

# Chapter 3

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## The Public Service

### Key Points

- Leadership, motivation and management are just as important in the public service as in the private sector.
- Continuing public service reforms must address the efficiency of the civil service as well as its size and affordability.
- Contracting out of public services to the private sector requires public servants to learn new skills to design and manage the new arrangements.
- Public service pay levels unrelated to productivity send wrong signals to private sector investors and employees.
- The Public Service Commission (PSC) needs to strengthen its ability to provide an efficient public service by revising its aims and methods of operation, and address the key issues identified below.

### Issues

- What is the proper role of PSC in managing a modern RMI public service?
- What are the core services that have to be provided by the public service?
- What is the right balance between management autonomy and centralized controls/bureaucratic regulations?
- What are the key factors in increasing efficiency levels in the public service?

- How can public service pay provide incentives for improved performance without causing unsustainable cost increases?
- How can specialist skills in small professional cadres best be developed and promoted—is this better done centrally or at the departmental level?
- What new technical skills and professional attitudes do public servants need to operate efficiently in a changing environment, and how can they acquire them?

## Introduction

Lack of administrative capacity has meant that the public service of the Marshall Islands has often struggled to deliver services in an efficient manner. Shortages of skilled staff in key positions, low productivity, poor administrative coordination, lack of managerial capacity and inflexible public service regulations are major problems. These problems have co-existed with a pre-independence expectation that services provided in the RMI should match those of the United States. In fact, the TTPI administration left the RMI with an over-large, costly and poorly motivated public service, a condition that survived long into independence.

In 1994, a presidential committee looking at public sector reform concluded that the service was overstaffed, inefficient, had many unproductive employees, lacked skilled staff and experienced widespread duplication. Reforms over the past 4 years have had a major impact on these problems. But despite improvements, the observation of the committee is still relevant and is reflected in comments received during preparation of this report.

## The Public Service Commission

The Constitution assigns responsibility for the public service to the Public Service Commission (PSC). PSC is the employing authority of the public service, charged with its organization, management, efficiency, and economy. Under the Constitution,

PSC members have similar security of tenure to High Court judges, and PSC is required to act independently, not under direction from the Cabinet or any other entity.

The Constitution states that PSC should take into account “the need to afford reasonable employment opportunities for employment of citizens...” and should act “consistently with government economic and social policy, bearing in mind that the conditions of employment in the public service are a major element in the well-being of the Marshall Islands.” This requirement, effectively in force well before independence, reflects the role deliberately assigned in those days to government employment in distributing US-provided income widely among the RMI community. The re-spending of that income on imported consumer goods and services provided the basis for an RMI economic structure that is now seen to be unsustainable. In the effort to re-orient the economy to less US-dependent structures and attitudes, the economic and social role of public service employment must not escape reassessment. Value for money in efficient service delivery has to become PSC’s objective, while the public adjusts to the twin ideas that, first, the public service is not the “employer of last resort” but a selective hirer of motivated and competent persons, and second, that the Government cannot and will not provide for all its people’s needs.

The efficiency of the public service is a reflection of the effectiveness of its administration by PSC. Improvements in the public service will depend on the ability of PSC to play its management role in a way that reflects the needs of the modern RMI. With the approval—indeed at the behest—of the Government, PSC has delegated responsibility for administration of certain parts of the public service. Most notably this has occurred in the Ministry of Education, the largest ministry. The *Nitijela* (House of Representatives) has also approved the delegation of this responsibility to the Ministry of Health and Environment, but PSC appears reluctant to make this effective. It is not clear that PSC is the best agency to manage specialist professional cadres such as exist in health and education.

