

Revisiting the Reform Agenda

Republic of the Marshall Islands
Public Consultations Program (PCP)

Summary Report



Asian Development Bank TA-7336: Responding to Economic Crisis
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January 2010

1. Background

The Government of the Republic of the Marshall Islands (RMI) requested ADB assistance to develop effective response measures to the global financial and economic crisis. In response, ADB provided a Technical Assistance (TA) project to undertake an informed analysis of the options available to carry out fiscal adjustment and other reforms, including policy options that would help the RMI: (i) achieve the optimal size of the public sector (particularly to reduce the wage and salary burden); (ii) reduce the subsidies to statutory authorities; (iii) improve the efficiency of the finance and budget processes; and (iv) improve data for economic planning and monitoring.

A Public Consultations Program (PCP) was also designed and carried out as an integral part of the TA, in order to gather ideas and input from key stakeholder groups in the RMI and to sharpen the reform focus. The PCP took place in late 2009 and drew the participation of a number of people representing different organizations and interests in the RMI. This report summarizes the key outcomes from the PCP.

2. The Public Consultations Program

The PCP consisted of a half dozen consultation sessions held in the International Conference Center in Majuro throughout the month of December 2009. The consultations covered a diverse range of stakeholder groups, including traditional leaders, non-governmental organizations, local governments, and others (see Appendix 1). The PCP was designed and facilitated by consultants Benjamin Graham and Lowell Alik. All consultations followed a bilingual format.

Each session started with a short presentation covering the following five main topics:

1. Background and introduction
2. The RMI economy
3. Fiscal and economic trends (reiliklok/retrospective)
4. Fiscal and economic outlook (reimanlok/prospective)
5. Policy options and actions (bunton ko)

The consultations began with a short background and introduction, covering the TA purpose and objectives as well as the key issues to be considered and discussed by participants. The facilitators then described and discussed the RMI economy, outlining its major features and structural weaknesses. The facilitators then walked participants through a retrospective look at fiscal and economic trends since the early 1980s (before the commencement of the Compact of Free Association with the US). The presentation then considered the challenges over the short, medium and longer term. Presentations concluded with a summary of the policy actions and options the Government had taken or had considered, leading up to late 2009, to address the challenges.

To guide the dialogue and discussions, participants were asked six key questions:

1. Ta ami lemnak kin waween kein (what are your general thoughts on these issues)?
2. What are some other reform options and ideas that should be considered?
3. What should be the priority expenditure reform areas?
4. What are some sources of revenue and growth that the RMI should pursue?
5. What is the key message that you want to deliver to Government leaders?
6. Are there any other issues that should be discussed?

3. Stakeholders Speak: Four Key Points

Lively discussions, lasting from half an hour up to two hours (for one particular session), allowed facilitators to gather an abundance of opinions, insights, ideas and recommendations. From all of this, there emerged fairly strong consensus and agreement around four key themes or points.

Participants widely agreed, first of all, with the conclusions made in recent diagnostic reports (including the IMF Article IV and CAP Advisory Group reports), that the RMI has once again entered into a period of fiscal and economic difficulty. Throughout the discussions, a number of participants used the phrase “an en ean” which literally translates into “wind or breeze from the north” but which figuratively means a time of great challenge or difficulty. Another frequently used term was “nuta” which means famine or starvation. Several participants made the point that the RMI has been in this same type of situation before, in particular during the late 1990s when the last major reform efforts took place. There was widespread concurrence that the country is currently facing difficult fiscal and economic circumstances.

Second, looking forward over the medium to longer term, most participants felt that the country will continue to face uncertainty, especially with regards to the Government budget revenues. “Jejjab jeꞑa ta enaj walok” (we do not know what is going to happen)” said one female participant with respect to the fiscal and economic outlook. While virtually all participants were concerned over the future, some participants were more pessimistic than others and made the point that things will definitely get harder, especially as US grants under the Compact decline over the next 14 years. None of the participants voiced any strong sense of optimism with respect to the Government’s revenue outlook, although a number of participants did recommend some revenue-side reform recommendations that should be pursued (see section below).

Third, given the current challenges and uncertain outlook, many participants felt strongly that the most appropriate response should be for the RMI to undertake some sort of change or reform process. Some participants offered only general and generic recommendations in this regard, but others pointed out very specific measures that they felt can be taken (see next section). On the whole, there was wide agreement among the participants that maintaining the

current course would not be a wise option and that some type of reform program will be necessary. Several participants used the navigational term “diak,” which means to tack or to change direction. One participant with expertise in Marshallese culture introduced another navigational phrase, “ekto kobab”, which (in his explanation) means discarding of the least-valuable and/or heavy items from a voyaging canoe so as to lighten its load as it heads into a stormy or rough sea conditions.

