

PUBLIC CONSULTATION PROGRAM **(Republic of the Marshall Islands: Public Sector Program)**

A. Background

1. ADB's Independent Evaluation Department (IED) has completed a study on ADB support for public sector reforms in the Pacific.¹ The Study has identified a few important lessons from ADB's past engagement with RMI and these findings were reflected during the formulation of the Program.

2. The IED Study has highlighted that public sector reform was already on the agenda of the RMI political leadership and ADB's overall country program approach and strategy for the late 1990s through early 2000s. The reform scope was broadly aligned with the RMI's priorities, but understanding by a wider set of stakeholders and a more effective approach to community and inter-governmental consultations were not adequately addressed in our previous programs. Similarly, more effective consultation could have taken place between the executive and legislative branches, and perhaps also with the private sector prior to commencement of the reform program.

3. In this connection, the RMI Government requested ADB in 2009 to finance a public symposium in order to adopt participatory approach to the Program and to undertake an informed analysis of the options available to carry out fiscal adjustment and other reforms, including policy options that would help the RMI: (i) achieve the optimal size of the public sector (particularly to reduce the wage and salary burden); (ii) reduce the subsidies to statutory authorities; (iii) improve the efficiency of the finance and budget processes; and (iv) improve data for economic planning and monitoring.

4. A Public Consultations Program (PCP) was also designed and carried out as an integral part of the Program (Output 5), in order to gather ideas and input from various stakeholder groups in the RMI and to sharpen the reform focus. The PCP took place in late 2009 and drew the participation of a number of people representing different organizations and interests in the RMI. This link document summarizes the key outcomes from the PCP.

B. The Public Consultations Program

5. The PCP consisted of two consultation sessions held in the International Conference Center in Majuro throughout the month of December 2009. The consultations covered a diverse range of stakeholder groups. The PCP was designed and facilitated by ADB consultants. The consultations followed a bilingual format.

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

- (i) Background and introduction
- (ii) The RMI economy
- (iii) Fiscal and economic trends (reiliklok/retrospective)
- (iv) Fiscal and economic outlook (reimanlok/prospective)
- (v) Policy options and actions (bunton ko)

¹ ADB. 2009. *ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity*. Manila.

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

8. Participants were then presented a core set of discussion questions. Participants were asked:

- (i) What are your general thoughts on these issues?
- (ii) What are some other reform options and ideas?
- (iii) Are there other sources of revenue and growth?
- (iv) What should be the priority reform areas?
- (v) What is the key message that you want to deliver to Government leaders?
- (vi) Are there any other issues that should be considered?

C. Stakeholders Speak: Four Key Points

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

10. Participants widely agreed, first of all, with what the recent fiscal and economic indicators and diagnostic reports have suggested: that the RMI has once again entered into a period of fiscal and economic difficulty. Throughout the discussions, a number of participants used the phrase “an en ean” which literally translates into “wind or breeze from the north” but which is commonly used in describing a time of difficulty. Another frequently used term was “nuta” which means famine or starvation. Some participants stressed that the RMI has been in this same type of situation before (in particular, in the late 1990s when the last major reform efforts took place).

11. Second, most participants were in agreement on the uncertainty of the next few years, especially with regards to Government budget revenues. “Jejjab jeā ta enaj walok” (we do not know what is going to happen)” said one participant. Some participants were more pessimistic than others, with several making the point that things will definitely get harder, especially as US grants under the Compact decline over time. When specifically asked about potential positive sources of revenue and growth over the short to medium term (see specific section below), most participants were relatively slow in responding. None of the participants voiced any strong sense of optimism with respect to the Government’s revenue outlook.

12. Third, many participants felt strongly that the most appropriate response, given the current challenges and uncertain outlook, would be for the RMI to undertake some sort of change or reform process. Some participants offered only general and generic reform recommendations, but others pointed out very specific measures that can be taken (see section below). On the whole, there was wide agreement that maintaining the current course is not a good option and that some type of reform program will be necessary. Several participants used

the navigational term “diak,” which means to tack or to change direction. One participant with expertise in Marshallese culture introduced another navigational phrase, “ekto kobab”, which (in his explanation) means discarding of the least-valuable and/or heavy items from a canoe so as to lighten its load as it heads into a storm or rough sea conditions.

