

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
2001 – 2003**

REPUBLIC OF THE MARSHALL ISLANDS

December 2000

CURRENCY EQUIVALENTS

The unit of currency of the Republic of the Marshall Islands is the US dollar.

ABBREVIATIONS

ADB	-	Asian Development Bank
CG	-	Consultative Group
GDP	-	gross domestic product
GNP	-	gross national product
HPI	-	human poverty index
KADA	-	Kwajalein Atoll Development Authority
KAJUR	-	Kwajalein Authority Joint Utility Resource
NES	-	National Economic Summit
NTA	-	National Telecommunication Authority
PDMC	-	Pacific Developing Member Country
PIER	-	Pacific Islands Economic Report
PSRP	-	Public Sector Reform Program
RETA	-	regional technical assistance
RMI	-	Republic of the Marshall Islands
SOE	-	state-owned enterprise
TA	-	technical assistance
UNCTAD	-	United Nations Conference on Trade and Development
UNDP	-	United Nations Development Programme

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.
- (ii) In this report, "\$" refers to US dollars.

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for the Republic of the Marshall Islands covering the three-year period 2001-2003. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 2000, in close consultation with the Government of RMI, and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 2000 and has been revised by the ADB to incorporate recent developments. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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160°00'E

170°00'E

REPUBLIC OF THE MARSHALL ISLANDS

Taongi Atoll

NORTH PACIFIC OCEAN

13°00'N

13°00'N

Enewetak Atoll

Bikini Atoll

Rongelap Atoll

Rongerik Atoll

Bikar Atoll

Ailinginae Atoll

Utkik Atoll

Taka Atoll

Ujae Atoll

Ailuk Atoll

Mejit Island

Likiep Atoll

Wotje Atoll

Ujae Atoll

Kwajalein Atoll

Erikub Atoll

Mabelap Atoll

Lae Atoll

Lib Island

Jabwo Island

Aur Atoll

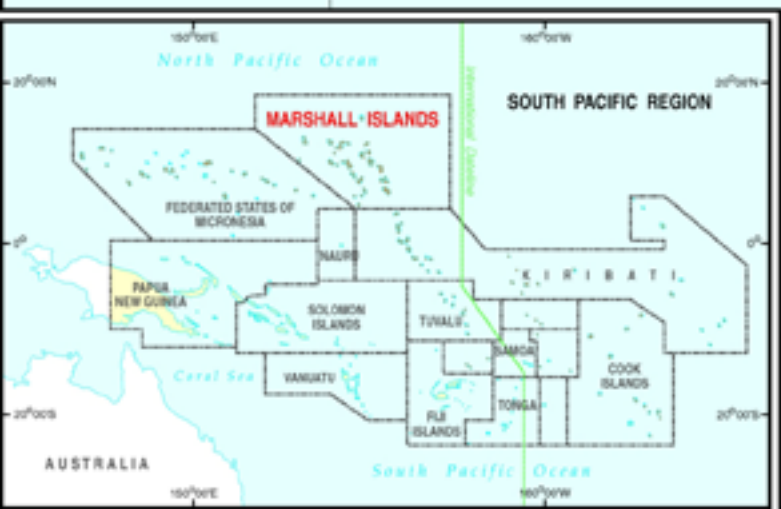
Namu Atoll

Ailinglaplap Atoll

Majuro Atoll

Anno Atoll

160°00'E



5°00'N

5°00'N

170°00'E

REPUBLIC OF THE MARSHALL ISLANDS

I. Country Performance Assessment

A. Economic Performance Assessment

1. The Marshall Islands economy is estimated to have registered a growth rate of between zero and one percent in 1999. This modest recovery followed three years of recession caused by the impact of drought on agriculture and fisheries production. The reduction in output was also partly caused by the short term impact of the adjustment process initiated by the reform program and cuts in government expenditure and employment. Real gross domestic product (GDP) remained approximately 25 percent below the 1995 level. Gross National Product (GNP) and GNP per capita exceeded GDP figures by over 6 percent because of receipt of fishing license fees, which increased significantly in 1998 and remained high in 1999 (Appendix 1, page1).

2. The recovery in economic activity in 1999 reflected the direct and indirect impacts of aid-funded roadworks and construction, the private sector construction of a loining factory for tuna processing, and an increase in on-shore spending by the crews of an expanded foreign purse seiner fleet. The agriculture sector increased its production as recovery from the 1998 drought proceeded. Additionally, further planned contractions in public sector activity were forestalled, at least temporarily, by the receipt of grants from Taipei,China and optimism about the outcome of Compact funding re-negotiations that were held towards the end of the year.

3. The inflation rate continued its downward trend from almost 10 percent in 1996, to around one percent. Use of the US dollar as currency precludes an independent monetary policy, and means that the inflation rate tends to track that of the United States, which is the major source of imports. Merchandise imports are estimated to have fallen by 24 percent in current prices over the three-year period 1995-98, while exports dropped by almost 6 percent. The trade deficit therefore declined, and the current account surplus (inclusive of declining official transfers) rose from 1.5 percent of GDP in 1995 to a projected 22.2 percent in 1998. The capital account remained in deficit following the cessation of government borrowing in 1995 and the repayment of loans in 1996-98. Overall, the balance of payments was in deficit. External debt stood at \$117 million at the end of 1998, equivalent to around 120 percent of GDP, and government holdings of US dollar reserves fell to three weeks of merchandise import cover. Balance of payments data for 1999 are not available, but it is likely that the current account surplus increased because of grants from Taipei,China.

4. An absence of timely, reliable and comprehensive statistical information extends to government finances. However, it is clear that there has been progress in strengthening public finances under the Policy Reform Program. Several ministries have been rationalized; and the number of government employees was reduced by 33 percent between late 1995 and March 1999. A wage freeze has remained in place from 1995, following a 5 percent pay reduction for salary brackets over \$10,400 per annum. Subsidies to some state-owned enterprises have been reduced or eliminated; the tariff system has been rationalized; and there are ongoing efforts to strengthen tax and customs administration. These measures combined with a large drop in capital expenditure to move the overall budget balance into surplus in fiscal years 1996,1997, and 1998.

