

# Chapter 9

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## Development Strategies

### The Need for Participation

Many of the requirements for successful development are not unique to the RMI, or to economic management, but they are still critically important. Defining the direction and identifying the goals and strategies of national development are necessary for the same reasons that a commercial firm needs a business plan to beat its competitors, or a sports team needs to a strategy for improving its game and winning the league. In each case, many distinct parts and players have to work together to achieve a result that they all want. A nation-state and its economy, even one as small as the RMI, consists of hundreds of "economic actors," each pursuing its own objectives. Some of the most important things they want—stability, security, infrastructure, market access, public health, a skilled workforce—cannot be obtained by individual action. They need to collaborate through a jointly owned organization—the machinery of the State—and they have to give up part of their individual ambition, even some of their freedom of action, to build a basis for a national identity and common action.

To define goals that all share and agree to work for, the idea of a "greater good" of society at large needs to take root. If this can be achieved, and the idea grows, it has great potential for development. In the business firm, departmental goals are subordinated to, and contribute to, the success of the firm

as a whole. In the sports team, the glory of this or that player lies in contributing individual skills to the team's success. In national development, no one sector or agency will be able to impose its goals on the rest: a higher set of goals has to be found that all can support, adopt, and strive to achieve.

When a set of goals has been defined that is logically and technically sound, and that commands wide support among those whose interests are affected, whose resources and work will be required (the stakeholders) then one or more strategies are required to achieve each of the goals. Formulating strategies needs to be a consultative process that helps build moral commitment and readiness to help implement the strategies. Again, this applies to the firm, the team, and the nation-state. Without a sense of participation and shared responsibility for the announced goals and strategies, the necessary stakeholder support will not be forthcoming, and the development process will fail, however technically well-planned it may be. The RMI's disappointing experience with two 5-year development plans since independence clearly bears this out.

## The Process

The problem in defining common goals is that in trying to satisfy everyone, focus may be lost. Goals can easily become too general and too vague to allow feasible strategies to be designed for their achievement. In the RMI as elsewhere, the key is to retain sharpness of focus while gaining broad support. At the same time, national goals are political rather than technical statements, and there is a risk that they may be discounted as propaganda. They need to be expressed in terms that are readily understood and strike a positive chord with all sectors of the community, but they also need to be based in reality, and to reflect the likely availability of resources.

It is the natural role of government to take the lead in defining goals and formulating strategies, but it is not so natural for governments to consult widely and listen carefully. As the community becomes better educated and more aware of the standards they can reasonably expect of their government, and

as institutions of civil society become stronger and more numerous, so must governments put more effort into consultation. A deliberate process of consulting a wide range of people and institutions about their development experiences and what they see as the key issues, and a credible commitment to take account of what they say, are both required to put development goals and strategies on a sound basis.

One advantage of being a small nation-state is that—if the government is so minded—the domestic stakeholders in the development process can be readily identified and brought together for consultation. In January 1998, the Government of the RMI held the first National Economic and Social Summit (NESS). This involved participants from almost all sectors of the community in four days of debate on the situation, prospects and issues confronting the RMI. The conclusions of NESS included recommendations not only on issues but also on implementation. Hopes were high that the Government would shape its policies and operations accordingly. In fact, little was done specifically to follow up the recommendations. Though the sentiments expressed at NESS undoubtedly had an influence on official and political thinking, no machinery was set up to monitor the outcomes of NESS, and continuity was lost.

Now a second such summit, NESS 2, is planned for early 2001 to discuss the findings of this report and facilitate the mobilization of community commitment to an agreed set of goals and strategies. It would be easy for the community to become cynical about sham consultative events with no connection to what governments actually do. It is important this time to establish permanent machinery of consultation, follow-up and periodic reporting back to the "summit constituency."

The way this report was prepared (described in Appendix 2) and its proposed wide circulation in draft form before NESS 2, are part of the process of community participation. A further stage, discussed in several parts of the Report, involves increased assumption of responsibility for the development process by those same formal and informal institutions of business and civil society that will be involved in NESS 2. Before they commit themselves further they will certainly be looking for credible follow-up arrangements to the summit itself.

