

Development Partners Meeting

December 1-2, 2010



Briefing Book

Republic of the Marshall Islands Development Partner Meeting
December 1-2, 2010. Majuro, Republic of the Marshall Islands

Ministry of Foreign Affairs, Post Office Box 1349, Majuro, MH 96960
p. 692.625.3012 f. 692.625.4979 e. mofapol@ntamar.net

www.rmidpm.info

Republic of the Marshall Islands Development Partners Meeting

December 1-2, 2010. Majuro, RMI



Background and Welcome Message

The Republic of the Marshall Islands is pleased to provide a comprehensive briefing book in advance of the RMI Development Partners Meeting, scheduled for December 1-2, 2010, in Majuro, RMI.

Jointly hosted by the Ministries of Foreign Affairs and Finance, the DPM will serve several important functions:

- First, it will give the RMI an opportunity to present and discuss its key reform and development priorities and objectives for the 2011 and 2012 period.
- Second, the DPM will provide each development partner the opportunity to present RMI-specific priorities, projects and activities. The meeting will also provide an opportunity for round-table, open dialogue among all partners to foster coordination and information sharing.
- Finally, the DPM will also set aside time for one-on-one bilateral discussions between each partner and the RMI, with the specific objective of identifying further areas of development cooperation.

We invite you to review the enclosed background documents we've prepared for this meeting. You will note from the Table of Contents that the documents are presented in order of the presentations our Government will be making during session one, on December 1, 2010. Each report or document represents a substantial and prioritized element of our overall reform plans. We have also enclosed, for your reference, the RMI FY2009 Economic Review and Statistical Appendices.

Finally, we would like to thank the Asian Development Bank and the Graduate School (with U.S. Department of the Interior, Office of Insular Affairs funding support) for their financial and technical support towards meeting preparations.

Thank you for your interest in our first DPM. We hope you find this briefing book helpful, and look forward to welcoming you to the RMI.



Hon. John M. Silk
Minister of Foreign Affairs



Hon. Jack J. Ading
Minister of Finance

Republic of the Marshall Islands Development Partners Meeting

December 1-2, 2010. Majuro, RMI



Table of Contents

Provisional Agenda.....	1

Reference Documents for Session One of DPM

Session 1.a.:	RMI Comprehensive Adjustment Program (CAP)	4
	Public Service Commission Limited Personnel Audit.....	39
Session 1.b:	Tax and Revenue Reform and Modernization Commission Final Report.....	49
Section 1.c:	RMI National Energy Policy.....	74
	RMI National Energy Action Plan	111
	Marshall's Energy Corporation (MEC) Comprehensive Recovery Plan	146
Section 1.d:	RMI: A Review of 11 Public Enterprises and Options for Reform.....	164
Section 1.e:	RMI Climate Change Roadmap 2010	215

Additional Background Documents

RMI FY09 Economic Review	222
RMI FY09 Statistical Appendices	306

Republic of the Marshall Islands Development Partners Meeting

December 1-2, 2010. Majuro, RMI



Draft Provisional Agenda

REPUBLIC OF THE MARSHALL ISLANDS DEVELOPMENT PARTNER MEETING 2010

Wednesday & Thursday, 1-2 December 2010

Majuro, Marshall Islands

International Conference Center

WEDNESDAY, 1 DECEMBER, 2010, DEVELOPMENT PARTNER MEETING

Chairman of Meeting: Hon. John M. Silk, *Minister of Foreign Affairs*

8:30 – 9:00	<i>Registration and Coffee</i>
	OPENING SESSION
9:00 – 9:05	Opening prayer by Rev. Enja Enos
9:05 – 9:15	Official Welcome by H.E. President Jurelang Zedkaia
9:15 – 9:25	Opening remarks and review of agenda, Hon. John Silk, Minister of Foreign Affairs
	<i>*** Photo Session following the opening **</i>
	SESSION 1: RMI Reform and Development Progress and Priorities
9:30 – 9:40	Opening statement by Hon. Jack Ading, Minister of Finance
9:40 – 12:00	Presentations by RMI delegation:
9:40 – 10:00	a) Expenditure Reforms (CAP) – presented by Mr. Ben Chutaro, Chair of CAP
10:00 – 10:20	b) Tax and Revenue Reforms – presented by Mr. Carlos Domnick, Chair of Tax & Revenue Reform and Modernization Commission
10:20 – 10:35	<i>** Coffee/Tea Break **</i>
10:40 – 11:00	c) Energy sector reforms and MEC – presented by Ms. Angeline Heine, National Energy Planner (Ministry of R&D) and Mr. David Paul, MEC General Manager
11:00 – 11:20	d) SOE performance and reform needs – presented by Mr. Ben Graham
11:20 – 11:40	e) RMI Climate Change Roadmap and National Policy – presented by Ms. Yumiko Crisostomo, Director of the OEPPC