5. The national budget for FY2000 was passed by the Parliament in March 2000 to supersede the Interim Appropriation Act passed earlier. The estimated General Fund

expenditure of \$28.2 million is supported by corresponding revenues which include proceeds of a one-time sale of assets worth \$5.0 million – the SAAB 2000 aircraft of Air Marshall. In the absence of this revenue source, there would have been a substantial deficit for FY2000. The sale has been effected and the proceeds of the sale will shortly be made available. In addition, the substantial shortfall in import tax revenues as a result of the lowering of import duties from 12 percent to 5 percent is seriously affecting Government's cashflow. Income tax collections have also lagged behind and the Government is faced with some difficult fiscal choices. The current financial difficulties may impact on the Government's ability to deliver basic services and to implement social sector programs in a timely manner. Aside from this the new Government is also saddled with financial commitments made during the first quarter of FY2000 (October-December 1999) by the previous Government, including the commitment to buy a new aircraft for Air Marshall. The financial situation is further aggravated by the steep increase in oil prices which is likely to adversely affect consumer prices and require Government to increase financial support to some of the utilities. As a result of these factors and the impact of the reduction in import duties, Government may be forced to take immediate action to raise revenue to avert financial crisis in the next few months and may have to review both gross receipts tax as well as import duties in the short run.

6. The possible sources of financial relief may be from increased revenue from fishing license fees, reduction in payroll through further reduction in number of employees and possible budget support from bilateral sources. Proper utilization of grant funding through more effective resource use and allocation could also help alleviate the present situation.

7. Interest now centers on whether a new administration will move to consolidate the gains made under the Policy Reform Program, and to complete the Program's agenda of reform actions. A key area in this regard is public expenditure management. There were signs that fiscal discipline weakened ahead of the elections, as grants from Taipei, China became available and confidence grew in a successful outcome to Compact funding re-negotiations. The quality of economic management will be a crucial determinant of future development outcomes. Other areas requiring further attention include public service performance, public enterprise reform, and improving the environment for private sector development. Legislation on investment approval, business licensing procedures, issuance of work permits, and improved security of land leases, has been prepared and is at varying stages of consideration. Once passed, the legal framework for increased private sector activity will be in place and, if effectively implemented, will improve growth prospects.

B. Poverty Assessment

8. Similar to many of the PDMCs, as a result of extended family ties and close relationships within a small population, pervasive poverty has never been a major problem in RMI. The Human Poverty Index (HPI) of 19.5 places RMI in the mid-range of poverty levels in PDMCs with literacy, access to safe water and health of children contributing to the high HPI. There exists considerable inequity between those living in the urban centers of Majuro and Ebeye and those who live in the outer islands in spite of access to subsistence farming in most of the outer islands. Contraction in the economy arising from the effects of the downsizing of Government under the Public Sector Reform Program may, in the short run, increase the number of poor households in the urban centers and will also lead to a decline of remittances to the outer islands. However, in the long run the reforms will release resources from inefficient to more productive and employment oriented expenditures.

9. Although poverty is not a serious problem in the Marshall Islands, the country remains vulnerable to natural disasters and to external economic shocks. The findings of the preliminary analysis of poverty indicate that while there is no abject poverty in RMI (partly due to the system of social support) there exists two forms of “poverty”: (i) where Marshallese are disadvantaged from poor nutrition, poor education or access to essential health and other social services, and (ii) where Marshallese are disadvantaged through lack of domestic opportunities for gainful employment or a “poverty of opportunity.”

10. These are aggravated by a stagnant economy and a policy environment which does not adequately promote equity or distribution of resources. Poverty assessment will be carried out to determine the extent of such “poverty” and how this can be addressed. Most of this will be reflected in the Pacific Islands Economic Report (PIER) currently under preparation. Once specifics are determined, ADB’s assistance program will be directed towards reducing poverty of opportunity and improving access to basic social services for the identified groups of disadvantaged.

C. Assessment of Socio-Environmental Performance

1. Gender Issues

11. Women in RMI continue to lag behind men in all areas inspite of the predominantly matrilineal society. Decision making in most aspects of life is made by the men. While women remain underrepresented, there are a few in senior levels of the government, one in the Parliament and none in the Cabinet. With high fertility and birth rates, health of women is the most immediate problem facing the Government. While there are some improvements in statistics, the fertility rate in RMI remains high. Health of women is therefore an immediate concern. ADB’s ongoing loan is addressing primary health care and health education among women. The Ebeye project will address the problems of prenatal care and improve accessibility to better health services on Ebeye. The proposed Skills Development and Vocational Training programs will specifically address the needs of women in RMI to improve their “employability” and social status.

2. Human Development

12. The shortage of skills at all levels is a major barrier to sustainable economic growth. Major impediments to the development of skilled manpower are the low level of educational attainment of the labor force which averages 8.5 years of schooling due to: low quality of education provided in the elementary schools; lack of access to education in the outer islands where, in some cases, there is only one elementary school or none; high dropout rates with only three of the 100 students of grade one completing grade 12. ADB’s ongoing education project is helping to address in part some of the issues in basic education. With ADB’s assistance, the Government plans to rationalize and strengthen skills development and vocational training to meet skilled manpower shortages.

13. ADB’s ongoing health and population loan is targeting the primary and preventive health care needs of the population. Extensive network of primary health care centers and trained staff is expected to significantly improve health service delivery.

3. Environment

14. The environment conditions in both urban centers of RMI (Majuro and Ebeye) continue to deteriorate. The major factors contributing to the problem are: overcrowding, lack of solid waste management, unregulated dumping of debris and liquid waste in the lagoon, absence of properly managed waste sites and indiscriminate littering old machines and vehicles. Deteriorating environment is a major source of health hazards and works as a disincentive for tourism. Poor environment is a health hazard in Ebeye. With ADB assistance, the Government is planning essential steps to improve the environment in the Ebeye atoll.