## Imparting Direction

While the consultative process for this report was taking place, a Task Force of the National Commission on Sustainable Development (NCSD) prepared a draft statement of overall vision, aimed at imparting a common sense of direction to the development process. The statement is based on the national motto, and is intended by NCSD for adoption by the Government and the *Nitijela*. It states:

**Jepelpelin Ke Ejukaan** *is the official motto that calls for the sustainability of the Marshallese people and their nation. The Government of the Republic of the Marshall Islands, committed to the sustainable development and economic self-sufficiency of the people of the Marshall Islands, will promote a nation that is healthy, educated and socially and economically self-reliant. Respect for and adherence to traditional values and cultural heritage are recognized as the foundation for achieving sustainable development. Priority consideration will be given to ensuring development activities do not cause adverse impacts on the environment of the Marshall Islands.*

That draft vision statement from NCSD helps to set the scene for the development strategies identified in this chapter. In the light of the vision statement, and based on the discussion of the RMI's development experience in the preceding chapters of this report, a set of goals and strategies has to be defined that will

- guide the formulation of operating plans and budgets for the Government and public sector corporations into the medium-term;
- give the private sector credible indicators of the direction of Government policy and what the public sector will do over the medium-term, as a basis for commercial investment and management decisions;
- provide a sound basis for development of external economic relations, including aid and trade negotiations with

- foreign governments and international agencies; and
- immediately, form part of the backdrop to the forthcoming negotiations on the financial aspects of the Compact of Free Association with the US.

## The Outcomes: National Goals and Development Strategies

The approach to economic management advocated in this report requires periodic definition—and redefinition—of overall goals and strategies in the light of changing domestic and external circumstances. To turn those goals and strategies into allocations of resources and activities, they have to be linked to rolling, multi-year financial and operational plans in sufficient detail to identify linkages and enable performance monitoring and managerial accountability.

The first step is a consideration of past experience at macro-economic and sector levels, and the lessons that it offers. That has been discussed in the preceding chapters. Out of that discussion the following six goals and supporting strategies have been identified, including necessary actions.

**Goal 1: Increased self-reliance:** greatly reduce dependence on official development assistance from the US.

**Strategy 1: Change perceptions:** clearly distinguish—in government budgets and policy statements, Compact negotiations and public information—between development assistance transfers under the Compact and payments made for access to Kwajalein or as compensation for nuclear test-related damage and injuries.

**Strategy 2: Restructure Compact payments:** negotiate modifications to the next phase of Compact funding so as to channel into MIITF sufficient funds over the next decade to generate Compact-equivalent income in perpetuity.

**Strategy 3: Diversify sources of external assistance:** integrate the RMI into regional and global

networks of small states, multilateral institutions and bilateral sources of assistance, so as to dilute dependence on the US and develop a more open international outlook.

**Strategy 4: Reform fiscal and economic management:** enforce collection of taxes due and tighten anti-smuggling security; restructure tax rates to reflect equity goals; upgrade budgeting, control and accounting systems and staffing to "regional best practice" standards; establish an economic policy and planning office, and institute coordination of fiscal and economic policy.

**Strategy 5: Build financial reserves for future income:** manage the budget to maximize government savings into MIITF, and manage the fund for maximum capital accumulation during the forthcoming Compact period.

**Goal 2: Renewed economic growth:** halt the decline in per capita GDP, and re-establish growth on a long-term sustainable basis.

**Strategy 1: Promote private enterprise:** encourage foreign and domestic private investment in sectors of comparative advantage by facilitating land leasing, development credit, business advisory services, investment and business licensing and employment permits; abolishing the statutory minimum wage; and raising work-force skills to regionally competitive levels.

**Strategy 2: Improve infrastructure:** ensure regular and reliable outer island shipping and air services, solar or diesel power, potable water, and telecommunications, all at regionally competitive prices to users (including, where necessary, transparent and monitored subsidies to non-commercial services).

**Strategy 3: Redefine and strengthen privatization:** strengthen the efficiency and accountability of state-owned enterprises (privatize where feasible and appropriate), and transparent, supervised contracting-out of non-core functions of government.

**Strategy 4: Emigration:** encourage the emigration of whole families, equivalent to the annual population increment (currently 1,500-2,000 persons), to permanent residence overseas.

**Goal 3: Equitable distribution:** eliminate deprivation and poverty in the RMI.

**Strategy 1: Mobilize anti-poverty forces:** bring together all concerned with the equitable distribution of the costs and benefits of the development process, to agree on the nature and extent of poverty in the RMI, define appropriate ways of alleviating and eliminating it, and monitor and review progress.

