



# Strengthening Pacific Fragile States

THE MARSHALL ISLANDS EXAMPLE



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Asian Development Bank

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#### NOTES

In this report, “\$” refers to US dollars.

The fiscal year (FY) of the Government of the Marshall Islands ends on 30 September. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2008 ends on 30 September 2008.

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# Abbreviations

ADB	Asian Development Bank
NGO	nongovernment organization
RMI	The Republic of the Marshall Islands

# Foreword

**D**espite, and possibly because of, high levels of international assistance, the economy of the Republic of the Marshall Islands has failed to grow since independence in 1979, other than in temporary response to aid-assisted government expenditure. As a result of the lack of sustained increase in domestic economic activity, Marshall Islands society is now noticeably in decline.

Among other lessons of past development assistance described herein, a strong message is that development demanded in the Pacific matters as much as development supplied. Development demand consists of building robust constituencies which support change and reform to improve their social and economic well-being. The development experience of the Marshall Islands also has some important implications for other Pacific island countries. While Pacific islands countries are diverse, they face common risks. Common approaches, guidelines, and principles can be applied but their eventual application will have to be adapted to the individual circumstances of each country. Whether by family, village, island, ethnic group or *wantok* (language group), Pacific island countries are often highly factionalized and this presents a serious challenge to development.

Over the past 5 years, the Asian Development Bank (ADB) has been using a new approach with a view to learning how best to build on the increasing demand for improvement in governance in the Marshall Islands, and also with a view to replicating some of the same approaches elsewhere in the region appropriately modified to their local conditions. The approach is based on intensive stakeholder participation and situation analyses, dissemination of information, and confidential, informal retreats, using highly skilled facilitators and domestic consultants. Positive development results have taken place, indicating success of the approach.

However, much remains to be done and the approach needs to be improved cumulatively as more experience is gained in the process of implementation. Significant questions remain. What is the nature of demand for good governance and for better delivery of public and private goods and services? How strong is this demand? Who is driving demand? And can this demand be built on? Building demand takes time and requires a sensitive approach. Overcoming factionalism requires institutionalizing a broad based process of consultation and participation. Strong donor coordination and partnership will be crucial to building demand.

S. Hafeez Rahman  
Director General  
Pacific Department



# Introduction and Background

**A** strong state reinforces investment yield, whether this results from public or private sector investment. The development needs of a weak state must differ from those of a strong state. The fragile states of the Pacific are not the dynamic societies of Asia.<sup>1</sup> These may sound like obvious statements but the special needs of Pacific fragile states have not been apparent in earlier approaches to development in the Pacific region. Current Asian Development Bank (ADB) regional and country strategies and programs differ from those of earlier years. Emphasis on maintaining project loan portfolios has been lessened and replaced by an emphasis on strengthening state operations, including testing and strengthening the demand for reform, and engaging civil society in development decisions. The shift is toward greater participation in development with the aim of building demand for good governance and reform to support performance-oriented delivery of public and private goods and services.

The economic performance of the 14 ADB developing member countries in the Pacific has been mixed.<sup>2</sup> Many are showing social and economic stagnation if not decline.<sup>3</sup> Today there is much talk of failed and fragile states in the region, a situation that was not anticipated when these states became independent some 20–30 years ago.

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1 There are many definitions of fragile states. A fairly common one refers to those states “where the government cannot, or will not, deliver core functions to the majority of its people, including the poor.” Department for International Development. January 2005. *Why We Need to Work More Effectively in Fragile States*. London.

2 The 14 Pacific developing member countries are: the Cook Islands, the Fiji Islands, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

3 ADB. 2005. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank 2005–2009*. Manila.



Over the past 8 years, ADB has funded studies of poverty and hardship in the region that included recording “the voices of the poor” (footnote 3). These studies produced very clear and consistent development directions, i.e., for governments to (i) improve access to and quality of delivery of essential public services, (ii) create an environment in which the private sector can expand commercial activities and jobs, and (iii) boost standards of governance.<sup>4</sup> These priorities amount to the development of modern state institutions and private markets, but are still being cited some 20–30 years after independence. Combined, the priorities amount to a strategy to strengthen fragile states. ADB’s current Pacific Strategy (footnote 3) embraced these same priorities and its midterm review reaffirmed them.<sup>5</sup> In comparing ADB’s regional strategy with those of other major regional development partners, the midterm review concluded that “there is now broad alignment between the Pacific Plan (of the Pacific Forum) and the regional plans of ADB, AusAID [Australian Agency for International Development], NZAID [New Zealand Agency for International Development] and the World Bank.” The Pacific needs a development-partner response to the needs of fragile states.

