

Chapter 4

Marshall Islands Case Study

4.1 POLITICAL AND ECONOMIC BACKGROUND

The year 2006 marks the 20th anniversary of independence for the Republic of the Marshall Islands (RMI). A constitutional democracy, the RMI runs a unicameral, parliamentary government with a President serving as head of state. A US trust territory from the end of World War II until independence in 1986, the RMI maintains strong political and economic relations with the United States (US) under a Compact of Free Association (the “Compact”). Under this free association relationship, the US provides the RMI with economic assistance, defense, immigration privileges, and other benefits in exchange for the right of strategic denial as well as continued use of Kwajalein Atoll as a US military facility.

Most of the 33 members of parliament (including the President and the cabinet ministers) belong to two ad hoc political parties that were formed in the late 1990s: the United Democratic Party (UDP), which currently holds the majority (gaining this majority in the 1999 elections and holding its position again in 2003),

and the *Ailoon Klein Ad* (AKA) Party.

Economic growth, in real aggregate and per capita terms, has been fairly low since independence. Despite high injections of economic assistance, the RMI’s rapid population growth (at nearly 2% per year with a total population of about 57,000 in 2006) and weak overall internal economic performance has made per capita growth flat to minimal. Recent analysis has estimated that real per capita income (in 2003 prices) grew at an annual average of 1% since 1986 and has actually contracted since 1995.¹⁸ As a result of this long-term economic malaise, the economy remains small, poorly diversified, and heavily reliant on outside resources. With per capita GDP estimated at \$2,340, the RMI is closer to Pakistan than to Indonesia in terms of income. Heavy funding



A view of Marshall Islands

flows channeled through the public sector and the continued stagnation in private sector growth and expansion means that the public sector continues to dominate in terms of share of GDP, employment, and paid wages.

Long-term economic stagnation has been the major underlying cause of a growing number of social problems, including increasing poverty, income inequality, and unemployment. Social distress symptoms are increasingly rising (which is a cause for concern), especially in the urban centers of Majuro and Ebeye. Crime, domestic violence, malnourishment, and substance abuse are a few of the emerging issues affecting modern RMI society.

Poor and worsening economic and social conditions at home—combined with free entry privileges to the US—have created a high and steady flow of out-migration. Recent estimates suggest that over 13,000 Marshallese migrated to the US between 1990 and 2004.¹⁹ Whereas large overseas migrant populations currently provide economic stimulus for some Pacific Island economies via remittances, for RMI this has yet to materialize. Remittances from Marshallese living abroad are estimated to contribute very little to nothing to RMI economy. This is most likely because of the poor economic status of Marshallese living in the US: nearly 40% of these Marshallese live at or below the US poverty line.²⁰

Traditional Social Structure and Modern Society

While many traditional practices and customs are transforming, traditional Marshallese social and relationship structures remain fairly intact. All Marshallese are born into three broad social classes: the *iroij* or chiefs, the *alap* or lords (also sometimes referred to as clan heads), and the *ri-jerbal* or the commoners (literally translated as the “workers”).

Land is an extremely important resource in the traditional social structure, not only in terms of its economic use, but also in terms of its sociocultural characteristics. Almost all land in the RMI is still held customarily, with most land parcels (called *wetos*) having three title holders representing the three general social classes. Access and rights to land are passed down through the mother. Marshallese

society is also divided by extended family lineages or clans (called *jowi*) and, like land, clan membership is passed down through the mother.

Marshallese society, therefore, centers on the extended family and places far greater emphasis on group consensus and community than on individualism. Based on consultations among partners during the technical assistance, the questioning or criticism of traditional superiors is discouraged. In the modern context, with the adoption of western forms of governance and with the recent push for increased public demand for accountability and good governance, these traditional norms often present principle conflicts. Public questioning and criticism of government (and its officials) is not a common phenomenon. Whereas, in recent years, the strengthening of different forms of media and the emergence of NGOs has led to an increase in the voicing of concerns over certain public and political issues, the vast majority of Marshallese today remains hesitant to openly question authority.

Service Delivery Responsibilities of Local Government

Unlike the other two pilot countries, the RMI remains relatively centralized given its low population density and limited budget resources. Local governments are able to raise some revenues through sales tax, and are only responsible for providing limited services. These include local police services, solid waste collection, and local roads. Education (which accounts for half of the civil service), health, and public works (roads, sewers, and utilities) remain the responsibility of the national government. For this reason, the project focused on the national budget in RMI, unlike the other two countries.

