

SECTOR ASSESSMENT (SUMMARY): MULTISECTOR (Republic of the Marshall Islands: Public Sector Program)

A. General Setting

1. Guam, Kiribati, the Republic of the Marshall Islands (RMI), the Federated States of Micronesia, Nauru, the Northern Marianas, and Palau are an extensive group of islands in the Pacific known as Micronesia. The RMI population of about 60,000 is currently growing at an estimated rate of 3.6% per annum. The country consists of over 1,000 small islands with a total land area of only 181 square kilometers (km²) dispersed over 2 million km² of ocean. The population is concentrated in two main urban centers, Majuro and Ebeye. As are several of the smaller Pacific countries, the RMI is remote from major markets, deficient in land resources in terms of both quality and quantity, and acutely short of skilled labor, though it does possess potentially rich marine resources, in particular fish and seabed minerals. The country's scenic beauty offers scope for developing tourism. The RMI has a dual economy, as a subsistence sector coexists with a modern urban cash economy. It has limited productive potential, particularly in terms of agriculture, and land-based investment opportunities are further constrained by a traditional land tenure system that complicates or precludes secure access to land.

B. Development Challenge

2. The core development problem of the RMI is the lack of sustainable economic growth. The RMI's economy is dominated by a public sector with weak management capacity, heavy dependency on grants, and lack of medium to longer term economic development strategy. The proposed program will address all of the above challenges.

3. The following factors combine to create significant dependence on external funds and cause the economy to suffer low production, productivity, diversification, and connectivity: (i) inadequate investment in the productive economy and interisland connectivity; (ii) a weak private sector largely due to lack of enabling business environment; (iii) susceptibility to changes in the international economic environment and commodity prices; (iv) the poor financial condition of SOEs, as well as weak management capacity and poor-quality assets; (v) a long-term revenue and expenditure imbalance; (vi) poor service delivery especially in health and education; and (vii) inadequate long-term planning and budgeting and no long-term investment framework.

4. The outcome of these factors is high costs for transport and marketing, reduced access to social and economic services, low skills development, low levels of new technology adoption and business opening, limited access to finance, limited employment opportunity, and high rate of emigration to overseas. The high cost of transport and marketing constrains commercialization and competitive advantage, while reduced access to social and economic services suppresses human development and labor productivity. Low skills development means low labor productivity, and the limited adoption of new technology and business opening contributes to low productivity and competitive advantage. Limited access to finance has been a drag on production expansion, productivity enhancement, and commercialization. Limited employment opportunity has translated into widespread unemployment and poverty, particularly in the outer islands, but also in Majuro and Ebeye. Associated with this, widening income inequality and low incomes for many sectors and households exacerbate poverty and accelerate rural-urban migration, especially into Majuro. The combined impact of these

outcomes is food and income insecurity, social and political vulnerability, constrained human development and worsened environmental stress.

5. Four sets of factors are behind dependence and vulnerable economic structures and the destabilizing influence of poorly performing SOEs, especially the Marshalls Energy Company. These are (i) weak revenue administration manifested in structural and operational deficiencies in the tax system, causing low revenue collection; (ii) poor fiscal management due to capacity constraints and the weakness of the economic structure, which has led to unsustainable government expenditures and inefficient SOEs; (iii) poor public sector management emanating from capacity constraints, the poor state of physical assets, and unsatisfactory financial performance, which seriously stresses the economic and financial system of the country and compromises prospects of sustainable growth; and (iv) weak links between budget and planning, and inadequate policy and institutional reforms as a result of weak capacity; the lack of integration between planning, finance, and budget; inadequate physical facilities; and legal, regulatory, and institutional gaps. This leaves a void in long-term planning, budgeting, and monitoring, culminating in weak macroeconomic management and longer-term economic and social vulnerability.

C. Agriculture and Fisheries

6. Agriculture and fisheries have traditionally been the mainstay of the productive economy. Although sector performance is difficult to assess because reliable data is lacking, indications are that growth is slow or even stagnating. The contribution of agriculture to gross domestic product (GDP) has gradually increased from 3.5% in 1991 to an estimated 5.0% in 2005. This development is wholly attributable to the dramatic tripling of prices paid to copra growers by the country's sole buyer—the Tobolar Copra Processing Authority—in 1992 and to record harvests in 2005. The share of food crops and livestock in GDP has continued to decline and is now estimated at 3.5%. Fishing contributes about 8% to GDP.

7. With an exclusive economic zone of over 2 million km², the fishery sector is considered to have the largest potential for generating economic growth. At the same time, the sector is plagued by surveillance limitations, lack of skills, high domestic costs, foreign influence, and inappropriate investment decisions. Deep-sea fishing, mainly for tuna, is dominated by foreign fishing fleets. The country has agreements with the United States through a regional multilateral treaty for purse seining and with Japan for pole-and-line fishing and, increasingly, long-line vessels. License income has averaged \$2 million between 2005 and 2007. The RMI is an active member of the Parties to the Nauru Agreement, a subregional agreement for tuna purse-seine fishing licenses in the region. The Parties to the Nauru Agreement Office was officially launched in Majuro in 2009 to sustainably manage tuna and increase economic benefits for the RMI and other member countries.

