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OF
DIRECTORS**

ASIAN DEVELOPMENT BANK

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**TECHNICAL ASSISTANCE TO THE MARSHALL ISLANDS
FOR COMMUNITY-BASED COASTAL MARINE RESOURCES DEVELOPMENT**

The attached Report is circulated for the information of the Board. The President approved the technical assistance on 25 October 2000.

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ASIAN DEVELOPMENT BANK

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TECHNICAL ASSISTANCE

TO THE

REPUBLIC OF THE MARSHALL ISLANDS

FOR

COMMUNITY-BASED COASTAL MARINE RESOURCES DEVELOPMENT

October 2000

CURRENCY EQUIVALENTS

The United States dollar (\$) is the unit of currency in the Republic of the Marshall Islands.

ABBREVIATIONS

ADB	–	Asian Development Bank
LGC	–	local government council
MIMRA	–	Marshall Islands Marine Resources Authority
RMI	–	The Republic of the Marshall Islands
TA	–	technical assistance

NOTES

- (i) The Fiscal year (FY) of the Government ends on 30 September.
- (ii) In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. Following a request made by the Government of the Republic of the Marshall Islands (RMI) to the Asian Development Bank (ADB) for advisory technical assistance (TA) to implement selected community-based small-scale demonstration projects in the fisheries sector, a TA Fact-Finding Mission visited the RMI in July 2000. The Mission held discussions with officials and representatives of the Government. The Mission confirmed the need for the TA and reached an understanding with the Government on its objectives, scope, cost estimates, financing plan, broad terms of reference, and implementation arrangements. The TA is included in the 2000 Country Program.¹

II. BACKGROUND AND RATIONALE

2. The RMI consists of 29 coral atolls, each comprising many islets, and 5 islands in the central Pacific between 4 and 14 degrees north and 160 and 173 degrees east. It has a total population of about 51,000 people and a land area of 181 square kilometers spread over a sea area of nearly 2 million square kilometers.

3. The development of coastal resources is an attractive option to augment the limited income opportunities of the disadvantaged people in the outer islands. To improve the success rate of such development, the Government has provided for the delegation of most of the responsibilities for coastal resources management from the Marshall Island Marine Resources Authority (MIMRA) to the local government councils (LGCs) under the Marine Resources Act passed by the Parliament in 1997. The involvement of LGCs and the communities is an important requirement to ensure the success of small-scale marine resources projects. It is proposed that this process of involvement commence with a small number of interested LGCs and the opportunity be used to implement demonstration activities so as to show the potential for the outer islands.

4. The critical need is for small amounts of funds to support small-scale community-based projects. To meet this need, MIMRA has set up a trust fund of \$2 million and the interest earned, approximately \$150,000 per year, will be used to initially provide interest-free loans for 3-4 demonstration projects for income-generating activities. Once this scheme is working, MIMRA will establish a capital investment fund whose earnings will provide a secure source of funds for a range of priority areas at the community level. The exact manner in which this trust fund will operate, repayment, interest rates, etc. will be determined from the experiences gained from the demonstration projects.

5. The overall challenge at this juncture is to proceed with appropriate actions to delegate the management responsibilities of the coastal resources to the LGCs (Fisheries Ordinance), identify pilot project activities with high potential for success, and for MIMRA to prepare supporting fisheries management plans in relevant areas. However, it should be noted that past interventions in promoting small-scale fisheries projects have not been sustainable and it is critical that the factors for these failures are understood and the lessons learned incorporated into future project design.

6. The Marshallese have a cultural history of utilizing and managing their coastal resources. These resources have long been important for food security as well as for other

¹ The TA first appeared in *ADB Business Opportunities* in August 2000.

traditional uses and customary values. Traditionally, the Marshallese fish primarily in the inshore waters and lagoons while offshore resources, mostly tuna, are exploited by distant water fishing fleets for access fees that are calculated at around 5 percent of the landed value of the catch. In 1999 these access fees amounted to more than \$4 million. This high-risk, capital-intensive, and often marginal fishery does not offer a realistic potential for developing domestic fishing. Recent domestic investment in the marine resources sector has seen the emergence of black pearl culture, aquarium fish and juvenile giant clam for export, and some live reef fish trade for the South East Asian market. However, a few overseas investors dominate these enterprises.

7. In more recent times, the marine resources have increasingly been used to generate income for cash needs such as school fees, building materials, imported basic food as rice, etc. Development activities based on these resources offer sustainable sources of income in situations where income production is difficult. Past interventions have demonstrated that local communities must take a leading role in development activities if these are to be viable and sustainable. Several other factors critical in determining the success of coastal resources development activities include technical expertise, logistics and supportive infrastructure, market demand for the products, and the ability of the activity to be integrated with people's existing lifestyle.

