Republic of Marshall Islands

Meto2000

Economic Report and Statement of Development Strategies

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Foreword

This economic report reflects the lessons learned during the first decade and a half of political independence of the Republic of Marshall Islands and the country's experience with the financial arrangements that came with the Compact of Free Association with the USA. These arrangements are now up for review and revisions in the course of the forthcoming renegotiations of the Compact agreement. This economic report, titled *Meto2000,* was developed in close consultation with the Government of Marshall Islands to provide inputs for this important exercise.

The report looks not only at the different elements of the economy, but also at cultural, historical and external influences on economic behaviour. Marshall Islands' extraordinary colonial history, traumatic post-WW2 experiences and its continued importance to US defence strategy are examined, along with the effects of the substantial financial transfers that has taken place on the ethics and aspirations of communities inhabiting remote atolls and governed by a hereditary power structure.

All the elements of the report were examined using an extensive consultative process involving institutions and individuals in government, civil society and the private sector, both domestic and foreign. While some of the initial conclusions derived were naturally controversial, this report has since been publicly reviewed in Marshall Islands to ensure as far as possible that its final wording reflects a consensus in the community about the country's economic performance and prospects; and what needs to be done to turn Marshall Islands' potential for sound economic growth into reality, and how this may best be organised and implemented.

The underlying objective of this report is clearly to serve the needs of the people of the Marshall Islands. ADB is pleased to have been able to provide this assistance, and acknowledges with great appreciation the full, frank and positive participation of the Government and people of Marshall Islands in the preparation of the report.

Basudev Dahal

BASUDEV DAHAL
Director
Office of Pacific Operations

Contents

This report was prepared by consultants engaged by the Asian Development Bank at the request of the Government of the Marshall Islands. It is based on information and opinions gathered during an extensive consultative process described at Appendix B. The ideas and recommendations expressed in the report do not necessarily represent the views of the Bank or the Government.

Introduction

Meto2000 is a strategic planning document. It does not allocate resources to activities. It aims to set the economic and social scene, and define the medium-term goals and strategies, for the making of operating plans and budgets that can move the economy of Marshall Islands in the direction its people want to go. *Meto2000* combines a highly participatory review of the economic history and situation of RMI (based on over 150 wide-ranging interviews conducted over a six-month period and supported by extensive documentary research) with a statement of proposed development goals and key strategies derived from that consultative process and the experiences of comparable island economies.

Meto2000 comes at a time of great importance for RMI. Negotiations are about to begin for an extension of the financial aspects of the Compact of Free Association with the USA, and RMI's economic performance and standards of financial governance are coming under unprecedented scrutiny. It is widely understood in RMI that the Government has to make substantial and permanent improvements to its management of public finances and economic assets. This is critically important to securing domestic revenues and long-term external funding, and to making effective developmental use of all public resources. Far-reaching improvements in public financial management and a pervasive change in attitudes to the maintenance of natural and purchased assets are at the heart of *Meto2000's* situation analysis and proposed directions.

The first two chapters of *Meto2000* describe the economic history and current situation of RMI. Special attention is given to the reasons for the unusual structure of the economy, and the high level of financial and psychological dependence that was clearly identified in the *Meto2000* consultative process. Chapters 3 through 8 describe specific social and economic sectors, identifying in each case the main factors and problems that need to be addressed in defining medium-term goals and strategies and preparing operational plans.

Chapter 9 draws together several cross-cutting themes—participation, equity, process, coordination, sustainability—to identify six principal goals for RMI's medium-term development, each supported by a cluster of key strategies to shape public sector operating plans and budgets. Particular attention is given to ensuring policy coordination, describing the number and type of plans and budgets that will be needed, and the importance of a close-knit relationship between them. The social and political context of economic activity is emphasised throughout *Meto2000*. Chapter 9 ends by stressing the importance of attitudinal change at all levels of the community, if political sovereignty is to bring sustained benefits to the Marshallese people at large, and divisive inequity is to be avoided.

Meto2000 is intended to be read and discussed by many people in Marshall Islands and elsewhere. In its present form it will be a major input to RMI's Second National Economic and Social Summit being planned for early in 2001. Following that, *Meto2000* will be finalised and presented to the Nitijela for information and subsequent general distribution.

Summary of Contents by Chapter

Chapter 1: Understanding the RMI Economy

The remoteness, strategic location and extraordinary colonial history of RMI—four different colonial regimes and the Pacific War in five generations—have powerfully shaped its social and economic condition. In the last forty years, financial inflows arising from civilian injuries from US nuclear testing and the continued military importance of the Kwajalein base have given RMI a uniquely dependent psychological and economic relationship with USA. This is characterised by relatively high personal incomes, diminished community self-reliance and accountability of traditional leaders, an inefficient public sector, weak fiscal management, and low domestic and external regard for RMI's financial and economic governance.

Chapter 2: Economic Performance

Official statistics indicate no real growth in national income per head since independence and little change in structure of the economy. Expenditure on imports from USA exceeds the annual value of Compact receipts. The labour force is growing much faster than jobs and open unemployment is increasing. There is scope for greater private investment provided costs and productivity are made competitive, and positive policy statements are fully implemented. Use of the US dollar limits economic policy options but underpins public confidence. The FY2001 Budget is under severe pressure despite (non-Compact) external funding, but this will ease when bond repayments cease in FY2002. It is critically important that most of the funds available thereafter from Compact transfers are saved and invested in the Intergenerational Trust Fund to create post-Compact income. Enforcement of tax collection and review of the tax structure for greater efficiency and equity are overdue. Import smuggling, under-invoicing and other revenue failures are widely reported. Stronger, more accountable management of public finance and development of a firm revenue base are essential for sustained economic growth.

Chapter 3: The Public Service

The Public Service has been reduced in size by one-third but much remains to be done to improve its efficiency. New hirings are again increasing payroll costs. The role of the PSC and its relationship with departmental management needs further definition. Responsibility for professional standards is not clear. Contracting-out of services requires stronger supervisory skills in the public service. The public service wage structure needs review to motivate performance, but its general level is still uncompetitively high.

Chapter 4: Population and Health

The natural rate of population growth is around 3.5 percent, but in recent years emigration has absorbed the annual increment. In 1999, 55 percent of the population were under 20 years old. Child mortality and life expectancy have significantly improved in recent years. Apart from nuclear injuries, much ill health in RMI is self-inflicted and life-style related. Health services are concentrated in urban areas. Outer island services suffer from poor transport and communications. MoHE's current 15-year Strategic Plan targets primary health services and greater self-care, but present costs are skewed towards curative services by heavy dependence on costly overseas referrals. Domestic curative facilities need to be improved to reduce referral costs and release recurrent funds to strengthen preventive health care. MISSA's recent financial mismanagement has undermined health funding, but in any case the funding structure for health services needs adjustment to reflect the strategic goals more closely, including greater contributions from users of costly services.

Chapter 5: Education and Training

There has been a slight improvement in literacy, but there is much concern over low standards of output at all levels of education. School-leavers need to be equipped to make their way in RMI and overseas. Literacy in English and applied numeracy have to be greatly improved. School attendance and student motivation, teacher qualifications and materials supply are all unsatisfactory. Facilities are concentrated on Majuro and Ebeye. The Ministry's current Strategic Plan targets greater community responsibility for schools, more diversified funding, teacher training/career development and enforcement of educational standards. Better coordination of resources and institutions engaged in tertiary education and skills training is essential.

Chapter 6: Financial System

Commercial banks have large unlent reserves and could attract more deposits if lending opportunities justified it. MIDB has a record of political interference and poor debt collection, and its role in credit operations/small business development needs review. Legislation is in hand to enable land leases to be used as loan security. Government will need to take a role in facilitating 'micro-finance' services for new and small enterprises, and extension of financial services to rural areas. Offshore banking is increasingly problematic in face of international scrutiny, but the shipping registry is operating satisfactorily.

Chapter 7: Transport, Communications and Utilities

International air links to the north and west have recently improved. Talks continue about long-discussed subregional links to the south. AMI is rebuilding its domestic services after years of under-investment in essential infrastructure, but is still greatly overstaffed. Domestic shipping, now operated by commercial firms under contract to the Government, needs better coordination, performance monitoring and competitive pricing. Maintenance of roads and other public infrastructure is unfunded and commonly neglected. Improvements to outer island port facilities are planned under an ADB loan, and Kwajalein/Ebeye utilities are being rehabilitated with contracted management and ADB funding. NTA needs a competitive attitude, investment funds and technical back-up, so is a natural candidate for privatisation, but foreign ownership is presently prohibited. MEC is providing reliable power to Majuro and Jaluit, but its financial performance is being boosted by profits from sale of fuel to fishing vessels. The financing of Majuro water supply remains problematic despite substantial investment in storage and reticulation. Similarly, air and sea port operations by statutory corporations place key decisions on infrastructure investment, pricing and use of income outside direct Government control. Critical issues of corporate governance arise with all RMI's state-owned enterprises, requiring coordinated review, performance monitoring and stronger public accountability.

Chapter 8: Agriculture, Fisheries and Tourism

The Ministry is pursuing collaborative planning in the three sectors with MIMRA, Tobolar and MIVA. Copra production and incomes have declined since mid-1990s, despite substantial price subsidies by the Government, because of poor shipping services and low world prices. The commercial future of copra is unclear, but the copra subsidy is a major transfer of income to rural areas from Government funds. Shipping problems also hold back coastal and lagoon fisheries development (Japanese funded) and rural production of foods for urban markets. Public preference for imported convenience foods further depresses local farm sales. More effective sales promotion, credit and extension services are needed for small farmers. Commercial pearl farming is making headway after successful MIMRA pilot projects. Distant water fisheries are contributing $4-5m to overall revenues from licence fees, of which MIMRA retains about one quarter for its budgeted operating and development costs. Vessel servicing and tuna processing are providing employment in Majuro. The poor state of the Fishing Base hinders efforts to lease it out. Tourism at present is very small but has specialised potential. Development aims at niche markets in Japan and USA for outer island/atoll cultural experience, diving and fishing.

Chapter 9: Development Strategies

Participation and process

To obtain the support and participation of its people in the development process the Government will have to consult them, and listen to what they say. Moreover, to achieve those common goods that they cannot produce by themselves, people have to make concessions to the views and needs of others. Such a process of consultation and cooperation, based on mutual respect, is critical to nation-building. The planned second National Economic and Social Summit in early 2001 will be an important part of the process.

Goals and Strategies

Starting with a statement of overall vision prepared separately by the National Commission on Sustainable Development, six national development goals are identified in *Meto2000*, each supported by a set of development strategies designed to achieve the goal over a 5-10 year period. Once adopted, these goals and strategies should govern the whole range of public sector policies and activities—everything for which the Government is responsible—until they are in due course reviewed and revised. They are set out in Table A at the end of this Summary.

Planning, Budgeting, Implementing

To manage the tension between policy coherence and managerial autonomy, and to be able to respond to changing circumstances without losing sight of the agreed goals, reasonable flexibility and delegation is required. In RMI's situation, where reform of public financial management is essential to economic progress, this can be achieved through the set of planning and budgetary instruments described at Table B at the end of this Summary.

Policy coordination

Separate parts of government have to work together to achieve developmental objectives. A competent and 'wired-in' Economic Policy and Planning Office, working to an Economic Policy Committee of the Cabinet, is a well-tried coordination method. Policies need to be based on prior consultation with all concerned, including private sector and civil society (NGOs, community groups, traditional leaders). Liaison should be strengthened with Chamber of Commerce and formally established with NGOs.

Strengthening Independence

A dependent mind-set is handicapping RMI's development. The way people think of themselves, the community and the nation-state needs to change, in three respects: working together more effectively in all walks of life; sharing the costs and benefits of the development process more fairly; and learning to compete commercially at home and internationally. From progress in these areas will come greater achievement and increased self-esteem.

Building in sustainability

Sustainability in economic management involves reconciling the needs of competing natural and economic systems. For RMI it is critically important to restore integrity to the damaged natural environment, and to develop effective responses to new threats and changing circumstances, particularly climate change. Sustainability of the nation-state involves the security of income, skills and outside support; the efficiency with which RMI converts inputs to outputs; and the social and inter-island equity of distribution of the costs and benefits of that process.

A. Table of Proposed National Goals and Development Strategies

Goals	Strategies
1: Increased self-reliance	1: change perceptions 2: restructure Compact payments 3: diversify sources of external aid 4: reform public financial management 5: build fiscal income reserves (MIITF)
2: Renewed economic growth	1: promote private enterprise 2: improve infrastructure 3: redefine and strengthen privatisation 4: emigration equal to population increment
3: Equitable distribution	1: mobilise anti-poverty forces 2: community action on deprivation 3: outer island development program 4: redistribute burden of taxation
4: Improved public health	1: promote self-awareness and self-care 2: improve onshore treatment facilities 3: align health funding with strategic priorities
5: International competitiveness	1: raise awareness of need and scope 2: drive down input costs 3: raise education standards 4: optimise use of training resources
6: Environmental sustainability	1: revive EPA 2: implementation of NEMS 3: policy integration 4: remedial measures

B. Schedule of Plans and Budgets Proposed

Title	Period	Prepared by
Statement of National Goals and Development Strategies	About four-yearly intervals, or more often if events require	Government, on basis of wide consultation and National Summit
Economic Policy Statement	Annually, covering a rolling three-year period, with review of progress	Economic Planning Office in consultation with Finance and others
Annual Budget	Annually, in full detail for accountability and control by Nitijela	Ministry of Finance, in a methodical, participatory budgetary process
Medium-Term Budget Framework	Annually with the Budget, covering 5-year frame, Budget as year 3.	Finance in consultation with Economic Planning and Foreign Affairs (Aid)
Departmental/ Corporate Operating Plans	As required by nature of activities. Conforms to overall plans, more detail	Department/corporation, consulting Finance, Planning, Personnel etc.
Project Plans	As required by nature of project, procedures of funding agencies etc.	Project manager, department responsible, technical assistance etc.
Long-range perspective plans	As required by subject, e.g. climate change, land reform, education, health	Sector Ministry, with NGO and TA inputs as required

Chapter 1

Understanding the RMI Economy

The development task. Building a nation requires vision and perseverance. The process takes time. The social and economic systems of the Marshallese people are in transition from structures that developed in pre-colonial and colonial conditions, to still-evolving post-colonial relationships and balances of power and wealth. The title of this report and strategy statement, *Meto2000,* has overtones of ocean navigation, of finding the way from one island to another by traditional skills of wave-pattern recognition, for which Marshallese navigators were renowned. Each individual wave is unique, but they move in predictable patterns. *Meto* navigation requires that the navigator know where he is starting from and where he is trying to go; wave patterns show him the course to steer.

The Government and people of RMI face a more difficult task. First, there are differing opinions about the starting point, the present condition of RMI. This report is intended to help reconcile and consolidate those views. Second, the destination of the voyage is not yet known. It has to be defined, and its direction and distance estimated, by a process of consultation and participation, of which the discussion of development strategies in this report forms part. Both stages need leadership that can draw together diverse interests and build a lasting consensus. When the destination has been generally agreed, the complex task of getting there will require competent, motivated management and sustained, coordinated effort over many years at all levels of Marshallese society.

The task is formidable, but less daunting when seen in a historical perspective. The Marshallese people have come through many challenges in the past, adapting and adjusting to powerful external forces, absorbing new skills and techniques, and forging useful alliances at home and abroad to strengthen their strategic position. The colonial period, and especially the latter part of it, was a traumatic phase in the evolution of the Marshallese nation-state. Gaining greater control over that evolution has been an aim of the Government and people of RMI for the last thirty years. Valuable experience has been acquired. Provided the issues in the current transition are clearly recognised, and feasible strategies for tackling them are developed that command support at home and internationally, there is a reasonable prospect of success.

The process of defining goals and planning how to reach them is itself an act of nation building. Opposing domestic interests have to be reconciled, objectives traded off to establish common goals, and ways of working together have to be agreed and made operational. Responsibility for managing this process lies with the national government, but its success depends on the active intellectual participation of the wider community.

The structure of the modern Marshallese economy cannot be understood, or its development sensibly discussed, without first considering how it came to be this way. *Meto2000* therefore starts by recalling the historical origins of the current structure. It then identifies a set of factors that are likely to determine the course and direction of the transition on which RMI is now embarked.

Independent isolation.[1] The first Marshallese came to the islands over two thousand years ago, voyaging in ocean-going canoes from origins in South-East Asia. Legend and archaeology point to early settlement in the northern part of the island group. Over time the settlers spread through the double chain of atolls. Their way of life and social structure developed to fit the sparse and isolated environment, revolving around the twin poles of land tenure and traditional authority. The people spread out along the narrow atoll land-form, organised in lineage groups, *bwij*, under several clan leaders, *alap*, each household living on its own cross-island strip, *wato*, that embraced all the types of soil and vegetation the atoll offered.

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[1] Sources for the historical account in paragraphs 6-25 are cited in Appendix B.

Ownership rights to the land were held by the hereditary chief of the *bwij,* the *iroij,* but all persons born to a woman of the *bwij* inherited the right to cultivate and use land occupied by the *bwij*. The *iroij* (or if the position was held by a woman, *leroij*) wielded considerable authority over members of the *bwij*—extending to powers of life and death if key rules of behaviour were broken—but the *iroij* had to retain this power by performance, or risk deposition through battle or sorcery by an ambitious relative. The ordinary people were referred to as *kajur,* 'the strength', and their relationship with *iroij* was one of mutual dependence. The *kajur* provided their leaders with food, housing, canoes and other material goods, in return for strategic leadership, a sense of identity, clan governance, and redistribution of harvests and the spoils of war.

The *iroij* adjudicated land and lineage disputes, managed the response to natural disasters, organised and led defensive and offensive operations against other communities and atolls, entered into alliances with the *iroij* of other *bwij,* and gave or received tribute according to their status and military prowess. Despite these powers and privileges, foreign visitors prior to the colonial period noted that the material life-style of *iroij* did not differ greatly from that of *alap* or *kajur*.

Population density in the atoll environment was ruthlessly managed, with family size controlled to match the carrying capacity of the available land. Warfare within and between atolls was used to acquire and redistribute food and land in times of need. Over time, paramount chiefs emerged, *iroijlaplap,* whose authority was recognised by payment of tribute by chiefs of several adjacent islands and even neighbouring atolls. By the time European ships began to make frequent visits in the mid-19^{th} century, the Marshallese population was estimated at between eleven and fourteen thousand persons. Language and customs were observed to be substantially the same throughout the group, with some detailed variations between the Ratak and Ralik chains.

The German period, c.1860–1914. Though Spain had claimed the Marshalls group as the easternmost part of its Micronesian colony for three hundred years, this European conceit had no practical effect in the area. More importantly, during the 1860s German trading companies from Samoa and New Guinea began building a network of island stations for the rapidly growing trade in copra and retail goods. Jaluit became the commercial and administrative centre. Alliances were made with traditional chiefs to organise and facilitate production. The planting of coconut trees for copra—until then merely a saleable by-product of subsistence agriculture—was actively promoted, drastically changing land use on the atolls. Payments in the nature of tribute or management fee were made to *iroij* and *alap* for copra produced under their respective authority and organisation, the balance going to the *kajur* who actually made the copra. The monetisation of the traditional authority structure had begun, and quickly took root.[2]

Germany formally annexed the Marshall Islands in 1885. For the next two decades the atolls formed part of German Micronesia. The role of the administration—undertaken until 1906 by the Jaluit Company and then by administrators from Pohnpei—was to provide a lightly-borne governance framework within which copra production for export, and the import and sale of store goods could safely proceed. This economic structure suited both Germans and Marshallese. Education was in the hands of the churches, with Protestant primary schools in most islands and a few higher-level Catholic schools at main centres (which soon became the schools of choice for a new elite, a role that has persisted into modern times). A number of part-European families developed substantial plantation and trading enterprises, providing inter-island shipping and other economic services throughout the island group.

In the early 1900s several storms and epidemics hit the Marshall Islands, killing many hundreds of people. A census in 1908 found just over 9,000 persons, only about two-thirds of the estimated population thirty years earlier. Cash was now an accepted and useful part of life. Marshallese were skilled negotiators, and though most worked only on a casual basis when they needed money and could

[2] The formula for sharing copra income varied over time and between atolls. The share of the *iroij* was in the range of 20-50% (most commonly one-third), the *alap* 20-33%, and the balance of around one-third of the value was distributed to the *kajur* or workers, *dri jerbal*, who cut, dried and packed the copra. The share taken by the *iroij* was enough to make some of them very wealthy. Towards the end of the German period the colonial administration was considering cutting out the *iroij* share and taking it as a form of tax, but this was not implemented. The tribute or fee concept was preserved under the Japanese and American administrations, and continues today. The practice is reported to have been extended by some *iroji* and *alap* to other forms of income earned by *dri jerbal*.

not make copra, wages were higher in the Marshalls than the rest of Micronesia. A proposal by the German administration to purchase four northern atolls, including Bikini and Rongelap, for development as coconut plantations was rejected because the price offered was too low. Had it been accepted and the inhabitants moved elsewhere RMI's recent history might have looked somewhat different. German rule in Marshall Islands, never onerous to the Marshallese, usually profitable to the Germans, came to an end soon after war broke out in Europe in August 1914.

The Japanese period, 1914–1944. As with the Germans after 1885, the Japanese had both strategic and commercial interests in Micronesia. But unlike the Germans, the Japanese Government had a grand design for the future in which Micronesia would be both Japan's strategic south-eastern perimeter, and a source of marine and tropical products for Japanese markets. Japan declared war on Germany and occupied German Micronesia in September 1914. Though Jaluit was the first Micronesian centre to be taken over by Japanese forces, the Marshall Islands, lacking the high islands to provide a base for tropical agriculture or minerals extraction, was less affected by the early, commerce-driven, phases of Japanese rule than the more westerly parts of Micronesia.

As the result of secret wartime deals with Britain and other European nations, when Germany was defeated Japan was awarded a mandate by the League of Nations that amounted to approval of its annexation of Micronesia.[3] The flow of traders, miners, farmers, teachers and military personnel into Micronesia built up rapidly during the 1920s, but the Marshall Islands was still the least affected part of the territory. There was relatively little immigration of civilian Japanese, and the administrative centre of Jaluit remained about the size it had been under the Germans.

Much of the German administrative arrangements were left in place, and the copra and trade-store economy was simply taken over by Tokyo-based trading companies. New deals were done with traditional chiefs and the prominent business families that now ran the atoll economy. Nevertheless even the far-flung atolls of the

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[3] The carve-up of Germany's Pacific possessions among Australia, New Zealand and above all Japan, filled the Americans, and not a few others, with deep misgivings, but in the international shambles of the early 1920s there was no viable alternative on the table.

Marshall Islands were affected by the energy with which Japanese administrators applied themselves to the task of colonial development. Copra production reached 5,000 tons a year, and inter-island shipping bustled about the twin chains of atolls distributing Japanese manufactured goods where German products had gone before.

This changed as the military agenda took priority in Tokyo, and Japan began to prepare for a Pacific war. As the 1930s advanced Japan fortified the high islands and larger atolls in western Micronesia. Towards the end of the decade the fortification of Marshall Islands began and rapidly accelerated. Thousands of Koreans and Japanese labourers were brought to work on airfields and associated ports and infrastructure at Kwajalein, Wotje and Maloelap, followed by navy and army personnel in equally large numbers. The Pacific War was now inevitable, and came at the end of 1941. Air and seaborne attacks were launched from Kwajalein against Wake Island, and Nauru and Tarawa were attacked from Jaluit.

The Marshall Islands was now in the front line of a global conflict, where in a sense it was to remain for the next fifty years. As the tide of war turned in favour of the USA, huge numbers of Japanese reinforcements were sent to the atolls to defend them to the death. In January and February 1944 the Americans captured Kwajalein and Enewetak in amphibious landings, preceded by several days of heavy bombardment and costing thousands of dead and injured, Japanese and American. Majuro was captured without a fight. Marshall Islands had changed hands again, and just as before, with no choice in the matter.

The American period, 1945–1985. The United States had driven Japan out of the Micronesian islands by a series of fierce air, sea and land battles. The strategic significance of this chain of outposts across the central Pacific naturally dominated US policy towards its new possessions. After a brief period of administration by the US Navy, these became the Trust Territory of the Pacific Islands, to be administered by the USA on behalf of the United Nations. The moral overtones of the trusteeship carried little weight against the strategic imperatives of the developing Cold War. Within the TTPI, it was on the Marshall Islands that the military agenda had the most direct and enduring impact.

A military base was quickly constructed at Kwajalein to support the US nuclear testing programme. Between 1946 and 1958 sixty-seven nuclear devices were tested at Bikini and Eniwetok atolls, including the biggest ever tested by the USA. The explosions vapourised islands and poisoned the atoll environment, in some areas virtually forever. A blend of ignorance, negligence and intent[4] in the conduct of the tests exposed thousands of Marshallese civilians and several hundred American servicemen to radiation, with tragic consequences that became apparent as months and years went by. Successive relocations of the affected atoll dwellers were badly mismanaged, causing great personal and community suffering. When the USA's atmospheric nuclear testing programme was ended by international treaty in 1958, its strategic missile-testing programme began. The Kwajalein base was enlarged and the major part of the atoll's vast lagoon was incorporated into the testing range. Further relocations followed. As Marshallese workers, job-seekers, displaced persons and dependants crowded into the dormitory island of Ebeye it became the Pacific islands' most notorious slum.

The harm caused by violent destruction of their environment, exposure to radiation, forced relocations, squalid living conditions, hunger and collective despair inflicted on a significant proportion of the Marshallese people by these events were formative influences on their post-war view of the world and themselves. Whole communities were separated, perhaps forever, from the means of providing for themselves. A sense of being the victims of events far beyond their control, and totally dependent for their welfare on the whims of wealthier nations—this time specifically the USA—began to take root. The material abundance and military power of the USA were overwhelming. Its dismissive attitude to the interests of people who were in the way of progress on US terms might have snuffed out any sense of nationhood. In fact it led to the development of a specialised set of survival skills that mitigated the feeling of extreme dependency. Foremost among these were techniques of negotiation with an infinitely more powerful adversary by a combination of political shrewdness, employment of US legal attorneys at certain stages of negotiations, effective bargaining use of the importance of the Marshall Islands to US defence strategy, and the growing realization that the USA

[4] In the name of military/scientific research, but with a staggering disregard for the consequences.

could and should be made to pay substantial compensation for nuclear injury.

Even as the nuclear testing programme got under way the US administration of TTPI was passing from military to civilian hands. During the 1950s the tension in the governance of the Marshall Islands between the military/strategic aims of the US and its responsibilities under the UN trusteeship, was joined by another tension, between the protective and developmental schools of civilian administration. Should the Marshallese be shielded from foreign commercial exploitation and allowed to evolve at their own pace under the protective umbrella of the US, or should the island economy be opened up to foreign investment and set on an unpredictable course of engagement with world markets? Against the backdrop of the Cold War, the US military's desire to keep out potential spies made common cause with the protective school of development policy, and Marshall Islands remained off limits to foreign investors.

Meanwhile the civilian administration struggled with limited resources to provide basic social and economic services through the atolls, and to establish or revive institutions of governance within the TTPI legal framework. Families and clans that had dominated society and the economy during the German and Japanese periods now adapted to American ways and re-oriented their businesses to new opportunities. A new generation of Marshallese leaders found (nominally subordinate) places in the administration, building domestic and external alliances, learning how to handle the US government and progressively extending their influence in the system.

Opportunities of all kinds expanded rapidly in the late 1960s and early 1970s. A series of critical reports and increased attention from the UN led to the realisation in Washington that all was not well in Paradise, and that the USA's strategic interest in remaining in Marshall Islands could be endangered by neglect of the islanders' welfare. Presidential edicts required rapid, conspicuous action to fix things. A flood of Peace Corps volunteers—over 900 in Micronesia by 1970—and other foreign visitors coincided with greatly increased government spending throughout TTPI, though most of this went on an expanding civil service payroll. Meanwhile other Pacific island colonies and protectorates were achieving self-government and heading for independence, their economic prospects greatly improved by the establishment of Exclusive Economic Zones under the UN Convention on the Law of the Sea. Expanding regional organisations welcomed new members. Commercial and political possibilities in Micronesia suddenly multiplied, though non-US commercial investment in RMI was still virtually prohibited on security grounds.

Access to a wide range of imported consumer goods by growing numbers of increasingly well-paid government employees increased and diversified Marshallese appetites and life-styles, and drew an ever larger proportion of the population to urban Majuro and Ebeye. The goal of equal pay for Marshallese and American workers, a concept which has handicapped the development of the RMI economy ever since, was pursued in wage negotiations, with some success. Repeated renegotiation of nuclear injury compensation and Kwajalein rentals was providing a significant number of families with substantial non-wage income. Scholarships and other interaction with the US mainland, and participation in an expanding number of regional organisations, extended people's horizons. Japan and other tuna fishing nations were looking to secure their access to the rich fishing zones of Micronesia.

The political links between the Marshall Islands and the more westerly parts of TTPI, never very strong, came under increasing strain during the long-drawn-out 'political status' negotiations with the USA. The drafting and redrafting of positions and constitutions occupied most of the 1970s. As the process dragged on the Marshallese preference for separate political and financial status hardened and became more articulate, leading to the rejection in 1978 of the draft Micronesian constitution, and adoption in 1979 of a separate constitution for the Marshall Islands. Preparations were now made by the Marshall Islands political leadership to go it alone, as the Republic of the Marshall Islands. Their concern to secure the financial foundations of the new state coincided with the USA's need to secure access to its missile test facilities after the achievement of Marshallese independence, and desire to cap its exposure to further claims for nuclear injury compensation[5]. From this developed the idea of a deal that could support the ending of the Trusteeship.

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[5] This latter wish was only partly achieved. A provision in the Compact allowing for review in 'changed circumstances' has led to a massive additional compensation claim in September 2000.

Compact Independence, 1986–2000. The deal took shape in the Compact of Free Association.[6] Under this contract, which expressly recognised its sovereignty, RMI agreed to grant the USA exclusive military access to Marshall Islands, in return for a guarantee of defence against third parties, assured cash payments and other benefits, including the right of Marshallese to live and work in USA. The experience of the first 15-year Compact period, which will end in September 2001, holds many lessons for both sides—some of them painful—though only recently have they been prepared to confront them. The principal aims of the Compact—political sovereignty for RMI and exclusive military access by USA—have been achieved, but the economic and social outcomes for Marshall Islands differ significantly from RMI expectations.

A May 2000 report to Congress by the USA's General Accounting Office—the first such report in thirteen years of Compact disbursements—criticises the American side for failing to monitor the use of Compact funds, draws attention to deficiencies in accounting for disbursed funds, and observes that there is little to show for the Compact transfers in terms of RMI's economic growth. On the RMI side there is a widespread acknowledgment that much of the big spending of the first decade of the Compact was poorly planned and managed, leading to wasteful and corrupt contracting practices, environmental damage, an unsustainable fiscal position and bad habits in public financial management that are proving hard to eradicate.

Factors shaping development. From the interplay of history and the emerging self-awareness of the Marshallese people emerge a number of factors that are together shaping RMI's development process. They are set out here to provide a backdrop to the more detailed analyses and strategy statements that follow:

- Traditional and modern structures of authority uneasily coexist. Overlap and friction between them are inevitable, and lead to lack of coordination, under-performance and even litigation. The Constitution tries to address the problem

6 The Compact, as eventually signed in 1982 and made effective in 1986, is an agreement between the USA on the one hand and the sovereign states of RMI, FSM and Palau on the other. Only provisions applying to the USA and RMI are discussed here.

by recognising traditional ranks and interests in land, but in so doing hampers the natural evolution of these concepts under modernising influences. Many leaders occupy positions of both traditional and modern authority.[7]

- In the absence of any traditional concept of 'separation of powers', there have been numerous reports of political and official interference with the administration of justice, and divergences from the rule of law.
- The accelerating shift from subsistence to a monetary economy is causing casualties. Customary relationships are being exploited for monetary gain, reciprocity and mutual dependence is weakening. Informal 'safety-nets' are failing, family structures are breaking down, and there is evidence of hunger, child neglect[8], increasing prostitution and other symptoms of emerging poverty.
- There is a widespread belief in RMI, stemming from TTPI practice and encouraged until recently by both customary and constitutional leaders, that the state should provide most social and economic services free or well below real cost. With experience of colonial and Compact links to the vast resources of the US Government, it is hard for many people in RMI to accept that there are limits to what their own Government can or should do for them.
- Most economic activity in RMI economy is services-based, and massively dependent on the expenditure of money received from the US Government under the existing Compact (as grants, lease payments and injury compensation). There is no domestic economic activity in sight that could replace the government and household incomes provided by these payments.
- RMI's post-war colonial experience and ready access to Compact funding since independence encouraged the

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[7] Of the sixteen formally recognised paramount chiefs in RMI, twelve are members of the Council of Iroij, and a number of elected senators in the Nitijela are of chiefly descent

[8] Development in the 1990s of a brisk market in overseas (mostly US) adoption of Marshallese children—and the promotional role of law firms acting as go-betweens—was a clear sign of growing malaise, especially among the urban unemployed.

neglect of asset maintenance in favour of asset replacement[9]. Government-owned buildings, equipment, vehicles and ships were allowed to decay into an unserviceable condition. Commercial assets have been less directly affected by the public sector's no-maintenance culture, but the malaise has damaged public morale and the wider reputation of RMI.

- A related mind-set has allowed the deterioration of the natural environment, particularly in urban areas. There is no effective public environmental education programme, local and national government laws on waste, nuisance, land use and environmental protection are ignored, and the Environmental Protection Agency lacks the resources to take corrective action—all this despite RMI's participation in regional and global environmental conventions.
- Public attitudes to personal health care also suggest wilful disregard for the future and undue reliance on government services to cure life-style diseases. In urban areas, imported 'junk food' is relatively cheap and easy to obtain. The incidence of diabetes, directly related to 'over-nutrition' and lack of physical exercise, and the cost to public funds of overseas referrals for curative treatment (separate from nuclear-related treatments), are two unsustainable consequences of a period of high disposable incomes.
- As a result of preliminary discussions with US officials there is a clear expectation in RMI that the financial aspects of the Compact will be successfully renegotiated for a second fifteen-year period, while the Kwajalein leases are continued and substantial further funding is sought for nuclear injury compensation. These developments have both positive and negative effects on the determination of Government and people to adjust to a medium-term future without Compact funding. The net effect is not clear.
- RMI has difficulty attracting foreign direct investment. Provisions included in the Compact to stimulate US private investment in Marshall Islands were deleted by the US Congress after the whole package had been accepted by

9 Recently new bilateral donors have also provided funds to replace assets prematurely written off for lack of maintenance.

RMI. On top of the obvious problems of the economy's remoteness and small size, wages in RMI are high by regional and developing country standards, making it difficult for enterprises to compete internationally. Doubt about the promptness and impartiality of the legal process adds to the perceived risks of investment in RMI. Retention of the US dollar as RMI's domestic currency greatly simplifies economic management and is generally a source of psychological comfort to public and private sectors, but the strength of the currency handicaps RMI's international competitiveness.[10]

- The poor performance of schools and training institutions in RMI is a matter of serious concern. There is friction between authorities, teachers and pupils lack motivation, and output standards are below regional parity. Most students are leaving school ill equipped for a productive life in RMI or elsewhere, and low skill levels in the labour force are a deterrent to investment.
- Amid continued criticisms of public service output, there is evidence from the private sector and the public utilities that Marshallese can achieve internationally competitive productivity, provided they are exposed to internationally proven systems of training, discipline, motivation and managerial autonomy.
- Majuro and Ebeye, with two-thirds of the total population, contain significant numbers of unemployed and otherwise disadvantaged people, and there are islands of relative poverty in rural atolls. Inequities of opportunity and access could be reduced by more active use of progressive taxation and incentive subsidies, but such moves tend to be opposed by landowners and business interests.
- Nine trust funds with a current value of $425 million have been set up—some predating the Compact by many years—to provide for the care, rehabilitation and support of the atoll communities most directly affected by the nuclear testing programme. The generally satisfactory management of these

[10] See discussion in Chapter 2 and Box C of the consequencies for RMI of the US currency's tendency to appreciate against other currencies.

funds has given RMI valuable experience in handling such trusts.

- Medical research has now traced the effects of nuclear injury into the second and third generation, greatly widening the potential distribution of compensation moneys, and highlighting the imminent exhaustion of the main (Compact-established) injury compensation fund. The 'changed circumstances' claim recently lodged by RMI with USA under the terms of the Compact is for a total of $2.7bn over a 40-year period.
- Current arrangements at Kwajalein channel nearly $13m annually in Compact receipts to owners of land rights and the Kwajalein Atoll Development Authority (KADA) as payment for US access to the atoll. KADA uses $4.5m of this to subsidise the provision of utilities on Ebeye. Over $8m a year is distributed among eighty-four owners of rights to leased land,[11] and is variously spent, saved and redistributed by them among their kin. A further $7m is paid annually in wages to about 1200 Marshallese employed in the military base, acting as a powerful magnet drawing would-be workers and dependants to already crowded Ebeye.
- The payments for nuclear compensation and Kwajalein leases have thus created two groups of Marshallese—resident in rural and urban areas of RMI and overseas—in receipt of relatively large amounts of unearned (which is not to say unjustified) income. So far, little of this appears to have been applied to productive investment in the RMI economy.[12] Marshall Islands now faces the task of promoting a more self-reliant philosophy, while distributing Compact-based payments that inevitably risk reducing personal and family motivation to acquire the education and skills that modern self-reliance requires.
- There is a long tradition in Marshall Islands of allowing foreigners to run large parts of the economy, while collecting

[11] Unlike agricultural or housing leases, the nature of the use to which much of the leased land at Kwajalein is now put means that its future use by the lessors after reversion is highly problematic.