**Strategy 2: Community action on deprivation:** undertake coordinated action among government, private, formal, and informal institutions to assist individuals and groups deprived of normal access to food, shelter, personal security, health, and education, and to progressively eliminate the causes of such deprivation.

**Strategy 3: Outer island development program:** maintain reliable shipping services through monitored contracts with private operators, bring under review the per capita distribution of, and access to, land, marine resources, economic and social services and infrastructure in the atolls other than Majuro and Kwajalein, identify areas of significantly below-average access and inventory, and develop a practical program for progressively reducing the deficiencies as revenue and aid resources permit.

**Strategy 4: Redistribute the burden of taxation:** enforce collection of all existing taxes, revise the income tax structure to exempt the lowest-paid groups and increase the tax paid by higher income groups, and apply the additional revenue to actions under strategies 2 and 3 above.

**Goal 4: Improved public health:** substantially reduce the incidence of self-inflicted lifestyle diseases and nutrition-related ill-health.

**Strategy 1: Self-awareness:** through community health councils and other means, raise public awareness of the nature and causes of health problems and remedies available, and inculcate a heightened sense of personal responsibility for preventive health care, diet, exercise, etc.

**Strategy 2: Improve onshore treatment facilities:** improve diagnostic and treatment facilities in the RMI to substantially reduce expenditure on overseas referrals and release funds for preventive health services.

**Strategy 3: Align health funding with strategic priorities:** promote the use of private health schemes and services, progressively reduce public funding and increase fees for costly curative services, and increase allocations for preventive health care.

**Goal 5: International competitiveness:** drive down the cost of economic activity to competitive levels, and equip young Marshallese with internationally competitive skills and positive attitudes to work and society.

**Strategy 1: Raise awareness of the need and the scope for being internationally competitive:** stress the message through joint government-private sector statements and workshops, economic policy statements and budget speeches and

targeted cost-reduction measures, and periodic publication of annotated comparative (regional and international) social and economic data.

**Strategy 2: Drive down input costs to competitive levels:** contain wage costs and increase productivity, eliminate unnecessary fees and charges, promote efficiency through competitive government procurement and lower-cost import sourcing.

**Strategy 3: Raise education standards:** mobilize community interest and resources through more strongly community-based school governance arrangements, set output benchmarks by reference to regional standards and invest in teacher training and career development.

**Strategy 4: Optimize use of training resources:** ensure coordinated use of all available training resources to raise vocational skills to externally competitive levels.

**Goal 6: Environmental sustainability:** restore environmental equilibrium in the context of a modernizing, urban-based economy.

**Strategy 1: Revival of EPA:** revive EPA and overhaul its terms of reference, staffing and level of funding for effective operations.

**Strategy 2: Implementation of NEMS:** update, re-publicize and implement the National Environmental Management Strategy (NEMS).

**Strategy 3: Policy integration:** integrate environmentally prudent design and location standards into government policy-making procedures, public investment decisions and permitting of private sector investment

**Strategy 4: Remedial measures:** strengthen the motivation and increase the resources of local governments (through national and local taxation

and grants) to identify, clean up and maintain beaches, dumps and other trouble-spots, with the technical assistance of the revived EPA.

## Planning, Budgeting, Implementing

**Plans and budgets.** Effective implementation requires two basic management principles to co-exist and reinforce each other. They are

- (1) overall policy coherence, and
- (2) operational autonomy of management.

There is a natural tension between these two principles, which has to be handled through realistic delegation and accountability. Their co-existence and mutual support in the RMI's circumstances can best be assured by a simple hierarchy of planning statements, as follows, under improved policy coordination:

- A periodic review and restatement of ***national goals and development strategies***, such as is contained in this report. This should take place roughly every 4 years. New circumstances arise internationally or domestically requiring a response at the level of goals and strategies, and as these accumulate, a comprehensive review of progress and issues becomes justified to provide an updated basis for policy. This can usefully fall into step with the cycle of parliamentary general elections, so that in the event of a change of political government the incoming administration can put its stamp on the next review of goals and strategies.
- An ***annual economic policy statement***, issued at the same time as the annual budget (see below), containing a macro-economic overview and by-sector review of progress, and spelling out the departmental programs and major project intentions of the Government for ***the***

*coming fiscal year and the next two years.* This is a 3-year rolling plan,<sup>53</sup> updated and rolled forward annually, and explicitly linked to the appropriations of money and personnel being proposed in the accompanying budget.