There is a natural tension between PSC’s wish to retain bureaucratic control and the departments’ wish for managerial autonomy. A strong central agency can ensure uniformity of

policy throughout the service and ensure that information is centralized and consistent, allowing for informed policy decisions. However, a strong central agency can also get out of touch. On the one hand, it can exercise too much control so that recruitment does not reflect the priorities or needs of departments, and managers cannot manage their staff for motivation and productivity. On the other hand, delegation of this responsibility risks loss of central monitoring of staffing levels and costs, and a temptation for agencies to do things their own way, without the necessary policy setting and coordination required for an efficient service. Excessive devolution can lead to chaotic terms of service and nepotistic employment practices. Striking the right balance<sup>36</sup> between central control and decentralized management is a key issue for PSC. External technical assistance may be of help by bringing comparative non-RMI experience to bear on this problem. A consultant experienced in public service modernization in developing countries could usefully be attached to PSC, to help address the control/devolution/accountability issue.

## Size and Structure of the Public Service

Until 1996, the RMI civil service grew in size and complexity, for reasons noted above, supported by Compact payments. For many years the growth in the civil service prompted some concern but little action. While funds were available to cover the growing number of civil servants there was little apparent need

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<sup>36</sup> It is sometimes argued that the issues here are similar to those in financial management, but there are important differences. Strong financial controls are justified by the irrevocable nature of expenditures and the scope for permanent loss of public funds through fraud or incompetence. Money does not have feelings and cannot resign, go on strike or burn down the office. Managing people is different. Managers have to look after and listen to their people, as well as chastise them when required. If mistakes are made they can often be put right—indeed are sometimes a necessary part of a learning process—and ability to deal flexibly with the unexpected in human resources is an important attribute of management. What centralized control does need to provide and protect are standards of competence, fairness, transparency, discipline, and reward to be attained by all components of the service.

for restraint. The total number of personnel in the public service increased from 1,751 workers in 1988 to a high of 2,303 by 1995. At this time there were ten ministries with the Ministry of Education the largest at 733 employees and the Ministry of Health and Environment with 422 employees (see Table 3).

By 1995, it was realized that the public service could not continue to increase. This realization was triggered by the fiscal crisis in which investments from the Government's borrowings failed to yield expected returns. The payroll became increasingly difficult to fund and the Government was forced to address the size and cost of the civil service. The Public Sector Management Improvement Program approved by the *Nitijela* as part of the Public Sector Reform Program (PSRP) (see Box 3) recommended wide ranging cuts.

The program was successful in reducing the size of the public service but was less successful in raising the efficiency levels of staff. There was a cost-focused tendency to concentrate on staff numbers rather than productivity. Critical examination of how to use staff was considered but rarely pursued. How to do more with less was a question for the too-hard basket, and in most cases has yet to be addressed. Without a systematic appraisal of priorities and efficiencies, reductions in staffing were decided on less transparent grounds. Ministries were reluctant to recognize that other agencies had equally legitimate claims to funding, refusing to acknowledge the need for a "whole of government" approach. Ministries that successfully resisted reductions forced more drastic cuts in other areas of the public service.

With the implementation of the reduction-in-force (RIF) program, the public service was reduced by 30% to 1,484 in July 2000. Table 3 (which includes vacancies and indicates a 36% reduction) shows how this reduction has been achieved and which areas were affected most. In the absence of a systematic appraisal of needs the reductions fell unevenly across the service. The social service departments took longer to react to the proposed cuts as ministries tried to work out how to cope with the staff reductions and maintain services. In the end, education and police services suffered fewer cuts, while health numbers eventually fell below initially anticipated levels. The notable

