



Country Operations Business Plan

September 2011

The Marshall Islands 2012–2014

Asian Development Bank

CURRENCY

The currency of the Marshall Islands is the US dollar (\$).

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
COBP	–	country operations business plan
FY	–	fiscal year
OCR	–	ordinary capital resources
RMI	–	Republic of the Marshall Islands

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., FY2011 ends on 30 September 2011.
- (ii) In this report, "\$" refers to US dollars.

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

1. The country operations business plan (COBP), 2012–2014 for the Republic of the Marshall Islands (RMI) is consistent with the Pacific Approach, 2010–2014 and Strategy 2020 of the Asian Development Bank (ADB).¹ The COBP for 2010–2012 had established four areas of strategic focus: (i) macroeconomic and fiscal management, (ii) private sector development, (iii) human capacity development, and (iv) environment and climate change.² These strategic areas remain relevant and appropriate to the medium-term development of the RMI. The operational focus of this COBP is largely on supporting the government's efforts to restore macroeconomic stability after the global financial crisis and achieve long-term fiscal sustainability.

2. The RMI exhibits some of the constraints underlying weak performance or fragility. Public sector institutions are weak, capacity is limited, and governance systems are underdeveloped. ADB's approach to engaging with weakly performing countries recognizes a spectrum of performance and fragility issues, and emphasizes that flexibility may be exercised in specific country situations.³ Consequently, to strengthen country knowledge, consensus building, and sustainability of assistance throughout the COBP period, ADB will (i) place project-funded local coordinators into projects, (ii) appoint a local liaison officer in Majuro, and (iii) continue to support development partners' consultative group meetings in the RMI.

3. In 2009, several initiatives were undertaken to mitigate the impact of the global financial crisis, advance public sector reform and promote macroeconomic stability and sustainable growth.⁴ The global financial crisis in 2008 and 2009 were particularly challenging years for the RMI as it led to large increases in food, commodity, and oil prices. In 2010, the economy grew by an estimated 0.5% as a result of grant-financed increases in government spending and expansion in fish processing. Economic growth is expected to pick up marginally to 1.0% in fiscal year (FY) 2011 and to 1.2% in FY2012.⁵ The outlook is supported by additional grants from Taipei, China and the European Union, which will partly offset the impact of a 5.5% cut in government spending in the current financial year.

4. While reform progress over the past 2 years has been reasonably steady, national elections in November 2011 and ongoing capacity constraints in the Ministry of Finance are slowing reform efforts. Later in 2011, the government will begin the process of drafting a national development plan for 2012–2015 that will contribute to the formulation of next year's COBP and inform the future assistance pipeline.

¹ ADB. 2009. *ADB's Pacific Approach, 2010–2014*. Manila (accessible from the list of linked documents in Appendix 2); and ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila (accessible from the list of linked documents in Appendix 2). The country partnership strategy for the RMI is ADB's Pacific Approach.

² ADB. 2010. *Country Operations Business Plan: The Marshall Islands, 2010–2012*. Manila (accessible from the list of linked documents in Appendix 2).

³ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. Manila (accessible from the list of linked documents in Appendix 2).

⁴ These initiatives were the preparation of a comprehensive recovery plan for the Marshalls Energy Company and the formation of the Comprehensive Adjustment Program Advisory Group and the Tax and Revenue Reform and Modernization Commission.

⁵ ADB. 2010. *Asian Development Outlook 2011*. Manila (accessible from the list of linked documents in Appendix 2).

5. Adaption to climate change remains a key national priority and ADB's assistance will be provided under regional technical assistance programs, and in line with ADB's climate change implementation plan for Pacific developing member countries.⁶

II. INDICATIVE RESOURCE PARAMETERS

A. Indicative Lending Program

6. An indicative lending program of \$5 million for 2012–2014 is proposed. The RMI is a category B country eligible for funding from the Asian Development Fund (ADF) and ordinary capital resources (OCR). In 2010, ADB approved (i) a program cluster for the public sector program, and (ii) ADF funding of \$9.5 million for subprogram 1 of the public sector program.⁷ The public sector program supports the implementation of the government's reform initiatives and initiates the adjustments required to achieve fiscal sustainability. Under subprogram 1, policy actions were designed and the implementation of immediate reform priorities begun. Subprogram 2 will largely complete the implementation of the policy actions.

7. The RMI received a biennial ADF allocation of \$2.46 million for 2011–2012 and it is proposed to bring forward the 2013–2014 allocation, so subprogram 2 can be funded entirely from ADF. There is an OCR allocation of \$8 million in each of 2012, 2013, and 2014. The lending program is set out in Appendix 3, Table A3.1.