8. Attempts to commercialize the coastal fishery to meet uncertain and often contradictory social and economic objectives frequently failed due to logistical difficulties and a rapid decline in production. The atolls in the RMI are nutrient poor and the capacity to produce sufficient food for the resident population is marginal at best. Lack of basic infrastructure on nearly all atolls means that, for large sections of the community, simple daily activities such as gathering food, fetching water, and producing copra are very time-consuming tasks. Past attempts to introduce income-earning projects that compromised customary obligations and normal daily tasks were counterproductive as the schemes often demanded a greater share of scarce resources (fish, power, time, water, etc.) than could readily be made available.

9. The ADB-funded Fisheries Management Project² concluded that small and indirect enterprise programs, which contribute to alleviate the everyday hardship encountered in atoll communities, are often the most efficient way to cause subsequent economic development. While such income generating schemes are unlikely to produce wealth, they may well enable people to purchase and pay for essentials and lessen the hardships that characterize their lives.

III. THE TECHNICAL ASSISTANCE

A. Objective

10. The overall objective is to reduce poverty for the outer island or atoll communities in an increasingly cash-oriented economy in a manner that is environmentally sound and economically sustainable. The immediate objective is to facilitate the establishment of the most appropriate mechanisms and implementing guidelines for the revolving trust fund, and subsequent development of small-scale marine resources management projects for outer island communities.

² TA No. 2854-RMI: *Fisheries Management Project*, for \$600,000, approved on 2 September 1997.

B. Scope

11. The project will (i) analyze past small-scale fisheries interventions and identify lessons learned; (ii) establish and set down the procedural requirements of the board of trustees, support group, and the scientific advisory panel (College of Marshall Islands); (iii) train the community review committee in assessing project proposals for commercial viability and environmental impact assessment; (iv) identify viable small-scale projects; (v) undertake market research for targeted products and liaise with involved industries/businesses; (vi) undertake stakeholder and community leader consultations; (vii) facilitate specialized training for target groups in subjects identified for promotion and solicit appropriate extension material; and (viii) assist with implementing demonstration projects. The TA framework is in Appendix 1.

12. Many small-scale fisheries/marine resources projects in the past were not successful and this TA will therefore start with a one-month analysis of such projects. The analysis will identify the factors responsible for these failures, assess whether such factors can be mitigated, and if so, recommend ways and means to address them in future project designs. Of particular interest are the business failures of trochus shell export and tuna jerky for the domestic market. Both had established markets and the communities knew the required activities. Negative experiences from other Pacific countries with similar conditions will also be analyzed. Most of such information is obtainable from the ongoing ADB Fisheries Resource Management TA team in the Federated States of Micronesia.

13. When the analysis is completed, a tripartite review including MIMRA, ADB, and the consultant will be held to determine if the findings are sufficiently analyzed and if the proposed mitigation measures can be incorporated in the demonstration projects to ensure improved performance.

14. The TA will proceed with assisting in the necessary procedures and setups required in operating the trust fund and with identifying and implementing 3-4 demonstration projects in nearby atolls of Majuro. First, this will involve establishing and defining the functions of the trust fund secretariat that will be in charge of the daily operations and report to the board of trustees. The review committees (community review committee, scientific review committee) will perform important functions in evaluating proposals, and a support group will liaise directly with local councils and the Marshall Islands Mayors Association.³ Second, realistic demonstration project proposals will be identified and reviewed based on sound business principles, market outlets, and resource sustainability. Third, stakeholder and community leader consultations will be obtained to gauge their level of support, knowledge of proposed enterprise, social and cultural acceptance, training and information requirements, loan amount and repayment schedule, and, in particular, address the issues identified in the analysis of past small-scale fisheries projects. Fourth, the actual demonstration projects will be implemented with the necessary monitoring, accounting, and reporting.

15. The TA will formulate a community development plan based on widespread consultation with all sectors of the communities. This plan essentially seeks to remove much of the cost and responsibility for community-based fisheries development from the government. The process for accomplishing this requires that responsibilities be devolved to the community and that

³ A detailed proposal for the functions and members of the involved groups and committees has been written by MIMRA. However, the objective is to establish a revolving trust fund that, in the future, also will promote other small-scale activities than just marine resources. The proposed structures should therefore be reviewed and, if necessary, reformulated with this objective in mind.

adequate funding and technical support be provided from a small-scale development fund independent of government control.

