

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY (Republic of the Marshall Islands: Public Sector Program)

Country and Project Title: Republic of the Marshall Islands: Public Sector Program
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Lending/Financing Modality:	Policy-Based	Department/ Division:	Pacific Department Pacific Operations Division
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I. POVERTY ANALYSIS AND STRATEGY

A. Link to the National Poverty Reduction Strategy and Country Partnership Strategy

About a fifth of all households in the Republic of the Marshall Islands (RMI) live below the international poverty benchmark of \$1 a day, with poverty deepening in outer islands and parts of Majuro and Ebeye. Poverty seems to have worsened over the past 5 years in both urban and rural areas under increasing social and economic pressure, magnified by worsening macroeconomic indicators such as a budget deficit, a debt crisis, transfers to state-owned enterprises (SOEs), and inflation. The problem is acute in outer islands, which are isolated and disconnected from the mainstream, with extremely limited access to capital or opportunities and poor service delivery, especially in health care and education. According to a participatory poverty assessment financed by the Asian Development Bank (ADB), priority interventions sought by the poor include the improved delivery of essential public goods and services and more jobs and other income-generating opportunities. The proposed program will support government initiatives to improve fiscal management by improving revenue and expenditure management and the efficiency of SOEs.

B. Poverty Analysis Targeting Classification: General intervention (GI)

Key Issues. Income poverty in the RMI is greater in outer islands than in major urban centers. The real issue, though, is the lack of economic opportunities, employment, or access to capital and technology, as well as the high cost of interisland transport and the formidable challenge of initiating longer-term sustainable and inclusive growth. The gross domestic product (GDP), budget, and balance of payments depend on foreign grants and transfers, especially under the Compact of Free Association with the United States (US). The real economy is centered on the service sector, with productive sectors like agriculture, industry, construction, and energy playing only relatively minor roles. The public sector dominates the economy and its growth, leaving the private sector to play a secondary role. With the anticipated decrement of compact transfers and declining rental and wage income from the US military base in Kwajalein, economic prospects and poverty trends are likely to worsen unless the government carries out fiscal and public sector reforms. The diversification of the economy and a dynamic environment for private sector growth will open up opportunities for income and employment growth for the ever-increasing population in the RMI. Improved opportunities need to flow to the outer islands, where many of the poor live.

Design Features. The program will contribute to poverty reduction in several ways. First, improved fiscal management will reduce fiscal deficits; improve capacity to deal with external shocks; and create a foundation for sustainable, equitable, and inclusive pro-poor economic growth. Second, revenue enhancement will expand governments' flexibility to undertake required infrastructure investments, develop capacity, enhance economic opportunities in outer islands, and improve the quality of health care and education in remote areas. Increased revenue will also enable the government to make transfers to the Compact Trust Fund, allowing a smooth transition to the post-compact era, which may otherwise create social and economic tension as public expenditure and employment shrink and poverty and deprivation worsen. Third, improving the efficiency of SOEs, especially the Marshalls Energy Company (MEC), will reduce the burden that cash transfers place on the budget, making resources available for development, capacity building, poverty reduction, and improving the quality of education and health-care services.

C. Poverty Impact Analysis for Policy-Based Lending

The primary gain in the short-to-medium term will be the improved budgetary situation and better service delivery and, over the longer term, greater developmental effectiveness in the public sector. Improvement in the budgetary situation will come primarily from two program components: (i) increased revenue through the implementation of a new tax policy and (ii) a cap on the growth of government current expenditure, in particular subsidies and civil servant wages. Improved efficiency and effectiveness in the public sector will lift the quality of the education and health care, which currently absorb about half of the budget. Developmental results will come from the sustainability of public services and increased or at least sustained public investment.

The program will help mitigate some of the negative social impacts that will arise from the immediate difficulties the government is facing and the resulting fiscal prudence. ADB is currently processing a new non-lending project that highlights poverty reduction and the social safety net. It will be implemented along with the program. Those affected

by the implementation of the civil service workforce adjustment plan will be duly compensated under the program.

The adjustment measures proposed under the program are designed to help the RMI begin its transition to a sustainable, inclusive growth path and a more self-reliant economy that is less dependent on assistance and can aspire to becoming independent of such transfers over the long term while sustaining growth momentum. This will not be achieved without public sector reform that will create the environment needed for private sector growth, which will increase productive employment to reduce poverty and vulnerability.

