



Validation Report

Reference Number: PCV: RMI 2010-02
Project Number: 32208
Loan Number: 1948(SF)
December 2009

Republic of the Marshall Islands: Outer Island Transport Infrastructure Project

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
IED	–	Independent Evaluation Department
MOTC	–	Ministry of Transport and Communications
PCR	–	project completion report
PMU	–	project management unit
PPTA	–	project preparatory technical assistance
PVR	–	project completion report validation report
RMI	–	Republic of the Marshall Islands
RRP	–	report and recommendation of the President
SDR	–	special drawing rights
TA	–	technical assistance
TCR	–	technical assistance completion report

NOTE

In this report, “\$” refers to US dollars.

Key Words

republic of the marshall islands, adb, asian development bank, highways, roads, lessons, independent evaluation department, performance evaluation

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PROJECT COMPLETION REPORT VALIDATION

A. Basic Project Data		PCR Validation Date:	December 2009	
Project Number:	32208		Approved	Actual
Loan Number:	1948(SF)			
Project Name:	Outer Island Transport Infrastructure Project	Total Project Costs (\$ million):	10.0	0.5
Country:	Republic of the Marshall Islands	Loan/Grant (\$ million):	6.8 (SDR5.3 million)	0.5 (SDR0.3 million)
Sectors:	Transport and Information and Communications Technology (Water Transport)	Total Cofinancing (\$ million):	0.0	0.0
ADB Financing (\$ million):	ADF: 7.0	Borrower (\$ million):	3.2	0.0
	OCR: 0.0	Beneficiaries (\$ million):	0.0	0.0
Cofinanciers:	None	Others (\$ million):	0.0	0.0
Approval Date:	28 November 2002	Effectiveness Date:	15 May 2003	5 Jun 2003
Signing Date:	14 February 2003	Closing Date:	30 Jun 2007	23 Jan 2007
Project Officer:	Name:	Location:	From	To
	L. Bodda		ADB Headquarters	2002
Validator:	T. F. Jones III, Consultant R. Bolt, Advisor, Southeast Asia Department ¹ R. Lumain, Senior Evaluation Officer, IED2	Director:	H. Hettige, IED2	
Quality Control				
Reviewer:				

B. Project Description (summarized from the report and recommendation of the President)

- (i) **Rationale.** Thirty percent of the population lives on the 18 outer islands in the project area. Communities in the outer islands suffer from physical isolation that leads to low incomes, lack of basic services, and poverty of opportunity. The people who live in these outer islands have incomes significantly lower than the national average, and it is estimated that almost two thirds of the population in the project area have incomes below the United Nations Development Programme poverty line threshold of \$1 a day.

Transport services provide the lifeline to these outer islands. Shipping brings in essential goods and services, and it takes out island produce from which the people earn a substantial portion of their incomes. Shipping also brings in government services and supplies, particularly to schools and health clinics. Shipping provides an essential service to families in transporting children to and from secondary schools and colleges elsewhere in the Republic of the Marshall Islands (RMI), as well as in providing links to urban centers and the outside world. Air services provide passenger and freight transport, as well as emergency evacuation services for sick and vulnerable people.

Transport operations are at present complicated by poor infrastructure and facilities in the outer islands. In particular, the sea approaches and landings on coral atolls are often constrained by narrow reef passages, navigation obstructions, and shallow reef flats, making landing difficult. Weather, sea, and light conditions restrict the time available for anchoring and lightering goods and passengers ashore, subject passengers to greater risk and discomfort, and frequently cause damage to cargo. Navigation aids are almost entirely absent, and there are few ship docks or small boat jetties. Where beach landings are required, channels need to be cleared to allow small boats to reach the shore. On land, warehousing for storing goods and local produce for export is needed at a central location to improve the efficiency of shipping operations. Most atolls have airstrips, but these are unsealed and often poorly maintained. In some cases, restricted runway length reduces aircraft capacity and range.

¹ Formerly with the Independent Evaluation Department.