Civil Society Capacity

The most important CSOs in the Marshall Islands are local community organizations, including parents-teachers associations (PTAs), sports clubs, women’s clubs, and the very active churches (many of which also provide important school services). These organizations have the broadest membership of

Marshallese citizens and provide a structured way of involving users of public services in the pilot project activities.

The RMI has a small number of NGOs, all based in Majuro, that provide an assortment of services from education to vocational training, to advocacy on women's issues. Some members of the NGO consortium have been trained in budget analysis/literacy under a prior ADB project on gender budgeting, but none are engaged in applied budget work. NGOs are increasingly asserting themselves in advocacy and many now attend the public budget hearings that are usually held in Majuro in August and September. However, as many NGOs rely on public funds, they sometimes are reluctant to openly question the government. At the same time, there are some in government who view civil society as competition for resources and authority rather than as partners. This attitude is felt by the NGO community to impede the development of a vibrant civil society sector.

The private sector is represented by the Chamber of Commerce, also located in Majuro. There are no other business associations in the country. The private sector, to date, has not been involved in budget trainings, but has been vocal in the budget hearings and has experience advocating on policy positions to the government.

The RMI has a relatively open and active media community. Radio is the primary media source for most Marshallese, particularly the government-controlled AM station, which reaches the outer islands. There is also an independent newspaper in Majuro that has a weekly readership of roughly 20,000²¹ (print and electronic versions) and several privately-run FM radio stations in Majuro.

External Agency Coordination

The RMI receives assistance from the US through the Department of Interior; Taipei,China; the European Union (EU); various United Nations agencies, and ADB. Related specifically to budgeting, programs have focused on performance-based budgeting (funded by the US), gender-based budgeting (ADB), and community decision-making (the EU).

4.2 LOCAL BUDGETING PROCESS

Revenues and Expenditures

The national budget, totaling approximately \$150 million in FY2006 (including both recurrent and non-recurrent capital investments) continues to draw the bulk of its resources from external sources, again mostly from the US. The US and Taipei,China alone will contribute 70–80% of the total budget in 2006 in the form of grants. The balance is made up of domestic revenues (mostly through import, income, and gross receipts taxes). Funding from the US government for the trust fund and land payments related to military reparations are not included in the national budget.

Development in the RMI is heavily reliant on external sources and, since independence, the nation has seen in excess of \$500 million in economic assistance (this excludes other receipts such as lease payments from the US for the use of Kwajalein Atoll and compensation for damages stemming from the US nuclear testing program in the 1940s and the 1950s). The bulk of this assistance came from the US via the Compact and the rest through bilateral relationships with Japan, Taipei,China, Australia, and other donors. The RMI has also received approximately \$100 million in development loans, primarily from ADB, which the RMI joined in 1991.

A critical challenge facing the RMI is the size of its civil service, and its budget for salaries now absorbs most of the available budget revenue. The Office of the President calculates that salaries can reach as high as 90–95% of departmental budgets. While an oversized public sector is an issue common to all three countries in this pilot project, the problem is even more pronounced in the RMI than in the other two countries.

Budget Preparation Cycle

The fiscal year in the Marshall Islands runs from 1 October to 30 September. Planning begins in January of each year and the budget cycle is shown in Table 4.1.

Table 4.1 Annual Budget Cycle for the National Government, the Republic of the Marshall Islands

Month	Activity
Jan	The Economic Office of the President updates macroeconomic projections (revenue, inflation, etc.) in the Medium-Term Budget Investment Framework.
Feb	The updated framework is submitted to the Budget Office which notifies the Cabinet Ministers of their allocations for the year.
Mar–Apr	Line Ministries prepare department budgets and submit them to the Budget Office.
Apr–May	The Budget Office prepares the draft budget using ministerial input.
Jun	The draft budget is submitted to the Cabinet.
Aug	Cabinet approves or revises the budget and submits to the Appropriations Committee in Parliament.
late Aug–early Sep	The Appropriations Committee holds public meetings (broadcast on government radio) by department in the capital, Majuro.
Sep	The budget is submitted to the Parliament and then enacted.

