Government of the United States of America

First Five-Year Review of the Compact of Free Association, As Amended, Between the Governments of the United States and the Republic of the Marshall Islands

Report to the Congress of the United States of America

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EXECUTIVE SUMMARY

Purpose of the Report

This report reviews the terms of the Compact of Free Association between the Government of the United States (U.S.) and the Government of the Republic of the Marshall Islands (RMI) as required by Section 104(h)(2) of Public Law 108-188, the Compacts of Free Association Amendments Act of 2003 (Amended Compact). The law states that the review is to occur during the year of the fifth, tenth and fifteenth anniversaries of its enactment. The Compact was enacted on December 17, 2003. The fifth year of implementation ended in FY 2008 on September 30, 2008[1]

The report addresses the overall nature of the developing relationship between the U.S. and the RMI; describes the general social, political and economic conditions of the RMI, including estimates of economic growth, per capita income and immigration rates; and assesses progress made in the following areas:

- The use and effectiveness of United States financial, program and technical assistance.
- The status of economic policy reforms including but not limited to progress toward establishing self-sufficient tax rates.
- The status of efforts to increase investment including the rate of infrastructure investment of U.S. financial assistance under the Compacts, non-U.S. contributions to the trust funds, and the level of private investment.

Lastly, the report considers the operating requirements of the RMI in meeting its strategic development objectives and offers recommendations on ways to increase the effectiveness of United States assistance.

Overview of Findings and Recommendations

The RMI is in a fragile fiscal condition from the effects of the recent worldwide recession, inflation, investment decisions and decreases in annual Compact grant assistance. Weak internal fiscal policies have also contributed to the situation. Development planning and the introduction of performance management and budgeting have helped to rationalize the new accountability regimen required by the Amended Compact, but the process and its tools need improvement. Education and health funding has not been prioritized to achieve the strategic outcomes identified by the RMI; rather program and personnel expansion have occurred in the face of declining financial resources. The RMI has chosen to dedicate few resources to the

[1] Although this report focuses on fiscal years 2004-2008, when appropriate, references will be made to actions and developments since that time.

other Compact sectors of environment, public sector capacity building and private sector development.

The Amended Compact sets forth a process for collaborative management of annual allocations and related policy decision-making by the U.S. and the RMI through the Joint Economic Management and Financial Accountability Committee (JEMFAC). Recommendations are primarily addressed to JEMFAC for improving the use and effectiveness of the Compact's annual assistance.

ASSISTANCE FRAMEWORK OF THE COMPACT

Profile of the Marshall Islands

The Republic of the Marshall Islands covers a landmass area measuring 181 square kilometers in the North Pacific Ocean. The country consists of five single islands and two archipelagic island chains of 29 coral atolls, each with several small islets. Majuro, the capital of the RMI lies about 2,300 miles southwest of Hawaii.

The islands of Bikini and Enewetak are former U.S. nuclear test sites. Kwajalein Atoll, famous as a World War II (WWII) battleground, surrounds the world's largest lagoon and is used as a missile test range. The island of Ebeye (Kwajalein Atoll) is the second largest settlement in the RMI, after Majuro, and is one of the most densely populated locations in the Pacific region.

The nation's matrilineal culture revolves around a complex system of clans and hierarchical lineages and titles tied to land ownership. No public (government) ownership of land exists.

Over 90% of its estimated 52,000 inhabitants are of Micronesian origin and Marshallese descent. Approximately two-thirds of the people reside on Majuro and Ebeye. The last official census took place in 1999 and the next census is scheduled for 2011. Demographic data contained in this report are estimates derived from the 1999 census or from household surveys conducted in interim between 1999 and 2008.

The RMI is a parliamentary democracy whose close ties to the U.S. are memorialized in the Compact of Free Association between the two nations. Under the Compact, the country is fully sovereign in domestic and foreign affairs but cedes responsibility for strategic defense to the United States. The currency of exchange is the U.S. dollar.

Parliamentary elections are held every four years, with each of twenty-four constituencies electing one or more representatives (senators) to the lower house of RMI's bicameral legislature, the Nitijela. The upper house, or the Council of Iroj, is an advisory body consisting of twelve traditional chiefs. Legislative power lies with the Nitijela. Executive power rests with the RMI's President, a member of the Nitijela who is elected by that body to be both head of state and head of government. The President picks his ten-member ministerial cabinet from within the Nitijela. The appointments are subject to legislative approval.

The 29 constituent atolls and 5 islands of the RMI have local government authority.

Periods of U.S. Assistance

Pre-Compact of Free Association

The relationship between the U.S. and the RMI began during WWII with the liberation of the islands from Japanese occupation. The islands became a post-WW II strategic protectorate of the United Nations (UN) and as one of six Trust Territory of the Pacific Islands (TTPI) districts, were administered by the U.S. from 1947 until 1978. Initially under Navy control, the TTPI was transferred to the U.S. Department of the Interior in 1951 to oversee the advancement of local governance. U.S. operational support and technical assistance, economic development aid as well as promoting the growth of democratic institutions and the development of education and health systems closely modeled after the U.S. were the hallmarks of this period.

The U.S. created the Congress of Micronesia in 1965 to prepare the TTPI districts, the Marshall Islands included, for greater self-governance. In 1979, the U.S. notified the United Nations that it had fulfilled its trust responsibilities.

The sovereignty of the RMI came into being in 1979 with the adoption of the Constitution of the Marshall Islands and the Nitijela's election of Amata Kabua, paramount chief, as the country's first president. After lengthy negotiations, the RMI signed a Compact of Free Association with the U.S. in 1983.

The Compact of Free Association

The original Compact of Free Association (Compact) between the U.S. and the RMI went into effect in 1986, after the passage of Public Law 99-239. The Compact established the RMI as a sovereign nation and established the framework for the advancement of self-governance and for the governmental relationship between the U.S. and RMI that would follow. While the Compact itself carries on in perpetuity unless abrogated by one of the parties, certain specific financial and program assistance provisions set forth in Title II of the Compact terminated after fifteen years. As specified by law, negotiations for a second period of financial and program assistance began on the 13th anniversary of the Compact's signing.

Under the Compact, the U.S. provides economic and financial aid and defends the RMI's territorial integrity. In return, the RMI provides the United States with unlimited and exclusive access to its land and waterways for military purposes. Strategically, the RMI hosts the U.S. Army Kwajalein Atoll (USAKA) Reagan Missile Test Site, a key installation in the U.S. missile defense network. The original lease agreement (Military Use and Operating Rights Agreement or "MUORA") that provides for U.S. access to Kwajalein runs through 2016. (The Amended MUORA provides U.S. access to Kwajalein through 2066 with an option to renew until 2086.

The new Land Use Agreement between the Kwajalein landowners and the Government of the Republic of the Marshall Islands (GRMI) was still pending as of the end of FY 2008.[2]

The Compact's First Direct Financial Assistance Period: FY 1987 – FY 2003

The Compact's first financial assistance package lasted fifteen years, from 1987 through 2001, and was followed by two transition years of support from September 30, 2003, until a new twenty-year support agreement was negotiated and enacted into law as an amendment (PL 108-188).

Over the term of the Compact's first financial package and the two ensuing transition years, the RMI received a total of approximately $750 million. Annual amounts were earmarked for infrastructure development projects and smaller allocations for health, education, and off-island medical referrals. Non-earmarked U.S. Compact assistance supported debt payments and targeted economic development sectors such as energy and communications, but most of the funding went to cover the general recurring expenses of the government with few controls or restrictions.

Direct payments accounted for approximately 80% of all U.S. Federal funds going to the RMI. Assistance from other U.S. Federal agencies through the extension of programs and services, and through categorical and competitive grants accounted for the balance.

Compact funding levels decreased every five years from FY 1987 through FY 2001 but increased in FY 2002 and FY 2003 to the dollar average ($42.8 M) of the fifteen-year period.

The Amended Compact: FY 2004 – FY 2023

In 2001, the U.S. determined that it had met the political and security objectives of the Compact; however, it deemed that continued assistance was necessary because economic progress from 1987 onward had been disappointing. Chief among the reasons for the lack of significant economic progress were: (1) the RMI was small, remote, resource-poor and lacked development opportunities; (2) funding given to the RMI had little to no safeguards to ensure effective spending; (3) the RMI lacked full planning and management capacity; and (4) both education and health care had major shortcomings.

The negotiating objectives were to maintain U.S. security interests, to provide annual assistance to maintain economic stability and essential services, and to move the RMI to greater economic self-reliance to complete the transition from dependence on U.S. financial assistance. Toward that end, the RMI and the U.S. agreed to the following terms (not all-inclusive but intended to highlight the provisions closely associated with this report):

- The RMI annually would receive $29.8 million to support only targeted areas rather than general government operations, $15 million as Kwajalein land use compensation payment, $5.0 million to address the impact on Kwajalein Atoll, and $7 million for its Trust Fund beginning in FY 2004 and thereafter partially adjusted for inflation. Of the $5.0 million for Kwajalein impact, $3.1 million is earmarked from the overall annual

[2] A new agreement was signed May 10, 2011 between the RMI government and the landowners.

grant assistance to address the special needs of the community at Ebeye and other Marshallese communities within Kwajalein Atoll (Ebeye Special Needs), and $1.9 is provided in additional annual grants used to address the special needs of the community at Ebeye, Kwajalein Atoll and other Marshallese communities within Kwajalein Atoll with emphasis on the Kwajalein landowners.

- Inflation adjustment would continue to be provided annually at 2/3 of the U.S. Gross Domestic Product Implicit Price Deflator.

- Beginning in FY 2005, the RMI base grant would decrease by $500,000 annually through FY 2023. The amount of this decrease would be added to the annual U.S. deposit to the RMI trust fund. The trust fund arrangement would replace annual U.S. grant assistance beginning in FY 2024.

- Compact assistance would be tied to specific outcomes and purposes and monitored primarily by the U.S. Department of the Interior. Different from the first period of assistance, new fiscal and financial accountability provisions were included. These would include, among others, more frequent and detailed reporting. In addition, any misuse of funds could subsequently lead to withholding funds or other remedies applied by the U.S. until problem resolution.

- A joint U.S. and RMI committee (Joint Economic Management and Financial Accountability Committee or JEMFAC) would be created to approve annual allocations of Compact sector grants and performance objectives, to strengthen management and accountability and to promote the effective use of Amended Compact funding.

- The $15 million dollar amount for land use compensation for the U.S. military use of Kwajalein would increase to $18 million in FY 2014 (with no inflation adjustment) or the FY 2013 amount with inflation adjustment whichever is greater. The funding for Kwajalein impact would be increased by $2 million starting in FY 2014. Both of these amounts would be adjusted for inflation for FY 2015 through FY 2023 (and thereafter in accordance with the MUORA).

- U.S. military use of Kwajalein Atoll would be valid for FY 2004 through FY 2066, with a twenty-year option to extend until FY 2086.

- To mitigate the impact of migration by Marshallese and other Micronesians to the U.S., $30 million per year would be provided annually to Guam, Hawaii, the Commonwealth of the Northern Mariana Islands, and American Samoa. Pro-rata payments to these jurisdictions would be tied to a periodic enumeration of Micronesians conducted by the U.S. Bureau of the Census.

- Federal service and program assistance would continue unless otherwise provided by the U.S. Congress. The RMI would continue to be eligible for U.S. domestic grant programs, again as authorized by the Congress. The United States and RMI signed the Amended Compact on April 30, 2003. The U.S. Congress passed the Compact of Free Association Amendments Act of 2003 on November 19, 2003. The President signed the Amended Compact into law (PL 108-188) on December 17, 2003.

New Fiscal and Financial Accountability Framework

From General Operational Support to Assistance to Select Sectors

The Amended Compact specifies and defines six government sectors eligible for grant assistance. Funding is made to the following sectors:

- EDUCATION

  The Amended Compact requires that annual grants to the RMI improve its educational system and develop the human, financial and material resources needed to deliver services and programs. Emphasis is on "building and advancing a quality basic education system."

- HEALTH

  Annual grants are to support and to improve the delivery of preventive, curative and environmental cares (environmental health services such as sanitation) and to develop the human, financial and material resources needed to perform these services.

- PRIVATE SECTOR DEVELOPMENT

  Annual grants are available to support RMI's efforts to attract foreign investment and increase indigenous business activity by "vitalizing the commercial environment, ensuring fair and equitable application of the law, promoting adherence to core labor standards, maintaining progress toward privatization of state-owned and partially state-owned enterprises (SOE) and engaging in other reforms."

- PUBLIC SECTOR CAPACITY BUILDING

  Annual grants are available to support RMI's efforts to build effective, accountable and transparent national and local governments and other public sector institutions and systems.

- ENVIRONMENT

  Grants are available annually to increase environmental protection; to establish and manage conservation areas; to engage in environmental infrastructure planning, design, construction and operation; and to involve Marshallese citizens in conserving their country's natural resources.

The Amended Compact establishes education and health as the priority areas of financial assistance.

The Amended Compact clearly specifies that "not less than 30 percent and not more than 50 percent" of U.S. annual grant assistance will go to Public Infrastructure for specific projects contained in RMI's infrastructure improvement and maintenance plan. Five percent of the annual grant amount is set aside, contingent on RMI matching the amount, for an infrastructure maintenance fund.

The Amended Compact also provides: (1) Kwajalein Atoll funding (grants for special needs as identified by the community and also $200,000 to support the participation of the RMI's Environmental Health Agency in the annual U.S. Army Kwajalein Atoll Environmental Standards Survey and to promote independent analysis capacity); (2) authorization to access U.S. military humanitarian assistance personnel (HARMI) as requested by the RMI for health, education and infrastructure projects; and (3) disaster assistance through the establishment of a fund consisting of matching U.S. and RMI annual contributions of $200,000 to be used for assistance and rehabilitation needs resulting from disasters and emergencies.

The chart below shows the total targeted Compact payments the RMI received during the five-year period of FY 2004 to FY 2008.

Sector	Payment	
Education	$	53,295,596.00
Health	$	29,383,283.00
Infrastructure	$	64,009,723.00
Private Sector Development	$	1,080,506.00
Public Sector Capacity Building	$	507,028.00
Ebeye Special Needs	$	16,031,939.00
Environment	$	1,639,159.00
Kwajalein Development Fund	$	9,826,027.00
Kwajalein Landowners	$	77,573,897.00
Trust Fund	$	41,472,592.00
Supplemental Education Grant	$	23,927,927.00
Five Year Total	$	318,747,677.00

The RMI's funding priorities during the 2004-2008 reporting period were in line with the purposes of the Amended Compact. The nation consistently chose to direct its annual grant funding to education and health as its top-tier needs. It also primarily requested public infrastructure project funding for the construction and repair of education and health facilities. RMI initially requested $200,000 for the RMI Environmental Protection Agency (EPA) (environmental health grant) in addition to the $200,000 for the Kwajalein Environmental Impact Grant but decided to discontinue the amount in FY 2007 and utilize the Kwajalein Environmental Impact funds to focus on Kwajalein-related environmental activities. The RMI initially requested a small amount of public sector capacity funds for the activities of the National Auditor's Office but thereafter used sector assistance to support its performance budgeting effort. The performance budgeting grant amounted to no more than $300,000 annually. For the first three years of the Amended Compact, the RMI allocated slightly over $1 million for private sector development activities, primarily in tourism and small business development activities.

From Direct Payments to Annual Grants

Few restrictions were placed on U.S. financial assistance during the Compact's first financial assistance period. However, the Amended Compact changed the method of management and disbursement of funding from direct payments to an annual grants program, with allocations going to infrastructure development and the five earmarked government sectors instead of general operations. The Fiscal Procedures Agreement (FPA), negotiated and agreed to by the RMI and U.S. as part of the Amended Compact law, governs the grant process and sets forth detailed accountability procedures. The FPA was patterned after the U.S. Common Rule for administration of state and local grant funds, but modified to meet the Amended Compact's objectives and the unique circumstances of the RMI.

Annual Sector Budgets

The FPA requires the RMI to submit an annual budget proposal for each sector that reflects the RMI development plan(s) as the basis for performance goals and indicators measuring achievement progress. U.S. grant officials evaluate the proposals each year to ensure consistency with Compact requirements, program goals and objectives, and fiscal requirements to achieve their stated purposes. Budget consultations between the RMI and the U.S. take place prior to formal decision-making on grant allocations by JEMFAC.

Grant Management Responsibilities

THE RMI: The responsibility for managing and monitoring the day-to-day programmatic and financial implementation of the sector programs resides with the RMI to ensure compliance with grant terms and conditions. In 2008, the RMI formally established the Office of Compact Implementation to oversee the implementation of the Amended Compact. The office provides the United States an expeditious single point of contact for Compact administration issues and for coordination.

Quarterly reporting from the RMI to the U.S., as required by the FPA, includes financial status data and written statements of: (1) actual sector accomplishments compared against objectives established for the period; (2) any positive events that accelerate performance outcomes; (3) any problems or issues encountered, reasons and impact on grant activities; and (4) other relevant performance information including, when appropriate, an analysis and explanation of cost overruns. Regular quarterly reporting has been a hallmark of RMI's grant management process.

The Amended Compact requires the RMI to submit an annual report to the U.S. President on the use of Amended Compact grants and other Federal assistance provided during the preceding year and on progress in meeting the country's program and economic goals, but the RMI has consistently not met the deadline stating that they lack audited financial data. The GRMI is responsible for the management and monitoring of the operations of all grants and their activities.

THE U.S.: The responsibility for monitoring RMI's sector performance, budgets and fiscal performance, and for ensuring compliance with grant terms and conditions rests with the U.S. Department of the Interior's Office of Insular Affairs (OIA), which handles all grant management activities.

OIA employs a field representative stationed at the U.S. Embassy in Majuro who has day-to-day grant monitoring and liaison responsibilities. OIA's Honolulu-based field office has four professional staff members who are specialists in health, education, infrastructure and financial administration and regularly travel to the RMI to monitor performance and compliance. They also manage Amended Compact grants awarded to the Federated States of Micronesia. While in country, these individuals provide technical assistance, consult on budget and performance analysis, and help resolve specific issues of concern, among other duties.

Enforcement Tools

The FPA provides several enforcement tools to ensure the RMI's compliance with grant terms and conditions. These include: (1) the application of special conditions such as, but not limited to, requiring technical and management assistance, additional reporting, more monitoring and prior approvals; (2) the withholding of payments; (3) the suspension or termination of grants; (4) annual audits; (5) specific audits; (6) full access to relevant records; and (7) cooperation with U.S. investigations. During the five-year reporting period, special conditions were sometimes applied to RMI's sector grants at the time of award but no other remedies or restrictions were necessary.

The Joint Economic Management and Financial Accountability Committee (JEMFAC)

Created by the Amended Compact, JEMFAC's purpose is to strengthen management and accountability and to promote the effective use of Compact funding. The five-member committee has three U.S. representatives and two from the RMI. Designated responsibilities include:

- Reviewing the budget and development plans of the RMI;
- Approving grant allocations and performance objectives;
- Attaching terms and conditions to any or all annual grant awards to improve performance and fiscal accountability;
- Evaluating progress, management problems, and any shifts in priorities in each sector; and

- Reviewing audits required by the Amended Compact.

The U.S. and RMI each provide staffing to enable members to closely monitor and evaluate the use of Compact assistance.

JEMFAC met near the end of FY 2003 to make its first grant allocations under the amended financial package. It has met annually since then to receive updated economic information from the RMI, to consider grant allocations, and to discuss the policy implications of funding and performance directions. Members also have convened sessions in between regular JEMFAC meeting for decision-making and technical consultation. Officials from the Departments of the Interior, State, and Health and Human Services comprise the U.S. delegation. The Ministers of Finance and Foreign Affairs represented the RMI from 2003-2008.

From Generalization to Country Development Plans, the MTBIF and Portfolios

The Amended Compact requires the RMI to develop a multi-year strategic development plan that is continuously reviewed and updated through its annual budget process. The plan is meant to provide projections on the RMI's fiscal resources and commitments, and levels of Compact assistance necessary to promote broad development goals and budgetary self-reliance. Concurrence of both the U.S. and the RMI is required to the extent that the framework contemplates the use of U.S. grant funds. The RMI's Medium Term Budget and Investment Framework (MTBIF) is meant to serve that purpose.

During the 2004-2008 reporting period, the RMI sporadically prepared and submitted its rolling three-year MTBIF with estimates of Compact annual grant assistance. While helpful as a record of financial revenue and expenditure, the MTBIF's full usefulness is limited due to its lack of accompanying written interpretation. The annual portfolios submitted by the RMI have been, in reality, the explanatory documents that show how the ministries propose to use funding from various streams to accomplish their objectives. A more detailed discussion of the MTBIF is found on pages 25-26.

From Line Item Budgeting to Performance-Based Management and Budgeting

In order to provide the reports required under the FPA, particularly those pertaining to budget development, execution and progress in achieving annual outcomes, the Amended Compact requires the RMI to use performance-based budgeting (PBB) for its sector grants. Performance based budgeting is a method by which incurred costs are allocated to grants by classification or type of expenditure linked to performance goals.

The RMI began developing a performance-based management approach, with elements of PBB, in 2003. It instituted PBB for its sector portfolios (budget plans) in 2004 and, in an effort to make it the national budget process, extended the approach to other government ministries and offices in 2008. The Ministry of Health has been the most successful in grasping and using the budgeting approach. The Ministry of Education and EPA have been slower in their adoption of PBB and have struggled to make their activities and budgets fit the performance management format.

PBB is not an easy process to implement and will take time to develop fully. During the first five years of the Amended Compact, consultants from Business & Government Strategies, International (BGSI) provided on-site training through a combination of technical assistance funds from the U.S., Compact carryover funds, and public sector capacity building sector funding. To aid in the transfer of budgeting skills required of PBB, the consultants and staff from the RMI's Economic Policy, Planning, and Statistics Office (EPPSO) actively prepared the sector portfolios along with ministerial staff. Unintentionally, this hands-on consultancy led to dependency in jumpstarting work on the annual portfolios and in refining the process.

From U.S. Discretionary Grants for Education to Supplemental Education Grant

In addition to Compact sector grants, in 2005 the RMI began receiving $6.1 million (or as otherwise appropriated by the U.S. Congress) in annual funding through a Supplemental Education Grant (SEG). The Amended Compact's implementing legislation authorizes appropriations for SEG to the Secretary of Education that replace several U.S. education, health, and labor programs. Examples of the discontinued programs include, but are not limited to, Head Start (Departments of Education and Health and Human Services) and the Workforce Investment Act (Department of Labor).

Under the FPA, SEG funds are to be used to support "direct educational services at the local school level focused on school readiness, early childhood education, primary and secondary education, vocational training, adult and family literacy, and the smooth transition of students from high school to postsecondary educational pursuits or rewarding career endeavors."

SEG funding is appropriated to a U.S. Department of Education account and thereafter transferred to an account at the Department of the Interior for disbursement. Interior is responsible for ensuring that the use, administration, and monitoring of SEG funds are in accord with a memorandum of agreement executed among the Departments of Education, Health and Human Services, Labor and the Interior, as well as assuring that such funds comply with the FPA. The Amended Compact requires that U.S. appointees to JEMFAC "consult with the Secretary of Education regarding the objectives, use, and monitoring of United States financial, program, and technical assistance made available for educational purposes." A representative from the U.S. Department of Education has attended annual JEMFAC meetings to provide technical advice and to ensure the SEG and the RMI's basic sector grants are used effectively.

From Reliance on Annual U.S. Assistance to Trust Fund Proceeds

The U.S. Trust Fund Agreement with the RMI states that the purpose of the Trust Fund is to contribute to the RMI's economic advancement and long-term budgetary self-reliance by providing an annual source of revenue after fiscal year 2023 (the final year of annual compact sector grants). Although the agreement maintains that the annual disbursements may not exceed the amounts that the RMI receives as grant assistance in 2023, it does not establish or guarantee a minimum disbursement level.

Under the Amended Compact, annual U.S. contributions to the Trust Fund increase by the same amounts as annual grants to the RMI decrease. In addition, the contributions are partially adjusted for inflation. The grant decrease and Trust Fund increase for the RMI is $500,000 per year. The decreases for the RMI began in 2005.

A detailed description of the performance of the Trust Fund can be found on pages 26-28.

SOCIOECONOMIC PROFILE OF THE MARSHALL ISLANDS

Population

Historically, population in the RMI has grown at very high rates. From 1980 through 1988, in the lead-up to the original period of U.S financial assistance under the Compact of Free Association, the annual average rate of growth was 4.3%. Population in Majuro grew at 6.6%, reflecting the emergence of a money economy and the availability of jobs and public services such as health and education. Population in Ebeye was slightly below the nation's average, and the outer atolls (the "other" category) were below average and reflect internal migration. This pattern changed radically between the next two census points in 1988 and 1999. Population growth slowed significantly to 1.5%, reflecting a reduction in fertility rates and the emergence of large out-migration to neighboring U.S. territories, Hawaii, and the U.S. mainland under the migration provisions of the Compact. While overall population growth has moderated because of out-migration, inward migration from Asia has been significant, as has the movement of residents from the outer islands to the nation's population centers.

Limited job opportunities and a depressed economy during the later part of the original Compact period encouraged large-scale migration to seek employment opportunities and better rates of remuneration in the United States. Such a loss of human resources reduces the long-run productive potential of the economy.

Updated population data will be available after the RMI conducts its next census during 2011 (originally scheduled for 2009). Current indications are that the population in Majuro has grown rapidly.

	Population				Population Growth			
	Total	Majuro	Ebeye	Other	Total	Majuro	Ebeye	Other
1967	18,925	5,249	3,540	10,136	3.3%	4.9%	11.9%	0.8%
1973	25,045	10,290	5,123	9,632	4.8%	11.9%	6.4%	-0.8%
1980	30,873	11,791	6,169	12,913	3.0%	2.0%	2.7%	4.3%
1988	43,380	19,664	8,324	15,392	4.3%	6.6%	3.8%	2.2%
1999	50,840	23,676	9,345	17,819	1.5%	1.7%	1.1%	1.3%

Migration

Table 1 provides information on current migration rates and net movement of passengers between RMI and U.S. points of disembarkation. Since the destination of nearly all flights originating from the RMI is a U.S. point of entry, the figures provide a very useful indicator of net migration. The table indicates the average rates of migration since 1990 in three groups: (1) during the expansionary period of the original Compact; (2) in the Compact's step-down phase; and (3) during the first five years of the Amended Compact. The table confirms the reduction in population growth indicated by the census data between 1988 and 1999, which are the result of increasing out-migration. The outward migration rate of 1.1% during the early Compact years accelerated to 2.2% during the depressed era of the original Compact and continued at the slightly lower rate of 1.6% during the improved period of the first five years of the Amended Compact. The table also implies that out-migration from Majuro has been more rapid than from Kwajalein.

Table 1 Net movement of air passengers between the RMI and U.S. ports of entry and percent population

[redacted]

Source: U.S. Department of Transportation "TRANSTATS" database

Notes: Population estimates based on average projected levels between census points.
Only includes air passengers to/from RMI and U.S. air points (Guam, Hawaii, Saipan).
Passengers to/from RMI and other countries (e.g., FSM) are excluded.

Migration from the Freely Associated States

As described earlier, PL 108-188 authorizes and appropriates a fixed $30,000,000 for grants to affected jurisdictions (Hawaii, American Samoa, Guam and the Commonwealth of the Northern Mariana Islands). The funding is to help defray costs incurred because of increased demands placed on health, education, social, public safety or infrastructure issues related to the migration of qualified non-immigrants from the freely associated states (FAS) i.e., the Republic of the Marshall Islands, the Federated States of Micronesia and the Republic of Palau).[3]

[3] In addition to the $30 million a year already appropriated, appropriations for fiscal year 2012 included $5 million in discretionary funds for impact of compact purposes.

An enumeration of FAS migrants residing in the four jurisdictions determines the division of the Compact Impact Fund. Based on the count of FAS migrants conducted in 2003 and 2008 under the supervision of United States Bureau of Census, the distribution among the affected jurisdictions is as follows:

Jurisdiction	2003 Migrant Count	2008 Migrant Count
Hawaii	7,297	12,215
Guam	9,931	18,305
CNMI	3,570	2,100
American Samoa	10	15
Total	20,808	32,635

The Census Bureau did not enumerate FAS migrants in the 48 contiguous states or differentiate among Palauans, Micronesians, and Marshallese. The 2010 U.S. census will generate the most accurate count of all Micronesians across the country.

Consensus holds that the majority of migrants have come from the FSM. Under the Amended Compact, the next five-year count of migrants is due in 2013.

GDP, Growth and Structural Change

Increased Economic Activity Seen From 2000 to 2008

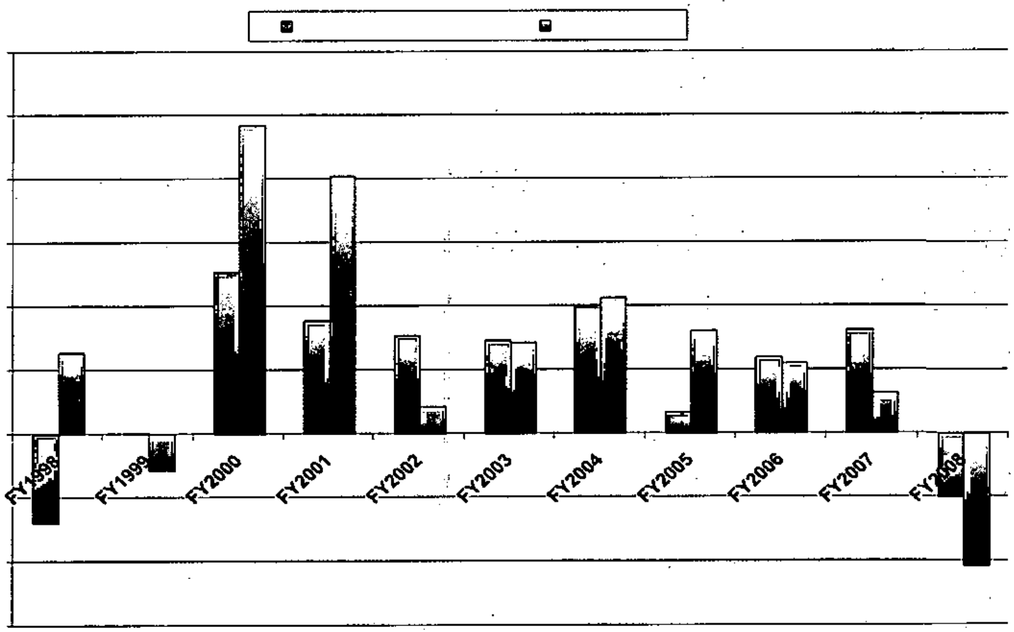
Expansionary Fiscal Policy

There has been a significant increase in economic activity since 2000. The period FY 2000 through FY 2008 has been one of public sector-led growth. The repayment of bonds issued in the early 1990s, additional funding received from Taiwan, and the more favorable financial arrangements of the amended Compact enabled the RMI to pursue a very expansionary fiscal policy. The economy continued to expand past the peak of Compact funding in FY 2004, as a result of greater private and public sector spending.

Both the world recession and increases in inflation in FY 2008 negatively affected the economy. The current precarious position of both the government and public enterprises suggest that a period of restructuring and compression is required. In the short and medium terms, the economy may need to contract. In the longer term, the economy will be forced to confront the reduction in real Compact resources and only a shift to improving the opportunities for private sector-led growth can support sustained growth.

Figure 1 indicates trends in constant price Gross Domestic Product (GDP) and real Gross National Domestic Income (GNDI). GNDI augments GDP with incomes and transfers from the rest of the world (important items include the compensation of Marshallese workers at the Kwajalein military base, rent received by Kwajalein landowners and the receipt of current transfers from the U.S. and other donors). There are two distinct periods of economic performance: first, a depressed state in the late 1990s, with negative rates of growth, then a more expansionary era in the first decade of the twenty-first century.