[12] As much as 20–25% of RMI households may be in receipt of money payments and free medical treatment, under s.177 of the Compact.

tribute from them in money and goods. This has facilitated the entry of overseas entrepreneurs to compete in providing goods and services, but in modern times it has opened the door to improper practices in the granting of permits and licences. It may also inhibit the start-up and threaten the survival of Marshallese businesses.

- Access to services and infrastructure outside of Majuro, Ebeye and—to some extent—Jaluit, is poor, despite perennial official promises of improvement. Reliable shipping services, electric power, modern telecommunications, banking and postal services are all lacking in the rural areas, in a striking mismatch with RMI's relatively high level of money income per head.
- The 1999 Census found 10,000 fewer people in RMI than expected. The main cause was a much greater exodus to USA than the authorities had realised.[13] Experience elsewhere suggests that people who are frustrated by economic or political conditions at home and are in a position to leave are likely to do so, and that increasingly the emigrants will include some of the most able Marshallese.[14]
- The population age structure (ie, numbers of young people already born) means that the natural increase in the labour force will far outstrip any conceivable rate of formal job creation, leading to greatly increased unemployment, concentrated in Majuro and Ebeye. To relieve this, school leavers need workplace skills they can use overseas, and access to emigration to USA and elsewhere, while every

[13] The macro-economic effect so far is not a net inflow of remittances, but the reverse. The net outflow of (mainly intra-family) payments through the main money-transfer agency is running at about $1.5m annually, peaking around quarterly distributions of Kwajalein rents and nuclear compensation payments. Most transfers are to parts of USA where Marshallese communities are established.

[14] The unexpected size of the recent exodus may have been caused in part by uncertainty about renewal of the Compact's emigration provisions. During the 1990s RMI's issue to non-nationals of passports that offered access to the USA caused friction with US authorities, and led to the fear that the right of bona-fide RMI nationals to enter and reside in USA might be withdrawn. Substantial amounts of money were paid to RMI authorities in connection with the issue of such passports, and an official inquiry is investigating what happened to this money. See also footnote 20 in Chapter 2.

opportunity is taken to promote the informal economy in RMI. Even then, growing open unemployment will place increasing strains on RMI's rural and urban communities.

- RMI is vulnerable to climate change in the form of increasing incidence of extreme weather conditions and rising sea level, threatening dwellings, infrastructure and fresh water reserves. Government and people can reduce the risk of damage by prudent design and location of fixed assets. For this, community-based physical planning and effective land use controls are needed, at least in urban areas. Better-off families can and do prepare alternative homes overseas in case of unmanageable changes in sea level or storm incidence.
- For many years massive debt service payments on loans for infrastructure and (mostly unprofitable) commercial projects have devoured the Government's untied Compact receipts. In FY 2001 and 2002 this will end, providing a priceless opportunity—provided Compact flows are successfully renegotiated—to put public finance onto a sustainable basis.
- The RMI public has a low opinion of the efficiency, honesty and technical competence of political government, the public service and the public sector at large. This is reflected in reports of widespread tax evasion with no attempt at enforcement, and frequent references to political and official corruption, nepotism and misuse of public property and funds.
- In the outside world RMI is widely perceived to have received huge amounts of money from the US Government, and to have wasted much of it through mismanagement and corrupt practices, while neglecting or damaging the natural environment. Though important progress has been made in public sector reform, fisheries development, investment and tourism promotion, that perception handicaps the building of sustainable trade, aid and investment relationships. It can be changed by sound public financial management and proper maintenance of capital assets, accompanied by well-focused, positive publicity.

Chapter 2

Economic Performance

Key points

- the economic statistics show no real growth since independence
- the statistical operation needs to be strengthened—but in any case
- the labor force is set to grow much faster than wage employment
- use of the US currency both simplifies and constrains economic policy
- combining sovereignty services[1] with investment in areas of comparative economic advantage offers the best prospects for growth
- further improvements are required to the investment environment
- the need to be more competitive is inescapable
- weak and non-transparent systems of managing public finance persist
- strengthening of public financial management is essential for development
- government revenues need urgently to be put onto a sustainable basis
- imminent Compact re-negotiations provide a priceless chance to do that
- provided there is also a comprehensive reform of taxation and tax collection

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[1] Such as strategic access/denial, fisheries licensing, seabed access, shipping register, postage stamps etc. Sovereignty services are saleable so long as they do not encroach upon the sovereignty of another (bigger, donor) nation. See note 20, below, on sale of passports etc.

National Income (GDP)

Gross Domestic Product (GDP), is the most commonly used definition of national income. This is the estimated total value of all economic activity within RMI, arrived at by summing the 'value added' by each economic actor to its inputs as it converts them to outputs for sale or its own use. Estimates of GDP, like most economic data in RMI, have to be treated with some caution because of acknowledged deficiencies in the coverage of statistical services. RMI, like several other Pacific states, does not give sufficient priority to the production of timely and reliable economic and social statistics, handicapping efforts to improve financial and economic management. In particular, commercial activity is likely to be understated in the official data because of under-reporting, for whatever reason.

With that caveat in mind, the official data show 1999 total output (GDP) at just under $97m, close to the 1996 level in nominal terms, and 6–7% lower when adjusted for inflation. Total GDP has been flat—or within the estimating margin of error—in recent years. Estimated real GDP (that is, adjusted for price changes, using the Majuro retail price index[2] as the deflator) had risen in the early 1990s as a result of increased fishing activity and Compact-funded expenditures, but fell back after 1995 as the tuna fishery contracted and fiscal problems forced a sharp contraction of government expenditures. Real GDP is now officially estimated to be at about its 1987–88 level; according to the 1999 Census, employment is also at the same level as in 1988. If this does not accord with many people's impressions of real economic activity now compared with thirteen years ago, it may indicate, as noted above, that GDP estimates are failing to capture a complete picture; on the other hand the employment data provides powerful support for the no-growth proposition.

The composition of estimated GDP has changed very little over the last decade. Government services, not including the state-

[2] This price index is in need of re-basing on a new expenditure survey, but is the only officially maintained inflation indicator. Combining reservations about GDP and the RPI makes discussion of real GDP a particularly hazardous exercise.

owned hotel, airline and utilities, account for about one third of economic activity. Trading and transportation together account for 20–25% of output (much affected by sharp rises and falls in the fortunes of Air Marshall Islands), and primary production and manufacturing together account for about 15%. Copra processing, being heavily subsidised, currently makes a negative contribution to total GDP. *(See also in Chapter 8)*.

Estimated GDP per head, widely used as an indicator of national well-off-ness, is now around $1,900. In nominal terms this is about 50% higher than in the mid-1980s, but adjusted for price changes it is about the same level as fifteen years ago. It would have been significantly lower[3] if population growth during the last ten years had not been relieved by emigration. Even given the caveat on GDP data coverage mentioned above, this is a sobering perspective on the impact of a decade of Government-led 'development' with the benefit of Compact funding.

Balance of Payments

The balance of payments (BoP) is a statement of the financial flows, and change in financial assets and liabilities, between RMI and the rest of the world. It is made up of two main parts. First, the current account, where payments and receipts for imports and exports of goods and services are recorded—or, as is often the case, estimated—along with remittances and grants that do not have to be repaid. And second, the capital account, where financial flows that result in a future liability to repay—borrowings and investments, mainly—are recorded or estimated. By definition it must balance, that is to say a surplus or deficit in the current account must be matched by an outflow or inflow on the capital account, or a rise or fall in the net financial assets of RMI held abroad, or both.

[3] By 10–15%, depending on the net contribution to domestic output assumed to be made by emigrants if they had stayed home.

The use of the US currency means that for RMI the most important price in the economy, the nominal exchange rate[4], is fixed, or at least is beyond the control or influence of RMI, and the Government is relieved of the need to make policy about it. At the same time, RMI is not in danger of running out of foreign currency reserves—since it uses the reserves of the US economy—so the Balance of Payments does not need to be a policy target. But financial constraints still apply. RMI's individual economic actors, notably including the Government, can run out of money. They can use up their domestic and overseas financial savings, exhaust their bank credit lines and access to loan markets, and run out of saleable assets. The difference is that their individual financial problems—even a budget funding crisis for the Government such as is occurring at the start of FY2001—will not affect the exchange rate or the access of other RMI entities to overseas financial markets.

By the same token, a 'balance of payments problem' in RMI is self-limiting, though the process may be painful. If the total of export earnings and other receipts on current account is not enough to pay for imports, money must be found on the capital account by borrowing or drawing on reserves. If and when that source of funds is exhausted, imports must be adjusted downwards to match domestic ability to pay for them. That 'iron arithmetic' applies equally to the individual enterprise, the government and the whole economy *(see below, on the impact of Compact flows)*. In these circumstances, where trade-related financial flows in and out of RMI's money supply are effectively outside the control of the RMI authorities[5], fiscal policy emerges clearly as the main—and defined to include public service

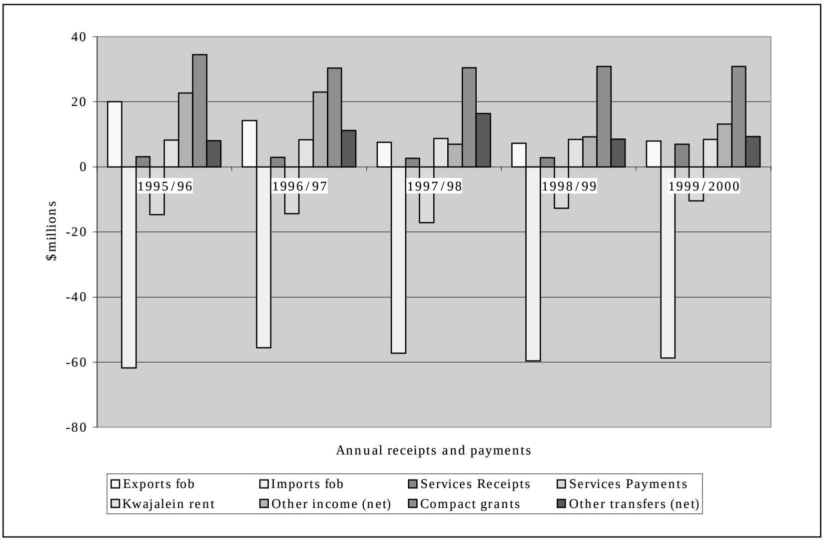
4 But note that the real exchange rate, which takes into account relative movements in domestic prices (inflation rates) between RMI and its trading partners, and is a key determinant of competitiveness, is more under RMI influence. The domestic inflation rate is affected by, *inter alia*, taxation, incomes policy and government expenditure. For example, a relatively high rate of domestic inflation in RMI, on top of a strong US dollar, would make RMI-produced goods and services very expensive internationally, eg for tourists, crippling RMI's efforts to be competitive. A strengthening US dollar probably requires nominal prices in RMI to fall in order to maintain competitiveness. A weakening US dollar helps competitiveness so long as domestic inflation remains low. See Box D for overview of currency issue.

5 See also in Chapter 6, Financial System, on the constraints on monetary policy, and Box D, *Using the US dollar*.

pay, the only—domestic policy tool available to the Government for stabilising or stimulating the economy. This makes all the more important the reform of public financial management now being planned *(see below)*, and the development of strong and effective fiscal policies *(see Chapter 9)*.

As with the GDP data, the information available for BoP analysis is less than complete. It is clear from anecdotal evidence that substantial cross-border movements of US dollars take place as cash, and that many private investments in financial assets and property overseas are held by Marshallese resident at least part-time in RMI and active in the domestic economy. More specifically there are difficulties with trade data, in timing and classification of entries for imports, and for re-exports of petroleum products (now a significant item because of fuel sales to tuna fishing and carrier vessels). Appendix table A16 uses estimates prepared recently by the International Monetary Fund to provide an approximation of the magnitude of flows in the BoP over the last five years. Though this is the most up-to-date and systematic compilation available, until a

Figure 2.1
Marshall Islands Balance of Payments, Current Account, 1995–2000



Source: Statistical Table A16.

stronger statistical operation is put in place all such estimates will have to be treated with caution. Figure 2.1 used data from table A16 to illustrate the relative weights of the inflows and outflows in the BOP current account.

Subject to that caveat, points of interest in the balance of payments include:

- *where the outflows go to:* trade and payments data shows that 50–60% of imports and 70–80% of services payments go to US exporters, airlines, shippers, banks, insurers, 'health provid-

Box A: **Classifying Compact Payments**

The Compact of Free Association between RMI and USA came into force in October 1986. The preamble speaks of fundamental rights and freedoms, trusteeship and self-determination, but the Compact is best understood as a contract, under which a sovereign but very dependent RMI sells certain rights and protections to the USA, in consideration of specific undertakings by the US Government. RMI agrees to protect the US against legal action by Marshallese for compensation for loss and injury from nuclear testing, in return for a set of financial and medical support arrangements. The US acquires the right to exclude military activities by other countries from RMI and to carry on military activities there itself under separate agreements to be made. The US may not test or deploy nuclear or chemical weapons in RMI without the agreement of RMI, except in time of war. In return the US undertakes to defend RMI 'as the United States and its citizens are defended' and to make certain payments to RMI under the Compact and 'separate agreements'.

These agreements and payments have dominated RMI's social and economic life for fourteen years and continue to do so. In an economic sense they fall into four categories—compensation for nuclear loss and injury, payments for access to Kwajalein military base and missile range, a 'basic grant' to RMI Government, and Federal programme expenditures requested by RMI. The first two categories are clearly not official development assistance (ODA) in the accepted meaning of the term: they are payments for damage done—somewhat akin to insurance payments—and for access rights, and their use is not controlled by the Government. The second two may arguably be classified as ODA, on the basis that globally most bilateral ODA is provided as part of an aid/trade/strategic ers', lawyers etc. The annual total outflow to US suppliers is \$50–55m, somewhat higher than the annual inflow received by RMI for Kwajalein access and 'basic grant' to the Government. In 1999 retained petroleum products at around \$11m accounted for about 17% of net import payments. Oil prices have risen to double 1999 levels over the last twelve months and there will be a significant flow on to local operating costs.

- *classification and impact of Compact flows:* Box A examines how Compact payments are classified. Payments for nuclear

relationship with benefits to both sides. The relatively large amounts paid to RMI on a per head basis reflect the relatively great strategic benefits obtained by USA.

The Compact deals with nuclear compensation by establishing a trust fund of \$150m, and committing the US to continuing work (outside Compact funding) to monitor human and environmental conditions. Under a 'separate agreement' the expected[6] income of the trust fund, at an average of \$18m a year or 12%, was precisely allocated to injury compensation of individuals, and to the economic/social development of the communities of the four atolls directly affected by nuclear testing. A claims tribunal was set up and began processing a flow of claims. Trust funds were set up for the four atolls and various programmes were started using the distributed funds. In the low-interest environment of the last ten or twelve years, the underlying fund income has averaged nearer 8%, well below the level of predetermined commitments. This led to the need to commit principal moneys from the main fund[7] much sooner than was the original intention. New medical evidence has now caused RMI to request a review of the nuclear compensation provisions, under the 'changed circumstances' clause of the separate agreement, with a view to substantially increasing the funds available.

The Kwajalein payments are larger than some statistics recognise, and the bulk of them are made by the RMI Government from the so-called

[6] The designers of the Compact were influenced by the interest-rate experience of the 1970s,and expected higher inflation and higher nominal yields on US treasury bills during the Compact than turned out to be the case. These expectations were built into the Compact and have considerably complicated its implementation.

Box A: **Classifying Compact Payments** *(continued)*

basic grant funds under Compact s.211. Under the Land Use Agreement between RMI Government and the owners of land rights on Kwajalein, payments to KADA for development projects on the atoll (in effect, on Ebeye and adjoining islands) are included in the access deal. These payments amounted to $51m in 1986-99 and are running at $4.3m annually. The KADA payments come from the Government's s.211 basic grant, where they count as part of the Government's obligation to spend 40% of the grant on development projects. Rent payments made by the Government, also from s.211 basic grant, at $4.3m, with inflation top-up of $2.3m from s.217 *(see below)*, together with an annual fixed payment of $1.9m provided by USA under s.213, make up payments to owners of land rights now running at $8.5m annually. The Government deducts a 3% tax, worth $0.25m, from these payments and the eighty-four recipients divide $8.2m among themselves and their dependents (three *iroij* sharing and redistributing $2.7m). Kwajalein thus receives about $12.8m annually, or just under one-third of the $39m Compact funding allocated in the Government's annual budget. The existing Agreement commits both parties to a second 15-year term.

There is a fifth payment category in the Compact, the inflation adjustment provided by s.217. This is intended to go some way towards maintaining the real value of the basic grant, and hence most of the Kwajalein payments, over the 15-year period. As the base year is 1981 and the inflator is 2/3 of the US GNP annual price deflator, which was a significant amount in the early years of the Compact, this provision has generated very large additions to the original dollar amounts. By September 1999, $124m had been received as 'inflation adjustment' on top of $354m of basic grant payments. Note, however, that nuclear compensation payments through the $150m trust fund were not adjusted for inflation.

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[7] Nuclear compensation under the Compact is often described as the fund's original principal of $150m plus its total investment earnings, which had reached $144m by to September 1999. Of a total available of $294m, $217m had been distributed, leaving a fund principal of $77m

compensation and access to Kwajalein, were formerly classified as grants ('unrequited transfers' in BoP terminology). That was clearly incorrect. In table A16 the Kwajalein rents have now been classified as 'Other net income'. The untied Compact inflow—the basic grant—is also clearly identified. The table still understates the effect of Compact-related flows, partly because nuclear compensation is disbursed from funds already received and held in trust, and partly because of the problem of valuing for BoP purposes activities performed by US nationals under various programmes.[8] The total of s.211 basic grant receipts (including Kwajalein payments) and disbursements under the nuclear compensation programme is roughly equivalent to RMI's merchandise imports. As noted earlier, a reduction in Compact flows unmatched by an increase in other sources of funds or a decrease in non-import outflows must result in a reduction in imports.

- *the importance of debt service:* for many years payment of interest and principal (debt service costs) on public sector debt, comprising government and state-owned enterprise bond issues, has run at $25–26m annually (about 27% of estimated GDP), pre-empting the major part of Compact receipts. Within the government budget there has been a similar effect (see following sections). The biggest of these bond issues will be fully repaid in 2001, relieving the balance of payments and the budget of a crippling burden, and providing an opportunity for financial stabilisation through government saving that must not be missed.
- *the role of foreign direct investment:* with the exception of 1998/99, this is conspicuous in the balance of payments by its absence. Normally the best way for a developing country to obtain access to capital, know-how and markets, it has proven an extremely difficult source for RMI to tap because of the economy's small size, remote location, uncompetitive

[8] Outside but related to the Compact, and posing similar BoP tracking problems, the US Department of Energy is said to be spending $7m annually on monitoring and cleaning-up nuclear-damaged sites and monitoring residual health risks in affected areas. Such of these expenditures as take place in RMI, probably less than half, become part of the RMI balance of payments.

cost structure and other impediments. The striking exception in 1999 was the establishment at Majuro of a tuna loining plant a cost of about $5m. The plant is owned by foreign fishing and shipping interests, which provided about 60% of the capital required. The balance of $2m was domestically financed, by a loan from a local bank secured by a matching deposit by MIMRA. The factory employs 350 workers, 80% of them women, mostly at rates significantly below the legal minimum wage. There is no shortage of women willing to work at these rates. The enterprise pays social security contributions, but was exempted from all forms of national and local government taxation for a period of twenty-five years by a special statute. These terms have since been modified by renegotiation but they illustrate the lengths to which RMI has had to go to obtain foreign direct investment, even in one of its sectors of comparative advantage and currently burgeoning activity *(see below on the climate for investment)*.

Government Finance

Public financial management. The financial operations of the Government in RMI, as in most small countries, are crucially important to the performance of the monetary economy. The integration of RMI into the US monetary system means that the supply and price of money for RMI's economic actors is reflected by autonomous flows in the current or capital accounts of the balance of payments, somewhat moderated by the impact of the Government's fiscal policy in saving money (taking it out of circulation) or spending it, at home or overseas.

The goals, policies and effectiveness of public financial management are therefore critical for the proper functioning of the economic system. Government expenditure in FY2000 is estimated to have been just over $57m, about 60% of estimated GDP. The Government has acknowledged[9] serious and substantial problems

[9] *Inter alia*, by the President's appointment in April 2000 of a Blue Ribbon Panel to report on the use of Compact funds and the 'effectiveness and efficiency of RMI's...financial policies and practices.'. The proposals at Box B draw heavily on the Panel's work.

in fiscal planning, budgeting, accounting and control that need urgently to be addressed. The approach currently being taken was under discussion during the preparation of the report and is described in Box B, below. It is extremely important for RMI's economic well-being that rapid progress is made with these improvements at the heart of fiscal governance.

Revenue. The Government's sources of funds are dominated by foreign grants. In the five years to 1999 these averaged $42m annually, accounting for 58% of the Government's income, with Compact grants alone at an average of $33m accounting for 45% of total income. Non-Compact grants from other bilateral sources have been growing in the last three years and are now running at about $7m annually. All forms of tax revenue account for one quarter and non-tax revenues for 11% of receipts, with fishing licence fees[10] at over $4m providing nearly half of that. Tax revenue, now around $15m annually, has fallen by $3–4m since general import duties were reduced from 10–12% to 5% in 1998. Currently income tax[11] produces about half of all tax revenues, import duties (at their currently reduced level) about one quarter, and gross revenue tax[12] similarly about one quarter.

The tax regime is open to criticism on several counts, and has been the subject of several reform proposals. Administrative capacity to implement reforms is a constraint, at least in the short term, and there are strong indications—among them a steady flow of complaints of unfair treatment, by taxpayers who see their competitors operating tax-free—that the existing tax regime is not collecting the revenues that are due. The first need is therefore drastically to tighten up collection. Once that is in hand consideration can be methodically given to redesigning the tax system for greater efficiency and equity. It is important that any changes should be designed to be feasible

[10] See below, Chapter 8, on the noteworthy arrangement whereby MIMRA collects fishery license revenues and applies them to its own budgetary needs before passing the balance on to the Treasury.

[11] Tax-free allowance $1040, then 8% up to $10,400, and 12% above that. Kwajalein lease payments are taxed by a withholding tax at 3% flat, ie $30 of every $1000 is deducted at source.

[12] At 3%. There is no corporate profits tax. A 3% gross revenue tax is equivalent to a 30% profits tax on an enterprise whose taxable profits are 10% of gross revenues.

with existing resources, and that they should have political and community support. The main issues in taxation are as follows:

- By regional and international standards *personal income tax* is high for the lowest-paid wage earners[13] and low for the middle and upper income brackets[14]. This suggests that a greater contribution to the costs of the services and operations of the nation-state could reasonably be made by people who receive the larger share of wage and non-wage incomes. The tax-free allowance could be raised to several times its present level to improve the lot of lower-paid workers (and greatly reduce the theoretical roll of taxpayers), and the top marginal rate could be raised to regionally comparable levels.[15] The tax could also be applied to non-wage income such as interest and rental for land and buildings (including Kwajalein), with appropriate allowance for expenses incurred in generating the income. This would have a marked beneficial effect on the equitable distribution of income and services, through Government revenue and expenditure, with no damage to RMI's economic competitiveness.
- The *gross revenue tax* is simple in concept and theoretically easy to administer, but it is paid on gross output value at each stage in the produce/process/sell chain, producing a cascading effect of tax being paid on tax. The GRT takes no account of enterprise profitability, as a good business tax should, and it is commonly reported to be subject to widespread evasion and under-collection.
- *Import duties* were reduced in 1998 for electioneering reasons and are now well below regional average levels. Duties can be restored to the 10–15% range with no damage to RMI's economic competitiveness.
- *Local taxes:* an already scrappy and confused tax picture is further fragmented by the wide taxing powers of Local

[13] At present a person earning the statutory minimum wage of $2 an hour is liable to pay 8% tax on three-quarters of his or her salary, a tax payment of $250 a year. Most comparable countries do not impose income tax at the lowest income levels.

[14] A person earning $25,000 is liable to pay $2,500, an effective rate of 10%. At $100,000 the effective rate is 11.5%. Comparable rates in the region are 20-30%.

[15] For example 25% on an income of $25,000 and above, with two or three steps between the bottom and the top rate.

Governments. Anomalies are created by uncoordinated taxing actions at local level, potentially negating the fiscal intentions of the national government and compounding the problems of the tax-payer. Statutory and administrative action is needed to integrate national and local taxation into a single scheme that, for example, limits levels of local tax, allows offsets against national tax liabilities, and is simple for the taxpayer to operate.

- The introduction of a *value-added tax (VAT*) was proposed as part of an earlier comprehensive review of taxation, in 1996. The idea met resistance from the commercial sector, and the overall tax reform plan was abandoned as a national election approached. However, a VAT offers efficiency and equity gains to the community at large, has been successfully introduced in several small economies, and should stay on the agenda for further examination.

The *comprehensive review of taxation* proposed in 1996 should now be revived, and undertaken during 2001. Discussion of draft terms of reference at the Second National economic and Social Summit would provide an opportunity for public input to design of the task. Agreed changes emanating from the review could then be implemented in 2001–2002, at the same time as the new Compact arrangements are being put in place.

Expenditure. The Government's use of funds in recent years has been largely shaped by the wage and salary cost of the public service, subsidies and current transfers, and the cost of servicing the public debt. Over the period FY1996–2000 the public service has absorbed 36% of the Government's current expenditures, and subsidies and current transfers a further 16%. The dollar value of these outlays has fallen by 15–20% since 1996 as a result of the Government's public sector reforms, but 2000 saw a blowout in transfers to rescue the Social Security fund, and their combined share of recurrent expenditure is still over 50%. The cost of debt service (payments of interest and principal on government overseas debt) has averaged over $28m a year, accounting for just over 40% of the total income of the Government from revenue and grants over the last five years.

As FY2001 opens the Government is in severe financial difficulties, squeezed between lower revenues and difficult-to-cut expenditures. The FY2000 budget was designed to be balanced but ran out with a deficit close to $5m. The FY2001 budget is also expected to be in substantial deficit. Cash reserves have been exhausted and unpaid debts are accumulating. A blend of crisis-management measures—short-term commercial borrowing, lay-off of staff, postponement of expenditures—will have to be used to tide over the immediate cash deficit. Changes to import duties and income tax rates under existing laws, as discussed above, may be made, without waiting for the comprehensive taxation review, to increase annual revenue flows by several million dollars, while quickly producing some much-needed cash from import duties.

As 2001 advances the position should gradually improve, though very tight expenditure control will still be required. The first $6m tranche of a programme loan for $12m—under negotiation with ADB at the end of 2000—should become available by mid-2001, provided agreement is reached on supportive fiscal policies. Additional revenue from tax increases, if these are put in place early in the year, will also come to hand. With the 2001 bond repayments, $122m of debt will be paid off and annual debt service will drop from $24m to $6m, freeing up $18m of annual inflow for the remainder of the Compact.[16]

Government Saving. At that point it will be immensely important that the Government makes good the undertaking it has already foreshadowed to set aside maximum savings into the Marshall Islands Inter-generational Trust Fund (MIITF), so as to generate uncommitted future income on a sustainable basis. However strong the pressure on the Government to spend money for political and social purposes, it is critically important for the achievement of the goals set out in this Report that the greater part—that is to say, between two-thirds and three-quarters—of the 'windfall' funds expected in 2001–2002/3, be saved into the MIITF. That is the best possible way for the Government to show its own people and the outside world that it is intent upon greater self-reliance. With a Government

[16] Should the imminent negotiations about the Compact financial arrangements not be concluded by October 2001, as seems quite possible given the lengthy processes required on the US side, a negotiating period of not more than two years will be triggered by section 231(b). This provides for basic grant and related payments during the two-year period to be at the average level of the first 15 years, an increase of about 17% above the levels of the final stepped-down period.

Box B: **Strengthening Public Sector Financial Management**

The Government proposes to make strong and verifiable commitments to strengthening public financial management in the conditions of a programme loan that it plans to borrow from the Asian Development Bank early in 2001. The recommendations of the Government's Task Force on Accountability, together with inputs from TA provided by ADB and PFTAC, have guided the drafting of this planned policy commitment. The gist of it is as follows:

Aim: **establish clear and robust systems of annual and medium-term budgeting, financial control, accounting, internal audit and reporting to the Nitijela.**

Annual budget: detailed Estimates are to be presented to the Nitijela in support of the annual (and any other) Appropriation Bill. These Estimates are to show, in a clear and readily understandable format,

- total estimated revenue, expenditure and expected budget balance
- how it is proposed to use any estimated surplus or finance any deficit
- the expected sources of revenue, with reference to the legislation empowering its collection
- the allocation of expenditure to heads, subheads and items, in sufficient detail to show clearly how public moneys are to be spent on which Government policies and programmes
- against each head of expenditure, a summary of the policies, programmes and specific performance targets that are expected to be achieved during the budget year
- comparative revenue and expenditure for the current and previous previous fiscal years
- statements of opening and closing balances and flows of funds for all public financial assets and liabilities, including trust and special funds, for the last two fiscal years and the budget year
- statements of external aid programmes, balances, proposed disbursements and commitments

Medium-Term Framework: the annual budget estimates presented to the Nitijela are to be accompanied by a Medium-Term Budget Framework (MTBF), linked and cross-referenced to the annual Economic Policy Statement (EPS, see references in main text). The MTBF will present a

Box B: **Strengthening Public Sector Financial Management**

(continued)

four-year statement of the Government Budget, by main heads of revenue, expenditure and financing, organised in accordance with the Government Finance Statistics format. The first year of the framework will be the current year, showing the latest revised estimates. The second year will be the year for which the estimates are being submitted to the Nitijela for appropriation, and the allocations to heads will be as in the estimates. The third and fourth years will show estimated revenues based on current policy, and the allocations of expenditure that would result from implementation of the policies and programmes approved by the Cabinet. Allocations will refer to the appropriate passages in the accompanying EPS.

Financial control: provisions are to be put in place to prevent unauthorised expenditure from the General Fund and to limit expenditure from Trust or Special Funds to the unexpended balance of each fund. The power of the Government to authorise expenditure in excess of the total appropriation will be limited a specified fraction of the original appropriation, and restricted to urgent and unforeseen circumstances. The power of the Minister to move funds within the Estimates will likewise be strictly limited and its exercise required to be promptly reported to the Nitijela. Significant penalties are to be provided for breach of these rules. Delegations of authority to Accounting Officers will be linked to strict reporting and sub-control requirements. Power to restrict expenditure for cash-flow reasons will be retained by the Minister of Finance. Bank accounts will be consolidated and control/recovery of imprests tightened.

contribution to MIITF of $25–30m in 2002–2003, the foundation can be laid for a steady flow of Compact-derived (and potentially other external) contributions to create a sustainable $0.5–0.6bn Fund over the following decade.[17] Meanwhile a review of the MIITF law and associated administrative and financial arrangements is required to make as certain as possible that the Fund will be proof against misuse for political or any other ends.

[17] Recalling the problems created by wrong assumptions about interest rates in the Compact nuclear compensation arrangements, conservative estimates of fund earnings and distributable income should be used in designing the Fund and setting annual contribution levels for RMI and US Governments

Use of credit facilities will be controlled by the Secretary for Finance. The Public Accounts Committee of the Nitijela is to be made effective as the principal forum of Government accountability to Parliament.

Accounting: the accounting system will be overhauled/replaced. The existing system is defective, and its output requires costly on-site support by its installer, based in Washington DC. Daily position statements, weekly cash flow analysis and monthly statements of account to the Minister are to be established, leading to semi-annual statements to the Nitijela comprehensively setting out the Government's financial position. Accounting Officers are to be required to reconcile their accounting records with the central government accounts at least monthly.

Internal audit: an Internal Audit unit is to be established within the Office of the President or the Ministry of Finance. The unit will monitor adherence to financial regulations and procedures, compliance with budget allocations and controls, investigate wasteful or inefficient practices and recommend operational improvements.

Reporting: a comprehensive structure of reporting will be put in place, designed to take up minimum time in report preparation but detecting and requiring explanation for any significant divergences from budget, and culminating in an annual report to the Nitijela by the Secretary (not Minister) for Finance.

Employment

Data. The 1999 Census found a working age population, defined as persons aged 15 years and over, of just under 28,700, about 56% of the total population. Of these, 51% or 14,700 persons were classified as economically active—5,000 women and 9,700 men—and making up the labour force. As the official report points out, these figures have to be treated with some caution because of classification problems[18], but assuming these were similarly handled in 1988, the labour force grew between censuses by 28% while the total population grew by only 17%. Most of the increase was among females, whose participation rate in the labour force grew from 15% to 20% while the male participation rate remained around 37%.

Out of a labour force of 14,700 the Census found just over 10,000 or 69% to be employed. This is almost exactly the same number as in 1988. Data in Chapter 3 of this report shows that the number of jobs in the public service was almost the same too, at 1750 including vacancies in 1988, and just under 1500 without vacancies in 1999—after the reduction-in-force process was almost complete. But the number reported as employed in 1999 is a smaller proportion of the labour force than in 1988. There are now three times as many reported as unemployed, 4,500 instead of 1,400, and the proportion of females without work has risen.

Again, caution is needed. Employment includes self-employment as agricultural workers or fishers, which category accounted for 20% of the total, almost 90% of them male. About 7,200 workers were classified as 'employees', while about one-tenth of that number reported as self-employed or employer other than in agriculture or fishing. Three out of every ten employed persons were female, but they outnumbered males only in the 'clerical and related workers' category (1,365 workers, 61% female). Employment in the 'public sector' accounted for 3,100 persons or about 6% of the population, of whom (from separate data) about 1500 were in the Public Service[19].

Issues and policies. The key development issue here is the manifest inability of the formal employment and small business/self-employed sector, inevitably concentrated in Majuro, to absorb new entrants to the labour force. There are 1,200 to 1,500 young persons in each year age group between 10 and 19. Over the next ten years they will come onto the job market at different times according to their years of schooling (one in seven is not in school at all) and not all of them will be looking for a job, but most will, say 800–1000 job-seekers a year. At the other end of the labour force age structure

[18] For example, of the 177 persons more than sixty-five years old who were reported as 'economically active', 174 or 98% were classified as 'employed', a higher proportion than any other age group.

[19] Given the variations of definition and function among countries, RMI does not now have a very large public service by regional standards, but see Chapter 3 on efficiency and wage rates.

around 200–300 persons a year are retiring or dropping out of active work, making room for newcomers. This indicates a need for 600–700 new jobs or self-employed small business opportunities a year to broadly keep up with population growth and existing desire-to-work ratios.

The total lack of net growth in employment between 1988 and 1999, during a period when vast sums were being spent on stimulating economic growth, suggests that it will be difficult to find even a fraction of the jobs that would be needed to achieve such an equilibrium. With the best of good fortune and expanding markets for atoll-lagoon marine products, tuna trans-shipment services and atoll/historical tourism (all of which are far from certain to occur), the potential for new jobs is probably in the range of 100–300 a year. There are already signs of increasing stress in the Majuro and Ebeye communities. The prospect of several hundred additional young people every year being unable to find work or self-employed opportunities raises serious concerns about social stability and security in Majuro, Ebeye and the rural atolls.

Every effort should be made to make RMI a competitive and attractive place for foreign direct investment, and for profitable expansion of existing enterprises. Strategies to this end are identified in this Report. These efforts can be expected to lead to real economic growth and an increase in jobs. But there is no reasonable prospect of that growth being sufficient to absorb the increasing numbers of people who will be looking for work.

In these circumstances it is most important, *first*, that the ready access provided under the Compact for Marshallese to live and work in USA be carefully preserved and scrupulously used; and *second*, that young people be equipped by the education system with the skills and attitudes they will need to make their way not only in RMI, but also in the USA and elsewhere in the Pacific region.

Even then, with a steady outward movement in place, there is likely to be a noticeable rise in open unemployment in Majuro and Ebeye, with potentially serious risks to the unemployed themselves and to society around them. All the resources of the RMI community will be needed to manage this unlooked-for but unavoidable development, and as far as possible turn it to positive outcomes.

Competitiveness and investment

The need to compete. Among the economic lessons RMI has been learning is that to achieve lasting growth it has to attract long-term commercial investment from existing and/or new investors, and to do that it must be internationally competitive. A small remote economy cannot afford to make things difficult or expensive for potential investors—be they foreign or local. In the last few years important improvements have been made to the process for approving and licensing foreign direct investment. A statement of investment policy has been made and the law amended to implement easier and quicker procedures. The Trade and Investment Division of MRD has been re-established with up-to-date aims to cover the promotion of investment and trade and to support the growth of small businesses. There is still more to be done.The aims and methods of investment promotion need to be more sharply defined, regulations simplified and fees greatly reduced. Moreover, positive moves at sector level now need to be supported by macroeconomic policy changes designed to improve RMI's competitiveness.