Pacific states appear to be remarkably resistant to reform and institutional improvement. Some states have for decades repeatedly received the same advice on tax reform, land registration, improving the business environment, merit-based public sector–personnel management, improving foreign investment regimes, and state-owned enterprise reform. The struggle to develop modern states in the Pacific has, therefore, also led some development partners to question not only priority needs but also approaches to development assistance.<sup>6</sup> How can the small, closely knit societies and polities of the Pacific adapt and adopt the required reforms to strengthen state operations? After 20–30 years of repeated development assistance, the issue is now not so much what is best policy and best institutional arrangements but how can the Pacific reform and redress evident decline? And how can any concerned, external, development agency best assist change?

The Republic of the Marshall Islands (RMI) joined ADB in 1990. Since then it has received 12 loans for 11 projects, totaling \$78.1 million, and 49 technical assistance programs and projects totaling \$18.8 million. Eight of the 11 projects were project loans (education, fisheries, health, water, and transport) while three were policy-based program loans in support of public sector reform and structural adjustment. The other loan was for emergency typhoon rehabilitation. The technical assistance has covered a wide range of sectors and thematic issues, including building capacity in development banking, tourism management, environmental protection, and economic policy

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4 Abbott, D. and S. Pollard. 2004. *Hardship and Poverty in the Pacific*. Manila: ADB.

5 ADB. 2008. *Working in Fragile Environments: A Midterm Review of the Pacific Strategy (2005–2009)*. Manila.

6 See, e.g., AusAID. 2005. *Core Group Recommendations Report for a White Paper on Australia’s Aid Program*. Canberra.

formulation, as well as in privatizing state-owned enterprises, developing the private sector, and reforming the civil service. The history of this development assistance from the ADB is considered to be quite typical for ADB's Pacific developing member countries.

The loans and technical assistance financed by ADB have been quite wide ranging. However, ADB's financial assistance has been dwarfed by that of the Government of the United States (US). Payments by the US under the Compact of Free Association have contributed an estimated 50%–70% of gross domestic product since 1986.<sup>7</sup> The entire nominal dollar value of the ADB loan and technical assistance program for the past 15 years is equal to approximately 1.5 years of current annual levels of US assistance. Other donors—Japan and Taipei, China—also provide annual grant assistance that exceeds that of ADB.

However, as the only multilateral development bank with an active program of assistance in the country, ADB has an important role to play in helping formulate overall development strategy, economic reform, and policy and institutional development, including questioning the impact of high levels of aid on domestic productivity and production.

The combined level of international assistance to the RMI has created an economy, a government, and ultimately a society that is more attuned to the incentives of international aid than the incentives of domestic commerce. As many others now argue, the “so called ‘resource curse’ (where) natural resources represent an unearned rent accruing to governments . . . can have a negative and anti-developmental effect on the economy, public institutions, and even on the government's relationship with the citizenry . . . (and) aid can have many of the same dysfunctional effects as natural resources . . . an ‘aid curse.’ ”<sup>8</sup>

Despite, and possibly because of, the high levels of international assistance, the RMI economy has failed to grow, other than in temporary response to aid-assisted government expenditure. As a direct result of the lack of any sustained increase in domestic economic activity, with an increasing resident population, RMI social indicators are now noticeably in decline. Hardship and poverty are increasing, two-thirds of youth are unemployed, and trends in social indicators (such as youth suicide, teenage pregnancy, substance and drug abuse, sexually transmitted diseases, education, other health and education outcomes, and crime) are worrying. Again, given these results, both the impact and nature of international assistance need to be questioned.

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7 The Governments of the United States and Marshall Islands signed a 20-year agreement known as the Compact of Free Association in October 2004. Under this agreement, the Government of the RMI will receive annual grant payments and access to Federal support programs; in return, the Government of the United States will retain certain rights to support the foreign affairs and defense interests of the RMI.

8 Moss, T., G. Pettersson, and N. van de Walle. 2006. *An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa. Center for Global Development. Working Paper Number 74.* January.