**Table 3: Reduction-in-Force: Staff Numbers by Agency, 1995–2000**

| Ministry/Unit                              | October 1995 | Nitijela Recommended Ceiling | Actual July 2000 | Actual change % |
|--|--------------|------------------------------|------------------|-----------------|
| Auditor General                            | 7            | 5                            | 7                | —               |
| Cabinet                                    | 13           | 8                            | 8                | -38             |
| Chief Secretary's Office                   | 24           | 19                           | 22               | -8              |
| Council of Iroij                           | 4            | 2                            | 3                | -25             |
| Education                                  | 733          | 630                          | 667              | -9              |
| Finance                                    | 61           | 52                           | 35               | -43             |
| Foreign Affairs                            | 39           | 32                           | 28               | -28             |
| Health and Environment                     | 411          | 351                          | 343              | -17             |
| Environmental Protection Agency            | 11           | 11                           | 9                | -18             |
| Internal Affairs (and Social Welfare)      | 32           | 39                           | 49               | +53             |
| Justice                                    | 160          | 139                          | 161              | +1              |
| MIMRA                                      | 36           | 31                           | —                | -100            |
| <i>Nitijela</i>                            | 21           | 18                           | 10               | -52             |
| Planning and Statistics                    | 11           | 9                            | 6                | -45             |
| Public Service Commission                  | 10           | 8                            | 4                | -60             |
| Resources and Development/<br>Public Works | 180          | 72                           | 66               | -63             |
| Social Services                            | 223          | —                            | —                | -100            |
| Transport and Communication                | 6            | —                            | 16               | +167            |
| -Shipping Operations                       | 77           | —                            | —                | -100            |
| -Airport Operations                        | 11           | —                            | 4                | -64             |
| Public Defender                            | 7            | 5                            | 4                | -43             |
| Marshall Islands Development Authority     | 3            | 2                            | 2                | -33             |
| Judiciary Courts                           | 20           | 17                           | 15               | -25             |
| Postal Services                            | 15           | 13                           | 12               | -20             |
| Attorney-General                           | 10           | 8                            | 11               | +10             |
| Regulatory Authority                       | —            | 13                           | —                | —               |
| Other                                      | —            | —                            | 2                | —               |
| Vacancies                                  | 178          | —                            | —                | -100            |
| <b>Total</b>                               | <b>2,303</b> | <b>1,484</b>                 | <b>1,484</b>     | <b>-36</b>      |

Source: Ministry of Finance payroll.

exception to this was the elimination of the Ministry of Social Services, which involved the ending of the school feeding program in 1996 with almost 200 employees retrenched.<sup>37</sup> The remaining services from this department were transferred to the Ministry of Internal Affairs and Social Welfare.

The other departments that suffered large reductions were those interfacing with the private sector or involved in the provision of services that could be provided by the private sector. The Ministry of Public Works, the Ministry of Transport and Communications, and the Ministry of Resources and Development were all hard hit by the staff cuts. In part this reflects the Government's recognition that its role was spread too widely and too thinly to be effective. One of the potential achievements of the RIF is that it made the Government focus on those services that are important to maintaining its "social contract" with the people, and in so doing cleared the way for the private sector to move into areas previously occupied by the Government. The results are not clear-cut, however, and the proposition that the private sector will necessarily be a better service provider, particularly where the circumstances make commercial competition unlikely, is not proven. Experience elsewhere suggests that in such cases, effective supervisory/regulatory arrangements will be required to protect the public interest.

The leading case is inter-island shipping. The public service withdrawal from providing shipping services, maintenance and public works has experienced problems. A number of outer islands are still suffering because of hitches with the implementation of the privately-run domestic shipping service. The role of the public service in this area is now to monitor and enforce the contractual arrangements, whereby services are to be operated on an approved schedule by local shippers. In return, the contractors receive a promise of non-competition from government vessels and payment of a subsidy to meet the unrecoverable costs of services on uneconomic routes.

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<sup>37</sup> In discussions for this report it was noted that the school feeding program ensured that every child received at least one good meal a day. In separate discussions it was noted that many school children now attend school hungry. Though a direct link between these two issues was not established, the obvious likelihood of such a link provides one thread in the poverty/policy nexus in RMI.

