seminars generating support of the public.</p>
Coping with Climate Change	<p>Goal The TA will help the RMI develop a strategy to cope with climate change.</p> <p>Major Components The TA will help the RMI to plan and prepare studies and to complete a road map. Major policy dialogue will also be facilitated to disseminate the information.</p> <p>Expected Outputs and Outcomes (i) Analyze the impacts of climate change upon food security through fisheries as well as the potential for coral reefs to act as carbon sinks, (ii) assist the Environmental Protection Agency to formulate adaptation plans, (iii) facilitate dialogue on issues of climate threats and responses, (iv) analyze and build national capacity on the ability of existing environmental impact assessment laws to address climate change, and (v) arrange for cross-societal partnerships among key decision makers.</p>
Private Sector Development	<p>Goal The primary long-term goal is to foster an enabling environment for productive opportunities, transactions, and capital formation for private sector development leading to broad-base growth and an increase in the standard of living.</p> <p>Major Components It comprises of three components: (i) the LPA provides desired services to boost land registration in RMI, (ii) facilitation of secured financing on movable assets by establishing a Commercial Registration Authority (CRA), and (iii) continued assistance to further implementation of the Administrative Barriers Working Group.</p> <p>Expected Outputs and Outcomes The outcomes of the TA comprise (i) introduction of a secured</p>

	<p>transactions bill and establish an electronic filing office, (ii) build capacity and strengthen the Land Registration Authority established with the assistance of a previous ADB TA, (iii) enhance the capacity of the Administrative Barriers Working Group to dialogue with the private sector, and (iv) identify and implement road maps to achieve improved access to finance.</p>
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