16. The selected demonstration projects will be given interest free loans in the implementation period, after which date interest will be applied. The repayment for the loans will be deposited back into a revolving trust fund. Due to its lack of experience with such a concept, MIMRA needs practical assistance with implementing the demonstration projects as well as learning to incorporate community and cultural issues into small-scale fisheries development projects.

C. Cost Estimates and Financing Plan

17. The total cost of the TA is estimated at \$461,000 equivalent, of which \$224,500 is the foreign exchange cost and \$236,500 equivalent is the local currency cost (Appendix 2). The Government has requested ADB to finance, on a grant basis, a total amount of \$298,000 covering the entire foreign exchange cost of \$224,500 and \$73,500 in local currency expenditures. The foreign exchange costs of the TA cover consultants' remuneration, per diem, international and local travel, report production, training, communication, office supplies and equipment, local transport, surveys, specialized training, workshops, and contingencies. The Government will provide the remaining \$163,000 equivalent in local currency by providing counterpart staff, office facilities, trust funds for demonstration project implementation, support services, and local transport of its staff. ADB will finance the TA on a grant basis from the ADB-funded TA program.

D. Implementation Arrangements

18. The Executing Agency for the TA will be MIMRA. The director of MIMRA will have overall responsibility for coordinating implementation of the TA. MIMRA will also provide a direct counterpart staff to the consultants. The TA will be implemented over a period of 20 months with assistance of an international consultant (or consultants if necessary) with an input of about 12 person-months on a staggered basis. The analysis of the reasons for past failures of small-scale fisheries projects in RMI will be carried out first, and after the tripartite review sufficient time will be allowed for its results to be disseminated and understood by all stakeholders before commencement of the actual project. The analysis may be carried out by a consultant other than the team leader to be engaged for actual project implementation. However, ADB funds will not be disbursed until after the EA has established a dedicated account with the full trust fund amount. The TA is expected to commence in January 2001 and to be completed not later than December 2002.

19. The TA will be headed by an individual consultant for about 11 person-months of consulting services in the field of business administration/trust fund management/sociologist (team leader). A domestic consulting firm or institution will be contracted to provide between 15 and 18 person months consulting services for various project needs, as and when required during implementation. The areas of assistance include, but are not limited to: (i) marine surveys, (ii) stakeholder consultations, and (iii) community awareness programs. In addition, allocation has been made to hire specialized expertise from the region for necessary training needs in e.g. proper handling and procedures for live reef fish trade, coral or sponge growth, mother-of-pearl handicraft, etc. Broad terms of reference are given in Appendix 3. All consultants will be engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other procedures for engagement of consultants acceptable to the Bank.

20. A steering committee comprising the chief counterpart, the international consultant, two members from the board of trustees, one person from the private sector, and one person from a non-government organization, will oversee TA implementation. The international consultant and the board of trustees will together prepare terms of reference, shortlist the candidates for the various individual domestic consultancies, and forward their curriculum vitae for ADB's final selection and individual contract negotiations. Regional expertise required for specialized training will be selected and hired directly by the steering committee.

21. The team leader will be responsible for the following reports: (i) a report outlining the reasons for past failures of small-scale fisheries development and elaborating on how these factors can be sufficiently addressed to ensure the sustainability of new project interventions, (ii) a progress report for every three months assignment, (iii) draft final report one month before the end of assignment, and the (iv) final report one week before the end of assignment. A person from the Peace Corps may be involved as an independent reporter on pilot project implementation every quarter. Necessary travel costs are budgeted under "Miscellaneous Administration and Support Costs." The director of MIMRA will be responsible for the evaluation report on the implemented demonstration projects.

IV. THE PRESIDENT'S DECISION

22. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the Republic of the Marshall Islands, in an amount not exceeding the equivalent of \$298,000 for the purpose of Community-Based Coastal Marine Resources Development, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/ Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal Reduce poverty for outer island or atoll communities in an increasingly cash-oriented economy in a manner that is environmentally sound and economically sustainable</p>	<p>Viable small-scale enterprises will generate at least 20% of the earnings derived from the traditional copra production.</p>	<p>Support group records</p>	<p>Activities are designed to be socially and culturally acceptable.</p>
<p>Purpose Facilitate the establishment of the most appropriate revolving trust fund mechanisms and implementing guidelines and subsequent development of small-scale marine resources management projects</p>	<p>Executing Agency has established the secretariat, board of trustees, review committees, and support group personnel within the Marshall Islands Marine Resources Authority and secured dedicated terms of reference for its staff to undertake this role in the future.</p>	<p>Records of the secretariat</p>	<p>The funds earmarked for the Community-Based Coastal Marine Resources Development are actually transferred to a designated bank account for use in project implementation.</p>
<p>Outputs Lessons learned from previous small-scale development projects</p> <p>Trust fund setup and management established within 5 months of project start Stakeholder consensus on scope of project implementation, participation, availability of technical advice, costs, commitment, conditions for repayment of loan, and resource sustainability</p>	<p>Assessment of past small-scale interventions and the reasons for their frequent failures and recommendations to overcome these in future project designs finalized 1 month after project implementation Board of trustees, support group and scientific advisory panel are all effectively functioning. Appropriate training and extension material are provided to all stakeholders. Identification and implementation of 3-4 demonstration projects in nearby atolls are based on sound business principles.</p>	<p>Records of the secretariat and individual project accounts</p>	<p>“Maverick” interventions by former and current traders involved in similar activities in the past are avoided.</p> <p>Market research for targeted products identifies interested businesses and/or industries.</p>
<p>Inputs 29 person-months of international and domestic consulting services</p>	<p>Contracts between the Asian Development Bank and consultants</p>	<p>Project progress reports</p>	<p>Consultants with required skills are available.</p>