Together, these constraints lead to infrequent and unreliable schedules, increased safety risks to passengers and cargo, and added costs for outer island transport. These conditions, in turn, limit opportunity for social interaction; access to education, health, and business development services; and the ability of public agencies to deliver programs and develop social infrastructure in the outer islands. They also increase the prices of essential goods and discourage production and marketing of such local products as copra, fruits and vegetables, fish, and handicrafts.

- (ii) **Objectives or expected outcomes.** The objective of the Project was to reduce poverty through safer, more frequent, and reliable shipping and transport services to the outer islands that would (a) improve access to basic goods and services, and (b) assist in increasing incomes from the sale of produce and handicrafts from the outer islands in the main centers of Majuro and Ebeye.
- (iii) **Components and/or outputs.** The project scope includes the construction, installation, improvement, and/or renovation of (a) outer island port infrastructure, comprising docks, jetties, and beach channels; (b) navigation aids, comprising lit beacons, buoys, and land lights; (c) improvements to tracks for goods movement; (d) storage warehouses for concentration of cargo; and (e) airstrip extensions and remedial maintenance.

C. Evaluation of Design and Implementation

For each of the section C subsections, the project completion report (PCR) provided extensive data and information.

- (i) **Relevance of design and formulation.** The Project was highly relevant at loan approval. Project impact, outcome, and outputs were consistent with the Government's development objectives as well as ADB's country assistance program, which focused on infrastructure needs and poverty issues. The Project's poverty reduction objective in the outer islands recognized the importance of transport services (i.e., shipping and air services) in providing the essential lifeline to the country's outer island communities. The Project originated from ADB-funded technical assistance (TA) that reviewed transport sector policy, institutional reform, revenue and cost recovery, and investment priorities for infrastructure rehabilitation and development.²

As conceived, the Project was a collection of priority subprojects that responded to the Government's desire to spread project benefits among as many of the outer islands as possible. In physical terms, the Project was well designed and, with its potentially high socioeconomic impact, could have had a significant positive impact. At the same time, ADB recognized the weakness of the Government's institutions even before project conception, as evident from continuing ADB assistance for institutional strengthening and reform. Selection of the Ministry of Transport and Communications (MOTC) as the Executing Agency was also recognized as an output risk at appraisal due to its limited experience and capacity (Section C[v] of the project completion report validation report [PVR]). Developing the capacity of MOTC to administer the project loan was to be a project output.³

The PCR analysis of project relevance did not comment on the net effect of design changes during implementation. A reduction in project size was inevitable due to the high cost escalation following a 4-year gap between the time of project preparatory technical assistance (PPTA) formulation and detailed design. On the positive side, the reduction in scope appeared to result in removing less beneficial components, while increasing the concentration of investments in the navigation components that showed the highest individual economic rate of return. Some of the changes in the design concepts between the PPTA and detailed design, however, resulted in differences in the assessment of appropriate technical and environmental standards. That, in turn, reflected on project

² ADB. 2003. *Priorities of the People: Hardship in the Marshall Islands*. Manila. In the port subsector, improvement of the outer island transport infrastructure was third in priority after repairs at Majuro port and improvements at Ebeye port.

³ MOTC is responsible for policy, regulation, and aids to navigation while the Ministry of Works had more experience to implement the civil works and retain consultants under the Project.

costs.⁴ The PCR adequately addressed the need to better consider the specific environmental conditions of atolls.

- (ii) **Project outputs.** The loan was closed on 23 January 2007 in the wake of ADB's consideration of the Government's debt position, continuing project implementation delays, rising cost estimates, and a lack of evidence as to the Government's ownership and support for the Project. As the undisbursed portion of the loan was cancelled and the loan closed after the contract tendering stage but before award of contract, none of the Project's civil works and supply components were undertaken.
- (iii) **Project cost, disbursements, Borrower contribution, and conformance to schedule.** There was a 4-year gap between PPTA (2001) and detailed design (2005). There were lengthy delays in appointing the project implementation consultants, following preparation of contract documents, and in advertising contracts for tender. Overall, the PCR noted a 20-month delay between loan effectiveness and receipt of tenders when compared with the implementation schedule. The PCR pointed to the weakness in project management as the primary reason for the delays between loan effectiveness and putting civil works contracts out to tender. The Government did not support the Project by allocating the agreed amount of counterpart funds to MOTC, and the lower level of approved funds was further reduced in practice.