In a deregulating and globalising world, the cost of setting up and doing business in RMI has to be compared with other feasible locations. Most of RMI's potential competitors are closer to markets and have a more versatile economic environment to offer an investor. To compete effectively RMI has to try harder. Three important structural obstacles remain to be removed:

- lack of secure leasehold title to developable land
- a confused and inefficient taxation system, and
- public perceptions of official corruption and inefficiency

Action is afoot to deal with the *first* of these, with the tabling of a draft law to establish registration of 'development land' that would be available for lease to investors under government-guaranteed title. The passage of this law and successful establishment of the Authority to implement it will go a long way towards removing this troublesome obstacle.

The *second* problem should be dealt with in a comprehensive review of taxation recommended earlier in this chapter.

The *third* requires continued conscious effort to make publicly transparent and accountable the processes and decisions of Ministers and officials, and to punish those who break the law or who fail to maintain an acceptable standard of conduct for holders of public office. The credible independence of the police and judiciary from political or official interference, and a perceptible shift from traditionally unified governance to a constitutional separation of powers will be important factors in the ability of the RMI economy to attract long-term private investment. Discussion of these matters at the planned Second National Economic and Social Summit (NESS2) may provide pointers to the direction that action should take.

A different kind of obstacle to investment is presented by RMI's use of the US currency. The costs and benefits of this are reviewed in Box C, which concludes that on balance the use of the US dollar benefits RMI. No change is therefore proposed. The tendency of the currency to strengthen against other currencies reflects global perceptions of the benefit of holding US dollars. The US economy can live with this trend by using the vast financial inflows it attracts, and by making continuous gains in industrial productivity. RMI is in a different league on both counts. An appreciating currency makes it harder for domestically produced goods and services to compete in export and import markets. To offset this, RMI will have to be extra competitive wherever it can. Specifically, real wages and rents will have to fall—that is to say there is no room for increases to offset inflation—and most likely average nominal wage levels will have to fall, squeezing household consumption expenditures significantly. This need has already been implicitly recognised by the recent waiving of the minimum wage requirement for the tuna processing project. The trade-off is between more jobs at lower wages, or shrinking employment prospects at existing wage levels.

Those are all obstacles that get in the way of a positive decision on investing in RMI, whether by a new investor thinking of starting up or an existing enterprise considering expansion. There is no economic case for treating the two categories differently: the investment climate should be the same for all comers, new and old.[20] Moreover, if the goods and services produced in RMI are not competitive in price and quality with those produced elsewhere they will not be purchased, either by residents of RMI or by anyone else.

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[20] Within that climate, Marshallese start-up businesses should have access to business advisory services and security enhancement facilities—see Chapter 6.

Box C: **Using the US Currency**

RMI uses the currency of the United States because the USA was its last colonial ruler before independence, and there has been no persuasive reason to change the arrangement since then. That is still the case. Both costs and benefits flow from the use of the US dollar as the domestic currency of RMI. Some of the outcomes may be perceived as either cost or benefit, depending on the political philosophy or economic situation of the observer, but in terms of the goals and strategies defined in *Meto2000* the balance of argument still weighs against change. The downside of using the US currency is mainly to do with the limits this places on the policy options for economic management that are available to the RMI authorities. This limitation is in two parts.

First, the exchange rate of the currency—the nominal price at which RMI buys and sells goods and services with the world outside the USA—is determined by the performance of the US economy and international capital markets, which know little and care less about the situation and needs of RMI. The Government in Majuro cannot usefully have a policy about the nominal exchange rate.

Second, use of the US currency integrates RMI into the US financial system, so that financial flows—in the form of physical movement of cash or electronic exchange of assets and liabilities—take place outside the knowledge or control of the RMI authorities. Monetary policy, which would be aimed at influencing the supply and price of money and credit in RMI in such a way as to promote investment and growth, is thus also a non-starter.

The *nominal exchange rate* is problematic for RMI's development goals, because the tendency of the US currency to appreciate internationally makes goods and services produced in RMI expensive in global markets—which include tourism, servicing fishing vessels, handicrafts and any onshore processing of marine resources—and foreign (non-USA) goods cheap. The result is that the domestic economy stagnates and people buy foreign goods, a reasonable description of RMI's situation.

To counter this, the *real exchange rate* has to be targeted: this adjusts the nominal rate by also comparing domestic price movements between trading partners. If RMI can both *improve productivity* and *reduce domestic inflation* to very low or even negative levels, it may be able to live with the US currency and still be internationally competitive. Prices based on cost of production in RMI may then still be low enough, when converted to other currencies, to attract domestic/foreign buyers/investors.

At the same time the general level of import tariffs can be used—in moderation so as not to feed back into traded-goods production costs or attract WTO-related criticism, but still to good effect—to adjust import prices to make room for domestic products in local consumption baskets.

As already noted, the lack of a *monetary policy* option in RMI arises because resident businesses or households can make financial transactions with any part of the US system, and through that, the rest of the world, if they don't like monetary conditions in RMI. There is no practical way of changing that so long as RMI uses the US currency. This also imposes a fiscal constraint on the Government. The Government can only obtain money by taxation, fees, investment income, grants or public borrowing: it can't switch on the printing presses to finance its deficit. As the nominal exchange rate is set by forces far outside RMI influence, this means that of the four conventional tools of macro-economic management—exchange rate, monetary, fiscal and incomes policies—available to governments, only the last two are open to RMI. It follows, as *Meto2000* argues, that what the authorities do about the sustainability of the Government budget, and about wage levels and labour productivity in the economy as a whole, are of paramount importance to RMI's economic prospects.

The upside of using the US currency is that provided the resulting constraints on policy-making are understood and wherever possible turned to advantage, the loss of policy options may be no bad thing. Many developing countries that embarked on independence with a national currency have subsequently resorted to monetisation of budget deficits ('printing money'), followed by manipulation of the exchange rate and monetary policy in a doomed effort to protect the currency's value from the consequences of failures of fiscal and incomes policy. It is precisely the *lack* of scope for such government intervention—notoriously leading to unsustainable over-valuation of the currency and repressive regulation of the domestic banking system, followed inevitably by devaluation and the near-collapse of financial institutions—that lends a sense of stability and resilience to RMI's financial system. For such a small, remote economy that would in any case be perceived as carrying an investment risk premium, the use of an established international currency is almost certainly a positive factor in the perceptions of both existing and prospective investors.

Should that international currency be the USD? The very close financial and other links between RMI and the USA suggest that it

Box C: **Using the US Currency** *(continued)*

should be, on grounds of cost and convenience, unless there are very strong arguments for a change. The main developmental drawback of the USD is its recent tendency to appreciate against the currencies of RMI's existing and hoped-for trading partners. On the grounds that this trend is likely to ease, and may well reverse over the next year or so as Asian and Australasian economies revive and the US economy slows down, this is not the time to make a change. The possibility should be reviewed no later than the next review of goals and strategies, proposed for four years from now.

So competitiveness is not just about attracting new businesses to start selling in export markets. It is also about being able to sell locally in competition with imports, and making it feasible for existing enterprises to expand. Just as it is the net effect of the whole set of conditions that has to be positive, so it is the sum of the whole bundle of input costs that has to be competitive rather than each item. Thus some 'cross-subsidy' can exist within the bundle—eg, high wage levels could be offset by low-cost access to land and utilities— but overall the cost of RMI's input bundle must compete with those of other possible locations for new investment.

Investment potential. RMI has derived major financial benefits from the sale of sovereignty services[21], most obviously by selling exclusive strategic military access to USA and oceanic fisheries access to the US and other fishing nations, and by successfully marketing the RMI shipping registry. The scope for hanging domestic economic activity on these successes is still—apart from the tuna loining plant—largely unrealised. At the same time autonomous domestic economic activity is most likely to succeed in areas of comparative economic

[21] There are constraints on what is feasible in the area of sovereignty services. Like a number of other small states, RMI has experimented with licensing offshore banks and selling passports. In both cases this aroused the hostility of countries whose friendship is important to RMI, and who felt the integrity of their own sovereign systems was threatened by RMI's activities. The shipping registry has not incurred the same hostility. A pragmatic approach to sovereignty services, on the look-out for opportunities that are both profitable and internationally respectable, seems appropriate.

advantage, where non-financial factors such as uniqueness can outweigh RMI's remoteness and high cost structure. These appear to be niche-market, atoll-based marine resources and tourist activities—with scope for linking the two in an atoll-environment/outer island development programme (see Chapter 9).

Military bases, foreign fishing fleets and atoll-based marine resource and tourism activities all require a bundle of goods and services to be supplied at competitive quality and prices. These include land leases, fuel, utilities, food and handicrafts, maintenance and repair services, entertainment, financial, technical and personal services, transportation and communications, and the personal and corporate security environment—an intangible product of Government, governance (legal and judicial) and social structure.

The tuna loining plant provides a welcome bright spot on the investment scene. Neatly combining the potential of sovereignty sales and comparative economic advantage, in the last three years MIMRA has successfully marketed Majuro as a competitive tuna transshipment port. A strategic location for the central Pacific tuna fishery, a spacious all-weather harbour, two deep-water berths and a dry dock, duty-free fuel supplies, reliable shore-side power, well-stocked supermarkets and international airline services for crew changes, all combine to draw purse seiners and their carrier vessels to Majuro. Not only vessels fishing in RMI's EEZ transship at Majuro. The competitiveness of the Majuro goods and services bundle attracts vessels that could have transshipped elsewhere in the FFA region. The $5m, 350-job tuna processing plant is a direct result of the promotion of transshipment facilities. More investment is needed ashore to capture the full benefit of the market for vessel maintenance and repair services, but the processing development—which has potential for expansion—already shows that intelligent exploitation of comparative advantage can bring positive structural change even to an otherwise uncompetitive economy.

In the same vein of linking sovereignty and comparative advantage, and in the context of the Compact renegotiation and extension of the Kwajalein leases, the scope for increasing the domestic procurement of goods and services for the Kwajalein base should be investigated. At present the requirements of the base are sourced in bulk by the principal contractor to the US government. A joint task force of USAKA, RMI government and Chamber of

Commerce could appropriately be set up to examine the procurement lists of USAKA, and identify products and services that could feasibly be locally produced and/or procured. Outlines could be prepared of the technical and financial parameters that would need to be met, both by USAKA and any commercial supplier, for such activities to be viable, and the news of potential contracting opportunities disseminated. As there may be significant economic potential in this, it should be explored in association with the forthcoming Compact negotiations.

Chapter 3

The Public Service

Lessons

- 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 addressing the key issues identified below.

Issues

- what is the proper role of the PSC in managing a modern RMI public service?
- what are the 'core services' that have to be provided by the public service?
- where is the right balance between management autonomy and centralised 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 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 RMI with an over-large, costly and poorly motivated public service, a condition which survived long into independence.

In 1994 a Presidential Committee looking at public sector reform concluded that the service was over-staffed, inefficient, had many unproductive employees, lacked skilled staff and experienced widespread duplication. Reforms over the past four years have had a major impact on the public service. 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). The PSC is the employing authority of the Public Service, charged with its organisation, management, efficiency and economy. Under the Constitution PSC members have similar security of tenure to High Court judges, and the PSC is required to act independently, not under direction from Cabinet or anywhere else.

The Constitution states that the 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 the 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 the PSC. Improvements in the public service will depend on the ability of the 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, the 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 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 the PSC is the best agency to micro-manage specialist professional cadres such as exist in health and education.

There is a natural tension between the 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 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 their own thing', 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[1] between central control and decentralised management is a key issue for the PSC. External TA may be of help by bringing comparative non-RMI experience to bear on this problem. A consultant experienced in public service modernisation 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 for restraint. The total number of personnel in the public service increased from 1,751 workers in 1988 to a high point 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 422employees *(see Table 1)*.

By 1995 it was realised that the public service could not continue to increase. This realization was triggered by the fiscal crisis

1 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 centralised 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.

caused by Compact revenues drying up, as 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 PSRP *(see Box D)* recommended wide ranging cuts in establishment.

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 1 (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 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[2] .

2 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.

Table 1
Reduction-in-Force (RIF) - 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 Authority (EPA)	11	11	9	-18
Internal Affairs (and Social Welfare)	32	39	49	+53
Justice	160	139	161	+1
MIMRA	36	31	-	-100
Nitijela	21	18	10	-52
Planning & Statistics	11	9	6	-45
PSC	10	8	4	-60
Resources and Development/ Public Works	180	72	66	-63
Social Services	223	-	-	-100
Transport and Communication	6	-	16	+167
T&C Shipping Operations	77	-	-	-100
T&C Airport Operations	11	-	4	-64
Public Defender	7	5	4	-43
Marshall Islands Development Authority (MIDA)	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
Total	**2,303**	**1,484**	**1,484**	**-36**

Source: Ministry of Finance Payroll.

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 Government 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 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.

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 thrust of its work should still be in enforcement of contracts, eg, ensuring that contractors adhere to designs, prices, quality, building codes and agreed standards. The Ministry should resist the temptation to re-enter the 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 services are often better provided by the private sector. The change presents

Box D: **Public Sector Reform Programme**

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 manpower, 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 the Asian Development Bank 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
- 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 (AMI) $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 size of the Government payroll, from 2303 posts in November 1995 to under 1500 employees in June 2000.
- Social costs reduced by compensation of retrenched employees with a lump sum and monthly maintenance payments for three years.

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.

- Reduction in the number of Ministries in the public service from 10 to 8.
- A public service wage freeze sustained since March 1996
- Elimination of direct subsidies, elimination of commercial debt and improved management at 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 co-opted into the decision making process
- privatised domestic shipping services are experiencing problems and need further attention

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 eroded 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[3] 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 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—ie, 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 RMI's public service

3 There are indications that some officers in a position to do so are taking corrupt payments to supplement their frozen pay-packets.

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 SE Asian countries. The flow-on effect to private sector rates and operating costs, combined with the continued strength of the US dollar, hurts RMI's competitiveness as a tourism and investment destination. These are important parameters for the review of public service pay-scales: the net cost effect to the budget will need to be at most neutral, and preferably an overall 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 again Table 1)*. 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 l 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 United States Federal 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 RMI's social services, but dependence on them restricts 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 even greater assistance to 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. 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 the 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 establishment 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 the PSC to inspect and advise on qualification and deployment of staff against functions and workloads. RMI must not slip back to pre-RIF levels of over-staffing and under-performance. Improved services will only come from better organisation and use of staff, not from padding out establishments. In all this the PSC should take a leading advisory and managerial role, using technical assistance as and when necessary.

Chapter 4

Population and Health

Key points

- A continued high rate of natural increase in population during the 1990s has been largely offset by emigration.
- There has been a significant improvement in child mortality and life expectancy in RMI.
- The health status of RMI is complicated by the after-effects of US nuclear testing, which will only fade over several generations
- Further improvements in health status will need greater efforts in primary health care, on a basis of stronger community support.
- The implementation of the health care strategy requires people to take more responsibility for their own health.
- Much ill-health in RMI is the result of wrong diet and lack of exercise
- Demand for overseas referrals is putting an unsustainable load on the health care budget. Better domestic facilities could replace most referrals at much lower recurrent cost.
- Curative health services at Majuro and Ebeye absorb the major part of health finances, reducing resources available for in-country primary and preventive health care.
- Health sector expenditure is heavily dependent on US funding, and would have to be cut or supplemented from other sources if US funding were reduced.
- RMI depends heavily on expatriate health workers to staff government hospitals, and professional cadre management is problematic

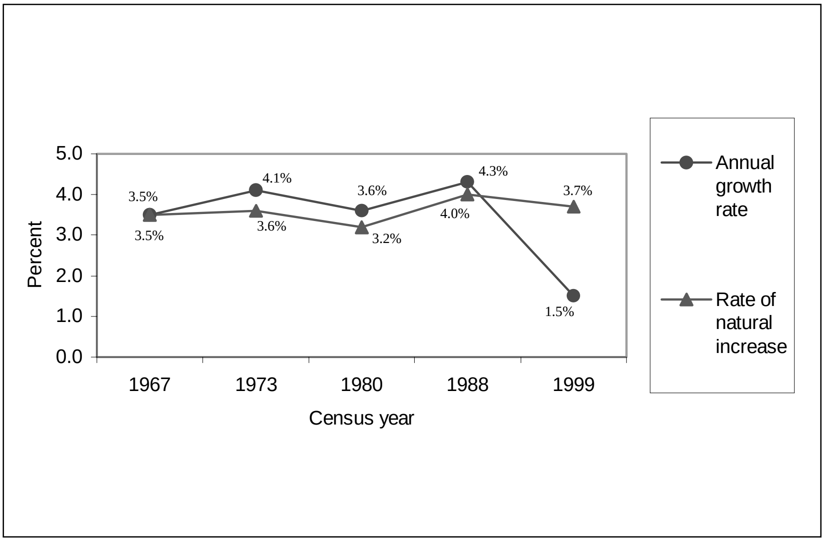
- Many people could directly contribute more towards the cost of health services in general, and to the curative services they use in particular

Population size, growth and distribution

The total population of the Marshall Islands counted in the 1999 census was 50,840 people. This is an increase of 7,460 people or 17percent from 43,360 people enumerated in the 1988 census. The population of the Marshall Islands has doubled in the last 26 years.

The annual average growth rate of the population during 1988–1999 is 1.5 percent compared with the high rate of population growth of 4.3 percent during the previous census period *(Figure 4.1)*. The natural rate of increase of the population during the period, being the difference between the birth rate and death rate, has come down to 3.7 percent—still a very high rate—and is probably still falling slowly, as a result of socio-economic factors and the continuing family planning program. The 1994 multi-subject household survey esti-

Figure 4.1
RMI Population Growth Rates, 1967–1999



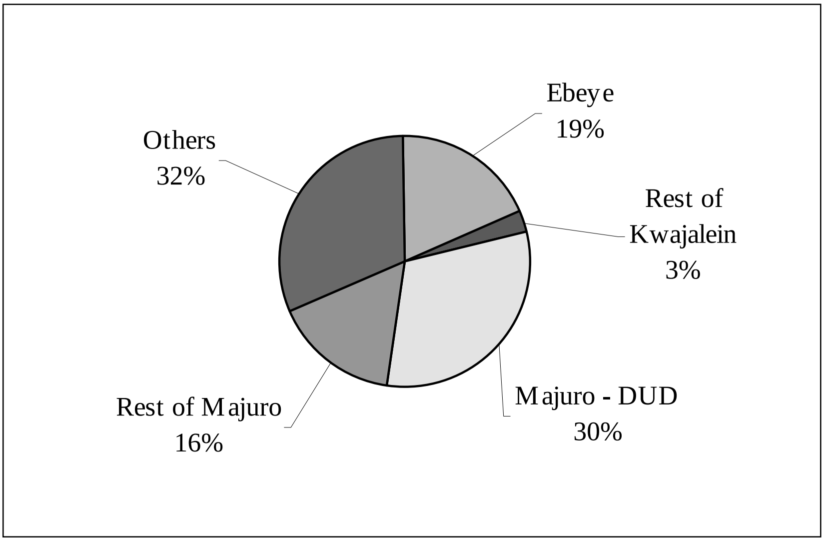
Source: RMI 1999 Census final Report, OPS.

mated a population growth rate of 3.6 percent. The enumerated population in 1999 was about the same as the estimated population in 1992, three years after the 1988 census. This suggests that during the 1990s people were emigrating from the Marshall Islands at about the same rate as the population was naturally increasing.

Most of the people in Marshall Islands live in the urban areas on Majuro and Kwajalein atolls. Less than one-third of the population lives in the rural areas, i.e. other atolls and islands *(Figure 4.2)*.

The areas of greatest population concentration are the Djarrit (Rita)-Uliga-Delap (DUD) area in Majuro Atoll, with 30 percent of the population and Ebeye Island in Kwajalein Atoll with 18 percent of the population of the Marshall Islands. Ebeye Island with just 0.14 square miles is the most densely populated area in the Marshall Islands, with an equivalent population density of 66,750 persons per square mile. The DUD area with its 0.51 square miles has an equivalent population density of 30,365 persons per square mile. The overall population density of the Marshall Islands is 726 persons per square mile.

Figure 4.2
RMI Population Distribution by Atoll and Rural-Urban Areas, 1999



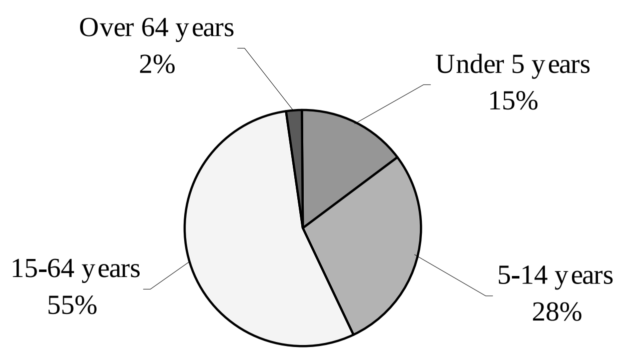
Source: RMI 1999 Census...Final Report, OPS

The Marshall Islands has a young population. Children under 5 years make up 15 percent of the population *(Figure 4.3)*. Children and youth under 15 years of age comprise about 43 percent, and 55 percent of the population are under 20 years old. Over a half of the population is in the statistical working age group of 15–64 years. Those aged 65 years and over represent only a small percentage of the population. The total dependency ratio i.e. those under 15 and above 64 years per 100 in working age group is 88 compared with 117 in 1988. The child dependency ratio is 78 in 1999, down from 109 in 1988. Given the high rate of natural increase of the population, the reduction in the dependency ratio may partly be due to the out-migration of families from the Marshall Islands during the 1990s.

Just over half of the population is male. There are more males than females in all age groups with the exception of 20–24 age group and those 60 and over. Out-migration of males may explain the higher proportion of females in the 20–24 age group. At the older age groups women normally live longer than men.

Marshallese comprise 97 percent of the population. The remaining three percent are people from other Pacific islands, Asia,

Figure 4.3
RMI Population Distribution by Age Group, 1999



Source: RMI 1999 Census...Final Report, OPS

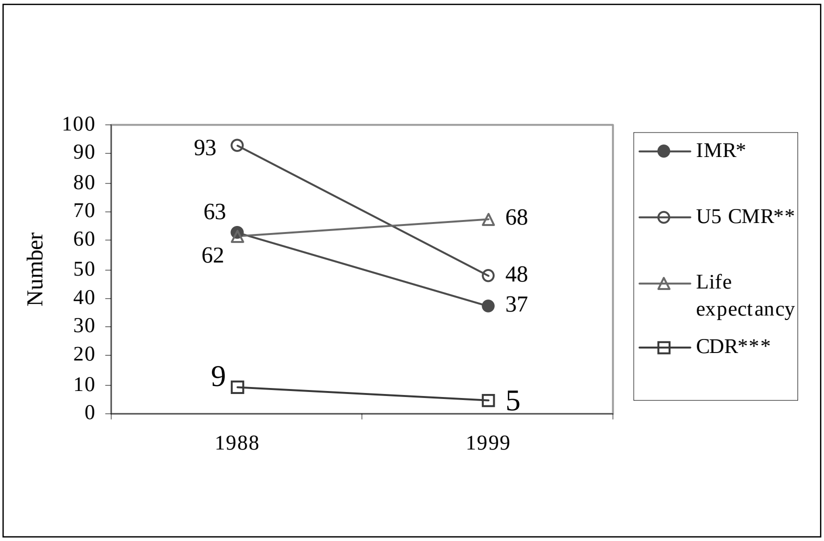
USA and other countries. Each of the latter categories comprises less than one percent of the population.

Health status of the population

Generally there has been a marked improvement in the health status in Marshall Islands as shown by the basic health status indicators of mortality and longevity *(Figure 4.4)*. Infant and child death rates have been considerably reduced in the last 10 years. Infant deaths have been reduced by 35 percent from 63 to 37 per 1000 live births[1]. Among children under 5 years of age there has been a reduction of mortality rate by nearly 50 percent from 93 to 48 per 1000 live births

[1] The IMR figures discussed here are from the 1988 and 1999 census reports. The MOHE 15-Year Strategy Plan has an IMR of 26 per 1000 live births for 1999. The 1994 Household survey reported an IMR of 63 per 1000 live births.

Figure 4.4
RMI Mortality Rates and Life Expectancy, 1998–1999



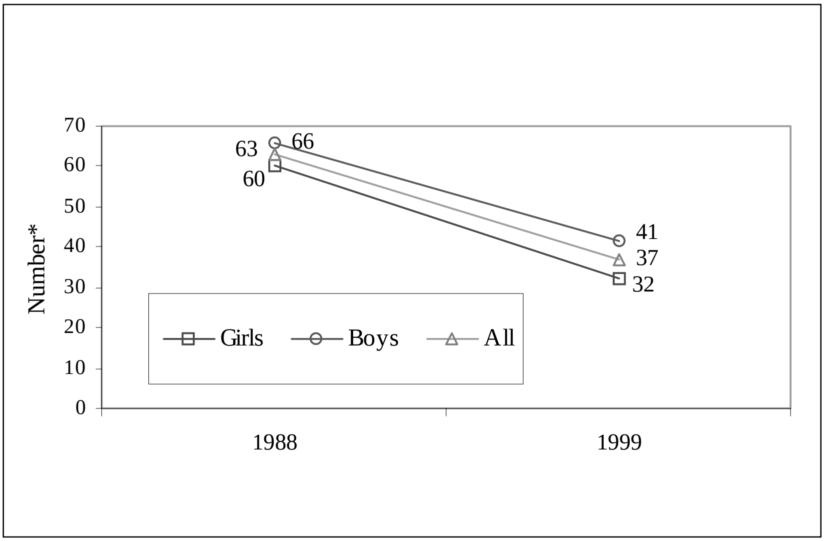
* IMR=Infant mortality rate (per 1000 live births);
** U5 CMR=Under 5 Child mortality rate(per 1000 live births);
*** CDR=Crude death rate (per 1000 population)

Source: RMI 1999 Census…Final Report, OPS since 1988. More of the children born now can expect to live to celebrate their first birthdays and to begin their first year of education in a kindergarten. There is also longer life expectancy. People are expected to live longer now as adults compared with ten years ago. Crude death rates are now also lower. These statistics indicate that there has been improvement in the quality of health care available to the population.

Infant girls have a higher survival rate than boys *(Figure 4.5)*. Infant mortality rate among baby girls is lower than that of boys, 32 for girls compared with 41 for boys in 1999. There has also been a faster reduction in infant girl deaths. Infant mortality rate among baby girls has been reduced by 46 percent from 60 in 1988 and that of boys by 37 percent from 66 in 1988.

Women normally live longer than men. Life expectancy among women was 63 years in 1988 compared with 61 years for men *(Figure 4.6)*. During the last ten years, life expectancy among women increased to 69 years compared with 66 years for men.

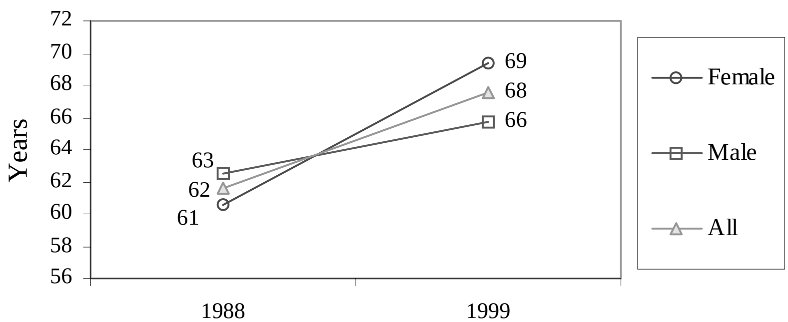
Figure 4.5
RMI Infant Mortality Rate by Gender, 1998–1999



* per 1000 live births

Source: RMI 1999 Census...Final Report, OPS

Figure 4.6
RMI Life Expectancy at Birth by Gender, 1998–1999



Source: RMI 1999 Census…Final Report, OPS

Despite these improvements in the health status of the population, both the infant and child mortality rates are still unnecessarily high at 37 and 48 per 1000 live births respectively. Many of the diseases that cause untimely deaths and illnesses are not costly to prevent.

Patterns of sickness

The health situation in Marshall Islands is characterized by a dual disease pattern. There is a prevalence of both communicable and non-communicable diseases. The common infectious and communicable diseases in Marshall Islands include amoebiasis, conjunctivitis, diarrhea, gastroenteritis, gonorrhea, influenza, leprosy, scabies, syphilis and tuberculosis. Among the common non-communicable diseases are diabetes, hypertension, heart disease, cancer and fish poisoning

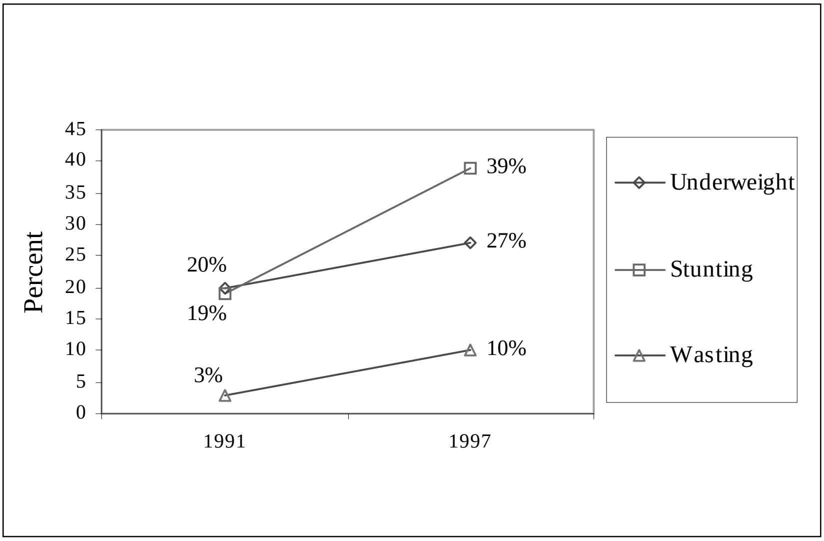
The health situation in the Marshall Islands is affected by environmental, lifestyle and demographic factors. Overshadowing all health analysis in RMI is the aftereffect of the US nuclear testing program in the northern atolls. This has seriously damaged the health of not only those exposed to the explosions or the fall out but also of others who have lived and worked in contaminated environments during and after the testing, and the communities that were relocated away from their lands and marine resources.

Noncommunicable diseases (NCDs) are usually a result of lifestyle habits of eating large amounts of fatty foods, consumption of large amounts of alcohol and tobacco as well as lack of exercise. Other relevant factors include food prices and income levels as well as local food production. For low-income people the relatively high cost of health foods in shops make it difficult for them to afford nutritional meals. For people in the urban areas limited space is a constraint on those who want to have home gardens to meet their nutritional needs. There is dependency on and preference for imported, often junk foods. Among the noncommunicable diseases diabetes is now a major health problem. Diabetes and diseases related to it are the major cause of morbidity and death. Hypertension and heart diseases are also on the increase. These diseases are related to obesity, which has become a nationwide problem that has been increasing, particularly among women and people in the urban areas. A concern is the increasing number of young people in the age group 20–35 years who are obese and identified as diabetics.

A major problem related to diet is malnutrition among children. Whilst 1995–1999 pilot study on overnutrition and undernutrition in the Marshall Islands found that 57 percent of the population of ages 18–50 years is overweight and obese, it also indicated a high prevalence of undernutrition among children. The pilot study showed that over one quarter of children under 5 years were malnourished in terms of weight for age (underweight). The pilot study results showed that in the areas surveyed (Majuro – DUD and Laura, Arno, Ebon and Namdrik) the main indicators of undernutrition (underweight, stunting and wasting) are higher than the overall results of nutritional status from 1991 national nutrition survey[2] *(Figure 4.7)*. Severe malnutrition is not a problem in Marshall Islands, but there is a high incidence of mild-to-moderate malnutrition among

[2] Moderate levels of underweight (low weight for age), stunting (low height for age) and wasting (low weight for height) in comparison with WHO/NCHS Standard.

Figure 4.7
RMI Malnutrition Among US Children, 1991–1999



Source: Ministry of Health Services (1994), Ministry of Health and Environment (2000)

children. This increases vulnerability of children and risk of death from a variety of infectious diseases.

The results of the pilot study cannot be generalized as representative of the whole country to determine the overall situation of malnutrition among children in 1997 compared with the situation in 1991. However, the Ministry of Health and Environment (MOHE) has taken the results of the pilot study as the indicators for the base year (1999) in its 15-Year Strategy Plan for the purposes of establishing targets for reducing malnutrition among children during plan period *(Box E)*.

Reproductive health services, also known as family planning, aim at fewer, healthier children. The family planning program in Marshall Islands has been in place since the mid-sixties. During the 1990s the number of contraceptive users increased from 2731 in 1991 to 3922 in 1999, an increase of 44 percent during the period, or an annual average rate of about 5 percent.

The appropriate spacing of children i.e. women having children not too early, not too close and not too late, is important for the health of the mother and the child as well as the family as a whole, and is usually associated with a slowing in population growth. The spread of STDs and risk of HIV/AIDS can also be contained through family planning methods via the use of condoms. The involvement of men in family planning clinics is important for them to better understand the health related issues and for their support and cooperation The churches have also been supportive to the school-based family planning/reproductive health services carried out by the Youth To Youth In Health.

Water supply, sanitation, personal hygiene and habits, and overcrowding are among factors related to the prevalence of infectious and communicable diseases. The 1999 census found that the main source of drinking water for most households is rainwater catchments and tanks. These water sources are easily contaminated. Proper sanitation is a problem. About a quarter of households reported in 1999 census as having unsanitary toilet facilities e.g. pit latrine or no toilet facilities at all. Health problems of amoebiasis, diarrhea and gastroenteritis are related to unsafe water supply and poor sanitation. Densely populated areas such as the DUD area in Majuro and Ebeye make it easy for the spread of airborne diseases such as tuberculosis and other diseases that are passed through direct contact such as leprosy, conjunctivitis and skin diseases e.g. scabies.

Sexually transmitted diseases (STDs) and risk of HIV/AIDS is a serious threat. Although the STD rates based on tests carried out are low, they may not reflect the real prevalence of STDs in Marshall Islands because of the limited coverage of the tests. The tests showed rising rates of positive cases of STDs. Positive tests for syphilis in recent years went from less than one percent in 1996 and 1997 to 2.5 percent in 1998 and 3.5 percent in 1999. Positive tests for gonorrhea generally remained between 3 to 4 percent in 1996–1998 but went up to 6.5 percent in 1999. Chlamydia seems to be increasing problem among women. Tests in 1996/97 identified just one positive case of Chlamydia, but this has increased to 7–10 percent in 1998–1999[3]. Tests for HIV/AIDS in 1997–1999 found no positive cases. However, tests in 1996 detected one positive HIV case. A relevant factor for consideration is the larger number of foreign fishing boats calling at Majuro, the increasing level of prostitution and the consequent higher risk of HIV and AIDS being introduced.

[3] However, it should be noted the tests for chlamydia has just been introduced which could explain the rapid increase in positive cases reported during the period.

Radiation-related health problems caused by the nuclear testing on Bikini and Enewetak continue to affect a significant number of Marshallese. The Nuclear Claims Tribunal was established under the Compact to determine financial compensation payable to Marshallese so injured. The list of medical conditions irrebutably presumed to have resulted from the US Nuclear Testing Program has 35 items that include a number of types of cancers, tumors and thyroid problems. Since its establishment the Nuclear Claims Tribunal has made award to 1656 individuals for personal injuries caused by the nuclear testing program. Over 39 percent of them are already dead.

Health services delivery

Health services are mainly provided by the government through the Ministry of Health and Environment, operating two hospitals (Majuro and Ebeye), and 60 health centers in the rural and outer atolls and islands. Health assistants, who are usually high school graduates with basic health training, staff the outer island health centers. Patients are referred from these centers to Majuro and Ebeye hospitals. Patients who cannot be treated at the hospitals in Majuro and Ebeye are referred for treatment overseas in Honolulu and Philippines and also to the USAKA hospital on Kwajalein Island.

The public health facilities need upgrading and maintenance. With the assistance of the ADB, government is completing the new hospital in Ebeye and has rehabilitated a number of the health centers in the outer islands. The rehabilitation of the remaining health centers is needed. There is a need to upgrade the facilities at the Majuro Hospital to the level where the Hospital can carry out some of the diagnoses and treatments for which overseas referrals are currently required.

Apart from the health services provided by MOHE, separate medical and health services are provided for the people from the four atolls most directly affected by nuclear testing - Bikini, Enewetak, Rongelap and Utrik atolls. This is the 177 Health Program[4] that

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[4] 177 refers to Section 177 of the Compact which deals with matters concerning the nuclear testing program and the responsibility of the US for the effects of the nuclear tests on the people of Marshall Islands.

provides health and medical services for the people of the four atolls. The 177 Health Program has a clinic in Majuro with two doctors and two health assistants and five outer island clinics each staffed by a health assistant and representative in Ebeye. Patients are referred from the outer island clinics to the Majuro 177 Clinic for treatment. The Majuro 177 Clinic provides outpatient services and uses Majuro Hospital facilities e.g. laboratory and inpatient facilities. The 177 Health Program presently caters for 13000–14000 people.