- The **annual budget**, comprising explanatory text and tables showing allocations of money and personnel to departments and to programs within departments. The detailed budget allocations in the Appropriation Bill will be set in a less detailed **medium-term framework**. This will cover 5 years, with the year of proposed appropriation being year 3: that is, last year's actual expenditures, this year's revised estimates, next year's proposed appropriations, and indicative allocations for the next two years projected on the basis of existing and proposed policy. Future allocations will be explicitly linked to programs and projects described in the annual economic policy statement (see above).
- **Corporate or departmental operating plans** prepared and maintained in ministries and departments as management tools, for work planning/scheduling and for motivation and accountability of managers and supervisors. These plans will be drawn up and approved within Ministries, but in a broadly standard format, and with input and progress monitoring from the central agencies of finance, planning and personnel/public service.
- **Longer-range prospective plans** will also be required from time to time for sectors or sub-sectors where demographic or other slow-changing parameters and long lead-times predominate, e.g., health, education, water supply, climate change. Their operational dimensions have to fit into the rolling economic and financial plans described above.

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<sup>53</sup> The annual economic policy statement's summary of major projects and programs will incorporate the most important parts of the intended public sector investment program that has been recommended in various RMI reports in recent years but not put into effect.

- **Project plans** required by contributing aid agencies, which will be prepared and used in accordance with the relevant project agreements.

It is important to note that there is no role here for detailed medium and long-term development planning of the traditional kind. Experience in the RMI and elsewhere has shown that the domestic and external environment for development is too fluid and uncertain to allow meaningful allocations of resources and setting of operational goals more than 2–3 years ahead. Departmental plans may reach out into the 5–10 year horizon and beyond, to project demographic impacts on demand for land, services,<sup>54</sup> etc. on the basis of explicit assumptions, but setting priorities and allocating resources 5, 10, or 15 years into the future is an empty exercise. The key planning statements will be the explicitly linked annual *statement of economic policy* and the *medium-term budget framework*. Taken together, these will provide the RMI—and its people and development partners—with a rolling economic and financial plan, updated annually in the light of actual events and circumstances, that clearly reflects the nation's overall development goals and strategies.

## Policy Coordination

Lack of policy coordination has severely handicapped the RMI's development efforts. The development process is complex. Rarely does one agency have all the information or all the resources it needs for a successful intervention in its area of responsibility. Policy action in one sector or program can be easily frustrated or undone by inaction, or a contrary action, in another. Both formal (inter-departmental working parties, electronic data exchange) and informal machinery of collaboration, interchange and support is required to make effective use of scarce money and skilled personnel. Good managers know this, and build

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<sup>54</sup> This is particularly relevant where the lead time for effective intervention is very long, as in education and some aspects of public health and environmental management.

personal networks through which they give and receive support.

Government departments in the RMI tend to think and act in isolation, defending their departmental territory and guarding information against busy-bodies from other agencies. Facing an information-driven and fast-moving policy environment, governments elsewhere are realizing the need to "join up" their disparate sections into a more coherent, information-sharing relationship, without destroying departmental identity and morale. The RMI cannot escape this need. The development planning process itself, properly understood and well managed, provides a framework for participation and coordination.

A competent and well-connected Economic Policy and Planning Office (EPPO)<sup>55</sup> offers a well-trying route to improved coordination, though by itself it is not sufficient for success. The connections between technical and political levels also need to be ensured, for example by a standing Economic Policy Committee of the Cabinet, to which the planning office can regularly report. The proposed program loan from ADB in support of financial and economic management envisages a commitment by the Government to the establishment of such an EPPO, and would provide some supporting technical assistance in its initial staffing. The functions of the EPPO would include regular briefings of the Cabinet and *Nitijela*, conduct of public participatory reviews of progress with overall strategic plans, such as this report, through national summits and the like, and preparation of medium-term planning statements linked to budgets, and appropriate progress reports.