11:40 – 12:00	f) Upcoming events: RMI Census, National Development Plan – presented by Chief Secretary Casten Nemra
12:00 – 1:00	<i>LUNCH (Provided at Meeting Venue)</i>
1:00 – 4:15	SESSION 2: Development Partner Presentations (by alphabetical order) <i>For this session the Government suggests that each development partner summarize current and on-going development assistance, and priorities and planned development assistance in 2011 and 2012. Statements/presentations sequenced by alphabetical order.</i>
1:00 – 1:15	Asian Development Bank
1:15 – 1:30	Australia
1:30– 1:45	European Union
1:45– 2:00	International Monetary Fund
2:00 – 2:15	Japan
2:15 – 2:30	New Zealand
2:30 – 2:45	Republic of China, Taiwan
3:00 – 3:15	<i>**Coffee/Tea Break **</i>
3:15 – 3:30	Secretariat of the Pacific Community
3:30 – 3:45	United Nations agencies
3:45 – 4:00	United States
4:00-4:15	World Bank
4:15 –	SESSION 3: Open dialogue Open discussion and dialogue, chaired by Hon. Minister John Silk

THURSDAY, 2 DECEMBER CLOSING OF DP MEETING & BILATERAL CONSULTATIONS

9:00 – 10:00	SESSION 4: Closing and Next Steps
9:00 – 9:45	Discussion & Adoption of the Communique and Record of Discussions, and next proposed DP meeting
9:45 – 10:00	Closing remarks by Hon. John Silk, Minister of Foreign Affairs
10:00 – 10:30	United States
10:30 – 1:00	Japan
11:00 – 1:30	ROC Taiwan
11:30 – 2:00	Australia
12:00 – 1:30	** LUNCH **
1:30 – 2:00	SPC
2:00 – 2:30	EU
3:00 – 3:30	World Bank
3:30 – 4:00	IMF
4:00 – 4:30	ADB
4:30 – 5:00	UN



Comprehensive Adjustment Program Advisory Group

FINAL REPORT

Submitted to the Minister of Finance
Honorable Jack Ading

September, 2009

FOREWORD

This report has been prepared pursuant to a request of Cabinet as outlined in the terms of reference for the Comprehensive Adjustment Program (CAP) Advisory Group.

The report has been prepared and endorsed by the team appointed by Cabinet and working under the direction of the Minister of Finance. The group is chaired by Mr. Ben Chutaro and vice-chaired by Mr. Ben Graham. Private sector members include: Mr. Ben Chutaro, Mr. Ben Graham, Dr. Hilda Heine, Mr. Jack Niedenthal, Mr. Mike Slinger, and our advisor, Mr. Kevin O’Keefe. Public Sector members include: Mr. Tommy Kijiner, Jr. – Secretary of Resources and Development, Ms. Kino Kabua—Secretary of Foreign Affairs, Mr. Jefferson Barton—Secretary of Finance, Mr. Divine Waiti—Nitijela Legislative Counsel, and Ms. Marie Maddison—Director of National Training Council.

Special thanks are given to the Ministry of Finance and EPPSO for providing the documents and material necessary to prepare this report. Thanks also to Mr. Jason D. Aubuchon of the US Graduate School for his support and for his organization’s funding for the trips of Mr. Kevin O’Keefe, the Advisory Group’s macroeconomist and fiscal policy expert. Thanks are also given to Mr. Kiyoshi Nakamitsu of the Asian Development Bank for funding an office, Internet connections and other logistical support for the Advisory Group.

INTRODUCTION

The terms of reference and scope of work for the Comprehensive Adjustment Program (CAP) Advisory Group were approved by Cabinet on April 23, 2009 (C.M. 078, attached as Appendix II). The Advisory Group is hereby presenting its findings and recommendations to Cabinet in the form of a Framework for Comprehensive Fiscal and Economic Adjustment Options.

The Advisory Group is working in coordination with a second important undertaking approved by Cabinet, namely the Revenue and Tax Reform and Modernization Commission. As such the fiscal reform areas outlined in this Framework are limited to expenditure reforms. Ultimately, it is recommended that the work of the two bodies be integrated through Cabinet actions as part of a truly “Comprehensive Adjustment Program,” to create both an improved fiscal position of the Government and a more supportive environment for economic development over the long-term.

While the timeframe to come up with these recommendations was short, the members of the Advisory Group have made every effort to honestly and objectively analyze the data and information received from the Ministry of Finance and other government-sourced documents. Similarly, the Advisory Group is operating under the assumption that the RMI will commit itself to its own internally-designed CAP to the full extent necessary to restore fiscal flexibility and to enable the Government to respond to emerging needs without being forced to operate in a persistent state of crisis management and cash-flow shortages.

To put the work of the Advisory Group and the Commission into an immediate context of cost savings, the approximate **size of the fiscal adjustment that we are recommending for consideration by the Cabinet is in the range of \$7 to \$8 million**. That level of fiscal adjustment would be achieved through a combination of expenditure cuts and revenue enhancements leading to a combined and sustained annual adjustment of \$7 to \$8 million. It is expected that the CAP would be implemented in phases over 1-3 years. It is further recommended that the implementation period be followed by rigorous fiscal discipline for an extended period of years.

As noted in the “SUMMARY MATRIX OF EXPENDITURE REFORM AREAS AND OPTIONS” near the end of this report, the range of expenditure reductions if the CAP reform areas are implemented would be **from a low of \$4.0 million to a high of \$10.5 million annually**. A mid-point reform effort would yield \$7.25 million in annual savings. So with some revenue effort included, it is clear that the reform areas outlined and the “scope and scale” of the CAP to be implemented in phases could assuredly close the fiscal gap outlined above.