In addition to the 177 Program health clinics, special medical care is also provided to the Marshallese originally exposed to the testing and inhabitants of Rongelap who were selected as a control group when the victims of radiation moved back to Rongelap. These services are provided by the US Department of Energy (DOE) and the Pacific Health Research Institute (PHRI). There is a DOE/PHRI clinic in Majuro and one at USAKA on Kwajalein. The resident medical staff at the clinics are assisted by visiting doctors arranged by PHRI. The DOE/PHRI clinics provide comprehensive annual medical examinations and treatment to the 214 remaining victims of nuclear exposure and Rongelap control group. The DOE/PHRI patients are also referred to Straub Hospital in Hawaii for further medical examination and treatment as required.

Private and non-government organizations are also involved in the delivery of health services in Marshall Islands. There is one private medical clinic in Majuro (DUD) and a church-based health clinic (Baptist Church) in Laura also on Majuro Atoll. The Youth To Youth In Health has a clinic in Majuro catering for the youth in Majuro. Mission Pacific has been involved in health services. The TOMAK, Inc. is also interested in providing health care services but no agreement has been reached with MOHE for it to start providing the services.

Government adopted the concept of primary health care (PHC) in 1986 and established the Bureau of Primary Health Care to strengthen preventive programs and services at the community level. The primary health care strategy is implemented through the outer island health centers and community health councils as well as through the hospitals. The community health councils were initiated in 1995 to encourage communities to be involved in health care and foster preventive health care among the people and ensure the communities and individuals take care of their own health.

With regard to policy on health services delivery, people in general expect the government to be responsible for delivery of such services. However, there is need for other agencies to provide such services to supplement the public health services. It is necessary for the government to encourage the provision of health care services by privately owned clinics and pharmacies as well as by NGOs. It is important that MOHE monitors such services to ensure the quality and standard of health care provided.

In 1999 MOHE developed a Fifteen Year Strategic Plan for the period 2001–2015 which was approved by Cabinet in May 2000. The Strategic Plan contains 5-year strategic and operational plans as well as setting out targets to be achieved during the plan period *(Box E)*.

Health financing

Financing of public health services is from several sources including government tax revenue, Compact with the USA, US Federal grants, health insurance fund and user charges as well as funding from other donors for operational expenditures and development projects. User fees comprise a tiny 1% of health funding, a share that could be substantially increased by selective increases in charges without hardship. The funding of the operational budget of MOHE comes largely from USA Compact funding and Federal grants as well as the health insurance fund managed by Marshall Islands Social Security Association (MISSA) *(Figure 4.8)*. Allocation from the government General Fund to the health budget averaged about 12 percent during the last three years.

The resources for the health insurance fund managed by MISSA come from contributions by employees and their employers as required under the Social Security Act of 1990. Under the Act each employee has been required to contribute 8.5 percent of salary of which 3.5 percent is for the health insurance fund and 5 percent for the retirement fund. The employer provides a matching contribution similarly applied. These rates have now been increased to a total of 9.5% of pay from employer and employee, allocated 7%

Box E: **Ministry of Health and Environment Fifteen Year Strategic Plan 2001–2015**

The Ministry of Health and Environment (MOHE) 15-Year Strategic Plan 2001–2015 was approved by Cabinet in May 2000. The MOHE staff prepared the plan under the guidance of a Steering Committee chaired by Secretary of Health and comprising of senior ministry staff. There was some technical assistance involved in facilitating the process and the financial analysis. But the plan was largely created by those who would be required to implement it. The plan sets out to implement the mission statement of MOHE:

"To provide high quality, effective affordable and efficient health services to all peoples of the Marshall Islands, through a primary health care program to improve health status and build the capacity of each community, family and individual to care for their own health. To the maximum possible, the Ministry of Health and Environment pursues these goals using the national facilities, staff and resources of the Republic of the Marshall Islands."

The plan has three components:

(a) A Fifteen Year Strategic Plan for 2001–2015 broken down into three Five Year Plans
(b) A Five Year Plan for the first five years 2001–2005 broken down by year
(c) An Operational Plan for the first five years 2001–2005.

The plan sets out targets, where appropriate, on periodic and annual bases. The following are selected Primary Health Care targets in the Strategic Plan:

Objective indicator	Base year	Five Year Period Targets		
		1st 5 Yr	2nd 5 Yr	3rd 5 Yr
Infant mortality rate*	25 (1998)	20	16	12
Child mortality rate**	26 (1998)	20	15	10
Children with full immunization (%)	64 (1998)	85	90	95
Prevalence of diabetes (%)	40 (1999)	25	15	10
People in control of own fertility (%)***	9 (1999)	25	35	50

Objective indicator	**Base year**	**Five Year Period Targets**		
		1st 5 Yr	**2nd 5 Yr**	**3rd 5 Yr**
Malnutrition among children under 5 years:				
Stunting in children (%)	36(1999)	15	10	0
Wasting in children (%)	10 (1999)	5	2	0
Low weight/age in children (%)	27 (1999)	10	5	0
Undernutrition in children (%)	25 (1999)	10	5	0

* Infant mortality rate: number of deaths of children <1 year per 1000 live births.

** Child mortality rate: number of deaths of children aged 1–14 years per 100,000 live births.

*** Ratio of number of people receiving family planning services to the combined total number of fertile females (15–49 years) and number of sexually active males (15–74 years).

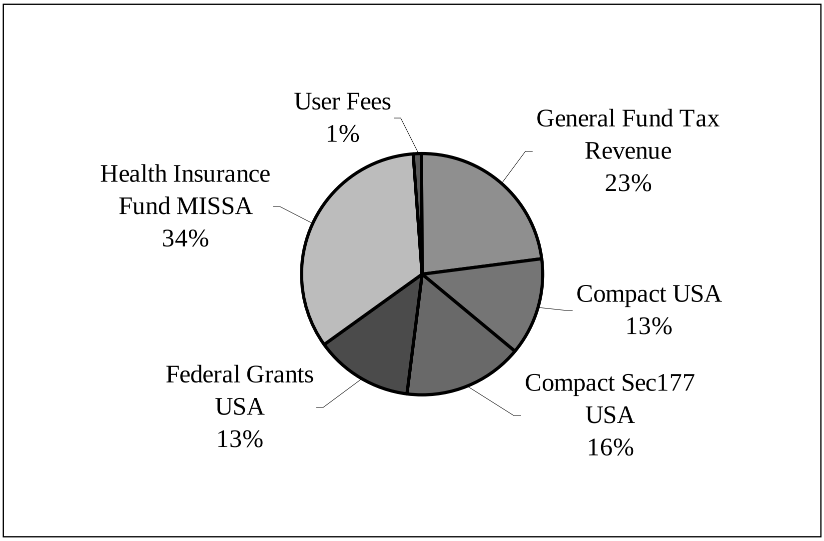
Note: The IMR and CMR used by MOHE in the Strategy Plan are lower than those reported in the 1999 census.

Programs are identified in primary and secondary health care and central health service management, with detailed objectives and sets of implementing activities (misnamed strategies) in each case. These embrace maternal and child health, chronic and communicable diseases, family planning and nutrition, replacement and repair of outer island health centers, a new central hospital in Majuro, and reduction of overseas referrals. The estimated cost of the activities and asset acquisitions included in the Plan is much greater than current expenditure levels. Actual allocations will have to be determined in the rolling economic and financial frameworks described in Chapter 9 of METO2000.

Source: MOHE Fifteen Year Strategic Plan 2001–2015, Majuro, Marshall Islands

Figure 4.8
RMI Health Financing of Recurrent Expenditure, 1999

Total $12.6 m



Source: MOHE (2000) and MOF

to the retirement fund and 2.5% to the health fund.[5] In the light of the crisis affecting health funds and overseas referrals, there is a case for further adjusting these contributions so as to rebuild the badly depleted health insurance fund.

Funds from the health insurance fund are used to pay for medical supplies for the hospitals and outer island health centers and for payment of referrals to Honolulu, Philippines and Kwajalein USAKA hospital. The previous administration of MISSA has not provided annual accounts since 1996, giving rise to considerable public concern. The new administration has contracted a private audit firm to assemble and audit the accounts, and has announced reforms to MISSA's financial management designed to avoid a repeat of the

[5] Recent mismanagement of MISSA has contributed greatly to fogging the public financial picture, but total social security payments at 19% of pay,split 74/26 between retirement benefit and health fund, are a significant cost in the employment calculus, and must be taken into account in the review of taxation recommended elsewhere in Meto2000.

recent (unbudgeted) need for a $2.65m Government subsidy to meet overseas debts for referral services.

User fees are charged for outpatient services at the government hospitals in Majuro and Ebeye at $5.00 per visit. For inpatients $5.00 is charged per day including food, medicines and other care provided to the patient. In 1999 user charges contributed just one percent of the health budget. Funds from Compact Section 177 are used only for the health care of people from the four atolls most directly affected by the nuclear testing program. Under Section 177 an amount of $2.0 million is allocated to the health care program for the people of the four affected atolls.

Funding of the payments for personal injuries caused by the nuclear testing awarded by the Nuclear Claims Tribunal comes from the Nuclear Claims Trust Fund.

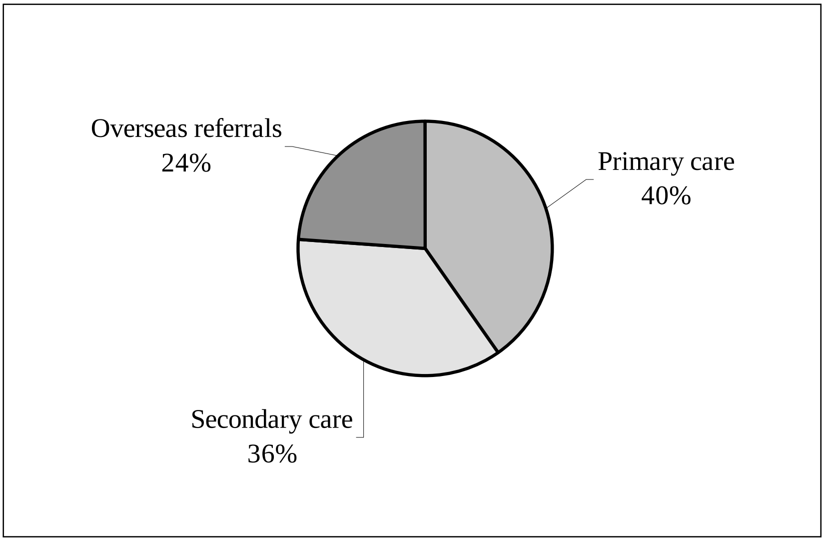
The US Department of Energy also spends $6–7m annually on RMI-related activities in three areas - medical care for certain of the originally exposed Marshallese citizens, environment cleanup activity for the four most directly affected atolls and Whole Body Count for Cesium. About $2.5 million is used for the DOE/PHRI medical care program and the logistical support to the medical program for transporting patients between the atolls and to Straub Hospital in Hawaii for testing and treatment.

Allocation of health expenditure is largely for secondary and overseas referrals *(Figure 4.9)*. A large part of the health fund is spent on off-island referrals including referrals to USAKA Hospital on Kwajalein. In 1999 overseas referrals absorbed nearly one quarter of the total health expenditure. This means that 70 percent of the funds from the MISSA health insurance fund were spent on overseas referrals and 30 percent on medicines and other medical supplies provided to the public hospitals and outer island health centers in 1999. Over one third of health expenditure was spent on secondary health care and remaining 40 percent on primary care. In 1999/2000 the government provided $2.65 million to subsidize the health insurance fund to enable MISSA meet costs incurred on overseas referrals.

Overall, the pattern of health funding does not reflect the Government's stated health priorities. Clearly this cannot be corrected overnight, but a process of real adjustment whereby policy can increasingly shape expenditure (rather than the other way round)

Figure 4.9
RMI Health Financing of Recurrent Expenditure, 1999

Total $12.6 m



Source: MOHE (2000) and MOF

can be launched now. By bringing health funding within the strategic planning process described later in *Meto2000*, and allocating resources through the rolling economic and financial planning framework outlined in Chapter 9, policy can be brought to bear on allocations, and RMI's health priorities can be made to drive health expenditures. The role of a new national hospital, private health insurance and payment of fees for curative services (among other health issues) can then be seen clearly in an overall development context.

Chapter 5

Education and Training

Key points

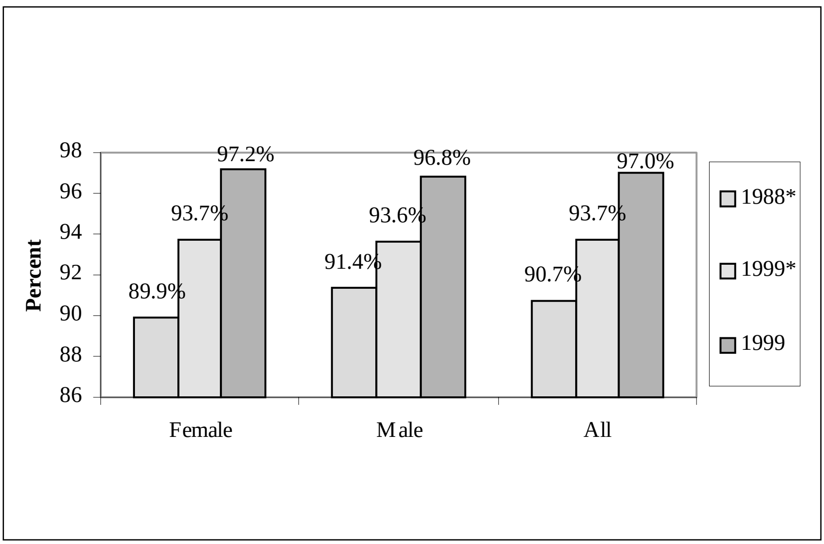
- The education system needs to equip Marshallese to make their way in life both in Marshall Islands and overseas
- Output standards of RMI schools are generally below regional norms
- The school attendance requirements of the Education Act are not enforced, and attendance figures for several years are suspect.
- Private schools generally produce better results than public schools
- Qualified teachers and relevant instructional materials are essential for improving the quality of education
- Parental and community support are key factors in student educational achievements
- Coordination and cooperation is needed between all stakeholders in the provision of vocational training
- Better coordination of the sources of funding, and greater flexibility in Compact-derived sources, is required to ensure the available funds are allocated to meet educational priorities
- An ambitious *2000 Strategic Education Plan* addressing those and other issues has now been given a sharper and more operational focus by the Ministry's *Implementing Guidelines*

Structure of the education system

The education system in Marshall Islands consists of three levels: preparatory education followed by elementary (also called primary) school of 8 years, secondary education of four years and post-secondary education and training. Preparatory, elementary and secondary education is provided in public and private schools. There are 77 public elementary schools and three public secondary schools. There are 26 private elementary schools and 13 private secondary schools. The churches run all of the private schools except two. Of the total 103 elementary schools and 16 secondary schools in the Marshall Islands 19 elementary schools and 8 secondary schools are located on Majuro Atoll and 9 elementary and 5 secondary schools are located on Kwajalein Atoll. The remaining 76 elementary schools and 3 secondary schools are located on the other atolls and islands.

There are some indications that literacy levels have improved. The 1999 Census reported that 97 percent of household population of 10 years and older are literate—a rise of six percentage points since 1988—but the definition of literacy in the 1999 census (ability to read and write a simple message in any language) is different

Figure 5.1
RMI Adult Literacy Rates, 1988–1999



Note: 1988*, 1999* - Adult literacy defined as: a person is literate if he/she attained at least grade 4; 1999 – Adult literacy defined as: a literate person is one who can, with understanding, both read and write a simple message in any language.

Source: RMI 1999 Census…Final Report, OPS.

from that in 1988 census (attainment of at least Grade 4 education). However literacy rates, based on the 1988 census definition also increased slightly during the last 10 years *(Figure 5.1)*.

Access to preparatory, elementary and secondary education

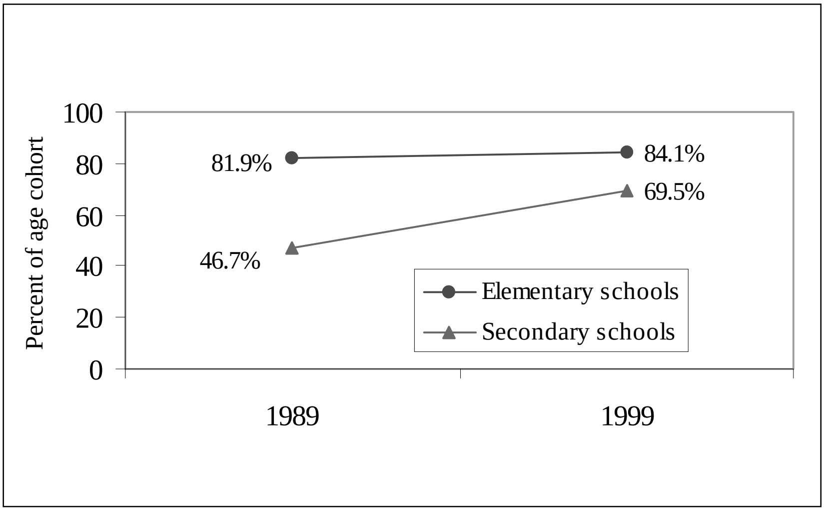
Preparatory education is provided in the public school system through the Head Start program in 48 centers around the country. The program caters for 1200 children. A number of the private schools, mostly on Majuro Atoll and Ebeye Island, also provide preparatory education in pre-school and kindergarten for about 300 children a year. The Head Start program and private pre-school and kindergartens reach only 35 percent of the children of 3–5 years in the Marshall Islands, mostly in urban areas. Most rural children do not have access to preparatory education before starting elementary school.

Access to elementary and secondary education has increased during the last ten years. Overall a greater proportion of school age children attended school in 1999 than in 1988 *(Figure 5.2)*. However, the percentage of school age children enrolled in elementary schools increased only slightly since 1988, from 82 percent to 84 percent in 1999. The government is the main provider of elementary education with a total roll of 8763 students in 1999/2000 compared with 2976 students in private elementary schools.

Access to secondary education has increased substantially during the last 10 years, but enrolment is still unsatisfactorily low. In 1988 nearly 47 percent of secondary school age children were enrolled in secondary schools. This has increased to over 69 percent in 1999, but still three out of every ten children of secondary school age were not receiving secondary education in 1999. In 1999/2000 the private secondary schools provided education for 1390 students and the public secondary schools catered for 1196 students.

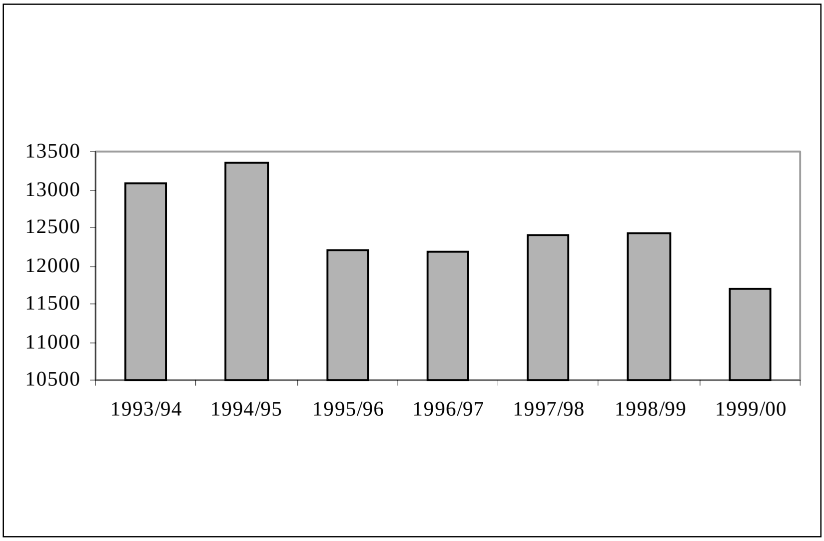
Looking at enrolments over the past few years, the data for elementary schools showed a substantial drop in 1995/96 and again in 1999/2000 *(Figure 5.3)*. There is no obvious explanation for these large falls in enrolment in a single year. Emigration may explain some of the fall in enrolment in 1995/96 and similarly for the fall in 1999/2000. The reduction in fertility rates and therefore the proportion

Figure 5.2
RMI Elementary and Secondary School Enrolment Rates, 1988–1999



Source: RMI 1999 Census…Final Report, OPS.

Figure 5.3
RMI Elementary School Enrolment, 1993/1994–1999/2000



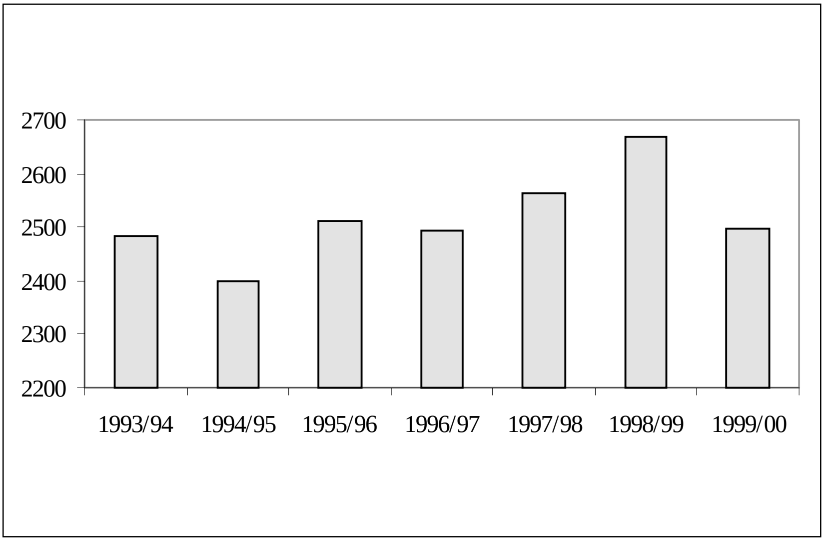
Source: RMI Statistical Abstract 1998 and 1999, OPS (2000), MOE (2000).

of children under 15 may also be a factor. However, these factors are not sufficient to explain the substantial drop in enrolment in a single year 1995/96 and 1999/2000. It seems likely that recording and reporting on student enrolments may have been inaccurate.

Enrolment in secondary schools in the 1990s fluctuated and reached its highest level of well over 2600 students in 1998/99 *(Figure 5.4)*. In 1999/2000 secondary school enrolment went down to the 1996/97 level. The comments above about the accuracy of the data on elementary school enrolment also applies to the reported fall in secondary school enrolment for 1994/95 and 1999/2000.

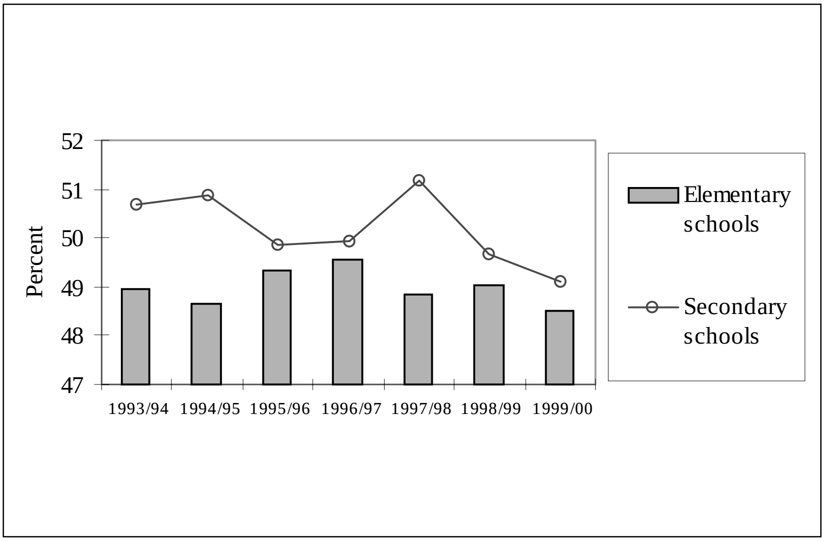
Enrolment of boys in elementary schools generally declined during the last five years. Enrollment of girls fluctuated from year to year but there is a declining trend. There are more boys enrolled in the elementary schools than girls *(Figure 5.5)*. Girls make up about 49 percent of students in elementary schools. In secondary schools there were more girls in previous years until the last two years when boys outnumbered girls *(Figure 5.5)*. There has been only a slight difference in enrolment between boys and girls in secondary schools. In general it can be said that boys and girls are almost equally

Figure 5.4
RMI Secondary Education Enrolment, 1993/1994–1999/2000



Source: RMI Statistical Abstract 1998&1999, OPS (2000), MOE (2000).

Figure 5.5
RMI Female Enrolment in Elementary and Secondary Schools, 1994–2000



Source: RMI Statistical Abstract 1998 and 1999, OPS (2000) and MOE (2000).

represented in secondary schools.

The dropout rates between grades in the school system are particularly high in secondary schools. Of the students enrolled in elementary school Grades 1–7 in 1997/98 about 2 percent (about 210 students) were no longer in school in 1998/99. In secondary schools of those enrolled in Grades 9–11 in 1997/98, about 20 percent (422 students) were no longer in school in 1998/99. Of the Grade 9 cohort of 879 students attending secondary school during 1995/96, just 57 percent (498 students) reached Grade 12 in 1998/99.

In the elementary school system there is ample opportunity and capacity for a greater number of school age children to attend school. Other factors than classroom spaces are responsible for the high proportion of such children not attending school. Access to secondary education is limited by the availability of places in the secondary school system. In 1998/99 over one-quarter (over 330 students) of those enrolled in Grade 8 did not continue on to Grade 9 in secondary schools. In the previous three years about one-third of Grade 8 students (425–450 students each year) did not enter secondary school. In the last three years an average of about 60 percent of those who did not continue on to Grade 9 of secondary education were girls (200–270 girls each year).

The 1991 Education Act makes school attendance compulsory for children aged between 6–14 years or until a student graduates from elementary school. At the elementary school level there is sufficient classroom capacity in total for more school age children to attend school. However, there are variations in the availability of school places in the different atolls and lack of classroom space may not be obvious in the enrollment rates. For example, in Majuro two public elementary schools provide half-day sessions for teaching of students because of lack of classroom space. This has a detrimental effect on student learning. The locational variations in availability of classroom space as well as the availability at the upper level of elementary education need to be assessed and addressed accordingly.

Apart from availability of access to an elementary school other factors are responsible for the high level of non-attendance. These include the importance attached by parents to the education of their children, the capacity and ability to support the children as well as general community involvement and support for education. The Ministry of Education needs to address these factors, including awareness raising among parents and the enforcement of the Education Act. An important innovation, which had been introduced by the government to encourage participation and support of parents and the community in the education system, is the community based governance system (CBGS). The implementation of the CBGS in the public elementary schools in Majuro and Ebeye has resulted in considerable improvement in the community participation and support in these schools.

The number of places available in secondary schools limits the access to secondary education. In addition, the high dropout rate further reduces attendance in the secondary schools. Both these issues need to be addressed. With regard to availability, some of the private schools are interested in increasing the availability of secondary education but the capital costs of establishing facilities is beyond the resources of the private schools. As budget resources become available over the next few years Government should be able to increase subsidies to private schools and facilitate their access to external development funds. Reduction of dropout rates requires both better teaching and stronger family and community commitment to better education.

Standards and effectiveness of elementary and secondary education

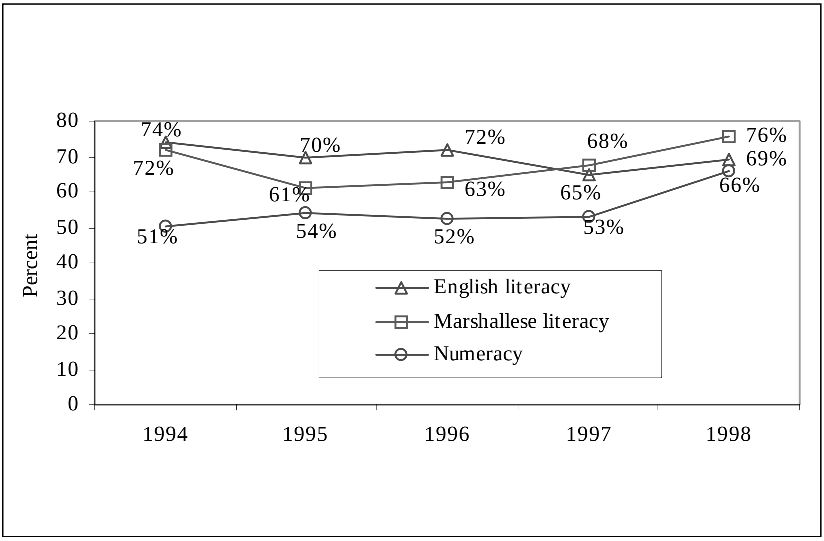
A number of indicators show that standards and effectiveness of education at the elementary and secondary levels need to be considerably improved. One of the indicators is the result of Pacific Islands Literacy Levels (PILL) tests administered by the South Pacific Board for Educational Assessment (SPBEA). PILL is a standardized measure of children's early acquisition of language and numeracy after four years of schooling. The PILL test is a useful and reliable indicator of the extent to which children have developed their literacy and learning skills after four years of formal schooling.

The PILL test covers English, vernacular language (Marshallese) and numeracy. The data from the PILL tests in the Marshall Islands show that in the areas of literacy and numeracy at the elementary schools the standards are generally low in comparison with international and Pacific Island country norms. The data also show that there was little overall improvement in the results over the period since 1994 when the PILL tests were first administered in Marshall Islands *(Figure 5.6)*.

Over the period 1994–1998 there has been some improvement in the results for literacy in English with the proportion of "students at risk" showing a declining trend from 74 percent in 1994 to 69 percent in 1998. Students "at risk" in Marshallese literacy however has increased since 1995 to 76 percent in 1998. With respect to numeracy skills the test results show an increasing trend of students "at risk" during the period from 51 percent in 1994 to 66 percent in 1998 i.e. indicating a worsening of the quality of instruction with regard to the developing the numeracy skills of children.

The PILL test results for 1998 showed that Grade 4 children in private schools performed better than those in public schools in all the three areas, particularly in English literacy and numeracy *(Box F)*. The same data also showed that girls performed better than boys in both English and Marshallese literacy as well as in numeracy skills.

Figure 5.6
RMI Pacific Islands Literacy Levels (Grade 4), Percent of Students 'At Risk', 1994–1998



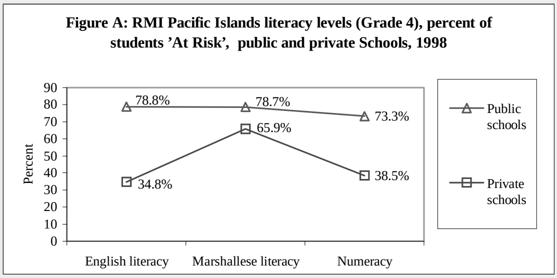
Source: A Digest of Marshall Islands Education Data, Ministry of Education (1999).

The PILL results give an independent assessment of the performance of the Marshall Islands education system in the key education performance indicators. The proportion of Marshallese students falling in the "at risk" category is very high and requires to be addressed urgently, particularly in the public school system. Students in the 'at risk' categories will continue to find difficulties with learning throughout the rest of their elementary and secondary education unless they can be helped with remedial work as early as possible. It is clear that fundamental literacy and numeracy problems persist with these students throughout the rest of their elementary and secondary education.

The Ministry of Education, under the ADB-funded basic education project, developed and field-tested national student evaluation tests, the Marshall Islands Standardized Achievement Tests, for Grades 4, 6 and 8. Implementation of these tests, which will start in 2000 school year, will assist in monitoring the quality education and raising standards in the elementary school system. The current annual high school entrance test (HSET) is primarily to

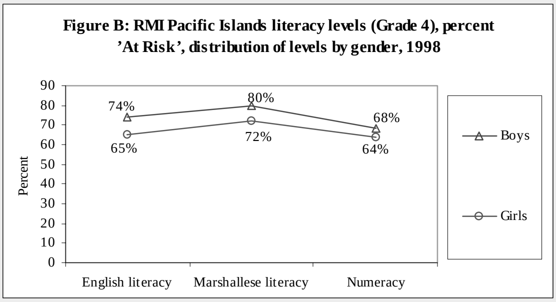
Box F: **Pacific Islands Literacy Levels: RMI Test Results, by Public and Private Schools and Gender, 1998**

Private school Grade 4 children performed better than those in public schools in English literacy, Marshallese literacy and numeracy in the 1998 PILL tests. The differences in their performance were particularly striking for English literacy and numeracy *(Figure A)*. Private school Grade 4 students "at risk" in respect of English literacy was 35 percent compared with 79 percent for those in public schools. For numeracy skills, performance level in private schools was 39 percent "at risk" compared with 73 percent for public schools. In the vernacular language, about two-thirds of Grade 4 children were "at risk" in Marshallese literacy compared with 79 percent for public schools. In all three areas, public school Grade 4 students "at risk" were in the range of high 73–79 percent.



Source: A Digest of Marshall Islands Education Data, Ministry of Education (1999).

With regard to gender, PILL test results for 1998 showed that girls performed better than boys in all three areas: English and Marshallese literacy as well as in numeracy *(Figure B)*. In English literacy 65 percent of girls (Grade 4) were "at risk" compared with 74 percent for boys. Literacy in Marshallese results was 70 percent for girls "at risk" compared with 80 percent for boys. For numeracy skills 64 percent of girls were "at risk" compared with 68 percent for boys.



Source: A Digest of Marshall Islands Education Data, Ministry of Education (1999).

determine entrance to public secondary schools, given the limited number of available places at the schools. Presently there is no prescribed academic standard for entry into the secondary schools.

An indicator of the quality of secondary education is the scoring on the entrance tests to the College of the Marshall Islands (CMI). Of secondary school seniors who took the tests in February 2000 only 27 percent could enroll in traditional college credit courses. For mathematics only 10 percent could register for credit math courses. The combined results for 1993–1999, of the 1004 secondary school graduates who enrolled at CMI only 21 percent could take credit English and 20 percent credit math. The results vary between the different secondary school graduates. In general the students graduating from the secondary schools have not been equipped with the basic education required for further education and training in academic and technical fields.

The key factor in raising the quality of education is the quality of teaching staff. The student/teacher ratio is quite low but the quality of education is still poor. In 1999/2000 there were 434 teachers in the public elementary school for a total school roll of some 8700 students giving student/teacher ratio of 20. With the student/teacher ratio for private elementary schools of 15 the overall student/teacher ratio is 19. Given this generous student/teacher ratio, the quality of teaching staff is the key factor affecting the quality of education in Marshall Islands.

Presently nearly half of the teachers in the Marshall Islands have only a secondary school diploma as their highest qualification. This issue of improving the quality of teaching staff is being addressed by the Ministry of Education by introducing new regulations for teacher certification and encouraging teachers to get their AS degrees or higher in collaboration with the College of the Marshall Islands. Apart the availability of qualified teachers, other important factors in improving the quality of education include the availability of adequate appropriate instructional materials and other resources as well as the effectiveness of management at the school and the classroom levels.

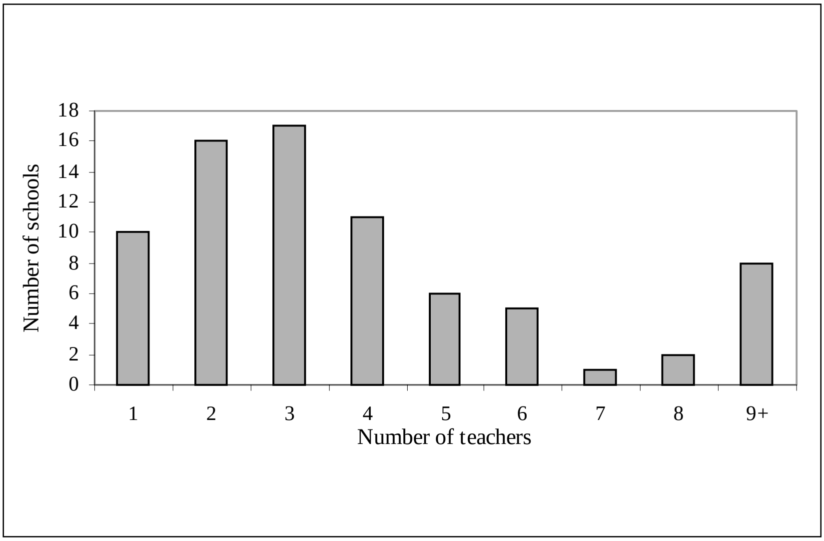
The standard of school facilities is also a relevant factor in the delivery of education and learning. Many of the schools require major repairs and maintenance of buildings as well as upgrading of facilities including new buildings. In the 1999/2000 supplementary budget the government allocated some of the aid funds provided by the

Republic of China (Taiwan) for renovations of school buildings in Ebeye, Jaluit and Wotje. An urgent implementation of a planned programme for repairing and upgrading of school facilities is needed as well as an overall policy on the management of school buildings and facilities and their maintenance.

Another factor affecting quality of education especially in the outer islands is the large number of schools with only one or two teachers *(Figure 5.7)*. Consequently there is multigrade teaching. Successful multigrade teaching requires qualified teachers in the subject areas as well as in multigrade teaching methodologies. There is lack of capacity on both accounts.

Another factor impacting on the quality of academic education at the secondary level is the high level of vocational subject content especially in the public secondary schools. It is arguable that, given currently poor attainment levels, secondary education should concentrate on fulfilling basic education requirements without being diverted by a curriculum with high content of vocational subjects. This issue is currently under consideration by the Government with assistance from the ADB.