B. Indicative Nonlending Program

8. Technical assistance of \$725,000 is proposed for 2012 and 2013 for strengthening economic policy and planning and enhancing public sector service delivery (Appendix 3, Table A3.2).

9. ADB's program in the RMI will be supported using regional technical assistance, which is set out in Appendix 3, Table A3.3 and Appendix 4, Table A4.2.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

10. Two changes from the COBP 2010–2012 occurred. First, the funding of \$9.5 million for subprogram 1 of the public sector program comprised the RMI's 2009–2010 ADF allocation and ADF savings, rather than a combination of ADF and OCR funding, as originally intended.

11. Second, technical assistance attached to the program loan was reduced from the originally intended \$1 million to \$600,000.⁸ An additional \$300,000 was approved in 2011 to increase the budget for technical assistance.

⁶ ADB. 2009. *Mainstreaming Climate Change in ADB Operations – Climate Change Implementation Plan for the Pacific (2009–2015)*. Manila (accessible from the list of linked documents in Appendix 2).

⁷ ADB. 2010. *Proposed Program Cluster, Loan for Subprogram 1, and Technical Assistance Grant. Republic of the Marshall Islands: Public Sector Program*. Manila (Loan 2659-RMI for \$9,500,000 approved on 17 August 2010). The \$9.5 million comprised the RMI's 2009–2010 ADF allocation of \$2.28 million and \$7.22 million from the ADF savings pool.

⁸ ADB. 2010. *Republic of the Marshall Islands: Supporting the Public Sector Program*. Manila (TA 7578-RMI for \$600,000 approved on 17 August 2010).

UPDATED COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Goals				Changes from CPS or Last COBP
Sustainable economic growth for the Marshall Islands through a focus on (i) macroeconomic and fiscal management, (ii) private sector development, (iii) human capacity development, and (iv) environment and climate change.				None
Sectors Selected by ADB				Changes from CPS or Last COBP
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities	
1. Macroeconomic and Fiscal Management				
More efficient macroeconomic and fiscal management	<p>Outcome: Achievement of fiscal sustainability by the government</p> <p>Indicator 1: Annual contribution from the general fund to the Compact trust fund of at least 3.0% of GDP by the end of FY2012</p> <p>Baseline: <i>0.0% of GDP in FY2010</i></p> <p>Target: <i>3.0% of GDP in FY2012</i></p> <p>Current value: <i>1.0% of GDP in FY2011 (estimate)</i></p> <p>Indicator 2: IMF assesses Compact trust fund as “on track” to achieve FY2023 targets under the baseline scenario</p> <p>Baseline: <i>\$113.0 million in FY2010</i></p> <p>Target: <i>Compact trust fund will generate a revenue stream to replace US Compact grants in FY2024</i></p> <p>Current value: <i>\$134.1 million in FY2011 (estimate)</i></p>	<p>Ongoing:</p> <p>Loan 2659-RMI: Public Sector Program, Subprogram 1</p> <p>TA 7578-RMI: Supporting Public Sector Program</p> <p>TA 7280-REG: Pacific Economic Management-Response to the Global Crisis (Subproject 1)</p> <p>TA 7681-REG: Pacific Economic Management – Enhanced Economic Management (Subproject 2)</p> <p>Proposed:</p> <p>Loan RMI: Public Sector Program, Subprogram 2</p>	<p>Program loan is for \$14 million and TA 7578-RMI is for \$0.9 million, of which:</p> <p>ENV – 0%</p> <p>RCI – 0%</p> <p>GEN + EGM – 0%</p> <p>PSD – 25%</p>	No change
2. Private Sector Development				
Stronger private sector environment	<p>Outcome: Better performance of SOEs</p>	<p>Ongoing:</p> <p>Loan 2659-RMI: Public Sector Program,</p>	<p>Program loan is for \$14 million and TA 7578-RMI is for \$0.9 million, of which:</p>	The previous COBP focused on the support provided under TA 4439-RMI: Improving the