GOALS AND CHARACTERISTICS OF A PHASED CAP

There are two broad goals of the CAP, one internal and the other external:

The first goal is to provide the Government with a well-defined series of actionable measures to recover from the recent (and continuing) deterioration in the fiscal position of the RMI Government and, following a period of fiscal restraint, to put the Government on a path toward **long-term fiscal sustainability** while also placing the RMI economy on a similar path toward **sustained growth**.

The second goal is to provide the Government with an internally designed program that can better guide its relations with the external donor community. Here the measurable objectives will be (a) to **mobilize increased and better-targeted donor resources** to support the implementation of the CAP, (b) to **reduce the RMI's net external debt**, and (c) to direct those resources towards the best uses for the **RMI's long-term development**.

While the goals of the CAP are clear, it is also clear that such an adjustment program will require a concerted effort on the part of the nation's leadership and will, inevitably, require sacrifices in the short-to-medium-term. The Advisory Group recommends that the fiscal adjustment effort be undertaken with due consideration to the following characteristics:

- The larger share of the fiscal adjustment should be taken on **expenditure reductions**, with significant, but lesser, reliance upon revenue increases.
- The fiscal adjustments approved for implementation by Cabinet should be undertaken in two phases, with the items having the greatest fiscal savings/earnings prioritized for phase I. This **front-loading will enable the benefits of adjustment to be realized earlier**.
- The fiscal adjustment areas that require lengthy technical review and preparation should be considered for phase II implementation; however, the preparatory work should begin as part of phase I operations. Furthermore, **Cabinet's commitment to implementation for both phases should be explicit** from the outset.
- All of the RMI's commitments for implementing its own **internally-designed CAP** should be shared with its major donor partners so that the RMI can benefit from **coordinated and enhanced donor assistance** to:
 - (a) provide technical assistance to support the CAP;
 - (b) provide grant assistance for key elements of the CAP;
 - (c) provide concessional lending for key elements of the CAP; and
 - (d) provide grant and/or concessional lending to mitigate the negative impacts of the CAP.

- Finally, all of the elements of the CAP, and all of the RMI’s future fiscal operations should be consistent with:
 - (a) a “**Decrement Management Plan**” to be developed pursuant to JEMFAC Resolution No. 2009-1; and
 - (b) an “**External Debt Management Strategy**” to be proposed by the Advisory Group and endorsed by Cabinet. The goal of that strategy will be to reduce the RMI’s net-indebtedness over the period of CAP implementation and to ensure that the RMI never again subjects itself to unsustainable levels of external debt.

WHY THE CAP WAS ESTABLISHED

2008 was a particularly challenging year for the Marshall Islands. The world saw commodity and fuel prices surge rapidly and the spillover effects of the financial crisis triggered the global recession we are still experiencing today.

The Marshall Islands saw massive increases in food, commodity and, especially fuel prices. The impact on the main utility company, MEC, was especially traumatic and occurred at a time when MEC was already suffering from other factors that pushed it to the brink of insolvency. Simply put, MEC could not afford the fuel it needed to generate electricity and the Government was forced to offer financial support to avoid a nationwide blackout. The Government’s fiscal reserves were already diminished and its need to enter into a variety of loan guarantee arrangements further weakened the ability of the RMI Government to address any potential emerging fiscal needs.

Late in FY2008, the Government declared an economic emergency. Some of the RMI’s key donors came to the aid of the country’s call for help. Taiwan, US, Japan and ADB all came in with varying degree of assistance enabling the RMI government to support MEC financially through the worst of the period. However, it must be noted that much of the support from our donor partners—while welcome and much needed—was injected in an ad hoc manner that was not part of a sustainable long-term approach to sound fiscal or economic management.

The surging commodity and fuel prices demonstrated once again, how the Marshall Islands continues to be vulnerable to external shocks and to the collateral effects that world economic events can have on the entire Marshall Islands economy and society. The CAP Advisory Group was established to take a more systematic and sustainable approach to addressing the RMI’s fiscal and economic vulnerabilities.

LEAD UP TO THE ESTABLISHMENT OF THE CAP

The Graduate School (formerly affiliated with USDA) sent a team in July 2008 to the Marshall Islands at the request of the Chief Secretary comprised of Mr. Jason Aubuchon and Mr. Kevin O’Keefe to assess the fiscal crisis then being faced by the RMI.

Their assessment painted a bleak but realistic picture of RMI’s current fiscal position and presented the concept of an internally designed and adopted adjustment program. In addition to some immediate measures to stabilize the situation, a longer-term and more comprehensive approach was recommended. Of significant importance was the recommendation that donor support be better coordinated and more targeted toward the nation’s long-term sustainability and that the external debt situation be addressed proactively through dialogue with RMI’s major donors.

The Minister of Finance, Hon. Jack Ading, responded to this call. The Cabinet formed the CAP on April 22, 2009 comprised of a group of professionals to assess the extent of the fiscal crisis and to return to Cabinet with recommendations for further discussion or action.