Figure 5.7
RMI Elementary Schools and Teachers



Source: Developing a Strategy Plan for the Ministry of Education Final Report (ADBTA No. 2599–RMI).

The issues of the quality of education, access and relevance as well as organizational and management issues are addressed in the medium term strategic plan for the Ministry of Education. The strategic plan was prepared by the Ministry of Education with technical assistance funded by the ADB and completed in 2000. A National Education Summit was convened in August 2000 to discuss the plan. The strategic plan endorses the continuation of the objectives of first Ten Year Education Master Plan 1990–1999 and the Education Improvement Plan 2000 – Goals 2000 *(Box G)*.

The new plan has to be read with the Implementing Guidelines subsequently prepared by the Ministry with the assistance of PREL. These stress the priority to be given to strengthening community support and sustaining pupil enrolment, better language and literacy teaching and academic standards generally, and effective coordination of post-secondary education and training.

Post-secondary education and vocational training

Post-secondary education and training in Marshall Islands is provided largely by the College of the Marshall Islands (CMI). The Marshall Islands Center of the University of the South Pacific (USP) also provides post-secondary education through its extension and foundation programmes. The Fisheries and Nautical Training Center provides deckhand training for employment in ships. The National Training Council is now responsible for assessment and certification of skills training and vocational education. Overall planning and coordination is crucially important to the effectiveness of these institutions, and is the responsibility of the Ministry of Education.

CMI provides courses in liberal arts and sciences, teacher education, nursing and allied health, business and computer science, and vocational and occupational education and training. These are associate of science (AS) degree and certificate programs. CMI also runs a developmental program to prepare students to enter its degree programs. It also has an adult education program for young people and adults that provide an opportunity for them to complete high school education to increase their opportunity for employment or enable them to attend post-secondary training.

Box G: **Objectives for the Education System in the Marshall Islands**

The Ministry of Education 2000 Strategic Plan endorsed the relevance of the following revised broad objectives of the 1989 Ten-Year Master Plan for Education as a basis for planning and implementing education policy:

- Establish a quality primary education as the national standard for all citizens and promoting school attendance by all children between the ages of six and fourteen.
- Provide access to a quality secondary education as the national standard for all citizens.
- Adopt nation and community self-reliance as the basis for developing the RMI education system.
- Expand community responsibility for schools and build a sense of community ownership and pride in the schools.
- Give primary schools the main responsibility for building self-reliance in individuals, along with pride in their cultural heritage and appreciation of their natural environment.
- Make pre-vocational education the primary responsibility of public secondary schools.
- Expand access to external training and employment opportunities for our-of-school youth through providing needed preparation and counseling.
- Increase self-sufficiency in post-secondary education.
- Increase the success rate among students entering college.
- Adopt, maintain and follow a comprehensive long-range plan for the continued development and improvement of education.
- Expand the sources of financial support (local and international) and the total amount of funding needed to strengthen and

Since its establishment as an independent college in 1993 CMI student population has increased to over 1500 in 1999/2000. CMI produced a total of 389 graduates during the period. The largest number of CMI graduates is in education and nursing. During the last three years three out of 10 graduates were in education *(Figure 5.8)*. Most of the graduates in education were in-service teachers. In the last three years only five of the 51 graduates in education were pre-service. In 1999/2000 all 19 graduates in expand educational opportunities.

- Increase the cost-effectiveness of schools through such means as establishing national standards on viable size, ratios of teachers per student, and performance accountability.
- Expand the role and performance of private schools through increasing financial support based on performance criteria.
- Establish and monitor output measures such as academic scores, graduation rates, employment rates, college admission rates, etc.
- Increase the attractiveness of the teaching profession and expand the cadre of trained professionals through elevating the importance of their role, strengthening recruitment and motivation efforts, and increasing salaries.
- Establish firm language practices to promote the achievement of both Marshallese and English language teaching goals.

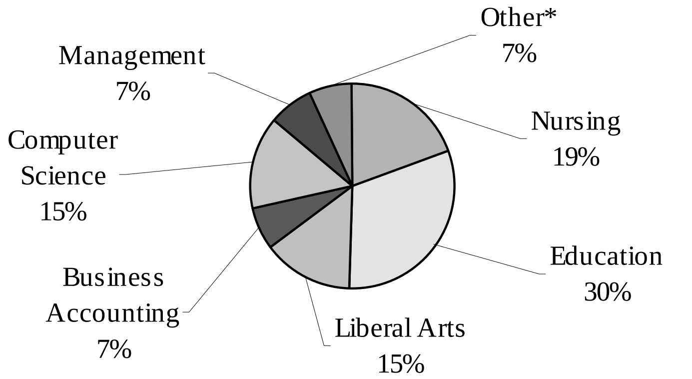
These objectives are cast in broad terms and are not capable of being pursued all at the same time. Realising this, the Ministry has produced more tightly drawn and sequenced Implementing Guidelines for each of the key areas—pre-school, primary, secondary and post-secondary education and training, and the overall planning and management of education. Resource allocations will need to be decided within the rolling economic and financial planning framework described elsewhere in *Meto2000*.

Source: Strategic Plan for the Ministry of Education, Republic of the Marshall Islands, April 2000.

education were in-service. This was the highest number of education graduates produced by CMI since 1993. With nursing, it should be noted that in the last three years there were no Marshallese nurse graduates. All the nurse graduates were from other countries.

CMI partnership program with Job Training Partnership Act (JPTA), now renamed Workforce Investment Act (WIA), which is US federally funded, provides training for out-of-school youth in seven specific training programs. These are occupational skills training,

Figure 5.8
RMI College of Marshall Islands Graduates, 1997–2000



* Other consists of Office administration and engineering.

Source: College of Marshall Islands provided data.

institutional skills training, cooperative work experience, entrepreneurship and small business operation, pre-employment skills training, school enhancement and summer youth employment and training. During 1994–1999 about 1620 youths and adults, of which about 34 percent were female, participated in the JTPA training programs.

The University of the South Pacific through its Marshall Islands Center offers courses by extension program in preliminary and foundation studies as well as vocational, diploma (AS degree) and degree courses. As of March 2000 a total of 21 students enrolled in the preliminary and foundations courses, another 21 students enrolled for vocational certificate courses and 58 for the degree courses. The extension program students have access to individual instruction in Majuro with lecturers and instructors through the USPNET. The USP extension program students will be able to complete full majors and degrees without having to attend classes on USP campuses. The Center has also provided training in conjunction with US federally funded programs such as the Head Start Program for pre-school certificate and diploma in early childhood education and community nutrition.

The USP also implements the RMI-USP Joint Education Program, which started in 1996 and funded by the RMI. The Joint Program offers preliminary and foundation courses to prepare students for tertiary training to be able to complete their studies in the shortest possible time and return to RMI. Selected students from Year 12 in public high schools (Marshall Islands High School and Jaluit High School), and also other students who have completed Year 12, are taught in the preliminary program. The students who successfully complete the preliminary program and meet the requirements enter the USP foundation program. A number of students who have successfully completed the foundation program have obtained scholarships under AusAID to do bachelors degree studies at USP and under New Zealand aid for studies in universities in New Zealand and Fiji.

The National Training Council (NTC), established by Nitijela by legislation in 1991, has the responsibility for the overall coordinating of skills training in the Marshall Islands. It is responsible for establishing skills standards, testing and certification of trainees. In the last few years because of limited capacity and resources the NTC has not been very active in carrying out its mandated functions. However, the NTC has formulated a strategic plan designed to strengthen its institutional capabilities in the shortest time possible in the areas of labor market surveys and needs assessment, monitoring, skill-testing and certification, all of which are essential for ensuring the maintenance of national standards. The NTC is implementing the first phase of its strategic plan through partnership with UNDP on a cost-sharing arrangement.

An essential part of the plan is the creation of a collaborative mechanism between NTC and other stakeholders including the training providers and the employment sectors. Indeed, the main issue in the provision of vocational education and training is the need for coordination and a clear policy to avoid duplication and unnecessary conflicts between the various providers. Such conflicts detract effort from the important task of providing vocational training in the necessary skills and systematically creating a skilled workforce, which is critical for national development and self-reliance. This issue among others is currently being addressed in the design of an ADB-funded skills improvement programme.

Tertiary education and training in areas that are not available in the Marshall Islands are taken overseas, mainly in the USA mainland, Hawaii and Guam as well as tertiary educational institutions in other countries such Palau, Fiji, New Zealand and Australia. In 1999/2000 over 80 Marshallese students were on scholarship for studies overseas for majors in various fields including medicine, economics and political science.

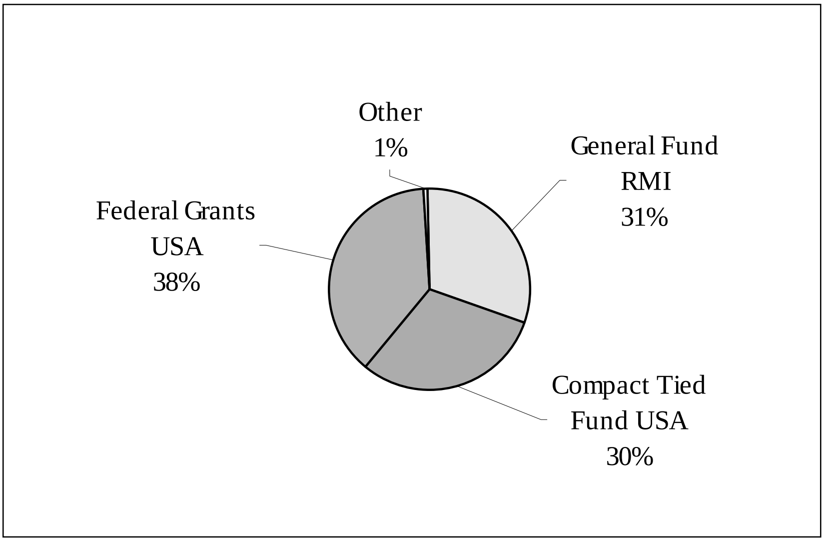
Between 1996 and 1999 the RMI Scholarship Grant and Loan Board provided financial assistance to least 883 Marshallese for tertiary studies in RMI and overseas. About 29 percent of the students graduated from the respective courses and about 11 percent were current students. The majority of students, about 60 percent, either failed their programs of study or did not report on the completion of their studies to the Board. It is understood that the most of these Marshallese in the latter category who were studying outside RMI have remained overseas. The MOE and Board are looking into options to address these issues of high failure rates and non-reporting as well as related financial issues.

Education financing

Sources of funds for government financing of education include the Government's General Fund, Compact Tied Fund, US Federal Funds, a Special Revenue Fund and other recurrent funds from multilateral and bilateral arrangements. Funds for capital projects are mainly from the Asian Development Bank, Japan International Cooperation Agency and the Republic of the China.

Over two-thirds of the Ministry of Education recurrent budget is funded by the USA from the Compact and US federal grants *(Figure 5.9)*. In 1999 Compact and US federal grants for education amounted to $9.3 million and RMI General Fund provided $4.9 million. Much of the US funding is designed as enhancement grants to lift the performance of an assumed basic level of educational activities and standards. The present system in RMI is defective in ways that prevent full use being made of available US grants. The other source of funds is the Special Revenue Fund, which includes funds received by the National Training Council from the alien workers tax.

Figure 5.9
RMI Financing of Education Current Expenditure, 1999

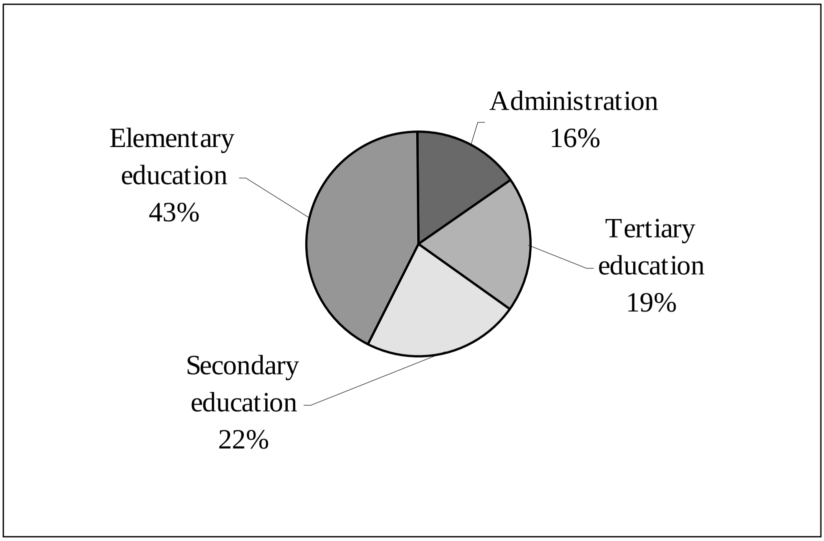


Source: Developing a Strategy Plan for the Ministry of Education: Final Report (ADBTA No. 2599–RMI; MOF.

The US Federal grants are for specific programs such as special education for handicapped children and JPTA/WIA. The government has some flexibility in allocating Compact Designated funds, but the allocation for scholarships has to be used for that purpose. The allocation of RMI General Fund and Compact Designated Fund for education in 2000 budget for the Ministry of Education provided nearly two-thirds of the budget to elementary and secondary education, with elementary education having a share of 43 percent and secondary education 22 percent *(Figure 5.10)*.

Funding for secondary education is largely for the three public high schools and comes from Compact funds. The funds allocated to elementary education and administration are mostly from the RMI General Fund. The Government also provides financial aid, albeit very modest, to private elementary and secondary schools. The allocation for tertiary education includes Compact-designated funding for scholarships of $797,400 annually. The Nitijela also allocates funds from the General Fund, as Third Country Scholarships, for Marshallese students to study abroad. About $100,000 annually is

Figure 5.10
RMI Allocation of General and Compact Funds in Education, 2000



Source: Developing a Strategy Plan for the Ministry of Education Final Report (ADBTA No. 2599 – RMI); MOF.

set aside for students to attend colleges and universities other than those in the U.S. and its territories e.g. colleges and universities in Fiji, New Zealand and Australia.

Finances for public education thus come from various sources, and appear not to be well coordinated. Effective coordination of the various funding sources is important to determine whether resources are being allocated according to education priorities, and to reallocate if necessary. The major source of external funding for education is Compact and US federal grants. These grants are largely tied to specific activities and therefore do not provide flexibility for reallocation to other priority areas such as educational instruction materials. Such flexibility to pursue agreed educational priorities should be sought under renegotiated Compact arrangements. Finally, in a way that has not been common practice in RMI, allocations of resources to and within the education sector will need to be consistent with, and form part of, the more robust and transparent framework of public sector planning and financial management described elsewhere in *Meto2000*.

Chapter 6

The Financial System

Lessons

- availability of funds in the domestic banking system is not a constraint on development in RMI—the banks have substantial unlent reserves (and could attract more deposits if lending opportunities justified it) and there are no restrictions on borrowing from outside RMI.
- problems with the use of land as security for loans, and difficulties in legal process in case of default, have restricted commercial bank lending.
- orthodox domestic banking supervision in RMI's small economy is unlikely to be cost-effective
- by themselves, commercial banks will not extend services to remote areas nor develop micro-financing products
- political intervention in MIDB's lending decisions caused the loss of public funds and undermined the Bank's viability.
- international pressure is making the governance of small offshore financial centres prohibitively costly

Issues

- enabling interests in land to be used as security for bank loans—*draft legislation is before the Nitijela to provide for this.*
- making greater use of the domestic banking system in financing growth—*enabling registered land to be leased, and supplementing*

borrower security with MIDB/government collateral may together provide an answer.

- how to make financial services more widely available—*some form of government sponsorship of financial service outposts and microfinance techniques will probably be required.*
- devising appropriate and cost-effective means of banking supervision—*a regional source of shared supervisory services looks to be the best solution.*
- can MIDB be made into an effective development finance institution?—*this may need a radical re-appraisal of its role in provision of developmental credit, shifting from direct lending to credit enhancement, linked to business advisory services.*

The system and its supervision

The economic role of the financial system is to provide efficient payment services for domestic business and overseas trade, to collect and safeguard the public's financial savings, and to make those resources available to borrowers, all at competitive cost and profitability. The soundness and stability of RMI's financial institutions—and particularly the commercial banks, because they take deposits from the public that can be withdrawn on demand—is crucial to the smooth operation of the economy.

As RMI uses the US dollar as its currency, there is no central monetary authority and no restriction on the movement of funds into or out of the country. The RMI financial system is an extension of that of the USA. This effectively precludes the use of monetary policy in RMI's economic management. If RMI residents do not like local financial conditions they can hold reserves and borrow money overseas without restriction, and clearly many do so. By the same token, Government cannot 'print money' to finance a budget deficit, debasing the currency and fuelling inflation in the process. (Box C in Chapter 2 discusses the consequences of using the US currency).

RMI's financial system has both informal and formal sectors, which together cater to the community's needs. The informal financial sector is, almost by definition, officially unknown to the authorities, but virtually everyone uses it at some time, and some people use it all the time. There is no credit union or similar organisation in RMI, and only one moneylender has a business licence in Majuro, but informal personal credit is a widespread feature of economic life. Given the unusually wide disparity—for the Pacific islands—of initial income distribution, lending by the wealthy to the less affluent, usually among relatives and friends, is said to be of special importance in RMI. The conditions of lending are reported to be generally short-term, flexible and often much more expensive than formal-sector credit, but attractive and widely used because of immediate availability: these are common characteristics of informal credit anywhere.

The formal financial sector—where the moneylenders do their banking—consists of two U.S. commercial banks, the Bank of Guam and the Bank of Hawaii, and one domestically incorporated commercial bank, the Bank of the Marshall Islands. Each of the three banks has branches in Majuro; the Bank of Guam and the Bank of the Marshall Islands also operate in Ebeye. The sector also includes the government-owned Marshall Islands Development Bank. The Bank of the Marshall Islands is majority owned by the government. The deposits of the US banks are protected (up to $100,000 per depositor) by the Federal Deposit Insurance Corporation, which supervises their operations, alongside the Federal Reserve Bank and the US Treasury. The Bank of the Marshall Islands is supervised under RMI law, and its depositors do not benefit from FDIC cover. Nevertheless it has the biggest share of deposits in RMI, and its supervision presents the RMI authorities with an awkward reponsibility.

The Banking Act of 1987 provides the legal framework for the conduct of banking and establishes the Office of the Banking Commissioner. The Act envisages the establishment of prudential banking standards through regulations and policy directives; the codification of rules for accounting and reporting; promotion of understandings in relation to credit risk appraisal; o licensing of banks; analysis of the financial condition of banking institutions; and formal procedures for inspection of banks and enforcement actions.

This orthodox supervisory regime demands much greater resources than RMI, in common with most small developing countries, can justify allocating to it. Commonly in the Pacific islands, as in RMI, only one or two commercial banks are locally incorporated, the others being branches of banks incorporated and supervised in much bigger and better-equipped jurisdictions. The difficulty and cost of installing and maintaining competent local supervisory capacity is out of proportion to the likely benefits. Some form of regional cost sharing seems the obvious answer, and attention is currently being given to this with the help of PFTAC[1]. RMI should stay close to this exercise, as it has the potential to ease RMI's supervisory concerns.[2] Meanwhile the services of PFTAC will be needed to assist the RMI authorities to supervise the Bank of the Marshall Islands and monitor the health of the sector as a whole.

Banking sector performance

The ratio of total bank assets to estimated GDP has stayed around 60% for several years. In 1997–99 lending to ('claims on') the private sector was fairly constant at $30–33m, around 55% of the banks' total assets. Lending to the public sector was only 5–10% of bank assets, while as much as 35–40% of total assets, or $20–25m, was held as overseas reserves. This is three times as much in reserves as might be expected if the banks were fully engaged in financing the RMI economy.[3] Consumer loans account for about two-thirds of bank lending, primarily for building construction, travel, and education. Most loans are made to public servants and repayments are made directly through payroll deductions. Loans for commercial purposes to public enterprises and the private sector are mainly for working capital and equipment.

The three-year period 1997–99 saw total assets of the three banks rise from $55m to $63m, an increase of 13.5%, but more than half of this was in a 19% rise in foreign assets, or unlent reserves, which went up from $21m to $25m. (see Appendix Table A13). Total lending to the private sector rose by only 8%, from $30.5m to $33m over three years—including $2m to the tuna loining plant. These asset increases were funded on the liabilities side mainly by rises

1 Pacific Financial Technical Assistance Centre, a joint programme of IMF, ADB and UNDP, based in Fiji.

2 There has been a suggestion that MIDB should be brought within the Banking Commissioner's supervision to help protect it against political interference. This is also a region-wide problem for which a region-wide supervisory arrangement offers a possible way forward. But see also, below, on changing the nature of MIDB's activities.

3 By mid-2000, the banks' unlent reserves held outside RMI had reached $30m, amounting to 44% of their assets.

in private sector demand, savings and time deposits. Total claims of the private sector on the banks rose from $28m to $37m, an increase of 31% over the three-year period. The expansion in lending activity was accompanied by an improvement in the overall quality of the loan portfolio, with a decrease in the proportion of non-current private sector loans for all three banks.

The average rage rate of interest on savings and time deposits fell over the period from 4.3% to 2.8%, as the banks acquired more deposits than they could lend and inflation remained low. Lending rates also declined from 11–18% to 10–16%, but these high real rates and the continuing wide spread between deposit and loan rates suggest that there is no great competition among the banks to increase lending, in part at least because of the difficulty of taking security and effecting foreclosure in the event of default. At no time have the banks' abundant unlent reserves come under any pressure—let alone had to be supplemented by funds drawn in from overseas.

Marshall Islands Development Bank

The Marshall Islands Development Bank (MIDB) was established in 1988 to promote the development and expansion of the economy of the Marshall Islands in order to improve the standard of living of the people. MIDB aimed to strengthen the nation's economic base, increase employment and production, improve the standards of housing, promote exports, and reduce the country's dependence on imports and foreign aid through the approval of viable development loans. These objectives have not been fulfilled. A 1997 study concluded that much of this failure is because MIDB is a state-owned enterprise, and has been subject to political interference in its decision-making, with the predictable result of bad lending decisions and unrecoverable loans.

MIDB received $10 million from Compact funds along with direct contributions from the government and funds from the US Department of Agriculture under the Rural Housing and Community Development Service Housing Preservation Grant. MIDB also assumed the assets and liabilities of the former Marshall Islands Economic Development Loan Office, Inc. MIDB has total nominal assets of about $20 million, of which loans make up $15 million, including around $9 million for commercial purposes. In MIDB's audited accounts of 1998 its assets were valued at $8.5 million, the result of writing off a substantial amount of non-performing loans. The 1999 accounts are not yet available.

In November 1999 the Republic of China, Taiwan, approved a loan to MIDB of $5m at 5% interest, to be repaid over 15 years including a 3-year grace period. Half of this money was quickly allocated and disbursed to a mixture of housing, domestic shipping and consumer loans. Of the balance, $1.8m was borrowed on a temporary basis by the Government to settle MISSA's overdue obligations for overseas referrals.

MIDB makes loans and takes deposits, but offers no other banking services. It provides loans for housing (15 year maximum term, at 8.5%, formerly 4%), commercial purposes (10 years at 8.5%, formerly 6.5%) and consumer loans (3 years and between 12%–14%, dependent on purpose). The bank has provided loans for fishing, agriculture, housing, tourism and manufacturing, but its main focus has been retail trade and consumer loans. Interest rates have in the past been prescribed by government on an arbitrary basis rather than by the Board's view of commercial considerations.

The 1997 study of the institutional strengthening of the MIDB was funded by ADB. The study found that the fundamental problems of MIDB are 'structural rather than stemming from inherent deficiencies of …staff'. It concluded that MIDB needed to undergo structural transformation to place majority control in the hands of the private sector, thereby allowing MIDB to get on and recover what loans it can, without political hindrance, and make all future loans on their commercial merit. It was believed that such restructuring would be essential for MIDB to raise new capital from offshore. As noted above, RoC (Taiwan) has since provided $5m with no conditions as to restructuring the Bank, but that seems an exception, and further external funding is likely to depend on a thorough reform of the bank.

This should be preceded by a review of the 1997 report in the light of events since then. The terms of reference for this review should additionally require study of the option of cessation of direct lending by MIDB, accumulation of reserves as its loans are repaid, and conversion of MIDB to a collateral-enhancing institution to enable borrowers to access the unlent funds of the commercial banks. MIDB might operate fee-based partial-guarantee and risk-sharing schemes, linked to compulsory use of business advisory and training services, to reduce the credit risk of the commercial banks—who would deal with the borrower and provide the loan funds.[4] It seems possible that this would be a more efficient use of the complementary strengths and weaknesses of the public and private sector institutions. If successful in a risk-sharing rather than a direct lending role, the new-style MIDB may also be relevant to the need for a local source of risk capital, discussed below.

Property as collateral in commercial financing

The absence of exchange controls and the integration of the Marshall Islands into the US monetary system are positive factors in the investment environment. However, difficulties in obtaining development finance, which are related to the absence of adequate bankable security, are widely considered a major hindrance to investment. All three commercial banks have funds that could be made available for loans but are presently invested offshore. This is partly because of the lack of viable business projects, but the banks report that they are constrained from lending in many instances by the lack of realizable collateral. The land tenure system in RMI does not allow land to be pledged as security, or to be seized and sold for satisfaction of debt, without the clear support and agreement of the three senior land interest holders – the *iroij*, *alab* and *drijerbal*. Such agreement is naturally hard to obtain.

The law on the leasing of land for development purposes needs to provide, and be seen to provide :

- the lessee with security of tenure and undisturbed occupation for the duration of a lease, provided the agreed conditions of tenure are fulfilled
- the customary owners with a return on leased land commensurate with market conditions, and protection from or compensation for any degradation of the leased land
- financial institutions and other lenders with access and use rights to mortgaged land as security for loans.

[4] The experience and possible role of US federal programmes that link credit to business advice should be examined in the MIDB review.

There is understandable concern about enforced sale of land in case of default on debt. Over time this could lead to landlessness and emergence of a new landlord class. But the rights of the secured lender could stop short of ownership, provided he/she is enabled to recover the debt by 'statutory leasehold' use of the land. Legislation could provide for a secured lender to be able, in the event of default on a loan, to enter, exclusively occupy and use (including subleasing) the mortgaged property, receiving all income from the property until such time as the loan is paid off or the lease expires, whichever comes first, and then to be required to return possession of the property to the lessor or owners.

The authorities in RMI are aware of the importance of this problem. Draft legislation exists to facilitate land leasing, and is under Parliamentary review. The plan is to establish a Marshall Islands Development Land Registration Authority that will facilitate the registration of land whose owners are willing to lease it for development by investors. A database of land that is available for lease and that has free and clear title will be created and administered by the Authority. This arrangement will go some way to enabling land to be used as security. As noted above, attention is needed to the connected issue of the rights of the lender in the event of default. If these issues can be resolved, a substantial pool of private deposits can be tapped by the banks to finance commercial development in RMI.

Equipment Leasing

Leasing offers a business opportunity in RMI. A leasing company would offer items such as equipment, machinery, vehicles and boats for lease (or hire-purchase) rather than buying with bank credit. Leasing has the advantages to the lessees over bank borrowing of providing 100 per cent financing quickly, with the possibility of purchase for a nominal sum after the expiry of the lease. The lessor provides credit through the lease agreement at a profit, and has security through continuing ownership of the item leased if the lessor is unable to service the lease payments. In the context of the RMI, where land and buildings do not presently provide adequate collateral, leasing could become an attractive form of business finance. A leasing company could be established as a subsidiary of one or more banks, perhaps with a number of individual shareholders. The Banking Act 1987 permits this. The training of a Marshallese person with a financial management background to run the business is not likely to present a problem.

Investment Funds and Venture Capital

There is no domestic institution providing a source of equity capital. The banks are of the view that this makes overseas sources of equity capital difficult to access because no local matching funds are available. Vehicles can be taken as security, but have an acceptable collateral life of two to three years. Other plant cannot be used as security because there is no register of liens. The commercial banks consider that the establishment of a venture capital fund would help to provide viable financial structures for small and medium private sector enterprises, but it is not yet clear where the money for such a fund would be found. The lack of a uniform legal framework governing the creation, prioritization, and foreclosure of security interests constitutes a significant impediment for investors wishing to obtain commercial financing on reasonable terms. The banks believe this situation could be rectified by the introduction and implementation in the RMI of a Uniform Commercial Code, a body of laws defining private and personal property rights and rules governing transactions and business practices, such as the requirement to record or file any chattel mortgage, conditional sales, or other type of security agreement.

Offshore banking, company and shipping registration

The sale of sovereignty services was noted in Chapter 2 as an economic opportunity area, but one subject to certain constraints. In the past a number of offshore banks were registered in RMI, but in the face of increasing US and other governments' concern about their operations this is winding down. Given the growing opposition among the world's wealthier governments to the role which offshore banking plays in hiding and converting the proceeds of crime and tax evasion, the indirect costs of hosting an offshore centre, unless it is large and well regulated, can easily outweigh the economic benefits. These are usually small. Money passing through the books of offshore banks does not 'stick' in the local economy. The benefits to the domestic economy are the creation of a small number of jobs and consumption of local goods and services. The damage to the country's reputation for good governance that results from allegations of crime-related transactions passing through one or more of its offshore banks is intangible but potentially real. With the help of IMF and others, RMI is now moving to bring its offshore regulatory arrangements into line with international 'best practice' for small financial centres. In RMI's case this probably means effectively going out of the offshore banking business.

RMI has, however, an established and profitable activity in the registration of offshore companies and ships. This is carried on by the Trust Company of the Marshall Islands, Inc. (TCMI). This Marshall Islands corporation is wholly owned and controlled by a US parent company, from whom and its affiliates it purchases management and other services, including representation around the world. TCMI operates the companies and shipping registries under a joint venture agreement with the Government of RMI that was made in 1990 and amended in 1995.The two registries are linked. The shipping registry offers ship-owners a legal nationality in a politically stable, US-connected jurisdiction that requires internationally-recognised vessel safety and crew standards, at competitive registration and certification rates.

The register has been growing steadily, with about 300 vessels now registered and average size increasing as new registrations come on. TCMI reports that the RMI register is now the eighth largest in the world, and has a good record for its ships passing port inspections. But only vessels owned by RMI citizens or RMI-registered companies can be registered in RMI, and that is what drives the companies register. Most of the (5,000 registered, 3,000 active) companies on the RMI companies register are involved in or related to the ownership of vessels on the RMI shipping register—ownership of a vessel is often shared among many registered companies, which may in turn be under the control of one person or organisation. TCMI pays 25–28% of its operating revenue to the Government in quarterly instalments. In 2000 it expects to pay about $1m, slightly higher than in 1999, in line with its growth of business. This is a competitive and well-informed market, in which TCMI appears to be successfully marketing the linked facilities of the two registers. RMI is following the footsteps of several other developing countries that have turned aspects of sovereignty to income in this way.

Extending financial services

Majuro and Ebeye have full-service banking, and Jaluit is soon to have a bank branch. Beyond that there are no branches or agencies, and persons wanting to deal with the banks must do so by radio or by visiting Majuro. As part of the examination of the rural atolls' stock of infrastructure and services proposed later in this report, and again in the proposed examination of the distribution of access and income between atolls and social groups, access to financial services will be examined. There is valuable experience in other small and island developing countries of ways to bring financial services closer to rural and less affluent people—often referred to as micro-finance[5]—without endangering the stability of the financial system. It is very likely there will be a role for national and local government in reducing the costs and risks of banking in remote areas, by provision of premises, telecommunications and suitable part-time staff.

As RMI's diaspora continues and Marshallese communities in USA expand, the ability to send and receive money becomes increasingly important. The recent opening of a Western Union office in Majuro, soon to be followed by one in Ebeye, has greatly improved money transfer services. After a year's operations, outflows—almost all intra-family transactions with USA—are reported to average around $40,000 a week and inflows $10,000, for a net outflow at an annual rate around $1.5m. The service is quick and easy to use, and for amounts up to $1,000 the rates are competitive with wire transfers through the banking system.

[5] The term micro-finance is commonly applied to provision of credit services in communities much poorer than RMI, such that $100 would be a substantial loan and $1000 a major investment. Nevertheless the principles of borrower self-discipline and embedding of credit institutions in the community may have useful application in RMI. The possibility is worth exploring.

Chapter 7

Transport, Communications and Utilities

Key points

- Strategically vital parts of the economy are operated by state-owned enterprises. The corporate governance of these SOEs is of great importance to the overall equity and competitiveness of the economy.
- International air links have recently improved, and international sea freight services are generally regarded as satisfactory—both are provided by overseas commercial operators.[1]
- Domestic air services by AMI are handicapped by years of financial weakness, poor maintenance and chronic under-investment in operating infrastructure. The airline's organisation, staffing and finances are currently under review.
- Domestic shipping has also been handicapped by under-investment in vessels and atoll ports, and by inadequate monitoring and management of privatised inter-island services.
- Maintenance of infrastructure assets out of operating income has been ignored in favour of buying 'new' assets with external financing.
- Commercial and technical upgrading of NTA may be best achieved by sale of a substantial share-holding to an international telecommunications company.

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1 Apart from a weekly Majuro-Tarawa-Majuro service by Air Marshall Islands.

- Huge disparities exist between urban and rural standards of amenity (roads, telecomms, water, electricity)
- MEC's profitability is boosted by sales of diesel fuel to foreign fishing vessels
- Solar power offers good prospects for rural electrification provided technical support is assured

Air transport

International air services

Three scheduled passenger carriers—Continental Micronesia, Aloha Airlines and Airline of the Marshall Islands (AMI)—provide international air access to the Marshall Islands. Continental Micronesia provides three inbound flights per week from Honolulu, with flights continuing on to the Federated States of Micronesia and terminating in Guam. Continental Micronesia also provides three inbound flights from Guam that continue on and terminate Honolulu. Aloha Airlines provides one inbound flight per week from Honolulu and outbound flight once a week to Honolulu. AMI, a state-owned enterprise, provides once a week roundtrip flight between Majuro and Tarawa (Kiribati) using a Dornier 228 aircraft.

In August 2000 Continental Micronesia replaced its Boeing 727–200 with Boeing 737–800, increasing payload capacity as well as enabling direct flights between Majuro and Honolulu. The upgrading of the Continental Micronesia service and the recent entry of Aloha Airlines using B737-200 aircraft have greatly improved international air services between the RMI and Honolulu. The service between the RMI and Guam has remained the same. The service between the RMI and points to the south, provided by AMI, has substantially decreased.[2]

[2] AMI's involvement in international air services, which was losing a lot of money at public expense, has been considerably reduced as the result of the Public Sector Reform Program (PSRP) carried out since 1995. Before the PSRP the AMI operated a thrice a week service between Majuro and Honolulu using a leased DC8 combi aircraft and three times a week service connecting Majuro and Fiji (Nadi, Suva) with service to Tarawa (Kiribati) and Funafuti (Tuvalu) using a SAAB 2000 high speed turboprop aircraft which replaced the BAe 748 aircraft previously used by AMI on this service. Like the BAe 748 aircraft, the SAAB aircraft was purchased and owned by the RMI government and leased to AMI.

Since the 1990s the governments of the Marshall Islands, Kiribati, Tuvalu and Nauru have periodically discussed arrangements for subregional air services. These discussions led to a Memorandum of Understanding signed by the heads of state of the four countries in May 1995. Discussions are continuing.

Domestic air services

AMI presently uses two Dornier 228 aircraft and a BN2A Islander aircraft for its domestic air services to the atolls, flying at least once week to all its domestic destinations. Busier destinations such as Jaluit and Kili receive flights five times a week and there are six roundtrip flights a week between Majuro and Kwajalein. Sixteen of the 28 domestic airports were closed for lack of maintenance in the last few years. Almost all have now been re-opened after rehabilitation by the Ministry of Works, using equipment purchased with funds donated by RoC, Taiwan.

In addition to AMI, Continental Micronesia provides three flights per week from Majuro to Kwajalein and three flights a week from Kwajalein to Majuro on its B737-800 service. Aloha Airlines provides one weekly flight from Majuro to Kwajalein and one from Kwajalein to Majuro on its B737-200 service.

Domestic air services provided by AMI have been drastically affected by the absence of proper maintenance facilities. AMI has not had a hangar facility for over three years. This has affected its ability to maintain its aircraft and this, compounded by the poor condition of many of the outer island airstrips, has translated into breakdowns. The resulting disruption to schedules has severely hampered the fledgling tourist industry.

Under pressure from the Government as owner, AMI is undergoing a review that is expected to lead to marked improvements in its operations and financial performance. Taking further the changes that began under the PSRP, the airline is looking to increase the frequency and reliability of its services, while reducing overheads—particularly staff costs—and strengthening maintenance, marketing and financial controls. Pilot training will be stepped up to reduce reliance on overseas personnel.

One of the policy issues concerning AMI has been the level of subsidy provided by government to support AMI's international and domestic air operations. The government subsidy averaged

$4–6 million annually during 1990–1994. One of the policy requirements of the PSRP was the termination of government subsidy to AMI. The current review of AMI may identify the need for additional capital to put the enterprise on a sound financial footing. If so, the Government will need to consider in what form such capital should be provided, possibly including some degree of privatisation.