Sectors Selected by ADB				Changes from CPS or Last COBP
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities	
	<p>Indicator 1: Adoption of an SOE act Baseline: <i>No baseline</i> Target: <i>Act drafted in 2011</i> Current value: <i>In progress</i></p> <p>Indicator 2: Implementation of recovery plans for at least three SOEs Baseline: <i>No baseline</i> Target: <i>The boards of three SOEs endorse recovery plans in 2012</i> Current value: <i>In progress</i></p>	<p>Subprogram 1</p> <p>TA 7578-RMI: Supporting Public Sector Program</p> <p>TA 7430-REG: Pacific Private Sector Development Initiative Phase II</p> <p>Proposed: Loan RMI: Public Sector Program, Subprogram 2</p>	<p>ENV – 0% RCI – 0% GEN + EGM – 0% PSD – 25%</p>	<p>Environment for the Private Sector. This TA project is closed and the results framework now reflects a focus on SOE reform.</p>
3. Human Capacity Development				
Greater efficiency and effectiveness of the public sector.	<p>Outcome: Selected ministries operate more efficiently</p> <p>Indicator 1: Action commenced in at least three ministries to improve productivity, drawing on the findings of workforce audits Baseline: <i>No baseline</i> Target: <i>Workforce audits completed in six ministries by 2012</i> Current value: <i>In progress</i></p>	<p>Ongoing: Loan 2659-RMI: Public Sector Program, Subprogram 1</p> <p>TA 7578-RMI: Supporting the Public Sector Program</p> <p>Proposed: Loan RMI: Public Sector Program, Subprogram 2</p>	<p>Program loan is for \$14 million and TA 7578-RMI is for \$0.9 million, of which: of which: ENV – 0% RCI – 0% GEN + EGM – 0% PSD – 0%</p>	<p>The previous COBP incorporated this objective and outcome under “macroeconomic and fiscal management”.</p>
Wider employment choices through better skills and reduced skills shortages	<p>Outcome: National capacity raised to support technical and vocational education and training frameworks</p> <p>Indicator 2: New skills development strategies, and technical and vocational education and training framework adopted Baseline: <i>No baseline</i></p>	<p>TA 7458-REG: Designing Demand-Based Technical and Vocational Education and Training Frameworks for the Pacific</p> <p>Proposed: TA REG: Implementing</p>	<p>TA 7458-REG is for \$0.745 million, of which: ENV – 0% RCI – 0% GEN + EGM – 0% PSD – 0%</p>	<p>No change</p>

Sectors Selected by ADB				Changes from CPS or Last COBP
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities	
	Target: <i>Strategies and framework adopted by 2011</i> Current value: <i>In progress</i>	Demand-Based Technical and Vocational Education and Training Frameworks for the Pacific		
4. Environment and Climate Change				
Climate change adaption plans developed	Outcome: Greater capacity of the RMI to respond to climate change Indicator 1: National climate change adaption and mitigation strategy Baseline: <i>No baseline</i> Target: <i>Climate change strategy adopted by 2013</i> Current value: <i>In progress</i> Indicator 2: Impact and vulnerability analysis with recommendations to climate-proof future development plans Baseline: <i>No baseline</i> Target: <i>Report with recommendations to climate-proof future AKIA and MWSC infrastructure development plans by 2012</i> Current value: <i>In progress</i>	Ongoing: TA 7394-REG: Strengthening the Capacity of Pacific Developing Member Countries to Respond to Climate Change, Phase 1 Proposed: TA REG: Strengthening the Capacity of Pacific Developing Member Countries to Respond to Climate Change, Phase 2	TA 7394-REG is for \$3.465 million, of which: ENV – 100% RCI – 0% GEN + EGM – 0% PSD – 0%	No change

ADB = Asian Development Bank, AKIA = Amata Kabua International Airport, CPS = country partnership strategy, COBP = country operations business plan, EGM = effective gender mainstreaming, ENV = environmental sustainability, FY = fiscal year, GDP = gross domestic product, GEN = gender equity, IMF = International Monetary Fund, MWSC = Majuro Water and Sewage Company, PSD = private sector development, RCI = regional cooperation and integration, REG = regional, SOE = state-owned enterprise, TA = technical assistance, US = United States.
Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/COBP/?id=RMI-2012>

1. Supplementary Document: ADB Pacific Approach 2010–2014
2. Supplementary Document: Strategy 2020: The Long-Term Strategic Framework of ADB 2008–2020
3. Supplementary Document: Country Operations Business Plan: The Marshall Islands 2010–2012
4. Supplementary Document: Achieving Development Effectiveness in Weakly Performing Countries
5. Supplementary Document: Asian Development Outlook 2011
6. Supplementary Document: Mainstreaming Climate Change in ADB Operations

INDICATIVE ASSISTANCE PIPELINE

Table A3.1: Indicative Assistance Pipeline for Lending Products, 2012–2014

Project/Program Name	Sector	Targeting Classification	Primary Theme	Division	Year of PPTA	Cost (\$ million)						
						Total	OCR	ADB		Total	Gov't	Co-finance
								ADF				
								Loans	Grants			
2012, Firm												
Public Sector Program, Subprogram 2	PSM	GI	GRO	PAUS	2010	5.00	0.00	5.00	0.00	5.00	0.00	0.00
Total						5.00	0.00	5.00	0.00	5.00	0.00	0.00
2013, No lending												
2014, TBD												

ADB = Asian Development Bank, ADF = Asian Development Fund, Gov't = government, GI = general intervention, GRO = economic growth, OCR = ordinary capital resources, PPTA = project preparatory technical assistance, PAUS = Pacific Department's Urban, Social Development and Public Management Division, PSM = public sector management, TBD = to be determined (after the preparation of the National Development Plan 2012–2015).