# Strategy and Program

**A**DB's current country strategy and program with the RMI was formulated on the back of extensive government and civil society consultations that took place from late 2003 to March 2004.<sup>9</sup> ADB also reviewed economic, social, and other data; project evaluations; and other lessons. Staff also prepared strategic analyses of how all the various development constraints, issues, and options might fit together, guided by development theory, international experience, and by the government's own strategies and other donor programs. This process culminated in a National Coordination Committee meeting in the RMI that set future development priorities for ADB assistance. These priorities were (i) private sector development in support of job and market creation, (ii) improved public sector service delivery, and (iii) better governance. Again, this was a country strategy for strengthening the state, a country strategy that preceded the formulation of ADB and other donors' regional strategies.

Given ADB loan and technical assistance evaluations that have repeatedly stated the need for greater consultation and participation of all relevant parties in the planned assistance, ADB also attempted to foster greater community participation in the preparation and implementation of programmed assistance. This included

- (i) consultative approaches to strengthening the environment for private sector development;
- (ii) a focus on the means to civil service reform that resulted in the piloting of a collaborative approach to public sector personnel performance appraisal in the Ministry of Education;
- (iii) strengthened economic planning and support to the creation of a public policy institute in support of better governance;

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<sup>9</sup> ADB. 2006. *Country Strategy and Program Update 2007–2011: Republic of the Marshall Islands*. Manila.

- (iv) improved urban solid waste management; and
- (v) outsourcing the delivery of youth welfare programs to nongovernment organizations (NGOs) and businesses.

The three priorities of ADB's country strategy for the RMI (private sector development, improved public sector service delivery, and good governance) address the key constraints to domestic economic performance and the resulting social decline. These priorities were also identified as the priorities of the poor by the Marshallese people.<sup>10</sup> The priorities are furthermore consistent with many regional analyses,<sup>11</sup> with ADB's Pacific Strategy as recently reviewed and amended (footnote 5), and with the three pillars of ADB's Poverty Reduction Strategy.<sup>12</sup> This thematic program also complements the grant funding of other donors.

The strategy and program should be on solid ground, except that ADB has previously attempted to assist the government and people of the RMI in all these priority areas, although in different forms and through different approaches. This reaffirmation of development priorities set against much earlier development effort that had struggled to achieve intended outcomes forced ADB to dig more deeply and question development approaches. It forced ADB to question not only what is needed, but also how it can best be delivered, i.e., not only how to help effectively supply reform in governance and the improved delivery of public and private goods and services, but also what is the effective demand from citizens as well as government for reform?

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10 ADB. 2003. *Priorities of the People. Hardship in the Marshall Islands*. Manila.

11 ADB. 1998. *Improving Growth Prospects in the Pacific*. Manila; ADB. 1999. *Pursuing Economic Reform in the Pacific*. Manila; ADB. 2004. *Swimming Against the Tide? An Assessment of the Private Sector in the Pacific*. Manila; and ADB. 2004. *Governance in the Pacific. Focus for Action 2005–2009*. Manila.

12 ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila.

# Lessons So Far

**W**ith regard to how to supply reform effectively, the Government of the Marshall Islands and ADB can turn to the lessons derived from 18 years of providing assistance to the RMI,<sup>13</sup> from over 30 years of providing similar assistance to the Pacific region,<sup>14</sup> and the lessons of other international experience.<sup>15</sup> They can also be guided by the evolving theory of growth and development.<sup>16</sup> However, questions will still remain as to whether or not all these lessons fully reflect the particular development needs and issues of the isolated, small-island, and close-knit small societies of the Pacific, and as to whether declared lessons have been learned. A summary of the major lessons follows:

- (i) Domestic economic and political institutions, rules, and practices are more important to achieving results than aid. (The public jobs created, and infrastructure rebuilt and rebuilt by aid would appear to have been more politically influential than managing public service personnel for effective service delivery and managing public decisions in support of private competition.)
- (ii) Aid can help but only when recipients can first organize and manage themselves and where they have the leadership that will guide them through socially, culturally, and politically difficult decisions.
- (iii) High levels of aid may create perverse incentives, which together with a multiplicity of donors, aid conditions, and projects can curtail development.