Given that such a high percentage of the budget is concentrated on salaries and operating costs, allocations are quite static from year to year. Low economic growth and dependency on US government's transfers mean revenues are also highly static.

Budget Implementation and Monitoring Cycle

Budget implementation and monitoring are primarily the responsibility of the Ministry of Finance, under the guidance of the Secretary, Minister, Chief Secretary and Cabinet. Additional oversight is provided by the legislative branch's three budget-related committees (Ways and Means, Appropriations, and Public Accounts). The Ministry of Finance currently does not issue any revision updates or reports on the enacted budget during the year.

Legal Basis for Participation

There is no specific act or law that explicitly defines what budget information is to be made public and what is to remain confidential. However, since the budget is put into a public law format and passed by the Parliament (*Nitijela*), it is automatically available to the public. Open debate and discussion about the law and other issues that affect the budget, however, are not mandated and are, therefore, not always carried out.

While there is no legal basis for participation in the budget process, it is common practice for the Parliament's Appropriations Committee to hold

budget hearings for public debate and discussion, as described above. However, these hearings are lightly attended by civil society.

4.3 FACILITATING CIVIL SOCIETY PARTICIPATION IN LOCAL BUDGETING

The project was launched by holding consultations in Majuro and Ebeye, the two main atolls or groups of islands that account for over 75% of the total population. Given the circumstances of RMI, the project focused on the national budget. Nonetheless, activities took place in both Majuro and Ebeye to involve as large a number of CSOs as possible in the project.²²

Majuro, with a population of 26,000 or nearly half of the total population, is the seat of the national government and has access to the most extensive



A view of Majuro

services in the country. As noted above, the public sector is the largest employer with a small trade and services sector. Ebeye, with a population of 10,000, is the second major population center and is approximately 45 minutes by airplane from Majuro. Majority of the population—presently residents in Ebeye—are from other atolls who are attracted by the formal sector employment opportunities in the neighboring US military base at Kwajalein atoll. Since they are not native to the atoll, they hold no land rights which remain with the traditional landholders. While the RMI has no national definition of poverty, Economic Policy, Planning, and Statistics Office (EPPSO) estimates that approximately 20% of the total population lives on less than \$1/day. Residents of Majuro and Ebeye, with the best access to formal employment in the country, presumably have lower rates of income poverty than this national average.

Development of Budget Training Materials

There had never been a budget manual developed specifically for the RMI. Thus, the project created entirely original materials, based on budgets and planning documents provided by the government. A summarized version was translated into Marshallese. As the first and sole resource of its kind for the Marshall Islands, the manual was distributed as widely as possible to provide a lasting resource to CSOs interested in engaging in applied budget work in the RMI. In addition to hard copies disseminated through CSO networks, a local organization has placed the manual in its website,²³ and a summary of the budget was published in the main newspaper.

Enhancing Capacity for Applied Budgeting

A one-day training format was found to be most suitable to respond to the needs of the Marshallese community as almost all CSOs in RMI are staffed solely by volunteers, which severely limits the levels of

realistic participation. Almost all participants took unpaid leave from work to attend these trainings, reflecting a strong interest in the project-sponsored activities.

A total of five workshops were conducted (three on Majuro and two on Ebeye). A total of 68 participants attended these trainings representing churches, schools and school PTAs, NGOs, and a number of concerned citizens who came in an individual capacity. To contribute to the sustainability of such budget literacy efforts, the trainings were co-facilitated by a representative of the local NGO Women United Together in the Marshall Islands (WUTMI).

Most of the training schedule was devoted to a basic review of the budget calendar and process as this was new material for the participants. Using the budget manual as the main-source document, key actors and their roles in the budget cycle were covered. The training also taught CSOs how to conduct very simple micro- and macro-level analyses of the budget. Highlights of the discussions included:

- Participants showed interest when the lecture focused on the constitutional mandate of each of the key RMI actor in the budget process. It was clear that key government bodies contributed to the overall accountability and transparency of the budget process that are inactive. For example, Public Accounts Committee (PAC) in the Legislative Branch has



Workshop with NGOs

not met in recent years. Many of the participants had not even heard of PAC, a reflection of its ineffectiveness.