The fourth and final set of points (not one specific point, but a set of related points) that came across was that Government itself, and in particular the Cabinet and the Nitijela, should take the lead in any sort of reform process, and that members of these two bodies should lead by example. The “lead by example” phrase occurred in several consultations. Participants felt that this would be the best way to set the pace and to communicate and demonstrate to the public service and the rest of the country that while some changes may be painful, they are necessary. One participant stated that, “As elected leaders, they have the moral responsibility to lead by example... The higher-ups need to set a good example to all the people.” Another participant said that in her view, “Government is a role model to everyone and should set good examples.”

Thus, the four most salient points that emerged from the consultations can be summarized as follows:

- 1) The RMI is now experiencing difficult fiscal and economic challenges;
- 2) These challenges will likely remain over the coming years, creating a sense of uncertainty moving forward;
- 3) Some sort of change or reform process or program is necessary; and
- 4) The Government, starting with the Cabinet and Nitijela, should take the lead in this process and set an example for others to follow

4. Priority Reform Areas

Participants were asked for their thoughts on the most urgent and highest-priority reform areas. This question generated an abundance of responses and recommendations, almost all of which fall into three primary (and overlapping) spheres. Participants recommended that RMI prioritize reforms to: 1) the civil service; 2) public agencies and enterprises; and 3) non-essential expenditures.

- 1. Civil Service Reforms.** Civil service, personnel, and PSC-related reforms were by far the most discussed types of reforms during the consultation sessions. As one female stakeholder expressed at the outset of one session, “Let’s be realistic. The Government payroll is the number one issue here. Just look at the numbers. When I look at the Government from outside, I see way too many workers. We should review the workforce

numbers and pay levels. Let's take, for example, the Division of ... in the Ministry of ... Do they really need that many people in that office?"

A range of recommendations were offered, including:

- Consider cutting wages or hours in certain areas of the public service to save money
- Review job descriptions and pay scales
- Improve accuracy of job descriptions so employees know how much of their time is spent doing certain activities
- Downsize ineffective Government ministries/agencies
- Eliminate duplication of positions and also duplication or overlapping in functions of ministries and agencies
- Review salary scales of Government employees based on their positions and qualifications to ensure consistency
- Review pay for teachers, but ensure they are performing up to certain standards
- Review positions held by expats
- Review compensation levels of other Pacific parliaments to see how ours can be rationalized
- Establish stronger links between performance, productivity and pay levels
- Consider contracting out some basic services currently carried out by civil servants
- Review and reform PSC to ensure its management of the whole system is effective
- Review the issue of contracted employees (as it is becoming a major cost)

One participant expressed major concern with what he described as the practice of hiring employees who are not qualified into certain Government posts. "Some young people do not think getting an education is important because they see people without qualifications getting high paying jobs in Government."

2. Public Agency and Enterprise Reform. The second most discussed area of reform related to Government agencies and enterprises¹. Participants felt that many reforms to agencies and enterprises are long overdue and this is an area that has not been given due attention from the RMI leadership. Specific recommendations included:

- A phase-out of subsidies to certain poorly performing enterprises
- Require enterprises and agencies to start following the PSC pay scales (or some harmonized pay scale)
- Conduct a comprehensive review of all public agencies and enterprises to make sure they are complying with their mandates
- Establish stronger rules for how enterprises are supposed to use their "profits" or financial surpluses

¹ There are several dozen public enterprises and agencies across the public sector, many of which continue to require financial support and subsidies from the national budget.

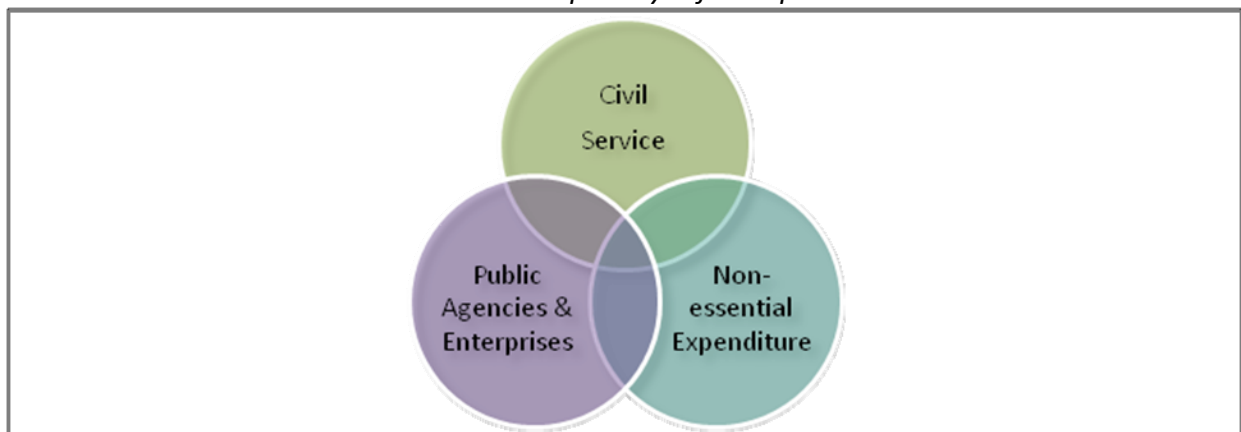
- Cabinet and Nitijela to be much more strict in reviewing the performance of enterprises; if their managers are failing, replace them
- Establish stronger regulation and legislation to require better performance from the public enterprise sector as a whole