Estimated project costs increased threefold between the PPTA and tender stages.⁵ In view of this, attempts were made to downsize the Project to keep within the funds available, but to no avail. The Government did not provide counterpart funding or agreed staffing for the project management unit (PMU).

Table 1: Comparison of Project Cost Estimates
(\$ million)

Item	RRP ^a (2002)	Design (2005)		Reduced Project (2005)
		Preliminary	Reviewed	
Navigation Aids	1.87	8.69	6.24	4.48
Jetties	2.42	6.15	2.62	0.00
Warehouses	1.69	4.22	1.61	1.57
Airports and Roads	0.92	0.56	0.34	0.00
Reef Platforms and Channels	1.27	2.16	1.86	1.13
Base Cost	7.18	21.78	12.67	7.18
Investigation, Design, and Supervision	1.22			1.22
Contingencies	1.61			1.61
Total Project Cost	10.00			10.00

RRP = report and recommendation of the President.

^a The total cost estimate is not correct here or in Appendix 2 of the project completion report.

Source: Asian Development Bank project completion report.

Disbursements were linked to progress in the implementation schedule. Slow project disbursements were attributed to delays in implementation. By the time of loan closing, a total of \$0.51 million (or 5.1% of the total loan amount) had been disbursed from the loan account for site investigation, design, and supervision.

- (iv) **Implementation arrangements, conditions and covenants, related technical assistance, and procurement and consultant performance.** A PMU was set up, as recommended at appraisal, but it was neither staffed on a full-time basis nor was it ever fully staffed. As such, the Government failed to deliver timely inputs up until the closure of the loan.

⁴ For example, Appendix 3, para. 23 states that more could have been done to find a more cost-effective solution for the navigation marking of lagoon channels, which would have allowed at least part of the dock and jetty program to be reinstated.

⁵ Project costs in small island countries generally carry a high element of risk and make contracts less attractive to international contractors. To compensate, international contractors inflate their tender prices to cover the perceived risk. ADB needs to be more flexible and find acceptable ways to accommodate these situations. The PCR covers this well and makes some suggestions.

Conventional procurement methods were foreseen, but, when implemented, the bids were very high. The Government suggested alternative contracting arrangements, but these were not acceptable to ADB. There were no conditions attached to loan effectiveness. There were eight specific assurances, four of which were related to the construction phase and not invoked. Three had to do with government actions during the Project, and these were either not complied with or were partly complied with. The eighth, concerning private shipping, was complied with. Project implementation consultants were considered professional and timely in performing their services. Their work was satisfactory.

TA was approved in conjunction with the loan.⁶ Its purpose was to review and propose improvements to the domestic shipping franchising system and air transport service. The technical assistance completion report (TCR) considers the inputs and outputs of the TA as generally satisfactory.⁷ The TCR highlighted several positive results of the TA but rated it as overall “partly successful.” This validator agrees with the TCR rating. Nevertheless, given that the TA was delayed and adoption of recommendations for the shipping component has yet to be demonstrated, the TCR needed to better justify its own rating of partly successful. The PCR incorrectly stated that TA was provided under the loan for environmental assessment, design, and supervision. This assistance was provided through the consulting services component of the Project.