Figure 1 RMI Real GDP Growth (percent)



The late 1990s were marked by an extended period of economic contraction and fiscal instability resulting from the reduction in revenues to fund government operations, as well as the need to service bonds issued by the government during the early 1990s.

By the start of FY 2000, circumstances began to improve. In 1999, the RMI recognized Taiwan and initially received $10 million in annual grant assistance, an amount that rose to $16 million in FY 2008. This aid significantly eased fiscal pressure and permitted an expansion in government expenditures. By FY 2002, repayment of the bonds issued during the original Compact years was complete. Compact funds that had been used for repayment were now available for discretionary use.

Government Resources Peaked in 2005

By FY 2005, the use of the very substantial increase in resources over the FY 1999 – FY 2004 period peaked. Although the fiscal stimulus of the additional Compact resources had reached a maximum, the forward momentum in public expenditures continued. The private sector maintained economic activity, with additional investment demand arising from the Compact infrastructure grant, the Taiwan-funded convention center, and reconstruction of a fish processing plant in Majuro.

Developments in the private sector reflect the provision of general services and fisheries. FY 1997 and FY 1998 were the final years of large-scale fish exports, and the dip in private sector value-added figures in FY 1999 reflects the loss of this enterprise. However, in FY 2000, a fish processing plant commenced operations in Majuro and private sector value-added revenue regained some lost ground.

The growth in the first years of the twenty-first century was led by growth in government spending and the impact of fish processing. In FY 2005, the processing plant closed and this situation resulted in a sizeable reduction in GDP. Private sector economic activity fell significantly in FY 2008 by 5.1%, reflecting both the onset of the world recession and the impact of rapid inflation in food and energy prices. Increases in prices (15% in FY 2008) reduced real incomes and resulted in lower demand for services for supply from the small domestic private sector.

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Employment and Wages

Public sector-Led Economic Expansion Followed Painful Downward Adjustment

Employment in the RMI in the reporting period has been impacted by government spending, the closing of a private sector fish processing plant. From FY 2004 to FY 2005, employment in the private sector fell by 17% (593 employees) to a level of 3,567, the lowest since FY 2000. However, in the remainder of the period, private sector employment continued to expand and maintained its level in FY 2008, despite the drop in private sector GDP. After adjusting for the opening and subsequent closure of the fish processing plant, growth in private sector employment expanded by an annual average of 4.1% during FY 1997 to FY 2008.

Growth in Public Sector Employment

The recent growth in public sector employment follows a sustained period of downsizing in the late 1990s. From FY 2000, at the lowest point of the cycle (and the conclusion of the reform program), public sector employment expanded strongly and peaked in FY 2007. Public sector employment (including public enterprises, agencies, local and central government) grew by 26% between FY 1999 and FY 2007 at an annual average rate of 3%. Of the four components of the public sector, the RMI government, which in FY 2008 represented 52% of total public sector employment, has been the dominant force in the expansion.

The result of these trends is that employment in the economy as a whole expanded rapidly between FY 2000 and FY 2004, with alleviation of the fiscal constraints and growth in fish-related employment. Since that time, public sector employment continued to expand but was offset by the closure of the fish processing plant. The reopening of the fish processing plant is again generating strong growth in private sector employment. Data from FY 2007 and FY 2008 show that public sector employment has peaked and is likely to require retrenchment as current fiscal pressures require adjustment.

The Wholesale and Retail Sector Leads Private Employment

The wholesale and retail trade sector (34%) employs the greatest number of employees in the private sector. Other areas, such as banks and real estate (7%), hotels and restaurants (5%), and construction (12%), provide the balance of private sector employment, with fishing making only a small contribution since the close of the fish processing plant in 2004. The U.S. missile-testing site at Kwajalein is included in the dataset and represents a significant proportion of total private sector employment (18%). However, employment at the base has fallen by 200 jobs, or about 20%, since the first years of this century. It is set to fall further as the U.S. reduces its employee-driven presence at Kwajalein due to advances in technology (such as fiber optic cable connection to the base) that will enable more operations to be conducted from the U.S. mainland.

Wage Rates

Government and Private Sector Trends

Public sector nominal wage rates rose during the late 1990s. This situation reflected the fact that the government's reduction-in-force program involved a disproportionate loss of low-paid workers. In the first part of 2000, wage rates rose rapidly because of the relative abundance of resources. Although employment continued to grow after FY 2004, the rate of additional hiring did not significantly increase until FY 2008.

The pattern is different for the private sector. The fish processing plant depressed average rates during its years of operations but even after its closure in FY 2004, private sector wage rates failed to return to their FY 1997 levels, representing an annual average decline of 1%. The evidence suggests that increasing numbers of job seekers during this period exerted downward pressure on private sector wage rates.

Widened Wage Differential Between the Sectors

It is not possible to conclude that public sector wage rates for similar skills were higher than in the private sector, but it is clear that the wage differential between the sectors has widened significantly. The widening disparity encouraged a shift of labor resources to the public sector. During FY 1997 – FY 2008, wage rates at the Kwajalein U.S. base grew at an average annual rate of 2.9%, exceeding the average public sector rate of 2.4%

External Debt

There are two major components of debt service: (1) government debt on concessional terms to the Asian Development Bank and (2) government guaranteed debt incurred by the State Owned Enterprise sector.

Figure 2 shows the projected trend in outstanding debt and debt service for the two types, based on amortization schedules. For total debt, there are two phases: (a) an existing high rate of debt service of about $8 million, to be repaid over the next ten years and then (b) a much-reduced rate of about $4 million. For its debt to the ADB, the government will be required to set aside about $3 million from the general fund for the next 20 years. As a proportion of general fund revenues of $30 million, this represents about 10%. In previous periods, nearly all of the RMI debt was in the grace-period era, and debt service obligations were not significant. However, beginning in FY 2005 through FY 2008, principal repayments for many of the loans fell due, and debt service has contributed to significant fiscal pressure.

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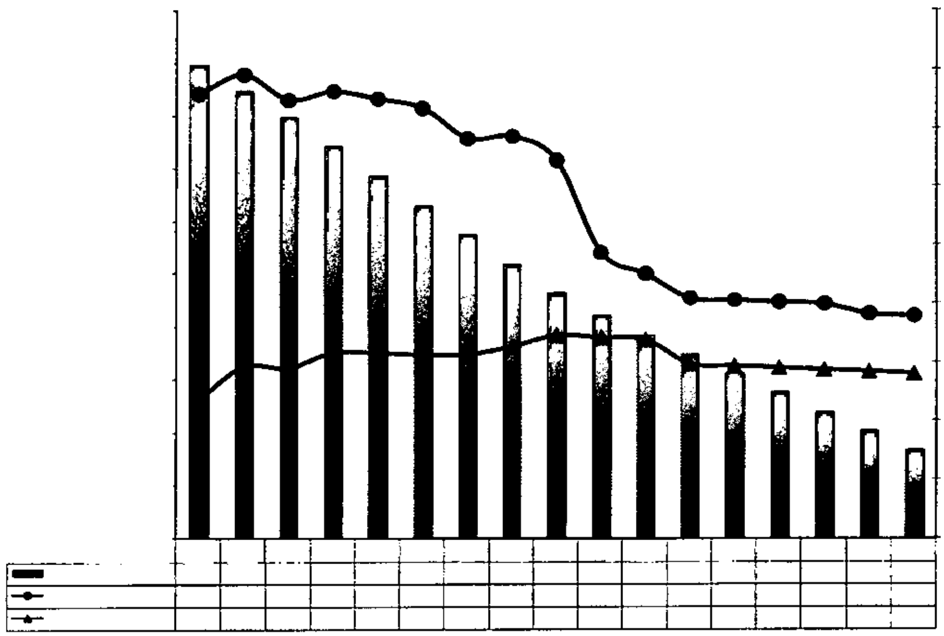

Figure 2 RMI debt and debt servicing projections, FY 2009–FY2025

In FY 2006, the government experienced its first problems in servicing ADB debt and defaulted on several loans. In FY 2007, it remained in arrears, as service obligations rose to $2.2 million. By FY 2008, the government was able to honor its repayment commitments. The difference between the two curves in Figure 2 indicates the debt service obligations of the state-owned enterprise sector. External debt of the state-owned enterprises is at higher interest rates and shorter terms and thus incurs a proportionately higher service commitment.

Fiscal Policy

Fiscal performance during the reporting period indicates a very tight fiscal position but does not reveal the large or growing deficits frequently associated with an unsustainable fiscal position. An economy such as the RMI cannot easily run a large deficit, since there is no central bank or access to external capital markets. Deficits can be supported only through such measures as aging payments to vendors, default on debt, or failure to pay monthly tax and social security allotments on behalf of employees. Thus, to assess actual fiscal pressure accurately, it is necessary to identify signals of weakness.

Stressors Point to Need for Fiscal Policy Adjustment

The following stresses occurred during the first five years of the amended Compact and point to a need to adjust fiscal policy:

- An instruction in July 2005 from the U.S. Department of the Interior that Compact funds should be deposited in bank accounts separate from the RMI General Fund bank accounts. (This instruction curtailed the use of Compact resources to fund general operations and exposed the underlying tight fiscal position in the general fund.)
- Difficulty in meeting the general fund payroll in FY 2006 and FY 2007;
- Delays in the payment of allotments and contributions to Marshall Islands social security that were related to the salaries of government employees in FY 2006 and FY 2007;
- The performance of the Marshalls Energy Company (MEC) and its impact on the budget, including the need to frontload utility payments (in FY 2008, $6 million of "offsets" was advanced);
- A growing level and sharp increase of subsidies and capital transfers to the state-owned enterprise sector (SOE);
- Inability to service ADB debt;
- The increasing use of the Taiwan project fund ($12 million in FY 2008) for advances to the SOE sector and general fund purposes.
- Low unreserved working balances of the general fund (less than $2 million in FY2008) and a negative unreserved fund balance; and
- The use of the Compact Trust Fund "D" account ($3.5 million) to meet the RMI capital contributions to the "A" account in FY 2005 and FY 2006: replenishment is outstanding.

There was some improvement in many areas in FY 2008. ADB debt servicing was bought up-to-date and earlier delays in meeting allotments were rectified although payments to vendors remained in substantial arrears. Still, the overall pattern clearly indicated a stressed and very tight fiscal position.

There are two other important reasons why fiscal adjustment is warranted. First is the government's relationship with the MEC, which, as described above, is in a very precarious financial position. Any adverse movements in world fuel prices could turn MEC operations into an immediate financial liability for the government. Given the government's tight fiscal position, this would threaten the RMI's financial viability. The second reason fiscal adjustment is necessary is that the long-run funding arrangements of the Compact, including the annual decrease and less than full inflation indexation, means that resources are declining for the delivery of services. In addition, the downsizing of contractual personnel at the U.S. military installation in Kwajalein Atoll will result in less employment of Marshallese as well as decreasing tax payments from U.S. employees at the base.

The RMI's Comprehensive Adjustment Program and Reform Efforts

In response to its tight fiscal position, the RMI created two committees and commissions to consider public sector reform. An RMI Advisory Group has been tasked to examine cost-cutting measures and develop a Comprehensive Adjustment Program (CAP). A Revenue and Tax Reform and Modernization Commission has been established to develop a proposal to reform the existing revenue system and strengthen compliance and collections. The board of the MEC has established an internal committee to recommend ways to reform and to regularize the operations of the MEC.

Developments in the Private Sector

Agriculture

Niche Production: Copra is the dominant commercial agricultural activity in the RMI. Domestic (non-copra) agricultural production and consumption data are very limited. A household survey in 2006 conducted by the Marshall Islands Economic Policy, Planning and Statistics Office showed that a large portion of rural households continued to rely on home production for their own consumption, and well over half-relied on copra as a source of income.

Domestic production of niche agriculture products (both edible and non-edible) has increased due to greater private sector interest and investment as well as stronger technical assistance and training programs facilitated by Taiwan, the RMI Ministry of Resources and Development, and non-governmental organizations.

Basic Food Security: High inflation in the prices of imported rice and other staple foods prompted the Government to reconsider and to refocus efforts on strengthening basic food security. In 2008, a sharp rise in global prices for coconut oil translated into a significant increase in local copra production.

Fisheries

Business-Friendly National Fisheries Development Plan: Fisheries policy has evolved significantly since the beginning of the Compact. Through the early 1990s, the perception in RMI and throughout most of the Pacific was that it was the government's role to own, to operate or to tax the means of production directly, including the vessels, processing plants, and other facilities. Moreover, local participation in fisheries was strongly favored over foreign involvement and investment. By the mid-1990s, however, after a number of costly government-led fisheries projects had failed (including a major ADB-financed fisheries venture in the RMI), it became clear that this approach was not working. The failed attempts prompted the RMI to rethink its policy, and with additional support from the ADB, it undertook a new direction. The RMI has developed its first National Fisheries Development Plan (NFDP 1997) to create an environment more conducive to private sector–led fisheries development. The plan, which included an organizational overhaul of the Marshall Islands Marine Resources Authority (MIMRA), helped establish the RMI as a business-friendly fishing nation and port. The adoption and implementation of the NFDP, along with improvements in MIMRA management in the late 1990s, has led directly to a turnaround in the fisheries sector and ushered in new investment and growth since 1999.

RMI's Role in Implementing the Nauru Agreement: Greater regional concern has emerged over several key issues, including: (1) the sustainability of the tuna stocks (particularly yellow-fin and big-eye tuna), and (2) the strong perception that the resource-owning Pacific states are not equitably benefiting from the $4 billion annual tuna harvest in the central and western Pacific. The Parties to the Nauru Agreement (PNA), the group of eight countries (including the RMI) which now provide more than one-third of the global supply of tuna, have resolved to establish their own intergovernmental body to begin considering new and more collective policies and approaches to address these concerns. The RMI has taken the lead role in pushing for reform in the PNA fishery. Thus, the overarching policy priorities of the RMI Government are to conserve and to sustain the fishery industry and to assert more influence on the impact and outcomes of the fishery industry, including much higher returns to the PNA member states.

Commercial Fishing: The RMI's commercial fishery sector has been a primary source of employment and economic growth. The sector has grown and diversified in recent years. Currently, four Majuro-based fishing operations are engaged in the harvesting, processing and export of skipjack (for the canned tuna market), yellow-fin, and big-eye (for the sashimi market). A new Australian-owned venture in caged fish farming has operated a pilot operation in Majuro lagoon, but recent rises in transport costs have prevented full operations (and exports to Asia) from commencing. Majuro is slowly beginning to re-establish itself as the favored port for transshipment and resupply in the central Pacific, with efforts underway to recapture market share in the refueling business (targeting mostly fishing vessels operating in the region).

Tourism

National Development Plan: In 2008, with support from the U.S. Department of the Interior, the RMI completed its first National Tourism Development Plan (NTDP). The plan diagnoses the country's key strengths and weaknesses and articulates a number of goals and objectives to more effectively facilitate tourism investment and growth over the medium-term (2008-2011).

The NTDP identified three spatial and sequencing priorities over the short-term: (1) to develop Majuro further into an attractive and well-functioning hub and gateway to the rest of the country; (2) to begin laying the foundation for opening up Kwajalein Atoll to tourism development, with the longer-term goal of developing Kwajalein into RMI's second international hub and gateway; and (3) to catalyze tourism growth in the outer islands by improving domestic air transport, reducing barriers to sea-based tourism and facilitating assistance for small-scale tourism development in the outer islands. Over the medium- to-long-term, the NTDP signals the intention to focus on the development of a high-end, private resort tourism industry.

Slow-Growing Industry: The tourism industry is small, slow growing and has not seen the same rapid take-off experienced by some neighboring Pacific destinations. Total annual air arrivals have averaged around 6,600 in reporting period, with true holiday visitors making up just 1,600 annually. Sea-based cruise ship and private yacht arrivals are growing, albeit very slowly, with Majuro seeing an average of two commercial cruise ships a year. Annual holiday arrivals exceeded 2,000 for the first time in 2007, as a direct result of six charter flights from Japan.

The NTDP's intentions to foster the development of a high-end resort industry will require significant and complementary improvements in air accessibility (both to and within the country), access to secure-titled land and islands for development, supporting infrastructure, and domestic transportation service.

ECONOMIC RISKS AND VULNERABILITIES

Public sector Expansion

Re-Growth After Reduction-in-Force

The RMI government's payroll has grown considerably over recent years since the completion of the Public Sector Reform Program and Reduction in Force (RIF) measures that were undertaken by the government in the late 1990s. The sizeable reductions in public service achieved through the RIF were followed by the transitional "bump-up" years and the implementation of the Amended Compact, which enabled expansion in payroll. Since FY 1999, there has been rapid increase in the number of public servants (Table 2). Employee numbers on the payroll fell to 1,475 in FY 1999 but increased to 2,390 by the end of FY 2008. This represents an increase of 916 employees (62%). The payroll cost over the same time increased by 87% (see chart below). This very sizeable increase has been influenced by a number of developments that have accentuated the underlying growth taking place.

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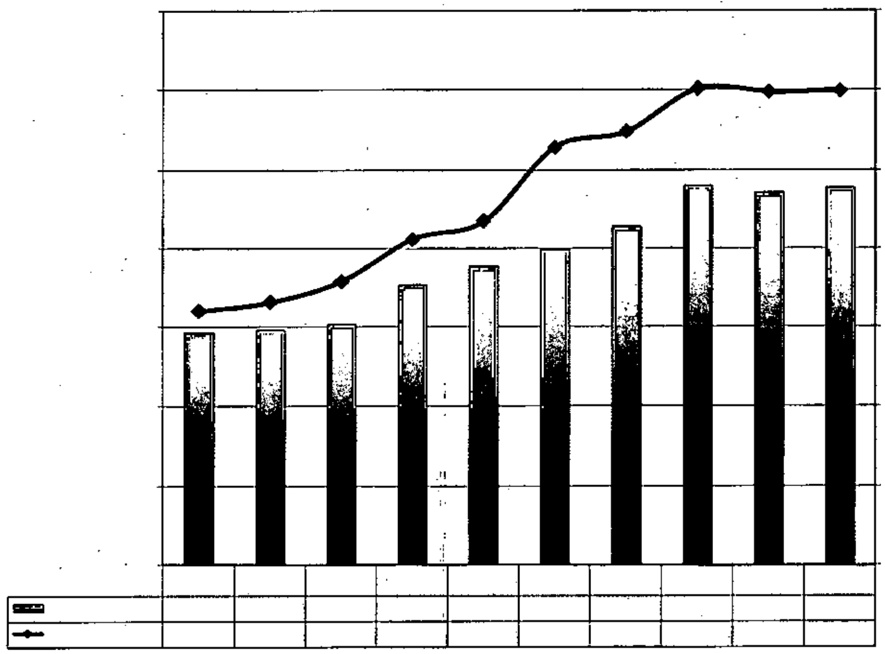


Rising Payroll

The overall trend in payroll, after allowing for the structural changes in the Ministry of Education, is up, from $16 million in FY 1999 to $30 million in FY 2008. Associated personnel expenditures, such as the government's Marshall Islands Social Security Administration (MISSA) contributions and housing allowances for expatriate staff, are also significant. Housing allowances alone required a budget of over $2.0 million in FY 2008, more than half of which was for the Ministry of Health (MOH) due to its large number of expatriate medical staff.

While the number of public servants has increased significantly, wage rates have also moved upwards. Average public sector wages increased by 16% during the period, while those in education and health rose by 23% and 33%, respectively. The impact of the Amended Compact's switch from general government operations support to a sector-grant approach seems to have encouraged a rise in the number and pay rates of employees in these sectors.

Table 2 RMI government number of public servants by department, FY1999–FY2008

[redacted]

Recruitment has continued, despite a hiring freeze endorsed by the Cabinet. The RMI has not exerted significant oversight and control over the recruitment process of its ministries, despite recent moves to performance-based budgeting. The Public Service Commission and, more importantly, the Cabinet are the main coordinating mechanisms for hiring and managing overall payroll.

Fiscal Planning and Public sector Management

Medium-Term Planning

With the onset of the Amended Compact, the RMI adopted a medium-term framework for the preparation of the annual budget and request for resources from the U.S. under the sector grants. The implementation of public financial management is typically considered as under two components: the Medium-Term Financial Framework (MTFF) and the Medium-Term Expenditure Framework (MTEF). The MTFF sets the overall fiscal envelope in which the budget is formulated, while the MTEF allocates public resources (expenditures) in accordance with delivery of specified outputs. Both are established for a set period and updated annually. The RMI system is termed the Medium-Term Budget and Investment Framework (MTBIF).

The medium-term framework was written into the language of the Compact with the following requirement:

The Government of the Republic of the Marshall Islands shall prepare and maintain an official medium-term budget and investment framework. The framework shall be strategic in nature, shall be continuously reviewed and updated through the annual budget process, and shall make projections on a multi-year rolling basis. (Section 211(f))

The MTBIF is described in government planning documents as a five-year, medium-term budgeting framework. It contains two past review years, the current fiscal year and two future trend years. The MTBIF is supposed to be updated twice annually — in December and February — to identify budget envelopes for the following fiscal year based on past trends, expected needs, and performance. The intention was to update the MTBIF mid-year to include previous FY audit information. As part of the process, a MTBIF Policy Framework Paper is prepared to provide macroeconomic and fiscal guidance. The policy paper uses input from the MTBIF, as well as other statistics and reports, including the quarterly and annual sector performance. The paper is intended to highlight major trends, such as revenue and expenditure issues, and other macroeconomic issues that the government or economy may be confronting in the medium term.

Process Shortcomings Need Longer-Term Focus

While the MTBIF approach has been incorporated into the Amended Compact, the process has not been adopted as a meaningful budget-planning tool or as an active component of fiscal and macroeconomic planning. The validity of the approach is not in doubt, but the framework is prepared outside of the RMI by an expatriate once a year to fulfill nominally the Compact's requirement. Although the MTBIF is supposed to be the centerpiece of the RMI's annual financial plan, budgets since FY2007 have omitted the MTBIF.

The emerging economic and financial circumstances confronting the RMI should make the MTBIF an essential tool to ensure a sound basis for budget development. However, the projected decline in real Compact dollars due to the two-thirds indexation and annual decreases in Compact grants, suggests that instead of a medium-term framework, the orientation should be longer-term. The current framework is rudimentary. With a more advanced set of statistics available to the RMI, a more comprehensive Long-Term Budget and Investment Framework is feasible. The shift in the planning horizon would entail projections, over the long-term, of the national accounts, the balance of payments, and revised GFS, with greater coverage of the financing account. The development of such a long-term macroeconomic framework is necessary to assist the RMI in the design of development and fiscal options.

Compact Trust Fund Viability

Trust Fund Provisions

The establishment of the Trust Fund for the People of the RMI is a major feature of the Amended Compact. The purpose of the Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the RMI by providing an annual source of revenue, after FY 2023, for assistance in the sectors described in section 211 of the Compact, as amended or other sectors as mutually agreed, with priorities in education and health care. The Trust Fund was incorporated as a non-profit corporation in the District of Columbia on August 17, 2004, pursuant to the governing Trust Fund Agreement.

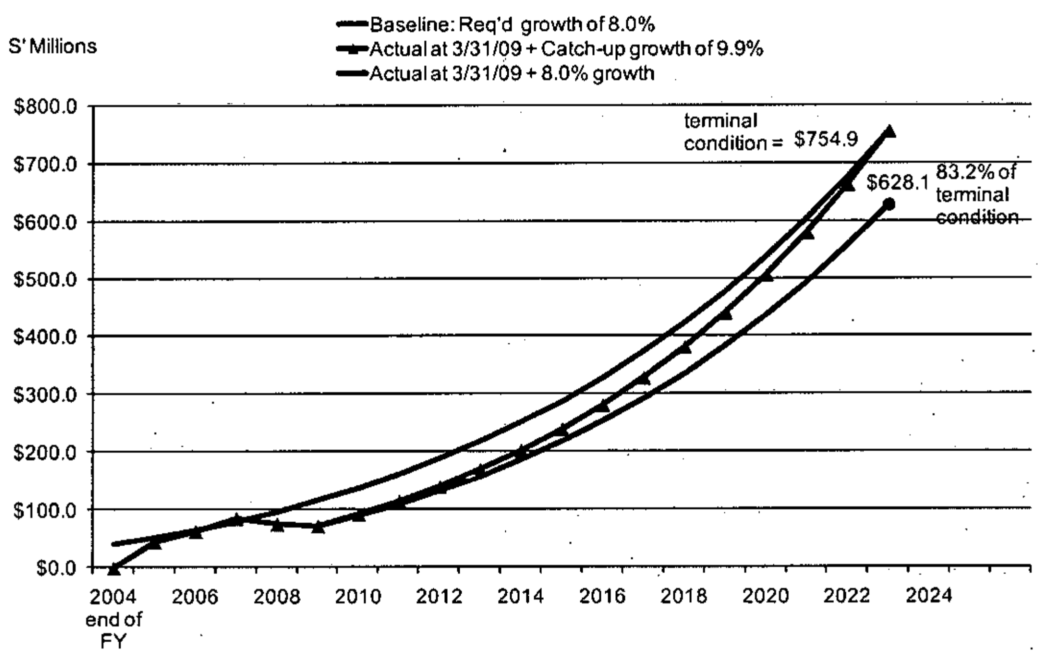
The Amended Compact and its subsidiary agreements contain no commitments, either express or implied, regarding the level of future revenue that the Trust Fund will generate.

Projected Level and Actual Value

Although the Trust Fund agreement does not commit to any particular revenue stream, for purposes of analysis, outside observers have used the benchmark of how large the Trust Fund would need to be to provide revenue equal to the adjusted value of annual Compact Grant assistance. This figure for the RMI Trust Fund is projected to be $754.9 million. If the Trust Fund had been created on October 1, 2003, and only with contributions as called for in the Amended Compact (ignoring contributions from third parties), the meeting of this "terminal condition" value would require an annually compounded rate of return of 8.0%.

The value of the RMI Trust Fund (Fund), however, is currently far below that baseline. Several factors have combined to result in the Compact Trust Fund performing below the projected path to sufficiency.

- During its initial three years, the Trust Fund largely achieved the 8.0 percent annual rate of return. The poor investment climate of 2008 into 2009, however, was an important factor in the Trust Fund failing to continue to meet 8 percent annual increase. Since the time horizon for the Fund is twenty years in the accumulation phase, it is not surprising that several periods of poor investment performance would occur. Several other factors



Compact Trust Fund Sufficiency, FY2004 – FY2024, $'millions that were not "market-driven" follow below.

- The RMI failed to deposit, in a timely manner, its required $30 million contribution. Although expected on October 1, 2003, the RMI deposited its initial contribution of $25 million on June 2, 2004. An additional $1.5 million was deposited on February 17, 2005, another $1.0 million on May 19, 2005, and the final $2.5 million on October 5, 2005. The U.S. made its initial deposit of $7 million on June 3, 2004, immediately after the RMI payment, as planned.
- The U.S. and RMI were not able to establish the Trust Fund on schedule. Although both parties anticipated that the Fund would be established on October 1, 2003, it was incorporated as a non-profit corporation on April 28, 2004. The Amended Compact did not go into effect until May 1, 2004.
- The allocation of deposited funds to the asset classes identified in the RMI Investment Policy Statement did not occur until September 30, 2005, fully 24 months into the amended Compact period, due to the process of hiring an investment advisor.
- While invested in the asset allocation as identified in the Investment Policy adopted on August 19, 2005, it appears that the actual results lagged behind the weighted returns of the benchmarks for each asset class over the latter part of the period from September 30, 2005 to March 31, 2009.

Positive Contribution by Taiwan

One factor that has proved positive for the Fund is the series of contributions from Taiwan, which have augmented the balance as of March 31, 2009. Taiwan has committed to a total funding level of $40 million over the twenty-year period of the amended Compact. An amount of $3.25 million has been deposited thus far against an agreed-upon level of $4.0 million.

Subsidies to Public Sector Enterprises

Subsidies a Growing Fiscal Concern

The increasing level of subsidies the RMI has provided to State-owned enterprises (SOE) is a growing concern and has had a profound impact on overall fiscal stability.

From FY 2004 to FY 2006, the average level of SOE subsidy and capital transfers was $4.4 million. This contrasts to the period FY 2006 to FY 2008, when the level of SOE subsidy rose to $10.3 million and consumed 30% of RMI general fund revenues.

Government aid to the SOEs has reached a critical level and requires adjustment and reform. However, where reforms have been attempted, positive outcomes have been limited and not sustained. Past reform efforts have had limited impact on improving the operations of the public enterprises they targeted. The public enterprise sector still absorbs significant public resources, but its returns to the government and the outcomes of the government's investment remain far below expectation.

Restructuring Expectations and Reform

Several public enterprises have managed over the years to reduce their need for subsidies, yet issues such as efficiency, opportunity cost, and risk of service disruption remain. Some public enterprises have continued to require annual subsidies and cash advances, sometimes worth several million dollars, to stay afloat. In most cases, poorly performing public enterprises have received public funds but have not been required by the RMI to restructure themselves or to develop a reform plan.

There has been increasing recognition by the RMI for the need to reinvigorate the reform agenda. At the end of the reporting period, reforms are being considered for enterprises that have encountered major fiscal and operational challenges in recent years and that have required subsidies or cash advances from the national government. While the RMI has considered improvements in other public enterprises, no serious consideration has been given to enacting comprehensive sector-wide SOE changes.

Tax Administration

Revenue and Tax Reforms

In FY 2008, the RMI's tax administration system contributed approximately $26.2 million (out of revenue of $34.7 million) to the RMI government's general fund. Tax revenue is a major determinant of the fiscal health of the government. The RMI appears to recognize that the system needs reform, and in 2008, the Cabinet established a Revenue and Tax Reform and Modernization Commission (TRAM), the purpose of which is to develop a proposal to reform the existing revenue system and strengthen compliance and collections. The commission's work is still in progress at the time of this report.

Two particular weaknesses have been identified by the Pacific Financial Assistance Technical Assistance Center (PFTAC) in the existing RMI tax regime. The first relates to the Gross Revenue tax (GRT) and the second, to the wages and salary tax. PFTAC also noted some serious weaknesses in tax administration, including: (a) non-compliance, estimated at 50%; (b) the need for improved administrative processes in the Division of Revenue and Taxation (DRT); and (c) operational inefficiencies resulting from three different administrative offices collecting taxes and social security contributions. The essence of the tax reform PFTAC recommended was the introduction of a modern tax system that is equitable, efficient and simple, capable of raising sufficient revenue to meet future fiscal challenges.

EFFECTIVENESS OF U.S. FINANCIAL, PROGRAM AND TECHNICAL ASSISTANCE

The Education Sector

The Education Sector is annually allocated about 30% of total Compact funds. This amount is supplemented by funds from the Supplemental Education Grant, also created by Congress through the Amended Compact Act (P.L. 108-188). Additional funds are earmarked to the schools on Ebeye in the Kwajalein Atoll, a major population center, through the Ebeye Special Needs fund established under the Amended Compact. The Ministry of Education (MOE) of the RMI is the national agency responsible for providing educational services in the country.

Educational Developments in the First Five Years of the Amended Compact

Data Collection and Reporting

During the 2004-2009 reporting period, the Ministry of Education (MOE) assembled an annual Portfolio intended to present a performance-based budget. The effort was partially successful in that the document organized expenditures in relation to strategic objectives and budget activities under those objectives. Unfortunately, the budgets did not seem to support the activities and did not include indices that could be used to gauge budget success or aid in the development of quarterly reports.

The Portfolio included indicators intended to give an annual overview of the Ministry and its operations. This annual portfolio process was flawed because the indicators and data were changed from year to year, thus preventing useful comparisons that would aid in the identification and analysis of trends.

Several developments over the first five years of the Amended Compact speak to whether the RMI demonstrated measurable progress toward the achievement of its strategic education objectives. These items are described below and rely on information extracted from MOE Portfolios of 2005 through 2009. Data are cited when measures remained consistent over periods of at least two years. Additional comments were derived from OIA site monitoring visits.

