

INITIAL POVERTY AND SOCIAL ANALYSIS

Country: Project Title:

Lending / financing modality: Department/ Division:

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The project impact is more effective financial governance in the Republic of the Marshall Islands (RMI). One of the 10 themes in the RMI's National Strategic Plan (NSP) 2015-2017 is "ensuring and applying the practice of good governance principles to achieve effective governance". The RMI's Vision 2018 also prioritizes improving governance. The project outputs will be improved institutional capacity to implement the public financial management (PFM) Reform Roadmap and state-owned enterprise (SOE) reforms. The NSP's six strategic areas under the good governance theme include PFM reforms and SOE management and reforms. This is consistent with the Vision 2018 strategies to strengthen the financial and fiscal system, and create a favorable investment climate.

The project is also aligned with: (i) ADB's Strategy 2020 which features good governance and capacity development as a key driver of change, (ii) ADB's Midterm Review of Strategy 2020 which commits that ADB will help strengthen governance systems and institutional capacities to support effective, timely, and corruption-free delivery of public services. It is consistent with ADB's Pacific Approach 2016-2020, which serves as the overall Country Partnership Strategy for the RMI, and supports (i) PFM improvements in order to achieve the outcome of greater resilience to external economic and financial shocks, and (ii) increased financial efficiency of SOEs in order to achieve the outcome of a more conducive environment for business. Under ADB's 2013 Fragile and Conflict-Affected Situations (FCAS) operational plan, ADB will provide greater capacity-building and institutional-strengthening support to FCAS like the RMI.

B. Poverty Targeting

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The proposed project does not target a specific segment of the population of the RMI. It is intended to benefit the general public through improved and more effective governance.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

An ADB Assessment of Socio-Economic Vulnerability in the Marshall Islands (2015) showed poverty incidence at 38.4% for basic needs at population level and 36.6% at the household level. Income poverty in the RMI is greater in the outer islands than in the major urban centers. The key issues facing the population are the lack of economic opportunities, employment, or access to capital and technology, as well as the high cost of interisland transport and the formidable challenge of initiating longer-term sustainable and inclusive growth. The gross domestic product, budget, and balance of payments depend on foreign grants and transfers, especially under the Compact of Free Association with the United States (US). The real economy is centered on the service sector, with productive sectors like agriculture, industry, construction, and energy playing relatively minor roles. The public sector dominates the economy and its growth, leaving the private sector to play a secondary role. With the gradual decrease of Compact grants and the potential for declining wage income from the US military base in Kwajalein, economic prospects and poverty trends are likely to worsen unless the government carries out fiscal and public sector reforms. The diversification of the economy and a dynamic environment for private sector growth will open up opportunities for income and employment growth.

The primary beneficiaries are the people of the RMI, who will benefit from long-term fiscal sustainability of the government.

2. Impact channels and expected systemic changes.

The project will contribute to poverty reduction in several ways. First, better PFM systems and more rigorous SOE management will reduce fiscal deficits; improve government capacity to deal with external shocks; and create foundations for sustainable, equitable, and inclusive pro-poor economic growth. This will improve prospects for a

smooth transition to the post-Compact era, which could otherwise create social and economic tension as public expenditure and employment shrink and poverty and deprivation worsen. Second, improving the efficiency of SOEs will reduce the burden that cash transfers place on the budget, and make additional resources available for development. Community service obligations (CSO) are crucially important, as underfunded CSOs are one of the key factors driving poor financial performance in SOEs. Also informal CSOs have a negative fiscal impact. There is little transparency and accountability around their identification and funding and their true cost and effectiveness in delivering the desired social policy outcome cannot be measured. Costing legitimate CSOs as supported under the project will be a critical first step towards reducing fiscal transfers. It will allow the government to identify the costs of inefficiencies, adjust subsidies, and contract out CSOs.

The RMI's NSP's themes include empowering people and communities to reduce the incidence of "access related" poverty through improvements in all areas including social, economic environment, governance and infrastructure, and ensuring that outer islands populations receive access to all necessary services allowing all RMI citizens to enjoy high quality of life. External shocks also tend to affect the poor more adversely. Additional resources for development will allow the government to meet the NSP's poverty- and access-related objectives, and greater resilience to shocks will benefit the poor. Greater efficiency and effectiveness in the public sector will lift the quality of education and health care, which currently absorb about half the budget.

3. Focus of (and resources allocated in) the PPTA or due diligence.

The primary focus of the due diligence will include: (i) a skills gap analysis of the Ministry of Finance with respect to its PFM responsibilities and (ii) project preparatory due diligence.

4. Specific analysis for policy-based lending.

NA

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?

There are no specific gender issues related to the sector. RMI's score on the Gender-related Development Index in 2008 was 0.708, giving RMI an 8th place ranking out of the 14 countries in the Pacific, which is a relatively lower ranking than in 2002. The 2009 MDG Progress Report showed that female participation in wage labor has increased over time. In 1967 only 14.9% of females in the labor force were actively participating in some type of formal, wage labor. This rate essentially doubled by 2011, reaching 35%. While the trend is encouraging, the 2011 RMI Census detailed report indicates that the RMI is a long way from achieving employment gender parity. Nonetheless, the RMI has made significant progress in improving female primary and secondary educational attainment. The outstanding issues are the status of female health, violence against women and girls, limited access to reproductive and sexual health-care and family-planning services, and a rising incidence of teenage pregnancy.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No Please explain.

The project does not directly target gender equality or empowerment of women. In a general sense, women will benefit from the elements of the program design that contribute to poverty reduction (see section C above). The RMI National Gender Policy (2013) is designed to advance gender equality and ensure women in the RMI have an enabling environment to enjoy their human rights. In hiring of consultants, the project will encourage the selection of qualified women.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No Please explain

The project will contribute to improved and effective governance in the RMI. This will benefit both men and women.

4. Indicate the intended gender mainstreaming category: GEN (gender equity) EGM (effective gender mainstreaming)

SGE (some gender elements) NGE (no gender elements)

The project will include design measures to benefit women such as preference to women during employment and their participation in skills services and trainings. Currently, women make up just under a third of MOF staff. Costing to CSO for basic services which will benefit women and other vulnerable groups will also be prioritized.

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The ultimate beneficiaries will be the people of the RMI. The project objectives are aligned with the NSP, which was consulted within the RMI.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

The project design does not require participation of the poor and excluded groups. Information will be shared with the public as appropriate, on the PFM reforms. The RMI is launching a website on SOEs, which will provide information. PFM reports (like the PEFA) will be shared, unless considered confidential.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing Consultation Collaboration Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No

The project design does not require participation of the poor and excluded groups.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No The project will not involve civil works and result in any involuntary resettlement impacts.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No

3. Will the project require broad community support of affected indigenous communities? Yes No

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

Indigenous peoples plan Indigenous peoples planning framework Social Impact matrix
 Environmental and social management system arrangement None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design? NA

Creating decent jobs and employment Adhering to core labor standards Labor retrenchment
 Spread of communicable diseases, including HIV/AIDS Increase in human trafficking Affordability
 Increase in unplanned migration Increase in vulnerability to natural disasters Creating political instability
 Creating internal social conflicts Others, please specify _____

2. How are these additional social issues and risks going to be addressed in the project design? NA

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?

Yes No

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence?

NA.