II. SOCIAL ANALYSIS AND STRATEGY

A. Findings of Social Analysis

Key Issues. An estimated 20% of all households live below the international poverty benchmark of \$1 a day. The worsening trend of poverty over the past 5 years is evident in both urban and rural areas and is acute in outer islands, which have limited opportunities and poor quality of health care and education. There is an increasing incidence of squalor and apparent inequity in urban areas, as well as within and between islands. Traditional social bonds of extended family ties that provided protection against poverty are weakening. A number of new families are slipping towards poverty, starvation, and destitution under intensifying social and economic pressure magnified by worsening macroeconomic indicators. An increasing number of people, including children, experience hunger, particularly with the rise in food prices, and greater financial hardship. Salary and wage data from the Marshall Islands Social Security Administration show that, in real terms adjusted for inflation, average annual earnings of all formally employed people fell by about 20% between 1997 and 2008. Studies in 1999 and 2006 suggest a prevalence of malnutrition and under-nutrition, especially among public school students. According to a 2006 RMI community survey of self-reported hunger, about one-third of households in Majuro, Ebeye, Eniburr, Jaluit, and Arno claimed that they sometimes or often did not have enough to eat. A 2004 study of Jenrok village in Majuro Atoll documented tough living conditions for many residents. Poverty is aggravated by high income inequality, as the RMI's Gini Coefficient based on the 1999 census is 0.54, higher than that of most other Pacific island nations. The unemployment rate is well above 30%. The RMI Millennium Development Goals report of 2009 shows that progress in achieving global targets is slow. Mixed progress is reported on eradicating extreme poverty and hunger; promoting gender equity; combating HIV/AIDS, malaria, and other diseases; ensuring environmental sustainability; and developing a global partnership for development. On the other hand, the RMI is on track to achieve universal primary education, reduce child mortality, and improve maternal health.

B. Consultation and Participation

1. Project preparatory technical assistance helped the RMI to implement a number of public consultation programs, bringing together some 60 stakeholders from the government, civil society organizations, academia, the private sector, and youth groups in six sessions. Open debate on a wide range of issues brought out significant information, opinions, insights, ideas, and recommendations. A strong consensus emerged on key points related to ongoing economic difficulties, a period of uncertainty that is likely to persist over the next few years, the necessity of adopting serious reform measures to deal with imbalances, and the imperative that the cabinet and Parliament take the lead in this reform process.

2. What level of C&P is envisaged during the project implementation and monitoring?

☐ Information sharing ☒ Consultation ☐ Collaborative decision making ☐ Empowerment

3. Was a C&P plan prepared? ☒ Yes ☐ No

The public consultation program called for half a dozen consultation sessions with the participation of a diverse range of stakeholder groups, including traditional leaders, nongovernment organizations, local governments, and others. This program was designed and facilitated by two consultants. All consultations were bilingual. Each session covered the economy, fiscal and economic trends and outlook, and policy options and actions.

C. Gender and Development

Key Issues. As caregivers of families and conduits for handing down land rights, women play a pivotal role in the Marshallese society. Traditionally, many women practice weaving and medicine. Women's participation in public life, the civil service, nongovernment organizations, Parliament, local government, and other spheres is increasing, though slowly at times. There is a distinct male bias in education, employment, and compensation. Gender parity has been achieved in completed primary education but not so in secondary or tertiary education, as reflected in employment and income-earning opportunities. Nonetheless, the RMI has made significant progress in improving female primary and secondary educational attainment and in participation in wage labor. The outstanding issues are the status of female health, with high rates of malnutrition, anemia, and iron deficiency, as well as the impact of nuclear radiation on affected women and children, violence against women and girls, limited access to reproductive and sexual health-care and family-planning services, and rising teenage pregnancy.

Key Actions. Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:

☐ Gender plan ☒ Other actions or measures ☐ No action or measure

The program will improve the economic and employment environment and bring better service delivery and enhanced planning, policy, and budgeting, which will create expanded opportunities for gender promotion.

III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS			
Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
Involuntary Resettlement	The program will not involve involuntary resettlement.		<input type="checkbox"/> Resettlement Plan <input type="checkbox"/> Resettlement Framework <input type="checkbox"/> Environment and Social Management System <input checked="" type="checkbox"/> No Action
Indigenous Peoples	The program will not affect indigenous people.		<input type="checkbox"/> Indigenous Peoples Plan <input type="checkbox"/> Indigenous Peoples Framework <input type="checkbox"/> Environment and Social Management System <input checked="" type="checkbox"/> No Action
Labor <input type="checkbox"/> Employment opportunities <input checked="" type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	There will be a transition to new opportunities.	Compensation package Retraining	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
Affordability	No impact		<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
Other Risks and/or Vulnerabilities <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input checked="" type="checkbox"/> Others (conflict, political instability, etc.)	Capacity constraints threaten the implementation of the program.		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
IV. MONITORING AND EVALUATION			
Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during project implementation? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			

Source: Asian Development Bank.