15. Some improvements in garbage collection have been made in Majuro although the increasing fisheries related activity is likely to further stretch the capacity of waste management facilities. As part of the overall environment protection plan developed with ADB and US assistance, a solid waste management system for Majuro is being actively considered by the Government with support from other external donors.

16. Bilateral support for waste management in Majuro has helped improve the garbage handling and overall cleanliness of the atoll. Several other environment projects as well as coastal resource management is under consideration. The environment problems in Ebeye relating to sanitation and waste disposal are being addressed under the Ebeye health and infrastructure loan.

D. Governance: Sound Development Management

17. There has been some improvement in this area during the early part of 1999 through public enterprise reform especially in the fisheries sector. The latter half of the year experienced relatively lax financial controls due to the impending elections and substantial bilateral assistance. The continued shortage of qualified civil servants to manage the day to day affairs of ministries is a deterrent. Excessive interference by politicians is also a factor. Capacity building and skills improvement will remain critically important to the development of sound governance practices in RMI.

18. The new Government is showing resolve in pursuing reforms. The new Government has moved fast in replacing the boards of public sector enterprises with qualified private sector individuals representing a wide cross-section of the community. It is perceived as a relatively hardworking and conscientious Government which is trying its best to provide a clean and transparent governance to the people. Several questionable decisions have been reversed and contracts disadvantageous to the nation have been terminated. With the easy accessibility to the Cabinet members and their active interest and participation there seems to be an overall positive governance climate in the country. The Government has taken steps to improve its relationship with the donor community.

E. Implementation Assessment

1. The Portfolio

19. ADB has approved eight loans from the special fund resources totaling \$52.3 million since 1990, out of which five are ongoing (see Appendix 2, pages 1 and 2). All the loans were rated as satisfactory in terms of both implementation progress and achievement of development objectives. Of the net effective loans, cumulative contract awards and disbursement amount to \$27.362 million and \$25.312 million, respectively. There were no disbursements from the

program loan. The disbursement ratio reached 18.2 percent, compared with ADB average of 22.2 percent. There were 33 TA grants totaling \$13.64 million including 6 for project preparatory TAs.

20. Implementation of loans is proceeding satisfactorily, and there are no problems with counterpart funding. Lack of qualified counterpart staff, however, remains a perennial problem. There is a need to strengthen and empower the senior civil service cadre and designate a focal point and contact group to improve project implementation.

2. Issues in Project Implementation

21. The progress in all five projects are satisfactory although one project loan is behind schedule. There has been delay in the release of the second tranche of PSRP to allow time for RMI to meet the remaining tranche conditions. Government is currently taking steps to expedite compliance with third tranche release conditions.

22. Delays in project implementation are mainly due to problems associated with (i) lack of project implementation capability, (ii) procurement delays and improper documentation, (iii) continued lack of qualified counterpart staff capable of project implementation and to independently manage the project subsequently, and (iv) lack of government ownership of and commitment to projects. The timely submission of audited financial statements has been a perennial issue. Delay in submission of audited financial statements alone has resulted in poor implementation rating of projects. This has now been addressed by contracting private auditors to undertake audit of project accounts funded from loan proceeds. No difficulties have been encountered with availability of counterpart funds. The hands on approach by ministers and heads of executing agencies have helped speed up implementation and disbursements.

II. Country Operational Strategy

A. The COS

23. ADB's current operational strategy in RMI is to assist the Government achieve a sustainable and self-reliant economy. The strategy aims at assisting in economic and financial reforms and supporting essential services like education, health, and water sector. The assistance program will be directed towards the disadvantaged in the outer islands.

24. On this basis and in the context of recent developments, ADB's medium term program with RMI will be directed towards:

- lending to develop health, education, water sector in the outer islands with poverty alleviation as a primary objective and gender as a secondary objective;
- skills development and vocational training through loan assistance;
- support for sound financial management and use of Trust Fund for long term financial stability;
- microfinance and small enterprise development to enhance private sector growth, especially to promote self-employment;
- environment related projects to support eco-tourism development; and
- continued assistance to the private sector through capacity building TAs and direct assistance for corporatization/privatization of SOEs.

25. In addition, as part of ADB's Pacific Islands Economic Report (PIER), a new country economic report for RMI, which will include a development strategy for the Government, will confirm the aforementioned strategic focus and form the basis for final determination of the ADB assistance program to RMI. The timing of the report is planned such that the new Government is fully involved in determining the final strategic direction for RMI. Pending finalization of the new strategy and clear direction from the new Government with regard to reform initiatives, no additional broad-based policy lending will be considered.

26. The PIER will be strategically oriented and combine the traditional macroeconomic and sectoral assessments with a more detailed analysis and definition of "poverty" in the context of the Marshall Islands. Under the PIER, these findings will in turn be translated into both a long term strategic vision for the country's socio-economic development and an initial medium term strategic plan to be reviewed and endorsed at a national economic summit (NES) involving widespread participation of all stakeholders in RMI. Following NES, the Government's statement of economic strategy and related strategic plan will be presented to donors at a Consultative Group (CG) meeting. ADB's future strategy for RMI (including poverty reduction) and related loan and TA program will also be updated on the basis of the aforementioned strategy.

B. Progress in Implementation

27. Of the two projects/program loans currently under implementation, the physical components/civil works of the water supply loan is more or less complete. However, the project has run into some technical design problems in the distribution component of the project and disagreements between the design consultant and the contractor with regard to contract variations have led to filing of a legal case. Further, the project is likely to fall short of its financial objectives especially in the area of financial self-sufficiency and viability. As a result, several covenants are likely to fall short of full compliance. The difficulty stems from changes in field conditions as well as design assumption. Alternatives to correct the situation have been determined and where possible appropriate measures are being put in place within available loan balances. In the Health and Population project, the loan has been extended to complete scope of project, utilize available funds and to complete procurement of medical equipment for Ebeye hospital.