Source: Asian Development Bank estimates.

Table A3.2: Indicative Assistance Pipeline for Country Nonlending Products and Services, 2012–2014

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Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2012								
Strengthening Economic Policy and Planning: Implementation of the National Development Plan 2012–2015	PSM	PAUS	S-CDTA	TASF	225.00		0.00	225.00
Total					225.00		0.00	225.00
2013								
Enhancing Service Delivery in the Public Sector	PSM	PAUS	CDTA	TBD	0.00		500.00	500.00
Total					0.00		500.00	500.00
2014, TBD								

Appendix 3

ADB = Asian Development Bank, CDTA = capacity development technical assistance, PAUS = Pacific Department's Urban, Social Development and Public Management Division, PSM = public sector management, S-CDTA = small-scale capacity development technical assistance, TA = technical assistance, TASF = Technical Assistance Special Fund, TBD = to be determined (after the preparation of the National Development Plan 2012–2015).

Source: Asian Development Bank estimates.

Table A3.3: Indicative Assistance Pipeline for Regional Nonlending Products and Services, 2012–2014

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2012								
Strengthening Public Financial Management in PDMCs	PSM	PAUS	CDTA		0.00	TBD	1,500.00	1,500.00
Community-based Climate Change Adaptation and Disaster Risk Management	Environment	PATE	CDTA		0.00	TBD	1,500.00	1,500.00
Pilot Program on Climate Resilience	Environment	PATE	CDTA		0.00	TBD	5,000.00	5,000.00
Total					0.00		8,000.00	8,000.00
2013, TBD								
2014, TBD								

ADB = Asian Development Bank, CDTA = capacity development technical assistance, ICT = information and communication technology, JFPR = Japan Fund for Poverty Reduction, PDMC = Pacific developing member country, PATE = Pacific Department's Transport, Energy and Natural Resources Division, PAUS = Pacific Department's Urban, Social Development and Public Management Division, PSM = public sector management, TA = technical assistance, TASF = Technical Assistance Special Fund, TBD = to be determined.

Source: Asian Development Bank estimates.

ASSISTANCE PROGRAM FOR THE CURRENT YEAR

Table A4.1: Indicative Assistance Pipeline for Lending Products, 2011

Project/Program Name	Sector	Targeting Classifi- cation	Primary Theme	Division	Year of PPTA	Cost (\$ millions)						
						Total	OCR	ADB			Gov't	Co- finance
								Loans	ADF			
									Grants	Total		
2011, No lending												
Total												

ADB = Asian Development Bank, ADF = Asian Development Fund, Gov't = government, OCR = ordinary capital resources, PPTA = project preparatory technical assistance.

Source: Asian Development Bank estimates.

Table A4.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2011

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2011 – Country								
Supporting the Public Sector Program (additional funding for TA 7578-RMI) ¹	PSM	PAUS	CDTA	TASF	300.00		0.00	300.00
2011 – Regional								
Building Capacity for Statistics in the Pacific	PSM	PAUS	CDTA		0.00	JFPR	1,000.00	1,000.00
Implementing the Pacific Regional Audit Initiative	PSM	PAUS	CDTA		0.00	JFPR	1,300.00	1,300.00
Pacific Financial Technical Assistance Centre 2011–2014	PSM	PAUS	CDTA	TASF	1,000.00		0.00	1,000.00
Implementing Demand-Based Technical and Vocational Education and Training	Education	PAUS	CDTA		0.00	TBD	1,200.00	1,200.00
Strengthening the Capacity of PDMCs to Respond to Climate Change, Phase 2	Environment	PATE	CDTA	TASF	1,000.00	TBD	13,000.00	14,000.00
Strengthening Regulatory Capacity for ICT Development in the Pacific	Transport and ICT	PAUS	CDTA		0.00	TBD	1,500.00	1,500.00
Total					2,300.00		18,000.00	20,300.00

ADB = Asian Development Bank, CDTA = capacity development technical assistance, ICT = information and communication technology, DMC = developing member country, JFPR = Japan Fund for Poverty Reduction, PATE = Pacific Department's Transport, Energy and Natural Resources Division, PAUS = Pacific Department's Urban, Social Development and Public Management Division, PSM = public sector management, TA = technical assistance, TASF = Technical Assistance Special Fund, TBD = to be determined.

Source: Asian Development Bank estimates.

¹ Approved on 6 June 2011.