(Reference in text: page 3, para. 13)

COST ESTIMATES AND FINANCING PLAN

Item	Foreign Exchange	Local Currency	Total Cost
A. ADB Financing			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	170,000	0	170,000
ii. Specialist Intl. Consultants	15,000	0	15,000
iii. Domestic Consultants	0	35,000	35,000
b. International and Local Travel	12,500	10,000	22,500
c. Reports and Communications	1,000	1,000	2,000
d. Local transportation	0	6,500	6,500
2. Equipment	0	1,500	1,500
3. Training, Seminars, and Conferences			
a. Facilitators	0	1,500	1,500
b. Training Program	0	5,000	5,000
4. Surveys	0	7,000	7,000
5. Miscellaneous Administration and Support Costs	1,000	1,000	2,000
6. Contingencies	25,000	5,000	30,000
Subtotal (A)	224,500	73,500	298,000
B. Government Financing			
1. Office Accommodation	0	15,000	15,000
2. Remuneration and Per Diem of Counterpart Staff	0	22,000	22,000
3. Counterpart Travel and Per Diem	0	6,000	6,000
4. Others (Trust Fund)	0	120,000	120,000
Subtotal (B)	0	163,000	163,000
Total	224,500	236,500	461,00

Source: Staff estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANT

A. Background

1. The overall objective of the technical assistance (TA) is to reduce poverty for outer islands or atoll communities in an increasingly cash-oriented economy. The immediate objective is to facilitate the establishment of the most appropriate mechanisms for the revolving trust fund and implementing guidelines for developing small-scale marine resources management projects for outer island communities and individuals.

2. The scope of the project will (i) analyze past interventions and identify lessons learned; (ii) establish and set down the procedural requirements of the board of trustees, support group, and the scientific advisory panel (College of Marshall Islands); (iii) train the community review committee in assessing project proposals for economic viability; (iv) identify viable small-scale projects; (v) undertake market research for targeted products and liaise with involved industries/businesses; (vi) undertake stakeholder and community leader consultations; (vii) conduct specialized training for target groups in subjects identified for promotion and solicit appropriate extension material; and (viii) assist with implementing demonstration projects.

3. The Marshall Island Marine Resources Authority (MIMRA) has established a Revolving Trust Fund for the purpose of implementing private, sustainable, small-scale community-based coastal marine resources projects. In addition, the fund will also be used as grants to facilitate marine research for coastal resources for management purposes. An initial amount of \$2 million has been placed in a special bank account at 7.5 percent interest annually. However, in the future the intention is to increase the capital to such an amount that the interests are sufficient to implement a broad range of development activities for the outer island communities. As MIMRA has no experience in operating a trust fund and given the history of past failures of small-scale fisheries projects in the Republic of the Marshall Islands (RMI), there is an identified need for advisory TA.

4. The Marine Resources Act 1997 passed by the Parliament provides for the delegation of most of the responsibilities for coastal resources management to the local government councils (LGC), customary leaders, or designated community groups. There are more than 20 councils and MIMRA will now facilitate the process of practical delegation. Consultation with all stakeholders is a procedural requirement. Under the new law, the obligations imposed on community managers are as demanding as the ones imposed on MIMRA by the Fisheries Act. MIMRA has the right to intervene in the community management process to (i) uphold the provision of the Act, (ii) counter unsustainable activities, and (iii) support community-based initiatives. MIMRA is also vested with the responsibility to prepare fisheries management plans for every specific fishery or marine resources initiative within the five nautical miles coastal zone under LGC authority.

