

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Republic of the Marshall Islands	Project Title:	Public Financial Management Project (Additional Financing)
Lending/Financing Modality:	Project grant	Department/Division:	Pacific Department (PARD) Urban, Social Development and Public Management Division, (PAUS)

<b>I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY</b>
Poverty targeting: General intervention
<b>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</b>
<p>The project impact is more effective governance achieved in the Marshall Islands. One of the 10 themes in the country’s National Strategic Plan, 2015–2017 (NSP) is ensuring and applying the practice of good governance principles to achieve effective governance.<sup>a</sup> The Marshall Islands’ Vision 2018 also prioritized improving governance.<sup>b</sup> The project outputs will be improved institutional capacity to implement the Public Financial Management (PFM) Reform Roadmap and state-owned enterprise (SOE) reforms.<sup>c</sup> 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.</p> <p>The project is aligned with the Asian Development Bank (ADB) Strategy 2030 priority of strengthening governance and institutional capacity, particularly in small island developing countries.<sup>d</sup> It is consistent with the ADB Pacific Approach, 2016–2020, which serves as the overall country partnership strategy for the Marshall Islands, and supports (i) PFM improvements to increase resilience to external economic and financial shocks and (ii) increased financial efficiency of SOEs to create a conducive environment for business.<sup>e</sup> The Marshall Islands is considered a fragile and conflict-affected situation, and ADB will provide greater capacity building and institution strengthening support under the 2013 ADB operational plan for such situations.<sup>f</sup></p>
<b>B. Results from the Poverty and Social Analysis during PPTA or Due Diligence</b>
<p>1. Key poverty and social issues. A 2015 ADB assessment of socioeconomic vulnerability in the Marshall Islands indicated a poverty incidence of 38.4% for basic needs at the population level and 36.6% at the household level. Income poverty in the the Marshall Islands is greater in the outer islands than in major urban centers. Key issues facing the population are a lack of economic opportunities, employment, or access to capital and technology; 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 services sector, with other sectors—such as agriculture, industry, construction, and energy—playing relatively minor roles. The public sector dominates the economy, with the private sector in 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. Greater and more efficient management of public financial resources and a dynamic environment for private sector growth will generate opportunities for income and employment growth.</p> <p>2. Beneficiaries. The primary beneficiaries are the people of the the Marshall Islands, who will benefit from the long-term fiscal sustainability of the government.</p> <p>3. Impact channels. The themes of the NSP 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 island populations receive access to all necessary services, allowing all citizens to enjoy a high quality of life. External shocks 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.</p> <p>4. Other social and poverty issues. Other social and poverty issues are not envisaged.</p> <p>5. Design features. The project is designed to contribute to poverty reduction. First, better PFM systems and more rigorous SOE management will reduce fiscal deficits; improve government capacity to address external shocks; and create a foundation 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 subsidy transfers place on the budget, and make additional resources available for development. Community service obligations (CSOs) are important, as underfunded CSOs are one of the key factors</p>

<p>driving poor financial performance in SOEs, while informal CSOs have a negative fiscal impact. There is presently little transparency and accountability around CSO identification and funding, and the true cost and effectiveness of CSOs in delivering desired social policy outcomes cannot be measured. Determining the cost of legitimate CSOs, as supported under the project, will be a critical step toward reducing fiscal transfers. It will allow the government to identify the costs of inefficiencies, adjust subsidies, and contract out CSOs.</p>
<b>II. PARTICIPATION AND EMPOWERING THE POOR</b>
<p>1. Participatory approaches and project activities. The ultimate beneficiaries will be the people of the Marshall Islands. The project objectives are aligned with the NSP, for which consultation was undertaken within the country.</p> <p>2. Civil society organizations. The project design does not require the participation of civil society groups. Information on the PFM reforms will be shared with the public as appropriate, and this is included in the terms of reference for the reform coordination unit (RCU) consultants. The Marshall Islands is launching a website on SOEs, which will provide information. PFM reports (such as the public expenditure and financial accountability assessment) will be shared, unless considered confidential.</p> <p>3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA).</p> <p><input checked="" type="checkbox"/> Information gathering and sharing: L   <input type="checkbox"/> Consultation: NA   <input type="checkbox"/> Collaboration: NA   <input type="checkbox"/> Partnership: NA</p> <p>Information will be shared via dissemination efforts or development of websites. Consultations will be carried out for PFM reforms if and as appropriate.</p> <p>4. Participation plan.   <input type="checkbox"/> Yes   <input checked="" type="checkbox"/> No. The project design does not require specific participation of the poor or excluded groups. The overall population of the Marshall Islands, including the poor, will benefit from the project.</p>
<b>III. GENDER AND DEVELOPMENT</b>
<p>Gender mainstreaming category: Some gender elements</p>
<p><b>A. Key issues.</b> The Marshall Islands' score on the United Nations Gender-related Development Index in 2008 was 0.708, ranking it 8th out of the 14 countries in the Pacific. Female participation in wage labor has increased over time—in 1967, women comprised just 14.9% of the labor force, which increased to 34.9% in 2011. While the trend is encouraging, the 2011 census data indicate that the Marshall Islands is not yet close to achieving employment gender parity. Nonetheless, the Marshall Islands has made significant progress in improving female primary and secondary educational attainment. 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.</p> <p>Of 78 staff working in the Ministry of Finance (MOF) as of June 2017, 39.7% were women, which is higher than the national average.; however, women were underrepresented in MOF management, with only 3 women (including the secretary) among the 16 management positions (secretary, assistant secretary, division and/or section head) currently occupied in the Majuro and Ebeye MOF offices. Under the current project, two additional women have been hired for management positions. Women make up only 21.5% of directors on SOE boards as of May 2019.</p>
<p><b>B. Key actions</b></p> <p><input type="checkbox"/> Gender action plan   <input checked="" type="checkbox"/> Other actions or measures   <input type="checkbox"/> No action or measure</p> <p>The project does not directly target gender equality or the empowerment of women. Women will generally benefit from the elements of the program design that contribute to poverty reduction (section B). The Marshall Islands' National Gender Policy (2013) is designed to advance gender equality and ensure that women in the Marshall Islands have an enabling environment to enjoy their human rights.</p> <p>Some gender actions are included in the project design. The plan to upgrade the MOF's human resources proposes positive discrimination measures in recruitment and promotions. The design and monitoring framework includes a target to raise the share of women in MOF management (subject to qualifications) above the 2017 baseline of 18.7% (3 out of 16) by 2020, and two additional women have been hired for management positions. In recruiting consultants, the project will continue to encourage the selection of qualified women. The RCU is tasked with ensuring that women comprise at least 35% of trainees in formal training sessions that it organizes and provides to the MOF and other government agencies, on PFM-related tasks and reforms (the proportion of women trainees in 2018 was 45%, exceeding the target). Under the additional financing, training will be provided to women to equip them for directorship on SOE boards, and there is a target to raise the share of women on SOE boards from the current baseline of 21.5%. Further, women will benefit from elements of the program design that contribute to poverty reduction. Determining CSO costs for basic services will lead to greater efficiency, which will benefit women and other vulnerable groups.</p>