The Marshall Islands Airports Authority (MIAA), a statutory corporation established in late 1999, took over the management of the Amata Kabua International Airport. Previously, the Directorate of Civil Aviation, the civil aviation regulatory body in RMI, was responsible for all oversight and management of the Airport. Since its establishment MIAA has made immediate improvements in the management, operation and maintenance of the RMI's principal airport. Issues of corporate governance, particularly financial economy, accountability and care of public assets, arise in the exercise of autonomy by MIAA and MIPA *(see below)*.

Sea transport

International shipping services

Scheduled international shipping services serving Majuro and Ebeye are provided on a regular basis. The international service links the US West Coast, Hawaii, the Marshall Islands, Federated States of Micronesia (FSM) and the Far East with service frequency of 3 to 4 weeks between vessel arrivals. The PM&O Line provide a direct service from the US West Coast to Majuro and Ebeye with its vessels traveling in westward direction continuing on to FSM, Saipan and Palau and the Far East. Matson Line provides services between Honolulu and Majuro. These services to the Marshall Islands are judged by users to be reliable and competitive. There is no scheduled international passenger shipping to the Marshall Islands.

Domestic shipping services

Inter-atoll and intra-atoll shipping services have been provided by the government, private companies and individuals. The main means of providing shipping services to the communities in the outer atoll and islands have been the Field Trip services operated by the Ministry of Transport and Communications (MOTC) directly or on its behalf by third parties. Apart from the Field Trip services private companies and individuals provide shipping services between the atolls and within atolls, but these are small scale and often irregular.

Following reviews of the domestic shipping services during 1998 and 1999 the government decided on a strategy of contracting private operators, using their own ships, to provide a guaranteed specified levels of service at specified freight rates and passenger fares in return for a subsidy. The government also decided that the MV Ribuuk Ae would be available on the commercial charter terms to the operators. Under the scheme the government also established three contract service areas (Northern Service Area, Central and Western Service Area and Southern Service Area)[3], but excluding islands that can be served by the private sector on a commercially basis.

The three service areas were tendered out and the contracts for domestic shipping services were awarded to two private operators in June 1999, one operator to provide shipping services to the Northern Service Area and other to operate in the other two service areas. The contract for the Northern Service Area was awarded on basis that the contractor operates it own ship and that for the other two service areas on the basis that the contractor would charter the Ribuuk Ae.

Those arrangements have only recently come into operation, but further improvements are planned. The Government now intends to introduce a five-sector route-scheduling framework for inter-atoll services to be operated by private sector firms under contract to the Government. Using grant funds from RoC, Taiwan, the Government has purchased and refurbished two more passenger/cargo vessels and a small tanker, which are to be chartered to commercial operators. Operation of the tanker is intended to transform the supply of petrol,

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[3] Northern Service Area includes the atolls of Aur, Maloelap, Wotje, Likiep, Utirik and Ailuk, and the island of Mejit; Central and Western Service Area includes the atolls of Ailinglaplap, Ebeye/Kwajalein, Namu, Lae, Ujae, Wotho and Enewetak, and the islands of Jabwot and Lib; Southern Service Area includes the atolls of Jaluit, Ebon and Namorik, and the island of Kili.

diesel and kerosene in all outer islands, improving the quality of life and supporting developmental projects that require a reliable supply of petroleum fuel. The tanker will deliver to storage tanks on larger islands and refill drums at smaller ports.

Outer island wharves and cargo storage facilities are to be improved in 2002–3 under a proposed ADB loan project to be designed later in 2001. At the same time the Government plans to use RoC grant funds build a number of 11–12 metre GRP boats for lagoon service in the main atolls.[4] Taken together—and provided the well-known problems of operating cost finance, maintenance and service reliability can be overcome—these improvements should make a marked difference to outer island welfare and potential for economic activity. The Government will need to consider carefully how the new lagoon boats are to be operated. It will be important not to undermine existing private sector services where these are meeting the community's needs.

Apart from government-sponsored operations, private companies and individuals also provide shipping services using a variety of vessels ranging from 40 tons to two to three ton diesel crafts ("boom boom" boats) that operate within lagoons and between nearby atolls e.g. between Majuro and Arno.

Among the larger boats used for transportation of cargo are ex-fishing vessels from an abortive long-line fishing project implemented by the Marshall Islands Development Authority. These fishing boats vessels remained with the private operators to whom they were originally allocated under the project. A number of these boats are not in service. The Marshall Islands Port Authority (MIPA), a statutory body established in 1996, is responsible for managing international ports of entry in RMI. Presently it manages two of the international ports, Majuro and Jaluit, whilst KADA manages the port at Ebeye. Since its establishment MIPA has been financing its operations without subsidy from the government, but this has been, in part at least, at the expense of prudent maintenance, and MIPA's principal assets—like many others in the public sector—have been deteriorating as a result.

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4 This plan provides an opening for private enterprise to invest in GRP (fibre-glass) construction of vessels, water tanks, eskies, bathroom units etc, with an initial base load of Government contracts.

Road transport

The road network in the Marshall Islands consists of about 40 miles of sealed roads and 37 miles of unsealed roads. Majuro accounts for about 35 miles of the roads and most of the 2575 vehicles registered in 1999. Ebeye, including Gugeegue causeway, has about 7 miles of road. The sealed roads are found only in Majuro and Ebeye. The rest of roads in the other atolls are mainly unformed tracks.

Here again the main issue is locally-funded asset maintenance versus externally-funded asset replacement. Proposals have been made in the past, and most recently in 1998, for the establishment of a roads trust fund to provide for the maintenance of roads. The revenues for the fund would come from annual vehicle registration fees, roads use charge to be levied on gasoline imports and road damage charge to be levied on heavy vehicles based on their laden axle weights. These recommendations have been considered but unsurprisingly do not seem to find favour with road users and have yet to be implemented. The issue of road maintenance and dedicated taxes should be referred to the review of taxation recommended in Chapter 2.

Communications

The National Telecommunications Authority (NTA) enjoys a monopoly in provision of telecommunications services for the Marshall Islands. It provides domestic and international telephone (voice, facsimile and data) service and local cellular telephone service. Since the introduction of the cellular phones, there has been high demand requiring installation of a new system to meet the demand. NTA also provides RMI's access to Internet services, currently regarded by users as badly in need of improvement.

NTA was established in 1987 as a wholly government owned entity, and funded by a loan of $18.8m, later increased to $22.8m, from US Department of Commerce. It was privatized in 1991 in the simplest possible way by legislation which declared it a private company. Of the authorized capital seventy-five percent of the shares (270,000) were offered to the Marshall Islands citizens whilst the Government purchased 25 percent (90,000 shares). At the close of the share offer in 1992 the public had purchased 35,575 shares. The Government has since injected additional capital to increase the equity base of NTA, further diluting the small public shareholding. At present the law prevents the acquisition of shares in NTA by non-Marshallese investors.

Majuro and Ebeye have telephone services and direct dialling access to international destinations. In 1999 NTA installed a Standard "A" satellite dish in Majuro to improve international capacity. Domestically Ebeye telephone system has been expanded to Gugeegu Island as well as access to Kwajalein Island. Apart from direct telephone connections, NTA has installed public pay phones in Majuro and Ebeye as well as introduced debit phone cards which can be used from locations in US for calls to the Marshall Islands

Communication with rural areas is still done mainly by HF radios, but NTA is moving towards mini satellite system for communications in the outer islands. These are presently in use in Jaluit and Kili. Generally telecommunications with the outer atolls and islands are regarded as unsatisfactory and in need of a coordinated plan of improvement. The Government has under consideration a new HF-based network using solar power and laptop computers, that would be available to health centers, banks, AMI and distance education as well as local government. The possible development of such a system and its relationship to the improvements NTA is considering, and should form part of the studies for the Outer Island Development Programme .

In the last two years NTA has been operating at a loss. This has arisen mainly because of the introduction of email services, which have largely replaced high-earning facsimile services, as well as rising costs, the high level of accounts receivable and bad debts arising mainly from international reverse calls from the USA. In 2000 NTA has taken steps to address the situation including a revised tariff structure and active policy on management of accounts receivable. This should return the carrier to profitability.

Beyond that, NTA will need access to substantial amounts of capital to keep up with technological progress. One way of doing this—and beefing up the technical and commercial management where necessary—is to sell a substantial shareholding in NTA to a reputable and well cashed-up telecommunications company. As noted above, this would require a change in the law on NTA sharesholding, and the Government is preparing to take the necessary amending legislation to the Nitijela. If this is done, and–after an appropriately transparent process— control of the corporation effectively passes to a private investor, there will be a need for monitoring the price and quality performance of NTA in the public interest *(see also on electricity and water, below)*.

Utilities - Power, Water Supply and Sanitation

Power

Electric power is available to Majuro, Ebeye, Jaluit and Kili. The Marshalls Energy Company (MEC), a wholly government-owned corporation, supplies Majuro and Jaluit power. Electric power in Ebeye is supplied by the Kwajalein Atoll Joint Resources Utilities, Inc., which is a wholly owned subsidiary of the Kwajalein Development Authority. The Kili local government provides power supply in Kili. Households in other atolls and islands use kerosene lamps and solar power for lighting. The Majuro power station was enlarged in 1998 by construction of a new 12.8 mw plant, funded by a commercial loan of $12.5m.

The MEC imports diesel fuel for supply to its power stations. It also supplies fuel to overseas fishing vessels and to government boats. The MEC also owns a LPG company, formerly a joint venture with Boral Gas Australia, supplying bottled gas to households and businesses. The profits from these subsidiary operations subsidize power generation and distribution. Government subsidies to MEC ceased in 1993, when MEC began to operate profitably.

On the face of it, MEC is a candidate for privatisation. This should be examined carefully so as to protect the public interest in competitive utility pricing (see comments on the overall competitiveness of RMI's bundle of operating costs) while seeking to attract private capital and management support into the corporation. Such a study should examine how the price and quality aspects of privatised 'natural monopolies' such as power, water, telecommunications and domestic air services can be monitored. The aim has to be that they should act *as if* they were competing for customers in a commercial marketplace with competent alternative suppliers.

The Government has recently requested MEC to assist with setting up of power generation on Wotje Atoll and Majuro Local Government has requested MEC assistance at Rong Rong Island in Majuro Atoll and at Anil Islands on Majuro Atoll. The arrangements for this assistance are still under consideration. It will be likely that these operations will require subsidization.

The Kwajalein Atoll Joint Utility Resources, Inc. was established to manage power generation and distribution as well as the water supply system in Ebeye. However, due to lack of maintenance the power plant has been deteriorating and unable to supply adequate power to Ebeye. The lack of continuous power generation also affected the water supply system and sewerage system. To address the situation and the government in 1999 tendered and awarded a management contract to the American Samoa Power Association (ASPA) to manage the power plant and with loan finance from the ADB to improve power generation and distribution.

In the other atolls households use mainly kerosene, and solar energy in some areas, for lighting. In 1994 the government adopted an outer island energy policy and plan to carry out rural electrification using solar energy. Under the electrification policy and plan about 428 photovoltaic lighting systems have been installed of which 65 percent are for individual households. Other installations of PV system in rural areas were for fish bases, radiotelephones, schools and community halls.

As part of the policy the Government established the Marshall Islands Alternative Energy Company (MAEC); modeled on the MEC, to install and operate PV lighting systems in the outer islands. The MAEC is presently dormant. In providing PV systems to rural households, ownership and responsibility for the systems by the households and their communities are critical factors in the sustainable operation of the systems. Technical advice and re-supply of expendable equipment, batteries etc have to be reliably available to the owner-users of the installed systems. The Ministry of Resources and Development is currently reviving the solar programme for the outer islands with external assistance. It is important to address these issues of technical sustainability in the light of MAEC's earlier lack of success.

Water supply and sanitation

Despite recent ADB-funded investment in storage and reticulation, the capacity of the Majuro water supply to meet dry-weather demand is inadequate and its technical and commercial viability remain problematic. Household rainwater tanks have been widely installed, reducing demand for the piped (and chargeable) supply during rainy periods, and undermining the finances of the water supply operation, which is now burdened with debt service costs.

Further growth in the urban population and economic activities will increase the load on the available water supply and highlight the need to have greater access to the groundwater reserves at Laura, which was denied to the recent expansion project.

Majuro sewer system uses saltwater mains in the DUD area whilst the remaining areas use septic tanks. The saltwater system is used except in the area between the Airport and Laura, where fresh water from the Laura pumping stations is used. Untreated sewerage water is disposed of by way of ocean outfall 80 feet deep on the ocean side of Delap. In the area between Airport and Laura septic tanks are in use, including many located uncomfortably close to the Laura wells.

The Kwajalein Atoll Joint Utilities Resources has been responsible for potable water system in Ebeye whilst the Ebeye Local Government is responsible for the saltwater sewerage system, including the wastewater treatment plant. The source for the fresh water is an artificially constructed area dedicated to collecting rainwater. Given the low rainfall in Ebeye fresh water is supplemented by desalination of saltwater. The waste heat from the diesel engines of the power station produces heat for the desalination plant. The availability of water in Ebeye depends on the availability of power. In 1997 the desalination plant broke down and water had to be ferried from Kwajalein USAKA. The piped sewer system uses saltwater. The sewer system and the treatment plant depend on the availability of power supply. These systems are now functioning as a result of the improvement in power supply under the management contract with an overseas contractor.

Most of households in the outer islands, including households in Majuro and Ebeye use mainly rainwater catchments for drinking water. Other source of drinking water for households is wells. With regard to sanitation facilities, the 1999 census reported that 61 percent of all households used flush toilets and 25 percent used pit latrine or have no toilet facilities. This included 327 households in Majuro or 20 percent of those using pit latrine or no toilet facilities. Proper sanitation is an issue to be addressed in both the urban (Majuro and Ebeye) and rural areas.

Chapter 8

Agriculture, Fisheries and Tourism

Key points

- Agricultural strategy is to promote household food production for own consumption and small-scale farming for sale in the urban markets
- Household income from copra—still the main source of cash income for many in the outer islands—depends crucially on regular domestic shipping services
- The copra price subsidy is an important way of redistributing income to rural households
- Coastal/lagoon fishing provides cash incomes for households in certain atolls, and also depends crucially on domestic shipping services
- The two-edged fisheries strategy to maximize licence income from the EEZ fishery and develop Majuro as a competitive transshipment port has had encouraging success
- The immediate potential for tourism in RMI lies in the promotion and development of special-interest niche market activities

Agriculture

The Ministry of Resources and Development (R&D) is responsible for facilitating agricultural development as well as development of other major economic sectors. The Ministry of R&D has recently adopted a mission statement and work plan for its three divisions, namely agriculture, energy and trade/investment, which outline the focus of development in these areas. The Ministry of R&D has initiated the convening of the R&D Working Group comprising of the heads of the agencies involved in resources development, i.e. Marshall Islands Marine Resources Authority, Marshall Islands Visitors Authority, Tobolar Copra Processing Authority and the Marshall Islands Development Bank, to plan and coordinate the development, production and provision of goods and services in these sectors.

Agricultural production is relatively small, but important to the livelihood of people and the economy of the Marshall Islands. It comprises food crops including small livestock and one cash crop, copra. Land for agricultural production is limited. The total land area in Marshall Islands of 70 square miles (181 km^2) is composed of the various atoll islet and islands. The atolls and islands range in size from Jabat with 0.22 square miles (0.6 km^2) to Mili and Kwajalein each with over 6 square miles (16 km^2), most of the latter being unavailable for agriculture. There are some islets in most atolls which are not suitable for agriculture crops. Less than one half of the total land area is considered as potential agricultural area. There are competing demands for the use of the available land e.g. for housing, infrastructure and US military needs as well as growing food and other agricultural crops.

Food crops

Food crops are produced by households largely for own consumption. Some households on Majuro Atoll sell their surplus food crops to the people in the Majuro urban area. The main staple food crops are green and mature coconut, breadfruit and pandanus, which produces fruit and leaf used for various purposes. Banana and taro are also staple crops. Other fruits and vegetables include pineapples, melons, cucumber, capsicum, cabbages, long beans, tomatoes, eggplants, pumpkins and chilies.

Estimates of subsistence food production during the last three years indicate that households produce 1200–1300 short tons of breadfruit a year for their own consumption, 850–950 short tons of green and mature coconuts, and banana 170–180 short tons, pandanus and taro about 100–120 short tons each and other vegetables 35 short tons a year. The estimated value of subsistence food crop production in 1999 was $1.4 million.

Households also raise small livestock, mainly pigs and chickens. In 1999 there were about 15,000 pigs and 90,000 chickens in Marshall Islands. Estimates of the value of household consumption of homegrown pork and chicken averaged about $2.0 million annually in the last three years.

Whilst there is household consumption of local food crops there is high preference for imported foodstuffs. The high level of consumption of processed and low-nutrition foods and low consumption of fresh fruits and vegetables contribute to the widespread problem of overnutrition among the adult population and undernutrition among children. As a contribution towards dealing with this issue, the National Food and Nutrition Task Force produced an agricultural sector development strategy and action plan, which has as its main goal the improvement of agricultural production and food security and focusing on improved nutrition.

To encourage production the government in the past provided subsidies in terms of inputs and labor in the form of agriculture extension staff to assist producers. However, there was little community involvement and there was an expectation that government would carry out the work for the community. Growers expected that agricultural extension workers would plant crops for them. These efforts have not been very effective in encouraging production.

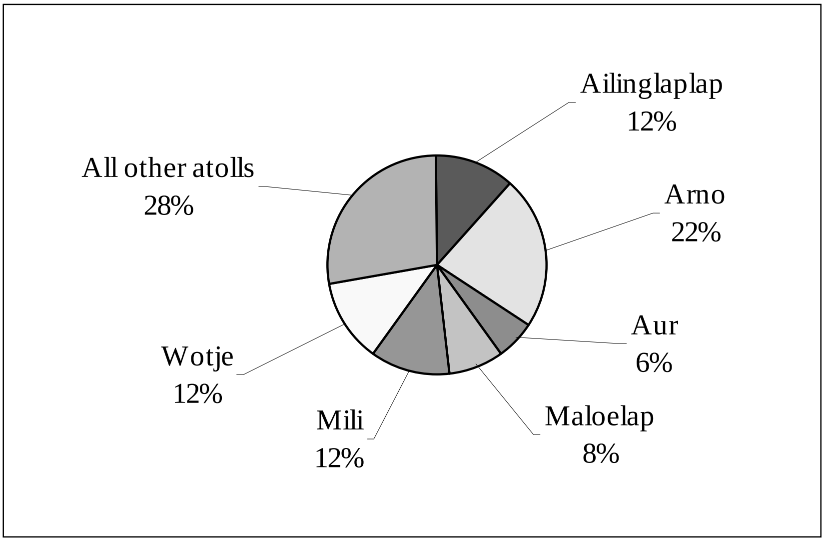
An effort to increase local food production and import substitution was the establishment of a breadfruit chip factory in Laura by the Marshall Islands Development Authority (MIDA). The factory was to produce chips not only from breadfruit but also taro and bananas. The factory has been built and equipment installed. Due to lack of technical and managerial capacity, working capital and lack of raw material inputs the factory remains idle. MIDA is now trying to get a private investor to operate the factory.

The Agriculture Division of the Ministry of Resources and Development is now working with a group of farmers at Laura on Majuro Atoll, with assistance from a Taiwanese agricultural technical mission, to produce vegetables on a semi-commercial basis for sale in Majuro urban area. The Division is also collaborating with the Ministry of Health and Environment with its nutrition programme involving a food growing project in Rita as well as with the Ministry of Education with training in home gardening at the public high schools in Juluit and Wotje as part of school curriculum and to produce vegetables for the school. The Division has a nursery in Delap, which gives out plantings of vegetables and fruit trees to interested people in Majuro and the outer islands.

Cash crop - copra production

The only significant cash crop is copra, which is processed into coconut oil and other products in Majuro. The world coconut oil and copra trade, which has long been dominated by Philippines exports, is in a state of great uncertainty, with stiff competition from other vegetable oils resulting in persistently low international prices. Copra remains the most important—almost the only—source of earned income for people in rural areas, and nearly all the atolls produce

Figure 8.1
RMI Copra Production by Atoll, 1999



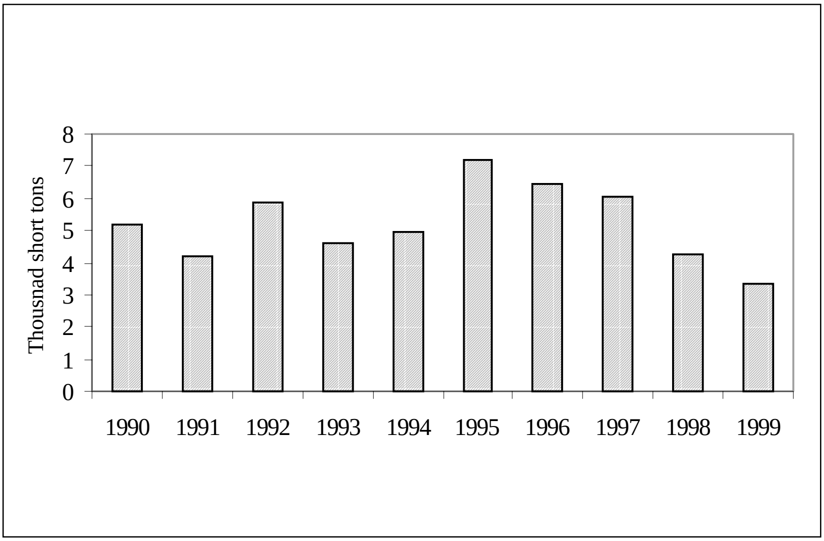
Source: Marshall Islands Statistical Abstract 1998&1999, OPS (2000).

it. A major reason for this is its closeness and ease of transportation to Majuro where the copra processing plant is located.

Copra production has been fluctuating during the first part of 1990s rising to its highest level in 1995 then declining during the rest of the 1990s *(Figure 8.2)*. The 7201 tons produced in 1995 was the highest production in nearly 50 years. Copra production in 1999 at 3355 tons was the lowest during the same period, and well below the long-run average of around 5000 tons. Whilst copra production indicated some price responsiveness *(compare Figures 8.2 and 8.3)*, there are other factors involved. After the occasional impact of adverse climatic conditions, the most important factor is the availability and regularity of domestic shipping services to the outer atolls and islands, which has deteriorated sharply in recent years.

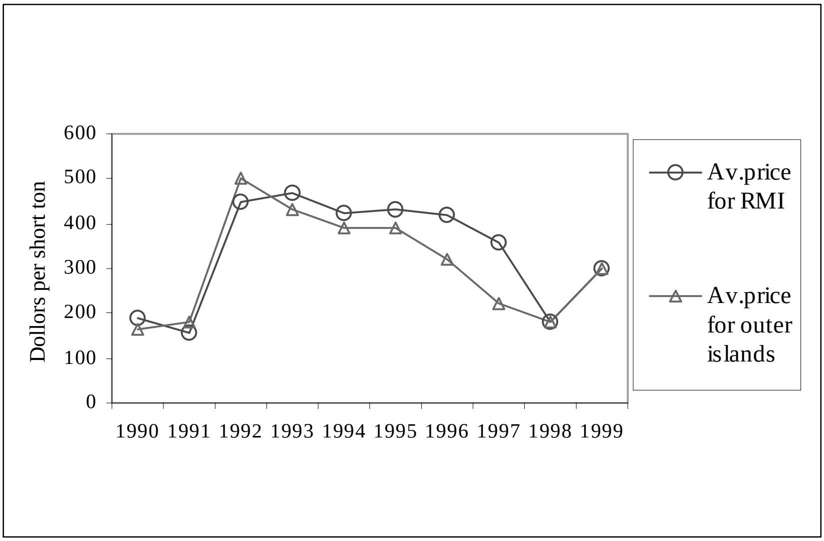
Copra produced in the Marshall Islands is sold to Tobolar Copra Processing Plant Inc. (Tobolar), a wholly government-owned company. Tobolar is presently managed by Pacific International Inc. (PII) under a management contract. Tobolar's board of directors currently consists of three government officials and two persons from the private sector.

Figure 8.2
RMI Copra Production, 1990–1999



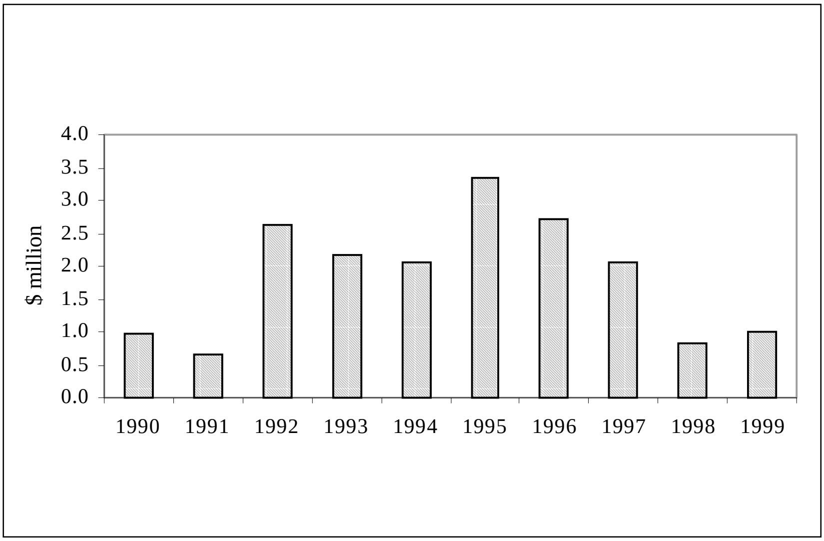
Source: Marshall Islands Statistical Abstract 1998&1999, OPS (2000).

Figure 8.3
RMI Copra Prices, 1990–1999



Source: Marshall Islands Statistical Abstract 1998&1999, OPS (2000).

Figure 8.4
RMI Total Producer Incomes from Copra, 1990–1999



Source: Marshall Islands Statistical Abstract 1998&1999, OPS (2000).

In the last 10 years Tobolar has been receiving transfers from the government to subsidize prices paid to copra producers in Marshall Islands. The total subsidy received by Tobolar during the last 10 years is about $8 million. In 1999/2000 the subsidy paid was $790,000, or about $235/ton of 1999 production—equivalent to two-thirds of the price paid to producers. At close to 1% of GDP this is a significant redistribution of income to rural producers, and one of the very few tangible steps taken by governments to reduce the income gap between urban and rural areas. If improved domestic shipping leads to increased production but world prices do not improve, maintenance of the domestic price may prove difficult for the Government budget.

Copra from all atolls is paid the same price except for Majuro, which receives a higher price. In May 2000 copra price for the outer atolls and islands was 15 cents per pound (lb) and for Majuro 16.5 cents per lb. The reason for the price differential is that Tobolar pays the freight ($56.25 per ton) for copra brought in from the outer islands whilst Majuro copra producers meet the cost of transporting their copra to the Tobolar plant. Tobolar also pays a brokerage fee of $19.50 per ton to copra buyers who sell copra to Tobolar, from atolls other than Majuro.

Producer incomes from copra *(Figure 8.4)* are not received wholly by the producer. Part of it is paid out, in accordance to the traditional land ownership rights, to the *iroij*. Tobolar pays the *iroji* up to one cent per lb of copra purchased from producers. Payments to the *iroij* are deducted from the copra payments made to the producer and then paid by Tobolar to the *iroij*.

Tobolar processes the copra and produces crude coconut oil, copra cake, refined oil, bath soap (beauty bars), laundry soap. The plant has a processing capacity of 10,000 tons; with minor modifications its processing capacity can increase to 18,000 tons. Tobolar buys copra from Kiribati to help reduce fixed unit costs. Tobolar sells most of its products overseas, only 1–2 percent of its sales are to the local market. Low world prices for coconut products mean that Tobolar has difficulty breaking even. Despite these adverse conditions Tobolar is looking for product diversification that could assist small businesses, and is planning to upgrade its mill, refinery and soap plant and increase its production capacity in 2000–2001.

Fisheries

In November 1997 the Cabinet approved the National Fisheries Policy with the main objectives of improving the economic benefits from the fisheries sector within sustainable limits, promoting responsible private sector-led fishery developments and strengthening the institutional capacity to facilitate the responsible development and management of the fisheries resources. The Marshall Islands Marine Resources Authority (MIMRA)had been established in 1988 with the responsibility to manage all marine resources within the exclusive economic zone (EEZ). In 1997 MIMRA was given more autonomy through a new Act to carry out its responsibility more effectively.

Since mid 1999 licensing and transshipment fees are paid directly to MIMRA, which uses the funds to meet its operating budget. The surplus funds i.e. excess of revenue over MIMRA expenditure, are transferred to government general revenue account. This procedure, which gives MIMRA first go at a major revenue stream accruing from economic rent, not from MIMRA commercial activities, raises important questions of public financial management. The level of funds to be retained by MIMRA should be subject to Treasury scrutiny against a Cabinet-approved MIMRA budget and cash flow, and the balance of the fee income promptly reported and passed through to the Treasury general fund.

The fisheries sector comprises two subsectors, coastal and oceanic fisheries. The coastal fisheries consist of inshore and nearshore resources. These are harvested by households for their own consumption and sale to the urban areas. The oceanic fisheries are offshore resources in the exclusive economic zone (EEZ). These are harvested for sale in overseas markets, and since 1999 some of this product is going into the Majuro tuna loining plant.

Coastal fisheries

Coastal fisheries are important for subsistence and cash income for households. Harvesting of coastal fisheries by households for their own consumption is about 1500–1700 tons a year. The estimated value of fish and shellfish including crabs harvested for own consumption in 1999 was about $4 million.

Fishing for market is carried out in the vicinity of the two urban centers, Majuro and Kwajalein/Ebeye. This is done mostly by individual fishermen. Small-scale commercial fishing is limited. In Laura on Majuro Atoll there is a fishing cooperative, formed with support of an NGO (Mission Pacific) that is carrying out fishing on a commercial basis. The cooperative supplies fish to retail outlets in Majuro.

A number of projects have been carried out by MIMRA with the involvement of donor agencies and the private sector to develop coastal fisheries and commercial utilization of the resource. One such project is the outer islands fisheries project supported by Japanese aid. The project, which was implemented as a pilot fishery project on Arno atoll, has been expanded to seven other atolls and islands namely Mili, Aur Likiep, Ailinglaplap, Ebeye and Namu, with consideration being given to a base in Jaluit. The project purchases fish from local fishers at a reasonable price and then sells the fish to retail markets in both urban centers, Majuro and Ebeye. The project established two outer island fish markets in Majuro, one of which is a wholesale outlet only, and one in Ebeye. The project also provided transport vessels to take fish to the purpose-built markets in Majuro and Ebeye.

Following pilot projects on pearl farming on Namarik and Majuro by Black Pearl Inc., a Hawaiian-based company and MIMRA, the potential for commercially viable pearl farming was established. A local company, Black Pearls of Micronesia was formed to carry out commercial operations. A pearl hatchery and grow-out facility have been established in Majuro. The first harvest from the hatchery-reared oysters took place in 1998 and was sold to a US buyer. The venture employs 20 people. According to MIMRA the venture has potential to earn substantial revenues.

Other MIMRA projects include a giant clam hatchery at Likiep, which has been in operation since 1990 with the objective of reseeding sites in the outer islands. Outgrowing has not taken on as was hoped. Baby clams from the hatchery are bought by private business for sale to aquariums in the US. A new project funded by Japanese aid on deep-sea fishing is based at Jaluit, Aur and Mili for training of fishermen. A pilot project for aquaculture nursery at Arno is being planned.

To assist fishermen with financing of small projects MIMRA is interested in establishing a Fisheries Revolving Trust Fund. Apart from fisheries projects, other small-scale outer island income generating projects would also be considered. Technical assistance from the ADB is assisting MIMRA in assessing the feasibility of operating such a fund.

MIMRA has delegated the responsibility for management of coastal fishery within five miles to local governments and is assisting them to develop a fishery ordinances and coastal management plan. The Majuro Local Government has developed a fishery ordinance, which is now in the approval process. MIMRA is now working with Likiep Local Government to carry out a resources survey and then develop a fishery ordinance and management plan for the Likiep coastal fisheries.

Oceanic fisheries

Oceanic fishery resources are exploited through licensing of vessels from distant water fishing nations (DWFNs) to fish in the Marshall Islands EEZ. Licensing of DWFNs are carried out under the Multilateral Fishery Treaty among the USA and 16 Pacific Islands Parties including the Marshall Islands, and bilateral fisheries agreements between the Marshall Islands and a number of the DWFNs from Asia.

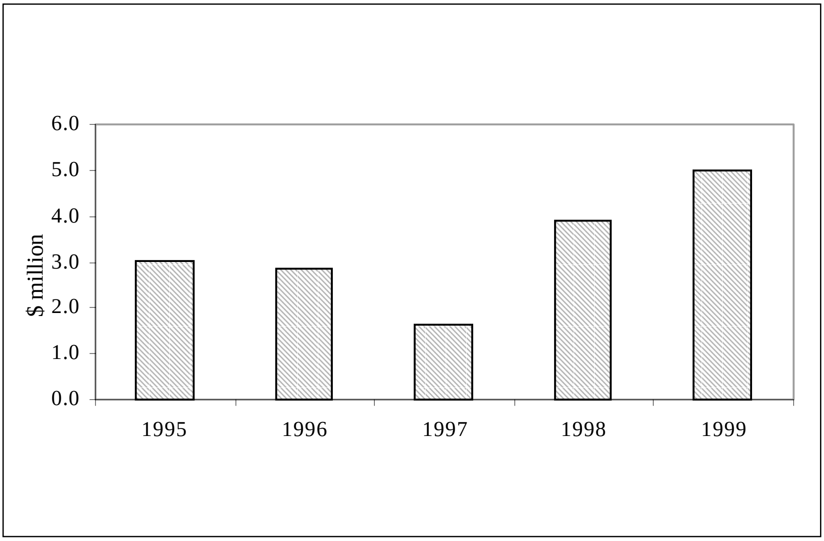
The Forum Fisheries Agency (FFA) manages the Multilateral Fishery Treaty with the USA on behalf of the Pacific Islands countries who are parties to the Treaty. Under the Treaty, the US fishing fleet is allocated a total 55 licenses for purse seine vessels to fish in the treaty area, for which the US pays $18 million annually (shared between the US Government $14 million and fishing industry $4 million). A portion of the payment is made to FFA as administration cost of the Treaty and an amount of $1.8 million is paid into the Project Development Fund administered by the FFA to be allocated equally among member countries for fishery and related development projects. The remaining balance is available for payment to the countries as follows: 15 percent is divided equally among the countries, averaging about $149,000 a year for each country, and 85 percent is apportioned according to the percentage of catch in the EEZ of each country. The revenue for Marshall Islands thus depends on the amount of catch from its EEZ.

The Marshall Islands has bilateral fisheries agreement with three countries: Japan, Korea and the Republic of China (Taiwan). These agreements are for two years with provision for annual consultations. The minimum terms and conditions set by FFA for fishing in the EEZ of member countries are a component of these agreements. Bilateral fisheries agreements with Korea and Taiwan began in 1998.

In the past five years the Marshall Islands received a total of \$16.4 million from fisheries licenses and transshipment fees, with annual receipts of \$2–5 million (Figure 8.5). Japan, USA, Korea and Taiwan accounted for about 85 percent (\$14.0 million) of receipts during the period. License fees from Japan contribute about a half of the fishing revenue to Marshall Islands in the last two years *(Figure 8.6)*.

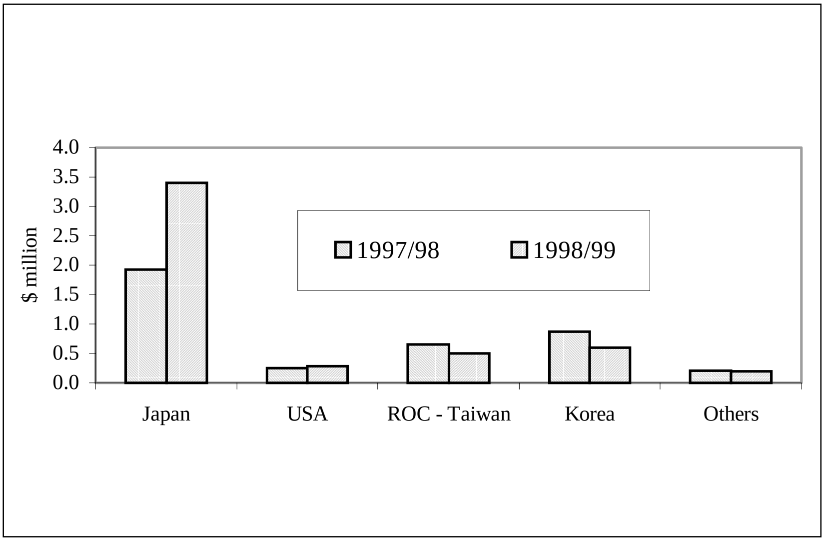
RMI has been an active participant in the Multilateral High Level Conference (MHLC) on the conservation and management of highly migratory fish stocks in the Western and Central Pacific. It is a party to the Convention signed in September 2000. RMI has

Figure 8.5
RMI Revenue from Fishing Licenses and Transshipment Fees, 1995–1999



Source: MIMRA 1999 Annual Report.