28. The Education Project was also extended to allow time to complete the middle school and the printing shop as well as the balance of curriculum development work. Under the Ebeye Health and Infrastructure loan, the management and control of the utility is under a private company and the power and water supply has been restored.

29. For the PSRP loan, except for one, all third tranche conditions and more importantly, the carried over second tranche condition for the civil service target have been accomplished. As a result the third tranche can be released.

C. Poverty Partnership Agreement

30. Assistance is being provided to support a poverty assessment which is expected to lead to the formulation of a poverty reduction strategy by the Government. A poverty partnership agreement will be proposed to the Government once a poverty reduction strategy has been developed.

III. Sector Strategies

A. Agriculture

1. Agriculture and Rural Development

31. In this sector, ADB assistance will focus on the coconut industry and fisheries development. The recently concluded Coconut Rehabilitation and Development study under an ADB TA has identified several areas for assistance including re-planting and ways to improve yields. An important outcome has been the identification that irregular domestic shipping is a major factor in low yield of copra in RMI. Government has privatized domestic shipping and is likely to seek ADB's assistance to improve port/pier facilities and infrastructure in the outer islands and coconut growing areas. Such assistance will also support the fisheries sector. An outer island infrastructure project is proposed for 2001 to provide the necessary assistance. Strengthening capacity and improved regulatory environment in the fisheries that arose from ADB's TA has speeded up private sector driven initiatives. Majuro has become a major center for fisheries in the north Pacific especially with the establishment of a loining plant and is now considered a success story. Fisheries revenues have increased significantly. ADB's sectoral policy would be to continue providing support to private sector led initiatives and provide the necessary infrastructure to support such activity.

B. Infrastructure

1. Energy

32. The 1999 Ebeye health and infrastructure loan will directly assist in the improvement of utilities in Ebeye. The loan will be used to undertake upgrade of power and water supply and distribution facilities. Under the ADB assistance, the private sector has taken management of the utilities through a management contract to be followed by a long term concession arrangement. A new power plant has been commissioned in Majuro in late 1999 which will adequately meet the needs of the entire population of Majuro atoll and its growing private sector.

2. Transport

33. With Japanese assistance in the road sector and proposed assistance from Taipei, China for improving airport and aviation related infrastructure, ADB will focus its attention to the port sector in the outer islands and related infrastructure needs of the outer islands. Such a strategy avoids duplication and is directly linked to ADB's support to the coconut and fisheries sectors. This is consistent with ADB's poverty reduction strategy by improving infrastructure in the more vulnerable outer islands. A project preparatory TA for outer island transport infrastructure development is proposed for 2000 with a possible loan in 2001.

3. Finance and Industry

34. The financial needs of the predominantly services oriented business sector in the urban centers are reasonably well met by the commercial banks; although interest rates are relatively high and maturities relatively short in view of economic uncertainties and perceived risk. A gap exists however in development finance to meet the needs of small-scale fisheries and agricultural activities, especially in the outer islands, accompanied by technical and logistical support to make such activities viable and productive. There is also a need to develop

community credit mechanisms such as revolving funds in the outer islands, and credit unions in the urban centers, to meet micro-production and household credit requirements. ADB proposes to support micro-credit.

C. Social Infrastructure and Environment

1. Urban Development

35. Under the Ebeye Health and Infrastructure loan, ADB will continue to promote primary health care, family planning and health education activities as well as complete the health center in Ebeye. Special attention will be given to the health needs of women in particular especially in relation to teenage pregnancies. Additional support will be provided for youth health programs in the more densely populated urban cities of Majuro and Ebeye. As part of sectoral reforms, ADB is supporting the improvement of on-island care vis-à-vis overseas referrals, improved resource allocation and cost recovery issues are currently part of ongoing dialogue with the Government.

36. ADB is supporting the development of curriculum, teacher education textbooks and instructional materials under the ongoing loan project. A growing concern is the need to provide school dropouts, unemployed youth, adults and civil servants, retrenched during the downsizing of the civil service under the recent reform programs, with expanded access to occupational, employable and entrepreneurship skills training. A proposal to consolidate and streamline the skill delivery system to promote employment and self-employment opportunities is under consideration, with a Vocational Education and Skills Training loan programmed in 2000.

2. Environment

37. Assistance in improving garbage collection in Majuro is being provided by Taipei, China and from other bilateral sources. ADB is providing assistance to the sector through an ongoing RETA for capacity building to promote traditional environmental management.

D. Governance Dimensions of ADB Operations

38. Legislation proposed under the ongoing public sector reform program is expected to streamline and create an enabling environment for private sector development. Fiscal and financial sector government issues are being addressed by the Ministry of Finance. ADB's assistance has been sought to establish effective financial records system in the Ministry and provide training in order to improve transparency and accountability in financial management. Moreover, the proposed Strategic Advisory Team TA will assist the Government in strengthening its economic, planning and strategy formulation.

E. Gender Dimensions of ADB Operations

39. The Ebeye Health and Infrastructure is addressing the health needs of women. ADB proposes to support vocational training skills development as part of the Government's effort to improve overall economic and social status among women. The proposed Skills Development and Vocational Training assistance will provide specific support for skills needs of women especially in the outer island communities. Specific training programs geared to meet the needs of women and training targets will be set to ensure that women are direct beneficiaries. Opportunities for employment and self-employment will increase and this will lead to enhanced income, greater financial independence, better quality of life and improved social status for

women. Future ADB assistance particularly in health, education/skills development, and microfinance will address gender needs as a primary or secondary objective.