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13 See for example, ADB. 2003. *Program Performance Audit Report on the Public Sector Reform Program in the Marshall Islands*. Manila; ADB. 2004. *Loan 1828/1829 Fiscal and Financial Management Program*. Program Completion Report. Manila.

14 ADB. 1999. *Pursuing Economic Reform in the Pacific*. Manila; Hezel, F. X. 2005. *Micronesian Governance, a View from the Outside*. Micronesia Counselor. 21 April.

15 Birdsall, N., D. Rodrik, and A. Subramanian. 2005. *How to Help Poor Countries*. *Foreign Affairs*. 84(4).

16 Duncan, R., and S. Pollard. 2002. *A Framework for Establishing Priorities in a Country Poverty Reduction Strategy*. Manila: ADB.

- (iv) Some basic principles of development, such as macroeconomic stability, outward orientation, a government that is accountable to its people and a degree of market-based incentives apply to every country. Implementation may vary. (But these principles have not been well understood, explained, or implemented in the Pacific.)
- (v) Earlier short-term, comprehensive approaches to reform did not work well. Rather there is a need for a long-term, well-focused, specific, collaborative perspective that supports actions rather than promises.
- (vi) Participation, ownership, and real effective demand for reform are the keys to reforms taking place. (But can this demand be adequately assessed and understood, and how can it be stimulated to gain support for required reforms?)

These reform lessons may now be relatively well known by donors but does the recipient society understand and will it accept required reform given the very personal implications of reform in the islands? Reform could be an especially tough call in the relatively isolated, small, and closely knit populations of the Pacific. Donors may have all too easily assumed in the past that they could readily help all developing states by transferring finance, skills, and technology, with insufficient regard to individual social and political circumstances. This confidence was also based on the now questionable belief that (i) money or loans and technology and skills are all the primary requirements, if not the only requirements for development in the Pacific, and (ii) development is primarily about transferring these inputs to those in need. Development partners may also have all too readily assumed that each government was in a strong position to implement reforms and other public investments. How could this be the case with fragile states?

In some instances, especially where objectives of foreign relations and political gain prevail over domestic development, these assumptions may have suited the supplier and the elected government, sometimes controlled by local elites. But such assistance is unlikely to meet the needs of the poor. Contrary to earlier understandings, development theory has discovered how weak governance—including lack of consultation and participation, weak rule of law, and weak public sector institutions and management—can unravel efforts to transfer funding, technology, and skills. Relatively good governance and the right policy and institutions need to be in place before aid and private investments can yield their anticipated development outcomes. This is the crucial assumption behind the performance-based allocation of ADB assistance.<sup>17</sup> According to some, “Institutional issues have recently returned to the foreground in debates on economic development. The critical importance of sound public institutions to

17 With effect from 2005, ADB’s Country Performance Assessment for the RMI has been based on the World Bank’s Country Performance and Institutional Assessment. Details of this assessment, criteria, and methodology are contained in World Bank. 2004. *Country Policy and Institutional Assessments 2004 Assessment Questionnaire*. Washington, DC.

the development process has become an article of faith . . . ”<sup>18</sup> And “ensuring widespread and appropriate participation in and ownership of development programs, especially reforms, is crucial to their success” (footnote 8).

The goal of good governance and the reforms to support good governance are now upheld by development partners as some of the basic tenets of development. ADB, as other donors, espouses good governance, i.e., transparency, accountability, predictability, and participation. ADB policy may also support competition and price-based incentives, in applying cost-based user tariffs, firm fiscal management, tax efficiencies, equity and effectiveness, and much more, but the Pacific would appear to disagree. Since 1995, the Pacific Forum Secretariat has produced a series of communiqués for its annual meetings and the Forum Economic Ministers’ Meetings.<sup>19</sup> These meetings have discussed improved governance, land mobilization, and improved debt, fiscal, and economic management. The governments of all forum member countries signed these communiqués and committed to implementing improved policies. However, a report commissioned by the Pacific Forum Secretariat in 2002 revealed that few of these policies and strategies have been implemented. While the Pacific leadership has often signed on to these same tenets and voiced agreement, the same leadership for the past 20–30 years in many Pacific countries has not delivered on these policies and institutional changes. This could be because the Pacific may not have the skills to deliver change, and/or most islanders may be risk averse, and/or civil society may not understand best policy. Given earlier failed efforts, the people of the Pacific may also now believe that the required reforms are not feasible. In addition, reforms that support the longer-term interests of the public at large may now confront opposition from established vested interests.