8. According to the 2006 household survey, fewer than 50% of rural households own a boat or canoe. While more than 90% of rural households fish at least once a week, the two fishing methods most frequently employed are pole fishing from a vessel and spearfishing onshore and inshore. Coastal fishing is predominantly for subsistence, undertaken by most households only part time. Fish makes an important contribution to the local diet on the outer islands. In the urban areas, the consumption of fish is much lower as a result of difficulties in transporting fish from the outer islands, low market demand, and high prices relative to imported canned fish and frozen meat.

D. Tourism, Manufacturing, and Construction

9. Tourism is in its infancy. Over the last 4 years, an average of 6,000 visitors arrived in the RMI annually. A high proportion of arrivals were on business trips, while less than 2,500 visitors per year were on holiday. The government built a 150-room hotel in Majuro in 1997, but it has slipped into decline, with frequent electric and plumbing breakdowns. As part of the government public sector reform program, the hotel is to be privatized, with bidding expected to conclude in 2010. Under the Tourism Act, 1991, the Marshall Islands Visitors Authority was established with the objective of developing and promoting tourism in the country while protecting its physical and cultural resources and heritage and maximizing local participation and content. The Historic Preservation Act has important implications for tourism. Further, the private sector has recently formed the Marshall Islands Tourism Association, an interest group that intends to work closely with the Marshall Islands Visitors Authority. Some of the country's attractions have been promoted in the United States with active support from Continental Micronesia Airlines and Air Marshall Islands but limited success.

10. The RMI's secondary sectors are small and employment opportunities relatively few. Collectively, the secondary sectors, including utilities and construction, constitute some 7%–9% of GDP and are dominated by construction supported by development assistance. There is virtually no manufacturing, which is limited to a copra mill, drinking water company, ship repair yard, tuna cannery, dairy plant, garment factory, and brewery (the last three are currently inoperative).

E. Health and Education

11. Access to basic health services has improved since independence in 1986. Basic health coverage and access is universal, funded by the Compact Sector Grants and a visitation fee. Both Majuro and Ebeye have expanded and upgraded their hospitals, with the new Majuro Hospital annex completed in early 2006. All main settlement areas in the outer islands have operational medical dispensaries with decent supplies and trained staff, though the increasing utilization of reproductive health services remains a real challenge. The RMI has made good progress in reducing under-5 and infant mortality. In 1988, the under-5 mortality rate was 93 per 1,000 live births, but by the early 2000s it hovered in the low to mid-20s. The most recent estimate, from a demographic and health survey in 2007, suggests a higher rate of 46, which, while still relatively high, is half the rate in 1988, according to the United Nations Millennium Development Goals (MDG) report in 2009. The overall trend suggests that the RMI has a good chance of meeting MDG4 (reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate) if the trend continues.