The terms of reference called for the following:

- To deliver to Cabinet a broad and well-specified framework for comprehensive fiscal and economic adjustment so that Government will be sufficiently informed and enabled to determine the appropriate size, specific elements, phasing of elements, and timing of any fiscal and economic adjustment program that Government may implement on its own or in beneficial coordination with donor partners; and
- On approval of the Cabinet of an internally conceived and designed program, to undertake public consultations, support donor partner mobilization and coordination efforts, and advance the process of implement the Republic’s Comprehensive Adjustment program.

OUR METHODOLOGY

In conducting its assessment, the CAP Advisory Group relied primarily on government audits, budget documents, P-132 and P-134 reports from Finance, Public Service Commission documents, and data from the Economic Policy, Planning and Statistics Office.

Kevin O’Keefe and Jason Aubuchon provided intermittent assistance (in Majuro) and helped craft this final report.

OUR FINDINGS

The CAP agrees with earlier analysis by the ADB, IMF, World Bank, USDOJ and others that the RMI is facing a fiscal crisis. The most severe impacts of this crisis were brought about by the surge in global fuel prices combined with the indirect effects of the global recession on the RMI economy. However, and perhaps more important in the long-run, the strongest factors leading to the RMI's deteriorating fiscal position have been self-inflicted. Specifically, through loose and unconstrained fiscal policies over an extended period of time the RMI has been left with diminished reserves, increased external and internal debt and unsecured debt guarantees, and an emerging structural fiscal problem that must be addressed.

There are two types of fiscal imbalance that any Government may face from time-to-time. One is a **cyclical deficit**. This type of deficit is considered temporary and is caused by a temporary misalignment of revenues and expenditures. In an economic recession, for example, it is expected that revenues may fall while certain expenditures requirements may increase. If a deficit is truly cyclical—the advisable policy response will typically involve financing of short term deficits. Certainly, the fiscal crisis in the RMI that peaked in late FY2008 was, in part, a classical version of a cyclical deficit. It was certainly appropriate for the Government to undertake **some** borrowing (including loan guarantees) to manage its way through the worst period of the fuel price crisis.

However, the second—and more serious—form of fiscal imbalance is a **structural deficit**. In this case, and irrespective of temporary shifts in revenues or expenditures, a Government faces PERSISTENT deficits because its core revenue base is insufficient to support its core (and growing) expenditure obligations. The RMI is now surely facing a significant STRUCTURAL fiscal deficit. This is not a temporary situation and borrowing is NOT the appropriate response to the long-term needs of the RMI. The appropriate response is to close the fiscal gap by a combination of expenditure cuts and revenue enhancements. In fact, the RMI needs to “over-adjust” in the medium-term toward a fiscal surplus in order to restore fiscal reserves that have been depleted and to prepare for the continued impacts of Compact funding decrements and partial inflation adjustments on an annual basis. If there is any borrowing to be involved in the recommended CAP measures, Cabinet will note that it would be done in a strategic manner to utilize the benefits of concessional lending sources to (a) consolidate higher cost loans, and (b) reduce the total “net external debt” position through the coordination of donor grants and donor loan projects.

The Cabinet may want to receive a thorough presentation of the structural deficit position of the RMI, but for the purposes of this report the CAP Advisory Group wishes to simply highlight the estimated size of the fiscal adjustment required over the next 1-3 years:

specifically it is recommended that Cabinet adopt a combination of the proposed measures so that a fiscal adjustment of \$7 to \$8 million annually can be achieved.

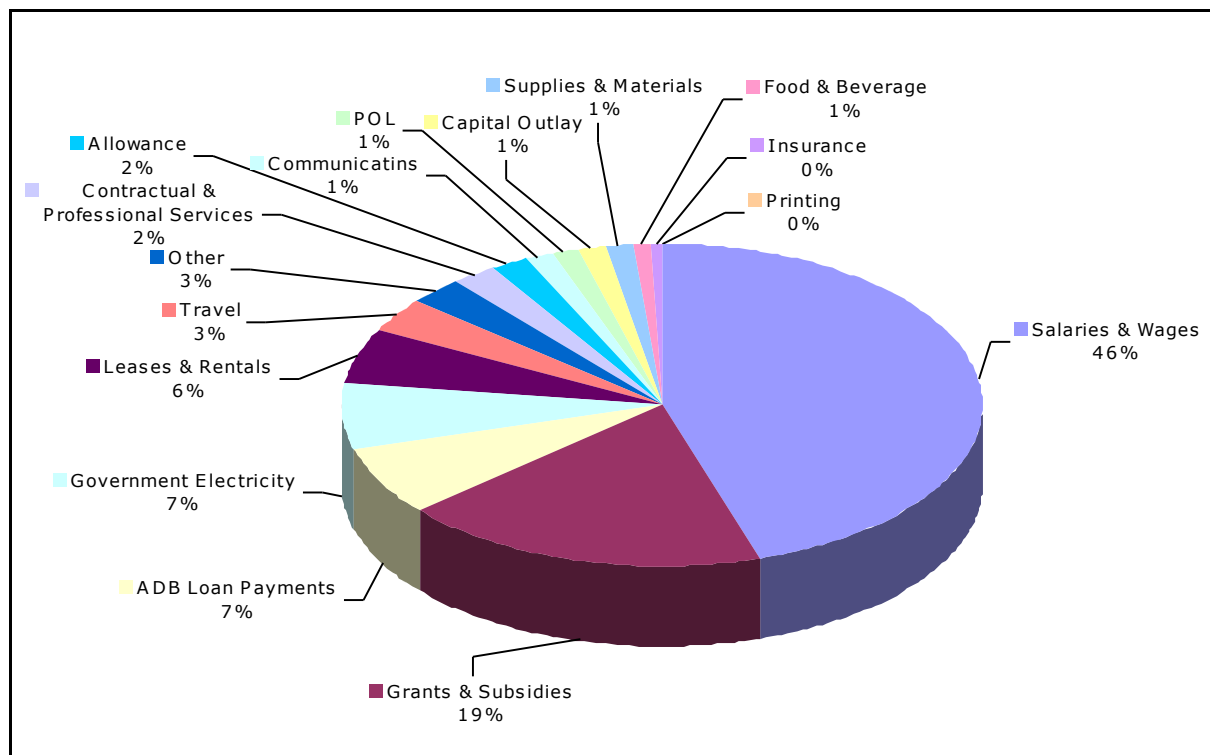
ANALYSIS OF THE RMI GOVERNMENT'S FINANCES (GENERAL FUND)