- (v) **Performance of the Borrower and Executing Agency.** The Borrower maintained its support throughout the Project in meetings and communications with ADB, but it could not deliver adequate counterpart funding and staffing for the PMU. As explained in the PCR, the MOTC was chosen as the executing agency rather than the Ministry of Public Works because of its responsibility for the domestic shipping franchise system and marine navigation and landing facilities in the outer islands (section C[i]).⁸ Based on available project information, this decision seems reasonable. In the context of the country’s sociopolitical environment, the Ministry of Public Works, which had been merged with the Ministry of Resources and Development as part of the Public Sector Reform Program,⁹ was reestablished in 2000. This institutional uncertainty left little alternative but to assign MOTC as the executing agency. MOTC, meanwhile, had insufficient capacity and experience to implement the Project.¹⁰ The provision for institutional strengthening may have mitigated some of these capacity limitations.¹¹ The PCR rightfully suggested that PMU capability could have been enhanced if the PMU had been funded by the loan. However, the Project faced other major problems, such as the lack of Government counterpart funding due to severe budgetary constraints. As such, this validator agrees with the PCR rating of “unsatisfactory.”
- (vi) **Performance of the Asian Development Bank.** ADB’s performance during implementation was rated as “satisfactory.” Three project-specific missions were fielded during the implementation phase plus a mission to discuss loan cancellation. This was supplemented by two country review missions during preparation and implementation. In addition, training was provided to MOTC through staff training seminars in Manila.¹² ADB’s review process found that implementation performance in the early stages was satisfactory. This is questionable, and a more realistic rating might have signaled the severity of the problems to be experienced under the Project. Nevertheless, the validator agrees with ADB’s satisfactory rating, even though it could have carried out a more thorough institutional risk assessment. Similarly, ADB’s performance regarding the advisory TA was “satisfactory.”

⁶ ADB. 2002. *Technical Assistance to the Republic of the Marshall Islands for Improving the Delivery of Sea and Air Transport Services*. Manila (TA 4004-RMI, for \$250,000, approved on 28 November).

⁷ ADB. 2006. *Technical Assistance Completion Report on Improving the Delivery of Sea and Air Transport Services*. Manila.

⁸ Assurances were given that selection of MOTC would be acceptable to all concerned, including the Ministry of Public Works, which had the experience, ability, and mandate to undertake civil works.

⁹ ADB. 2004. *Project Performance Evaluation Report on the Public Sector Reform Program in the Republic of Marshall Islands*. Manila (Loan 1531-RMI[SF], for \$12.0 million, approved on 30 January 1997).

¹⁰ While MOTC was the EA for the PPTA, it did not have experience in administering a project loan or retaining consultants.

¹¹ The TCR for the parallel advisory TA concludes that the overall participation of the government officials and other stakeholders was satisfactory.

¹² ADB-sponsored seminars for RMI officials regarding ADB procurement and implementation procedures proved ineffective. Direct assistance by ADB staff (or staff consultants), and particularly during the consultant selection phase, could have saved at least 12 months of delay according to the PCR. This may be so, but it also points to the high administrative costs of small projects in countries where capability is limited.

Sometimes, donors worked at cross purposes. For example, ADB's policy dialogue has consistently been directed at encouraging franchise arrangements for outer island shipping services. The Government embraced the idea until 2001, when Taipei, China funded acquisition of three vessels for the outer island fleet. With this purchase, the Government reverted and concentrated on building up its inefficient fleet. This shows a need for continuous policy dialogue by ADB with the Government and better coordination among donors.