Increased Access to Education

Taking advantage of the flexibility in the Supplemental Education Grant, the MOE discontinued its Head Start program and replaced it with a universal kindergarten program. Whereas Head Start could serve only a portion of Marshallese children, kindergarten accommodated all five year olds. Access to secondary education also increased, due in part to construction of two additional high schools through the Amended Compact's Public Sector Infrastructure program. An alternative secondary format, the National Vocational Training Institute, funded through an ADB loan, also increased secondary enrollments.

Increasing Student Enrollment In the Face of Out-Migration

Despite significant out migration from the RMI during the first five years of the Amended Compact, school enrollments increased by 14% from 13,315 in 2005 to 15,151 in 2009. A factor contributing to increased enrollments may be the increased facility capacity resulting from the RMI's schedule of aggressive school construction funded by the U.S. under the Compact.

Low Student Achievement

The RMI has few standardized tests in its arsenal for assessing student achievement. Data available from 2004 through 2009 show that the number of students progressing from eighth grade to high school was fairly consistent at 95%; however, there is no information on skills mastered. High school entrance tends to be a matter of space availability. The only achievement measures presented were scores on the Pacific Islands Literacy Test that assesses English and Marshallese literacy and numeracy. The test was administered at grade 4. Data from 2002 indicate 64% of students were deemed to be "at risk" in literacy and 80% "at risk" in numeracy. While the term "at risk" was not defined, it can be assumed that the term indicated that students had not mastered the items tested.

By 2007, the last year for which data is available, the percentage of students "at risk" in literacy had increased to 67%. On the other hand, those "at risk" in numeracy had declined from 80% to 64%. The results indicated that literacy instruction had not improved but some progress was being made in math teaching. Nevertheless, such low scores at the elementary level do not bode well for successful learning in higher grades.

Discouraging Student Retention Rates

From 2001 through 2007, the MOE tracked age cohorts in two categories: from the first through the eighth and from the ninth through the twelfth grades. In 2003, 20.5% of those entering grade one did not reach grade eight. That percentage increased to 26.7% in 2007, the last year for which data were presented by cohort. At the high school level, dropout rates from 2003 through 2006 averaged 40.2%, as measured by numbers of students beginning grade nine in relation to numbers completing grade twelve. The percentage decreased to 1% in 2007, a number that must be questioned in the absence of any supporting documentation of such an enviable turn around. A different format was used in 2008 showing that 28% of elementary school students dropped out, as did 32% of high school students. The report did not indicate how those percentages were calculated. However derived, the data on student completion of elementary and high school indicate that a significant segment of the Marshallese population remains under-educated.

Declining Numbers of College of the Marshall Islands Graduates

Because the numbers are small, percentage fluctuations in degrees awarded at the College of the Marshall Islands tend to appear large. From 2005 through 2008, the number of degrees awarded decreased by 9% (101 students attained degrees in 2005; 91 in 2008). It is likely that the decrease was due to normal enrollment variation and not a significant indicator of success or failure of the College to produce graduates.

Unknown Impact of increased Scholarship Funding

The following table shows that the RMI increasingly relied on Compact and SEG funding to support students through post-secondary education.

Scholarship Funding Sources	FY 2006	FY 2008
General Fund	$ 540,000	$ 173,223
Compact Education Sector	127,802	600,000
SEG	449,360	679,000
Ebeye Special Needs	100,000	100,000
Total	$1,271,162	$1,555,223

The amounts appropriated for scholarships were the result of decisions outside of the Ministry of Education, which must adjust program and operational budgets downward to accommodate increases in scholarships. The number of degrees attained from the multi-million dollar investment in scholarships was not reported. In 2008, the National Scholarship Board began tracking scholarship recipients more closely than it had in the past, but did not report data indicating the impact of the money.

Focus on Teacher Certification

An unacceptably high number of teachers remained poorly qualified. In 2005, 57% of the instructional staff had only a local high school diploma as a credential to justify their hire as a teacher. In 2009, that percentage declined to 47.5%. The decline followed the decision by the MOE to prioritize teacher training and certification but implementation was insufficient during the first five years of the Amended Compact to show measurable differences. Unless teacher quality improves, student achievement is unlikely to rise. The MOE continues to confront logistical difficulties in providing for the up-grading of teachers in outer island schools, and is hampered by policies within the Public Service Commission that do not require an AA degree, the MOE standard, for hiring teachers.

Disorganization Among Vocational Programs

Vocational programs in the RMI were problematic for years prior to the Amended Compact. Vocational programs were de-emphasized at both Marshall Islands High School and the College of the Marshall Islands. An Asian Development Bank (ADB) loan funded the construction of the National Vocational Training Institute (NVTI), which was intended to provide an alternative high school format centered on skills training. The buildings were constructed but never equipped or staffed for vocational training. The school now provides remedial math and English with the aim of having students enter the regular high school program, but no vocational training.

With the incorporation of SEG under MOE, funds that had previously supported the U.S. Department of Labor Workforce Investment Act program were earmarked for the National Training Council (NTC), a program that provides skills training for out-of-school youth. Currently, career and vocational training in RMI consists of three uncoordinated components. First, some rudimentary skills training is provided at the high schools. The type of training depends on who is available as an instructor; there are no standards or expectations for all students. Second, the NVTI is a vocational school in name, but not substance, and remains ill defined in terms of its purpose. Third, the NTC fills in the gap for out-of-school youth. It has done a lot to encourage traditional Marshallese weaving and handicrafts. NTC also collaborates with CMI on the ABC Toolbox, a vocational "boot camp" that has had promising initial results.

Overall, the situation of vocational training in RMI from 2004 through 2009 was one of disorganization and inefficient management of resources. The predisposition within the MOE was to emphasize academics at the expense of vocational programs. Leadership did not seem to understand how to integrate challenging academic standards into vocational programs. Skills training was an afterthought for the academically underachieving. Given that most of the students in the RMI were academically underachieving, the MOE seemed to be ignoring the majority of its students.

Issues for the Future: Moving Education Forward

Refocus the Amended Compact's SEG and Education Sector Grants to Redress the Problem of Increasing Expectations but Decreasing Funding

Compact funding for elementary and secondary education needs to hold to the clear definition of grant support as worded in PL 108-188:

"Emphasis should be placed on advancing a quality basic education system."

Further, a policy statement is necessary to define "basic education" in the following terms:

> *For purposes of Compact support, basic education consists of kindergarten through twelfth grade standards-based instruction in four core academic areas; language arts (English and vernacular), math, science, and social studies with integrated, locally relevant career and technical education.*

Compact funding will not take care of all desired educational services of an education system. For example, the RMI needs to explore other funding resources to address food, transportation, art, music, and physical education.

In their budget proposals, the RMI has issued zero growth budget caps. As a result, very similar Education Portfolio budgets were presented year after year. For the most part, the Education Sector funds covered salaries and operations. Kindergarten, curriculum development and assessment, vocational and career training, and teacher training were handled primarily through the Supplemental Education Grant (SEG). Sector funding entailed scheduled decreases in funding and SEG was static. However, data from 2004 to 2009 shows that the demand for educational services is increasing. At the time the Amended Compact came into force, the RMI mandated instruction from ages 6 – 14 only. In 2004, the Ministry of Education (MOE) expanded its elementary school offerings to include universal kindergarten to grade 12. This has resulted in an increase of service demand in the face of a decrease of resources.

Additionally, while programs to implement school meal programs and provide transportation to and from school are politically popular, they are economically difficult to sustain in light of limited resources available for the education system's needs. Although these ancillary services were initiated through the Nitijela, no local funds were provided for them. These ancillary services were not supported through local funds. Food and ground transportation have become increasingly expensive, and, if continued through Compact funding, will take increasing amounts of money away from basic classroom teaching, contrary to the mandate of the Amended Compact.

Maintain the Supplemental Education Grant (SEG) Despite Administrative Problems

Under the Amended Compact, the SEG took the place of several U.S. domestic programs for which RMI eligibility was eliminated. An amount equivalent to the sum of the eliminated program budgets was added to the Amended Compact. The mechanism for delivering the funding is complicated, involving a Memorandum of Agreement between the U.S. Departments of the Interior, Education, Labor, and Health and Human Services. The Department of Education inserts the SEG into its annual budget, and upon approval by Congress and executive release of funding, conveys the funding to Interior for disbursement to RMI and FSM. The necessity for the multi-agency agreement, plus the nature of SEG as an annual appropriation resulted in a severe lag between the beginning of the fiscal year and the actual release of SEG funds.

Because of the administrative processing, a full year funding gap evolved so that the FY 2009 SEG was released simultaneously with FY 2010 Education Sector funds. In an unexpected way, the gap has a benefit: education system now receive its two Compact funding streams at the same time, enabling comprehensive budgeting within a single fiscal year.

In spite of the administrative complexity and disruptive impact SEG has had on the education systems' organization, it would be a mistake to dismantle SEG and return to U.S. domestic programs, as has been sometimes suggested. The "cashed out" programs were often ill-fitted to the FAS' social and educational context. For example, outcome and participant tracking measures for the RMI Workforce Investment Act showed little benefit from the programs.

Projects to place young people in jobs to explore work options devolved into distributing summer pocket money for participating youth. Similarly, Head Start did not produce longitudinal data correlating the program to increased academic success. After decades of Head Start interventions, RMI student test scores remained low, regardless of students' participation in the program.

With the supplementary funding made available through the SEG program, the RMI has begun to develop more locally relevant projects. The MOE has made a successful transition from Head Start to its kindergarten program. Head Start regulations limited the number of Marshallese youngsters who had access the program, but the MOE has been able to use the same amount of money to provide universal kindergarten. In addition, former Workforce Investment Act (WIA) funds support a promising Accelerated Boot Camp Trades Academy in collaboration with the College of the Marshall Islands (CMI) to prepare students for jobs such that may result from the projected Guam military build-up.

The Accelerated Boot Camp Trades Academy is a ten-week program that teaches participants English language and reading skills, math skills, life skills, physical training, and basic vocational skills. Over two hundred students have graduated from the first four sessions. Very few students have dropped out of the program. The program has produced excellent results both academically and physically over a relatively short period. CMI sponsors the program, which is fully funded with SEG funds through the RMI National Training Council. The funding flexibility for the boot camps would not be possible under WIA regulations.

The reaction to SEG should not be to return to the former status but to work toward better integration of the programs that could benefit from staff and organizational analysis similar to that required through FY 2005 grant conditions for the RMI.

Funding available under SEG has been less than that authorized by P.L. 108-188. As an annual appropriation, the SEG has been subject to U.S. Congress-approved across-the-board budget cuts and its baseline budget reset. As a result, SEG has not been funded at the ceiling authorized in U.S. public law.

Clarify the Budgetary Roles and Responsibilities of the MOE, the Nitijela and the U.S.

Local political and educational systems inevitably collide in an environment where the vast majority of funding for education in the RMI comes from the U.S. The Amended Compact stipulates that Education Sector money be given in the form of grants and that recipients will adhere to planning and reporting requirements of the FPA. Project-based planning and evaluation occur regularly between the U.S. Grant Manager and education system administrators. However, the national legislature expects to exert control over Education Sector grant money as though it were local revenue. The Ministry of Education is required to submit a line item budget to a legislative budget review committee, which exercises the authority to redistribute funding.

Local budget review processes have been opaque and have tended to generate intra-governmental tension. Education representatives present their budgets to legislators but are not involved in deliberations. Revisions are sent back as a *fait accompli.* To appeal changes, educators typically contact the U.S. Grants Manager, placing him in the awkward position of contradicting legislative decisions or agreeing to dismantle sound planning. The pattern of OIA responses has been to recommend reinstating budgets to their original format, evoking accusations by legislators of U.S. micro-management and interference in RMI sovereign affairs.

Budget and planning development may need to occur earlier to allow all stakeholders adequate time for input. Education administrators should have the right to defend their budget and appeal any changes within their legal frameworks. A clear and mutually understood timeline seems like a workable step to easing inter- and intra-governmental tensions.

Reexamine Fiscal Practices and MOE Subsidies for Transportation and Electricity for Schools

Weak fiscal, transportation, and electrical power systems negatively affect the delivery of education. As was evident during period of 2004 through 2009, fiscal procedures have been a source of frustration in the RMI. All education expenditures were processed through a central finance office. Approval and processing were cumbersome and duplicative. Effective fiscal operations were hampered by lack of communication and overlapping authorities between education and budget offices. A clear set of audit expectations should guide both education and budget offices as they process transactions. Processing must be streamlined and all appropriate education and finance staff trained in uniform procedures.

The RMI depends on ships to service outer islands, but have been unable to maintain regular service. The MOE has been expected to pay a disproportionate share of ship operating costs when compared to the use education actually makes of them and, while education is expected to pay for the ship costs, it has had no voice in scheduling. Further, schedules have been intermittent due to the disrepair of ships, increasing the difficulty of getting supplies and materials to schools, providing on-site supervision and training, or transporting teachers for training. Collaborative solutions for ship transit problems are critical to providing equitable education to outlying islands.

Electric utilities on the main islands function erratically. International donors have funded solar installations at many outer island schools, but the effort has not been coordinated. Educational technology has the potential to bring new and less expensive learning resources to schools, but its use is dependent on a reliable source of electricity.

Increase Community Involvement

A socio-linguistic conundrum exists in the RMI. Parents play little part in the educational process due to cultural confusion over how to address western institutions. Years of educational research have validated the common sense notion that schools are more effective when parents are involved. Unfortunately, efforts to involve parents have proven difficult in the RMI.

There remains a widespread attitude in the RMI that education is a government endeavor. Parents are willing to cede responsibility for providing western style education to their elected governments. They do, however, expect the schools do their job and are often dissatisfied with the results. Taking an advocacy stance on behalf of their children is difficult for Pacific island parents. The cultures are hierarchically organized: one does not criticize those in positions of authority, at least not directly. To do so would be disrespectful.

The Marshallese culture does encompass ways to express opinions and expectations upwardly to authorities. Unfortunately, these methods have not transferred to education. Most Parent and Teacher Association (PTA) meetings are quarterly events where parents pick up report cards and are given certain directives by school administrators. For the most part, the PTA is not an opportunity for parental input and participation. The process is one directional, from the school to the parents. Similarly, education systems are top-down from centralized offices to the schools. Culturally appropriate communication patterns should be developed and fostered to close the loop from parent to school and school to central administration.

Fortunately, a promising practice has been developed and nurtured in the RMI. The Cluster PTA model helps parents and schools articulate roles and responsibilities, providing everyone an acceptable means of speaking up and down the hierarchy. The schools that have implemented the model have seen positive changes in student attendance and achievement. For the long-range success of education, parents must become more involved but to do so MOE must invite parents to participate, develop a comfortable means of expressing their concerns, and forge real partnerships.

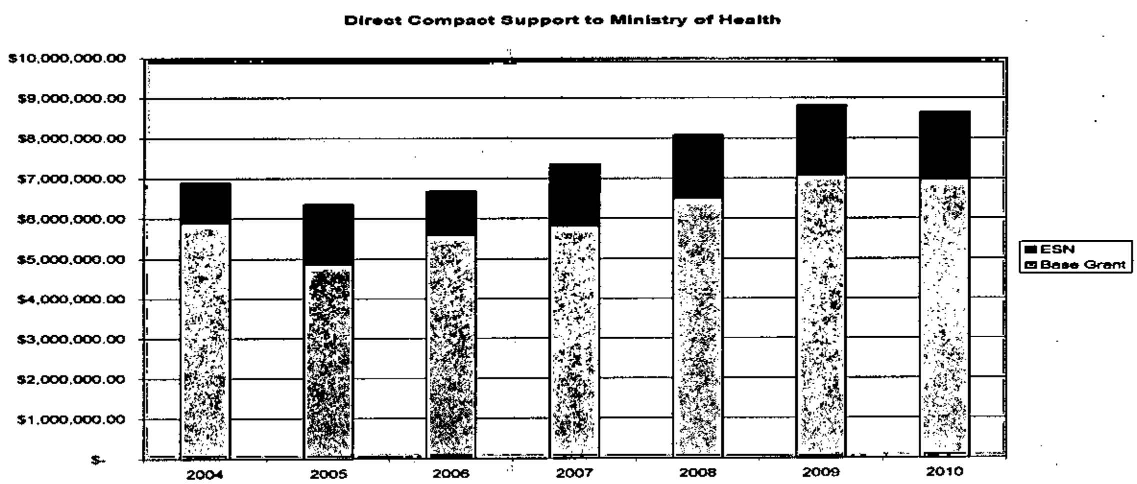
The Health Sector

Amended Compact Funding Uses and Trends

Basic Health Sector Grant

Compact Health Sector funding for basic health services passes through the RMI Ministry of Health (MOH) and supports preventive and curative health care and environmental health services, including the acquisition of needed material and human resources. The Amended Compact also gives priority to the establishment of sustainable funding mechanisms in order to maintain services and programs at appropriate levels and reduce reliance on medical referrals abroad.

The following chart shows the growth of Amended Compact health sector funding since FY 2004.



The RMI received $5,894,448 for its first basic grant for FY 2004. By FY 2009, the grant grew by $1,510,172, to $7,404,620. (FY 2009 and FY 2010 budgets are included for comparative purpose.) These basic funds accounted for about 33% of the Ministry of Health's total budget in contrast to an estimated 14% from annual general fund appropriations. When the budget factors in Ebeye Special Needs funding, Amended Compact support rises to just under 50%. The remaining balance of operational support came from two special Ministry of Health revenue accounts, U.S. Federal grants, international aid, and general fund appropriations.

Major equipment purchases, the maintenance of Ebeye Hospital, and dispensary repairs and reconstruction were funded through the Public Infrastructure Grant. Funds for the repair and maintenance of the Majuro and Ebeye hospitals were not earmarked in the operating budgets or reprogrammed for that purpose until FY 2008.

At face value, the $1.5 million increase between FY 2008 and FY 2009 should have been sufficient to support the initiation of program and service enhancements, maintain better facilities, upgrade medical equipment, or demonstrably reduce staffing shortages. However, this proved not to be the case. The Ministry of Health had other more fundamental needs: it used its money to restore acute care services and staffing that had been scaled back during the step-down in funding under the Compact's first financial assistance package. It was also used to pay for rising annual inflationary costs for utility and transportation that the Government's budget proposals excluded. Major medical equipment acquisition and facility repair were not included in the annual health sector budgets.

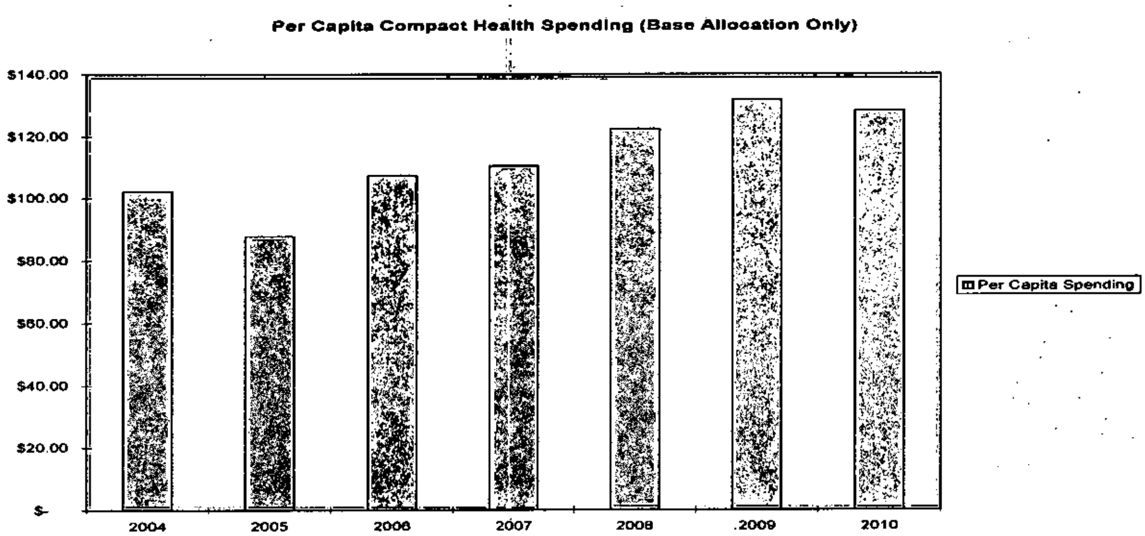
Ebeye Special Needs for Health

Ebeye Special Needs (ESN) health funding increased from $1 million in 2004 to approximately $1.7 million in 2009. While annual financial assistance is meant to support the special needs of Ebeye and Marshallese communities within Kwajalein Atoll, most of the money supported the regular operations of Ebeye Hospital. Using ESN dollars in this manner defeated the Amended Compact's purpose of earmarking extra support to address pressing health problems of the Kwajalein Atoll Marshallese community.

Sector Performance

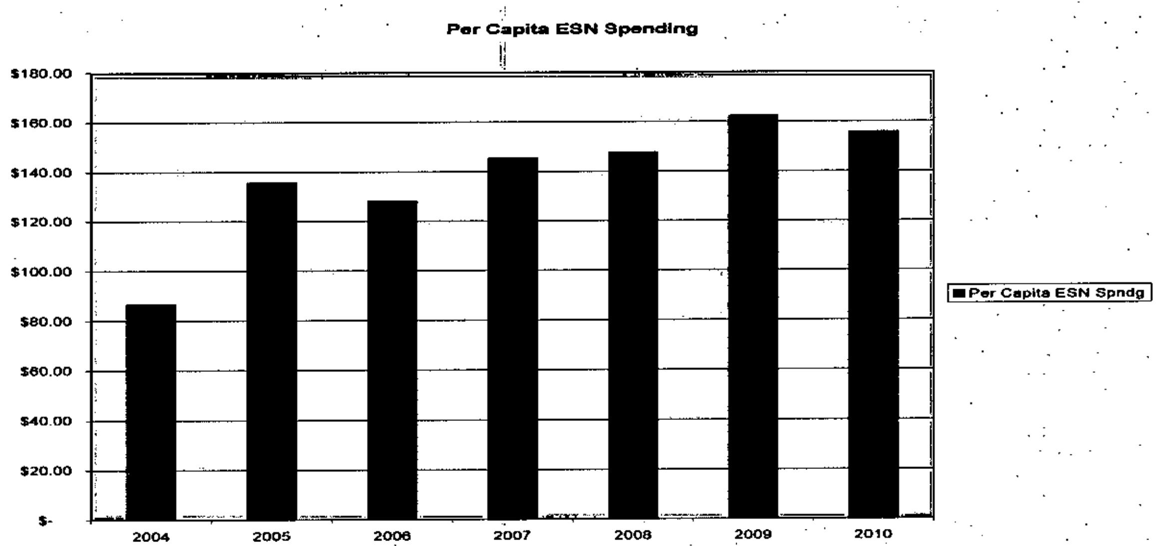
Increased Per Capita Health Spending

With all health revenue sources included, the RMI spent more money per person on health care than the FSM and other neighboring small countries in the Pacific. From FY 2004 through 2010, per capita spending of the Amended Compact's health funds increased from $102 to $128. The per person Compact health spending increase was approximately $26.00.



(Population estimates used are courtesy of Mr. Gerald Haberkorn of the South Pacific Community.)

Per capita spending of ESN health dollars is shown below. In FY 2004, it was $87. In FY 2010, it will be $156. Nearly 20 percent of RMI's population lives on Ebeye.



While per capita spending has increased significantly, there has not been a parallel improvement in the health status of the RMI population nor in health service delivery.

Planned New Hospital for Majuro

Majuro Hospital was built in the mid 1980s using prefabricated building material. The Government determined it would need much more repair, renovation, and reconstruction work than would be cost-effective or efficient. Consequently the first of several iterations of conceptual project designs were submitted to the MOH by outside design firms in 2008, first to modernize the deteriorating inpatient and outpatient facility and demolish patch-work building add-ons, and then to construct a more functional single-storied facility on adjacent land. Acceptance of a final design is pending an evaluation of the conceptual design by the MOH's third party representative (engineering and architectural review services).

The Compact Public Infrastructure grant funded the design and will finance the construction of the hospital. The RMI first proposed building a 190-bed facility. The size would have represented an unsustainable level of expansion of services, equipment, personnel, and money by an RMI government already straining financially, even with a significant annual out-migration of its citizens. The capacity has since been reduced to 130 beds. When completed, the multi-million dollar hospital will be the largest project undertaken by the RMI. There are segments of the Government that are still advocating the establishment of a cancer treatment facility, that, if realized, would require an even greater infusion of financial resources and increased expatriate staffing.

Reorganized Ministry

In an effort to move away from the status quo, the Ministry of Health launched an effort in 2008 to reorganize its system of care to better meet the health care requirements of the population. The purpose of redrawing its organizational chart was to reduce operating divisions, re-emphasize preventive and primary care, and streamline administrative operations. The Ministry reduced its five administrative bureaus to three. It consolidated preventive, public health services and hospital services in Majuro under a single Assistant Secretary, a move that mirrored Kwajalein Atoll's approach, and created a Bureau of Outer Island Health Services. The reorganization did not eliminate any of the six pre-existing assistant secretaries in the Ministry or clearly define functional or co-dependent relationships.

In past reorganizations, the Ministry also faced similarly daunting decisions on the deployment of finite human, material and financial. The 2008 effort suffered from a lack of reliable and consistent information needed to choose among program priorities and to guide decisions for eliminating, sharing or shifting resources.

Performance Budgeting Implemented

One of the more significant improvements since 2004 has been the Ministry's implementation of performance-based budgeting to effect improvements in decision-making, performance appraisals, increased accountability among managers, and service delivery. Helped by outside consultants, the Ministry also sought to better understand actual costs of inpatient care and certain diseases. However, the use of these studies as the basis for diabetes management and stepped-up prevention, for example, has not been evident.

Budget and performance components have been added incrementally to rationalize the process. The extent to which the performance budgeting system will drive decisions to redirect budgetary and policy efforts to higher priority programs and services, or improve spending efficiencies and effectiveness, is still unknown. The movement of funds from program to program is still driven by the need for money to maintain all services rather than taking a hard look at Ministry priorities. Utility shortfalls, absorbing annual inflationary costs, and paying for unbudgeted expenses such as equipment repair and the repatriating and replacing health workers, have derailed efforts to execute performance budgets smoothly and achieve desired annual outcomes.

There were evident gaps in performance baselines and annual data in the MOH portfolios during the period from 2003 through 2008, making the use of the document as a performance management and planning tool ineffective. Attention shifted to ensuring the recording of comparable data for FY 2009.

A Health System in Double Jeopardy and Stretched Thin

The RMI continued to face a dual epidemiologic profile of non-communicable and infectious diseases that complicated the reapportioning of health care resources away from its emphasis on acute care. Data from the first five years of the Amended Compact showed communicable diseases to be major causes of morbidity and mortality; however, cancer, diabetes and other chronic diseases amenable to prevention and early intervention were clearly emerging as co-leading causes of patient clinic encounters, hospitalizations, and death.

Diarrheal Disease Still a Problem

Diarrheal disease was as a major reason for outpatient visits and hospitalization alongside diabetes mellitus (type 2). This situation clearly shows a health system stretched in opposing directions and facing the dilemma of choosing to support more focused disease prevention and early management activities in primary care and public health, or sinking a large share of its resources to meet an equally compelling, co-existing need to provide diagnostic and sick care to a steady stream of patients at the country's two hospitals.

Infectious Disease Risks Complicate Effective Chronic Disease Management

Even as the country faces an upswing in chronic diseases associated with a modern lifestyle, the risk of infectious disease transmission has not abated. Contributing factors include a population density estimated at 742 people per square mile, crowded living conditions in the urban centers of Majuro and Ebeye and inadequate sanitation and potable water supplies. Significant morbidity from contagious disease in the RMI also has been due to the country's highly mobile population. Migration within the country and to destinations outside the RMI is significant, making continuity of medical and preventive care difficult.

The last reported communicable disease outbreak (measles) occurred in 2003; however, risks arising from the easy movement of families between the islands, and the flow of people in and out of the RMI, has made immunization tracking and compliance a problem. As a measure to safeguard public health, the MOH stepped up efforts in 2006 to immunize infants and children upon school entry.

In 2008, the Ministry of Health reported its overall national immunization rate for children below two years of age as 83%, a slight increase over the previous year's rate of 79%. It reported better coverage in the urban centers, but only half of all children under two were immunized in the outer islands. It is notable, however, that EPPSO, the country's Economic Policy, Planning and Statistics Office, challenged the accuracy of these official rates after conducting a population study in the outer islands. It detailed outer island immunization coverage rates for children under the age of two years, to be at least 30% lower in select outer island groups than official health reports.

In August 2009, a United Nations volunteer specialist reviewed data from the Ministry's maternal and child health program and found that his recalculated immunization coverage rates ranged from 48% to 67% for Majuro, percentages that were at wide variance from the 80% to 90% rates computed by the health department. The consultant found that although a large amount of basic information was being collected by frontline personnel, four different sources were used. Methods of calculation used by the Ministry of Health and EPPSO differed. Because both agencies officially report on the same indicator, controversy could have been avoided if the parties had agreed to and used uniform methods of calculation.

In late 2008, a case of multi-drug resistant tuberculosis (MDR-TB) surfaced in Majuro. This was not the first time MDR-TB had been seen in the RMI but it was the first time that the Ministry of Health asked for investigative help from the Centers for Disease Control and Prevention (CDC). The findings of the investigation were serious. CDC's medical team estimated that there might be upwards of 400 close contacts that ultimately will require treatment. They identified eight historical cases, two active cases and over 200 close contacts. Even with rigorous contact tracing, spotty drug compliance histories for primary tuberculosis suggest the numbers may climb. Ebeye had five reported cases of MDR-TB during the reporting period but the follow up of contacts and treatment compliance were hampered by a lack of public health staff and TB control resources, as well as faulty chain of command communication. Of those five cases, two deaths were attributed to the disease. Two others left the RMI and are in the United States. Two new cases have since been diagnosed and those individuals are now undergoing active treatment.

Other Health Problems

- The child mortality rate (children under 5 years of age) was 68/100,000 in 2000 and 59/100,000 in 2004. In 2006, among the causes of death were severe malnutrition, drowning, and vehicular accidents.

- Childhood malnutrition (caloric and protein) is still far too common and requires hospitalization. In 2008, malnutrition was still a major cause of mortality in children under five years of age.

- Teenage pregnancy rates are high. In 2004, proportionately 18% of all births were to teenagers under the age of twenty (20). The 2008 reported rate was essentially the same.

- Syphilis was still the most prevalent STD and increasing in prevalence (567/100,000 in FY 2008). Untreated in pregnant women, babies born can develop blindness and neonatal pneumonia.

- The RMI recorded its first four confirmed cases of HIV in the late 1980s. These cases were non-Marshallese and all migrated out of the country after their disease was identified. Two died overseas. In 2008, the cumulative number of cases rose to thirteen, three of which were active cases in the RMI.

- The RMI's high rate of leprosy persisted despite the disease being curable and a WHO-led campaign to eliminate it. The RMI's new case rate of 190/100,000 (19/10,000) in 2000 is the highest in the Pacific.

- There is a fragile system of outer island health care for 20-25% of RMI's population. According to EPPSO, one-half of all infant deaths in 2006 went unreported from the outer islands. The immunization coverage of children under two years of age was only 50% in 2008. Reporting on conditions and health needs from the outer islands was weak. RMI's transportation problems severely affect the Ministry's ability to provide regular supervisory and public health team visits to the outer islands, to train and retrain of health assistants, and to restock dispensaries.

Major Vulnerabilities

Unintended Consequences of Using Compact Dollars to Support Salaries

The Ministry of Health decision to use Amended Compact funds to cover utilities and the salaries of most of its non-Federal grant employees had unintended consequences, including: (1) budget-forced spending cuts and freezes in non-personnel operating costs and (2) sacrifice of public health and preventive primary care in favor of secondary care at the hospitals in Majuro and Ebeye. The hospitals received the lion's share of funding because the facilities employed the greatest number of employees.