The CAP Advisory Group reviewed past government audits starting from FY2000 to FY2008 and noticed some notable trends.

In total, expenditures in the General Fund were over \$34 million in FY2008. General Fund expenditures increased by 17% from FY2004. General Fund expenditures grew on average 11% per annum. FY2009 appears to be on trend.

Salaries & Wages accounts for 46% of the General Fund expenses, followed by Grants & Subsidies at 19%, ADB Loan Payments and Government Electricity at 7% respectively, Government Leases and Rentals at 6% and everything else at less than 3%.

Grants and subsidies included subsidies mainly to State Owned Enterprises (MEC, AMI, Tobolar). This also includes over \$1 million in landowner electricity bills. There are other smaller subsidies to MIVA, LRA, EPA, etc.



The ADB is the RMI's major creditor. Total outstanding loans are over \$60 million. Current loans payments are already well over \$2 million annually. Loan payments are expected to increase as the grace period on some loans become due. RMI is expected to make \$3.2

million in annual loan repayments to ADB in FY2010. This will heavily impact the General Fund, unless the RMI develops a strategy—including significant donor coordination efforts—to make repayment of its debt to the ADB more sustainable.

The government has guaranteed loans to various SOE's and a church. Government deposits in the banks guarantee some of the loans. There is no contingency funding if any of the loans are declared to be in default. The CAP Advisory Group has not yet undertaken a risk-based assessment of the loan guarantee portfolio of the Government; however, this should be done as a part of the CAP phase I implementation and should inform the External Debt Management Strategy described below.

The main underlying cause of the emerging structural fiscal deficit is rather simple. The RMI is facing stagnant or declining revenues at the same time as expenditures have continued to grow unsustainably.

Since FY2000 the RMI has seen its salaries and wages expenditures increased by two-fold from \$16.4 million to nearly \$34 million annually. The early years of the second Compact have seen a one-time increase in Compact sector grant revenues, which enabled the Public Service, especially in Health and Education, to add more staff and raise wages.

The CAP Advisory Group did not perform a comprehensive civil service and institutional review. This will require a TA and more time, which the CAP Advisory Group recommends be undertaken as a priority element of the CAP phase I implementation. While some reductions in personnel could proceed without a comprehensive review, a civil service and institutional review will be necessary to address longer-term budgetary issues, especially when decrements in the Compact are factored in.

FISCAL POLICY

The Medium Term Budget and Investment Framework (MTBIF) is the basis for fiscal policy. The framework lays out a schedule of expenditures tied to a specific set of program outcomes. In recent years however, the MTBIF has not been fully implemented resulting in *ad-hoc* fiscal policy decisions that are reactive rather than proactive. The timing of the MTBIF process needs to be accelerated on an annual basis to fully inform the budget formulation and approval process and the elements of any adopted CAP need to be fully incorporated.

BUDGETARY PROCESS IN THE RMI

The budgetary process should provide information for the optimization of returns from government expenditures. During times of fiscal crises it is more important than ever to rely on a sound budgetary process for management information. It is crucial, therefore, that the

MOF gets into the position of being able to identify potential areas of over-expenditure at an early stage so that appropriate action can be taken. By the same token, the MOF should be able to identify revenue areas that are under-performing so that corresponding measures to lower expenditures can be taken at an early stage to avoid crisis-management.

The RMI budgetary process should perform a number of functions. These include:

- provide sufficient management information to policy makers on the current performance of the budget for planning the overall mobilization and allocation of resources and for appropriate cash-flow management;
- maintain effective controls over expenditures and highlight areas which threaten to overspend;
- provide information which relates budgetary inputs to activity outputs;
- establish an appropriate link between planned capital expenditures and their recurrent implications; and
- establish procedures which result in decisions with respect to expenditure planning and revenue generation which utilize the above information.