Figure 8.6
RMI Revenue from Fishing Licenses and Transshipment Fees by Souce, 1997/78–1998/99



Source: MIMRA 1999 Annual Report.

offered to host the MHLC secretariat in Majuro on the basis that its proximity to the main fishing grounds allows easy access for scientific research of the fishery and monitoring and surveillance of fishing fleets in the region.

Apart from the multilateral and bilateral fisheries agreements, an important strategy of the Marshall Islands fishery policy is to make Majuro an attractive port for transshipment, not only to derive additional revenues from transshipment fees but also to inject spending in the local economy. In 1998 there were 132 tuna transshipments in Majuro. This increased nearly 2.5 times to 322 in 1999. The revenue from transshipment fees jumped from $78,800 in 1998 to $193,200 in 1999. The actual amount of expenditure in the local economy by fishing vessels during transshipment is not known, but it has been estimated by MIMRA to be about $15,000–20,000 per boat per port call, suggesting annual expenditure of $5–6m in the Majuro economy. Shore-based facilities being considered include a net repair facility and a salt/brine storage facility. There is also a government-owned dry dock, presently leased to a private company, which can be used by foreign fishing vessels.

The establishment in 1999 of a fish loining plant in Majuro marked a breakthrough in foreign direct investment. The government provided various tax concessions and exemption from minimum wage requirements, and secured a $2 million loan from a commercial bank for the construction of the plant, as well as arranging lease of the site. A private company operates the loining plant. The loining plant processes fish for Starkist, for shipment to its cannery in American Samoa. The plant has processing capacity of 50 tons of tuna a day and employs 350 people, of whom 80 percent are women.

MIMRA has been negotiating with foreign fishing companies interested in managing and operating the Majuro Fish Base. In preparation for such an agreement, MIMRA intends to complete management plans for longline fishery by-catches (specifically for sharks and seabirds). An earlier lease to an Asian operator was terminated in 1998 due to failure to meet the conditions of the lease—including defaulting on lease payments and allowing the condition of the Fish Base to deteriorate substantially. The poor state of the facility is hampering efforts to lease it to another operator, and some renovation may be required before it can be successfully leased out.

The main issue in fisheries policy is how to maximise the rents from the fisheries resource within sustainable limits. The approach taken by the Marshall Islands is not only through licensing but also encouraging spending by foreign fishing boats in the local economy by making Majuro an attractive transshipment port as well as the establishment of onshore fish processing and other support facilities. This is well under way. It will be timely now for an assessment to be carried to determine the economic and social impacts of this policy to date, and to recommend how to minimize the costs and maximize the net benefits to the country.

Other issues which MIMRA is now beginning to address are the protection of coastal resources, which is being initiated through delegation of responsibility to local authorities and communities along with technical support to help them address the issues, and development of income opportunities in coastal fisheries for local fishermen. Part of this effort is the interest in establishing Fisheries Revolving Trust Fund the viability of which is now being assessed.

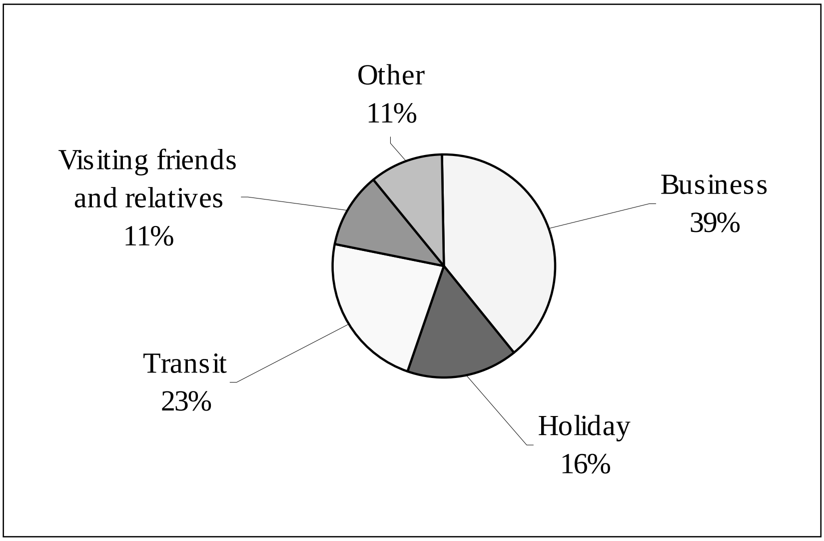
Tourism

The tourism industry in the Marshall Islands is very small, but appears to have a useful development potential in certain niche markets. The total number of visitors to Marshall Islands ranged between 4–6,000 a year with an estimated spending of $2–3 million. People visiting on business, 1800–2500 a year, made up 39 percent of the total visitors during the last five years *(Figure 8.7)*.

Visitors to Marshall Islands on holiday, i.e. tourists, averaged less than a 1000 a year in the last five years *(Figure 8.8)*, making up 16 percent of all visitors. About 23 percent were transit visitors going on to Honolulu, FSM/Guam and Kiribati /Tuvalu/Fiji. Those visiting relatives and friends accounted for 11 percent.

Most of the visitors to the Marshall Islands are from the USA, followed by Japan *(Figure 8.9)*. Visitors from Japan and other Asian countries made up nearly one-quarter of the visitors to the Marshall Islands during the last five years. Visitors from the Pacific region including Australia and New Zealand accounted for about one-third

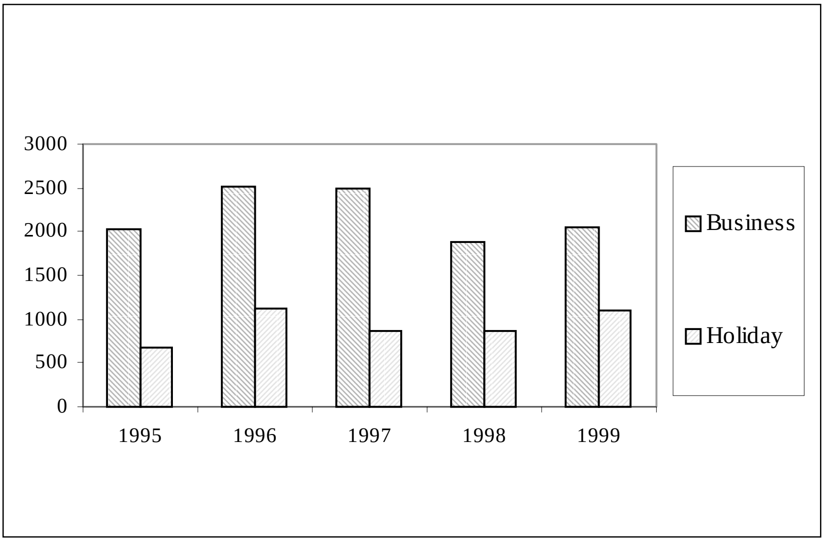
Figure 8.7
RMI Visitors by Purpose of Visit, 1995–1999



Note: The data relates to those who arrived by air only to Majuro Atoll.

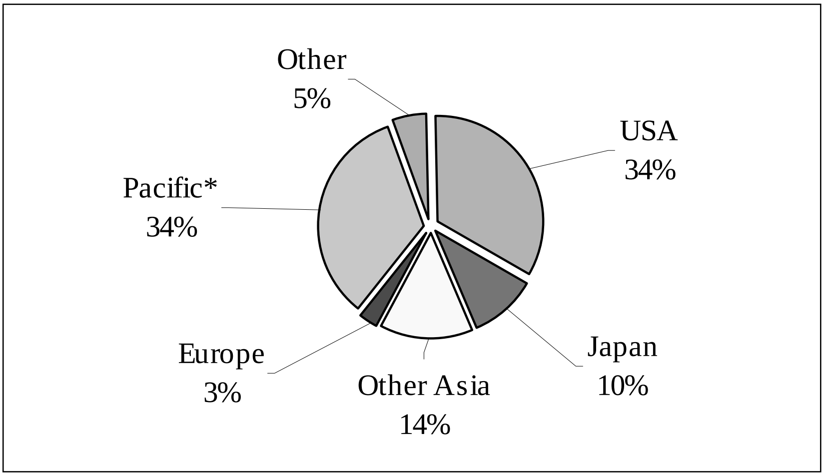
Source: MIVA and Marshall Islands Statistical Abstract 1998 and 1999.

Figure 8.8
RMI Visitors by Purpose of Visit, 1995–1999



Note: The data relates to those who arrived by air only to Majuro Atoll.
Source: MIVA and Marshall Islands Statistical Abstract 1998 and 1999.

Figure 8.9
RMI Visitors by Country/Region of Origin, 1995–1999



Note: The data relates to those who arrived by air only to Majuro Atoll.
* Pacific includes Australia and New Zealand.
Source: MIVA.

of the visitors. Over half of the Pacific visitors to the Marshall Islands were from FSM and Kiribati. Most of the Kiribati visitors were on transit in Majuro.

Tourism infrastructure, hotels and restaurants are found mostly in Majuro and Ebeye with some facilities in other islands such as Mili. The most recent addition to the hotel accommodation in Majuro with international standard is the Marshall Islands Outrigger Resort with 150 rooms that was opened in 1996. The hotel is government-owned and managed by Outrigger Hotel chain of Honolulu.

In 1997 the government established the Marshal Islands Visitors Authority (MIVA) a statutory government corporation to be responsible for national tourism planning, development, marketing and promotion. MIVA has identified a niche marketing tourism development approach as the most feasible option for the short and medium term. MIVA has specifically targeted the following niche markets for tourism development and promotion: (i) scuba diving (both wreck and general sport diving) (ii) sports fishing (big game, fly fishing, and other types), (iii) WWII historic tourism (iv) cultural tourism (centered on annual cultural events), and (v) yachting/cruising. MIVA has identified the U.S. and Japan as the top two markets where MIVA will focus its promotional activities.

Some of the major short/medium term objectives of MIVA include: (i) improving information dissemination on the RMI, particularly in the two main target markets; (ii) generating widespread positive publicity for the RMI, particularly in the target markets; (iii) increasing internal awareness on tourism and environmental issues; (iii) improving tourism-related domestic economic policies; and (iv) improving international and domestic transportation.

In the longer term, MIVA plans a shift in its approach from one which solely concentrates on the development of the smaller, special-interest niche market activities to one which focuses increasing attention on the development of self-contained, private island resorts. The availability of 1,225 islands, most of them pristine and uninhabited, is an almost unique resource base upon which MIVA believes a general-interest tourism industry might one day be built if adequate transportation as well as the appropriate economic and land related policies are in place.

While MIVA plans to shift its focus to the development of general-interest tourism in the longer term, for the immediate future it will concentrate on developing and maintaining a high profile within its special-interest markets. MIVA's longer-term aims include: (i) continue improving the RMI's tourism investment environment; (ii) establishing RMI as the Pacific's premier coral atoll destination; and (iii) establishing Majuro Atoll as a travel hub, feeding tourism traffic to and from other atolls.

The main issues in attracting tourist development are the same as for other sectors, namely: a conducive investment environment, secure and bankable access to land, a transparent and appropriate taxation regime, and improved transportation and telecommunications—all at internationally competitive prices. With these conditions in place—a major task, but required for all sectors—a significant expansion of specialised tourism to RMI should be commercially feasible.

Chapter 9

Development Strategies

The need for participation

Many of the requirements for successful development are not unique to RMI, or to economic management, but they are no less important for that. Defining the direction and identifying the goals and strategies of national development is necessary for the same reasons as a commercial firm needs a business plan to beat its competitors, or a sports team needs to work out how to raise its game and win the league. In each case many distinct parts or players have to work together to achieve a result that they all want. A nation-state and its economy, even one as small as 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 got by individual action. They need to collaborate through a jointly owned organisation—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

For goals to be defined 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 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 also to be a consultative process that helps to 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 well planned technically it may be. RMI's disappointing experience with two five-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, too vague, to allow feasible strategies to be designed for their achievement. In 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 need also to be based in reality, and to reflect the likely availability of resources.

It is the natural role of Government to give a 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 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 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, NESS2, is planned for early 2001, to discuss the findings of this Report and to take forward the mobilisation 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 at Appendix B)* and its proposed wide circulation in draft form before NESS2, 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 NESS2. 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 *Meto2000* 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 last chapter of *Meto2000.* In the light of the vision statement, and based on the discussion of RMI's development experience in the preceding chapters of this report, a set of goals and strategies has now 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 be doing 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 USA.

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 occupied the preceding chapters. Out of that discussion the following six goals and supporting strategies are identified, and examples of the necessary activity content of each strategy are given:

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

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 RMI into regional and global networks of small states, multilateral institutions and bilateral sources of assistance, so as to dilute dependence in USA 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 maximise 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 GDP per head, and re-establish growth per head on a long-term sustainable basis

Strategy 1: ***promote private enterprise***: assist 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 cost to users (including where necessary transparent and monitored subsidy to non-commercial services)

Strategy 3: ***redefine and strengthen privatisation***: strengthen the efficiency and accountability of state-owned enterprises (with sale to private ownership 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 RMI

- ***Strategy 1:*** ***mobilise anti-poverty forces***: bring together all concerned with the equitable distribution of the costs and benefits of the development process, to agree the nature and extent of poverty in 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 and 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 programme***: maintain reliable shipping services through monitored contracts with private operators, bring under review the per-head 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 programme for progressively reducing the deficiencies as revenue and aid resources permit.
- ***Strategy 4:*** ***redistribute 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 action under Strategies 2 and 3

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 heightened sense of personal responsibility for preventive health care, diet, exercise etc

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

Strategy 3: ***align health funding with strategic priorities***: promote use of private health schemes and services, progressively reduce public funding and increase fees for costly curative services, increase allocations to 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:*** mobilise 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: ***optimise 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 modernising, urban-based economy

Strategy 1: ***revival of EPA***: revive the Environmental Protection Agency and overhaul its terms of reference, staffing and level of funding for effective operations

Strategy 2: ***implementation of NEMS***: update, re-publicise and implement the National Environmental Management Strategy

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 (by 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 RMI's circumstances can best be assured by a simple hierarchy of planning statements, as follows, under improved policy coordination *(see below)*:

- a periodic review and restatement of ***national goals and development strategies***, such as is contained in this report. This should take place roughly every four 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 he next review of goals and strategies.
- an ***annual economic policy statement***, issued at the same time as the annual budget *(see below)*, containing a macroeconomic overview and by-sector review of progress, and spelling out the departmental programmes and major project intentions of the Government for ***the coming fiscal year and the next two following years.*** This is a three-year rolling plan[1] , 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 programmes within departments. The detailed budget allocations in the Appropriation Bill will be set in a less detailed ***medium-term framework***. This will cover five years, with the year of proposed appropriation being year three: that is, last year's actual expenditures, this year's revised estimates, next year's proposed appropriations, and indicative allocations for the next two following years projected on the basis of existing and proposed policy. Future allocations will be explicitly linked to programmes and projects described in the annual *economic policy statement (see above)*.

1 The annual economic policy statement's summary of major projects and programmes will incorporate the most important parts of the intended 'public sector investment programme' that has been recommended in various RMI reports in recent years but not put into effect.

- ***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 perspective 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, eg, health, education, water supply, climate change. Their operational dimensions have to fit into the rolling economic and financial plans described above.
- ***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 RMI and everywhere else 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 five to ten year horizon and beyond, to project demographic impacts on demand for land, services[2] 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 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.

2 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.

Policy coordination

Lack of policy coordination has severely handicapped 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 programme can be easily frustrated or undone by inaction, or a contrary action, in another. Both formal (interdepartmental 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 personal networks through which they give and receive support.

Government departments in 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 realising the need to 'join up' their disparate sections into a more coherent, information-sharing relationship, without destroying departmental identity and morale. 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-wired-in Economic Policy and Planning Office[3] offers a well-tried route to improved coordination, though by itself it is not sufficient for success. The connections from technical to political level 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 programme loan from ADB in support of financial and economic management envisages a commitment by the Government to the establishment of such an

3 The existing Office of Planning and Statistics has concentrated its efforts on statistics. In 1998 a Bill was drawn up 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 much on the lines of the one described above. The existing Bill may be readily revised to provide for the EPPO here envisaged.

Economic Policy and Planning Office (EPPO), and would provide some supporting technical assistance in its initial staffing. The functions of EPPO would include regular briefing of 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 make sure that policy decisions rest on a solid base of interdepartmental and public understanding—or even better, active support. Box H, developed from consultations for this report, describes how this should be approached in a constitutional environment such as 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 recognised in 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 put 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 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 organise 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).

Box H: **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 pre-requisites, 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 the post-requisite 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 mobilise support
- 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.

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 Economic Policy and Planning Office, thus giving the consultations a direct link into the heart of the Government's policy-making machinery.

Strengthening independence

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

The colonial legacy and the monetary abundance of the first Compact are still handicapping the social and economic development of RMI, keeping it mentally and financially dependent on massive payments from USA. 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 goals they have in common. Colonial administrations tended to encourage fragmentation in order to divide and rule—they disliked too much local solidarity. Business houses tended to be jealous of their family and government connections, and religious missionaries were often a divisive influence as they competed for converts. The TTPI and Compact

Box I: **Monetisation 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, if they were not already dead in battle.

Now, as the economy moves the rest of the way from subsistence to monetised 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 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 use of their authority, eventually the community at large will intervene by constitutional means to tax and regulate them.

periods brought so much money into 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 minimise 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 first contact with Europe, creeping monetisation has been creating financial inequity. For the first hundred years of the colonial period this did not matter too much. The population remained below 12,000 and most people were still based on the land. In the last fifty 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 monetised 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 Marshall Islands, but RMI is a small country with little room to absorb 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 right across the RMI economy. People need the jobs and service-industry opportunities that can come from commercial investment in RMI's sectors of comparative advantage as the tuna loining plant has shown. That investment is attainable only if the cost of RMI's 'input bundle' of secure land access, labour, utilities and governance is competitive with other possible locations. In this connection, RMI should not be afraid of allowing foreign investment into a wide range of activities. Sharper domestic competition breeds tougher entrepreneurs to compete across the border. Globalisation means competing in a bigger arena against more players, all driving prices downwards. 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. RMI's development process has to be coherent one part with another, 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 below in Box J.

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 RMI it 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 10–15,000 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 monetised social and economic structure are a guiding theme of this report, and Box I examines one aspect of it.

At the wider level, discussion of sustainable development requires understanding of the interdependence of physical, economic and social systems. [4] 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 narrowly environmental concerns, has been addressed by the recent establishment of the broad-based, inter-disciplinary National Commission on Sustainable Development (NCSD). The NCSD is currently preparing proposals for a 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.

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

Box J: **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 latterly 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 pollutant activities in the name of economic growth (or in RMI by the US weapons testing programme), 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

Within this universe of interdependence, relationships and interactions are not stable. There is continuous turbulence, as systems interact dynamically, creating chaotic (which is not to say formless) chains of reaction among themselves, and undergoing adaptations, either by direct modification by a controlling system, or by a process of natural selection in which those least able to adapt are eliminated. Sustainability of one system, for example, a concrete industry based on beach mining, may come at an unsustainable cost to another system, in this case the ecology of the shoreline. The private sector understands this very well, maintaining its competitive vitality by a constant process of start-ups and bankruptcies, mergers and acquisitions, while individual firms frequently seek to strengthen system that oppresses or deprives them. Two notes of caution are appropriate. First, skilful 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 USSR 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 Peoples' 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.

their own short-term sustainability by persuading governments to reduce taxes and/or increase subsidies. Flexibility and adaptability are increasingly recognised as necessary to long-term survival, and gradually a sense is emerging of wider responsibility—self-interested but no less useful for that—for assisting systemic economic change.

In applying sustainability to RMI's practical economic management it is therefore necessary to specify whose sustainability, at what cost, to be met by whom, and for what benefit. Such analysis sheds light on questions of taxation and subsidy, access to land and fishery resources, education and migration, choice of technology, tourism and waste disposal, foreign and domestic investment, preventive and curative health services and many more across the spectrum of development policies. Making choices implies attaching values, and this is no easier for RMI than for any other developing country. But unless sustainability is set in a system-specific, cost-benefit context, it loses practical usefulness.

Box I 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 monetised 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 ability to adjust and survive in the face of dangerously changing circumstances. Sustainability in its broad sense embraces the ability to change.

Acknowledging the importance of sustainability is easy. Box J argues that making it operational is another matter. RMI's economic managers, with the guidance of NCSD, 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 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 the building of the nation-state of RMI, 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

- the *security* and long-term reliability of 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 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 distribution of both costs and benefits of the development process, geographically among the urbanised 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 renegotiation of the financial terms of the Compact, and preservation of the right of Marshallese to enter, reside and work in USA; the success of programmes to upgrade education and training to equip the Marshallese people with the skills needed to compete successfully in the twenty-first century world; the re-establishment of the Environmental Protection Agency as an effective national institution; and the continued integration of RMI into the Pacific and global community. The use of Compact funds to progressively build the Intergenerational Trust Fund to a level where it can underpin the budget indefinitely, offers a real chance to improve RMI's financial sustainability.

The *efficiency* dimension contains a vast scope for doing better. Making RMI more efficient, and so more competitive, requires great improvements to 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; changing work ethics and modernising skills in the private sector. It requires upgrading government revenue and expenditure planning, budgeting and financial control; substantial improvements to 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 the Environmental Protection Agency 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.

Appendixes

Appendix A

Further studies and capacity upgrades required, and proposed sources of expertise/TA

Chapter 2

- Strengthening of economic **statistics operation**, improvement of economic data collection, analysis and dissemination. *Inputs from existing OPS, ADB/consultant, PFTAC*
- Strengthening of **public financial management**, budgeting, financial controls and accountability. *ADB/consultant, PFTAC*
- Enforcement of **tax collection**. *PFTAC, AusAID or NZODA*
- Review of **tax regime**, rates etc. *PFTAC, ADB/consultant*
- Establish **Economic Policy and Planning Office**. *Inputs from existing OPS, ESCAP/POC(Port Vila), ADB/consultant (short-term and longer-term assignments)*
- Review of **MIITF law** for robustness against misuse, and **planning of MIITF** administrative arrangements. *MoF, ADB/consultant.*
- Study of scope for greater **domestic procurement of USAKA goods** and services. *ADB/local consultant with task force from USAKA and Chamber of Commerce*

Chapter 3

- Detailed review of identified **public service issues**, and specific recommendations to PSC and Government. *ADB/consultant working in and with PSC.*

Chapter 4

- Review the cost structure and funding sources for health services to align funding with strategic priorities, and tie into multi-year economic and financial planning framework

Chapter 6

- Review the **condition and prospects of MIDB** (updating 1997 review), and examine the feasibility of changing its role from direct

lending to credit enhancement. *ADB/consultant, in consultation with PFTAC.*
- Pursue possibility of establishing **leasing company**, and prepare further advice on introduction of **Universal Commercial Code**. *Banks and Chamber of Commerce.*
- In context of the goal of equitable distribution (see below, Chapter 9), examine feasibility of **extending basic financial services** to remote locations and less "bankable" persons and make recommendations. *ESCAP/POC (Port Vila)/consultant.*

Chapter 7

- In context of Outer Island Development Programme *(see below)*, determine the most cost-effective way of **upgrading outer island telecommunications** to Majuro standards. *NTA, Forum Secretariat, UNDP*
- In context of the privatization strategy, examine how standards of corporate governance can be raised and the public interest in competitive utility pricing and service quality can be protected, when control of public services and utilities that are natural monopolies passes into private hands, or state-owned enterprises acquire substantial autonomy. *(ADB/consultant)*

Chapter 8

- Examine the social and economic **costs and benefits of tuna transhipment** activities at Majuro, and identify ways to maximise the net developmental benefits to RMI. MIMRA, ESCAP/POC, FFA, UNDP

Chapter 9

Goal 3: Equitable distribution.

- Assisting the **mobilisation of anti-poverty forces** by preparation of analytical papers, helping to convene meetings and draft policy recommendations and plans with RMI NGOs and relevant agencies. *ESCAP/POC, UNDP, ADB, local and external consultants.*

- Supporting **community action on deprivation** by helping to convene meetings, set up inter-NGO secretariat/coordinating council, plan specific activities and mobilise domestic and external resources. *ESCAP/POC, UNDP, ADB, local and external consultants.*
- Preparation of **inventory** of outer island natural and human resources, services and infrastructure, and drafting of multi-year **Outer Island Development Programme** to level-up deficiencies. *UNDP, ADB, local consultant(s) with some external input.*

Goal 5: Ability to compete internationally.

- Assist in **raising awareness** by providing interdepartmental advice and public information through the Economic Policy and Planning Office. *ESCAP/POC, ADB/consultants.*

Goal 6: Environmental sustainability.

- Assist in **revival of EPA** by advisory visits and supportive consultations. *SPREP, ESCAP/POC visiting advisers.*
- Help to **update and re-publicise NEMS** by advisory visits and supportive consultations, conduct of public seminars etc. *SPREP, Forum Secretariat small grants, visits of advisers, regional activities.*

Appendix B

How *Meto2000* was prepared

Consultation process

Meto2000 is based on information collected from consultations with the people of the Marshall Islands in the national and local governments, statutory bodies and public enterprises, non-government organizations and the private sector as well as resident diplomatic missions. *Meto2000* was adopted as the title of the report on Cabinet advice. The consultations involved individual and group discussions, meetings with committees and a public consultative seminar, carried out at various times between late April and early September 2000.

The consultations were framed around an examination of where the RMI has been, where it is now and what lessons have been learned over the past decade or so of development effort. The process involved getting people's views on where the RMI wanted to be in the next decade and how it could get there, the constraints and risks involved and the threats to and opportunities for progress. It also involved looking at assistance needed and expected from others and the organizational and institutional changes needed to be made within RMI.

Over 150 people were consulted (see list below) to assemble information on the past, the present, the lessons learnt and the way forward for the future for RMI. Everyone approached readily provided information, ideas and views on RMI as well as rendering other assistance, including identifying and providing various documents. The consultations tapped a rich vein of information and views on the past and future development for RMI. The common thread in all these views was the desire to improve the quality of life in the Marshall Islands.

The consultations were greatly helped by inputs and advice from the National Steering Committee that the Government established to guide the consultation process. The consultations also benefited from participation in the meetings of the National Commission on Sustainable Development. Opportunities provided by other meetings, notably the National Education Summit, were also taken.

At a half-way point in preparation of the report a two-day public consultative seminar was held to discuss issues and themes arising from the consultations.

Apart from the consultations with people, documents including reports, books, papers and other written materials on various aspects of Marshall Islands were researched in the process of preparing *Meto2000*. A list of the reference materials used appears below.

At the request of the authors a first and incomplete draft of *Meto2000* was given a limited circulation by the Government in Marshall Islands for review and comment. Many thoughtful, constructive and detailed comments were received on that and a subsequent, more advanced draft. These comments have taken into account in preparing the final document. The authors believe the present version of *Meto2000* fairly reflects the views, issues and information gathered during the consultations in RMI, together with their professional assessment of how the many factors affecting RMI development have interacted in the past and are likely to interact in future.

Persons consulted

Government Ministries

- **Education**
  - Mr. Cent Langidrik, *Secretary*
  - Ms. Marilyn J. Kabua, *Assistant Secretary*, Administration and Logistics
  - Mr. Valentino Anuntak, *Primary Schools Supervisor*, Northern Atoll Schools
  - Mr. Kanchi Hosia, *Assistant Secretary*, Curriculum and Instructions
  - Mr. Alee Term, *Primary Schools Supervisor*, Central and Western
  - Ms. Sue N. Mori, *Director of Personnel*
  - Mr. Mothy Andrew, *Secondary Schools Specialist*
  - Ms. Saito Aine, *Primary Schools Supervisor* (South and Eastern)
  - Mr. Tomoci Serevi, Curriculum Development
  - Mr. Mark Canney, *Project Manager*, Basic Education Project (ADB)

- **Finance**
  Hon. Michael Konelios, *Minister*
  Mr. Smith Michael, *Acting Secretary*
  Mr. Casten Nemra, *Program Manager*
  Ms. Adele Kinso, *Budget Officer*
  Ms. Marilyn Balos, *ADB Programs Officer*
  Ms. Evelyn Alvarado, *ADB Financial Consultant*

- **Foreign Affairs**
  Ms. Marie Maddison, *Secretary*
  Mr. Bernard Adiniwin, *Intern*

- **Health and Environment**
  Mr. Donald F. Capelle, *Secretary*
  Ms. Justina Langidrik, *Assistant Secretary*, Bureau of Primary Health Care
  Mr. Sandy Alfred, *Assistant Secretary and Administrator of Majuro Hospital*
  Ms. Irene Paul, *Assistant Secretary*, Bureau of Kwajalein Atoll Health Care
  Mr. Jonathan Santos, *National Health Planner*
  Ms. Cathelina Antalok, *Director of Nursing*
  Ms. Julia Alfred, *Director*, Nutrition Program
  Ms. Minna Michael, *Diabetes Coordinator*
  Ms. Cathleen Zedkaia, *Nutrition Health Educator*

- **Internal Affairs**
  Hon. Nidel Lorak, *Minister*
  Mr. Fredrick deBrum, *Secretary*
  Ms. Angela deBrum, *Chief of Local Government*
  Ms. Carline Jarbon, *Acting Chief*, Community Development Division
  Ms. Grace Leban, *Program Manager*, Youth Services Bureau
  Ms. Iona deBrum, *Program Manager*, Women in Development

- **Justice/Department of Public Safety**
  Mr. George R. Lanwi, *Police Commissioner*

- **Office of the President and Cabinet**

H.E. Kessai H. Note, *President*
Hon. Gerald Zackios, *Minister Assisting the President*
Mr. Phillip K. Kabua, *Chief Secretary*
Mr. Fred Pedro, *Presidential Aide*
Mr. Robert Muller, *Project Manager*, Ebeye Health and Infrastructure Project
Mr. Jefferson Butuna, *Director*, Office of Planning and Statistics
Mr. Kato Ruben, *Deputy Director*, Office of Planning and Statistics
Mr. Lawson Tun, *Social Statistical Development Specialist*, Office of Planning and Statistics
Mr. Daniel Hone, *Social Statistician*, Office of Planning and Statistics
Mr. John Henry, *Data Collector*, Office of Planning and Statistics

- **Public Service Commission**

Mr. Donald Matthew, *Acting Chairman/Commissioner*, Administration and Housing
Mr. Francis Horiuchi, *Commissioner*, Personnel and Training
Mr. Kether Lodge, *Assistant Commissioner*, Administration and Housing
Mr. Phil Philippo, *Assistant Commissioner*, Personnel and Training

- **Public Works**

Mr. Lenest Lanki, *Secretary*
Mr. Smith Ysawa, *Assistant Secretary*
Mr. Thomas Maddison, *Civil engineer*
Mr. John Kaiko, *Chief of Construction*
Mr. Imong Chonggum, *Chief of Mechanics*

- **Resources and Development**

Hon. John M. Silk, *Minister*
Mr. Fredrick Muller, *Secretary*
Mr. Jimmy Joseph, *Chief of Agriculture*
Mr. Paul Ishoda, *Energy Officer*

- **Transport and Communications**

Mr. Jorelik Tibon, *Secretary*
Mr. Lann Jetnil, *Chief of Administration and Finance*
Mr. Tony Muller, *Director*, Communications

Capt. Herman Monkeya, *Marine Consultant*, Ships Operations
Mr. Elmer Langbata, *Deputy Director*, Directorate of Civil Aviation

- **Office of Attorney General**
  Mr. Moses Gago, *Assistant Attorney*

- **Council of Iroij**
  Mr. Ned Nemara, *Clerk*

- **Nitijela**
  Mr. Joe Riklon, *Clerk*

- **Public Defender's Office**
  Mr. Tiantaake Beero, *Chief Public Defender*

Local Government

- **Majuro Atoll Local Government**
  Mr. Mudge Samuel, *Mayor*
  Mr. Tony Muller, *Finance Manager*
  Mr. Waylon Muller, *Chief of Taxation*

- **Biniki Atoll Local Government/Biniki Local Distribution Authority**
  Mr. Jack Niedenthal, *Trust Liaison and Representative for the People of Bikini*

- **Kwajalein Atoll Local Government**
  Mr. Wilmer Bolkeni, *Mayor*
  Ms. Ruth Ann Mathew, *Principal*, Ebeye Public School

- **Rongelap Atoll Local Government/Rongelap Local Distribution Authority**
  Mr. James Matayoshi, *Mayor*

- **Utrik Atoll local Government /Utrik Local Distribution Authority**
  Mr. Alex C. Bing, *Fiscal Officer*

- **Enewetak Atoll Local Government/Enewetak Local Distribution Authority**
  Ms. Heichi Jitaiam-Andrike, *Accountant*

Public Authorities and Enterprises

- **Air Marshall Islands**
  Mr. Peter R. Hanna, *General Manager*
  Mr. Charles Stinnett, *Commercial Manager*

- **College of Marshall Islands**
  Ms. Nannette S. Boucher, *Dean of Students and Acting President*
  Mr. Carl Hacker, *Dean of Administration and Finance*
  Sr. Lois Morisky, *Chair*, Department of Education and Marshallese Studies
  Mr. Timothy Owens, *Chair*, Department of Business and Computer Science

- **Environmental Protection Agency**
  Mr. Abraham Hicking, *Acting Director*

- **Kwajalein Atoll Development Authority**
  Mr. Johnny D. Lemari, *Assistant Executive Director*
  Ms. Roseann Jackson, *Director*, Housing Department

- **Majuro Water and Sewer Co.**
  Mr. William Roberts, *General Manager*
  Mr. Hachney Takju, *Manager*

- **Marshalls Energy Company**
  Mr. William Roberts, *General Manager*

- **Marshall Islands Airport Authority**
  Mr. Jack Chong-Gum, *Director*

- **Marshall Islands Development Authority**
  Mr. David Kabua, *Director*

- **Marshall Islands Development Bank**
  Mr. Amon Tibon, *Managing Director*
  Mr. Jackson J. Ading, *Finance Manager*

- **Marshall Islands Marine Resources Authority**
  Mr. Danny Wase, *Director*
  Mr. Danny Jack, *Deputy Director*
  Ms. Ellia deBrum Sablan, *Policy and Planning Officer*, Policy and Planning Division
  Mr. Glen Joseph, *Chief Fisheries Officer*, Oceanic Division
  Mr. Capital Bani, *Chief Fisheries Officer*, Coastal Division

- **Marshall Islands Ports Authority**
  Mr. Joe Tiopech, *Director*
  Mr. Langinrus Abon, *Deputy Director*

- **Marshall Islands Social Security Administration**
  Mr. Jack Jorbon, *Acting Administrator*
  Ms. Lilian Andrew, *Deputy Administrator*

- **Marshall Islands Visitors Authority**
  Mr. Benjamin Graham, *Director*

- **National Telecommunications Authority**
  Mr. Alan E. Fowler, *President and General Manager*
  Mr. Thomas H. de Brum, *Vice President and Deputy General Manager*
  Mr. Ronald A. Cenicola, *Deputy General Manager*, Finance

- **National Training Council**
  Mr. Kam Wase, *Director*
  Mr. Falairiva Taafaki, *Consultant*

- **The Trust Company of the Marshall Islands**
  Mr. Edward B. Bigler, *General Manger*
  Mr. James Myazoe, *Deputy General Manager*

- **Tobolar Copra Processing Plant**
  Mr. Mike Slinger, *General Manager*

Non government organizations

- **Community Based Organization**
  Ms. Veronica Coffee Kiluwe

- **Council of Churches**
  Rev. Enja Enos, *President*

- **Jaluit Atoll Development Association**
  Mr. John Bungitak, *President*

- *Laura Baptist Church Clinic*
  Ms. Jennifer Pearson, *CFNP*

- *Likiep Kabieniep Association*
  Mr. John Bungitak, *President*

- **Majuro Cooperative School**
  Mr. Richard Olsen, *Principal*

- **Mission Pacific**
  Mr. Terry Sasser, *Director*

- **National Women's Council**
  Ms. Veronica Kiluwe, *President*

- **National Youth Congress**
  Mr. Shem Antibas, *President*

- **Salvation Army**
  Capt. Charles Fowler

- **Youth to Youth in Health**
  Mr. Alson Kelen, *Acting Director*

- **Churches in Education**
  Catholic
  Fr. Rich, Parish *Priest*, Assumption Cathedral

- **Mr. Biuuma Samson, Principal, Assumption High School**
  Ms. Sandy Dismas, *Principal*, Assumption Elementary School

- **Assembly of God**
  Rev. Mithen Lamiller, Principal, Delap Calvary School
  Rev. Tubal Lang, *School Administrator*, Laura Calvary School

- **Seventh Day Adventist**
  Mr. Lorima Kabemaiwai, *Deputy Principal*, Marshall Islands Christian Academy

- United Church of Christ in Marshall Islands
  Rev. Enja Enos, *Principal*, Rita Christian School

Private sector

- **Bank of Guam**
  Mr. Romeo A. Angel, *Branch Manager*

- **Bank of Hawaii**
  Mr. Craig P. Kim, *Assistant Vice President and Branch Manager*

- **Bank of Marshall Islands**
  Mr. Patrick Chen, *President and General Manager*

- **Banking Commission**
  Mr. John Bungitak, *Banking Commissioner*

- **Hotel Marshall Islands**
  Mr. Isaac Marau, *Manager*

- **Majuro Chamber of Commerce**
  Mr. Kirt Pinho, *President*
  6 members of the Chamber

- **Marshall Islands Journal**
  Mr. Giff Johnson, *Editor*

- **Pacific Interntional Inc. (PII)**
  Mr. Rudolf Muller, *Manager*, Shipping

- **PM&O Processing, L.L.C**
  Mr. Rod McLachlan, *President*

- **RRE - Shipping**
  Mr. Bori Ysawa, *Manager*, Matson Shipping
  One staff, Domestic Shipping

- **Pacific Marshalls Inc. Marshalls Transportation Agency**
  Mr. Phil Welch, *Shipping Manager*

Other

- **Nuclear Claims Tribunal**
  Mr. Gregory J. Danz, *Judge*

- **177 Health Care Program**
  Mr. Russell Edwards, *Program Administrator*

- **DOE/PHRI Special Medical Care Program**
  Dr. Melanie Arakaki, MD, *Family Practice Resident Physician*
  Dr. Momi Kaanoi, MD, *Family Practice Faculty Physician*

- **Marshall Islands USP Center**
  Ms. Irene J. Taafaki, *Center Director*
  RMI-USP Joint Education Program
  Ms. Masilina Sefeti, *Principal*

- **PFTAC**
  Ms. Rose-Marie H. Olaso, *Banking Regulation and Supervision Advisor* (on mission to RMI)

- **Forum Secretariat**
  Ms. Mere Falemaka, *Trade Policy Advisor* (on mission to RMI)

Diplomatic Missions

- **U.S. Embassy**
  Mr. Michael Spangler, *Deputy Chief of Mission*
  Mr. Tom King, *Political and Military Officer*

- **Embassy of the Republic of China**
  Mr. Leo Fu-tien Liu, *Ambassador*

Committee and Conference Meetings

- Workshop on Convention of the Rights of the Child, 5 May 2000
- National Commission on Sustainable Development, 22 May 2000
- National Steering Committee for MIER2000, 30 May 2000
- Education 2000 Summit Conference, 7–8 June 2000
- 2nd National Economic and Social Summit Steering Committee, 7 June 2000
- National Commission on Sustainable Development, 15 June 2000
- Cabinet, 12 July 2000
- MIER2000 Consultative Seminar, 13–14 July 2000
- National Commission on Sustainable Development, 9 August 2000
- National Commission on Sustainable Development, 30 August 2000
- National Steering Committee for MIER2000, 6 September 2000

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Statistical Appendix

Statistical Appendix

Acknowledgement

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The overall disclaimer at the front of the Report applies.