ADB’s experience in assisting Pacific countries reveals that improving the lot of the public at large is possible.<sup>20</sup> However, without an understanding by the people likely to be impacted of at least some of the likely pros and cons of reform, and without informed stakeholder ownership and demand for reform, there is little that ADB, or any external agency, can do to help build capacity and provide measures to mitigate risks. As ADB’s Pacific Capacity Development Study concludes, this is a further lesson of development that applies particularly strongly in the Pacific islands. It is not only a case of what development is supplied but what is demanded that matters in the Pacific.<sup>21</sup>

18 Moss, T., G. Petterson, and N. van de Walle. 2005. *A Pacific Strategy for the Asian Development Bank 2005–2009. Responding to the Priorities of the Poor*. Manila: ADB.

19 Secretariat members are Australia, the Cook Islands, the Federated States of Micronesia, the Fiji Islands, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

20 Examples of successful interventions include (i) the establishment of various national trust funds (ii) the maritime training centers that have produced merchant and commercial fisheries personnel, whose remittances can be a major source of income for those families without a member employed by government, and (iii) the late 1990s reversal of commercial fisheries policy in the RMI, which brought an end to government-run commercial fishing ventures and supported the licensing of foreign vessels. Other success stories are included in the case studies of Pacific capacity development ([www.adb.org/Documents/Studies/Capacity-Development-in-the-Pacific/default.asp](http://www.adb.org/Documents/Studies/Capacity-Development-in-the-Pacific/default.asp)).

21 ADB. 2008. Pacific Choice: Learning From Success. *Capacity Development Series*. Manila.

# A Growing Demand for Change

**A**n important feature of today's RMI society, which applies in varying degrees to other Pacific island societies, is an increasing demand for change in support of better livelihoods. In the case of the Marshall Islands, this demand is most noticeable in the increasing public discussions on development issues. This is noticeable through

- (i) the voices of the few young Marshallese returning to seek work in the RMI after an overseas education, some of whom have formed an association of young professionals;
- (ii) the growing voice of increasingly organized civil society, including NGOs and the Majuro Chamber of Commerce; and
- (iii) media publications, web-based discussions, and the newly formed Public Policy Institute.

As previous elected leaders have repeatedly failed to improve the delivery of essential social services and support to private sector development, despite substantial earlier international assistance, the voice for change has grown outside of government.

As elsewhere in the Pacific, a key constraint to building on this demand for reform is the disaggregated, factionalized nature of Marshall Islands society. Civil society may have become more organized by NGO, by church, by business, and by ministerial interest, as well as by traditional island interest, but factions are often in great, unresolved disagreement with other interests. These factions appear to have failed to combine or compromise in the interest of all Marshallese. This factionalism is quite possibly the greatest development challenge confronting the Marshall Islands and the Pacific. However, this can



also form the very energy and present opportunity for change.

Where there is demand for change, this presents an opportunity, a platform, for interested parties, both inside and outside the country, to work with and to build on. And this demand can be fostered in many ways. The aim of the new approach to ADB assistance in the Marshall Islands has been to try to build on demand. However, recognizing that the nature and extent of this demand for better livelihoods needs to be better understood, and recognizing that many reform issues may be sensitive, this general approach to development through understanding and engaging demand has been trialed in a number of forms in the Marshall Islands over the past 5 years. This has been done with a view to learning how best to go about building on the demand and also with a view to replicating some of the same approaches elsewhere in the region. A change in emphasis is most apparent in ADB's Marshall Islands country strategy (footnote 9). There are some early signs of positive response there to the new approach but significant questions remain. What is the nature of demand for good governance? Whose demand is this? How strong is this demand? Who is driving the demand for any change? And can this demand be fostered? This remains a work in progress.

# New Approaches to Building Demand

**R**levant, informed stakeholder participation in ADB-financed development processes has become a common feature of all ADB assistance in the Marshall Islands. This has taken the following forms:

- (i) Public consultations and public hearings.<sup>22</sup>
- (ii) Use of participatory planning processes in the preparation of the current country strategy and program and in the preparation of all subsequent technical assistance.
- (iii) Working with the media to broadcast development messages.
- (iv) Careful selection of consultants who are dedicated to facilitating “change management”, including difficult decision making in support of reform as opposed to solely delivering prescriptive reports.<sup>23</sup>
- (v) Engagement of Marshallese consultants, which has played an important role in understanding and working with local sensitivities and in providing for essential, systematic follow-up. The engagement of Marshallese consultants is also helping to build recognized Marshallese consulting skills.
- (vi) Facilitated, informal, confidential retreats bringing elected and executive government leaders together with leaders of civil society to discuss difficult, contentious, and sensitive development issues.