D. Evaluation of Performance

- (i) **Relevance.** At the time of project preparation, the Project was considered highly relevant. The validator agrees. Actual relevance at completion was difficult to judge since none of the civil works were undertaken and none of the equipment procured. While sector needs identified by the Project are perhaps still highly relevant, some design deficiencies recognized at project preparation exist and need to be addressed as part of a relevant project design. Other design considerations that make it difficult to assign the Project's high relevance at completion and final cancellation include:
- (a) **Extent of Government commitment to the Project due to its institutional constraints.** Section C(v) of the PVR indicated that while there was stakeholder acceptance, this did not necessarily translate on the ground in terms of critical counterpart funds and staff. Understandably, the Government was unlikely to have provided counterpart funding due to severe budgetary constraints. The choice of MOTC was also questionable because of its lack of experience in administering a project loan or in recruiting and managing consultants. This was exacerbated by the Government's failure to support it with counterpart funding and staffing for the PMU (which led to the delays).
- (b) **Project cost estimate.** The project cost and loan amount were, in part, driven by the Government's desire to spread project benefits to as many of the outer islands as possible. This resulted in a collection of priority subprojects whose geographical distribution and diseconomies of scale posed implementation challenges for a Government and EA burdened with budgetary and institutional capacity constraints. Moreover, these small and widely scattered subprojects were subject to high fixed costs and vulnerable to unpredictable weather delays.
- (c) **Appropriateness of design to maximize poverty benefits.** As the Project did not proceed beyond the tender stage, the performance of the design outputs was not tested.¹³

Overall, the Project is rated "relevant."

- (ii) **Effectiveness in achieving outcome.** The PCR rated the Project "ineffective."¹⁴ The implementation process was marked by lengthy delays caused by weaknesses in project management (PVR section C[iii]). The Government did not support the Project by allocating adequate counterpart funds to MOTC and staff to its PMU. Estimated project costs increased threefold following a long gap between PPTA and detailed design. This resulted in a reduction in project scope. In the end, the Project produced none of its major intended outputs. Based on the preceding, the validator agrees with the PCR's conclusion that the Project was "ineffective" in achieving its planned impacts and outcomes.
- (iii) **Efficiency in achieving outcome and outputs.** This criterion could not be quantitatively measured because none of the infrastructure associated with the Project was undertaken. The only outputs relate to engineering design, site investigations, and environmental approvals. There is also no assurance that if the Government opts to pursue the Project in the future (by another financing source), the completed design works would be fully adhered to. The PCR rating of "inefficient" is maintained, since this is a measure of efficiency or how well the Project used resources in achieving the outcome. Government and ADB resources were used to prepare, process, and implement the Project, but no intended major outputs were delivered.

¹³ Past Independent Evaluation Department studies on poverty reduction impact indicate that geographic targeting of remote communities under the Project may yet prove effective for more developed areas and not necessarily for poorly endowed areas.

¹⁴ The main text of the PCR does not categorically state a rating on the effectiveness of the Project (para. 41). The rating of "ineffective" is based on the quantitative calculation of overall assessment provided in Appendix 6.

- (iv) **Preliminary assessment of sustainability.** Inasmuch as the physical works were not constructed, no sustainability issues arise. The PCR rated sustainability of the Project as “unlikely” to be sustainable and the validator agrees. The sustainability of the outputs of the advisory TA is also considered unlikely (PVR section C[iv]).
- (v) **Impact (both intended and unintended).** The direct impact of the Project is limited to institutional changes effected through the advisory TA. The PCR suggested it is unlikely that this positive impact would be sustained. Overall, the validator concurs with the PCR assessment that impact from the Project is low or “negligible.”

E. Overall Assessment, Lessons, and Recommendations

- (i) **Overall assessment.** The PCR rated the Project as “unsuccessful” and the validator agrees. Although the Project was relevant in terms of sector needs at formulation and perhaps at completion, its design and implementation did not achieve its stated outputs and expected outcomes.
- (ii) **Lessons.** The PCR made a number of observations and suggests lessons, which remain valid. ADB should have recognized the RMI’s financial limitations even during project preparation and funded certain activities that were crucial to the success of the Project, such as the PMU. Also, ADB staff could have provided more direct assistance in activities (such as consultant selection) where the EA was demonstrably weak. The PCR cited several other lessons. An important one with wider application involves ADB’s procurement guidelines, which do not cater well to small isolated countries with many and diverse subprojects. This needs to be reviewed and considered further. Similarly, the PCR suggested that applying overseas environmental practices and standards was probably not appropriate to the RMI and the small level of subproject impact.