Tables A10 and A16 are reproduced by agreement from the findings of a mission of the International Monetary Fund that was in Majuro during preparation of this report. To avoid any complications that might arise from almost simultaneous publication of slightly different interpretations of data on government finance and the balance of payments it was decided to adopt the IMF presentations. The ready cooperation of the Fund mission is acknowledged with thanks.

List of Statistical Tables

Table A1
Marshall Islands: Projection of Mid-Year Population and Life Expectancy, 1999–2014

Year	Population			Life expectancy at birth	
	Male	Female	Total	Males	Females
1999	26058	24850	50908	65.7	69.4
2000	26,976	25,695	52,671	66.0	69.7
2001	27,960	26,624	54,584	66.2	69.9
2002	29,003	27,636	56,639	66.5	70.2
2003	30,110	28,739	58,849	66.8	70.4
2004	31,284	29,934	61,218	67.0	70.6
2005	32,470	31,109	63,579	67.2	70.9
2006	33,600	32,214	65,814	67.5	71.1
2007	34,691	33,274	67,965	67.7	71.3
2008	37,765	34,305	70,070	67.9	71.6
2009	36,840	35,327	72,167	68.2	71.8
2010	37,782	36,222	74,004	68.4	72.0
2011	38,707	37,114	75,821	68.6	72.2
2012	39,621	38,008	77,629	68.8	72.4
2013	40,527	38,911	79,438	69.0	72.6
2014	41,441	39,831	81,272	69.2	72.8

Source: Marshall Islands Statistical Abstract 1998 and 1999.

Table A2
Marshall Islands: Urban and Rural Population Densities, 1980, 1988 and 1999

Urban/Rural	1980 Land Area (sq. mile)	1988 Population per sq. mile	1999 Population per sq. mile	Population per sq. mile
Marshall Islands	**70.07**	**441**	**619**	**726**
Urban	**3.89**	**4,641**	**7,195**	**5,283**
Majuro Atoll	3.75	3,144	5,244	6,314
DUD	0.51	16,829	28,724	30,365
Others	3.24	990	1,548	2,528
Kwajalein Atoll				
Ebeye	0.14	51,408	59,457	66,750
Rural	**66.18**	**195**	**233**	**246**

Sources: Marshall Islands Statistical Abstract 1998 and 1999.

Table A3
Marshall Islands: Projections of Demographic Indicators for the Period 1999–2014

Demographic Indicators	1999–2004	2004–2009	2009–2014
Crude birth rate *(per thousand)*	42.2	37.9	28.0
Crude death rate *(per thousand)*	5.4	5.0	4.3
Rate of natural increase *(per thousand)*	36.8	32.9	23.7
Total fertility rate	5.6	5.0	3.7
Life expectancy at birth			
Male	65.8	66.6	68.1
Female	69.5	70.2	71.7

Sources: Marshall Islands Statistical Abstract 1998 and 1999.

TABLE A4
Marshall Islands: Economically Active, Employed and Unemployed Population, 1988 and 1999

	1988			1999		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Total Population	22,181	21,199	43,380	26,026	24,814	50,840
Working Age Population *(15 years and over)*	10,819	10,425	21,244	14,595	14,103	28,698
Percentage of Total Population	48.8	49.2	49.0	56.1	56.8	56.4
Economically Active Population	8,353	3,135	11,488	9,679	4,998	14,677
Percentage Economically Active of Working Population	77.2	30.1	54.1	66.3	35.4	51.2
Employed Population	7,335	2,721	10,056	7,008	3,133	10,141
Unemployed Population	1,018	414	1,432	2,671	1,865	4,536
Unemployment Rate	12.5	13.2	12.2	27.6	37.3	30.9

Source: Marshall Islands Statistical Abstract 1998 and 1999.

TABLE A5
Marshall Islands: Employed Population Classified by Major Industry Groups and Sex, 1999

	Male		Female		Total	
Major Industry Groups	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Agriculture and Fishery	1,867	26.6	247	7.9	2,114	20.9
Mining and Quarrying						
Manufacturing	81	1.2	680	21.7	761	7.5
Electricity, Gas and Water	242	3.5	16	0.5	258	2.5
Construction	834	11.9	14	0.5	848	8.4
Wholesale and Retail Trade	364	5.2	424	13.5	788	7.8
Transportation, Storage and Communication	659	9.4	104	3.3	763	7.5
Finance, Insurance, Real Estate and Business Services	305	4.3	254	8.1	559	5.5
Community, Social and Personal Services	2,493	35.6	1,310	41.8	3,803	37.5
Not Reported	163	2.3	84	2.7	247	2.4
Total	7,008	100	3,133	100	10,141	100

Source: Marshall Islands Statistical Abstract 1998 and 1999.

TABLE A6

Marshall Islands: Paid Employees in the Public and Private Sectors, 1991–1999

Year and Nationality		Private Sector				Public Sector	Total Private & Public Sectors
		Majuro	Ebeye	Kwajalein	Total		
1991	Micronesian	2,816	431	797	4,044	–	–
	Other	395	44		439	–	–
	Total	3,211	475	797	4,483	2,794	7,277
1992	Micronesian	2,835	506	1,228	4,569	–	–
	Other	398	52		473	–	–
	Total	3,233	558	1,228	5,019	2,877	7,896
1993	Micronesian	–	–	–	–	–	–
	Other	–	–	–	–	–	–
	Total	–	–	1,228	4,395	3,230	7,625
1994	Micronesian	–	–	–	–	–	–
	Other	–	–	–	–	–	–
	Total	–	–	1,023	4,605	4,122	8,727
1995	Micronesian	–	–	–	–	–	–
	Other	–	–	–	–	–	–
	Total	–	–	1,152	4,724	4,086	8,810
1996	Micronesian	–	–	–	–	–	–
	Other	–	–	–	–	–	–
	Total	–	–	1,154	5,579	3,602	9,181
1997	Micronesian	–	–	–	5,352	1,913	7,265
	Other	–	–	–	17	11	28
	Total	–	–	–	5,369	1,924	7,293
1998	Micronesian	–	–	–	5,173	1,691	6,864
	Other	–	–	–	15	10	25
	Total	–	–	–	5,188	1,701	6,889
1999	Micronesian	–	–	–	5,149	1,505	6,654
	Other	–	–	–	19	8	27
	Total	–	–	–	5,168	1,513	6,681

Source: Marshall Islands Statistical Abstract 1998 and 1999.

Notes: The figures in this table include those employed for short durations as well.
– means the breakdown is not available.

TABLE A7

Marshall Islands: Compensation of Employees: 1981–1990

(fiscal year ending September 30; US$ thousand)

Items	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Government (Total)	**8,470**	**9,728**	**10,291**	**10,928**	**11,503**	**13,210**	**14,830**	**16,814**	**18,037**	**19,537**
Taxed	8,110	9,298	9,791	10,353	10,923	12,617	14,219	16,149	17,527	18,904
Benefits (incl. free housing)	360	430	500	575	580	593	611	665	510	633
Government Enterprises	**280**	**446**	**531**	**567**	**308**	**447**	**740**	**954**	**1,168**	**4,407**
Private (Total)	**3,204**	**5,177**	**5,695**	**5,805**	**7,065**	**10,293**	**14,546**	**18,237**	**18,144**	**15,838**
Taxed	2,924	4,803	5,292	5,392	6,574	9,623	13,622	17,122	17,104	14,649
Others	73	120	132	135	164	239	339	425	386	489
Free Accommodation	100	104	110	113	133	172	235	253	234	289
Social Security Contribution	107	150	161	165	194	259	350	437	420	411
Domestic Services	**100**	**104**	**124**	**126**	**127**	**162**	**133**	**134**	**120**	**165**
Total Employee Compensation	**12,054**	**15,455**	**16,641**	**17,426**	**19,003**	**24,112**	**30,249**	**36,139**	**37,469**	**39,947**

Source: Marshall Islands Statistical Abstract 1998 and 1999.

TABLE A8

Marshall Islands: Estimates of Gross Domestic Products, 1995–1999

(at current market prices; thousand US Dollars)

Sector	1995	1996	1997	1998	1999
Agriculture, Forestry, and Fishing	15,674	13,589	12,963	11,403	11,798
Agriculture					
Copra	3,383	2,016	1,915	1,637	1,579
Food Crops	1,917	1,986	2,010	1,165	994
Livestock	1,767	1,942	2,136	1,805	1,856
Agricultural Services	164	172	175	163	166
Fishing	8,444	7,474	6,726	6634	7203
Mining and Quarrying	285	311	322	281	290
Manufacturing	2,690	1,488	1,561	1,491	1,657
Processed Copra Products	89	(128)	(55)	(291)	(165)
Other Manufactured Goods	2,193	1,193	1,193	1,379	1,427
Handicrafts	408	423	423	404	409
Electricity, Gas and Water	2,143	2,566	2,808	2,015	2,245
Electricity	1,945	2,380	2,618	1,955	2,102
Water	198	186	190	60	144
Construction	10,695	6,626	6,295	10,622	10,649
Wholesale, Retail Trade and Restaurants and Hotels	17,919	17,743	16,207	17,055	17,223
Wholesale and Retail Trade	13,618	12,969	11,672	12,668	12,767
Restaurants and Hotels	4,301	4,774	4,535	4,387	4,456
Transport, Storage and Communication	6,538	6,896	7,183	5,058	5,516
Land Transport	1,712	1,590	1,510	1,624	1,628
Water Transport	759	693	658	684	693
Air Transport	596	600	600	(480)	(302)
Communication	3,471	4,013	4,414	3,231	3,497
Finance, Insurance, Real Estate and Business Services	17,089	14,959	14,266	15,271	15,490
Financial Institutions	5,282	3,893	3,504	4,308	4,356
Insurance	680	171	171	419	399
Real Estate	3,113	2,870	2,726	2,871	2,891
Owner-occupied dwellings	6,350	7,226	6,865	6,449	6,608
Business Services	1,664	799	1,000	1,223	1,237
Community, Social and Personal Services	32,072	30,782	28,832	30,985	31,237
Public Administration and Defense	13,472	13,000	11,050	13,094	13,153
Pubic Utility Services	764	948	948	931	909
Education Services	9,681	9,142	9,142	9,165	9,325
Health Services	4,547	4,647	4,647	4,513	4,554
Other Social and Community Services	1,728	1,188	1,188	1,405	1,410
Recreation and Cultural Services	1,009	955	955	995	994
Personal and Household Services	872	904	904	883	891
Total	105,105	94,959	90,437	94,184	96,104
Less imputed bank service charges	6,918	4,905	4,905	5,715	5,809
Plus import duties	7,052	6,982	6,652	7,190	7,017
Gross Domestic Product	105,239	97,036	92,184	95,659	97,312

Source: Marshall Islands Statistical Abstract 1998 and 1999.

TABLE A9
Marshall Islands: Estimates of Real Gross Domestic Production, 1985–1999
(at 1991 constant prices)

Particulars	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP at current prices *(thousand US dollars)*	68,691	72,219	79,709	87,059	94,596	105,239	97,036	92,184	95,223	96,856
GDP deflator *(Majuro Consumer Price Index)*	117.98	122.65	135.32	142.03	150.10	162.54	178.12	186.75	188.17	189.88
Real GDP *(thousand US dollars)*	71,410	72,219	72,246	75,180	77,296	79,411	66,817	60,542	62,067	62,563
Change in Real GDP *(percent)*	7.04	1.13	0.04	4.06	2.81	2.66	-15.85	-9.4	2.52	0.80
Estimated Mid-Year Population	43,982	44,642	45,312	45,991	46,681	47,381	48,092	48,814	49,546	50,840
Per Capita Real GDP *(US dollars)*	1,624	1,618	1,594	1,635	1,656	1,401	1,137	995	1,020	1,231
Change in Per Capita Real GDP *(percent)*	2.93	-2.79	-3.80	0.00	-0.35	-2.77	-18.84	-12.50	3	20.60

Source: Marshall Islands Statistical Abstract 1998 and 1999.

Table A10
Marshall Islands: Central Government Finances, 1994/95–2000/01
($ millions)

Item	FY95	FY96	FY97	FY98	FY99	FY00 Budget	FY00 est	FY01 Budget
Total revenue and grants	77.7	78.1	68.8	71.5	65.5	62.1	62.1	68.8
Total domestic revenue	34.9	36.0	27.8	24.7	26.7	22.6	22.5	24.6
Taxes	19.5	19.4	18.6	18.7	16.9	15.8	16.1	16.9
Income	9.3	8.5	8.1	7.6	7.6	7.5	8.0	8.5
Gross revenue	3.1	3.9	2.7	2.7	2.5	3.0	3.1	3.2
Imports	6.3	5.7	7.0	7.5	6.2	5.0	3.9	4.8
Other	0.9	1.3	0.8	0.8	0.5	0.3	1.1	0.3
Nontax	15.4	16.6	9.2	6.0	9.8	6.8	6.4	7.7
Fishing rights	2.2	1.6	1.9	1.3	2.3	3.0	3.4	4.4
Fees and charges	2.0	2.8	1.9	0.6	0.6	0.3	0.5	0.3
Investment income	6.2	1.1	0.8	1.6	0.6	0.6	0.3	0.3
Other	5.1	11.2	4.6	2.4	6.3	2.9	2.2	2.8
Grants	42.8	42.1	41.0	46.8	38.8	39.6	39.6	44.1
Of which: current grants	19.4	14.1	18.0	22.9	15.8	15.8	15.8	15.8
Compact	36.4	34.6	30.4	30.9	30.9	30.9	30.9	30.9
Other	6.4	7.5	10.6	15.9	7.9	8.7	8.7	13.2
Total expenditure	109.8	60.1	60.4	56.6	55.3	53.8	57.1	53.8
Current expenditure	66.8	53.8	52.9	51.8	48.4	46.8	50.1	44.1
Wages and salaries	21.9	21.4	18.8	18.0	17.0	17.1	17.3	17.5
Goods and services	18.0	17.5	17.8	21.6	18.8	18.8	19.0	19.1
Interest payments	7.5	7.5	6.8	5.4	4.3	2.3	1.9	0.9
Subsidies to public enterprises	6.0	2.6-	2.1	2.6	1.4	1.5	1.5	1.5
Other subsidies and transfers	3.7	4.7	5.4	3.6	6.1	7.0	10.3	4.9
RIF payment[1]	0.0	0.0	2.1	0.6	0.8	0.1	0.1	0.1
Capital expenditure	43.0	6.4	7.5	4.8	6.9	7.0	7.0	9.7
Current balance	-12.4	-3.7	-7.1	-4.2	-5.9	-8.4	-11.8	-3.6
Overall balance	-32.1	17.9	8.4	14.9	10.2	8.4	5.1	15.0
Financing								
Net government borrowing	-12.2	-12.4	-7.3	-11.0	-27.9	-13.4	-11.6	-16.0
Gross borrowing	4.1	4.1	10.7	7.9	15.0	5.3	7.1	9.0
Principal repayment	16.2	16.5	17.9	19.0	42.8	18.7	18.7	25.0
Asset sales	0.0	0.0	0.0	0.0	0.0	5.0	1.3	2.5
Use of government financial assets	44.3	-5.6	-1.1	-3.8	17.7	0.1	5.3	-1.6
(In percent of GDP)								
Revenue and grants		80.5	74.6	74.7	67.3	64.7	64.7	69.6
Revenue	33.2	37.1	30.2	25.8	27.4	23.5	23.4	24.9
Grants	40.7	43.4	44.5	48.9	39.9	41.2	41.3	44.7
Expenditure	104.4	62.0	65.5	59.2	56.8	56.0	59.5	54.4
Current	63.5	55.4	57.4	54.2	49.7	48.7	52.2	44.6
Capital	40.9	6.6	8.1	5.0	7.1	7.3	7.3	9.8
Current balance	-11.8	-3.8	-7.8	-4.4	-6.1	-8.8	-12.3	-3.7
Overall balance	-30.5	18.5	9.1	15.5	10.5	8.7	5.3	15.2
(In millions of U.S. dollars)								
Memorandum items:								
Government fund balance	30.0	41.5	42.5	47.0	29.3	29.2	23.9	25.5
Usable government financial assets[2]	18.2	9.9	9.3	12.4	4.8	4.7	0.2	1.8
Outstanding government debt	127.7	115.3	108.1	97.0	70.1	58.7	60.5	44.5
Stock of arrears	1.6	1.4	0.9	1.2	1.0	0.9	1.7	1.7

Source: Ministry of Finance, RMI and IMF.

1 Early retirement and separation program (Reduction in force) financed by an ADB loan.
2 Cash and cash equivalents that are not reserved for specific uses.

TABLE A11

MARSHALL ISLANDS: Subsides and Transfers to Public Enterprises, 1995/96 to 2000/01

	1995/96	1996/97	1997/98	1998/99	1999/00	Budget 2000/01
	US$ millions					
Total	**1.30**	**2.16**	**2.04**	**1.28**	**1.51**	**0.90**
Tobolar Copra Processing	0.50	0.45	0.58	0.58	0.80	0.20
Marshalls Energy Company	0.00	0.00	0.00	0.00	0.00	0.00
Air Marshall Islands	0.60	0.80	0.00	0.00	0.00	0.00
National Telecommunications Authority	0.00	0.00	0.00	0.00	0.00	0.00
Majuro Water and Sewer Company	0.00	0.00	0.00	0.00	0.00	0.00
Kwajalein Enterprises[1]	0.20	0.49	0.36	0.30	0.70	0.50
Majuro Resorts	0.00	0.42	1.10	0.40	0.01	0.20

[1] Subsidiaries of Kwajalein Atoll Development Authority.

Source: Data provided by the Marshall Islands authorities.

TABLE A12
MARSHALL ISLANDS: External Assistance by Donor, 1995/96 to 2000/01

	1995/96	1996/97	1997/98	1998/99	1999/00	Projected 2000/01
	US$ millions					
U.S. grants	**40.0**	**38.2**	**34.2**	**33.9**	**37.1**	**34.7**
Under Compact of Free Association[1]	32.8	28.5	19.6	25.8	28.1	28.1
Other U.S.	7.2	9.7	14.6	8.1	9.0	6.6
Other grants	**9.0**	**4.5**	**6.9**	**5.9**	**21.2**	**5.2**
Japan	8.8	4.0	6.3	5.6	2.0	1.0
Republic of China (Taiwan)	0.0	0.0	0.0	0.0	19.0	4.0
Australia	0.2	0.5	0.6	0.3	0.2	0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0
Concessional Loans	**7.4**	**8.5**	**9.2**	**3.3**	**9.0**	**3.0**
Asian Development Bank	7.4	8.5	9.2	3.3	4.0	3.0
Republic of China (Taiwan)	0.0	0.0	0.0	0.0	5.0	0.0
Peoples' Republic of China	0.0	0.0	0.0	0.0	0.0	0.0
Total	**56.4**	**51.2**	**50.3**	**43.1**	**67.3**	**42.9**

[1] Payments for access and use of Kwajalein Atoll by the US military, totaling about $12m annually, is not included.

Source: Data provided by the Marshall Islands authorities.

TABLE A13
MARSHALL ISLANDS: Assets and Liabilities of Deposit Money Banks, 1996 to 2000[1]

		1997				1998				1999			
	Dec	Mar	June	Sept	Dec	Mar	June	Sept	Dec	Mar	June	Sept	Dec
	US$ millions												
Assets	55.3	53.1	55.5	55.1	54.6	56.9	50.1	54.1	55.2	56.2	58.6	57.1	62.8
Foreign assets	21.1	20.2	19.6	18.6	18.0	20.1	14.1	18.6	22.2	21.5	21.9	18.3	25.2
Claims on central and local governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on public enterprises	2.9	2.7	3.0	2.4	2.7	4.5	2.9	3.2	3.2	5.6	5.2	4.7	3.5
Claims on private sector	30.5	29.3	31.6	32.8	32.3	32.2	33.0	32.1	28.5	27.8	30.6	32.8	33.0
Unclassified assets	0.8	0.9	1.3	1.3	1.6	0.1	0.1	0.2	1.3	1.3	0.9	1.3	1.1
Liabilities	55.3	53.1	55.5	55.1	54.6	56.9	50.1	54.1	55.2	56.2	58.6	57.1	62.8
Demand deposits	15.3	17.3	18.7	16.3	14.8	21.7	17.3	21.0	18.9	21.4	20.4	19.1	21.2
Checking accounts	12.4	11.4	12.5	11.9	11.3	17.5	14.0	14.1	14.8	13.9	16.0	14.1	16.3
Local governments	1.7	1.7	1.9	1.5	1.7	1.6	1.2	0.7	0.7	0.8	0.9	0.8	1.5
Public enterprises	1.0	0.6	1.1	1.3	1.2	1.3	0.2	0.1	0.0	0.7	2.3	1.8	2.1
Private sector	9.7	9.1	9.5	9.1	8.4	14.6	12.6	13.3	14.1	12.4	12.8	11.5	12.7
Checkable savings accounts	2.9	5.9	6.2	4.4	3.5	4.2	3.3	6.9	4.1	7.5	4.4	5.0	4.9
Time, savings, and foreign currency deposits	22.5	21.4	18.4	20.5	20.7	20.0	19.6	18.3	20.6	24.1	26.1	24.7	31.2
Time deposits	13.8	13.2	10.3	11.4	12.6	11.6	10.8	11.0	13.0	14.7	15.0	13.8	18.2
Local governments	0.4	0.1	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.8
Public enterprises	3.8	1.9	1.0	1.5	1.3	1.2	1.3	2.3	2.3	4.3	2.8	4.5	6.2
Private sector	9.6	11.2	9.2	9.8	11.1	10.3	9.5	8.7	10.7	10.4	12.2	9.3	11.2
Savings accounts	8.7	8.2	8.1	9.1	8.1	8.4	8.8	7.3	7.6	9.4	11.1	10.9	13.0
Local governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public enterprises	0.1	0.1	0.3	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.5	0.1	0.3
Private sector	8.6	8.1	7.8	9.0	8.0	8.4	8.7	7.3	7.5	9.4	10.6	10.8	12.7
Foreign currency deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Import and restricted deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign liabilities	1.5	1.9	2.5	1.6	2.1	2.1	2.3	1.8	1.6	1.2	1.3	1.4	1.6
Central government deposits[2]	10.9	7.7	9.3	9.6	9.5	10.5	8.2	9.4	11.6	8.1	10.5	8.4	5.6
Capital accounts	4.5	4.5	5.2	5.7	6.1	4.6	5.0	5.7	5.7	5.0	5.4	6.2	6.5
Unclassified liabilities	0.6	0.3	1.4	1.4	1.4	0.8	0.9	0.5	0.3	0.3	0.5	0.6	0.4

1 The deposit money banks comprise the Bank of Guam, the Bank of Hawaii, and the Bank of the Marshall Islands.
2 Includes deposits of social security administration and other trust funds.

Source: Banking Commission Annual Reports.

TABLE A14
MARSHALL ISLANDS: Interest Rates Deposit Money Banks, 1996 to 2000

	1996	1997		1998		1999	
	Dec	**June**	**Dec**	**June**	**Dec**	**June**	**Dec**
	(percent per annum)						
Deposit rates							
Savings accounts[1]	2.8	2.8	2.8	2.8	1.4	2.9	2.4
Time deposits[2]							
3 months	4.3	4.2	4.3	4.3	1.7	2.5	2.6
6 months	4.7	4.8	5.0	4.9	2.0	3.2	2.8
1 year and more	5.4	5.3	5.4	5.3	2.2	3.7	3.7
Loan rates[3]							
Consumer loans	18.0	18.0	18.0	16.0	9.6	19.0	15.9
Commercial loans	11.0	11.8	11.0	13.0	5.5	11.2	9.9

[1] Average of rates offered by deposit money banks.
[2] Average of minimum rates offered by deposit money banks.
[3] Average of maximum rates charged by deposit money banks.

Source: Banking Commission Annual Reports.

TABLE A15
Marshall Islands: Majuro Consumer Price Index, 1995–1999
(1982=100)

Group Weights	All Groups 100.0	Annual Average	Food 57.71	Household/ Personal Supplies 14.76	Clothing 11.95	Durable Goods and Fuel 15.58
1995	162.54		141.62	221.26	189.97	168.76
Q1	154.33		136.29	212.79	162.64	159.41
Q2	160.87	162.54	138.21	217.97	189.40	168.83
Q3	165.59		145.12	216.97	191.12	173.14
Q4	169.37		146.84	237.30	188.70	173.66
1996						
Q1	171.35		149.88	243.43	189.10	172.83
Q2	178.65	178.12	161.43	246.11	189.58	174.04
Q3	180.01		164.10	250.83	190.41	174.15
Q4	182.45		165.51	252.00	194.22	174.18
1997						
Q1	184.31		166.23	253.03	194.78	178.17
Q2	185.31	186.75	166.66	256.18	195.25	179.62
Q3	187.73		170.49	257.10	195.71	179.75
Q4	189.63		171.20	266.55	196.50	179.77
1998						
Q1	189.90		171.39	266.77	196.98	180.26
Q2	190.54	190.82	171.98	267.49	198.85	180.07
Q3	191.26		172.80	267.55	198.85	181.57
Q4	191.58		173.15	268.11	199.07	181.58
1999						
Q1	198.69		174.82	269.00	199.18	181.62
Q2	192.96	193.99	174.86	269.30	200.19	182.12
Q3	192.35		173.40	269.33	201.94	182.28
Q4	191.95		172.52	269.65	202.24	182.44

Source: Marshall Islands Statistical Abstract 1998 and 1999.

TABLE A16
MARSHALL ISLANDS: Balance of Payments, 1994/95 to 1998/99
(US$ millions)

	1994/95	1995/96	1996/97	1997/98	1998/99	Est. 1999/00
Trade balance	-34.1	-41.8	-41.3	-49.7	-52.4	-50.9
Exports, f.o.b.	22.8	20.0	14.2	7.5	7.2	7.9
Imports, f.o.b.	-56.8	-61.8	-55.6	-57.2	-59.6	-58.8
Net services	-10.6	-11.6	-11.4	-14.4	-9.9	-3.5
Receipts	2.8	3.1	3.0	2.7	2.9	7.0
Travel	2.7	3.0	2.8	2.6	2.7	2.8
Transshipments	0.2	0.1	0.1	0.1	0.2	0.3
Other	0.0	0.0	0.0	0.0	0.0	4.0
Payments	-13.5	-14.7	-14.4	-17.1	-12.8	-10.5
Freight and insurance	-8.5	-9.3	-8.3	-8.6	-8.9	-8.8
Transportation	-4.8	-4.4	-4.2	-5.3	-2.3	-1.2
Communications	-0.1	-0.2	0.0	-0.3	-0.3	-0.3
Other	0.0	-0.8	-1.8	-3.0	-1.2	-0.3
Net income	16.0	11.5	12.8	14.3	15.1	19.0
Receipts	24.6	19.9	20.2	21.0	20.7	22.4
Fishing rights fees	2.2	1.6	1.9	1.3	2.3	3.6
Registration fees	0.9	1.0	1.0	1.0	1.0	1.0
Interest and dividend earnings	7.3	2.7	2.4	3.2	2.1	2.2
Labor income	6.1	6.4	6.6	6.8	6.9	7.1
Other	8.2	8.2	8.3	8.8	8.4	8.4
Payments	-8.6	-8.4	-7.4	-6.7	-5.6	-3.3
Interest payments	-8.6	-8.4	-7.4	-6.7	-5.6	-3.3
Unrequited transfers	43.0	42.5	41.5	46.9	39.4	40.2
Private	0.5	0.5	0.5	0.6	0.6	0.6
Inflows	0.5	0.5	0.5	0.6	0.6	0.6
Outflows	0.0	0.0	0.0	0.0	0.0	0.0
Official	42.5	42.0	41.0	46.4	38.8	39.6
Compact grants[2]	36.1	34.5	30.4	30.5	30.9	30.9
Other	6.4	7.5	10.6	15.9	7.9	8.7
Current account including official transfers	14.3	0.6	1.6	-2.9	-7.8	4.9
(In percent of GDP)	13.6	0.6	1.7	-3.0	-8.1	5.1
Current account excluding official transfers	-28.2	-41.4	-39.4	-49.2	-46.6	-34.7
(In percent of GDP)	-26.8	-42.7	-42.7	-51.4	-47.9	-36.2
Capital and financial account	-9.7	-31.2	-6.0	-1.2	-16.8	-14.7
Direct investment, net	0.0	0.0	0.1	0.1	3.1	0.1
Short-term liabilities, net[3]	2.0	-16.7	0.8	2.6	4.6	-2.7
Medium-term liabilities, net	-11.7	-14.5	-6.9	-3.8	-24.4	-12.0
Inflows	4.8	2.1	10.7	15.2	17.9	5.3
Outflows	-16.5	-16.7	-17.6	-19.0	-42.3	-17.3
Errors and omissions	-26.9	22.3	3.8	7.1	17.0	5.2
Overall balance[4]	-22.2	-8.3	-0.6	3.1	-7.6	-4.6
Usable government financial assets	18.2	9.9	9.3	12.4	4.8	0.2
(In months of imports of goods and services)	3.1	1.6	1.6	2.0	0.8	0.0

Sources: Data provided by the RMI authorities; and Fund staff estimates.

1 Fiscal year ending September 30.

2 Compact funding pertaining to the Kwajalein Atoll Trust Fund and Kwajalein resident and landowner compensation payments are classified as income rather than official transfers.

3 Includes changes in social security fund investments, banking system assets held overseas, and government assets held in the capital and special fund accounts.

4 Approximated by changes in usable government financial assets.

TABLE A17

MARSHALL ISLANDS: External and Debt-Service Obligations, 1995/96 to 2000/01

	1995/96	1996/97	1997/98	1998/99	1999/00	Projected 2000/01
	US$ millions					
Total debt outstanding	132.8	126.3	115.1	88.3	68.8	79.2
(percent of GDP)	136.9	137.0	120.9	91.1	N/A	N/A
Debt service	25.3	26.4	26.1	26.0	21.6	26.6
(percent of exports of goods and services)	41.2	46.7	47.5	N/A	N/A	N/A
Medium-term bond issues						
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding principal	104.0	87.0	68.5	38.9	16.2	22.6
Amortization	16.5	18.0	18.9	19.9	17.9	23.5
Interest	7.5	6.7	5.4	4.1	1.6	0.9
Other central government						
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding principal	1.9	1.9	1.9	1.9	1.9	1.9
Amortization	0.1	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0	0.0
Asian Development Bank						
Disbursements	1.1	10.6	8.0	3.3	4.0	4.5
Outstanding principal	6.6	17.2	25.2	28.2	32.2	37.0
Amortization	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.1	0.1	0.2	0.3	0.4
National Telecommunications Authority						
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding principal	20.3	20.2	19.5	19.3	18.5	17.7
Amortization	0.2	0.6	0.7	0.8	0.8	0.8
Interest	1.0	1.0	1.0	1.0	1.0	1.0

Source: Data provided by the Marshall Islands authorities.

TABLE A18

Marshall Islands: Exports by Commodity, 1995–1999

(f.o.b values, US$ thousand)

Product	1995	1996	1997	1998	1999
Copra Cake	201	354	367	987	1,053
Coconut oil	3,147	3,269	2,745	1,459	1,192
Handicrafts	20	4	6	–	–
Pet fish	349	196	41	306	473
Trochus shells				564	
Chilled fish	12,671	13,172	11,855	–	–
Frozen fish	–	746	564	–	–
Others	–	401	199	152	–
Re-export of diesel fuel	6,683	1,078	–	2,306	4,994
Total	**23,071**	**18,923**	**15,777**	**5,774**	**7,712**

Source: Marshall Islands Statistical Abstract 1998 and 1999.

TABLE A19

Marshall Islands: Imports by Product Category, 1995–1999

(US$ thousand)

Product	1995	1996	1997	1998	1999
Food and Live Animals	18,056	6,240	18,935	5,382	5,697
Beverages and Tobacco	3,133	5,752	1,564	7,404	7,512
Mineral Fuels and Lubricants	22,520	28,344	12,113	23,815	25,680
Crude Materials	5,119	7,873	2,293	3,076	3,253
Animal and Vegetable Oils	331	3,535	3,407	2,875	3,012
Chemical Products	1,915	106	411	119	124
Manufactured Goods	4,873	3,033	3,968	3,692	3,676
Machinery and Transport Equipment	9,599	1,442	7,679	1,745	1,738
Miscellaneous Manufactured Articles	1,724	7,770	1,768	10,133	10,381
Unclassified Commodities	7,785	8,457	8,857	9,088	7,861
Total	**75,055**	**72,553**	**60,995**	**67,329**	**68,935**

Source: Marshall Islands Statistical Abstract 1998 and 1999.

TABLE A20
Marshall Islands: Imports by Supplier, 1995–1999
(US$ thousand)

	1995	1996	1997	1998	1999
Australia	1,410	1,364	1,836	1,885	1,379
Fiji	612	430	309	337	483
Hong Kong	1,259	1306	1,054	1,145	1,310
Japan	5,571	2,944	2,412	2,828	3,309
New Zealand	1,066	759	563	673	827
Philippines	403	240	303	269	414
Singapore		22,605	14,257	14,813	17,234
Taiwan	622	1,301	926	741	965
United States	49,296	40,359	37,566	42756	41,361
Mainland and Hawaii	38,363	38,758	35,276	36,023	37,914
Guam	10,933	1,601	2,290	6,733	3,447
Others	14,816	1,244	1,769	1,885	1,654
Total	**75,055**	**72,553**	**60,995**	**67,329**	**68,935**

Source: Marshall Islands Statistical Abstract 1998 and 1999.

TABLE A21
Marshall Islands: Copra Production, Average Producer Prices and Export Unit Values, 1995–1999.

	1995	1996	1997	1998	1999
Production					
(in short tons)	7,728	6,444	5,776	4,563	3,355
Average producer prices					
(US$ per short ton)	433	420	357	180	300
Total producer income					
(US$ thousand)	3,346	2,706	2,062	821	1,006
Copra Export Value[1]					
(US$ thousand)	3,348	3,623	3,112	2,446	2,245
Export unit value					
(US$ per short ton)	433	562	539	536	669

[1] Copra export value is the total value of exports of coconut oil and copra cake

Source: Marshall Islands Statistical Abstract 1998 and 1999.

TABLE A22
Marshall Islands: Visitors by Purpose of Visit, 1991–1999

Year	Business	Holiday/ Vacation	Transit	Visiting friends or relatives	Other	Not Stated	Total Visitors
1991	2,271	947	1,633	606	390	25	5,872
1992	2,118	825	1,306	709	650	40	5,648
1993	1,889	760	1,193	705	435	42	5,024
1994	2,090	563	967	857	399	0	4,876
1995	2,029	679	1,493	778	340	107	5,426
1996	2,513	1,113	1,447	634	281	128	6,116
1997	2,499	862	1,806	630	270	187	6,254
1998	1,905	874	1,276	568	489	1,262	6,374
1999	2,047	1,093	556	462	464	0	4,622

Source: Marshall Islands Statistical Abstract 1998 and 1999.