Public works is another contentious area. The department was largely dismantled under the RIF as many construction and maintenance jobs were contracted to the private sector. The Government needs civil engineering and public works expertise in-house to specify and supervise contracted work, but it does not need to execute projects and programs itself. Even with the recent partial resurrection of the Ministry of Public Works the

### **Box 3: Public Sector Reform Program**

Faced with a fiscal crisis in late 1995 resulting from the reduction of Compact revenues, the RMI was forced to adopt a drastic program of public sector reform. The public service was characterized by over-staffing, inefficient delivery of services, many unproductive employees, a shortage of technically qualified staff, fragmented organizational structures and widespread functional duplication. As a matter of survival the Government moved to address these problems. In January 1996, the *Nitijela* overwhelmingly endorsed the Public Sector Management Improvement Program. This program envisaged severe cuts in the public service, privatization of many services, and reductions in pay.

In January 1997, ADB approved a \$12.0 million loan for a Public Sector Reform Program (PSRP) to help fund these reforms. Additional reforms were proposed to simplify the policy environment for business and establish a financial reserves trust fund.

The PSRP aimed to

- stabilize Government finances in the short run,
- ensure long-term structural stability, and
- create an improved and enabling environment for the private sector.

The money was to be used for compensation payments for retrenched employees (\$5.5 million), debt relief for Air Marshall Islands (\$4.0 million), and seed money for the establishment of a Marshall Islands Intergenerational Trust Fund (MIITF) (\$2.5 million).

The PSRP had some notable achievements:

- Reduction of 30% in the size of the government payroll, from 2,303 employees in November 1995 to under 1,500 in June 2000.
- Social costs reduced by compensation of retrenched employees with a lump sum and monthly maintenance payments for three years.

thrust of its work should still be in enforcement of contracts, e.g., ensuring that contractors adhere to designs, prices, quality, building codes, and agreed standards. The ministry should resist the temptation to re-enter into direct provision of construction or maintenance services.

This shift from direct provision of services to one of contract management reflects a belief that specific, definable ser-

- Reduction in the number of ministries from 10 to 8.
- A public service wage freeze sustained since March 1996
- Elimination of direct subsidies, elimination of commercial debt and improved management of Air Marshall Islands.
- Company registration process streamlined through new legislation.
- Foreign Investment Business License applications streamlined under new legislation.
- MIITF created to provide a secure long-term revenue base for the Government's budget.
- Privatization of domestic shipping services.

Despite these gains a number of policy and reform-related problems remain, and are discussed in appropriate chapters of this report. They are

- a number of skilled and experienced persons who were made redundant have emigrated,
- low efficiency levels in the public service persist,
- Government financial management urgently needs to be strengthened,
- policy coordination and economic advice needs to be institutionalised,
- the Government needs to adopt a formal and explicit strategy for building up the MIITF,
- the views of the private sector need to be routinely included in the decision-making process, and
- privatized domestic shipping services are experiencing problems and need further attention.

VICES are often better provided by the private sector. The change presents the public service with a challenge to learn and apply the skills of contract management rather than the skills needed to deliver services. As more services are contracted out to the private sector the public service will need to adjust to the changing nature of its work.

## Wage and Productivity Levels

An important achievement of the Government during the PSRP has been the enforcement of a wage freeze throughout the service. With minor exceptions, this has held since March 1996. The need for this wage freeze was threefold:

- to stabilize the Government's fiscal position (the Government could not afford pay higher wages),
- to bring wage levels closer into line with productivity levels as inflation gradually erodes the real wage, and
- to reduce the apparent differentials between public sector and private sector wages.

The wage freeze has been effective in helping to contain budget costs (though the fiscal position remains very tight), but progress on productivity and differentials is more elusive. After a time, the inflexibility of a wage freeze begins to handicap management and erode the morale<sup>38</sup> and motivation of staff. It needs to be replaced by a revised public service pay scale—the last revision was in 1998—that takes account of the economic situation and development strategies identified in this report.