The country’s poor financial situation was recognized as a risk from the beginning. The PCR rightfully raised the question as to “....whether ADB as the principle lender to RMI could have anticipated these difficulties and should have acted sooner” than it did to limit wasted time and resources. The answer is likely yes, but this would have required additional ADB resources for monitoring and analysis. Nevertheless, this is a relevant question that should be raised during preparation and implementation of future projects prepared under similar circumstances.

The Project also demonstrates the importance of fiscal sustainability, especially for operation and maintenance, and for large projects in small countries. Guidelines on economic analysis of projects stipulate that such analysis is necessary when a project is large in relation to the Borrower’s economy.

- (iii) **Recommendations.** The PCR made a number of recommendations largely based on the lessons learned. While the recommendations are well-founded, their acceptance would require a high level of commitment on the part of the Government, which was not the case for this Project. Also, since much of the TA provided to the RMI has had limited effect, the PCR recommended that future assistance to the RMI regarding shipping franchises is confined to regionally-based initiatives to exchange experience and information.

F. Monitoring and Evaluation Design, Implementation, and Utilization

Monitoring and evaluation was included in the project design but was not applicable under the circumstances. Implementation was problematic, as cited above, and, except for consulting services, utilization of the loan was minimal.

G. Other (e.g., safeguards, including governance and anticorruption; fiduciary aspects; Government assessment of the Project, as applicable) (PCR assessment and validation)

Social and environmental safeguards were part of the project design. Environmental evaluation was undertaken, but the PCR suggested that undue importance was given to minor environmental impacts. Governance was, at best, seriously lacking as the Government generally did not meet its obligations. Corruption does not appear to be an identifiable issue. The Government either was not capable or did not choose to meet its financial obligations under the Project.

H. Ratings	PCR	IED Review	Reason for Disagreement/Comments
Relevance:	Highly Relevant	Relevant	The Project is highly relevant in terms of sector needs at formulation and at completion but the design had flaws (PVR section D[i]).
Effectiveness in Achieving Outcome:	Ineffective	Ineffective	
Efficiency in Achieving Outcome and Outputs:	Inefficient	Inefficient	While this has become irrelevant with no major outputs delivered, the PCR rating is retained since this is a measure of how well the Project used resources in achieving outcome (PVR section D[iii]).
Preliminary Assessment of Sustainability:	Unlikely	Unlikely	Similarly, this measure is irrelevant as there are no outputs to sustain (PVR section D[iv]).
Borrower and EA:	Unsatisfactory	Unsatisfactory	
Performance of ADB:	Satisfactory	Satisfactory	
Impact:	Low	Negligible	The validator agrees with the PCR rating but appropriate IED rating descriptor should be “negligible.”
Overall Assessment:	Unsuccessful	Unsuccessful	
Quality of PCR:		Satisfactory	

I. Comments on PCR Quality

The PCR was comprehensive and thorough. The candor related to issues concerning preparation and especially project implementation is appreciated. The PCR was forthright in mentioning and analyzing key implementation issues and lessons that adversely affected the Project. The reference to TA in para. 30 of the PCR was incorrect as was footnote 12.

J. Recommendation for IED Follow Up

The PCR mentioned that many of the problems besetting this Project are experienced in other small Pacific Island countries. Instead of studying the problems individually in each country, this might better be approached by undertaking a regional study of similar projects. IED could combine the various national studies to identify any similarities and determine best practices for wider application.

K. Data Sources for Validation

- (i) PCR, report and recommendation of the President, and legal documents;
- (ii) management review meeting and staff review committee meeting documents, and summary record of discussions of ADB's Board of Directors; and
- (iii) back-to-office reports of review missions.

REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 2 March 2009, Director, IED2, Independent Evaluation Department, received the following comments from the Pacific Department.

We have reviewed Independent Evaluation Department's earlier draft Project Completion Report Validation Report circulated to us on 16 January 2009 and its final draft that was sent to us for review on 2 March 2009. As we had no comment to the earlier draft, we have no formal comment to make on the final draft. Again, thank you very much for your constructive feedback on PARD's evaluation.