An important aspect of policy coordination is the need to ensure that policy decisions rest on a solid base of interdepartmental and public understanding—or even better, active support. Box 9.1, developed from consultations for this report, describes

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<sup>55</sup> The existing Office of Planning and Statistics has concentrated its efforts on statistics. In 1998, a bill was drawn up to replace it with an Office of Economic Policy Advisory Services and Statistics, but this has not progressed through the legislative process. The bill would upgrade the office and locate it in the Chief Secretary's department. Among the office's responsibilities, the Bill lists the preparation of an annual economic statement along the lines of the one described above. The existing bill may be readily revised to provide for the EPPO here envisaged.

how this should be approached in a constitutional environment such as the RMI, and provides a template towards which the administration should strive.

Finally, the need for coordination of government policy with that of the private sector and institutions of civil society is now recognized in the RMI, but the machinery to do this is only partly in place. There are ad hoc meetings with representatives of the Chamber of Commerce, but these depend on one side or the other requesting a meeting, and as the chamber readily admits, it is not representative of most small enterprises, where much of the Government's developmental concern will lie. Government consultation with the chamber needs to be on a regular basis with a set agenda (including space for new topics), minutes of proceedings and assigned follow-up responsibilities. A new form of regular consultative contact is needed with smaller and less formal businesses, possibly through the machinery of local government where business licensing is performed.

Surprisingly, there is no standing machinery of consultation and coordination among the many NGOs, churches and other social groups in the RMI. There is therefore no focal point for contact between government and civil society institutions. Ad hoc meetings are arranged on specific topics, often at the request of a visiting UN or other mission, but there is no central secretariat to prepare for and follow up such meetings, to act as a clearing-house for information and ideas, and to organize collaborative action. Such machinery will be needed to help the medley of religious and secular NGOs cope with the increasing social and economic strains arising from urban unemployment foreseen by this report (and sooner and more specifically to respond to the proposed strategies on deprivation and poverty).

The Government should encourage and support any moves to create an inter-NGO secretariat, and should then establish regular consultative meetings on similar lines to those suggested for the Chamber of Commerce. In both cases, the government counterpart agency and meeting secretariat could appropriately be the Eppo, thus giving the consultations a direct link into the heart of the Government's policy-making machinery.

**Box 9.1: Policy-Making in a Constitutional Democracy**

These are the desirable minimum requirements for making policy that will stand a good chance of being successfully implemented, in a system where elected ministers in charge of departments are responsible for different sectors of social and economic policy.

When reviewing these prerequisites, it should be noted that (a) in real life they are rarely—if ever—all present, and regrettably often most of them are absent; and (b) however well the policy is made, the really crucial element is that the implementation be skillfully managed, monitored and reviewed.

The policy-making requirements are

- a coherent and well-understood set of overall goals and strategies,
- competent professional staff under stable political leadership,
- effective inter-departmental machinery for coordinating and integrating policy across the public sector,
- careful technical and political analysis of the issues to be addressed and their priority,
- design of draft policies that clearly and specifically address the issues identified,
- realistic assessment of the probable availability and cost of resources, in consultation with finance, personnel, and technical departments,
- consultation with other persons and institutions whose interests are likely to be affected or whose support and cooperation will be needed,
- issue of a draft policy for public discussion, to bring out into the open any alternative or opposing views and to mobilize support, and
- full Cabinet support for the policy, as modified (if necessary) after public debate.

When assessing how policy is made it is important not to underestimate, but equally not to be overawed by, the importance of personal interests in the formulation of policy. Power is exercised by people, and people are moved by appetites, emotions and instincts just as much as by rational argument. It is often observed that politicians are so moved, but it must not be forgotten that officials are human too, and subject to many of the same pressures as politicians.

## Strengthening Independence

The biggest roadblocks between the RMI and its development goals are not the often-cited small size and remoteness of the country, the impact of globalization on trade and investment prospects or the availability of external finance, though all these are important factors affecting the country's development prospects. The principal determinant of performance will be how fast the Government and people of the RMI can mentally come to grips with the challenge of modernization. The real focus is psychological since the critically important changes needed are in Marshallese attitudes.