- In general, it was clear that basic civic issues (such as, government roles and functions) were not known by most of the population, signaling a gap in the RMI's education system.
- The Ebeye Special Needs (ESN) grant commanded a large portion of the discussions for the Ebeye trainings, spurring many questions that were not addressed sufficiently during the outreach campaigns of the Compact Negotiations Office in late 2003. Discussions included topics such as: how ESN grant concept came about during the negotiations; what ESN grant could be used for; and how the grant was used in FYs2004, 2005, and 2006. It was clear from the discussion that most participants did not have this information previously. Upon realizing how ESN could be utilized, people then started asking who decides on how ESN will be used. Is it a government decision or should the people in Ebeye be consulted on what needs ESN grant should tackle?

Although this initial training provided a basis for the CSOs to engage with the government, it was the first step to create real capacity for the financial analysis needed to conduct applied budget work. Future efforts will be required to create broader capacity for budget analysis and to support the creation of an NGO specifically mandated to undertake budget work. In the RMI, WUTMI has expressed their interest in taking on such work and a separate training was, therefore, conducted at their annual meeting so that all their members, including representatives from the outer islands, could be exposed to the budget concepts covered in the trainings.

Toward Annual, Government-hosted Budget Forums

The budget workshop in the RMI was held in April 2006. The audience consisted of 14 civil society representatives, including three Ebeye residents whose attendance was supported by the project. Gender representation among speakers and

participants was roughly equal. A journalist from the *Marshall Islands Journal* attended and subsequently provided coverage in the local paper.

The government's presentation provided an overview of its priorities for the upcoming years and offered a frank discussion of some of the political and capacity challenges it was facing that had made it difficult to institutionalize budget reforms. Although the Ministry of Finance had indicated to the project team prior to the meeting that they would present projected figures for FY2007, on the day of the event they were not able to share these figures as the draft budget (which provides the ceilings for each Ministry for the upcoming fiscal year) had not yet been submitted to Cabinet.²⁴ However, they explained that overall figures (revenue/expenditure) were expected to be consistent with the FY2006 budget.

Because no budget numbers were presented, CSO response to the presentation focused on information access rather than the budget per se. Issues raised in the discussion included:

- How the government can improve access to budget and other government documents, particularly for citizens who live off the main atoll.
- A discrepancy between the RMI's stated commitment to gender equality and the lack of funds dedicated to women's issues.
- Poor communication between the government and CSOs, particularly in areas of important service delivery such as education.

Following the budget forum, workshops were conducted with CSOs on both Ebeye and Majuro to discuss action plans and how to address the perceived bottlenecks in accessing budget documents.

4.4 COUNTRY-SPECIFIC RECOMMENDATIONS

The final conference was held in June 2006 and attended by the Cabinet's Chief Secretary, the highest ranking civil servant in the government. Recommendations for increasing public participation and oversight in the budget were presented by civil society representatives from each atoll; and the Chief Secretary was invited to respond to these ideas. The

Box 5: Importance of a Legal Framework

Confusion during the budget forum over whether the Ministry of Finance had the authority to share draft budget figures exemplifies the challenges of implementing applied budget work in contexts where there are no clear guidelines on what information is considered public. While the absence of a supportive legal framework does not mean budgeting work is impossible, practitioners should be aware of the potential complications presented by such an environment. CSOs should begin by building strong linkages to government figures with the authority to authorize the sharing of budget information. Advocacy on rights to information and persistence in explaining to government officials the benefits of more transparent budgeting methods can also be helpful.

recommendations and his response are given below.

Recommendations

Although a large number of suggestions for improving the budget process were discussed during the trainings and budget forum, the CSOs chose to concentrate on a few high-priority recommendations during the final conference. Ebeye's recommendations were presented separately as CSOs there face slightly different challenges than CSOs on Majuro.

Ebeye CSO Recommendations

1. CSOs made various suggestions for ways to disseminate budget and other government information on Ebeye. These included making publications available through schools and various government/NGO offices, including the office of the Deputy Chief Secretary Representative for Ebeye and the Kwajalein Atoll Local Government.
2. RMI poses a unique funding environment for CSOs in that most international donor support is facilitated through the central government. Ebeye's distance from the capital complicates

their access to information on what program funds are available, and they, therefore, requested that the government include information on foreign grants in their dissemination efforts.

3. Addressing the finding during the budget trainings that most citizens are unaware of basic civics concepts and the model of the RMI government, the Ebeye CSOs suggested that the government include these subjects in the primary school curriculum.