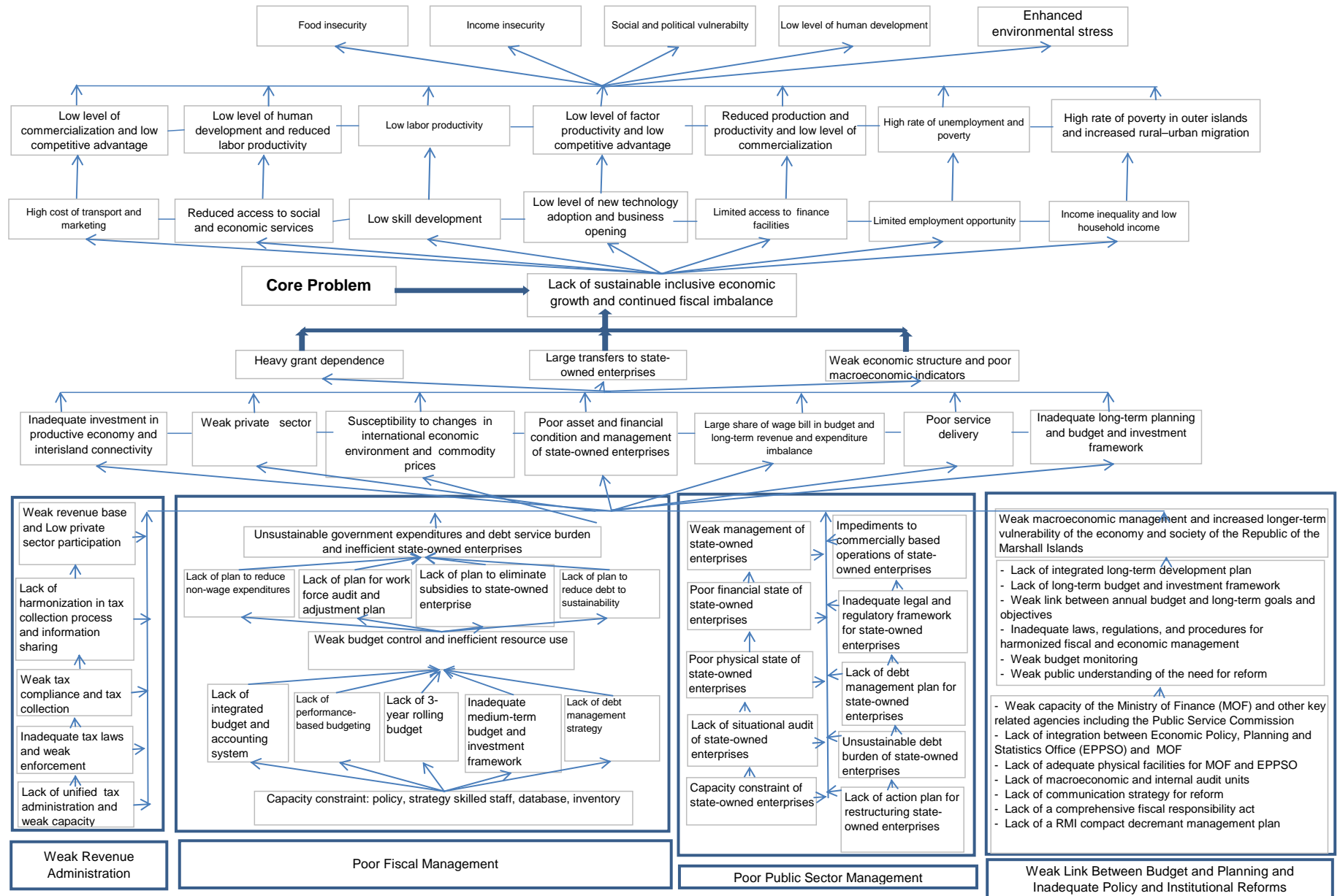
12. The MDG report in 2009 notes that estimates of the prevalence of underweight children below 5 years old have been few and far between. The earliest known estimate, from 1991, was 19%, with a second estimate of 27% in 1999 (based on information gathered by the Secretariat of the Pacific Community). The most recent estimate, drawing on the 2007 demographic and health survey, was much lower than the previous two but still relatively high at 13%. The data suggest that the prevalence of underweight children below 5 years old has fallen over time, but, given the other quantitative and qualitative indicators related to nutrition, further investigation is required to confirm this trend. In most years, the RMI registers between zero and three maternal deaths out of 1,500–1,600 births. Nearly all mothers have access to basic services, with an estimated 94% of births in 2007 attended by skilled health personnel.

13. The national government continues to allocate most of its financial and human resources to primary and secondary education. Despite large budget allocations, the provision of quality education continues to be a challenge, particularly at the primary level. Critical weaknesses in providing quality education continue to have profound effects on human and overall economic development. As summarized in the MDG report in 2009, poor educational outcomes have become a long-standing norm despite increasing inputs to education since 2004. The Ministry of Education's operating budget in FY2009 was \$26.8 million, which was a slight increase over FY2008 and constituted over 30% of the annual budget. The ministry uses performance budgeting and is now operating under a new strategic plan. However, the ministry continues to face difficulty in improving outcomes, including attendance and student and teacher performance, as well as in basic operations. Long overdue maintenance and construction of classroom buildings is under way under the United States Compact Sector Grants. The Ministry of Education aims to have all teachers holding a degree and continues to allocate significant resources to teacher training and in-service programs. A 2006 assessment of the RMI technical and vocational education and training sector found that local programs were seriously lacking in both scale and scope and out of line with market needs for labor and training. The restructuring of the National Training Council in 2005 and ongoing organizational development should help improve technical and vocational education and training planning and development. In the meantime, the poor quality of primary and secondary education and very limited training programs force employers to continue to rely heavily upon imported labor to fill skilled and even some semi-skilled positions.

F. Gender

14. Despite living in a matrilineal society, Marshallese women lag behind men in all major indicators of education, health, employment, and social status. Educational opportunities have been limited for women, and there is a shortage of skilled female labor. The large subsistence sector based on agriculture and coastal fisheries, combined with the traditional extended family system, has ensured that the basic needs of food and shelter are met for most of the population. However, social indicators show that the Marshallese suffer poor nutrition, dietary-related illnesses, low life expectancy, high infant mortality, inadequate housing, poor water supply and sewage disposal facilities, low enrollment of children in school, and falling per capita incomes.

Problem Tree



EPPSO = Economic Policy, Planning and Statistics Office, MOF = Ministry of Finance
Source: Asian Development Bank.