The Ministry of Health mostly used stand-alone grant assistance from the U.S. Department of Health and Human Services to support its range of public health programs and to provide primary care services in Majuro, to the outer islands, and through the Ebeye Community Health Center. Other budgetary sources included the general fund, Global Fund grants, and United Nations health program support. The total funding from U.S. grants accounted for approximately 15 percent of the Ministry's budget. The reliance on Federal grants somewhat constrains the ability of MOH to be innovative. Grant objectives, terms and conditions often limit a needed shift in priorities and the reallocation of resources among multiple public health programs.

Data Reporting Inconsistencies

It has been difficult to assess the effectiveness of MOH choices on the general health of individuals in the RMI. Since the beginning of 2004, the lack of baseline data, intermittent information from the outer islands, and irregular reporting of annual morbidity, mortality, and incidence/provenance rates spurred increased calls from international agencies for more reliable data and congruency in reported statistics. Respected sources like World WHOSIS (World Health Organization) and PRISM (Secretariat of the Pacific Community or SPC) cited problems using data culled from differing years.

Statistics received from the country, whether directly from the Ministry of Health or other Government offices were outdated by two, three, and sometimes as much as seven years. Even the population baseline used for calculations by the Ministry of Health was called into question by reviews by the RMI's own Economic Policy, Planning and Statistics Office (EPPSO) and the SPC, resulting in the immediate lowering of life expectancy projections from 72.4 for females to 67.4, and from 68.3 for males to 63.7. This revision of a major demographic indicator should have triggered an evaluation of data policies and methods of calculation used within the Ministry and EPPSO, particularly for programs and services targeting women, but it did not.

EPPSO and SPC's reviews also found serious underreporting of infant deaths in the RMI's outer islands, and adjusted the rate to 90 infant deaths per 1000 live births for the outer islands and 30/1000 for the nation as a whole. In 2006, the Ministry cited sepsis as the major cause of infant mortality and attributed the cause to the young age of mothers and a lack of adequate prenatal care until the time of delivery. However, EPPSO and SPC extrapolated that half of all infant deaths were not reported at all and therefore causes of death remain largely unknown.

The variance of these reports potentially calls into question the handling of other incidence, prevalence and mortality data by the Ministry of Health. Health status may in fact be far more compromised than depicted in the Ministry's recalled Fiscal Year 2007 Annual Report. The Ministry withdrew the report because of data reliability problems, after which it was redacted and subsequently reissued.

Unplanned Approach to Decrement Adjustment

Amended Compact annual assistance for the health sector will decrease over time because of direct funding decreases that shift funds for deposit in the Trust Fund for the People of the Republic of the Marshall Islands. Dollar-for-dollar competition for a greater share of general revenues will become more pronounced among ministries and program offices throughout the government. As a result, *decreases in annual base Compact funding for health and from the RMI treasury are inevitable.*

Unless the Ministry undertakes a process of examining budgetary tradeoffs to achieve the greatest good, service and program levels likely will remain static or deteriorate. This renewed look at priorities is something that the Ministry of Health has not undertaken in any sustained way but, looking to the future, it has little choice. The ministry must achieve spending and program efficiencies to boost quality and respond to pressing primary care problems in the outer islands and on Majuro and Ebeye.

With the prospect of dwindling Compact and general revenues ahead, a larger allotment of money from the Health Fund and Health Care Fund should help to underwrite medical supply purchases, pharmaceuticals and tertiary referrals in the short run. These special revenues now make up approximately 28% of the Ministry of Health's total annual revenue base; however, the likelihood of increased availability is not promising as the RMI's resources are directed elsewhere. Even if allocations rise, the level may not be enough to maintain current levels of service over the next five years.

Vigilant attention to MDR-TB and other emerging and re-emerging diseases requires an infusion of human, medical, and financial resources that the RMI cannot itself afford. Drug treatment for one case of MDR-TB alone costs about $275,000. In late FY 2009, JEMFAC approved the allocation of additional Compact funds ($1.6 million) to augment the ability of the RMI to initiate a wholesale upgrading of the MOH's TB control and prevention program to deal with latent disease.

Non-Communicable Disease

As mentioned earlier, non-communicable diseases attributable to changing lifestyles are leading causes of morbidity and death in the RMI. Cerebrovascular changes leading to strokes and cardiovascular conditions such as hypertension are common diagnoses among RMI's adult population. Diabetes particularly is taking on an ominous prominence and is exacting a heavy toll, not only in middle-aged and older individuals but also on the population of younger adults in their twenties and thirties.

Diabetic complications have become commonplace, including repeated infections, amputations, retinal deterioration, kidney failure, associated cardiovascular conditions, and ultimately premature death. Diabetes-related conditions and complications account for approximately 75% of all hospital admissions and cost the RMI an estimated $4 million a year to treat. Over the last five years, the prevalence of the disease in the population rose from 192/10,000 to 324/10,000. End stage renal disease has consistently ranked among the leading five causes of death since the start of the Amended Compact. The RMI consciously adopted the policy to halt the provision of dialysis in the 1990s. Restoring the service will be costly and difficult to sustain, and must be weighed against other alternatives for treatment.

Which Takes Precedence?

Many of the RMI's health problems, whether infectious or chronic, would lend themselves to non-communicable disease prevention and control interventions instead of secondary (hospital-based) and tertiary (off-island referral) care. This approach would not only be less costly but is in keeping with the Ministry of Health's stated mission to provide "a primary health care program to improve health status and build the capacity of each community, family and individual to care for his or her own health.

Ministry leaders have long recognized the need to realign services and programs to emphasize preventive and primary care, but they have yet to solve the dilemma of the proportion of RMI's population that continues to require a higher level of sick care. To meet the need for sick care, the RMI chose to upgrade its secondary care facilities in Majuro and Ebeye. With these upgrades has come a concomitant need to improve the quality and breadth of hospital services and this, in turn, has fueled the need for more money for acute care.

Performance Management Improvements Bring Unintended Risks

Medical referral management has undergone important changes. Over the past five years, the RMI continued to refine its agreements with Manila health care centers and stateside care providers and pharmacies to better manage the medical referral program and costs. Its direct referral expenditures for off-island care have decreased from $5,535,740 in 2000, to $1,507,610 in 2005 and $1,385,448 in 2006. While spending per patient has become more efficient, more patients are being sent out for tertiary or specialized care, particularly to the Philippines, driving up overall costs. In 2003, the RMI sent seventy-five patients off island. In 2006 and 2008, the number grew to 120 and 139 respectively. The increase in referrals has come about because on-island diagnostic capacity has improved. Paradoxically, however there are persistent and avoidable lapses in maintaining laboratory and radiologic supplies and repairing equipment.

Future annual decreases in Amended Compact funding mean that funding available for the health sector will diminish. There is no assurance that government revenues or program income will be sufficient to fill the gap. Belt tightening is almost inevitable and budgetary practices, however improved, will require additional scrutiny. Continuous strategic planning will become an indispensable part of the Ministry's overall operation and indeed for the Government as a whole.

The MOH, with the help of its performance-based budgeting consultants, must find ways to ensure its annual portfolio becomes a useful tool for year-round management decisions, not just in terms of keeping track of how much and where money goes but to weigh whether allocation decisions make a difference in performance. The Ministry's long-term strategic plan also should be revisited and continually utilized in budget formulation from the lowest levels of the MOH, up through the Secretary of Health, the Chief Secretary and the President's Cabinet.

The Public Sector Infrastructure Program

Early Consistent Commitment

Education and Health Facilities Were Top Priorities

The JEMFAC approved approximately $77 million as RMI's allocation for public sector infrastructure projects from FY 2004 through FY 2009. A complete description of all infrastructure development and maintenance projects can be found in Appendices A-C.

Even before the Amended Compact came into force, the RMI commissioned an in-depth assessment of its education and health infrastructure to provide decision-makers with a blue print for spending U.S. Compact dollars. During the 2004 through 2009 reporting period, the RMI kept to its plan and consistently allocated between 30 percent and 50 percent of its basic annual Compact grant funding to improve school and health facilities across the country. To ensure projects proceeded smoothly and according to quality standards, it hired a professional management firm.

The RMI's early decision to make capital improvements for health and education one of the country's top three priorities has made the Public Sector Infrastructure program the most visible component of the Amended Compact's assistance package. It also upheld the sense of the U.S. Congress memorialized in P.L. 108-188, that at least 30 percent of annual financial assistance should be dedicated to infrastructure.

Improved Education Facilities

The RMI identified education as one of its top development priorities under Amended Compact and since 2004, has used its infrastructure monies to provide new classrooms for schoolchildren in Majuro and some of the outer islands. The effort has resulted in the new construction and repair of about 200 classrooms in 40 public schools, thereby significantly improving the learning environment for many Marshallese students.

Decisions by the RMI tremendously improved the overall education system and provided Marshallese children with better access to education than ever before. During the 2004-2009 reporting period, the RMI had an annual average of 13,000 students attending 82 public schools. About 60% of all students now benefit from the new classrooms, school furniture, good administration buildings, improved cafeterias, more comfortable dormitories, standard recreational facilities, working toilet facilities, better libraries, and upgraded science and computer labs. Recently completed construction projects include Aur Elementary School, Tabal, Aur Elementary School, Mili Elementary School, Delap Elementary School, Laura High School, Enewetak Elementary School, Lukoj, Arno Elementary School, Longar, Arno Elementary School, Utrik Elementary School, Ajeltake Elementary School (Kindergarten), Woja, Ailinglaplap Elementary School, and Uliga Elementary School Renovations at Assumption School.

These improved learning facilities are a part of the joint U.S. and RMI effort to improve the quality of education for all Marshallese students.

Ongoing construction projects include Ollet, Maloelap Elementary School, Jang, Maloelap Elementary School, Jabwor, Jaluit Elementary School, Northern Islands High School Science and Computer Lab, and Jaluit High School Science and Computer Lab. Other classrooms and school facilities have been previously completed in Majuro, Wotje, and Jaluit using Compact infrastructure funds.

In the medium-term, the Compact funding for the Public Infrastructure Sector continues to emphasize educational infrastructure. Subject to the securing of land leases, the Uliga Elementary School, Ebeye Public Elementary School, Kwajalein Atoll High School and the remainder of the Outer Island schools requiring immediate renovation or repairs are projected to be near completion by the end of FY 2012. Thereafter the government will emphasize school maintenance.

JEMFAC allocated funding for Ebeye Elementary School and Kwajalein Atoll High School infrastructure development in FY 2005 and FY 2006 but because of land lease issues on Ebeye and Guegeegue, the projects have been held up indefinitely. The RMI requested the reprogramming of funding for these projects to other education infrastructure projects that were ready to proceed. New funding for Ebeye Elementary School and Kwajalein Atoll High School will be made available once land lease issues have been resolved.

Hospitals and Outer Island Dispensaries Repaired and Maintained

At the outset of the Amended Compact, the RMI also chose health as one of its top strategic priorities for infrastructure development. While work was being undertaken to construct new schools and repair existing facilities, the country also proceeded with its plan to repair the facilities used by its outer island residents for basic health care. The RMI tapped its Compact infrastructure grant for new and replacement medical equipment for Majuro Hospital in 2004 and 2005, and a new generator for Ebeye Hospital in 2008. The grant also supported emergency hospital repairs and maintenance in Majuro and Ebeye Hospital's annual operations and maintenance program.

Infrastructure Developed at the College of Marshall Islands

Funding Committed to Meet Accreditation Requirement

The College of the Marshall Islands (CMI) embarked upon a Facilities Master Plan for the College in FY 2007 in order to address a serious accreditation finding by Western Association of Schools and Colleges. The CMI received a five-year, $25 million funding commitment from the RMI government (with JEMFAC concurrence) to implement the CMI facilities master plan. The plan is currently in its final year and all work was scheduled for completion at the end of FY 2011. This includes projects for Dormitory, Classroom Buildings 1 and 2 and Energy Center and Maintenance Building. One of the two salt-water wells is providing cooling water to Classroom Building 2. The Campus Transformer and the Campus Switchboard have been energized and Solar Power Phase 1 is operating efficiently. The Campus generator is now in place in the Maintenance Building but plenum and damper supply problems have delayed its commissioning. Classroom Building 3 Phase 1 (counselors' offices) has been completed and work is 90% complete on the services duct between Classroom Building 2 and the Energy Center. The human resources and procurement office contract has been completed and the building is now occupied.

The new Administration Building, Classroom Building 3 Phase 2, and Solar Stage 2 were placed on hold because of a procurement challenge. The issue was resolved and after the project was re-bid and a contract was issued.

Work on sea defenses for the CMI campus to prevent damage in anticipation of 15-year high tide projected for January 2010 was completed on schedule. These flood prevention and wave protection measures have withstood the high tides experienced in January 2009 and subsequent higher than usual high tides experienced by Majuro Atoll in February and March 2009.

Infrastructure Maintenance Fund

The RMI has met matching requirements for the Infrastructure Maintenance Fund. For the period of FY 2004 through 2009, the RMI has matched approximately $3.75 million of non-Compact matching funds with the United States' contribution of $3.75 million under the Amended Compact.

The Environment Sector

For the first three fiscal years of the Amended Compact, the RMI supported activities of the RMI's Environmental Protection Agency (EPA) with Compact funds. Funding over this three-year period totaled $604,840. The annual grants addressed water quality, land and coastal zone management, biodiversity, solid and hazardous waste and other issues.

The RMI also used an amount of Compact funds earmarked in PL 108-188 ($200,000 a year and inflation adjusted) to support the RMI's EPA operations on Ebeye and in other Marshallese communities within the Kwajalein Atoll. The initiative provides EPA support in conducting the annual USAKA Environmental Standards Survey, thereby affording the RMI the opportunity to independently analyze the Survey's findings and conclusions.

During the 2004 through 2009 reporting period, the Kwajalein Environmental Impact Sector Grant funds were also used to provide major EPA services to the Marshallese people living on Ebeye and other islands within Kwajalein Atoll. These services included environmental health and water quality monitoring, land and coastal management, conservation, waste and pollution control, information management, planning and human resource management, and education and awareness of environmental issues.

Measuring performance is a critical function of the performance budgeting used by the RMI EPA. The reorganization of the RMI EPA Sector Portfolio and the development of a three-year rolling strategic plan expanded the agency's focus on measuring impact as well as efficiency and effectiveness. This reorganization also promoted a closer monitoring on infrastructure and equipment, both on Majuro and Ebeye.

Lastly, Amended Compact funding helped the RMI EPA to oversee compliance with the USAKA Environmental Standards (UES) process. The work included coral reef and rare species monitoring, review of USAKA environmental development projects, the evaluation of USAKA environmental impact statements, working with USAKA on monitoring newly established conservation sites at Enewetak Island and the Kwajalein Atoll. As a consequence, EPA was better prepared to brief the RMI Cabinet prior to its approving USAKA environmental standards, and in reviewing annual reports from USAKA on projects relating to solid waste, water quality, and other environmental issues.

Private Sector and Public Sector Capacity Building

The RMI chose to use only modest amounts of Amended Compact sector grant assistance for private sector development and public sector capacity building. In FY 2004 through FY 2006, an average annual allocation of $360,000 in private sector development funds supported trade and investment promotion, land registration, tourism promotion and small business development. The RMI did not request such grants for FY 2007 or FY 2008. Public sector development funding addressed the special needs of the Auditor General's office in FY 2005 and FY 2006. In FY 2008, $300,000 was used to improve performance-based budgeting and management in MOE, MOH and the EPA, and to begin extending performance-based budgeting to non-Compact supported offices and ministries.

The Disaster Assistance Emergency Fund Sector (DAEF)

In 2003, the U.S. Congress passed legislation to amend Article X of the Compact that stipulated the responsibility for disaster response and reconstruction in the RMI and FSM would transfer from FEMA to the U.S. Agency for International Development (USAID) as of November 4, 2008. The amendment defined the process for requesting USG disaster assistance including the establishment of a Disaster Assistance Emergency Fund (DAEF). It states that in order to request USG disaster assistance, the RMI must:

- Have a RMI Presidential Disaster Declaration as described in law;
- Determine that the disaster is beyond ability of the RMI Government to respond even with DAEF;
- Request the assistance of the United Nations;
- Request up to $50,000 available from the U.S. Ambassador's Fund;
- Conduct a joint preliminary disaster assessment (PDA) within 10 days of the disaster with FEMA and USAID;

- Have a declaration of disaster by the US President to make the disaster relief fund available; and

- Develop a reconstruction plan within 60 days of the event.

Under the guidance of the U.S. Chief of Mission (U.S. Ambassador to the RMI), USAID will coordinate its activities with U.S. Embassy staff to promote the sharing of relevant information and to assist and facilitate the performance of responsibilities as described in the Amended Compact. The Congressional amendment and subsequent executed memorandum of understanding, also calls for USAID to work in close collaboration with the RMI national authorities, outer-island local elected officials and community leaders.

The Amended Compact calls for the U.S. and the RMI to each deposit $200,000 annually into the DAEF account. The RMI withdrew $50,000 from the DAEF in 2008 to help mitigate damage caused by high wave action.

Single Audit Assistance

Section 213 of the Amended Compact authorizes annual grants to the RMI to conduct the audit required by the FPA. The funding is not adjusted for inflation. From FY 2004 through FY 2008, the RMI received $500,000 (a capped amount) each year for that purpose. The funding has been used for the expenses of the annual Single Audit, as intended by the Amended Compact.

Judicial Training

Under the Amended Compact, the RMI annually receives funding for the training of Marshallese and Micronesian judges and officials of the judiciary. Activities are conducted in cooperation with the Pacific Islands Committee of the Ninth Circuit Judicial Council. Under the leadership of RMI High Court Chief Justice Carl B. Ingram, the RMI Judiciary has developed a scope of work for the annual use of the money.

EXTENDED FEDERAL PROGRAMS, SERVICES AND TECHNICAL ASSISTANCE

Federal services and related programs extended to RMI under the Amended Compact include those of the U.S. Weather Service, the U.S. Postal Service, the U.S. Federal Aviation Administration (FAA), the U.S. Department of Transportation, and the U.S. Department of Homeland Security, and the U.S. Agency for International Development through its Office of Foreign Disaster Assistance. The following chart shows the RMI's expenditures of Federal awards by granting agency.

Agency/Program	9/30/2004	9/30/2005	9/30/2006	9/30/2007	9/30/2008
U.S. Department of Agriculture Food Stamps/Comm. Facilities	$ 78,983.00	$ 110,832.00	$ 109,415.00	$ 368,891.00	$ 22,230.00
U.S. Department of commerce NOAA	$ 290,672.00	$ 325,428.00	$ 343,099.00	$ 348,096.00	$ 87,167.00
U.S. Department of Labor WIA	$ 829,735.00	$ 557,345.00	$ -	$ -	$ -
U.S. Small Business Administration	$ 6,011.00	$ 18,174.00	$ 23,364.00	$ 16,278.00	$ 17,199.00
U.S. Department of Homeland Security - Disaster/Hazard Mitigation	$ 8,977.00	$ 16,448.00	$ 39,899.00	$ 58,188.00	$ 10,558.00
U.S. Department of Education Special Education	$,450,723.00	$,917,042.00	$,109,162.00	$ 3,459,510.00	$,277,950.00
U.S. Department of Health and Human Services - Various	$,847,206.00	$,321,340.00	$,118,060.00	$,358,210.00	$,550,420.00
Five Year Total	$,512,307.00	$,266,609.00	$,742,999.00	$ 8,609,173.00	$,765,524.00

Source: RMI Annual Single Audits

A description of the services and programs provided by the Federal Aviation Administration from 2004 through 2008 follows as an example of the kinds of the assistance available to the RMI.

FAA Airport Improvement Program (AIP) Grants

- FAA Micronesia AIP Grant Authorization

  The Federal Aviation Administration (FAA) Reauthorization Act of 2004, made the Republic of the Marshall Islands eligible for Airport Improvement Program (AIP) funding from the discretionary fund and the Small Airport Fund from FY 2004 through FY 2007. The FAA has been assisting the RMI government in developing its Airport Capital Improvement Program and providing AIP grant funds for needed airport projects.

- AIP Grants to RMI

  From FY 2004 to FY 2009, almost $50 million in AIP grants have been awarded to the Republic of the Marshall Islands for airport improvements. The projects included needed airfield pavement rehabilitation on the runway, taxiway and apron. AIP grants were also awarded to purchase two new Aircraft Rescue and Firefighting (ARFF) vehicles to meet FAA and ICAO certification safety requirements, and included construction of a new ARFF building to house and maintain the vehicles. The ARFF building was completed in March 2010. AIP also is funding an airport master plan that is currently being prepared. The airport master plan will review the existing and future requirements of the airport system in the Marshall Islands.

FAA Technical Assistance

- Pacific Aviation Directors Workshop

  The Pacific Aviation Directors Workshop is an annual workshop conducted by the FAA to ensure effective communication between FAA, FSM and RMI government officials, all FSM and RMI airports, FAA lines of business, other US Government agencies, and air carriers.

- Airport Improvement Program Workshop

  This annual workshop is tailored to meet the needs of the six Micronesia airports receiving Airport Improvement Program funds. The workshop also covers FAA Regulatory Airport Standards, airport inspections, maintenance, and operations.

  The AIP workshop provides technical training and assistance to Micronesia Airport managers and brings together resources, as well as training, from other U.S. Government agencies to further improve airport operations in these countries.

- Micronesia Customer Focus Forum

  This forum is held monthly, and although it is usually held via telecom, it is held in person concurrently with other workshops. The Customer Focus Forum is hosted and facilitated by FAA. It is attended by Airport Managers of the three Compact countries, several FAA lines of business, National Weather Service, and the airlines. This forum helps with communicating procedures and addressing current and critical issues in a timely manner.

- Aircraft Rescue and Fire Fighting Training (ARFF) and Emergency Readiness

  FAA manages various interagency agreements that provide for basic, intermediate, advanced, and recurring airport rescue and firefighting (ARFF) training, surveys, and assessments, as well as onsite emergency readiness exercises. The FAA funded ARFF training is held year round at the Pacific Region ARFF Training Center in Saipan. Professional firefighting personnel assess and train the countries in order to raise the ARFF readiness capabilities. In addition, emergency airport operations readiness training and exercises are conducted every year at two Micronesia airports.

- Supplementary Aviation Weather Reporting Station (SAWRS)

  The newly constructed ARFF buildings house the SAWRS stations. With construction of the ARFF buildings, FAA seized the opportunity to upgrade the SAWRS stations. These stations provide critical information to pilots, such as current weather and other advisory services. Once completed, the SAWRS will be equipped with all new working, reliable, and efficient office and weather equipment funded through the FAA Micronesia Technical Assistance Program. The new Kosrae SAWRS facility has been completed and is operational.

- Technical and Managerial Training

  FAA has been working with FSM and RMI to identify technical, managerial, and executive training needs, provide the necessary funding, and arrange for training of Airport Management. Over a dozen FSM and RMI officials have been trained at the FAA

Technical Academy in Oklahoma and at the FAA Center for Management and Executive Leadership in Florida.

CONCLUSIONS AND RECOMMENDATIONS

The first five years of implementing the Compact's new provisions and delivery system for financial assistance was a time of learning and adjustment for both the U.S. and the RMI. Accountability provisions of the Amended Compact have required that both governments remodel policies and older approaches to planning, budgeting and performance management in order to adapt the new framework. Work to reach the path to greater economic advancement, and therefore greater budgetary self-reliance, has been complicated, sometimes hard, but rewarding.

The RMI's early efforts to embrace the obligations and responsibilities of the Amended Compact have been commendable. However, as with the start of any new initiative, there is considerable work ahead. Although education and health are the priorities for grant funding, programs within the sectors have not been adequately evaluated or prioritized to ensure Compact dollars are being used as effectively and efficiently as possible. Given the nation's small size, geographic isolation and limited resources, RMI's economic recovery after the recent worldwide recession will require concerted attention in the years ahead to achieve the goal of longer-term budgetary stability. The impact of decreases in annual Compact grant assistance will require especially careful management to secure the uninterrupted provision of essential health and education programs and services to the Marshallese people.

The Amended Compact codifies the enduring relationship between the U.S. and the RMI, and in that regard, the recommendations from this five-year review focus on using that partnership, primarily through JEMFAC, to improve the climate for financial stability and performance results in the years looking ahead to 2023, and to increase the effectiveness and efficiency of funding and technical assistance.

The recommendations are:

1. JEMFAC should take appropriate action to ensure the RMI successfully addresses long-term fiscal planning necessary to manage the impact of annual decreases in Compact grant assistance.

2. The U.S. and the RMI should collaborate in examining the projected income from the Trust Fund for the People of the Republic of the Marshall Islands after 2023, and explore options that may assist the Fund to increase its value within the bounds of acceptable risk.

3. JEMFAC should encourage the RMI to request funding for Private Sector Development planning and incentives in order to promote economic development and job creation,

and to generate additional revenue collection that will support essential government services after 2023.

4. JEMFAC should adopt allocation policies and grant conditions that leverage Compact assistance to improve performance, particularly with regard to the Amended Compact sectors of education, health, environment, public infrastructure, private sector development and public sector capacity building.

5. JEMFAC should ensure that annual sector grant allocations follow a well-defined annual investment and expenditure plan developed by the RMI that has specific benchmark information and performance targets.

6. The U.S. and the RMI should hold regular policy consultations on critical economic and financial issues and reform strategies to promote the growth of the private sector, including: (1) an equitable and efficient tax system; (2) a reduction of public wage and subsidy expenditures; (3) privatization and/or reform of state-owned enterprises; (4) modernization of the land tenure and titling systems; (5) liberalization of law to encourage foreign investment; (6) improvement in data collection and planning capacities; and (7) establishment of a program for regular maintenance of public infrastructure.

7. JEMFAC should find ways, within its capacity to manage allocations and allocation policies, to encourage the RMI's implementation of a comprehensive sector-wide public enterprise reform effort, including privatization and the elimination of inefficient governmental subsidies.

8. JEMFAC should encourage the RMI to develop a well-articulated debt management strategy that provides for projects to be covered by dedicated revenue streams from the project or government that cover debt-service costs.

9. JEMFAC should require an updated comprehensive infrastructure development plan for health and education facilities that specifically incorporates a baseline investment by the RMI for maintenance.

10. JEMFAC should take steps to ensure that RMI's basic education sector grant and SEG assistance primarily support the improvement of the country's basic education system and focus on direct classroom instruction.

11. The RMI should request, and the JEMFAC should allocate, more public sector capacity building assistance so that there is, for example, sufficient in-country expertise to generate economic and other data and statistical reports. In the case of capacity

building in education and health, JEMFAC should ensure that sufficient annual grant funding is earmarked to improve data, planning, and policy analysis competencies.

13. The U.S. should continue to provide technical assistance when the RMI articulates critical needs that cannot be addressed through the annual grant assistance process.

APPENDIX A:
PUBLIC SECTOR INFRASTRUCTURE DEVELOPMENT PROJECT SUMMARY

IDMP 0001 Rita Elementary School Phase I
(Construction of two 4-classroom blocks)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$1,028,255	$1,028,255	$1,060,411	100%	1 Aug 2005

Constraints: None ***Workers Engaged:*** 30 ***Contractor:*** PII
Status: Project completed

IDMP 0002 Laura High School Phase I
(Construction of one 4-classroom block)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$567,673	$607,625	$607,625	100%	1 Mar 2006

Constraints: None ***Workers Engaged:*** 25 ***Contractor:*** Anil
Status: Project completed

IDMP 0003 Laura Elementary School (Maintenance)
(8 classrooms and a library space)

Contract Value (orig)	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$157,815	$204,193	$204,193	100%	15 Jan 2005

Constraints: None ***Workers Engaged:*** 20 ***Contractor:*** Ca Bella
Status: Project completed

IDMP 0004 Majuro Hospital Maintenance
(Painting, flooring, wall repairs, seating, isolation ward WC, doors and shelving repairs)

Contract Value (orig)	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$179,925	$190,596	$190,596	100%	28 Dec 2004

Constraints: None ***Workers Engaged:*** 15 ***Contractor:*** Interhouse
Status: Project completed

IDMP 0005 Ebeye Hospital Maintenance Year 1
(Programmed maintenance of mechnical/elect and HVAC equipment, architectural repairs)

Contract Value (orig)	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$307,502	$307,502	$307,502	100%	31 Dec 2005

Constraints: None ***Workers Engaged:*** 5 ***Contractor:*** AIC
Status: Project completed

IDMP 0006 Jaluit High School Phase I
(Construction of two 8-classroom blocks and a dormitory)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$2,752,000	$2,711,391	$2,854,094	100%	22 Dec 2006

Constraints: None ***Workers Engaged:*** 40 ***Contractor:*** NIPPO/IBC JV
Status: Project completed
IDMP 0007 Jaluit High School Kitchen Maintenance

(Kitchen finishes repairs, new cooking equipment and flooring to the dining room)

Contract Value (orig)	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$77,885	$196,084	$206,403	100%	19 Jan 2006

Constraints: None ***Workers Engaged:*** 10 ***Contractor:*** Anil
Status: Project completed

IDMP 0008 Health Centre Maintenance I
(Health centre maintenance on Southern atolls and Arno, 8 Centers in total)

Contract Value (orig)	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$198,354	$235,882	$235,882	100%	1 Oct 2005

Constraints: None ***Workers Engaged:*** 12 ***Contractor:*** Interhouse.
Status: Project completed

IDMP 0009 Education Maintenance I
(Elementary school maintenance on Majuro)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$130,796	$122,278	$122,278	100%	1 Aug 2005

Constraints: None ***Workers Engaged:*** 12 ***Contractor:*** Interhouse
Status: Project completed

IDMP 0010 Marshall Islands High School Phase I
(Construction of an 8-classroom block)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$1,180,316	$1,135,830	$1,195,610	100%	17 May 2006

Constraints: None ***Workers Engaged:*** 35 ***Contractor:*** PII
Status: Project completed

IDMP 0011 Northern Islands High School Phase I
(Construction of an administration building and a dormitory)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$872,277	$939,357	$988,797	100%	25 Sept 2006

Constraints: None ***Workers Engaged:*** 25 ***Contractor:*** PII
Status: Project completed

IDMP 0012 MIHS Gymnasium Maintenance
(Floor and wall repairs, toilet construction in the school gymnasium)

Contract Value (orig)	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$65,594	$76,759	$76,759	100%	1 Jul 2005

Constraints: None ***Workers Engaged:*** 15 ***Contractor:*** PII.
Status: Project completed.

IDMP 0013 MIHS Painting and Fencing Maintenance
(Painting of the two Japanese-funded buildings and fencing of the staff quarters)

Contract Value (orig)	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$99,679	$113,197	$113,197	100%	1 Jul 2005

Constraints: None. ***Workers Engaged:*** 7. Contractor*:* PII.
Status: Project completed.

IDMP 0014 Health Centre Maintenance II
(Health centre maintenance on the Eastern atolls)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$203,587	$193,408	$193,408	100%	19 May 2006

Constraints: None. ***Workers Engaged:*** 12. ***Contractor:*** PII
Status: Project completed

IDMP 0015 Education Maintenance III
(Elementary school maintenance on Jaluit and Arno atolls)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$220,185	$220,185	$220,185	100%	4 June 2006

Constraints: None ***Workers Engaged:*** 12 ***Contractor:*** PII
Status: Project completed

IDMP 0016 Ailuk Elementary School (Education Maintenance Project)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$59,000	$59,419	$59,419	100%	23 Nov 2005

Constraints: None ***Workers Engaged:*** 12 ***Contractor:*** PII
Status: Project completed

IDMP 0017 Rita Elementary School Phase II
(Construction of two additional classroom blocks)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$1,400,294	$1,324,921	$1,424,406	100%	25 Jan 2007

Constraints: None ***Workers Engaged:*** 30 ***Contractor:*** PII.
Status: Project completed.