F. Private Sector Development

40. Private sector development is being supported by ADB through the ongoing ADB financed Public Sector Reform Program, which aims at (i) downsizing the civil service, (ii) privatization, (iii) tax reforms, and (iv) establishment of a more conducive environment for foreign investments. Furthermore, through the ongoing TA, ADB will continue to provide direct support in corporatization and privatization of specific state-owned enterprises. Thus, Kwajalein Joint Utility Resource (KAJUR) and National Telecommunication Authority (NTA) have been selected for privatization. As a result, KAJUR is currently operated by a private sector operator under an eighteen-month management contract.

41. Government requested for a follow up TA to help in the corporatization/privatization of other state-owned enterprises (SOE). The earlier TA has accomplished the framework for privatization and participated in the actual privatization of KAJUR. A follow up TA was required to undertake privatization of SOEs identified under the first TA.

42. A small business development and microfinance project is included in the pipeline to further enhance private sector involvement and promote entrepreneurship in RMI. Further support and information dissemination is being considered through the holding of private sector promoting forum in conjunction with the local chamber.

IV. Regional Cooperation

43. In the context of their locations and distances, Pacific island nations have generally concluded that it will be increasingly difficult to promote trade, especially fisheries, and operate viable internal and external air and shipping services without strategic subregional alliances. Consequently, the priorities of the country for economic regional cooperation are: (i) cooperative arrangements in aviation and shipping, (ii) coordinated policies and approaches to the management of fisheries, and (iii) tourism. To these ends, the ADB is actively involved with the Forum Secretariat and other regional agencies in a variety of regional initiatives.

44. The ADB currently provides regional technical assistance (RETA) to support the negotiation of a regional tuna management plan, and for fiscal and tax policy advice provided through the Pacific Financial Technical Assistance Centre. In the coming three years, the ADB plans to provide RETAs for: (i) analysis of financial sector issues and strategies for selected PDMCs, (ii) judicial training in collaboration with UNDP, and (iii) more effective and sustainable coastal fisheries management. These regional initiatives are consistent with the program for RMI especially with regard to the ADB and the Government's initiative for more transparency and accountability in financial transaction as well as further development of fisheries sector.

V. Donor Activities and Aid Coordination

45. The Government receives US assistance estimated at about \$80 million per annum. The US assistance includes direct budget support under the Compact to the National Government and the Kwajalein Atoll Development Authority (KADA), and the payment to Kwajalein landowners, as well as other forms of assistance provided through the US Federal Government programs. In 1998, RMI received emergency assistance for drought relief from the US Federal Emergency Management Agency equivalent to over \$10 million. The World Bank does not have

an operational program in RMI (Appendix 3). The IMF does not envisage a role for itself whilst the Compact Agreements is in place.

46. The Government receives significant assistance from Japan in the transport and fisheries sectors. Japan is funding the rehabilitation of roads in Majuro. Taipei,China is assisting in the aviation and airport development as well as in waste collection and management. They have also shown interest in other sectors including contributing to the Intergenerational Trust Fund. Assistance from Taipei,China over the next three years is expected to be about \$50 million. ADB undertakes donor coordination in the areas of its involvement and organizes CG meetings.

VI. Cofinancing and Catalyzing External Resources

47. The ADB has and will maintain a leading role in the health and education sectors and continue to support the economic self reliance and stabilization of the Government. The ADB will seek cofinancing from the US and Taipei,China in areas of common interest. While staying out of sectors and subsectors which are being covered by bilateral arrangements, there is scope for shared interest in skills development and vocational training and solid waste management with Taipei,China and for cofinancing with Japan in the infrastructure sector. Other possibilities of cofinancing with US are dependent on the outcome of the Compact negotiations and the strategic direction that evolve from the economic report to be prepared in consultation with the new Government in early 2000.

VII. ADB's Operational Program

48. Pending the finalization of a comprehensive Pacific Island Economic Report (PIER) to be completed in the first half of 2000 and finalization of a revised strategy, the ADB assistance program for 2001-2003 remains tentative. Lending program for RMI over the 2001-2003 period is estimated to be about \$21 million for two loans (see Table 1 and Appendix 4).

49. The Government reaffirmed the Skills Training and Vocational Education loan for 2000. For the balance of the portfolio, Government indicated that their priority would be the development of the outer islands and improvement of basic social services. However, the specific assistance program will be confirmed after the forward looking strategy has been prepared and based on sectoral emphasis in the upcoming Compact negotiations. In any case, the present thrust towards the development of outer islands which are considered areas affected by "poverty of opportunity" and support for social sectors are both consistent with ADB's poverty reduction strategy.

50. The transport sector loan originally proposed for 2002 has been brought forward to 2001 to address immediate needs of outer island transport development focusing primarily on post infrastructure and handling facilities in the outer islands. The project will support copra and fishing industry and consequently improve the income generating capability among the poor in the outer islands. Lack of basic social services such as water, health and education in the outer islands was also identified as an area requiring more urgent attention. An outer island basic social services project is therefore proposed for 2002. It will include health, education, water and sanitation depending on the needs in specific outer islands.

51. A financial sector program loan on OCR terms is proposed for 2001 to improve overall financial and economic management, stabilize financial situation in the short run, to improve

accountability and transparency in Government finances as well as foster the use of Trust Funds for long term financial stability and to reduce dependence on external flows.

52. Considering an element of over programming, the tentative timing for delivery of the proposed program and performance based lending considerations, this lending level is considered appropriate given: (i) the increase ADB assistance to the social sectors for poverty alleviation projects, (ii) a satisfactory absorptive capacity in the sectors concerned subject to confirmation, and (iii) a stronger commitment of the Government towards reform and ownership of a targeted portfolio.

Table 1: Lending and Technical Assistance Program, 2000-2003

A. Public Sector Lending Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program ^a	1	9.3	1	6.8	2	16.0	-	-	-	-
ADF	1	9.3	1	6.8	1	6.0	-	-	-	-
OCR	-	-	-	-	1	10.0	-	-	-	-
Lending Pipeline ^b	-	-	-	-	-	-	1	5.0	-	-
ADF	-	-	-	-	-	-	1	5.0	-	-
OCR	-	-	-	-	-	-	-	-	-	-

B. Technical Assistance Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	1	250.0	4	888.0	3	1,250.0	3	1,000.0	1	600.0
TA Pipeline ^b	-	-	-	-	-	-	-	-	-	-

^a The Program comprised the firm projects.