Majuro CSO Recommendations

1. Increase public education on the budget and governance issues. CSOs encouraged the government to support budget literacy efforts.
2. Improve information flows and access. Like their colleagues on Ebeye, CSOs stressed the need to make information available more easily and encouraged the creation of a website. They also expressed support for the idea of establishing a Nitijela library where budget and other documents would be available to the public.
3. Improve information detail and quality. Requested that financial statistics and budget figures be disaggregated in such a way that operating expenses are detailed and easy to understand.
4. Continue and expand performance-oriented budgeting to all Ministries. Currently, only the Ministry of Education is fully implementing this reform.
5. Release the draft budget earlier to the general public.



Budget Forum

Action Plans

Executive Action Plan

The Chief Secretary expressed his support and willingness to bring these suggestions to the Cabinet for action. He also committed to the following concrete future steps:

- The President's office and the Nitijela are developing websites that will host government documents, including the budget, for anyone to access.
- The government envisions that roll-out of performance-based budgeting will be completed in the next 3 years. The delay is due to human resource constraints.
- As a sign of his commitment, the budget circular, showing FY2007 department ceilings and the assumptions underlying the budget, was made available immediately at the meeting. This is the document that was not shared at the April conference.
- The Chief Secretary expressed his willingness to hold public hearings on the draft budget before the Nitijela convenes its hearings prior to the passage of the budget.
- Ebeye will be included in the distribution list of government documents and publications, and the Deputy Chief Secretary Representative Office (responsible for Ebeye matters) will be trained to assist in the dissemination of these documents. The local government on Ebeye will be included in this distribution list and a member of the Ebeye Mayor's office in attendance expressed their readiness to participate in distribution of these documents.

Legislative Action Plan

Three members of the Nitijela participated in the final conference and publicly committed to reinvigorate PAC. They announced that PAC, which is tasked with monitoring government expenditure, will meet for the first time in several years beginning on 28 June 2006. The Chairperson of PAC also requested training for Parliament members on budgeting.

Civil Society Action Plan

In addition to making the recommendations for government action above, CSOs, on their part, pledged to further budget transparency efforts by:

- **Hosting documents on their websites.** Several NGOs expressed willingness to dedicate space on their internet websites for public government documents. This would complement the government's efforts in uploading any public documents for its own dissemination policies. As a first step, WUTMI has already placed the budget manual and budget circular on their website, www.wutmi.org.
- **Assisting in disseminating information.** CSO offices are willing to set aside an area in their respective libraries, offices, and schools for general government documents. These documents can be viewed by anyone who cannot access the internet. For example, copies of the budget manual in Marshallese were distributed at the final conference and will be made available to the networks of CSOs in attendance.
- **Educating the public on budgets.** WUTMI, the only NGO in the country with national outreach, has taken ownership of this project and will continue to educate CSOs in the RMI on basic budgeting.

Sustainability

The very high level representation on the part of the President's office signaled to the various ministries present, particularly the Ministry of Finance, that the government is serious in making these commitments. This is extremely important to the implementation and sustainability of the action plans presented here. However, the RMI continues to face significant human resource constraints on the part of the various ministries in pursuing better budgeting practices that will take time and resources to overcome. Nonetheless, if the people's access to information improves, particularly off Majuro, this will be a very tangible and important step in enhancing transparency.

On the part of the Nitijela, public pressure, particularly through the media, helped motivate the

PAC to meet again. Following their first session, they have created a schedule to meet with various ministries to review their budgets and spending. These meetings should be monitored by the public and the media, in particular, should play a central role in continuing to highlight budget issues to the public. Technical assistance may be important in ensuring that such meetings are effective as Parliament members do not receive any budget training or accounting support.

Civil society faces rather unique constraints in the RMI given the very limited resources available for programming on governance reforms. Until recently,

most donor support for CSOs have focused on their role in service provision given the pressing needs facing the population. Donors are encouraged to recognize the important role that CSOs can play in demonstrating demand for governance reforms. In terms of the sustainability of budget literacy efforts and forums, particularly off Majuro, WUTMI is preparing proposals for dissemination to those donors present in the RMI. Absent donor assistance, they will continue to use forums, such as their annual meetings, to increase the capacity of their members in budget literacy and advocacy.