IDMP 0018 Marshall Islands High School Phase II IDMP 0018
(Construction of three 8-classroom blocks and a 4-classroom block)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$4,396,047	$3,203,954	$4,660,818	100%	20 Oct 2007

Constraints: None. ***Workers Engaged:*** 35. ***Contractor:*** PII.
Status: Completed

IDMP 0019 Education Maintenance IV (Phase I)
(MIHS Classroom Ceilings Renovations and Electrical work)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$168,388	$159,969	$168,388	100%	4th Sept 2006

Constraints: None. ***Workers Engaged:*** 15. ***Contractor:*** Anil.
Status: Project completed.

IDMP 0020 Namdrik Elementary School (Phase I)
(Construction of an 8-classroom block)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$885,510	$825,285	$868,721	100%	7th July 2007

Constraints: None. ***Workers Engaged:*** 25. ***Contractor:*** PII
Status: Project completed

IDMP 0021 Majuro Middle School Toilets Maintenance

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$28,586	$33,538	$33,538	100%	1 Jul 2006

Constraints: None ***Workers Engaged:*** 8. ***Contractor:*** L&D Plumbing
Status: Project completed

IDMP 0022 Marshall Islands High School Toilets Maintenance

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$22,622	$22,622	$22,622	100%	1 Jul 2006

Constraints: None ***Workers Engaged:*** 8 ***Contractor:*** L&D Plumbing
Status: Project completed

IDMP 0023 Rairok Elementary School Phase I
(Building structure and roofing repairs)

Contract Base Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$512,853	$558,365	$626,548	100%	31 Jan 07

Constraints: None ***Workers Engaged:*** 20 ***Contractor:*** PII
Status: Project completed

IDMP 0024 Jaluit High School Phase II
(Construction of accommodation units, a library/staffroom and old classroom demolition)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$1,928,142	$1,326,127	$2,127,399	100%	5 Oct 2007

Constraints: None ***Workers Engaged:*** 30 ***Contractor:*** IBC
Status: Project completed

IDMP 0025 Education Maintenance IV (Phase II)
(Construction of a new roof for the MIHS Admin Block)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$136,810	$129,970	$136,810	100%	21 Nov 2006

Constraints: None ***Workers Engaged:*** 25 ***Contractor:*** PII
Status: Project completed

IDMP 0026 Education Maintenance IV (Phase III)
(MIHS Classroom renovations: windows, floors and painting)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$179,400	$170,430	$179,400	100%	12 Oct 2006

Constraints: None ***Workers Engaged:*** 15 ***Contractor:*** Anil
Status: Project completed

IDMP 0027 Majuro Hospital Emergency Repairs (Health Mtce Project)
(Rebuilding of corridors, morgue, laundry and storage rooms)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$180,000	$180,000	$180,000	100%	N/A

Constraints: None ***Workers Engaged:*** 45 ***Contractor:*** PII
Status: Project completed

IDMP 0028 Laura High School Phase II (Stage I)
(Preparation for the second half of Conversions to the Laura Garment Factory)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$145,234	$148,711	$170,234	100%	12 Aug 2006

Constraints: None ***Workers Engaged:*** 15 ***Contractor:*** PII
Status: Project completed

IDMP 0029 Rairok Elementary School Phase II
(Internal fit-out of the renovated Grocery Building)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$755,665	$122,898	$835,665	100%	30 Oct 2007

Constraints: None ***Workers Engaged:*** 10 ***Contractor:*** PII
Status: Completed

IDMP 0030 Northern Islands High School Phase II
(8 classroom block, staff accommodation and dormitory renovation)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$2,740,288	$1,197,675	$2,867,169	100%	2 June 2007

Constraints: Project completed late ***Workers Engaged:*** 25 ***Contractor:*** PII
Status: Completed

IDMP 0031 Ebeye Elementary School Phases I and II
(6 classroom block and a 9 classroom block)

Lowest Bid's 2006 Value	*Expenditure to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$3,172,464		$3,500,000		

Constraints: No lease ***Workers Engaged:*** 0 ***Contractor:*** AIC
Status: Project on hold

IDMP 0032 Ebeye Hospital Maintenance Year 2 (FY 08)
(Programmed maintenance of mechanical, electrical and HVAC equipment, architectural repairs)

Contract Value (orig)	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$307,572	$421,729	$667,317	100%	31 Dec 2006

Constraints: None ***Workers Engaged:*** 5 ***Contractor:*** AIC
Status: Variation Order not completed

IDMP 0033 Laura High School Phase II (Stage II)
(Conversion of the second half of the former Garment Factory)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$1,132,380	$762,240	$1,232,380	100%	17 Sept 2007

Constraints: Project late ***Workers Engaged:*** 15 ***Contractor:*** PII
Status: Completed

IDMP 0034 Education Maintenance V (Eastern Atolls)
(Ailinglaplap, Kwajalein and Namu atolls and Lib Island)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$429,073	$429,073	$429,073	100%	29 Dec 2006

Constraints: None ***Workers Engaged:*** 12 ***Contractor:*** PII
Status: Project completed

IDMP 0035 Health Centre Maintenance III (Central and Western Atolls) (FY 08)
(Ailinglaplap, Jabat, Namu, Lib, Lae, Wotho)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$247,500	$247,500	$247,500	100%	13 Aug 2008

Constraints: Late implementation ***Engaged:*** 25 ***Contractor:*** Interhouse
Status: Project completed

IDMP 0036 Schools Water Supply Maintenance
(Water system improvements in 3 Majuro schools)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$49,562	$49,562	$49,562	100%	30 Nov 2006

Constraints: None ***Workers Engaged:*** 7 ***Contractor:*** L&D Plumbing
Status: Project completed

IDMP 0037 Delap Elementary School (FY 08)
(New 6-Classroom block)

Estimated Project Cost	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$1,804,000.00	$1,135,000.00	$533,649.00	$1,804,000.00	60%	26 Sep 2009

Constraints: Lack of cement, CHB, etc. ***Workers Engaged:*** 25 ***Contractor:*** Anil
Status: On-going

IDMP 0038 Uliga to Assumption
(Materials supply for 6 temporary classrooms construction)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$28,293	$37,277	$37,277	100%	N/A

Constraints: None ***Workers Engaged:*** 0 ***Contractor:*** Do It Best
Status: Project completed

IDMP 0039 MIHS Science Block Toilets
(Maintenance to Science Block toilets)

Contract Value	*Certified to date*	*Final Cost*	*Percentage Complete*	*Completion date*
$56,539	$56,539	$56,539	100%	15 May 2007

Constraints: None ***Workers Engaged:*** 7 ***Contractor:*** L&D Plumbing
Status: Project completed

IDMP 0040 Ebeye Hospital Maintenance Year 3
(Programmed maintenance of mechanical/electrical and HVAC equipment, architectural repairs)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$347,772	$347,772	$347,772	100%	31 Dec 2007

Constraints: None ***Workers Engaged:*** 5 ***Contractor:*** AIC
Status: Maintenance Services completed

IDMP 0041 NVTI Toilet Block Maintenance
(Maintenance work required to toilets)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$24,852	$32,753	$32,753	100%	31 May 2007

Constraints: None ***Workers Engaged:*** 7 ***Contractor:*** L&D Plumbing
Status: Project completed

IDMP 0042 Laura High School Phase III (FY 08)
(10 new classrooms and recreation facilities)

Estimated Project Cost	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$1,880,000.00	$1,737,105.40	$891,992.92	$1,880,000.00	64%	12 Aug 2009

Constraints: Lack of cement, CHB, etc. ***Workers Engaged:*** 25 ***Contractor:*** Anil
Status: On-going

IDMP 0043 Schools Power Supply
(Purchase of power supply cabling to MIHS II, Jaluit 1 & II & NIHS I & II)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$181,542	$181,542	$181,542	100%	27 Feb 2007

Constraints: None ***Workers Engaged:*** 0 ***Contractor:*** Do It Best
Status: Project completed

IDMP 0044 Rairok Elementary School Phase III (Deferred to FY 10)
(Final phase to complete Rairok ES)

PROJECT ON HOLD	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$	$	$	$1,250,000	%	

Constraints: Awaiting funding ***Workers Engaged:*** 0 ***Contractor:*** 0
Status: Design ready

IDMP 0045 Health Maintenance IV (FY 08)
(Health Centre maintenance at: Mili, Nallu, Enijet, Tutu, Ulien, Ine, Imiej, Jabnoren, Mejrirok, Toka, Mejatto and Kili)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$324,063.07	$291,657.00	$324,063.07	100%	2 Jan 2009

Constraints: None ***Workers Engaged:*** 20 ***Contractor:*** PII
Status: Project completed

IDMP 0046 Education Maintenance IV (FY 08)
(Dormitory and Toilet repairs at Jaluit High School)

Contract Value	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$299,854.00	$269,871.00	$299,854.00	100%	5 Dec 2008

Constraints: None ***Workers Engaged:*** 8 ***Contractor:*** PII
Status: Completed

IDMP 0047 Ebeye Hospital Generator (FY 08)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$214,000	$244,000.00	$242,625.05	$262,690.21	100%	23 Oct 2008

Constraints: None ***Workers Engaged:*** 5 ***Contractor:*** Cummins/AIC
Status: Completed

IDMP 0048 Education Maintenance VII (FY 08)
(Upgrading of JHS Boys Dormitory)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$317,134.00	$398,894.00	$359,006.00	$398,894.00	100%	31 Dec 2008

Constraints: None ***Workers Engaged:*** 5 ***Contractor:*** AIC
Status: Completed

IDMP 0049 MIHS Science & Lab Fit-Outs (FY 08)
(Provisions of Computer Labs (4 ea) and Science Labs (2 ea)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$110,000.00	$166,359.00	$123,615.90	$166,359.00	100%	17 Jan 2009

Constraints: None ***Workers Engaged:*** 8 ***Contractor:*** PII
Status: Completed

IDMP 0051 Ebeye Hospital Maintenance Year 4 (FY 08)
(Continuation of Hospital Maintenance by AIC)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$351,200.00	$351,200.00	$351,200.00	$351,200.00	100%	31 Dec 2008

Constraints: None ***Workers Engaged:*** 4 ***Contractor:*** AIC Micronesia
Status: Completed

IDMP 0056 Namdrik ES Toilet Block (FY 08)
(Construction of Toilet Facility)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$130,000.00	$124,500.00	$47,662.50	$351,200.00	77%	13 Nov 2009

Constraints: None ***Workers Engaged:*** 10 ***Contractor:*** GMA Construction
Status: On-going

IDMP 0057 Rita ES Toilet Block & Fencing (FY 08)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$108,000.00	$68,825.00	$26,715.00	$68.825.00	43%	16 Sep 2009

Constraints: Disputes on property boundaries and currently work is pending resolution of LUA
Workers Engaged: 12 ***Contractor:*** J & H Company
Status: On-Hold

IDMP 0059 Ajeltake Kindergarten School (FY 08)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$306,000.00	$196,819.00	$19,500.00	$196,819.00	11%	27 Mar 2010

Constraints: Shortage of Cement, CHB and Aggregates since May 2009
Workers Engaged: 8 ***Contractor:*** Republic Construction
Status: On-going

IDMP 0060 Health Maintenance V (FY 09)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$374,798.00	$	$	$	%	

Constraints: PMU is collating assessment data and preparing bid documents
Workers Engaged: 0 ***Contractor:*** 0
Status: PMU to bid out shortly

IDMP 0061 & 0062 Aur & Tabal ES (FY 08)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$980,000.00	$771,652.00	$676,652.07	$771,652.00	97%	26 Sep 2009

Constraints: None ***Workers Engaged:*** 50 ***Contractor:*** PII.
Status: On-going

IDMP 0063 Mili Elementary School (FY 08)

Project Estimate	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$947,049.06	$736,564.40	$383,116.84	$736,564.40	70%	25 Nov 2009

Constraints: None ***Workers Engaged:*** 30 ***Contractor:*** PII.
Status: On-going

IDMP 0064 Enewetak Elementary School (FY 09)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$1,380,000.00	$1,382,000.00	$211,100.00	$1,382,000.00	21%	26 Apr 2010

Constraints: Transport ***Workers Engaged:*** 50 ***Contractor:*** J & H Construction.
Status: On-going

IDMP 0065 Lukoj Elementary School (FY 09)

Maintenance Project Est.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$456,000.00	$347,557.00	$79,453.20	$347,557.00	25.74%	28 Apr 2010

Constraints: None ***Workers Engaged:*** 20 ***Contractor:*** IBCC
Status: On-going

IDMP 0066 Longar Elementary School (FY 09)

Estimated Project Cost	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$351,000.00	$274,856.00	$25,508.70	$274,856.00	10%	28 Apr 2010

Constraints: None ***Workers Engaged:*** 10 ***Contractor:*** Inter House
Status: On-going

IDMP 0068 Wotje Elementary School (FY 09) (Currently pending submittal of LUA)

Estimated Project Cost.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$1,340,000.00	$	$	$	%	

Constraints: No LUA ***Workers Engaged:*** 0 ***Contractor:*** TBD
Status: MOE to secure LUA

IDMP 0069 Woja Elementary School (FY 09)

Estimated Project Cost.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$1,340,000.00	$1,317,433.00	$	$	%	

Constraints: None ***Workers Engaged:*** 0 ***Contractor:*** IBCC
Status: Contract on process

IDMP 0070 Jabwor Elementary School (FY 09)

Estimated Project Cost.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$1,314,800.00	$1,384,000.00	$	$	%	

Constraints: None ***Workers Engaged:*** 0 ***Contractor:*** Anil
Status: Contract on process

IDMP 0071 Ollet Elementary School (FY 09)

Estimated Project Cost.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$360,680.00	$302,510.00	$50,209.00	$302,510.00	18%	26 Mar 2010

Constraints: Materials ***Workers Engaged:*** 12 ***Contractor:*** Inter House
Status: On-going

IDMP 0072 NIHS & JHS Science & Computer Labs (FY 09)

Estimated Project Cost.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$258,000.00	$212,000.00	$	$	%	12 Jan 2010

Constraints: None ***Workers Engaged:*** 0 ***Contractor:*** Republic
Status: To Mobilize Shortly

IDMP 0073 MIHS Additional Works (FY 09)

Estimated Project Cost.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$438,000.00	$	$	$	%	TBD

Constraints: ***Workers Engaged:*** 0 ***Contractor:*** TBD ***Status:*** Bid Submission

IDMP 0074 Ebeye Hospital Maintenance 5 (FY 09)

Estimated Project Cost.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$351,000.00	$269,168.00	$68,217.00	$269,168.00	%	31May 2010

Constraints: Budget for Variation Orders ***Workers Engaged:*** 4 ***Contractor:*** AIC Micronesia
Status: Started July 1, 2009 ***Comments:*** Major repair of medical equipment and corroded structural decking required to be retrofitted

IDMP 0075 New Takewa Health Center (FY 09, pending submittal of LUA)

Estimated Project Cost.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$256,000.00	$	$	$	%	

Constraints: None ***Workers Engaged:*** 0 ***Contractor:*** TBD
Status: On-Hold (no LUA)

IDMP 0076 Delap Elementary School Phase II (FY 09)

Estimated Project Cost.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$1,640,000.00	$	$	$	%	

Constraints: None ***Workers Engaged:*** 0 ***Contractor:*** TBD
Status: Design & Documentation

IDMP 0077 Utrik Elementary School (FY 09)

Estimated Project Cost.	*Contract Value*	*Certified to date*	*Estimated Final Cost*	*Percentage Complete*	*Completion date*
$340,000.00	$476,100.00	$	$	%	

Constraints: None ***Workers Engaged:*** 0 ***Contractor:*** GMA
Status: Contract on process

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APPENDIX B

2004 to 2009 Maintenance Projects

EDUCATION			HEALTH		
	Contracts Awarded			Contracts Awarded	
3	Laura Elementary School	204,193	4	Majuro Hospital Maintenance	190,596
7	Jaluit HS Kitchen	77,885	5	Ebeye Hospital Maintenance Yr 1	307,502
7a	Jaluit HS Kitchen Equipment	128,518	8	Health Center Maintenance I	198,354
9	Education Maintenance I	122,278	8a	Health Center VO's	37,528
12	MIHS Gym Maintenance	65,594	14	Health Center Maintenance II	203,587
12a&b	MIHS Gym Maintenance VO's	11,164	27	Majuro Hospital Emergency Repairs	180,000
13	MIHS Painting Fencing	99,679	32	Ebeye Hospital Maintenance Yr 2	307,572
13a&b	MIHS Painting Fencing VO's	13,517	32a	Ebeye Hospital Variations 1	135,000
15	Education Maintenance III	220,185	32b	Ebeye Hospital Variations 2	224,745
16	Ailuk Maintenance	59,419	35	Health Center Maintenance III	247,500
21	Middle School Toilets	28,586	40	Ebeye Hospital Maintenance Yr 3	347,772
21a	Middle School Toilets VO's	4,952	45	Health Maintenance IV	324,063
22	MIHS Toilets Maintenance	22,622	51	Ebeye Hospital Maintenance Yr 4	351,199
19	Education Maintenance IV (Ph1)	168,388	60	Health Maintenance V	374,798
25	Education Maintenance IV (Ph2)	136,810	74	Ebeye Hospital Maintenance Yr 5	269,168
38	Uliga to Assumption Materials	28,294			
38a	Uliga Additional Materials	8,984			
39	MIHS Science Toilets	56,539			
41	NVTI Toilets	24,852			
41a	NVTI Variations (estimate)	10,000			

PO 1	KAHS Materials	23,935			
PO 2	MIHS Science Block Roof	16,455			
46 48	NIHS Dorm Upgrade Education Maintenance IV	299,854 398,894			
49	MIHS Science & Lab Fit Out	166,359			
51	Ebeye Hospital Maintenance 4	351,199			
56	Namdrik ES Toilet Block	124,500			
57	Rita ES Toilet Block	68,825			
72	NIHS & JHS Computer &Science Lab	212,000			
73	MIHS Additional Works	438,000			

APPENDIX C

PROJECT DESCRIPTIONS

IDMP No	PROJECT NAME	KEY ELEMENTS OF THE PROJECT
0001	Rita ES Phase I	Two 4-classroom buildings
0002	Laura HS Phase I	One 4-classroom building
0003	Laura ES Maintenance	Garment factory conversion to 8 classrooms and Delap K
0004	Majuro Hospital Maintenance	Repairs to walls, doors, flooring, isolation ward, painting
0005	Ebeye Hospital Maintenance I	1 year O&M contract including architectural finishes
0006	Jaluit HS Phase I	Two 8-classroom buildings and a 100 pupil dormitory
0007	Jaluit HS Kitchen Maintenance	Kitchen renovations and new cooking equipment
0008	Health Center Maintenance I	Repairs to key building elements: roof, doors, windows, painting: at Jaluit (Jabwor, Narmej, Imroj) Namorik, Ebon (Jittoen) and Arno (Tinak, Kilange, Bekarej)
0009	Education Mtce I	Repairs to key building elements: roof, doors, windows, paint: for 5 ES on Majuro (Woja, Ajeltake, Delap, Uliga, Rita)
0010	MIHS Phase I	One 8-classroom multipurpose building
0011	NIHS Phase I	Administration block and a 100 pupil dormitory
0012	Education Maintenance II/I	MIHS Gymnasium refurbishment
0013	Education Maintenance II/II	MIHS Painting (2 buildings) and fencing
0014	Health Center Maintenance II	Repairs to key building elements: roof, doors, windows, painting: at Arno (Arno) Aur (Aur and Tabal) Maloelap (Airok, Tarawa and Kaven) Mejit (Mejit)
0015	Education Maintenance III	Repairs to key building elements: roof, doors, windows, painting: for Jaluit (Narmej, Imroj, Imiej, Jabwor, Jaluit, Mejrirok, Jabnoren) and Arno (Ine, Kilange)
0016	Ailuk ES Maintenance	Repairs to two single-storey classroom blocks
0017	Rita ES Phase II	Two 4-classroom buildings, an entrance and basketball court
0018	MIHS Phase II	Three 8-classroom buildings and one 4-classroom building
0019	Education Maintenance IV/I	MIHS Administration block ceiling strengthening
0020	Namdrik ES Phase I	One 8-classroom building
0021	Majuro MS Toilets	Toilet repairs and renovations
0022	MIHS Toilets	Toilet repairs and renovations
0023	Rairok ES Phase I	Demolition, new roof and site preparation
0024	Jaluit HS Phase II	Administration building and 6 accommodation units
0025	Education Maintenance IV/II	MIHS Administration block new roof
0026	Education Maintenance IV/III	MIHS Admin block, renovation of 7 classrooms
0027	Majuro Hospital	Emergency repairs and rebuilding after the fire
0028	Laura HS Phase II/I	Roof repairs, ceiling and floor replacement in factory
0029	Rairok ES Phase II	Internal fit-out to create 8 classrooms and admin space
0030	NIHS Phase II	One 8-classroom block and six accommodation units
0031	Ebeye ES Phases I&II	Two classroom blocks with a total of 15 new classrooms
0032	Ebeye Hospital Maintenance II	1 year O&M contract including architectural finishes
0033	Laura HS Phase II/II	Internal fit-out: 4 classrooms, 2 administration, library and hall
0034	Education Maintenance V	Repairs to key building elements: roof, doors, windows and painting at Ailinglaplap (Jeh, Aerok) Namu (Namu, Majkin, Mae) Ebeye ES, Lib island
0035	Health Center Maintenance III	Repairs to key building elements: roof, doors, windows, painting: at Ailinglaplap (Aerok, Woja), Jabat Island, Namu (Loen, Majkin, Namu), Lib Island, Lae (Lae), Wotho (Wotho)

0036	Schools Water Maintenance	Water supply security enhancement at Majuro Middle School and Rita Elementary School
0037	Delap ES	Construction of new 2-storey, six (6) classroom building
0038	Uliga to Assumption	Materials for building temporary classrooms for Uliga pupils
0039	MIHS Science Toilets	Toilet repairs and renovations
0040	Ebeye Hospital Maintenance III	1 year O&M contract including architectural maintenance
0041	NVTI Toilet Maintenance	Toilet repairs and plumbing renovations
0042	Laura High School III	Construction of 2- storey bldg, 10 new classrooms and recreation facilities
0043	Schools Power Supply	Provision of mains supply cabling to MIHS I & II, NIHS I & II and Jaluit I & II
0044	Rairok ES Phase III	Construction of new 6 classrooms, a science lab and a library
0045	Health IV	Health Center maintenance at: Wotje; Tutu, Ulien, Ine (Arno Atoll); Imiej, Jabnoren, Mejrirok (Jaluit Atoll); Toka (Ebon Atoll); Mejatto (Kwajelein Atoll); and Kili
0046	Education VI	Dormitory and Toilet Block repairs and refurbishment at Northern Islands High School
0047	Ebeye Hospital Generator	Supply and installation of a new generator
0048	Education VII	Dormitory and Toilet Block repairs and refurbishment at Jaluit High School
0049	MIHS Science & Lab Fit-outs	Science and Computer Laboratory fit-outs to Marshall Islands High School
0050	Education VIII	MIHS maintenance
0051	Ebeye Hospital Maintenance IV	1 year O&M contract including architectural maintenance
0052	Education Maintenance IX	Education maintenance for Wotho ES, Ujae ES, Lae ES, Loen ES, Namu Atoll
0053	Education Maintenance X	Education maintenance for Aerok and Wollet ES, Maloelap
0054	Education XI	Education maintenance for Melang and Jebal ES, Likiep
0055	Education XII	Education maintenance for Lukoj ES, Arno Atoll
0056	Namdrik ES Toilet	Construction of toilet facilities for the existing classroom
0057	Rita ES Toilet Block	Construction of toilet facilities to cater for old building
0058	Delap to Uliga	
0059	Ajeltake Elementary School Kindergarten	Construction of Kindergarten + one additional classroom
0060	Health Maintenance V	Health Center Maintenance for Ailuk Dispensary, Ailuk Atoll; Kaben, Jang, Ollet, Tarawa, Airok Dispensaries, Maloelap Atoll; Likiep & Jebal Dispensaries, Likiep Atoll; Aur & Tabal Dispensaries, Aur Atoll; Mejit Dispensary, Mejit Atoll
0061	Aur Elementary School	Construction of 4 new classrooms and demolition of exiting 4 classrooms
0062	Tabal Elementary School	Construction of 4 additional classrooms
0063	Mili Elementary School	Construction of 6 new classrooms and demolition of old 4-classroom building
0064	Enewetak Elementary School	Construct 3 buildings comprised of 9 classrooms with Admin/LRC and 2 toilet blocks. Demolition of 3-storey building
0065	Lukoj Elementary School, Arno	Construct one-3classroom (type 5 bldg) & type 8A toilet
0066	Longar Elementary School, Arno	Construct one-3classroom (type 3 bldg) & 1 type 8A toilet
0067	Japo Elementary School, Arno	Construct one-3classroom (type7 bldg) & 1 type 8A toilet
0068	Wotje Elementary School, Wotje	Construct 3 buildings comprised of 9 classrooms with Administration/LRC and 2 toilet blocks
0069	Woja Elementary School, Ailinglaplap	Construct One-4classroom (type 1) and two-3 classroom (type 3 bldg) and One each type 8A and 8B toilets

0070	Jabwor Elementary School, Jaluit	Construct 3 buildings comprised of 9 classrooms with Administration /LRC and 2 toilet blocks
0071	Ollet Elementary School, Maloelap	Construct one 3-classroom type 7 building & type 8A toilet
0072	NIHS & JHS Computer Laboratory	Construct two (2) each Computer and 1-Science Laboratory for Jaluit and Wotje High Schools.
0073	MIHS Gym, Existing Administration Toilet, Bldg 03 Roof & Ceiling Repair	Repair of MIHS Gym, Administration toilet repair and building 03 roof and ceiling repair
0074	Ebeye Hospital Maintenance Year 5	Continuation of Ebeye Hospital Maintenance Year 5
0075	Takewa Health Center	New construction of dispensary for Takewa, Mili Atoll
0076	Delap ES Phase II	Construct additional two-storey 4-classroom building
0077	Utrik ES, Utrik Atoll*	Construction of 4 classroom building and toilet block

Republic of the Marshall Islands

Comments on the

Report to Congress on the First 5-Year Review of the Compact of Free Association with the Republic of the Marshall Islands

Prepared by:

Office of Compact Implementation,
Ministry of Foreign Affairs

24 September 2012

Contents

I Overview

The following are a set of issues and comments provided by the Government of the Republic of the Marshall Islands (GRMI) in response to the *Report to Congress on the First 5-Year Review of the Compact of Free Association with the Republic of the Marshall Islands* prepared by the Office of Insular Affairs, U.S. Department of Interior (DOI/OIA). The draft text was presented to President Jurelang Zedkaia by DOI Assistant Secretary Anthony Babauta on 19 May 2010. After the GRMI's comments to said draft text, a further draft was developed and provided to President Christopher J. Loeak's Administration at the mid-year JEMFAC in March 2012. The GRMI wishes to convey its disappointment at the delay in the submission of these drafts given that such delay goes against the intent expressed in Section 104(h)(2), P.L. 108-188, of the amended Compact for "the U.S. Government to review the terms of the...Compact and consider the overall nature and development of the...U.S.-RMI relationships including the topics set forth in sub paragraphs (A) through (E) of paragraph (1). This provision is more detailed below. Moreover, there were no informal consultations on the draft between the U.S. and the RMI despite the latter's willingness to do so as stated in the letter from Mr. Glyn T. Davies, Acting Assistant Secretary, Bureau of East Asian and Pacific Affairs, to then RMI President Litokwa Tomeing transmitted via **Diplomatic Note No. 31-09** dated 05 May 2009. Lastly, there were certain portions of the draft where the GRMI could not comment due to other related portions containing data outside the 5-Review period.

The comments are provided to help more accurately portray the last 5 years of the Compact as well as to gain consensus on a way forward to further gains made to date as well as eliminate apparent shortcomings of the agreement which require the support of the United States government (USG). Also presented are a set of key issues that the RMI has defined, from its perspective, and need to be addressed to ensure that the intent and goals of the Compact are achieved by both parties in the short, medium and long terms.

In August 2009 the GRMI established a Compact Review Committee. The membership of said Committee was revised on April 23, 2012, and consisted of the following: Minister of Foreign Affairs, Minister of Finance, Minister of Education, Senator John M. Silk, Assistant Secretary of the Bureau of U.S. Affairs, the Director of the Office of Compact Implementation, the Legal Adviser of the Ministry of Foreign Affairs, and the Economic Consultant of the Office of Compact Implementation. The Committee held review meetings with key ministries and agencies that receive Compact funds to include the Ministries of Health, Education, and Public Works, the Environmental Protection Agency, National Training Council, Marshall Islands Scholarship Board and the College of the Marshall Islands.

The Committee would like to thank Assistant Secretary Babauta and the DOI/OIA staff for endeavoring to produce the first review. It is recognized that attempting to summarize the 5-year performance of such a wide ranging agreement as the Compact is challenging especially given the impact that the Compact's components have on the RMI. Such impact is difficult to measure given the Compact's relation to all aspects of the RMI's economic, social and security environment. The Committee considers that the key issues arising from this time period be addressed by the USG agencies and the U.S. Congress in consultation with the GRMI.

Following is a discussion of the key issues the GRMI believes need to be addressed through the Review process followed by a section-by-section analysis of the Review document by GRMI stakeholders.

II. RMI Issues Arising from the First Five Years of the amended Compact

A. Introduction

Given the information presented in the First 5-Year Review document and the GRMI's own review, the GRMI has identified several issues that warrant attention by the U.S. Administration and U.S. Congress. The issues were identified based on the description of the 5-year review as indicated by the amended Compact's authorizing language. This language is repeated since the current draft of the 5-year review does not address Section E and only partially addresses Sections A-D.

> "During the year of the fifth, tenth and fifteenth anniversaries of the date of enactment of this resolution, the Government of the United States shall review the terms of the respective Compacts and consider the overall nature and development of the U.S.-FSM and U.S.-RMI relationships including the topics set forth in sub paragraphs (A) through (E) of paragraph (1). In conducting the reviews, the Government of the United States shall consider the operating requirements of the Federated States of Micronesia and the Government of the Republic of the Marshall Islands and their progress in meeting the development objectives set forth in their respective development plans." (Section 104(h)(2), P.L. 108-188)

Sections (A) through (E) of Section 104 (h)(1) read:

(A) General social, political, and economic conditions, including estimates of economic growth, per capita income, and migration rates;
(B) The use and effectiveness of United States financial, program, and technical assistance;
(C) The status of economic policy reforms including but not limited to progress toward establishing self-sufficient tax rates;
(D) The status of the efforts to increase investment including: the rate of infrastructure investment of U.S. financial assistance under the U.S.-FSM Compact and the U.S.-RMI Compact; non-U.S. contributions to the trust funds, and the level of private investment; and
(E) Recommendations on ways to increase the effectiveness of United States assistance and to meet overall economic performance objectives, including if appropriate, recommendations to Congress to adjust the inflation rate or to adjust the contributions to the Trust Funds based on non-U.S. contributions.

The issues the GRMI presents below are:

1. Addressing the Inflation Adjustment and Annual Sector Grant Decrement
2. Performance and Viability of the Trust Fund
3. Making the SEG a Permanent Appropriation and Applying the Inflation Adjustment
4. Restoring the National School Lunch Program Eligibility for the RMI
5. Restoring the Ebeye Post Office
6. Addressing the Timing of Reporting of the FPA and USG Administration of Compact Funding

Of these issues, the SEG and the Performance and Viability of the Trust Fund are addressed in the Review. The other issues are not addressed at all and the GRMI sees these issues as vital not only to the success of the Compact but to the economic growth prospects and social stability required to ensure the RMI remains a viable nation with improving living standards.