^b The Pipeline consists of the Program (firm projects) and standby projects. In 2002 and 2003, there is no distinction between firm and standby.

Note: Blend loans are counted as one.

VIII. Economic and Sector Work Program

53. As mentioned earlier, economic and sector work will be undertaken as part of the PIER. A significantly analytical and strategically oriented forward looking economic report to be prepared with ADB assistance will be the basis for future Government plans. These will be finalized in close consultation with all stakeholders and the new Government. Adequate consultative process will precede such strategy formulation and in depth work is proposed so that the report can be used as the basis for developing a strategic and forward looking economic management plan for the country. A participatory approach will be taken and that the PIER will be a document of RMI, strategically oriented and will combine macroeconomic and sectoral assessments with a more detailed analysis and definition of "poverty" in the context of the Marshall Islands. The PIER will also form a sound basis for updating the ADB's strategy in RMI and developing a related loan and TA program over the medium term.

VIII. Local Cost Financing

54. Given the reductions in annual Compact funding, as well as the major ongoing economic restructuring and fiscal adjustments, RMI is facing severe budgetary constraints which currently limit the Government's capacity to finance local costs of ADB financed projects. While the situation is expected to improve after Compact negotiations are completed and when the benefits of reforms materialize over the medium term, appropriate consideration for interim local cost financing constraints should be factored by ADB in the preparation of financing plans for new projects in the Marshalls.

**REPUBLIC OF THE MARSHALL ISLANDS
COUNTRY PERFORMANCE INDICATORS**

Item	1995	1996	1997	1998	1999	2000 ^a
ECONOMIC INDICATORS						
A. Income and Growth						
1. GDP per Capita (dollars, current)	1,893	1,703	1,637	1,565	...	...
2. GDP Growth (% in constant prices)	2.7	-15.2	-5.3	-5.0	0.5	...
Agriculture	-3.9	-20.9	1.2	...	...	...
Industry	18.7	-32.6	-6.1	...	...	...
Services	2.6	-10.7	-7.4	...	...	...
B. Saving and Investment (current market prices) (percent of GDP)						
1. Gross Domestic Investment	...	...	...	...	...	...
2. Gross Domestic Saving	...	...	...	...	...	...
C. Money and Inflation (annual percent change)						
1. Consumer Prices (annual average)	8.3	9.8	4.8	4.0	1.0	...
2. Broad Money (M2)	...	...	...	...	...	...
D. Government Finance (US\$ million)						
1. Total Revenue	80.0	80.5	64.8	...	...	...
2. Total Expenditure and Net Lending	94.8	60.6	61.0	...	...	...
3. Overall Surplus/Deficit (-)	-14.8	19.9	3.8	...	...	...
E. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	-48.4	-54.3	-36.9	-35.9	...	...
2. Current Account Balance (% of GDP)	1.5	3.6	16.9	22.2	...	...
3. Export (\$) growth (annual percent change)	23.1	-12.2	28.4	-16.3	...	...
4. Import (\$) growth (annual percent change)	8.5	-0.9	-15.8	-9.3	...	...
F. External Payments Indicators						
1. International Reserves (billion dollars, end of period)	...	...	...	...	...	...
- months of imports	...	...	...	...	...	...
2. External Debt Service (% of exports of goods & services)	...	...	...	...	...	...
3. External Debt (% of GDP)	...	...	...	...	...	...
Memorandum Items:						
GDP (US\$ million)	105.2	97.7	97.0	95.8	...	...
GNP (US\$ million)	...	...	...	...	...	...
Exchange Rate	1.0	1.0	1.0	1.0	...	...
Population (million)	...	...	...	0.6	...	...

^a Estimate

Source: POHQ Estimate

**REPUBLIC OF THE MARSHALL ISLANDS
COUNTRY PERFORMANCE INDICATORS**

	1990	1995	1998
POPULATION INDICATORS			
Total Population (thousands)	46.2	55.6	61.1
Annual Population Growth Rate (% change)	3.9	3.8	3.6 (1990-98)
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	5.7
Maternal Mortality Rate (per hundred thousand live births)
Infant Mortality Rate (below 1 year; per '000 live births)	63.0
Life Expectancy at Birth (years)	...	67.0 (1990-91)	65.0
Female	67.0
Male	63.0
Adult Literacy (%)	...	88.0 (1990-91)	74.0
Primary School Enrollment (% of school age population)	79.0
Female	79.0
Secondary School Enrollment (% of school age population)	49.0
Female	47.0
Child Malnutrition (% of under age 5)	17.0
Population Below Poverty Line (%)
Income Ratio of Highest 20% to Lowest 20%
Population with Access to Safe Water (%)	...	99.0 (1990-91)	82.0
Population with Access to Sanitation (%)	...	96.0 (1990-91)	77.0
Public Education Expenditure as % of GNP	...	7.2 (1990)	9.2
Public Health Expenditure as % of GDP	...	6.2 (1990)	...
Human Development Index	...	-0.611	...
Human Development Ranking	121.0
Human Poverty Index	19.5
ENVIRONMENTAL INDICATORS			
Forestry			
Deforestation			
Total Area
Annual deforestation
Biodiversity			
Nationally protected area			
Area
Number
As % of land area
Biosphere reserves			
Area
Number
World Heritage sites (number)
Wetlands of international importance			
Area
Number
Land Use			
Cropland; permanent pasture
Air Pollution (Ambient concentrations)			
Particulates
SO ₂
Water Pollution (concentration of pollutants in water bodies)			
Biochemical Oxygen Demand (BOD)
Chemical Oxygen Demand (COD)
Global Environmental Problems			
CO ₂ emissions (total and per capita)