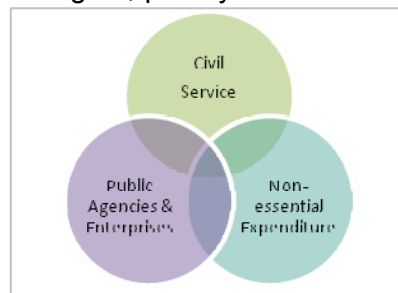
13. The fourth and final set of points (not one specific point, but a set of related points) that came across was that Government itself, and in particular the Cabinet and the Nitijela, should take the lead in any sort of reform process, and that members of these two bodies should lead by example. The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

14. Thus, the four most salient points that emerged from the consultations can be synthesized as:

- (ii) The RMI is definitely facing difficult fiscal and economic challenges;
- (i) These challenges will likely remain over the coming years, creating a sense of uncertainty moving forward;
- (ii) Some sort of change or reform process or program is necessary; and
- (iii) The Government, starting with the Cabinet and Nitijela, should take the lead and set an example for others to follow.

D. Priority Reform Areas

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



16. **Civil Service and SOE Reforms.** Civil services, personnel, and PSC related reforms were by far the most discussed types of reforms during the consultation sessions. As one stakeholder expressed at the outset of one session, “Let’s be realistic. The Government payroll is the number one issue here. Just look at the numbers. When I look at the Government from outside, I see way too many workers. We should review the workforce numbers and pay levels. Let’s take, for example, the ... Division in the Ministry of ... Do they really need that many people in that office?”

17. A whole range of recommendations were offered, including:

- Consider cutting wages or hours in certain areas of the public service to save money
- Review job descriptions and pay scales
- Improve accuracy of job descriptions so employees know how much of their time is spent doing certain activities (adding up to 100%)

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

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

19. **SOE Reform.** The second most discussed area of reform related to SOEs. Participants felt that many reforms to SOEs are long overdue. Specific recommendations included:

- Phase out subsidies to SOEs
- Require SOEs to start following the PSC pay scales (or some harmonized pay scale)
- Conduct a comprehensive review of all public agencies and enterprises to make sure they are complying with their mandates
- Establish stronger rules for how enterprises are supposed to use their “profits” or surpluses
- Cabinet and Nitijela to be much more strict in reviewing the performance of enterprises; if their managers are failing, replace them
- Establish stronger regulation and legislation to require better performance from the public enterprise sector as a whole

20. **Reduction in Non-essential Expenditures.** A number of expenditure-cutting reform priorities were advanced by participants, particularly expenditure areas that were felt to be less important, or non-essential to the overall function of the Government. These included:

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

- Eliminate or rationalize electricity allowances
- Rationalize travel spending

B. Potential Sources of Revenue and Growth

20 Participants also put forward several revenue-side reform ideas (although the scope of discussions on this topic was minimal compared to the discussions on ways to reduce or rationalize expenditures). When asked whether there were any new or other sources of revenue and growth, participants' responses included the following:

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

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

C. Stakeholders’ Messages to Government Leaders

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

- One participant went straight to the heart of the human development challenge stating that “Jorren eo elaptata ej ikijien education.” (The biggest weakness we have relates to education).
- One participant was quick to point out what he felt was the most obvious problem of all: “Weak enforcement of our laws and policies is the major underlying cause of all these fiscal problems. If we followed the law and the stated policies, we would not be in this situation.”
- Another participant closed with the point, “The RMI people and their leaders really need to take an inner look at themselves, and figure out where they want to be in the future and how they want to fit into this globalized world.”
- Several participants took the final opportunity to voice their strong support for Constitutional reforms, through a Constitutional Convention (Con-Con). Two particular Con-Con reform ideas were advanced:
 - (i) Reducing the number of Nitijela representatives from the current 33 to a lower number so as to reduce the cost structure of the Government; and
 - (ii) Strengthening the powers of local governments to encourage them to take a more active role in the development of their communities and economies.