B. Addressing the Inflation Adjustment and Annual Sector Grant Decrement

The Compact provides for a package of annual grant assistance as described in Section 211. The grant assistance is to assist in the development of the RMI economy and benefit its people by improving living standards. The grant funding has been crucial for the RMI to provide basic services, such as in the areas of health, education and infrastructure development.

The grant assistance was negotiated by the RMI with the aim to achieve fiscal stability during Fiscal Years (FY) 2004-2023. However, with the USG only allowing a partial inflation adjustment and a decrement to the grant assistance of $500,000 per year, fiscal stability has not been achieved.[1] This is even despite increased domestic revenue generation of 16.4 percent from FY04-FY08, reducing or limiting general fund expenditures (except for education, health and infrastructure), receiving supplemental funds from the Republic of China, and increasing other revenues such as from the RMI Ship Registry. *Thus, it is becoming imperative that the Compact funding is fully inflation adjusted annually and/or that the decrement be reduced.*

Table 1: RMI Section 211 Grant Flows: A Widening Gap Hindering Fiscal Stability

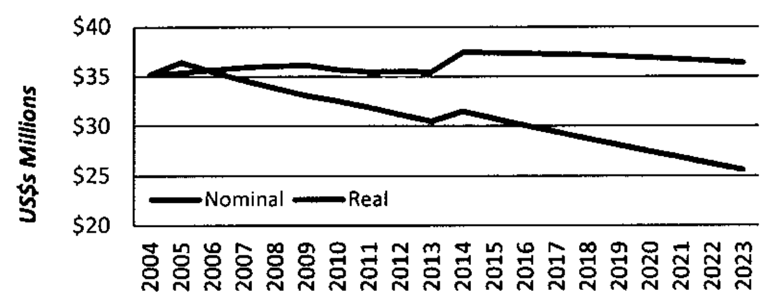


Table 1 shows the flow of Section 211 funding. While the actual nominal funding remains at a steady level to 2013 (about $35-36 million annually), there is a bump-up expected in 2014 due to the $2 million increase for Ebeye Special Needs funding (Section 211(b)(1)) which will result in a nominal funding stream of $36-37 million annually.

Economic growth has been positive since the Compact's initiation up to 2008, as shown in Table 2. In 2008, the RMI was confronted by 1) severe price increases caused by global and regional inflation of imported commodities including staples such as food and fuel; and 2) the global financial crisis and the resulting worldwide economic recession. Both factors impacted economic growth prospects in 2008 and 2009. These were not home grown problems but the GRMI did try to respond by supporting the Marshalls Energy Company and keeping public sector spending stable.

[1] Section 218 of the amended Compact allows for the two-thirds inflation adjustment to Sections 211, 212 and 216 grant funds per the U.S. Gross National Product Implicit Price Deflator (USGNPIPD) or 5 percent, whichever is greater, with the base year of 2004.

Table 2: GDP Change	2004	2005	2006	2007	2008	2009	Average
Real GDP Change	3.7	1.5	1.6	3.5	-1.6	-2.1	1.10
Real Per Capita GDP Change	2.1	0.8	0.8	2.2	-2.7	-3.1	0.017

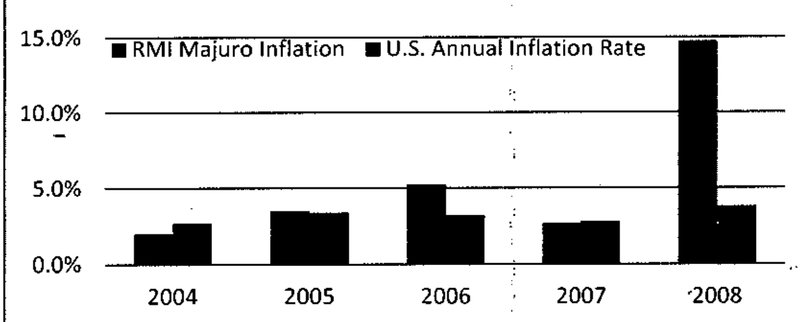
Source: RMI Economic Statistics, 2009, prepared August 2010.

Thus, even given minimal economic growth and moderate inflation, the base grant will continue to be a smaller portion of the RMI budget in nominal terms. A more significant difference is in the 'real' value of the funding. It is expected that the 'real' value of the funding will be reduced by about 36 percent over the 20-year period. Such a rapidly expanding gap will be difficult, if not impossible, to fill even if the RMI experiences more substantial economic growth, including domestic revenue generation and expenditure reductions. The impact will likely decrease development, roll back improvements made in the priority sectors of health and education; and produce aggressively deteriorating living standards leading to increased migration to the United States.

For 2004-2010, the Government has undergone fiscal adjustments to respond to the limited growth of budget resources. Such fiscal adjustments have included: 1) focusing any expenditure increases on health, education, environmental management and infrastructure development while keeping other expenditure at the same or moderately increased levels (and for FY11 making across-the-board cuts of 5.5 percent for General Fund expenditure, amongst other cost savings); 2) committing to reduce expenditure for FY11 and beyond, per the Comprehensive Reform Program, including addressing civil service reform to reduce the wage bill in FY12 and FY13; 3) improving tax administration and compliance; 4) instituting tax regime reform that is planned to be implemented in FY12 onwards to further facilitate private sector development; and 5) institution of a performance based management system in select ministries with the aim to advance it government-wide.

Table 3: RMI Inflation 2004-2008

Source: RMI 2008 Statistical Tables, U.S. Bureau of Labor



The economic situation is further aggravated by the inflation experienced in the RMI, especially since 2006-2008. The RMI is prone to global and regional inflation trends due to the import nature of its goods and services. Rates are historically greater than U.S. rates. The 2008 rate was extremely high (14.8 percent) given the worldwide increase in food, fuel and other input commodity prices, including for such RMI staples as rice. The fuel price increases not only hurt domestic consumption but also hindered private fishing fleet activity which has become a main pillar of the RMI economy through a private sector development effort. The result has been an injured energy sector that is reflected by the poor performance of the Marshalls Energy Company which is the main power producer and fuel reseller. Again, the inflation situation shows a decreased living standard due to limited economic growth and periods of high inflation hindering consumer purchasing power.

A more positive occurrence from a budget standpoint is that the RMI has increased its domestic revenue generation as described earlier. Tax revenue has increased along with certain revenue funds, such as for health services. As indicated in Table 4, the increase is by 12.6 percent between FY08 and FY09. This is a significant increase for a small island state even considering that FY09 GDP was negative (as so in FY08) and revenues decreased because of the negative economic growth caused by the worldwide recession. However, while these increases have occurred, they are insufficient to replace the nominal and real value loss of Compact grant funds and to meet public service needs of a growing population. For instance in 2007 and 2008, there were operational budget deficits. For 2007 the deficit was offset by the RMI dipping into the remains of the Marshall Islands Intergenerational Trust Fund. For 2008 the deficit was offset by a grant contribution from the Republic of China.

Table 4: Domestic Revenue Generation

Source: 2009-2014 MTBIF (includes taxes and other domestically generated revenue)

	2004	2005	2006	2007	2008	2009	Total Change FY04-09
Total DRG	26,337,423	27,973,567	28,201,778	30,556,740	30,674,521	29,661,564	*3,324,141*
Annual Change from Previous Year		6.2%	0.8%	8.4%	0.4%	-3.3%	12.6%

For 2012, 2013 and 2014, as shown in the RMI's Medium Term Budget and Investment Framework, domestic revenue increases are expected to continue at a moderate pace. For 2004-2012 it is estimated that domestic revenue generation will increase by 20 percent- a significant increase given the size of the RMI economy. Even so, such increases will only allow minimal increases in health and education funding while maintaining other budget funding at stagnant levels. This is mainly attributable to the decreasing Compact base grant funds for that period. Even with the Compact funds concentrated in health, education, and infrastructure development and maintenance, General Fund monies will have to replace the grant decreases and at least slight increases to keep up with increased service needs and domestic inflation.

On the expenditure side, the GRMI has developed a Comprehensive Adjustment Program (CAP) prepared by government and civil society representatives. The CAP identifies expenditure cuts in the areas of eliminating subsidies to state-owned enterprises (as done in the FY11 budget), reductions of allowances, reduction of the civil service wage costs, and consolidation of government organizations and/or activities. The GRMI has entered into an agreement with the Asian Development Bank (ADB) as part of a loan condition to implement these expenditure reductions over a multi year period. The GRMI is also committed to generating a surplus annually so it can afford to make a contribution to the Compact Trust Fund. The FY11 budget contains several of the advised expenditure reductions, a 5.5 percent across the board cut in General Fund expenditure for most department and agency budgets, and a budgeted contribution to the Trust Fund.

The above macroeconomic and fiscal description is provided to:

1. Support changing Section 218 so that a full inflation adjustment is applied to Title Two and Supplemental Education Grant funding. The Compact funding should maintain a

'real' value or else the RMI is confronting not only the loss from the decrement but also the real inflationary loss.

2. Reduce the decrement to $250,000 so that fiscal stability can be maintained and a real living standard increase can be pursued.[2]

The RMI has limited economic instruments at its disposal. It has tried to increase domestic revenue, attract grant funds from other sources, and limit expenditure. Even with these efforts, the grant assistance is declining at too rapid a pace and is negatively impacting overall economic performance and budget stability.

The RMI's security and defense commitments do not erode during the Compact with most of these commitments continuing in perpetuity. The RMI hopes that the U.S. economic and finance commitments under the Compact do not erode as they are now due to the real loss of value of the Compact funds.

C. Performance and Viability of the Trust Fund

Section 216 of the Compact provides for the establishment of a Trust Fund consisting of RMI, USG and other subsequent contributor participation based on the Compact's Trust Fund Agreement. Upon termination of the annual grant assistance, currently expected after FY23, the earnings of the fund shall thereafter be used for the purposes described in section 211 (a), (d), and (e).[3]

Box 1: U.S. RMI Trust Fund Agreement
Article 3: Purpose of the Trust Fund

The purpose of the Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the Republic of the Marshall Islands by providing an annual source of revenue, after Fiscal Year 2023, for the assistance in education, health care, the environment, public sector capacity building, private sector development, and public infrastructure described in Section 211 of the Compact, as amended, or other sectors as mutually agreed by the Original Parties, with priorities in education and health care.

2 The decrease in the decrement is not suggested in terms of taking away the annual increase to the annual Trust Fund contribution (Section 216(a) and (c)). It is believed, per section C, below, that additional funding is needed to make the Trust Fund viable.

3 Section 211(a) refers to assistance in support of education, health, private sector development, capacity building in the public sector, and environment; (d) public infrastructure and maintenance; and (e) Disaster Assistance Emergency Fund.

The USG provides $7 million annually as a base amount beginning in FY04 with a further $.5 million added annually and cumulatively decremented from the Section 211 annual grant assistance plus a partial inflation adjustment as indicated in Section 218.[4] The RMI provided $30 million to the Trust Fund between the effective date of the Trust Fund agreement and October 1, 2005. The RMI contribution was from the previous Compact term's 'bump-up' amounts received in FY02 and FY03. These funds were held in the Marshall Islands Intergenerational Trust Fund. Since inception the RMI attracted the participation of the Republic of China (ROC) to participate in the Trust fund.

Box 2: U.S. RMI Trust Fund Agreement
PL 108-188, December 17, 2003

Article 16, Section 5(b): (The C Account) shall contain no more than three times the estimate equivalent of the Fiscal Year 2023 Annual Grant Assistance, including estimated inflation calculated in the accordance with section 218 of the Compact, as amended. Any excess above the estimated amount shall return to the A account.

Article 16, Section 7: The Trust Fund Committee may disburse to the Government of the Republic of the Marshall Islands, from the B Account (supplemented from the C Account if the B Account is insufficient): (a) in Fiscal Year 2024, an amount equal to the Annual Grant Assistance in Fiscal Year 2023, plus Full Inflation; and (b) beginning in Fiscal Year 2025, and thereafter, an amount equal to the Annual grant Assistance in Fiscal Year 2023 plus Cumulative Full Inflation thereon, plus any additional amounts for Special Needs approved under paragraph 5(c) above.

Although the Trust Fund Agreement and Section 216 of the Compact anticipated that the Trust Fund would be invested for a full 20 years before it was expected to produce income, this provision has not been implemented. Trust Fund contributions were not invested (except in low yield money market funds) for the first 2 years of its existence (2004 and 2005), which happened to be years of substantial growth in the stock markets. This failure to properly implement and fully invest Trust Fund contributions during the first two years was largely the result of a protracted selection process for the initial Trustee and Investment Adviser. Given poor fund performance because of the global financial crisis in late 2008 to 2010, the funds have only been fully invested in two positive growth years- 2006 and 2007 and have lost substantial value in the 2008-10 period.

Thus, as of this time the RMI does not believe that the Trust Fund will achieve its purpose (Box 1) as set out in the Trust Fund agreement. The RMI has three issues in respect to the Fund:

1. Based on fund performance to date, the fund will not contribute to economic advancement and long-term budgetary self-reliance nor will it meet funding objectives for the respective sectors as set out in other parts of the Trust Fund Agreement.

[4] Section 218-Inflation Adjustment allows for Compact grant and Trust Fund contributions to be adjusted for each U.S. fiscal year by the percent that equals two-thirds of the percent change in the United States Gross domestic Product Implicit Price Deflator, or 5 percent, whichever is less in any one year, using the beginning of Fiscal Year 2004 as a base.

2. As with other Compact grant assistance, the trust fund contributions are only partially inflation adjusted.
3. The Funds were only invested as of November, 2006 thereby the funds will not be invested for a full 20 year term as envisioned in the Compact's Title Two and the Trust Fund Agreement.

The Trust Fund's performance as of September, 2009 has been poor, only growing 0.14 percent since funds were initially invested. With such growth during the first 6 years negligible, there is no ability for the Trust Fund to achieve its purpose or other Trust Fund commitments as of FY23. Its viability beyond is highly questionable. It is the GRMI's interest that the Trust Fund allow for a transition from the annual Compact grant assistance received in FY23 to a similar inflation adjusted amount from the Trust Fund in FY24 without negatively impacting the Trust Fund's Corpus thereafter. Thus, FY23 is a benchmark for FY24 and beyond. As of now, the Trust Fund is not at all on track to meet that goal. As well, the Trust Fund will not meet the commitments made per the Trust Fund Agreement such as in Article 16 Sections 5(b) and 7 as indicated in Box 2. The growth is nowhere near the USG estimates of 8 percent annual growth estimated by the USG during U.S.-RMI Compact negotiations.

An analysis by the U.S. General Accountability Office (GAO) indicated that the Trust Fund may not provide sustainable income as of FY2024 as indicated in Box 3.[5] As well, the GAO shares the RMI's view that the RMI may not receive any distribution (or substantially less than the previous year) from the Trust Fund based on Article 16 requirements (Box 2). It should be noted that the GAO assessment was performed in early 2007. Given the investment market downturn in 2008-10, the situation is now dire regarding the Trust Fund's ability to provide an adequate source of income and contribute to development and long term budgetary self reliance.

Box 3: Abstract from the GAO Report

Compact of Free Association Trust Funds for Micronesia and the Marshall Islands May Not Provide Sustainable Income

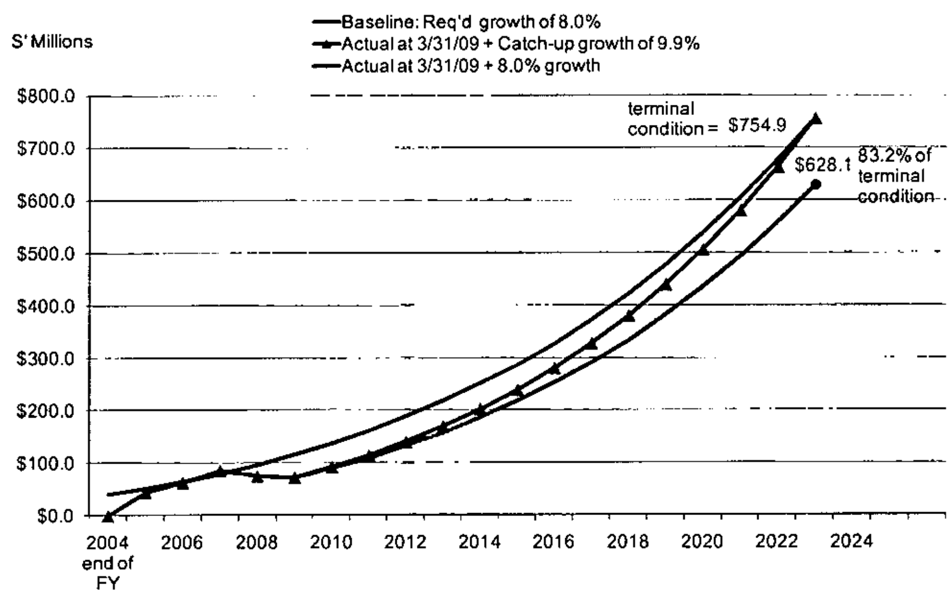
"The Federated States of Micronesia and RMI trust funds may not provide sustainable income after the compact grants end. Market volatility, as well as the investment strategies chosen, may lead to a wide range of trust fund balances in 2023. There is increasing probability that in some years the trust funds will not reach the maximum disbursement level allowed—an amount equal to the inflation adjusted compact grants in 2023—or be unable to disburse any income. GAO's analysis shows low probabilities of not reaching the maximum level allowed or disbursing no income in 2024 but higher probabilities of not reaching the maximum level allowed in 2050. For instance, by 2050, with a conservative investment strategy, income from the FSM and RMI trust funds, respectively, is over 90 percent and 60 percent likely to be less than the maximum level allowed and more than 20 percent and 15 percent likely to allow for no disbursements."

[5] Report to the Congressional Committees: Compact of Free Association Trust Funds for Micronesia and the Marshall Islands May Not Provide Sustainable Income, U.S. General Accountability Office, (GAO-07-513), June 2007.

The DOI OIA funded RMI FY08 Economic Review also produced an analysis of the RMI's Trust Fund.[6] The Review points out that the "design feature of the Trust Fund related to the distributions to the RMI from FY24 and thereafter are explicitly tied to the inflation adjusted value of the Compact annual grant assistance provided in FY23."[7] The Review states that the sensible goal, as is the GRMI's goal dating back to Compact negotiations, is to have a smooth and sustainable transition from the annual grant assistance provided in FY23 to annual Trust Fund contributions in FY24. Thus, the target value of the Trust Fund corpus must be sufficient to support the annual withdrawals, plus inflation, while preserving the real value of the Trust Fund in perpetuity.

To offset the very low earnings to date, the Review indicates that the Trust Fund will have to at least grow at an annual rate of 9.9 percent as of FY09 and subsequent years to FY23. This trend rate is much higher than average annual market rates and a much higher rate than U.S. negotiators used in their estimates (8 percent annual growth) during Compact negotiations and 6.7 percent which the RMI's Trust Fund Investment Advisors originally calculated. Also, given Investment Advisor advice, the funds will eventually move into more moderate and then conservative investments as the time of the Trust advances toward a distribution date, thus decreasing earnings potential toward the mid and late years of the Trust Fund term.

Table 5: Compact Trust Fund Sufficiency, FY2004 – FY2024, $'millions[8]



In February 2010, the International Monetary Fund published its Article IV consultation findings. One of the main findings is that the long-term budgetary self reliance of the RMI is in jeopardy due to the impact of the global financial crisis and its effect on the Trust Fund. As of now, the IMF predicts a gap of 9 percent of GDP in 2024 ($16 million in 2009 dollars) between expiring

[6] Republic of the Marshall Islands Fiscal Year 2008 Economic Review Summary Document, U.S. Department of the Interior, Office of Insular Affairs and USDA Graduate School, August 2009. The Trust Fund assessment was further updated for the 2009 report and makes a similar conclusion regarding the Trust Fund's inadequacy. The report is currently in draft form so it is not quoted for this paper.
[7] Ibid, p. 18
[8] Ibid, p. 19

Compact monies in FY23 and the forecast Trust Fund income. As of this writing, the situation is even more critical since the IMF estimated a 9.4 percent growth in Trust Fund assets in 2009 and a similar amount in 2010.[9] Trust fund asset growth has not been at these rates for both years thus enlarging the gap.

In March, 2010, Goldman Sachs, during its tenure as Investment Adviser for the Trust Fund, submitted a similar report to the Trust Fund Committee on a number of Trust Fund issues which largely agreed with the conclusions of the GRMI and GAO.

Presently, there is no long range planning or goal of where the Fund needs to be in FY23, when annual grant assistance is currently scheduled to end. There is no consideration of the long-term objectives or what is necessary to meet those objectives in terms of the Fund's resources and growth. This must change. The RMI and USG must have a common vision of where the Trust Fund should be in FY23 and should work together pro-actively to achieve those goals.

Additional Trust Fund Contributions

The GRMI has successfully added a subsequent contributor to the Trust Fund to help shore-up the Fund to meet the RMI's and the Fund's objectives. Taiwan (ROC) became a subsequent contributor in 2005. The ROC provided $4 million in FY04, $2.5 million annually between FY05-08 and has or will provide $2.4 million from FY09-23.

Box 4

US-RMI Trust Fund Agreement
Article 11: Conditions Governing Contributions

Article 11, Section 3 – The Original Parties shall seek contributions to the Fund from other sources. *(emphasis added)*

The GRMI has also asked the USG to work jointly in an effort to bring additional contributors to the Trust Fund to little avail. The GRMI notes that seeking additional contributors is not a discretionary duty of the "Original Parties" (the USG and RMI). Rather, it is mandated in the Trust Fund Agreement itself and constitutes a fiduciary obligation on both governments to work toward increasing the resources in the Fund so that it will be viable and sustainable in the future while providing a level of income to the RMI that will maintain fiscal and budgetary stability. Both Governments recognized that additional resources would be needed in the Trust Fund when the Trust Fund Agreement was drafted and agreed. Nonetheless, this important provision has not been implemented by the USG over the course of the first 6 years of the Trust Fund's existence.

The need to bring in additional resources by adding subsequent contributors to the Fund is all the more urgent given the USG's reluctance to provide needed additional resources.

[9] Republic of the Marshall Islands 2009 Article IV Consultations Staff Report; Public Information Notice; and a Statement by the Executive Director of the RMI on the Executive Board Discussion, International Monetary Fund, February 2010, p. 6 and Appendix I.

In order to facilitate a robust joint effort of seeking additional contributors, it would be most helpful if appropriate amendments could be made to PL 108-188 to allow the original parties to amend the Trust Fund agreement and bring any changes into effect without enactment by Congress. This would facilitate timely negotiations and agreement with major subsequent contributors while also allowing both governments to make and implement some important technical changes to the Trust Fund Agreement.

Tax and Trade Compensation

The GRMI has submitted a study to the USG on the impact of the removal of the tax and trade provisions of the original Compact. The amended Compact carried forward the original Compact's language in Section 108 of PL 108-188. This provision permits submission of any claims before 30 September 2009. The RMI is entitled to receive at least $20 million of additional funds. Moreover, depending on the claims submitted by the FSM, the RMI is also eligible for up to $60 million. If compensatory adjustments are awarded, the funds will be contributed directly to the Compact Trust Fund per section 216(b) of the amended Compact. The GRMI strongly believes funds received resulting from this Compact provision is one way to help strengthen the Trust Fund.

Additional RMI Contributions to the Trust Fund

The RMI plans on making additional contributions to the Trust Fund in FY11 (and beyond). These contributions are beyond what is required by the terms of the Trust Fund Agreement and Compact because the RMI understands that as matters stand now, the Trust Fund will not achieve its purposes in the future. The RMI also notes that these investments are being made despite the other urgent needs and strains on the RMI General Fund.

Technical Amendments to the Trust Fund Agreement

Our experience over the past 5 years has demonstrated a need for several technical amendments to the Trust Fund Agreement to address a number of issues.

Amendments should be made to Article 13 of the Trust Fund Agreement to clearly provide for a Custodian as opposed to a Trustee (the Trust Fund Committee serves as Trustee). This confusion has cost the Trust Fund millions of dollars over the first several years of its existence; has resulted in unnecessary expense and time delays; and is sufficiently convoluted that at least one well qualified firm has refused to even bid on the position due to legal reasons.

In its current form the Trust Fund Agreement will not provide any income or revenue in the future under certain conditions, which are quite foreseeable. This has been pointed out by the GAO and the Trust Fund's Investment Adviser, and will require amendments to the Agreement.

Consideration should be given to eliminating the C account, and moving toward a "sustainable spending level" mechanism, provided that the Trust Fund is provided with adequate resources.

Summary of Trust Fund Recommendations

The RMI recommends the following Trust Fund adjustments:

1. Full Inflation Adjustment
   a. The annual inflation adjustment applied to the annual Trust Fund contribution should change from a partial inflation adjustment to a full inflation adjustment. The USG had agreed to allow the Trust Fund distribution as of FY24 to be fully inflation adjusted. A change to a full inflation adjustment would provide consistency in the Trust Fund agreement, provide a more substantial annual contribution to help the contributions maintain a real value to the end of the Compact grant assistance term, and help strengthen the Trust Fund corpus.
   b. Capture the difference between the partial and full inflation adjustment on the Section 211 annual grant assistance and the Trust Fund contribution for FY04-FY10 period and place this difference into the Trust Fund A Account.

2. Extension of Grant Assistance Term
   a. Currently, Section 211 annual grant assistance is scheduled to end in FY23. Given that there was a two year delay until the U.S. and RMI contributions were actually invested, the 20-year term of investment build-up as envisioned in the Compact and by the GRMI is shortened to an 18-year term. The grant assistance term should be extended to FY25 so that the Trust Fund has further time to build-up and receive at least two more years of contributions.
   b. Accompanying the above change, the RMI believes that the $.5 million annual Section 211 grant assistance decrement end at FY23 since the FY23 grant amount is what was contemplated as the baseline for Trust Fund distributions after annual grant assistance ends.

3. Compensatory Adjustment Contribution to the Trust Fund and Other Additions
   a. Based on the study submitted to the USG regarding receiving a compensatory adjustment from the original Compact's tax and trade provision removal, the RMI is entitled to receive at least $20 million and possibly $60 million. Any such addition would have significantly stabilized and provided a better growth base for the Trust Fund.
   b. Depending on the USG response to the above, an independent study should be done of the Trust Fund's performance and an amount be determined by the study that is in addition to the amounts currently being provided to the Trust Fund to make the Trust Fund viable according to the purpose of the Trust Fund.

4. Seek Additional Contributions and Make Technical Amendments to the Trust Fund Agreement
   a. Section 101(d) of P.L. 108-188 should be amended to allow the USG and RMI agree on amendments to the Trust Fund Agreement without enactment by Congress.
   b. The USG and RMI aggressively and proactively seek additional contributors to the Trust Fund as mandated by the terms of the Trust Fund Agreement.
   c. The RMI and USG initiate discussions on certain technical amendments necessary to improve performance, reduce expenses, and assure that the Trust Fund fulfills its purposes.

The Trust Fund is mentioned in the draft report. Apart from agreeing with the USG position that the value of the Trust Fund is currently far below the projected baseline post-2023, the RMI believes that insufficient discussion was provided on the other obvious and widely recognized deficiencies and problems in the Trust Fund. The RMI has suggested several measures, which, if adopted and implemented, will assure a viable, robust, and sustainable Trust Fund in the future which will achieve the long term goals of both governments.

Recognizing these problems now and taking corrective action will also cost less than waiting for the next five years or beyond, which will only exacerbate these problems; result in greater cost and expense to remedy; and undermine confidence in the future of the Trust Fund and the Compact in general.

D. Making the SEG a Permanent Appropriation and Applying the Inflation Adjustment

The Compact's Title I, Section 105 Supplemental Provisions, (f)(B)(iii), allows for the provision of an annual Supplemental Education Grant (SEG) in lieu of eligibility for formerly provided education programs. These programs included those under Title I of the Elementary and Secondary Education Act of 1965, Title I of the Workforce Investment Act of 1998 (other than subtitle C or Job Corps), Title II of the Workforce Investment Act of 1998, Title I of the Carl D. Perkins Vocational and Technical Education Act, the Head Start Act and parts of the Higher Education Act of 1965.

The Grants were authorized to be appropriated by the U.S. Secretary of Education to supplement the education grants under section 211(a)(1) in the amount of $6.1 million as of FY05 and inflation adjusted as of FY05 per Section 218 of the Compact to 2023.[10] The funds are administered through the U.S.-RMI Joint Economic Management and Fiscal Accountability Committee (JEMFAC) and the accountability measures of the Compact's Fiscals Procedure Agreement.

The funds are not permanently appropriated and must be requested on a year-to-year basis during the U.S. budget process. As of FY10, as shown in Table 6, the RMI has not received the full amount of assistance and the funds have not been inflation adjusted. The transition year of 2004 left some programs underfunded and confusion was experienced about when grant funds would be received. Such circumstances and requirements have hindered sector and specific program planning and monitoring especially in the first few transition years. For instance, for FY09 the Ministry was using FY08 funds appropriated by the U.S. Congress.

The funds are included in the RMI's Medium Term Budget and Investment Framework and further planned out (and monitored) through the annual Education Sector Portfolio and reported on in the Portfolio's quarterly monitoring reports.

[10] Section 218-Inflation Adjustment allows for Compact grant and Trust Fund contributions to be adjusted for each U.S. fiscal year by the percent that equals two-thirds of the percent change in the United States Gross domestic Product Implicit Price Deflator, or 5 percent, whichever is less in any one year, using the beginning of Fiscal Year 2004 as a base.

Table 6: SEG Funds Received, FY05-FY08
Receipts Based on Annual Audit
Source: 2008-2012 Medium Term Budget and Investment Framework and RMI Estimates

	2005	2006	2007	2008	Total
SEG Actual Revenue/Expenditure	$1,814,554	$3,762,883	$4,317,782	$5,298,064	$15,193,283
SEG Expected Revenue Estimate	$6,221,256	$6,358,897	$6,496,882	$6,603,581	$25,680,616
SEG Shortfall	$4,406,702	$2,596,014	$2,179,100	$1,305,517	$10,487,333

Despite these planning, administrative and monitoring difficulties, the funds have begun to make an impact on education sector reform and development. These improvements include the following:

- Establishment of a nationwide kindergarten program that was not previously in existence even with the former Head Start program,
- Establishment of an Instructional Service Center that creates locally tailored instructional material,
- Provision of textbooks and curriculum material,
- Provision of school supplies, materials, instructional aids and instructional interventions,
- Special Enrichment Programs,
- Various vocational, technical and skills upgrading programs through the National Training Council and National Vocational Training Institute,
- Adult education and literacy programs,
- Scholarships that supplement the RMI Scholarship Program; and
- Various staff and program development efforts including the professional development of Ministry of Education staff.

The SEG has become a key component of education sector reform and development. However, it has not been fully applied as initially envisioned by the U.S. Congress to replace former U.S. Federal programs. Also, with the Compact's annual grant assistance declining significantly in real value terms, the education sector will require additional funding to keep on the improvement path initiated in FY04. Thus, it is essential that the full amount of the assistance is received so that the funding can play a further catalytic role in education sector reform and development.

The 5-Year Review document supports the continuation of the SEG. A USG position is also reflected in the document to make the SEG a permanent appropriation, inflation adjusted and as part of the education sector grant.

The RMI requests that:

1. The USG makes the $6.1 million a permanent appropriation that is provided in line with Section 211 annual grant assistance and per JEMFAC and FPA requirements.
2. A full inflation adjustment applies to the $6.1 million annual grant so that the funds maintain a real value to the end of the grant assistance term.
3. The amounts not received in the FY05-FY10 period are appropriated with their use to be determined by the JEMFAC. For the FY05-FY08 period, this amount is about $10.5 million per Table 5. The final FY09 and FY10 figures are not known at this time but should eventually be added.