Source: POHQ estimates

REPUBLIC OF THE MARSHALL ISLANDS

PORTFOLIO PERFORMANCE

**Table 1 : Implementation, Disbursement Performance and Postevaluation Results
Public Sector Projects only
(as of 31 December 1999)**

A. Project Portfolio	Net Loan Amount \$ million %		Rating (No.) ^a											
			Total		Implementation Progress				Development Objectives					
			No.	%	HS	S	PS	U	HS	S	PS	U		
Agriculture and Natural Resources	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0	0
Energy	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0	0
Finance and Industry	11.37	26.7	1	20.0	0	1	0	0	0	0	1	0	0	0
Social Infrastructure	31.25	73.3	4	80.0	0	4	0	0	0	0	4	0	0	0
Transport and Communications	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0	0
Others/Multisector	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0	0
Total	42.62	100.0	5	100.0	0	5	0	0	0	0	5	0	0	0

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	0.0	36.9	36.9
(2) Disbursed amount (\$ mn, cumulative, active loans only)	0.0	24.9	24.9
(3) Percentage disbursed [(2)/(1)] (%)	0.0	67.52	67.5
(4) Disbursements (\$mn, active loans only, latest year)	0.0	7.9	7.9
(5) Disbursement ratio (%) ^b	0.0	18.20	18.2

C. Net Transfer of Resources ^c (\$ million)	OCR	ADF	Total
Net transfer in 1995	0.0	2.8	2.8
Net transfer in 1996	0.0	3.0	3.0
Net transfer in 1997	0.0	10.0	10.0
Net transfer in 1998	0.0	7.8	7.8
Net transfer in 1999	0.0	3.6	3.6

D. Post-Evaluated Projects (By Year of Approval)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999			
	No.	%	No.	%	No.	%	No.	%		
1. Postevaluation Rating (as of 31 December 1999)										
Rated Generally Successful (GS)	0	-	0	-	0	-	0	-		
Rated Partly Successful (PS)	0	-	0	-	0	-	0	-		
Rated Unsuccessful (US)	0	-	0	-	0	-	0	-		
No Rating	0	-	0	-	0	-	0	-		
Total	0	0.0	0	0.0	0	0.0	0	0.0		
2. Postevaluation Rating by Sector 1968-99 (as of 31 December 1999)										
	GS		PS		US		NR		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	0	-	0	-	0	-	0	-	0	-
Energy	0	-	0	-	0	-	0	-	0	-
Finance and Industry	0	-	0	-	0	-	0	-	0	-
Social Infrastructure	0	-	0	-	0	-	0	-	0	-
Transport and Communications	0	-	0	-	0	-	0	-	0	-
Others/Multisector	0	-	0	-	0	-	0	-	0	-
Total	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

^b Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

^c Includes private sector projects for countries with private sector operations.

Source : Programs (A), CTD (B & C), OEO (D)

**REPUBLIC OF THE MARSHALL ISLANDS
PORTFOLIO PERFORMANCE
Table 2: Status of Project Implementation
Public Sector Projects Only
(As of 31 December 1999)**

Sector ^a	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Project Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR (\$ million)	ADF			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objective
SOC	Loan No. 1249-RMI(SF) Basic Education Development	-	8.1	Sep-93	Mar-94	Apr-99	Mar-00	35	5.7	5.1	S	S
SOC	Loan No. 1316-RMI(SF) Health and Population	-	5.5	Sep-94	Mar-95	May-00	Sep-00	60	3.8	3.4	S	S
SOC	Loan No. 1389-RMI(SF) Majuro Water Supply and Sanitation	-	8.4	Sep-95	Sep-96	Sep-00	-	85	8.2	7.6	S	S
SOC	Loan No. 1694-RMI(SF) Ebeye Health and Infrastructure	-	9.5	Aug-99	Dec-99	Jun-02	-	15	1.2	0.6	S	S
OTH	Loan No. 1513-RMI(SF) Public Sector Reform	-	11.4	Jan-97	Feb-97	Jun-99	Dec-99	-	8.5	8.5	S	S
Total		0.0	42.9						27.3	25.3		

^a Sector:

AGR: Agriculture & Natural Resources

ENE: Energy

F&I: Finance and Industry

SOC: Social Infrastructure

T&C: Transport and Communications

OTH: Others/Multisector

^b HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

REPUBLIC OF THE MARSHALL ISLANDS
OVERALL EXTERNAL ASSISTANCE
(in \$ million)

External Source	Past 3-5 Years (annual average)		1999 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
A. Multilateral Assistance				
ADB	6.1	1.6	9.3	0.6
UNDP	0.2	...	...	...
World Bank	...	...	...	...
Subtotal	6.3	1.6	9.3	0.6
B. Bilateral Assistance				
Australia	0.2	...	...	...
Canada	...	...	...	...
France	...	...	...	...
Germany	...	...	...	...
Italy	...	...	...	...
Japan	5.4	...	...	...
United Kingdom	...	...	...	...
United States	12.0	...	...	...
Subtotal	17.6	0.0	0.0	0.0
Total	23.9	1.6	9.3	0.6
Memo Items: External Assistance as % of Current Expenditures External Assistance as % of Capital Expenditures				

Sources: POHQ estimates.

REPUBLIC OF THE MARSHALL ISLANDS
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Poverty Classification ^{a*}	Crosscutting Operational Priority ^{b*}	Responsible Division	Year of PPTA	PROJECT COST (in \$ million)					
					TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
2001 FIRM LOANS										
Transport and Communications										
1 Outer Island Transport Infrastructure	PI	PSD	POHQ		6.0	0.0	6.0	6.0	0.0	0.0
<i>Subtotal</i>					6.0	0.0	6.0	6.0	0.0	0.0
Finance										
2 Financial Sector Program Loan	ODI	GG	POHQ		10.0	10.0	0.0	10.0	0.0	0.0
<i>Subtotal</i>					10.0	10.0	0.0	10.0	0.0	0.0
Total					16.0	10.0	6.0	16.0	0.0	0.0
2002 LOAN PIPELINE										
Social Infrastructure										
1 Outer Island Basic Social Services	PI	GAD	POHQ		5.0	0.0	5.0	5.0	0.0	0.0
<i>Subtotal</i>					5.0	0.0	5.0	5.0	0.0	0.0
Total					5.0	0.0	5.0	5.0	0.0	0.0
2003 LOAN PIPELINE										
NONE IDENTIFIED										

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development and RC = Regional Cooperation

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000 which will be applied from January 2001.