FOR FURTHER DISCUSSION AND ANALYSIS

The discussion in this section is complementary to the core recommendations in the Expenditure Reform Area Matrix. The CAP Advisory Group feels it is necessary to raise the issue here because of the interaction between external aid and the economy directly impacts fiscal policy both in the short- term and longer-term.

COMPACT AND EXTERNAL AID

The CAP Advisory Group will not elaborate on the Compact as amended. However, it raises issues related to future fiscal policy.

While Compact sector grants expire in FY2023, it is not guaranteed that the Trust Fund will have grown sufficiently to sustainably generate the funding needed to replace the grants. To address the long-term problem of a shortfall, the RMI has two options, increase revenues or cut expenditures to the point of running a persistent budget surplus. While the CAP Advisory Group would hope that the Cabinet will adopt a formal and comprehensive reform program, there is a clear and compelling need to undertake immediate fiscal adjustment. Thus, the primary time horizon of the CAP is the next 1-5 years with an eye to the longer term. When fiscal reserves are restored, pursuant to the implementation of the CAP in phases, those reserves will help address the longer term fiscal balance issues.

TAXES

The CAP Advisory Group did not consider revenue reform matters. The RMI Tax Reform and Modernization Commission established by Cabinet in 2008 will recommend those reform measures to government. However, the CAP Advisory Group will coordinate with the commission to ensure any revenue measures they may be considering will be in line with and supportive of the CAP. However, the CAP Advisory Group would like to make some comments on taxes.

Obviously, tax collections have been historically weak and the Ministry of Finance is not capturing the full potential of the taxes. However, even if there was full compliance in tax collections, it is unlikely that tax revenue will cover all expenditures in the general fund. The Ministry of Finance will have to rely on fees, licenses and grants to support the General Fund.

There is in some circles the belief that it is inevitable that it will be necessary to raise taxes to cover future shortfalls. The CAP Advisory Group does not support raising revenues simply by raising the rates on the existing range of taxes; rather, the Advisory Group supports revising the current tax structure so that it broadly captures all activities as opposed to singling out a small group of tax payers as the current system does. A tax system with a broader base and perhaps even lower rates would be preferred. Currently tax revenues are equivalent to 17-18% of GDP and the IMF suggests the optimal range should not be above 20% of GDP. Raising taxes beyond this could further weaken the economy.

For this reason, the CAP Advisory Group reiterates that the majority of the fiscal adjustment undertaken through the CAP should occur through expenditure reductions.

CRITICAL IMBALANCES IN THE RMI ECONOMY

The CAP Advisory Group would like to note briefly the current macroeconomic environment, because it has a significant impact on the depth and breadth of reforms to the RMI's fiscal and economic policies that will be required in the coming years.

The CAP primarily addresses the present and looming fiscal problems of the Republic which is the matter of major immediate concern. However, other reforms are needed and recommended as part of the phased program in order to deal with longer-term aspects of the need to incrementally restructure of the economy.

There is a marked difference in size of the government and the non-traded services sectors, on the one hand, and the foreign exchange earning and/or saving sectors on the other; and the recurring balance of trade deficits in which the values of the import and export of goods and services are seriously and persistently out of balance.

These imbalances are closely related. Thus, in addition to the immediate problem of fiscal reform, there is a need for the RMI to develop foreign exchange earning activities that addresses the following:

- declining Compact revenues,
- increasing population of working age,
- creating reserves to insulate from external shocks, and
- the potential shortfall in sustainable income from the Compact Trust Fund.

The recommendation section of our report follows. Please recall the focus of our effort to-date is limited to expenditure areas.

EXPENDITURE REFORM AREAS AND OPTIONS

The Advisory Group recognizes that the RMI faces challenges on two distinct fronts.

- The first is the more immediate and urgent need for fiscal rebalancing, to restore and strengthen the basic solvency, flexibility, and overall sustainability and integrity of the budget and public finance system. This is a crucial and urgent matter given the current and near-term challenges brought forth by a combination of fiscal and economic factors.
- The second set of challenges, which are perhaps less urgent but more important, relates to the fundamental and structural issues which affect the overall efficiency and effectiveness of the civil service, the public sector and, ultimately, the broader economy.

This section provides the group's recommendations on expenditure reform options targeting the former issue – the more immediate and urgent need to adjust. A separate exercise should be undertaken, following soon after this report, to analyze and consider some of the broader and longer-term changes that are required to improve the overall structure and efficiency of the public sector and to address broader economic restructuring policy issues.

The group has identified thirteen specific expenditure reform areas that Cabinet should consider (covering the General Fund only). These reform areas relate to:

1. The Civil Service
2. Nitijela Member Compensation
3. Housing Allowances
4. Electricity Allowances
5. Leased and Rental Housing
6. Utility Bills
7. Communications
8. Vehicles
9. Fuel
10. Travel and Per Diem
11. Professional Services
12. Grants and Subsidies
13. Organization/Facilities Consolidation

Each of these areas is described in detail below, with reform options for consideration included within each sub-section. While this list includes some of the largest and fastest-growing expenditure areas, the list is (of course) not an exhaustive, and it is highly recommended that Cabinet instruct the Secretary of Finance, the Finance staff, and the

fiscal officers of all ministries and agencies to also conduct their own independent analysis of possible expenditure reform items.