5. The overall aim of MIMRA is to encourage local communities to be enterprising, independent, and self-sufficient. A number of existing and potential development activities are associated with coastal resources in the RMI. It should be noted that there are also many examples of failed schemes associated with these resources. The establishment of successful enterprises in the RMI requires a unique set of social, technical, logistic, and economic factors. Three to four demonstration projects will be implemented as a test program and if they are successful, the revolving trust fund will be launched in earnest.

B. Specific Terms of Reference (International Consultant, 11 person-months)

6. The international consultant will need to have prior working experience in the RMI, be familiar with trust fund concepts and its management, experience with small-scale community projects, as well as proven leadership qualifications. The priority task will encompass training of counterparts and other local participants. The assignment will include, but will not necessarily be limited, to the following tasks:

1. Evaluation of Past Small-Scale Fisheries Projects

7. This task will involve a thorough analysis of the reasons why nearly all past project interventions for small-scale fisheries were not sustainable. Of particular interest are the business failures of trochus shell export and tuna jerky for the domestic market. Both had established markets and the communities knew the required activities. This phase will identify the factors responsible for these failures, assess whether such factors can be mitigated, and, if so, recommend ways and means to address them in future project designs. This phase is scheduled to take one month.

2. Establishment of the Secretariat

8. The functions of the Secretariat include

- (i) establishing of procedures for the board, review committee, the support group, and the project implementor of the project; and responsibility for logistics and ease of operation, developing memorandum of understanding and procedures, and arrangements between the support group and the project PI;
- (ii) monitor, record keeping, and review, specifically; (a) maintaining the records of the board, including minutes and the share register; (b) advising the board on the progress of the projects and the effect of the fund socially and economically on island communities; and (c) submit reports on all projects.

3. The Establishment of the Board of Trustees

9. The Board will perform the following functions:

- (i) Authorize the conclusion of agreements and arrangements with governments and other regional and international organizations
- (ii) Approve project proposals
- (iii) Review the activity of the support group
- (iv) Appoint the fund manager from a reputable local financial institute (i.e. a bank, CMI)
- (v) Develop criteria on how the fund should be used (allowable & unallowable projects) and the maximum allocation funding for a project
- (vi) Operate, supervise, manage, and distribute the fund
- (vii) Invest and distribute the resources of the fund (capital fund)
- (viii) Develop other options/criteria for managing, disbursing and auditing the fund, e.g. Deloitte & Touche.
- (ix) Develop its own rules of procedures, including frequency and location of meetings, voting, quorum, and fund disbursement.

4. Establishment of the Review Committees

a. Community Review Committee

10. The functions are as follows:

- (i) Will be responsible for evaluating small-scale community development proposals, integrating them with existing lifestyle, ensuring that proposals have the community support, ensuring the project progress
- (ii) Assist in product distribution and allocation of income for projects involving more than one family,
- (iii) Apply environmental impact assessment guidelines for the pilot projects.

11. It will be important to ensure that the committee include people with skills in assessing commercial viability, e.g., a small business adviser or a proven and impartial private sector operator.

b. Scientific Review Committee

12. The functions are as follows:

- (i) Be responsible for ensuring that proposals meet the Fund criteria.
- (ii) Review and redraft unsatisfactory proposals.
- (iii) Review projects that have been approved but are not yet implemented.

c. Observer

13. The functions are as follows:

- (i) Be responsible for project review in timely manner.
- (ii) Submit and present the reviewed proposals to the Board.
- (iii) Arrange the loan contract.
- (iv) Be responsible for initially implementing the approved project.

C. Criteria for Evaluating Project Proposals

14. Project proposals will be screened for commercial viability, environmental sustainability, and community and customary acceptance. Up to four project proposals will be selected for implementation as demonstration projects on atolls reasonably close to Majuro. For all project proposals an initial environmental examination will be carried out. In addition, realistic market research for the products will be undertaken as a precondition for selection. This activity will take approximately two months.

D. Implementation of Demonstration Projects

15. Stakeholder consultations, community awareness, and capacity building are all necessary requirements prior to implementing the demonstration projects. The international consultant will, together with the board of trustees, prepare terms of reference, shortlist potential candidates for each subject and forward these for ADB's final selection and contract negotiations with the first-ranked. Furthermore the consultant will be responsible for identifying

specialized training needs regarding a particular demonstration project, facilitating the necessary training and ensuring appropriate extension material. Before identifying and implementing any pilot projects, the team leader will study all non-government programs within the RMI (e.g., the NGO Youth-to-Youth), which have had some success in providing a combination of community, technical and, most importantly, business support, from whom lessons can be learned. Also the consultant should coordinate, where appropriate, with the people involved in organizing the Samoa Venture Capital Facility.