The colonial legacy and monetary abundance of the first Compact are still handicapping the social and economic development of the RMI, keeping it mentally and financially dependent on massive payments from the US. Breaking this pattern of dependence requires a significant change in the way people look at themselves, their nation-state and the outside world. Unless this happens, the goals and strategies outlined in this report—and any similar ones—will be unattainable. The necessary changes of attitude fall under three broad and interconnected headings, as follows:

- *Working together:* government departments, public sector agencies, politicians, traditional leaders, business, civil society and community groups have to find effective ways to work with and not against each other, towards common goals. Colonial administrations tended to encourage fragmentation in order to divide and rule—they disliked too much local solidarity. Business houses tended to jealously guard their family and government connections, and religious missionaries were often a divisive influence as they competed for converts. The TTPI and Compact periods brought so much money into the RMI for so little effort that wasteful fragmentation and time-consuming domestic conflicts could be afforded. Now, nation-building and the goal of greater self-reliance requires more effective use of human and financial resources that are after all not abundant, but

scarce. State-owned enterprises need to collaborate in planning and operations to minimize territorial disputes and share overhead costs. NGOs need to work together in formal and informal alliances to make a greater impact on social and economic problems. Atoll communities need to link their Majuro and home-island members in island associations that can help families deal with problems of separation and deprivation. Large and small commercial firms need to identify joint opportunities and needs, and find common ground on which to advise the Government how it can most effectively assist private sector growth. And traditional leaders need to show real leadership, by joining with their people in planning how to give young people faith in the future of RMI society.

- *Sharing costs and benefits:* the distribution of income and access to services, and the burden of social and economic costs, has to be made more equitable, both between classes of society and between atolls. Ever since the first contact with Europe, creeping monetization has been creating financial inequity. For the first 100 years of the colonial period, this did not matter very much. The population remained below 12,000 and most people still lived off the land. In the last 50 years all that has changed. The population has increased five times and two-thirds of the people are living in town. The economy has become highly monetized and great disparities of income, wealth and welfare have emerged. The sharpest costs of development—landlessness, overcrowding, poor education and health, joblessness and a slide into prostitution and petty crime—fall on the poorer urban people (and among them, with particular force upon women and children), while the rural dwellers are deprived of economic opportunity. The benefits of development—commercial opportunities, good houses, overseas vacations, access to good schools and hospitals, financial security—go mainly to the already well-off. This pattern is not unique to the Marshall Islands, but the RMI is a small country with little room to ab-

social stress. As the community learns to work together, at the top of its agenda should be a more equitable distribution of the costs and benefits of growth.

- *Learning to compete*: the inward-looking culture of minimal effort in the public sector and naturally-protected inefficiency in the private sector has to be dismantled, and internationally competitive standards of skill, motivation and performance adopted across the RMI economy. People need the jobs and service-industry opportunities that can come from commercial investment in sectors of comparative advantage as the tuna loining plant has shown. That investment is attainable only if the cost of the RMI's "input bundle" of secure land access, labor, utilities and governance is competitive with other possible locations. In this connection, the RMI should not be afraid of allowing foreign investment into a wide range of activities. Sharper domestic competition breeds tougher entrepreneurs to compete overseas. Globalization means competing in a bigger arena against more players, all driving prices downwards. The RMI will have to compete hard in every aspect of the investment and trade contest. Entrepreneurs who have had to compete hard at home will have the best chance of surviving internationally.

## **Building in Sustainability**

After all that, there is still a technical dimension to be dealt with, and it is a complex one. The RMI's development process has to be coherent, balancing social, physical and economic dimensions; based on realistic assumptions about resource availability and how other people and economies are likely to behave; and above all not consuming its own physical and financial capital—in a word, sustainable. The colonial and Compact experience had nothing to say about sustainability. There was no point in providing for a future over which one had no control, and no need to provide for it when material wealth was

expected to fall "like rain from heaven." But managing affairs in an independent nation-state is all about sustainability. The analytical implications of this are explored in Box 9.2.

At the personal and household level, sustainability involves family size and composition, health, access to land, education, and employment opportunities, emigration and a sense of inter-generational responsibility. For many in the RMI this includes the prudent use of nuclear compensation payments and Kwajalein rentals. Outside the household, the community depends on its members for its systemic sustainability, and provides them with wider access, support and protection. In traditional society, the leaders were sustained by the tribute of the community, and in return, the community's sustainability was the responsibility of the leaders: a well understood social contract. That society evolved over many centuries to support a population of 10,000–15,000 people spread throughout the atoll group, living in closely managed equilibrium with their environment, operating a subsistence barter economy. The stresses arising from the transition to a monetized social and economic structure are a guiding theme of this report, and Box 9.2 examines one aspect of it.