REFORM AREA # 1 - THE CIVIL SERVICE

TRENDS AND CURRENT SITUATION

Both the size and cost of the civil service have grown rapidly and uninterrupted for nearly a decade now. At the conclusion of the Public Sector Reform Program in FY2000, the national Government had reduced its employment to just fewer than 1,500 whereas today the number had surpassed 2,400. While part of this growth is accounted for by the transfer of teachers from the former Head Start program (to the national Government payroll) and the addition of new teachers and other education administration staff, most other ministries and the agencies that fall under the national payroll have also seen their numbers grow over time. The FY2008 audit showed annual expenditure on salaries/wages of \$34.6 million, almost doubling the FY2000 amount of \$17.5 million. General Fund salary/wage expenditure has grown over this period by over \$3 million annually, from \$12.2 million to \$15.4 million.

The official FY2008 Budget Statement introduced into Nitijela on 13 September 2007 asserted that:

Government payroll has been an area of concern in recent years though this is expected to level out in FY 2007... The increase in recent years has been supported by the inflow of funds under the Compact, as amended. This has included the commencement of the Ministry of Education kindergarten program in FY 2005 to replace the former Head Start program. This led to the significant growth in Ministry of Education staff between FY 2005 and FY 2006 (in the region of 200 teachers) since the Head Start program was previously managed outside of the Government payroll... Despite this the Government recognizes that this growth is not sustainable and will place additional emphasis on restraining employment and wage growth in FY 2008.

In direct contradiction to this official statement, government employment continued to grow in FY2008, pushing annual salary/wage expenses up by another \$625,113 to \$34,600,914 (compared to \$33,975,801 in FY2007). There is widespread consensus that this rapid and uncontrolled growth in the size and cost of the civil service is unsustainable and must be dealt with immediately.

Moreover, every year a number of vacant positions are budgeted for, but most have yet to be filled. Going into FY2009, some 71 positions remained vacant, totaling around \$1.2 million in the budget.

REFORM AREA #1 OPTIONS

The annual wage bill is determined by three basic factors: the total number of employees, total hours worked, and wage levels. Thus, reforming the civil service will have to consider one or more of these factors. Also, consideration should be given to reducing most of the vacant positions.

Reduction In Force (RIF). This can be done through a variety of means:

- Enforce the mandatory retirement age for all replaceable positions
- Establish a voluntary early retirement program (with compensation) for those who are 55 and older
- Establish a targeted Reduction-in-Force (RIF) program across all ministries and agencies

A RIF program should be well targeted and should only be carried out after a carefully planned and deliberated process is agreed upon. Different methods can be considered for identifying positions that can be eliminated within each organization with minimal impact on the delivery of basic public services.

The following table illustrates the estimated annual savings that would be realized with a RIF program that eliminates anywhere between 50 and up to 400 positions. The savings estimates assume an average annual wage of \$14,417 per civil servant. A RIF of 50 employees, or roughly 2 percent of the civil service, would yield around \$700,000 in annual savings. A RIF of 200 would yield a savings of \$2.8 million and a RIF of 400 would save some \$5.6 million.

OPTION 1(A): COST SAVINGS FOR A REDUCTION IN FORCE

RIF Target (# employees)	% of Civil Service	Annual Savings
50	2%	\$700,000
100	4%	\$1,400,000
150	6%	\$2,100,000
200	8%	\$2,800,000
250	10%	\$3,500,000
300	13%	\$4,200,000
350	15%	\$4,900,000
400	17%	\$5,600,000

Note: savings estimates based on average annual wage of \$14,417

The Public Sector Reform Program (PSRP) in 1997 to 2000 reduced the government personnel to under 1,500.

Eliminate Most Vacant Positions. There are approximately 71 positions budgeted for this year but which remain vacant. In recent years, consistently over \$1 million is budgeted for positions that are not ultimately filled (for various reasons). The Advisory Group has been told that the appropriations for these positions can be re-appropriated mid-year towards other activities, but this has not been verified. Elimination of 50 of these positions (roughly 75 percent) would yield an annual savings of over \$720,000. Only those positions that are deemed critical and essential should not be eliminated and more effective efforts must be made by the PSC to fill these important vacancies.

OPTION 1(B): COST SAVINGS FOR ELIMINATING VACANT POSITIONS

Vacant Positions	% of Civil Service	Annual Savings
25	2%	\$360,000
50	4%	\$720,000
71	6%	\$1,024,000

Note: savings estimates based on average annual wage of \$14,417

Reduce Work Hours. A reduction in the work week by some hourly increment is another option for reducing the wage bill, although there are three key issues to consider: 1) Reducing work hours is often considered a quick and easy way to reducing wage costs, but this is often considered to be an interim and temporary measure; 2) Not all employees can have their hours reduced – essential service workers such as nurses, doctors, police officers, and customs/quarantine/immigration staff should not necessarily be included; 3) Some workers have allotments on their paychecks that require them to maintain a certain number of work hours per pay period or month – for these employees some special arrangements may need to be made with the banks to extend terms, etc. The table below provides 20 scenarios for annual savings depending on the number of employees affected (from a notional range of between 500 to 2,400) and the number of hours reduced per work week (between 1 to 4 hours). For example, if 500 employees are forced to reduce their weekly hours by 1 hour, the estimated annual savings will be around \$180,000. At the opposite extreme, if all 2,400 employees are forced to reduce their week by 4 hours, that would yield around \$3.5 million in savings.