The MOF and the RCU will be responsible for ensuring the gender-related design measures and targets are implemented and properly resourced. The advisor will ensure that progress against gender targets continues to be monitored and reported. Project reports will also contain gender-disaggregated data and information as appropriate, as they do under the current project. The PFM reform steering committee provides overall guidance, and receives briefings on gender aspects as part of its overall semiannual briefings.

#### IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

**A. Involuntary Resettlement** **Safeguard Category:**  A  B  C  FI

1. Key impacts. No involuntary resettlement impacts are expected from the project.

2. Strategy to address the impacts. Not applicable

3. Plan or other Actions.

Resettlement plan  Combined resettlement and indigenous peoples plan

Resettlement framework  Combined resettlement framework and indigenous peoples planning framework

Environmental and social management system arrangement  Social impact matrix

No action

**B. Indigenous Peoples** **Safeguard Category:**  A  B  C  FI

1. Key impacts. The people of the Marshall Islands consider themselves indigenous in terms of ethnic origin. The project is not expected to have a negative impact on any distinct or vulnerable group of indigenous peoples as defined under ADB's Safeguard Policy Statement (2009). The overall population will benefit from greater fiscal resource availability. Is broad community support triggered?  Yes  No

2. Strategy to address the impacts. Not applicable

3. Plan or other actions.

Indigenous peoples plan  Combined resettlement plan and indigenous peoples plan

Indigenous peoples planning framework  Combined resettlement framework and indigenous peoples planning framework

Environmental and social management system arrangement  Indigenous peoples plan elements integrated in project with a summary

Social impact matrix

No action

#### V. ADDRESSING OTHER SOCIAL RISKS

**A. Risks in the Labor Market**

1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).

unemployment - L  underemployment - L  retrenchment - L  core labor standards - L

2. Labor market impact. No adverse labor market impacts are envisaged. The project will provide some temporary jobs during implementation.

**B. Affordability**

Not applicable

**C. Communicable Diseases and Other Social Risks**

1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):

Communicable diseases - NA  Human trafficking - NA

Others (please specify) \_\_\_ Nil \_\_\_\_\_

2. Risks to people in project area. Nil.

#### VI. MONITORING AND EVALUATION

1. Targets and indicators. The design and monitoring framework includes targets for the participation of women in training sessions, and women in MOF management positions.

2. Required human resources. The RCU will ensure the participation of women in training sessions.

3. Information in the project administration manual. The project administration manual contains information on gender actions.

4. Monitoring tools. The semiannual and annual progress reports by the RCU include gender-disaggregated data on women trained and in MOF management positions. Reports will also include data on women on SOE boards.

<sup>a</sup> Government of the Marshall Islands. 2014. *National Strategic Plan, 2015–2017*. Majuro.

<sup>b</sup> Government of the Marshall Islands. 2001. *Vision 2018: The Strategic Development Plan Framework, 2003–2018*. Majuro.

<sup>c</sup> Government of the Marshall Islands. 2014. *Public Financial Management Reform Roadmap 2014–2016*. Majuro.

<sup>d</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>e</sup> ADB. 2016. *Pacific Approach, 2016–2020*. Manila.

<sup>f</sup> ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila.

Source: Asian Development Bank.