At a broader level, discussion of sustainable development requires an understanding of the interdependence of physical, economic, and social systems.<sup>56</sup> The RMI has taken part in a series of global conferences on sustainability issues, and is a signatory to the 1994 Barbados Plan of Action, focusing on the needs of small island states. The need to address sustainability as a cross-cutting concept, reaching beyond environmental concerns, has been addressed by the recent establishment of the broad-based, inter-disciplinary National Commission on Sustainable Development (NCSO). The NCSO is currently preparing proposals for an RMI plan of action to address a range of sustainability issues on a national scale. That is expected to support the development goals and strategies identified in this report.

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<sup>56</sup> In a potentially crucial move towards financial sustainability, in 1999 the *Nitijela* enacted a law to establish the Marshall Islands Intergenerational Trust Fund (MIITF) to provide future government revenue on a sustainable basis. MIITF now awaits contributions to enable it to perform this role.

### **Box 9.2: Monetization and Traditional Leadership**

Traditional relationships and attitudes are powerful influences on peoples' view of themselves and the world, and traditional values can provide some stability in a turbulent environment, but they are usually not sufficient of themselves to guide a modern nation-state. The transition from traditional to modern leadership is particularly problematic.

Human nature is such that individuals normally seek maximum personal benefit from any set of arrangements. Most leaders anywhere are only constrained from using their superior knowledge or rank to take advantage of their fellows by fear of disproportionate retribution or disadvantage falling upon them when they are found out. That is the basis of the informal contract that communities had with their traditional leaders—a mutual pact of dependence. Leaders were relieved of the burden of fishing, growing food and making houses or canoes. The community provided these things to its leaders in return for their services and achievements in strategic planning, warfare, resource management and dispute settlement. If leaders failed, they were replaced or died in battle.

Now, as the economy moves the rest of the way from subsistence to monetized trading, money has taken the place of pigs, mats, food crops and canoes as the means of measuring and storing tribute, wealth and power, and warfare between communities has ceased. The scope for non-transparent, non-accountable behaviour by leaders thus greatly increases. There is no formal performance-based contract under which traditional leaders can be called to account.

How traditional leadership evolves in the Marshall Islands depends very largely on how people in leadership positions themselves behave. There are traditional leaders who maintain the respect and support of their people by providing wise counsel, acting as role models in public and private life and helping to care for the less well-off members of the community. But there are also contrasting examples of abuse of authority for personal gain. The experience of other societies undergoing similar transitions suggests that if traditional leaders do not exercise self-restraint in using their authority, eventually the community at large will intervene by constitutional means to tax and regulate them.

Box 9.3 gives an example of how stress can arise where rules that evolved to meet the needs of isolated, non-monetary communities are applied in what is now a globally connected, highly monetized nation-state. When the context changes, sustainability of existing arrangements, in the sense of continuing with the way things are, may not be desirable, or even possible. The ability to adapt to changing circumstances and develop new ways of doing things may be more important—indeed, this ability is vital to political and economic survival, just as it has always been for the evolution of plant and animal species. The history of the Marshallese people, outlined at the start of this report, is itself powerful evidence of their ability to adjust and survive in the face of dangerously changing circumstances. Sustainability in its broadest sense embraces the ability to change.

Acknowledging the importance of sustainability is easy. Box 9.3 argues that making it operational is another matter. The RMI's economic managers, with the guidance of NCSO, will have to define what sustainability means in the Marshall Islands context: which systems and relationships should be deliberately sustained and how, and which should be allowed or encouraged to evolve or disappear. The systems and relationships at stake range from the ecology of land, lagoon and ocean, through the formal and informal procedures and relationships that control and direct people's lives, such as the land tenure system and the traditional authority structure.

Economic management is a continuous process of evaluating and negotiating "sustainability trade-offs" among competing systems. This should be a deliberate process with a strong technical input. The requirements for sound policy-making have been discussed earlier, stressing the need for professional competence and wide consultation as the basis for political decisions. In the RMI, as elsewhere, there are often pressures to shortcut the preparatory process. This almost always backfires, leading to under-implementation and over-expenditure, and costly "collateral damage" to government and national credibility.