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22 In 2003, preparation and presentation of the RMI Private Sector Assessment; 2003 to 2004, country strategy and program formulation; 2005, preparation of the RMI social and economic update; and 2006, presentation on ADB, the Pacific, and the RMI.

23 Change management is a structured approach to transitioning individuals, teams, and organizations from a current state to a desired future state.

All these approaches have been aimed at better understanding, stimulating, and engaging demand for reforms in support of better governance and economic and social development. It is quite likely that there could be other ways to identify and build demand.

In recognizing that some development choices are very sensitive, ADB first decided in 2004 to pilot test confidential, facilitated retreats to try to help leaders resolve such issues. ADB has financed four retreats for the Marshall Islands, each assisted by a highly experienced international facilitator. Each retreat brought together 20–25 relevant concerned leaders, such as elected representatives, officials and members of the church, NGOs, businesses, and donor communities, to discuss sensitive issues in a respectful and confidential manner. Each retreat established shared, common concerns for the future of the Marshall Islands among the leadership of different groups of society and built on the earlier ones. The overall intent was to establish a peer group of like-minded, committed leaders that will continue to build a common commitment to reform.

The first pilot retreat held in Hawaii in August 2004 brought government officials together with officials from major donors, the US and ADB, to discuss general development concerns. The retreat purposely set minimal objectives of proving the approach and revealing shared concerns, but the approach also led to government ownership of the process, with government officials deciding that the exercise should be repeated—with a specific focus on private sector development issues—and that it should also involve representatives of the private sector. The second retreat, including representatives of business, was also held in Hawaii, in March 2005. Participants at the second retreat decided to present general findings and recommendations to the press and to hold further retreats in the Marshall Islands. Two further retreats followed in Majuro in August 2005. As was determined by the Marshall Islands, these focused on private sector development and on tax. The Majuro venue allowed for greater local participation, covering a broader representation of the leadership in the RMI, and also allowed for local follow up of the retreat outcomes.

The retreats succeeded in helping the varied Marshall Islands government and civil society leadership to talk about sensitive, contentious issues, and to propose possible, workable solutions to some of these issues. As requested, reports were prepared, one on private sector development policy presented to the President of the Marshall Islands, and another on tax policy presented to the Ministry of Finance. Further retreats could be a viable option to help the new government to respond to the even greater financial and fiscal challenges that now beset Marshall Islands development.

At the invitation of the Executive Committee of the Majuro Chamber of Commerce, the attorney general addressed the general chamber and public.

In response to another, later invitation, the chief secretary also addressed both the chamber and public. The President, all cabinet ministers, and most secretaries and other senior government officials then addressed a further general chamber meeting. The mayor of Majuro also attended an Executive Chamber Committee meeting. The number of people attending these weekly chamber meetings increased from around 50 to more than 200. These developments are viewed as highly positive in the Marshall Islands and such meetings continue today, but they could probably benefit from further external support.

In line with the program's overall aim to understand, stimulate, inform, and otherwise engage demand, and in response to the specific country program priority to further assist civil service reform, ADB, with government concurrence, tried both to assess and to pilot test the specific demand for reform of public education services (footnote 9). With the agreement of the government and the Ministry of Education, one international participatory processes planner and one Marshallese development consultant were engaged. The consultants worked with Ministry of Education staff to review education status and trends and then to identify education issues and options, and to take these issues and options to groups of stakeholders for their information, consideration, review, comment or confirmation, and prioritization. This practical, microlevel focus was found to be essential to both engaging and helping relevant stakeholders both understand the need for as well as to eventually interpret and prioritize the alternate means to civil service reform.

Between February and May 2005, the two consultants compiled and published an extensive review of education in the Marshall Islands after consulting with a broad range of stakeholders. This was possibly the most participatory and comprehensive assessment of Marshall Islands education ever made. The consultants experienced great difficulty securing reliable and consistent data, and the participation of some staff. This was no surprise given the major findings of the exercise that pointed to a lack of effective personnel management, and administration and management of education services leading to poor education outcomes.