E. Restoring National School Lunch Program Eligibility for the RMI

The RMI was eligible and participated in the USDA school lunch program during the term of the original Compact, although that eligibility ceased prior to the effective date of the Compact, as amended. Thus, eligibility for the USDA National School lunch program was not included in the cash out of federal programs that resulted in the SEG under the Compact, as amended.

The amended Compact makes education a priority for the RMI, and the RMI has maintained its commitment to increase funding in the education sector, and in particular primary education despite competing demands for these resources.

During the first two years of the Compact, as amended, and despite higher enrollments, the RMI Ministry of Education (MOE) recorded high truancy rates among the elementary student population, particularly in the afternoon class sessions. This was directly due to the fact that there was no school lunch program in place, and students were not receiving even minimum nutrition while attending class. The result was that students would leave school after the morning session, and not return.

Recognizing the fact that the public schools needed to provide essential nutrition and sustenance to its student population, MOE first launched the Majuro School Lunch Program in Fiscal Year 2006 with financial support made available from the 2005 SEG. The goal of MOE in starting the school lunch was to deal with the truancy problem in the public school system in order to increase attendance so as to improve the overall learning outcome of students.

For FY06, the MOE came to a decision to lead off the school lunch program at Marshall Islands High School (MIHS). Records show that $200,000 was budgeted in the 2005 SEG for the implementation of the lunch program through contractual services. Parents, through the PTA, partly contributed to the lunch program. Approximately 770 students were provided lunch meals.

For FY07, the lunch program at MIHS continued with its program model implemented at Laura High School (LHS). $160,000 was allotted out of the 2006 SEG to implement lunch program at MIHS and LES. Parent contributions were collected to supplement the feeding program at the two high schools. Around 900 plus students were provided with hot lunch meals.

For FY08, $562,755 ($230,430 from the Sector Grant and $332,325 from 2007 SEG was budgeted for the administration of the school lunch program at MIHS and LHS and was further expanded to include Majuro Middle School, National Vocation Training Institute, the pre-9th program and all 7 elementary schools on Majuro. 5,358 students were provided lunch during the year.

For FY09, the school lunch allocation was significantly reduced to $318,325. 2008 SEG was the single source of funding during the year. At the same time, no contributions from PTAs were collected. The number of feeding days was reduced as well. There is strong anecdotal evidence that suggests that school truancy rose again.

For FY10, no allocation for the Majuro schools feeding program was budgeted in the MOE's initial budget submission due to lack of funding and problems in maintaining the lunch program. However, the budget was later reprogrammed to include $300,000 in the 2009 SEG funds to continue the lunch program at all Majuro schools. Because of the huge impact the fund reprogramming would have on other SEG funded programs, MOE in collaboration with the

Office of the Chief Secretary and Office of Compact Implementation settled on utilizing leftover funding on the 2008 SEG to supplement the $300,000 allocation.

For FY11, the JEMFAC approved an allocation of Compact funding FY11, but also made clear that this would be the last year that Compact funding would be made available for the school lunch program in Majuro. The combination of other compelling demands on Compact grant assistance, SEG, and local resources along with the decrement in Compact grant assistance makes it difficult, if not impossible to sustain a viable school lunch program for Majuro public school children.

This fact threatens the RMI's ability to achieve the mutually agreed objective of providing better outcomes in its education system in the future. If children are not provided essential nourishment and nutrition while attending school, RMI's desire to improve the education of its people will be jeopardized.

Restoration of eligibility for the U.S. National School Lunch program will resolve this situation, and allow Compact, General Fund, and SEG resources for education to be more focused on education purposes, while providing the foundation and environment that is conducive to learning in <u>all</u> RMI public schools.

F. Restoring the Ebeye Post Office

The USPS has terminated delivery of mail to the Ebeye Post Office on the basis that it is not an "exchange office" under the Postal Services Agreement to the Federal Programs and Services Agreement (FPSA) to the Compact. This is despite the fact that the Postal Services Agreement anticipates that more than one exchange office may be designated by the RMI (currently Majuro). Ebeye has always been a separate postal facility with a separate zip code, and will continue to be a separate facility given the long-term relationship under the Military Use and Operating Rights Agreement (MUORA). The USPS is attempting to terminate delivery of Ebeye mail at the Ronald Reagan Ballistic Missile Defense Test Site.

The Postal Services Agreement should be amended to clarify that Ebeye is an exchange point, and that mail should continued to be delivered to Ebeye.

G. Addressing the Timing of Reporting of the FPA and USG Administration of Compact Funding

The Compact's Title Two annual economic grant assistance and Section 105(f)(B)(iii) which contains the Supplemental Education Grant are subject to the reporting and accountability provisions of the Fiscal Procedures Agreement (FPA). The FPA was structured to assist implementation for both the GRMI and USG. As stated in the FPA, the purpose is to provide "procedures that are most efficient, economical, and beneficial to the discharge of the obligations and responsibilities of each government and which each party agrees to implement and abide by."[11]

Since Compact implementation in FY04 the GRMI has applied the FPA requirements. The GRMI has prepared a Medium Term Budget and Investment Framework (MTBIF), except for

[11] Fiscal Procedures Agreement, p.1.

FY09, to help estimate and guide Compact annual economic grant assistance along with the creation of annual Sector Portfolios for Compact fund recipient ministries and agencies such as for health, education, and environment. The RMI had submitted an Infrastructure Development and Maintenance Program (IDMP) for FY04 infrastructure projects and since then have submitted a rolling plan of annual infrastructure investments that is used for JEMFAC decisions. The Compact-recipient ministries and agency have also developed draft or final medium term development strategies.

The Sector Portfolios are completed with a performance-based management approach that includes the preparation of quarterly reports. The Government is interested in and has made some progress toward adopting the performance-based management approach government-wide. While both the MTBIF and performance-based management approach are not fully implemented and have some growing pains, the RMI's efforts exemplify its interest in being accountable and making progress in its reform and development efforts. As well, the RMI has conducted its Annual Audit, per the FPA's Article VIII(2), in a timely manner and receiving unqualified audit opinions in FY07 and FY08. The RMI Ministry of Finance has also provided timely and accurate quarterly financial reports, as required by the FPA.

Despite the advancements made by the RMI and the USG, there are areas of the FPA that require adjustment. Some of these adjustments surround the number and timing of reports required by the FPA, as well as other adjustments. The following is a preliminary list.

1. The Section 215 Annual Economic Report as indicated in the FPA's Article V(1)(d) is due in February of each year. The timeline is difficult to achieve given other reporting requirements and limited capacities. It is suggested that the timeline be extended to July as data from the RMI's Single Audit is necessary to be included.
2. FPA Article VI, Section 2 Program Monitoring, Performance Reports and Records Retention: That Quarterly Sector Grant Performance Reports be changed so that the 4th quarter report format is adjusted so it also reports on annual Fiscal Year activity and due 60 days after the reporting period.
3. FPA Article 8 Audit. Currently the Single Audit conducted annually is required to be made available to the USG by the beginning of the third fiscal quarter following the end of the Fiscal Year under review (April). The RMI's Single Audit is not completed until 30 June given the audit schedule and time for the RMI to review the audit draft. It is suggested that the audit be submitted by July for the preceding Fiscal Year.
4. The RMI has been developing a performance-based management approach, with elements of performance-based budgeting, since 2003. Support and improvement of such an approach needs constructive and cooperative input from DOI OIA staff. And, a common understanding on the application and the use of the approach between the GRMI and DOI would be beneficial. It is requested that the DOI OIA staff have a more facilitative and constructive approach so that the approach meets FPA requirements as well as GRMI-based requirements and interests.
5. The DOI OIA staff has, at times, gone beyond the requirements of the FPA by requesting, outside of JEMFAC decision making, policy and other program changes. They have also made funding decisions without using JEMFAC channels. Staff should adhere to the parts of the FPA that limit this advice to Compact sector grants and decisions made by JEMFAC.
6. Recent JEMFAC's have resulted in the USG requesting additional reports. Such reports add to the already significant and stringent reporting requirements of the FPA. This is especially burdensome given the limited number of people and capacity to produce such reports. For instance in 2009 the USG requested a decrement plan to show how the

GRMI will cope with the annual Compact decrement. The RMI produced a draft of the plan then the USG changed the document's outline requesting additional information. Now the document must be redone to address these requirements. During the 2010 JEMFAC the USG requested annual reports for the Compact sector grants but it was not clear if these were for the Section 215 annual report or a new report. The DOI OIA staff appear not to use the quarterly sector reports submitted and request additional information from the GRMI. The DOI OIA also contracts the USDA Graduate School annually to prepare an economic assessment. It is not clear if the assessment addresses the Section 215 economic report requirement or serves other FPA or DOI requirements. The GRMI staff spend much time with the Graduate School Team to provide the necessary statistical and other data for such an assessment to be completed.

III. Section-by-Section Report Comments

The following comments are presented by section of the report. They are presented for consideration by DOI/OIA either to adjust the draft or to be considered in response to the U.S. draft.

Overall Comment

The report places great emphasis on self sustainability and budgetary and other types of self reliance. The GRMI agrees to the commitment it made regarding the Compact's support toward budget self reliance so that it can more adequately support its public sector. However, the GRMI has trouble attempting to understand the theme of the report regarding self sustainability, fiscal self reliance and other such terms. As mentioned in the comments below, the RMI or any other country is not self sustainable. The RMI depends on the inflow and outflow of goods and services and given its remoteness and resource poor physical environment cannot become self sufficient but is ever more reliant on regional and international trade and other commercial, social and political ties. The same is true for fiscal self reliance. No country is independent fiscally. A country's fiscal environment is also dependent on external factors and how it manages its macroeconomic regime- such as currency, debt obligations, and budget. In the RMI's case, it has only had to rely on its debt management and budget management as fiscal tools, with both being directly linked in the RMI's economic and fiscal make up. These development factors are not only true for the RMI but also for other Pacific Island nations.

The RMI has endeavored over the past years to facilitate private sector development and create a more stable economic environment with a fiscally responsible public administration. It has made progress but has not been successful on all fronts. As shown by the economic statistics, and as stated in the report, the GRMI has had real economic growth, though slight. As shown in Table 2, growth was on track since 2004 (and even before the amended Compact term) but was hindered in 2008 by the global increase in world commodity prices which significantly increased fuel, food and other input costs. This impact was felt throughout the RMI and the Pacific Island region as well as other developing countries and even developed countries including the United States. The RMI weathered the crisis by responding, as possible, to limit the impact. Following the 2008 events, the RMI was further hit with the global recession beginning in 2009. The recession had hurt economic prospects in 2009 and continues to hurt such areas as tourism though a recovery is being seen. Most notably, during this time period, other country governments have been able to borrow or provide additional public funding to stabilize their countries and stimulate economic growth. The GRMI does not have the fiscal space to do this given limited opportunities for revenue generation growth (during a worldwide and regional recession), the fixed and reducing funding sources of the Compact and past debt obligations (mainly to the Asian Development Bank and U.S. Rural Utilities Service).

These worldwide price increases added to the following ongoing recession shows the RMI's sensitivity to external economic events.

Despite the slight economic growth, the GRMI has increased domestic revenue generation during the first five years of the amended Compact- by 16.4 percent overall per Table 4. This increase is due to the economic growth as well as increased collections. For the first six years of the Compact, the only down year was FY09 (lowering the increase to 12.6 percent compared to FY04) and was caused by world economic recession as indicated above. It is also important to note that the overall increase occurred mainly because of increases in tax revenue generation and an increased commitment from the GRMI's Ship Registry. Income from fishing license fees was erratic over the 5 years but still a substantive input into the domestic revenue generation picture. Such an overall increase in domestic revenue generation is significant for such a small island state.

The GRMI realizes that continued increased revenue generation is required given the decrement to the Compact funds as well as the less than full inflation adjustment. However, the USG should be realistic in expectations of how much of an increase can occur in an economy the size of the RMI. The RMI has a huge gap to fill. As indicated above (Section II.B) Compact sector grant funding will reduce by 36 percent in real terms by FY23. Even with the domestic revenue generation that has taken place (12.6 percent increase FY04-09), filling that gap is a very difficult task. The GRMI recently approved tax regime reform to begin in FY12. While the intent of the reform is to be revenue neutral, i.e. not a tax increase, the main impetus behind the reform is to further facilitate private sector growth and development.

On the expenditure side, expenditure has increased mainly given the inflows from the amended Compact and the reductions from the pre-amended Compact time period. The RMI made drastic public sector reforms during 1997-2000, reducing the size of the public service by almost 400, resulting from the last step down of the 1987-2003 Compact timeframe. Spending was further constrained when the GRMI decided that for FY02-03 the 'bump-up' funding provided by the previous Compact agreement would be set aside to help start-up the Marshall Islands Intergenerational Trust Fund, the precursor to the U.S.-RMI Trust Fund for the People of the Republic of the Marshall Islands set-up under the amended Compact. This amounted to a $30 million set aside.

However, since 2004, the number of public sector employees has increased causing increases in public sector wage costs as well as other government costs. Some of the personnel increases were due to increased hiring of education and health personnel given that these two sectors are priorities as indicated by the fact that most amended Compact funds are going toward these sectors (including infrastructure funds for the sectors). It is recognized that cost containment and reductions are now priorities. As described in Section II.B, expenditure reduction is now planned as of FY11. Various expenditure cuts were made inclusive of an overall 5.5 across-the-board expenditure reduction. This has left room for the RMI to budget for its own contribution to the Compact Trust Fund. The expenditure reductions have been agreed to by Cabinet for FY11 per the previously mentioned CAP reforms. A civil service reform plan, through the conduct of personnel audits, is also being prepared with the help of the Asian Development Bank, and other savings are being contemplated for future years per the CAP. Future cost containment and reductions are plotted out in the 2009-2013 Medium Term Budget and Investment Framework.

Table 7: Employment	2004	2005	2006	2007	2008
Private Sector Employment	5,774	5,182	5,418	5,574	5,507
% of Total Employment	57%	54%	54%	55%	54%

Source: Republic of the Marshall Islands FY2008 Economic Statistics Table, August 2009, table 3a. Note that Private Sector Employment includes: private sector, banks, NGOs and non profits, foreign embassies and Marshallese USAKA employees

An emphasis in the 5-year review is also on private sector development and private sector employment. As seen in Table 7, the private sector contributes most jobs to the economy. However, its performance and, thus, employment are dependent on market forces. For instances, 2004 was a good year given that amended Compact infrastructure funds started flowing helping the construction sector and other support services to deal with the pent-up demand for infrastructure development. Also, the tuna loining plant was operating and employment at U.S. Army, Kwajalein Atoll (USAKA) was at a high level (though below the 2003 level). In 2005, the tuna loining plant began reducing operations and eventually closed (because of competition reasons). However, employment started an upward trend once again, mainly because of construction and the fisheries sector, but fell off again in 2008 given the economic slowdown indicated above. An upward trend post 2009 was expected given the reopening and growth of employment at the tuna loining plant, continued construction, and the use of RMI construction workers for regional construction projects including in the Federated States of Micronesia (FSM) and in Guam. The latter is because of the training and placement of Marshallese for construction positions due to the Guam U.S. military base build-up. However, such positive prospects are negated by the continuing global recession which injures such sectors as tourism. Also, more significantly, USAKA has been reducing both expatriate and Marshallese positions including a recent reduction in 2010. Employment at USAKA fell by 19 percent, a loss of 285 jobs, during the period 2004-10. Not counted in these figures are the recent reductions.[12]

The following are comments per Review section.

Section: Pre-Compact of Free Association

1. The section does not mention the U.S. Nuclear Testing Program where 67 atmospheric, on the ground and underwater atomic and thermonuclear weapons from 1946-1958. Eighteen of these tests yielded detonations of one megaton or greater. Overall, the tests resulted in a cumulative explosive yield of 108 megatons, comprising nearly 80% of the total atmospheric nuclear explosive power ever released by the U.S.
2. A separate 1983 agreement reached between GRMI and the USG on implementation of Section 177 served to 'address the...consequences of the nuclear testing program, including the resolution of the resultant claims.'[13] To implement the agreement, Article IV, Section 1 establishes a Claims Tribunal with 'jurisdiction to render final determination on all claims past, present, and future' in relation to the nuclear testing program. Finally, the agreement stipulates that the $150 million payment from the USG to a RMI Fund represents the full settlement of all claims and terminates all individual legal proceedings that relate to nuclear testing injury. However, on 11 September 2000, the GRMI submitted a Changed Circumstances Petition (CCP) on the grounds of both the agreement being manifestly inadequate and the declassification of confidential data from the Program.

Section: Compact of Free Association 1986-2003:

1. As part of the last step down in Compact financing (1996/97), the RMI, with the assistance of the Asian Development Bank, had undertaken a Public Sector Reform

[12] USAKA announced in September 2010 that 79 full time positions will be eliminated (51 expatriate; 28 Marshallese) and 31 positions moved to part-time positions (10 expatriate; 21 Marshallese). Such a reduction impacts tax revenue generation as well as economic activity on Kwajalein and surrounding atoll communities, most notably Ebeye.

[13] Agreement Between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association, Preamble

Program that reduced the number of public servants to 1,487 in FY2000 from 1,856 in FY1997.

2. During the period FY2002-03, the RMI set aside the 'bump-up' funding to help support the Marshall Islands Intergenerational Trust Fund. The set aside from these two years helped contribute to the $30 million that was required to support the start-up of the RMI's initial contribution to the Compact Trust Fund as indicated in Section 216(b). The funds were not used for current or capital costs and, as a result, did not circulate through the economy.
3. The section does not mention the positive investments that the RMI made for capital expenditures. These investments include: paved roads, additions and upgrades to the power generating facility, a vastly improved telecommunications system, improvements to the water and sewerage systems, and new government facilities.
4. The section does not mention increases in private sector activity. For instance, the number of those employed in the private sector increased 52 percent in the 1997-2003 period; the private sector, as a part of real GDP, increased 24 percent from 1997-2003 and the private sector's share of real GDP increased to 30.3 percent from 27.4 percent during the same period.[14] The section does not mention positive influences such as construction, retail sales, and the growth of Majuro as a regional fishing hub (including the servicing of fishing vessels and fish license fees) and the location for a tuna loining plant.

Section: Amended Compact 2004-2023

1. This section does not mention the Supplemental Education Grant (SEG) or its amount ($6.1 million to be partially inflation adjusted) as well as the fact that it has always been delayed one fiscal year. This has created overlapping of funds since 2004 to present, which have made it difficult in terms of planning and budgeting for the GRMI It should be noted that both the GRMI and the USG acknowledged the overlapping issue and have since corrected the issue by making the SEG available on a fiscal year basis parallel to the Compact funds. Also, the GRMI ensures that the use, administration, and monitoring of SEG funds are in accordance with the Compact, as Amended, not the memorandum of agreement executed among the U.S. Departments of Education, Health and Human Services, Labor and the Interior which is an agreement that the RMI is not privy to despite requests to obtain a copy. The SEG is mentioned separately but should be mentioned with the other assistance provided.
2. Also not fully mentioned is the Trust Fund contribution of $7 million supplemented by the decrement from the Compact's Section 211 sector grants and the partial inflation adjustment.

Section: Grant Management Responsibilities

1. The RMI: This section talks about the annual report, also known as the Section 215 report, which is to be submitted to the U.S. President on the use of Amended Compact grants. Please refer to G(1) above for the issues raised by the RMI regarding the Section 215.

[14] Source: Republic of the Marshall Islands FY2008 Economic Statistics Table, August 2009, tables 3a-i.

Section: From Generalization to Country Development Plans, the MTBIF and Portfolios

1. In relations to the MTBIF, it should be noted that the RMI provided a Policy Framework Paper which describes the MTBIF in 2005, 2006, and 2007.

Section: From Line Item Budgeting to Performance-Based Management and Budgeting

1. The movement of trained staff to other ministries and higher-level positions has an impact on the capacity of MOH, MOE and EPA to grasp and implement Performance Based Budgeting (PBB). Staff members trained in PBB are seen to be better managers and more prepared to assume greater job responsibilities and as a result move onto higher level jobs in the government, international organizations, universities and the private sector. This is demonstrated by the more than 15 staff directly involved with PBB training from MOE, MOH, EPA, EPPSO, OCI, R&D and MIVA.

Section: Socioeconomic Profile of the Marshall Islands-Population

1. The discussion regarding population is misleading. The high population growth rates were indicated in census calculations of 1973 (4.8 percent) and 1988 (4.3 percent). More recent figures show a growth rate of 1.5 percent (1999). The affect of out migration could be a cause of more moderate population growth but is not the only factor. For instance, out migration was more significant in the 1999-2003 period (1,219) compared to the 2004-2008 period (930) most likely because of the civil service reductions in 1997-2000.[15] Also, family size has been on the decline as shown by declining fertility and other related statistics.[16] The remark that the RMI has among the highest population growth rates in the Pacific region is no longer applicable.

Section: GDP, Growth and Structural Change, Increased Economic Activity Seen From 2000 to 2008-Expansional Fiscal Policy

1. The last paragraph discussion mentions the impact of high energy prices in 2008 which negatively impacted GDP. As well, rises in other economic inputs and food products also had an impact. It should be noted that the GRMI has been, and will continue to, actively seek alternative sources of energy. Growth has also been impacted by the global economic recession experienced since mid 2008 which has impacted tourism and other sectors as well. The RMI's public sector spending, like in the U.S. and other countries, has helped to stabilize the economy during this period.
2. It is questionable if growth experienced by the RMI is principally due to grants from other donors and, as indicated, Taiwan. The RMI's main drivers of growth for these years is the circulation of infrastructure development and maintenance funding through the economy (mostly from Compact sources but also from Republic of China grants and the upgrade of the Amata Kabua International Airport funded by the U.S. Federal Aviation Administration) which impact construction spending and employment, as well as growth of the fisheries sector. From a budget revenue perspective, Taiwan budget support funding is consistent over the 5 years being reviewed. As noted previously, there have

[15] Ibid, Table 1c.
[16] Source: 2006 RMI Statistical Summary, Economic Planning, Policy and Statistics Office, Tables 1.8 and Table 1.11.

been significant increases in domestic revenue generation inclusive of taxes and other items such as the Ship Registry and fishing license fees.

Section: Employment and Wages

1. There are two separate paragraphs on USAKA employment. These should be consolidated so they are more relevant to the discussion. Please see previous comments regarding the decline of USAKA employment and its impact.
2. Private sector employment has trended significantly upward during the current and previous term of the Compact. It really depends on the time period being evaluated. For instance, private sector employment increased by 54 percent during 1997-2008 and has been in a range of 3,408 and 4,007 during 2004-2008. The fluctuation in these numbers is because of the sensitivity of the RMI private sector to a variety of circumstances. These include:
    a. Amounts of public infrastructure development and maintenance funding that circulate through to private sector contractors for construction and maintenance activities.
    b. The ability of private sector investors to compete regionally and internationally. The case of the tuna loining plant is the most relevant example. It employed over 300 people before becoming non competitive (and the U.S. owner lacking financing). The plant was reopened and upgraded by other investors and now employs about 400 workers with the potential to employ up to 600. The RMI fisheries sector is also sensitive to the migratory patterns of fish which impacts the RMI's competitiveness as a service center.
    c. Sensitivity of the RMI to external economic circumstances as shown by the impact of increases in commodity and other prices in 2007-08 which had a severe impact on the RMI private sector (that led to negative growth in 2008) and the global financial crisis that has also impacted the RMI in 2009 and 2010 (injuring tourism amongst other sectors). Other Pacific island economies and developed and developing countries have been subject to these same factors.
3. Private versus public sector employment comparisons would be helpful with other Pacific Island countries.

Section: Fiscal Policy-Stressors Point to Need for Fiscal Policy Adjustment, Point #9

1. The "D" account while indicated in the amended Compact's Trust Fund Agreement, is an account that the GRMI solely controls on its own and contributes its own non-Compact funding, as it deems appropriate. The GRMI also uses the Fund as it so determines. The account does not fall under the control of the Trust Fund Committee (chaired by the USG; the USG maintains a majority vote on the Committee) and is not subject to the requirements of the Trust Fund Agreement.

2. Thus, if the GRMI decided to withdraw $3.5 million, it was their own decision. There is no known commitment to "replenish" the funds though the GRMI has made other deposits to that account since that time. The statement does not indicate why it is a "stressor" point. One can argue that the "D" account was accessed to relieve fiscal stress or other financial stress in the economy.

3. The report also misses the point that the GRMI, after paying off bond commitments undertaken during the initial Compact term (1987-2001) and receiving Compact "bump-up" funds in 2002 and 2003, had taken most of those bump-up funds and set them aside

into the Marshall Islands Intergenerational Trust Fund (a non-Compact fund; established solely by the GRMI).[17] Most of the monies set aside in this Trust Fund were used by the GRMI to contribute to the start-up of the amended Compact Trust Fund (registered as a Washington D.C. non-profit corporation). Under the amended Compact, the RMI was obligated to contribute $30 million. The RMI contributed $25 million in FY04, $2.5 million in FY05 and $2.5 million in FY06.

4. The main "stress" placed on fiscal policy was a combination of the inability to: 1) generate sufficient domestic revenue to replace annually decremented amended Compact sector grant assistance[18]; and 2) reduce expenditure sufficiently to remain within a viable fiscal framework. The former was aggravated, especially in 2007 and deeply in 2008, by worldwide and regional economic and financial conditions for which an input-output type of economy like the RMI is highly sensitive. The reduction of workers (U.S. and Marshallese) at USAKA also had a negative impact yet out of the RMI government's control. On the expenditure side, increased costs of infrastructure, utilities and the provision of government services, including increased expenditure in the priority areas of education and health, while not determining what government can and cannot afford, placed stress on the fiscal situation. Please also note that the RMI produces a balanced budget annually so it does not carry a deficit year-to-year.

Section: Developments in the Private Sector – Fisheries

1. The discussion on RMI fisheries is not totally clear. The RMI and other Pacific island countries have been providing fishing rights but "the modest sums" received are based on regional fishing agreements with fishing nations including the United States. The fees received are based on the catch of the highly migratory fish. Any attempts to increase such revenues are based on these agreements. The RMI's fisheries are not as productive as others', such as the FSMs. The RMI has conscientiously focused on fisheries sector development. The RMI is now involved in supporting and supplying visiting fishing vessels, transshipment, storage, processing, etc. For instance, private sector employment by the fisheries sector increased from 82 individuals in 1997 to 397 in 2008 with wage costs increasing from $419,000 to $1,389,000.[19] The employment increase was actually much greater in 2000-2004 when the tuna loining plant was operational. But, as indicated above, international and other business circumstances impacted the plant's competitiveness. Its more recent operation has about doubled those employment numbers as of this time.
2. The comment on "anecdotal reports" of fishing fleet fuel prices is not based on a market analysis and should be removed. There are several factors regarding fishing fleet fuel prices. For instance, the profits from the sale of fuel to fishing vessels by the Marshalls Electric Company (MEC) helped the MEC's operational performance until global fuel price rises occurred in 2009. Competitive and pricing factors led the MEC to experience losses from such sales while attempting to keep market share. Other competitive aspects arose, such as offshore fueling ships entering the market.

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[17] "Bump-up" funds were a portion of Compact grant funds received by the RMI government in FY02 and FY03 above the levels received in the last 5-year Compact period (1997-2001).

[18] The RMI's domestic revenue generation increased during the 2004-2008 period though not at a sufficient rate to replace the decrement and fund increasing expenditure obligations, such as increased ADB debt service payments.

[19] FY2008 Statistical Tables, 3g and h.

Section: Compact Trust Fund Viability – Projected Level and Actual Value

1. The first sentence states "outside observes have used the benchmark." The RMI government has also stated, though this is not an official stance of the Trust Fund Committee, that it desires the Trust Fund to replace the FY23 Compact grant assistance plus an annual inflation adjustment. Also, the sentence does not state what is meant by "equal to the adjusted value of the annual Compact grant assistance." The amount should be stated or it should at least state "equal to the FY23 Compact sector grant assistance (Section 211(a)) plus the inflation adjustment."[20]

2. The analysis and chart do not provide a source. The chart or text is also not clear on what is to be replaced. Some past Trust Fund models have included Compact sector grant assistance (Section 211 (a)); Kwajalein Atoll Ebeye Special Needs (Section 211 (b)(1)), Kwajalein Community Impact (Section 211 (b)(2)), and Kwajalein Environmental Impact Analysis (Section 211 (b)(3)); and Kwajalein Impact and Use (Section 212). Only Section 211(a) funds will terminate in FY23. The other funding will continue as long as the Military Use and Operating Rights Agreement (MUORA) is in place. Also, it is not clear if the Taiwan past and expected contributions are included in the analysis.

3. The Trust Fund's Investment Adviser has provided a future scenario analysis to the Trust Fund Committee. That analysis shows that, at annual 8% growth, a total asset level of $470 million is needed to provide a distribution, assuming a 6 percent payout ratio, equal to FY2023 sector grant assistance (Section 211 (a) including the cumulative inflation adjustment achieved to that time). This same amount could be provided in future years, assuming a 6 percent payout ratio, but no inflation adjustment would be added. This scenario is currently feasible though not certain since the future Trust Fund projections are based on market performance at a 5 or 8 percent average annual rate of return.

4. To provide the FY2023 amount inclusive of a cumulative 2 percent inflation adjustment per year post FY2023, a total asset level of $700 million is needed. To reach this asset level, it is estimated that the Trust Fund needs an additional $10 million in contributions per year between FY2012 and FY2024. If the additional contributions are provided, this scenario is feasible at a 5 or 8 percent average annual rate of return.

5. Thus since it is not clear how the baseline is established, it is not clear what is meant by "performing below the projected path to sufficiency."

[20] Even the inflation adjustment needs to be specifically identified. The amended Compact provides that the Section 211 funding is inflation adjusted equal to "two-thirds of the percent change in the U.S. Gross Domestic Product Implicit Price Deflator, or 5 percent, whichever is less in any one year, using the beginning of FY 2004 as a base." The Trust Fund Agreement indicates that an amount equal to the FY2023 grant plus full inflation can be provided as of FY 2024. Full inflation can be applied cumulatively thereafter. Of course, this all depends if the annual distribution from the Trust Fund provides these amounts and if the Fund's C account holds sufficient monies to supplement a distribution shortfall.

6. The first bullet point states that the Trust Fund largely achieved the 8 percent annual rate of return. This is not true. The monies were held in a money market account until November 2005. The first full year of investment was FY2006. Returns were (gross of fees): 11.79 percent for FY2006, 15.8 percent FY2007, -18.5 percent for FY2008, 0.9 for FY2009, 9.6 percent for FY2010 and -1.0 percent for FY2011. Only two years were below benchmarks: FY2008 (benchmark of -17.4 percent) and FY2011 (benchmark of 0.05 percent). Again, the performance is based on market performance as well as the asset mix agreed to by the Trust Fund Committee upon the advice of the Investment Adviser.

7. Added to the fourth bullet point should be that the funds were not fully invested until FY2006. Thus the Trust Fund will only have 18 years, instead of 20 as anticipated in the amended Compact, to fully build-up.

8. Bullet Point #5 should be removed. It is not accurate. Please see previous paragraph compared to benchmarks. Even if the Trust Fund performance met benchmarks for the two underperforming years, the trajectory of the asset value would not significantly change. If the Trust Fund were invested as of FY2004, there would have been more significant impact, especially given the fact that those two years were positive capital market performance years.

9. For the Taiwan para, the first sentence is not clear as are other parts of the para. Taiwan has contributed $11.20 million between FY2005 to FY2011 according to the following:

   FY2005 = $1.75 million
   FY2006 = $0.75 million
   FY2007 = $0.75 million
   FY2008 = $0.75 million
   FY2009 = $2.40 million
   FY2010 = $2.40 million
   FY2011 = $2.40 million

10. Taiwan is expected to contribute $40 million from FY05 to FY2023.

Overall Comment on Education and Health Sectors:

1. The performance of the education and health sectors show the importance of amended Compact funding. These two sectors are obvious priorities as indicated by the significant amounts aimed at these sectors in terms of the sector grants, Ebeye Special Needs funds and infrastructure development and maintenance funds. Even with increases of General Fund monies (and other domestically generated revenue streams such as the Health Fund and cost recovery) it shows that Compact funds and U.S. Federal Programs will remain a significant input to help finance these sectors.