This report and strategy statement is thus concerned not only with building the RMI nation-state, but also with its sustainability. By way of conclusion, it is useful to look at the nation-state as a system, made up of many subsystems, and to consider its sustainability in three dimensions:

### **Box 9.3: Sustainability and Economic Management**

Sustainability has always been an important dimension of economic management. It has received increased attention in the last two decades, initially because of mounting environmental concerns and recently because of an emerging fundamental shift in economic thought, towards integrated management of human, financial, manufactured and natural capital. In many countries, damage done to the natural environment by resource-based or polluting activities in the name of economic growth (or in the RMI by the US weapons testing program), has undermined the health and social viability of whole communities, often destroying the resource base of the economic activities themselves. Such "development" is only sustainable at an external cost borne by the host community—a cost that is inadequately reflected in national income accounting. In the absence of a comprehensive national balance sheet of assets and liabilities, the destruction of the environment is normally unrecorded in the national accounts, while the cost of cleaning up appears as a productive activity contributing positively to national income. Such mis-accounting promotes massively unsustainable running down of natural capital.

In recent years, the notion of sustainability has been applied to governance (that is, to the way power is allocated and used in the conduct of public affairs), raising issues of political legitimacy, equity and the extent of public participation in policy making. The underlying assumptions are that cost-effective development requires willing participation by those affected, and that in the long run, people who feel intolerably oppressed or deprived will find ways of bringing down the system that oppresses or deprives them. Two notes of caution are appropriate. First, skillful and ruthless regimes can survive a long time, and can achieve significant social and economic development, so long as they are delivering what people need to live. Second, specific social and economic practices that seem intolerable to observers from a different cultural environment may be quite acceptable to the people practising them, provided they feel that the overall outcome of the "social contract" is fair. The demise of the Soviet Union provides an example of unsustainability catching up with a political and economic system that had earlier achieved remarkable material and intellectual progress, because it could not adapt by evolving. The People's Republic

of China is aiming to avoid a similar fate by undertaking a massive, managed transformation into a modern, technology-based state.

All systems depend on other systems for their continued operation—their sustainability. Each system derives inputs and support from one or more other systems, and faces collapse if those inputs or support are not available. Each system transforms its material or intellectual inputs into outputs, which must be absorbed or disposed of in some way in one or more other systems. Sustainability implies continued access to inputs at affordable cost, a competitive level of internal efficiency in converting them to outputs, and acceptance of the outputs in markets or related systems on terms that permit continued operation. This is true of systems at any scale or level of complexity, from micro-organisms to the global economy and beyond.

- the *security* and long-term reliability of the RMI's sources of money income, human skills, and international support, bearing in mind any strategic or psychological costs attached to them;
- the *efficiency* with which the RMI converts those inputs into the benefits of food, shelter, employment, incomes, goods and services demanded by its domestic structure and its external markets; and
- the *equity*, or fairness, of the distribution of both costs and benefits of the development process, geographically among the urbanized and rural atolls, socially among the chiefly and commoner classes and between genders, and over time between present and future generations.

The *security* dimension is concerned with the imminent re-negotiation of the financial terms of the Compact, and preservation of the right of Marshallese to enter, reside, and work in the US; the success of programs to upgrade education and training to equip the Marshallese people with the skills needed to compete successfully in the 21<sup>st</sup> century; the re-establishment

of EPA as an effective national institution; and the continued integration of the RMI into the Pacific and global community. The use of Compact funds to progressively build the MIITF to a level where it can underpin the budget indefinitely, offers a real chance to improve the RMI's financial sustainability.

The *efficiency* dimension contains a vast scope for doing better. Making the RMI more efficient, and so more competitive, requires great improvements in the coordination of government policy and the quality of development planning; strengthening the management, raising the skills, and increasing the productivity of the public service; and changing work ethics and modernizing skills in the private sector. It requires upgrading government revenue and expenditure planning, budgeting, and financial control; substantial improvements in inter-island air and sea transport and telecommunications; and the amendment of the land tenure system to enable commercial leaseholds to provide security for private sector growth.

The *equity* dimension has three aspects. *Geographical distribution* can be adjusted, at the margins at least, by improving services to the rural atolls and promoting stronger community support systems linking urban and rural settlements. *Income and welfare distribution* between social classes can be adjusted by progressive use of taxation and subsidy schemes, and by formal and informal methods devised by concerned and expert persons and institutions working together in the community. *Inter-generational equity* can be improved by making EPA effective and by setting aside substantial public savings and external donations in the MIITF.

More profound changes in the way income, wealth and power are allocated are likely to come in time, as longer engagement with the rest of the world and experience of political independence bring about changes in the way Marshallese people, both chiefs and commoners, see themselves, their society and their nation-state.