While there is little reliable data on comparative wage levels in the RMI, it is clear that the Government, as elsewhere in the region, generally pays higher rates than the private sector for nominally equivalent jobs. Output per person on the other hand appears significantly higher in the private sector. This is generally believed to result largely from the greater autonomy enjoyed

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<sup>38</sup> There are indications that some officers in a position to do so are taking improper payments to supplement their frozen pay-packets.

by managers in the private sector in motivating, disciplining and rewarding employees, free from political pressure and unhindered by the notion that permanent employment is a constitutional right, i.e., unproductive workers can be dismissed.

Low rates of inflation and some reductions in prices, attributable largely to the strength of the US currency, have kept to a minimum any erosion of wage-packet purchasing power since 1996. Wider awareness that the Government has been—and still is—facing severe financial problems has also helped acceptance of the wage freeze. At the same time, by regional standards the RMI's public service pay rates are still relatively high, between two and three times higher than the rates prevailing across most South Pacific island countries, and many times higher than Southeast Asian countries. The flow-on effect to private sector rates and operating costs, combined with the continued strength of the US dollar, hurts the RMI's competitiveness as a tourism and investment destination. These are important parameters for the review of public service pay-scales. The net effect of a review should preferably be a reduction in payroll costs, while restoring motivational flexibility alongside other moves to improve productivity.

## Health and Education

After the RIF, the Ministry of Health and Environment and the Ministry of Education now account for over two-thirds of the public service (see Table 3). To make a significant improvement to the efficiency of the public service, the main emphasis needs to fall on these two ministries. While both ministries have attempted to become more productive, the public consensus is that services have not shown significant improvement. With these two ministries taking the lion's share of the budget comes a responsibility to look frankly at the efficiency of their operations. That this has not been achieved earlier reflects the emphasis on staff numbers rather than efficiency during the RIF program.

Delivery of education and health services is greatly complicated by the vast dispersion of the islands. Within atolls the

problem is further compounded by small settlements being spread out among several islands. Higher costs and more staff are needed to deliver a satisfactory level of service. Even so, dissatisfaction remains, with service levels falling far below levels expected by island communities given the resources available.

Both ministries benefit from their access to federal grants. The existence of federal grants provided by the US Government, while beneficial in most areas, has distorted the priorities of these agencies. The task of securing federal grants, and the jobs they provide, can overshadow the importance of basic service delivery. These grants support a substantial part of the RMI's social services, but dependence on them restricts the RMI's ability to shape those services to fit its own priorities. A shift to untied grants, linked to clear policies and strong accountability for their use, would be of greater benefit to the RMI.

## **Human Resource Management**

Almost all ministries lack skilled staff. The lack of a strategy to manage and plan for improving staffing levels compounds this problem. There is a tendency for young graduates and skilled staff to gravitate to central, high-profile departments such as the Office of the President, the Ministry of Foreign Affairs, and the Ministry of Finance. This is at the expense of the key service delivery arms of the public service, particularly health and education.

The Public Service Commission is responsible under the Constitution for provision of an efficient staff for the public service. The Government's Scholarship Committee has a role to link the skill needs of the public service to the scholarship and training awards made to students. There seems to be no single cause of these skill shortages. Responsibility lies at all levels of the education and training system, and in the uncompetitive, non-transparent recruitment procedures of PSC.

## Conclusion

The Government has little scope for increasing the size of the public service because of its budget constraints. Public service wages overall are still higher than productivity can justify. The recent reductions in government employees have delivered an overall level of staffing that should be sustainable, given sound financial management, but the allocations of staff among functions and activities, and the way their work is rewarded, are certainly sub-optimal and need further review. It should be a function of PSC to inspect and advise on qualification and deployment of staff against functions and workloads. The RMI must not slip back to pre-RIF levels of over-staffing and under-performance.

Improved services will only come from better organization and use of staff. In all this PSC should take a leading advisory and managerial role, using technical assistance as and when necessary.