REPUBLIC OF THE MARSHALL ISLANDS Appendix 4, page 2
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name		Responsible Division	Type of TA	Amount (\$ '000)		
				ADB	Others	Total
2001 TECHNICAL ASSISTANCE PROGRAM						
Agriculture and Natural Resources						
1	Community Based Coastal Marine Resources Development		POHQ	AD	350.0	350.0
		Subtotal			<u>350.0</u>	<u>350.0</u>
Social Infrastructure						
1	Outer Island Basic Social Services		POHQ	PP	300.0	300.0
		Subtotal			<u>300.0</u>	<u>300.0</u>
Others/Multisector						
1	Strategic Advisory Team		POHQ	AD	600.0	600.0
		Subtotal			<u>600.0</u>	<u>600.0</u>
	Total				1,250.0	0.0
					1,250.0	
2002 TECHNICAL ASSISTANCE PROGRAM						
Finance and Industry						
1	Microfinance		POHQ	PP	400.0	400.0
		Subtotal			<u>400.0</u>	<u>400.0</u>
Social Infrastructure						
2	Outer Island Social Services Management		POHQ	AD	300.0	300.0
		Subtotal			<u>300.0</u>	<u>300.0</u>
Others/Multisector						
3	Support of Private Sector Unit II		POHQ	AD	300.0	300.0
		Subtotal			<u>300.0</u>	<u>300.0</u>
	Total				1,000.0	0.0
					1,000.0	
2003 TECHNICAL ASSISTANCE PROGRAM						
Others						
1	Strategic Advisory Team II		POHQ	AD	600.0	600.0
		Subtotal			<u>600.0</u>	<u>600.0</u>
	Total				600.0	0.0
					600.0	

**REPUBLIC OF THE MARSHALL ISLANDS
LENDING PROGRAM, 2001-2003
BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR**

Classification	2001 (Firm)		2002-2003	
	No.	%	No.	%
I. By Poverty Classification*				
A. Core Poverty Intervention	0	0	0	0
B. Poverty Intervention (Non-core)	1	50	1	100
C. Other Development Interventions	1	50	0	0
Total	2	100	1	100
II. By Crosscutting Operational Priority*				
A. Environment	0	0	0	0
B. Gender and Development	0	0	1	100
C. Good Governance	1	50	0	0
D. Human Development	0	0	0	0
E. Private Sector Development	1	50	0	0
F. Regional Cooperation	0	0	0	0
Total	2	100	1	100
III. By Sector				
A. Agriculture and Natural Resources	0	0	0	0
B. Energy	0	0	0	0
C. Finance and Industry	1	50	0	0
D. Social Infrastructure	0	0	1	100
E. Transport and Communications	1	50	0	0
F. Others/Multisector	0	0	0	0
Total	2	100	1	100

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

REPUBLIC OF THE MARSHALL ISLANDS

PROJECT PROFILE					
1. Project Name: Outer Island Transport Infrastructure		2. Sector/Subsector: Transport and Communications			
3. Poverty Classification: ^a PI		4. Crosscutting Operational Priority: ^b PSD			
5. Rationale & Objectives: The Project will induce economic growth through improvement of access to outer islands. It will alleviate poverty by increasing income generation capacity of the "disadvantaged" in the outer islands.		6. Beneficiary Participation/Consultation Needs: Stakeholders will need to be consulted.			
7. Scope: The project will contain (i) port, infrastructure (including piers, ramps and landings) and service facility improvement in the outer islands, and (ii) maritime sector requirements at the outer islands including navigation aids, and shipping services.					
8. Estimated Cost & Financing Plan:				Remarks:	
Loan Project Cost (\$m)					
Financing (Source)		FC	LC		Total
ADB		6.0			6.0
Co-financing					
Borrower					
Sub-borrowers					-
Total		6.0		6.0	
9. Estimated Benefits and Beneficiary Groups: The direct benefits accrue to vessel operators, outer island residents, producers of copra, and fisheries industry. Indirect benefits will enhance economic activity in outer islands and lower cost of domestic shipping.					
10. Executing Agency: Ministry of Transport and Communications		11. Project Implementation Period: Start: 2001 End: 2005			
12. Environment Category: TBD		13. Processing Year: 2001			

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000 which will be applied from January 2001.

REPUBLIC OF THE MARSHALL ISLANDS

PROJECT PROFILE				
1. Project Name: Financial Sector Program		2. Sector/Subsector: Finance		
3. Poverty Classification: ^a PG		4. Crosscutting Operational Priority: ^b GG		
5. Rationale & Objectives: To undertake reforms in the financial and banking sector and achieve long term financial stability towards a self-reliant economy.		6. Beneficiary Participation/Consultation Needs: TBD		
7. Scope: Undertake better financial and economic planning, improve accountability, build fiscal sustainability, and strengthen public financial management.				
8. Estimated Cost & Financing Plan:				Remarks:
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
ADB	10.0		10.0	
Co-financing				
Borrower				
Sub-borrowers			-	
Total	10.0		10.0	
9. Estimated Benefits and Beneficiary Groups: TBD				
10. Executing Agency: Ministry of Finance		11. Project Implementation Period: Start: Apr-01 End: Mar-04		
12. Environment Category: TBD		13. Processing Year: 2001		

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; PG = Pro-poor Growth

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000 which will be applied from January 2001.