The recommendations calling for stronger regulation and legislation covering enterprises and agencies paralleled recent recommendations put forth by a visiting World Bank team, which recommended the adoption of a stronger and more robust legislative and governance regime for public enterprises.

3. Reduction in Non-essential Expenditures. There was near-unanimous agreement among participants that the Government was overspending in many areas. This prompted participants to come up with a range of expenditure-cutting reform priorities. Participants felt especially strongly that expenditure cuts should be made in those areas that are known to be less important or less essential to the overall function of Government and delivery of basic services. These recommendations included:

- Limit the number of vehicles a ministry or agency uses to reduce fuel and other costs
- Limit the use of Government vehicles (strictly for official business)
- Cut back on spending on new vehicles, including new vehicles for Ministers
- Eliminate or rationalize “representation” spending
- Stop or place stronger controls on Government reprogramming of budgets to meet unexpected or unplanned activities that are not always important
- Eliminate or rationalize housing allowances for Cabinet and others who own their own homes
- Eliminate or rationalize electricity allowances
- Rationalize travel spending

Stakeholders’ priority reform spheres



5. Potential Sources of Revenue and Growth

Participants also put forward several revenue-side reform ideas. Responses included:

- **Expand revenues (and other benefits) from the commercial fishing industry.** This was the most frequent answer from participants. Participants felt that this area had the most potential for generating greater budgetary revenues as well as job and economic growth for the RMI. Participants recommended reforms to licensing arrangements and other aspects of the commercial fishing industry. Many felt that these reforms are long overdue.
- **Strengthen grant seeking.** This was the second most common response. Participants agreed with the recent recommendation from the Chamber of Commerce that a national grant office should be established to work with both public and non-public organizations to facilitate grants from outside the RMI for community projects. Participants felt that such an office could have a dual focus: to bring in more financing and to enhance local capacity to manage grants and projects.
- **Improve the tax system and strengthen enforcement.** Participants felt that tax policy and enforcement reforms are also overdue, not necessarily to raise tax revenues but to ensure that taxes are enforced effectively and fairly. Several participants raised this as a priority.
- **Review ways to encourage more remittances.** Several participants raised the issue of remittances and suggested that perhaps more can be done to encourage remittances from Marshallese abroad, including reducing the costs of remittances (if at all possible).
- **Privatize or reform public enterprises as a way to encourage growth.** Some participants viewed ineffective or poorly performing public enterprises as a major constraint on growth, thus reforming (or transforming them through privatization) may be a good way to spur private sector and economic growth.
- **Strengthen transport and communication as a way to encourage growth.** Another set of participants felt that the binding constraints on growth were mostly in the transportation and communication arena, given the RMI's isolation and scattered geography. These participants felt that improving the accessibility, affordability and reliability of both international and domestic transport and communication networks would be the best way to encourage commerce. This could be facilitated and fast-tracked through: a) more and better targeted public investments into enabling transport and communication infrastructure; b) reforming public enterprises currently delivering transport and communication services and introducing more private sector participation and competition into these areas; and c) strengthening regulatory oversight of these services.

One participant pointed out that improving transport and communication services would not only provide economic benefits, but would also help improve basic social services. “We need to improve roads and runways, especially in the outer atolls and Ebeye. Over 600 students who live on Ebeye attend school on Gugeegue and they really suffer because of the poor condition of the Causeway” he said.

6. Stakeholders’ Messages to Government Leaders

Participants were finally asked, at the close of each session, to articulate some key messages for Government leaders. Participants took this opportunity to offer a range of closing remarks and recommendations.

One participant went straight to the heart of the human development challenge stating that “Jorren eo elaptata ej ikijien education.” (The biggest weakness we have relates to education). In his opinion, improving the education system would be the best investment for the RMI’s economic future.

Another participant closed with the point, “The RMI people and their leaders really need to take an inner-look at themselves, and figure out where they want to be in the future and how they want to fit into this globalized world.”