   Even with increases in domestic revenue generation, as described above, amended Compact funding (and eventually Trust Fund distributions) will still be a major component of these sectors' funding. Reductions may be necessary given that domestic revenue generation can only increase so much annually. Thus, the size of the RMI's decrement and the application of a full inflation adjustment need to be revisited during this 5 year review. This issue is further illustrated above in Section II.

2. The GRMI is concerned that several sections in the health and education sectors' review may be a repeat of comments in the FSM Review rather than independent analysis applicable to the RMI.

Section: RMI Education Sector

1. The amended Compact has had a significant impact on education sector funding.[21] From FY03-04 education sector funding increased 137 percent. From FY04 to FY09 funding increased 52 percent. The General fund contributes about 14 percent annually to sector spending. In addition, a majority of Compact infrastructure development and maintenance funds have been allocated to education facilities throughout the RMI.
2. The RMI recognizes that there are limits to the Compact's funding of the sector. The education sector was identified in 2004 as the priority investment sector. It continues to be a major recipient of sector grant, Ebeye Special Needs funding and infrastructure development and maintenance funding. The attention over the years shows the RMI's commitment to use the Compact funding for priority needs.
3. The RMI strongly agrees that the Supplemental Education Grant (SEG) should be an integral supplement to the education sector grant, as indicated by issue II.D, above. The RMI has never received the full annual amount of the SEG funding, as indicated in the amended Compact agreement, and the funding has never received the inflation adjustment. The reduced funding and USG's issues with its allocation have negatively impacted the use of the funds over the first 6 years of the amended Compact. The result is that sector grant and general fund monies have had to cover costs to replace the discontinued U.S. Federal programs or such activities were eliminated. As indicated above, the RMI's position is that 1) past shortfalls be provided to help address agreed upon priority SEG-related needs, and 2) the funds be provided as permanent appropriations, as with other Section 211 sector grant funding, with the inflation adjustment applied.
4. The MOE has identified three main achievements during the new Compact period:

<u>Increased Access to Quality Education</u>

- Universal Kindergarten
- Construction and renovation of additional classrooms and positive learning environments
- Marshall Islands High School (MIHS) WASC Accreditation
- Implementation of Teacher Certification and Licensing System
- Acquisition and distribution of textbooks for all subjects
- Teacher training and professional development
- Development and implementation of School Improvement Plans (SIPs) through a participatory approach to planning that emphasizes parent and community involvement through a School Improvement Team (SIT)

<u>Curriculum Development and Assessment</u>

- Revised and reviewed standards
- Training on standards and benchmarks
- Standards-based assessments: Marshall Islands Standards Achievement Test (MISAT)

[21] Education sector funding is inclusive of the Ministry of Education, College of the Marshall Islands, National Training Council and Marshal Islands Scholarship Board.

- MISAT I, II, III assessments of Marshallese, English, Science, and Math in grades 3, 6, 8, respectively; MISAT III (also used as High School Entrance Exam) includes Social Studies, Health, and English Writing
- Values Research Team designed modules

Centralized and Improved Data Collection System to Inform Quality Decision-Making

- Pacific Education Data Management System (PEDMS), a comprehensive management information system was adopted in 2008 for improved access to assistance in meeting specific reporting requirements of stakeholders such as JEMFAC.
- As of August 18:
  - 928 MOE staff and teachers in database
  - 797 certified teachers in system
  - 11,000 students (K-12) in database

5. The MOE has also identified several deficiencies it continues to address. The following are the general areas. Further information can be provided upon request.

- Accountability at every level
  - Planning
    - Logistics
      - Transportation
      - Monitoring and Evaluation
      - Meeting deadlines for reporting
    - National School Calendar
      - Untimely development and distribution results in inadequate instruction time
      - Lack of commitment to schedule with MISC to ensure teachers and principals can return to outer islands so schools can open on time
  - Documentation and Communication
    - Reporting
      - Need the current trained staff to incorporate data entry into their weekly duties
      - Better tracking of resource/supply inventory and distribution
    - Dissemination of information
      - Need to improve ICT networking and use
  - Personnel / Human Resources Development

- Partnerships with stakeholders to close the gap between primary, secondary and tertiary
  - Higher Education institutions (CMI & USP)
    - Need to address the needs of the community
      - Improved teacher training and preparation
      - Appropriate vocational training for available employment
  - Parents and community
    - Value of education not fully realized
    - Attendance
    - Truancy
    - Hungry students
  - Landowners shutting down schools for personal reasons, which directly impacts access to education and student learning

- Funding for sustainability
  - Valuable projects end when funding runs out

The Ministry of Education recognizes the above deficiencies and will proceed to plan activities and projects that continue to address our needs. The results can be measured through Performance Based Budgeting and used as indicators for areas of improvement.

Action taken to address accountability and stakeholder support:

- At the school level
  - Establishing and training SITs, which
    - are a participatory model of development
    - encourage stakeholder ownership and community empowerment
    - facilitate submission and implementation of SIPs
    - ensure that activities are running and objectives are being met to move toward the mission and vision of education.

- At the Ministry level:
  - Monitoring the school-level activities for ongoing evaluation and progress toward established goals.
    - Ongoing data entry
      - The MOE has trained staff in each division to use PEDMS but has not done enough to monitor its use to ensure data becomes part of each division's weekly duties and is used to drive daily responsibilities.
    - Partnerships with PREL have allowed for increased monitoring and evaluation of schools through increased school visits
    - Established in-house selection committees for review and selection of potential employees
      - Principals
      - Division heads
      - Program heads
      - Department chairs
    - Job announcements advertised in the Marshall Islands Journal
    - Teacher Quality and Certification
      - Increase in number of qualified teachers in the system

- Funding Sustainability
  - "Majolizing" or contextualizing education has assumed an important role for project continuity and school support
    - PRIDE's "Re-thinking Education in the Pacific" manifesto
    - UNESCO's "Education for Sustainable Development" program
  - Planning for project continuity from the beginning

6. The MOE, together with other education sector entities (College of the Marshall Islands, National Training Council, Scholarship Board) prepare annual budget and performance plan using the PBB approach. The entities submit a combined annual Sector Portfolio. Quarterly reports are also prepared and submitted. The MOE has noted that the PBB has drastically improved planning and management. The approach helps to:
   - Outlines goals and objectives and the activities put in place to meet them
   - Identifies staff needed to perform necessary tasks

- Allocates resources appropriately according to performance activities

The Budget Office staff are fully trained and have conducted in-house trainings for MOE staff to be more self-reliant. PBB planning and analysis is not dependent on consultants. By FY12 the MOE will be able to independently do the sector portfolios and quarterly monitoring reports without consultant assistance. The Budget Office is responsible for PBB and will be training a new PBB Coordinator.

7. For the section "Clarify the Budgetary Roles and Responsibilities of MOE, the Nitijela and the U.S." There is a misunderstanding of the RMI budget process. For budget planning, the RMI does have a Budget Review Committee which reviews budget submissions. This is done prior to the annual JEMFAC meeting. The Nitijela passes the budget soon after JEMFAC. There has only been one occasion in 6 years where a change in Compact funding was made by the Nitijela and this was eventually approved by JEMFAC. This section should be substantially revised to be accurate.
8. For the section "Low Student Achievement" The MOE believes the following statement is not correct:

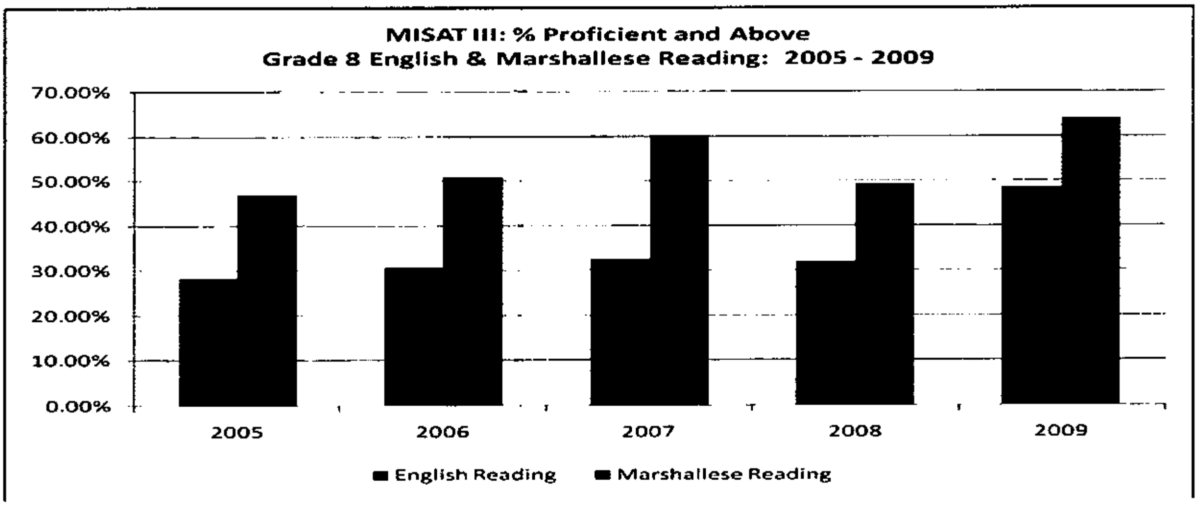
"The only achievement measures presented are scores on the Pacific Islands Literacy Test that assesses English and Marshallese literacy and numeracy".

MISAT III: GRADE 8	*2005*	*2006*	*2007*	*2008*	*2009*
English Reading	28.50% (n=1129)	30.80% (n=1199)	32.50 (n=1142)	32.0% (n=1092)	48.0% (n=1111)
Marshallese Reading	46.0% (n=1135)	51.0% (n=1208)	60.2% (n=1143)	49.0% n= 1092)	64.0% (n=1111)

The RMI MOE also administers the Marshall Islands Standardized Achievement Test (MISAT) to grades 3, 6 and 8. This test has been administered annually for more than five years. The results are available as shown here below for the 8th grade and speak for themselves. In both English and Marshallese, test results show improvement.

Table 8: MISAT III: 8th Grade English & Marshallese Reading: 2005-09 All Schools

Table 9: Percent of Student Scores at Proficient and Above



9. Regarding the section "Disorganization among Vocational Programs", while it is true that vocational training in the RMI is, at the moment, not properly organized and fully streamlined, the following statement is quite contradictory.

"Overall, the situation of vocational training in RMI is one of disorganization and inefficient management of resources. ..... Skills training are an afterthought for the academically underachieving. Given that most of the students in the RMI are academically underachieving, the MOE seems to be ignoring the majority of its students."

It is precisely because many of the 8th grade graduates need remedial and basic skills in English, Math, life skills and career education that MOE emphasizes "training to be trainable" at the National Vocational Training Institute (NVTI) for the first two years. Moreover, it is erroneous to state that MOE is ignoring this academically underachieved population. By the mere fact that several forums and symposiums have been held, as has been pointed out by the National Training Council (NTC) Director elsewhere, shows that RMI is making an effort to come up with a better aligned, well articulated and coordinated vocational training program at the K-12 system, up to the College of the Marshall Islands (CMI) and to non formal education such as at NTC. With CMI's accreditation issue resolved, we are hopeful that it will pick up some of the slack in this area to help clarify what the K-12 system can and should do.

The NTC's mandate is to provide vocational training and expand human resource development targeting both unskilled Marshallese youth and workers. Revision of the Industries Development Act transferred to NTC the former WIA program and thus 8 percent of SEG to target out-of-school and unemployed youth workforce development training. Around 3,000 out-of-school and unemployed youth between the ages of 16-24 years, together with around 200 youth waitlisted by the Hawaii Job Corps Training Program, were in need of training and employment. Around 1,000 citizens were entering the workforce annually. Jobs in RMI are inadequate for this number, so self-employment, income generation, and off island employment are important targets as well. The mandate to provide both postsecondary/continuing education and training was with the College of the Marshall Islands which has had to exert its total efforts in getting itself in good standing with the Western Association of Schools & Colleges (WASC). While CMI focuses on the needs of the trainees, NTC focused on the needs of the employers.

NTC established the TVET (Technical Vocational Education & Training) Steering Committee in late 2006 to coordinate TVET related activities and to begin addressing the lack of a coordinated and established vocational education and training program. In early 2007, the Re-Thinking Education in the Marshall Islands Conference mandated the *vocationalization* and the *Majolization* of the K-12 school curricula. This was followed by the development of NTC Strategic Plan 2007-2012. A TVET Symposium was held in early 2008 to help the process of *vocationalizing* the education system. As a member of the Micronesian Chief Executives Summit, the RMI is thus member of the Regional Workforce Development Council/Pacific Workforce Investment Workgroup. In 2009 the RMI TVET Report developed through an ADB consultancy was provided to RMI through NTC. In early 2009 CMI, University of South Pacific (USP) and NTC began forming partnerships to provide training particularly to unemployed and out-of-school youth.

In addition, the CMI ABC Toolbox Training targets job readiness for work and the construction industry. The USP Youth-Centered Basic Literacy Training, also funded by SEG, targets development of youth toward sustainable livelihoods along with the sewing and handicrafts skills training programs.

10. Regarding the section "Unknown Impact of increased Scholarship Funding," the following table shows that the GRMI increasingly relies on Compact and SEG funding to support students through post-secondary education.

The amounts appropriated for scholarships are the result of decisions outside of the MOE, which must adjust program and operational budgets to accommodate changes in amounts allocated. The number of degrees attained has not been reported. The National Scholarship Board has begun tracking scholarship recipients more completely than in the past but has yet to report data indicating the impact of the money.

Table 10: Number of Scholarship Recipients as per Allocated

Fiscal Year	Budget Allocation	Actual Fund Received	Total Award		Average Award	# of Graduate	% of Graduate returned to RMI
			Number of Students	Grant Award			
2007	$1,554,506	$1,062,737	154	$950,782	$6174.00	20	35%
2008	$1,658,651	$1,266,428	175	$1,088,394	$6219.00	18	42%
2009	$1,552,223	$1,224,202	209	$1,013,278	$4848.00	24	62%

Table 10 shows the number of scholarship recipients over the past 3 year for 2007-2009. As noted, the number of scholarship recipients continues to rise every year. In fact, the 2008 enrollment increased by 12 percent compared to 2007 and further increased by 16 percent in 2009. This indicates that students have now realized the importance of a college education and are willing to meet the challenges incurred at higher institutions whether at the CMI or at other colleges and universities abroad. The Marshall Island Scholarship, Grant and Loan Board (MISGLB) has observed an increase in the number of those returning home after successfully completing their fields of study and an increase in number of those enrolled in graduate and post graduate levels.

Table 11 illustrates the number of students that applied for scholarship assistance versus the number of approved applications during the 3 year period. As noted, each year MISGLB receives an overwhelming number of applications from students seeking financial assistance. However, only the applicants who have successfully met all the selection criteria receive funding. Table 12 also shows the increased number of scholarship recipients and the increased number of new intakes each year. It also confirms, however, that as students move up from their second year of college education to higher levels, the number of drop-out increases by around 30 percent mainly due to low academic performance. These students struggle with their academic programs mainly due to poor academic preparation at elementary and high school levels particularly in the areas of English, Math, and Science. They performed poorly and simply cannot meet the MISGLB's required grade point average (GPA) of 2.30 and are forced to leave school.

Table 11: Enrollment by Class Level	**2007**		**2008**		**2009**	
	[redacted]					
Applicants	385	-	326	-	326	-
Approved Award (Total Enrollment)	154	*39%*	175	*54%*	209	*64%*
Freshmen	57	*38%*	55	*32%*	68	*32%*
Sophomore	45	*28%*	62	*35%*	65	*31%*
Juniors	30	*20%*	30	*17%*	22	*10%*
Seniors	22	*14%*	21	*12%*	21	*10%*
Graduate Level	0	*0*	5	*3%*	8	*4%*
Others		-	2	*1%*	25	*13%*
Total Graduate	**20**	***13%***	**18**	***10%***	**24**	***12%***
New Intake	**65**	***42%***	**61**	***34%***	**79**	***37%***
Student Loan Conversion	109	$1,068,971	16	$199,301		

There has been an increase in both the number of those completing their degree requirements and the number of graduates who return to RMI after graduation. The graduates, upon their return, are easily placed in employment posts not only in the Government but also in the private sector. They have shown positive attitude and have contributed so much by applying their gained knowledge in their everyday work. This has been a positive impact and has increased the RMI's human resources. There are still those who remain abroad after graduation to either work or to continue in school to obtain a higher degree level. The graduates who do not return to RMI after completion of their studied programs are liable for full repayment on their student loans.

11. Regarding the section "Declining Numbers of College of the Marshall Islands Graduates," the CMI believes that the title should be adjusted to "Increasing Retention and Numbers of College of Marshall Islands Graduates." With new initiatives to improve retention rates and graduation rates, the CMI increased the number of degrees awarded from 103 in Academic Year (AY) 2005-2006 to 131 in AY 2008-2009- a 3 percent increase. The overall retention rate for full-time students also increased from 49.1 percent in AY2005 to 59.9 percent in FA2008. Since the restructuring of the Developmental Education Program, the CMI experienced significant increase in retention rate for new students. For instance, in AY2004 overall new student retention rate went from 49.1% to 62.2% in AY2008.

The CMI made significant progress with accreditation and improving its facilities on campus since 2005. In October, 2005 the CMI Board of Regents hired a new President whose key responsibilities were to address accreditation issues. In 2006, a new 5-Year Facilities Master Plan was developed. In the same year, the GRMI pledged financial support for the college's operations for five years and the JEMFAC allocated $25 million dollars for the college to implement the s 5-year Facilities Master Plan.

Progress on 5-Year Facilities Master Plan

Since 2006, the college has completed the following buildings:

- ✓ a new residence hall with capacity to house 28 students
- ✓ a classroom building (*Tolemour* Hall) with 13 classrooms (1 dry and 1 wet laboratories) housing faculty offices and the Nursing Program's simulation lab
- ✓ a classroom building (*Wapepe* Hall) with 11 classrooms and 14 faculty offices and a connector (*Etanaak*) that connects the two classroom building
- ✓ an Energy Center that houses the college's Reverse Osmosis machine (capacity to produce 26,000 gallon of potable water per day), a bio-fuel diesel generator (750 KVA), and a campus switch board to connect power from MEC, solar panels, wind generators, bio-fuel generator to the campus
- ✓ Service Duct (utility trench) that will run alongside all the new buildings which will house all the electrical and power cables, communication lines, including water.
- ✓ Water (rain and processed) storage -→ Once completed, the total capacity of water storage will total 109,000 gallons. Water is currently stored beneath the Energy Center and the *Etanaak*.
- ✓ Renovation of *Rebbelip* Hall and Oscar deBrum Hall --- some portion of the Rebbelip Hall is currently undergoing renovation.
- ✓ Administration Building --- just started in April 2010
- ✓ College Center --- scheduled to start in Jan. 2011
- ✓ Student Center and Library --- currently seeking grants and/or funding.

Progress in Academic Programs

Major improvements took place in the college's academic programs and personnel. In addition to the changes in Human Resources policies, a new hiring process and standards were adopted and implemented. All new hires particularly new faculty hires were required to meet strict standards and requirements. All faculty members at the college meet the minimum requirement of a Masters' degree.

Change also occurred in the college's programs. The four major programs: Liberal Arts, Elementary Education, Business & Information Technology, and Nursing, for instance, each developed program reviews with recommendations for improvement that are tied to the college's institutional planning and budget. Non-academic support departments also developed their respective program reviews that were in turn tied to institutional planning and budget. Institutional Learning Outcomes (ILOs) including Program Learning Outcomes (PLOs) and Student Learning Outcomes (SLOs) were completed by AY2008-2009.

As a result of these improvements, the Accrediting Commission for Community and Junior Colleges (ACCJC) of the Western Association of Schools and Colleges (WASC) reaffirmed the CMI's accreditation until 2015.

Section: RMI Health Sector

1. Health sector financing has significantly increased since the amended Compact's initiation in 2004. For instance, for the period FY03 to FY04, health care funding increased 22 percent, from FY03 to FY09 funding increased 109 percent and from FY04 to FY09 funding increased 72 percent. Compact funds (sector grant funds and Ebeye Special Needs) make up an average of 39 percent of total sector funding. General fund commitments have been steady at about 13 percent annually. The RMI's health care funds (a mix of a health insurance fund and user fees) have proven important to sector budget stability and growth.
2. The RMI recognizes that there are limits to the Compact's funding of the sector. The health sector was identified in 2004 as a priority investment sector (along with the education sector). It continues to be a major recipient of sector grant and Ebeye Special Needs funding. The attention over the years shows the RMI's commitment to use the Compact funding for priority needs.
3. Health sector comparisons with other Pacific Island countries would be useful, especially with countries such as the Cook Islands which has a similar association with New Zealand (as well as access to New Zealand health facilities).
4. The health sector has had several successes. These include:

Dental Assistants Training Program: Majuro

The Ministry's first Dental Assistant training program was launched in 2004. It started with eight (8) trainees. Six (6) were new students and two were already employed by the Ministry. The training program was a collaborative effort between the Ministry of Health, Washington State University and the University of Hawaii.

The training lasted for six months with intensive lectures and practical. At the end of the program, six of the new trainees were hired by the Ministry. After two years, two of the new dental assistants went on to attend Fiji School of Medicine. One of them have since completed his formal training at the Fiji School of Medicine, and is now one of the dental lab technologist in Dental Services. Second dental assistant will graduate from the Fiji School of Medicine in November 2010 in dentistry.

The RMI Dental Assistant training became a role model to other jurisdictions, particularly because the training program focuses more on preventive dental services. The program enabled the trained staff to implement the school sealant program, the fluoride treatment program for young children, dental services for pregnant mothers and more outreach in the communities. Since the program started in 2004, other Micronesian jurisdictions have since modeled their program after RMI. Staff members from the RMI Dental Services have traveled to conduct training of the same program in CNMI, FSM and American Samoa.

Training Programs for Nurse Aids - Majuro

The Ministry launched two separate six-months nursing aids programs in 2004. Aim of the training program were: 1) to meet the demand for more nurses to provide nursing care, 2) to establish a venue to channel the nurse aids to the CMI School of Nursing for formal nursing education after gaining work experience in the hospital setting. There were 48 nurse aids who graduated from the program. Through the years, 11 of the aids entered the CMI School of Nursing and have graduated with AA degree in nursing.

Prevocational Training Program – Ebeye

The program started in 1998 for high school students. In the first group, there were 12 trainees and eight (8) of them were hired in the Ministry and are still working on Ebeye. Group 2 started with 15 trainees and only four (4) accomplished the program and were hired. Group 3 there were also 15 and 12 completed. Three are currently attending CMI Nursing School and two are expected to go to nursing school. The remaining trainees are staff in various programs in the Ministry on Ebeye.

Capacity building in Laboratory Services

The Majuro Laboratory is considered the second best from Guam in the US affiliated jurisdictions. This is due to the expansion of specialized services provided in the lab. A Pathologist was recruited and he is doing a lot of on-site training for staff to enable them to attend off-island courses. Since the expansion of the services, additional equipment and accessories were also purchased for the lab. Having most of the tests done on island is cost savings for the Ministry.

Accomplishments for the Immunization Program:

1. Declaration of polio free by the World Health Organization (WHO) on October 29, 2000
2. No report of vaccine preventable diseases outbreak since 2003.
3. Implementation of the School Rules and Regulations since 2004.
4. Development of the *Measles Elimination Plan 2005* to eliminate measles in RMI by 2012.
5. Maintaining 100% Hepatitis B birth dose in the two urban hospitals of Majuro and Ebeye since 2005.
6. Reaching the prevalence rate of 1.8% for chronic hepatitis B virus (HBV) infection among children aged 4-9 years since the implementation of routine childhood hepatitis B vaccination. (CDC Hepatitis B Sero-prevalence Survey in 2007).
7. Eligible for the certification of hepatitis B control goal in the World Health Organization Western Pacific Region.
8. In 2007, the RMI successfully conducted a nation-wide immunization survey to assess children 1, 2 and 6 yrs of age and adults 50 yrs and above. Results of this survey are pending CDC's analytical assessment.
9. Introduction of new vaccines: Human Papillomavirus Vaccine (HPV) for cervical cancer. HPV campaign was conducted in 2008 for all girls ages 9 to 26 yrs. After 2008, the vaccine is available for all girls' ages 11-12 yrs of age or girls in 6^{th} grade.
10. Introduction of Pneumococcal and Rotavirus Vaccines in 2008 to infants and children up to 59 months.
11. Introduction of Pneumococcal Vaccine for adults 50 years and above.
12. For the past 5 years, the RMI has received 5000 – 10,000 doses of the seasonal influenza vaccine from CDC.
13. H1N1 control measurements and surveillance during the outbreak of the HIN1 outbreak around the world. The RMI was able to organize its surveillance system at all ports of entry in country; screening activities outside the hospital setting; strengthen community education; establishments and utilization of laboratory sources for confirmation of H1N1 specimens; submission of weekly data to WHO for surveillance purposes until today; and establishment of applicable measures for data collection with the Ministry.

Diabetes Wellness Center

"Kumiti" Diabetes Wellness Center was established after a study on diabetes was accomplished more than three (3) years ago with federal grant resources. The program's focus is all prevention through: 1) increase level of understanding about diabetes among participants; 2) learning about changing eating habits; 3) learning about the types of foods that are nutritious and appropriate for any individual including diabetes patients; 4) promote increase in physical activities; and 5) passing on the knowledge about its objectives to other eating facilities around Majuro so people can have the choice of choosing healthy diets in any restaurants in Majuro.

Since the beginning of the wellness program, more than 200 participants have enrolled in the program. However, as expected, some of the participants have since defaulted from the program but there are those individuals who have since reversed their diabetes and live a healthy lifestyle in Majuro. The program will expand to Ebeye within the next fiscal year.

5. The Ministry of Health has also identified weaknesses it is trying to address in a detailed manner. These include the following areas. More information can be provided upon request.

    - Improvements in the Health Information System,
    - Further development of health sector human resources,
    - Further support needed for public health preventative services,
    - Continue to address Multi Drug Resistant TB (MDR-TB), and
    - Further address the Non-Communicable Disease (NCD) situation.

6. The MOH is applying performance based budgeting and management (PBB). The Ministry prepares its budget and annual plan per the Sector Portfolio format. It also submits detailed quarterly performance reports. All the senior staff in the Ministry are well versed on the PBB and have managed to prepare their own bureau/office budget since 2004. The next step will be for the middle managers to do the same since the reporting of activities come from the middle managers. The Office of the Administration, Personnel and Finance (APF) is responsible for the PBB activities. The Ministry is currently developing a medium term strategy.
7. The SPC is now the Secretariat of the Pacific Community.

8. Under "Data Reporting Inconsistencies," The formulas used by the MOH and the Economic Planning, Policy and Statistics Office (EPPSO) for calculating immunization coverage rates are different. The U.S. Center for Disease Control is fully aware of how MOH calculates its immunization coverage rates.

9. In the section "Infectious Disease Risks Complicate Effective Chronic Disease Management", para 5, After 10 months of aggressive contact tracing by MOH, in consultation with CDC, it was found that there were only two MDR-TB cases in the RMI who are on treatment. No new MDR-TB cases have been found. Additionally, contact tracing activities by MOH confirms 42 contacts on Majuro and 14 on Ebeye. All are on treatment.

10. Under "Non-Communicable Disease" or "Other Health Problems" there is no discussion about cancer. Cancer rates are high in the RMI as well as the high rate and the relationship to U.S. nuclear testing in the RMI.

    The section generally identifies rates per 100,000, per 10,000, etc. The RMI is a small country and such rates would be expected to be high. Would it make more sense to use per 1,000 so it will be more applicable to countries with small populations such as the RMI?

    Regarding the statement on syphilis, the MOH STD/HIV Program keeps track and provides treatment to all cases including congenital cases.

Section: RMI Public Sector Infrastructure

The amended Compact provides that between 30% and 50% of annual financial assistance be dedicated to public infrastructure. Given the increasing demands of MOH and MOE, coupled with the annual decrement of $500,000 from Compact funding, the minimum requirement of 30% has begun to adversely affect Compact funding to these priority sectors. The GRMI urges that the minimum be reduced to reflect the current realities of MOH and MOE.

Section: RMI Environment Sector

1. The Environment Sector continues to face challenges well beyond the scope of existing capacity and resources available to the few agencies and ministries tasked with regulating development activity, resource use, and monitoring. In the RMI, stressors to the environment may be generally classified as 1) Climatic Stressors – droughts, severe storms, precipitation, temperature and sea level rise, and 2) Non Climatic Stressors – population, pollution and management issues.
2. It should be emphasized that the RMI faces unique challenges in the environment sector, since it is one of the few atoll countries in the world faced with impacts of climate change as well as the impacts of past nuclear testing and radioactive waste, amongst other development challenges. It is important to understand these underlying issues in conjunction with the level of financial and technical support needed to address these issues.
3. The RMI EPA, especially with its unique ecosystem, will continue to need external support given the size of the RMI and expertise needed for environmental protection and management. Even if the RMI could totally fund its own environmental protection and management program it would still need specialist expertise from time-to-time as well as other sources of funding.
4. The EPA has been trained on applying the PBB. It prepares its annual Sector Portfolio linking planning information with costs. It also submits quarterly performance reports. For FY11 budget preparation EPA Management worked closely with the PBB team and was able to include all division heads into budgeting and the strategic planning process throughout 2010. The EPA General Manager and Deputy are fairly new to the organization and PBB. However both have experience in budgeting and strategic planning having been involved in UN projects. It is useful to have TA in this area to help facilitate the process and provide financial and budgeting technical backstopping to the organization. EPA is confident it will be able to carry out these activities by FY12. In addition, EPA recently prepared a medium term strategy which follows the PBB management direction and information fields.

Section: RMI Conclusions and Recommendations

1. The GRMI wishes reiterate its disappointment at the delay in the submission of these drafts given that such delay goes against the intent expressed in Section 104(h)(2), P.L. 108-188, of the amended Compact for "the U.S. Government to review the terms of the...Compact and consider the overall nature and development of the...U.S.-RMI relationships including the topics set forth in sub paragraphs (A) through (E) of paragraph (1). Moreover, there were no informal discussions on the draft between the U.S. and the RMI despite the latter's willingness to do so as stated in the letter from Mr. Glyn T. Davies, Acting Assistant Secretary, Bureau of East Asian and Pacific Affairs, to then RMI President Litokwa Tomeing transmitted via **Diplomatic Note No. 31-09** dated 05 May 2009. Lastly, there were certain portions of the draft where the GRMI could not comment due to other related portions containing data outside the 5-Review period.
2. Given the delay of the first 5-Year Review, the RMI is concerned about the timeliness and effectiveness of the next 5-Year Review.
3. With respect to the recommendations, GRMI urges that the responsibilities of the JEMFAC should not go beyond its scope Article III, Section 5, of the amended Compact. Addressing the recommendations primarily to JEMFAC ignores the need to resolve a number of the issues discussed above, e.g., SEG, full inflation adjustment and the Trust Fund of the People of the Republic of the Marshall Islands, requiring consideration and action by the U.S. Congress.
4. For the recommendation regarding capacity building grants, the RMI recognizes the deficiencies. However, targeting such grants at capacity building would take away Compact sector grant funding, which is reducing in real terms every year, from the priority areas of education, health and infrastructure. The sector grants for education and health (including Ebeye Special Needs and SEG funds) have included internal capacity building efforts. The RMI finds this comment very surprising since DOI OIA management and staff will not support non health and education infrastructure projects.