From July to August 2005, the same consultants nevertheless succeeded in discussing education and reform with over 40 groups of relevant interested parties, both on the most populated islands and on some of the outer islands. Overall findings were presented to the cabinet. The consultant planned to present the findings to the September–October 2005 session of Parliament but this was not subsequently approved by the cabinet. The then-President of the Marshall Islands did, however, approve the release of the findings to the media. Civil society reacted to the media coverage, group discussions, and public presentations. The process succeeded in raising awareness and demand for prioritized reforms to education, i.e., for better administration and personnel management, and for school accreditation in support of improved education.

The process also led to the design and implementation of further technical assistance to pilot test the introduction of a personnel performance management system in the Ministry of Education. The performance system has been established and the government is looking to replicate it in other ministries, starting with health.

The entire exercise was independently monitored and assessed by an NGO representative. Some elected and executive government officials subsequently declared education a “disaster” and have stated a commitment to reform education.<sup>24</sup> Similar statements were included in the Minister of Finance’s FY2006 budget statement and in the local media.

The same consultative and participatory approach to demand-derived development was adopted by ADB to help improve youth welfare services, strengthen public policy dialogue, and restore urban solid waste disposal and management on Majuro atoll. In the case of youth welfare services, the government of the day agreed to establish the National Training Council as an agency that would oversee the outsourcing of youth welfare services for NGOs and the private sector to deliver. Technical assistance that supported further training of Marshallese statisticians and delivery of public policy presentations also helped establish the first Pacific Public Policy Institute located in the College of the Marshall Islands. Further, extensive consultations with the Majuro community aided the establishment of the Majuro Atoll Waste Corporation and improved solid waste management. All these new institutional arrangements continue to operate as of late 2008.

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24 The education “disaster” has not arisen from any shortage of supply-side assistance. Education is scheduled to receive \$28.1 million for recurrent expenditure and \$13.1 million in capital expenditure in FY2006, which is the equivalent of more than one in every four total budgeted dollars (\$146.3 million), or approximately \$1,200 per student for elementary education and \$2,400 per secondary school student. The education sector has also received two ADB project loans totaling \$14.8 million (L1249. Basic Education Development, and L1791. Skills Training and Vocational Education).

# Where Next?

**T**he development experience of the Marshall Islands confirms the general lessons of fragile state development that

- (i) domestic economic and political institutions, rules, and practices are more important to achieving results than aid finance and technology;
- (ii) external aid can help, but only when recipients can first organize and manage themselves;
- (iii) large annual grant aid postpones sensitive governance reform; and
- (iv) if sensitive governance reforms are to be attempted they will quite probably take some time to implement.

These general lessons are however compounded by the special circumstances of Pacific island nations, where fragile states struggle to improve governance and the delivery of basic public and private goods and services to what are often remote, small and closely knit, although poorly informed, communities. Based on the development experience of the Marshall Islands, change in the Pacific will have to be carefully undertaken over the long term, be well focused, specific, and be consultative and collaborative, supporting actions rather than promises.

While the public has been consulted, and while they are now more aware of some development issues and options, people need much more time to fully understand and ask their leaders for all the essential reforms. The electorate's short-term demand for, and expectation of, public sector jobs financed by relatively large flows of aid tend to overwhelm any longer-term demand for better public services that would have to come at the cost of admonishing, sanctioning, and otherwise managing public personnel. If, as is likely, it will take some more decades for policy-focused political systems to emerge in the Marshall

Islands as elsewhere in the Pacific, then people will need to be consulted and participate in difficult decision making for quite some time to come.<sup>25</sup>

In recalling the development experience of the RMI and the general development lessons listed above, and in considering the still relatively recent experiences of understanding, testing, and stimulating the demand for reform in the RMI, society, government, and donors should consider the following issues:

- (i) **Building on demand.** Aid can provide the neutral ground for consultations and participatory decision making. Combining factions and resolving misunderstandings and disagreements requires hiring expert facilitators and specialist participatory process planners as well as consultants who know Marshallese society and the political economy. But it is not clear at this stage how long it will take for this process to lead to action on reform. Participation needs to be relevant and participants need to see some progress or they will likely not support the continuation of the process. Some government and civil society leaders may support the development of a demand-based reform program while others will not. Some detractors may wait in the wings until the foreign consultants have left, while others may seek to actively undermine the process. Disparate reactions must be anticipated. Even where the demand for reform of governance is revealed, how can donors pave the way for a constructive response from government and help government to guide its people through socially difficult decisions? Reforms are sensitive and risky and donor staff who are helping to manage a process of reform need both the approval of government and the understanding and firm support of donor management if the process is to last and hopefully succeed. Given traditional development partner preferences for financial and technical solutions, given the technical training of development partner staff, and given the frequent turnover of such staff, it can also be very difficult for donors to sustain demand-based programs. Demand-based reform programs are not traditional donor fare. The development of local facilitators, local participation specialists, and a local consulting industry has been shown to be a set of important ingredients for success of the overall process.
- (ii) **Timeliness, sensitivity, and flexibility.** These are all key ingredients in support of reform with a long-term focus. Interventions in support of governance reforms cannot be timed according to the donor's administrative calendar but must be timed according to the client's social and political calendar. Interventions in support of governance reforms must

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25 According to R. Rich, "The conclusion to be drawn is that personalization of politics is a more enduring feature of the Pacific Islands than its systematization. The regrettable corollary is that opportunism generally wins out over policy in such a system." Rich, R., ed., with L. Hambly and M.G. Morgan. 2008. *Political Parties in the Pacific Islands*. Canberra: Australian National University.

not be overly prescriptive but designed and flexibly redesigned during implementation. A longer-term, well-focused, specific, collaborative form of technical assistance can follow government action, but what actions—rather than promises—should trigger this assistance? Can this be measured to guide progress? Further key questions are whether donors have the skills mix and staff incentives to prepare such design, and whether the existing approaches, processes, and procedures effectively support this approach. Corporations and more developed governments seek to manage change. More attention to change management in support of development in the islands is likely to be warranted.

- (iii) **Search for donor consistency.** Some donors to the Pacific have given priority to help reform of the island countries' economic and political institutions, but others may prioritize the disbursement of funds in return for diplomatic allegiance, strategic denial, access to resources, and other donor political and trade interests. Unfortunately for the Marshall Islands, the latter is the larger portion of the aid that the country receives and these priorities have all too often weakened incentives for domestic institutional reform. Unless all donors understand and consistently press for the same agenda of policy and institutional reform, aid will likely continue to lead to poor public service delivery. More steps need to be taken to bring all donors to a common policy agenda. Given the nascent and otherwise weak political economy of the Marshall Islands, as well as the public's demand for public sector jobs—even at the expense of poor public services—it is very difficult for the government to reject grant aid, even where this may hinder improving policy. If Pacific governments are unable to take the lead in advocating improved policy, the only recourse may be for international agencies such as ADB to promote much greater, informed international participation in support of improved policy.

Further progress in implementing the policy and institutional reforms in the Marshall Islands country strategy and program will be partly assessed in the form of annual updates of the country performance assessment. The criteria employed for the assessment amount to a consensus as to best policy and institutions for development. Islanders, leaders of civil society, and government leaders will need to understand this consensus if they will be expected to support it. The basic principles of development that are endorsed by the assessment must be repeatedly and well explained if they are to be understood, supported, and implemented in the Pacific. ADB is attempting to do this by simplifying, summarizing, and widely disseminating the “policy consensus” of the country performance assessment.

The development circumstances of the Marshall Islands are similar to those of the other Pacific fragile states that are members of ADB. The fairly



common, but still relatively recent, development history, trends, and constraints in the region as they have been described in ADB's regional strategy, suggest that the Marshall Islands approach should be replicated throughout the Pacific. But replication must be directed by the status and dynamics of the individual social, cultural, and political circumstances of each country. These dynamics have to be well understood before a demand-based program of reforms can be designed and implemented.

Facilitated retreats, public hearings and consultations, participatory processes, tests of demand, the persistent engagement of the media, and careful hiring of consultants, including local ones, will all likely be important common elements in raising the demand for good governance toward economic and social growth and strengthening state operations. Each of these tools will need to be tailored to each set of circumstances. This requires very careful design and planning, which in turn demands skills and knowledge. Can donors restructure operations and then stay the course in support of state strengthening?