One participant was quick to point out what he felt was the most obvious problem of all: “Weak enforcement of our laws and policies is the major underlying cause of all these fiscal problems. If we followed the law and the stated policies, we would not be in this situation.”

Several participants took the final opportunity to voice their support for Constitutional reforms, through a Constitutional Convention (or “Con-Con”). These participants felt that two particular Con-Con reform ideas should be seriously considered:

- Reduce the number of Nitijela representatives from the current 33 to a lower number so as to reduce the total cost structure of the Government
- Strengthen the powers and capacities of local governments to allow them to take a more active role in the development of their communities and economies

7. Conclusion

The intended purpose of the consultations was to gather input from key stakeholder groups on the general topic of fiscal and public sector reforms. Stakeholders were very receptive to the invitations to the PCP and participated enthusiastically in the discussions. Several stakeholders (including members of the Council of Iroij) took the opportunity to express their gratitude for being invited to comment on the reform issue, with one participant pointing out that “We are usually not asked for our opinion on these types of matters.”

The major reform priorities identified during the PCP fully agree with and support recommendations already made in recent diagnostic analyses. This should give confidence to leaders and reform planners that the key reform priorities now under consideration (including expenditure, tax, civil service, and enterprise/agency reforms) are indeed important and relevant in the eyes of a number of key stakeholders. There is strong agreement, at least among the PCP participants, that these are the “right” reforms to pursue.

The participants also advanced some new and relatively unique recommendations and priorities. The emphasis on improving transportation and communication networks, as an enabling mechanism for economic growth, is one example of this. Another example is the Constitutional reform recommendations. These should be given some consideration.

The key reform messages coming out of the PCP, as summarized in this report, should help inform the reform planning process now underway. As this process advances from the planning to the implementation stages, it would be wise to continue the consultative and participatory processes. These are essential prerequisites to reforms, as they the most effective means to build consensus and to ensure understanding between Government and the public on not only the need for reform but also the most appropriate types of reforms that should be pursued.

APPENDIX 1. PCP PARTICIPANTS

1. Iroj Kotak Loeak	Chairman, Council of Iroj
2. Leiroij Catherine N. Reimers	Vice Chairperson, Council of Iroj
3. Irojlaplap Remios Hermios	Member, Council of Iroj
4. Leiroij Lantemur H. Jormelu	Member, Council of Iroj
5. Leiroij Aine Joseph	Member, Council of Iroj
6. Mr. Francis Horiuchi	Clerk of Council of Iroj
7. Mr. Monono Dawoj	Deputy Clerk of Council of Iroj
8. Mr. Jokla Titus	Staff, Council of Iroj
9. Mr. Aliksa Andrike	President, Marshall Is. Teachers Association
10. Mr. Hebel Luther	Member, Marshall Is. Teachers Association
11. Ms. Winnie Benjamin	Member, Marshall Is. Teachers Association
12. Mr. Obet Mote	Member, Marshall Is. Teachers Association
13. Mr. Martin Bajo	President, Majuro Youth Congress
14. Mr. Takaaki Ito	Treasurer, Majuro Youth Congress
15. Mr. Aies Eliu	Youth Coordinator, Ministry of Internal Affairs
16. Mayor Melvin Majmeto	Vice President, Marshall Is. Mayors Association and Mayor of Wotho Atoll
17. Mayor Federation Langbata	Lae Atoll
18. Mayor Isaac Naisher	Jabat Island
19. Mayor Hemly Benjamin	Maloelap Atoll
20. Mayor Jejwadrik Anton	Arno Atoll
21. Councilman Wellis Mokka	Maloelap Atoll
22. Mrs. Daisy Alik-Momotaro	Executive Director, WUTMI
23. Mrs. Miram deBrum	Staff, WUTMI
24. Mrs. Tomiko Maddison	Staff, WUTMI
25. Mrs. Luren Ading	Staff, WUTMI
26. Mrs. Pearl Zebedy	Staff, WUTMI
27. Ms. Simie Jurelang	Staff, WUTMI
28. Ms. Annie deBrum	Staff, WUTMI
29. Dr. Hilda Heine	WUTMI Advisor
30. Mrs. Carmen Bigler	WUTMI Advisor
31. Fr. Ray Sabio	Assumption Church/Schools
32. Mr. J.P. Yadav	UNDP/EPPSO
33. Mr. Terry Keju	UN Joint Presence Office
34. Mr. Jim Mclean	Chamber of Commerce
35. Mr. Newton Lajuan	Director, Alele Museum
36. Mrs. Bonny Taggart	MICNGOs
37. Mr. Carlos Domnick	Marshallese Business Association
38. Mrs. Nika Wase	MICNGOs