OPTION 1(C): COST SAVINGS FOR HOURLY EMPLOYEE REDUCTIONS

Employees	Hours reduced			
	1	2	3	4
500	\$180,208	\$360,417	\$540,625	\$720,833
1000	\$360,417	\$720,833	\$1,081,250	\$1,441,667
1500	\$540,625	\$1,081,250	\$1,621,875	\$2,162,500
2000	\$720,833	\$1,441,667	\$2,162,500	\$2,883,333
400	\$865,000	\$1,730,000	\$2,595,000	\$3,460,000

Reduce Wage Scale. A reduction in the work week by some hourly increment as described above can often be seen as a purely temporary response that may lead to rapid reversal, in the event that a longer-term solution is desired, it may be advisable to consider modest reductions in the wage scale so that impacts of wage hour reductions on health, education and emergency services do not need to be factored into the implementation. With a total wage bill of approximately \$35 million each 1% in wage scale reduction would yield \$350,000 in savings.

OPTION 1(D): COST SAVINGS FOR A REDUCTION IN WAGE SCALE

Wage reduction (%)	% of Civil Service affected	Annual Savings
1%	100%	\$350,000
2%	100%	\$700,000
3%	100%	\$1,050,000
4%	100%	\$1,400,000
5%	100%	\$1,750,000

Note: savings estimates based on total civil Service wage bill of \$35 million annually.

REFORM AREA #2 - NITIJELA SALARIES AND ALLOWANCES

TRENDS AND CURRENT SITUATION

The Nitijela Members (Compensation) Act sets the base salaries and establishes a Lump Sum Allowance and a Session Allowance for the 33 members of Nitijela (including the President and Cabinet ministers). Salaries and allowances for Nitijela members (including allowances not shown in this section) have continued to grow over time, with the Nitijela Members Compensation Act amended more than a dozen times since the mid 1980s. The salaries and allowances authorized by this Act are as follows:

	Number	Salary	Lump Sum Allowance per Member	Session Allowance per Member	Salary + Allowance Per Member	Total Allowances all Members	Total Salaries all Members	TOTAL SALARIES + ALLOWANCES
President	1	60,000	50,000	5,000	115,000	55,000	60,000	115,000
Cabinet Ministers	10	35,000	5,000	5,000	45,000	100,000	350,000	450,000
Speaker	1	35,000	5,000	5,000	45,000	10,000	35,000	45,000
Vice Speaker	1	30,000	5,000	5,000	40,000	10,000	30,000	40,000
Committee Chairs	7	28,000	8,000	5,000	41,000	91,000	196,000	287,000
Senators	13	26,000	8,000	5,000	39,000	169,000	338,000	507,000
	33	--	--	--	--	435,000	1,009,000	1,444,000

Note: housing, electricity and other allowances established outside of the Nitijela Members Compensation Act not shown

Annual base salaries range from \$26,000 for regular Senators (those without Chairmanships) up to \$60,000 for the President. Lump sum allowances range from \$5,000 for Ministers, the Speaker and the Vice Speaker, up to \$50,000 for the President. Session allowances are fixed for all members at \$5,000. The total annual package (including the base salary and two allowances) ranges from \$39,000 for Senators up to \$115,000 for the President. Altogether, annual Nitijela member compensation is costing the Government \$1,444,000, or roughly between 4 to 5 percent of total General Fund expenditures (and this excludes other benefits received by Nitijela members which were set outside of the Nitijela Members Compensation Act).

The Nitijela Members (Compensation) Act also states:

- In Section 402, that “Notwithstanding the above, and in the final year of each term of the Nitijela, salaries of those members described under sub-section (2) (e) and (f) above shall be increased by an amount equal to 25% of their respective salaries.” This section essentially creates a 25 percent raise in the base salaries of the seven Committee Chairs and 13 senators, and pushes up the total cost of Nitijela compensation by another \$133,500 every fourth year to a total of \$1,577,500.00.
- In section 405, that “Members of the Nitijela shall not be paid any compensation, expense or allowance with public funds, except as provided by Act.” There are several other benefits and allowances received by Nitijela members not clearly provided for in any Act.
- In section 406, that with respect to the session allowances, “For each sitting day a member is not present due to unexcused absence or suspension the session allowance shall not be paid,” but it is known that all Nitijela members receive the entire \$5,000 allowance regardless of their attendance records.

REFORM AREA #2 OPTIONS

OPTION 2: NITIJELA SALARY AND ALLOWANCE REFORM COST SAVINGS

Action	# of members affected	Annual Savings
Cut lump sum allowances	33	\$165,000
Rationalize with 10% savings target	33	\$144,000

The CAP recommends a reduction in lump sum allowances. Except for the President, each member shall receive a lump sum of \$2,500 (regardless of office). The President will receive a \$25,000 lump sum allowance (instead of the current \$50,000 allowance). Total annual savings \$165,000.

REFORM AREA #3 - HOUSING ALLOWANCES

TRENDS AND CURRENT SITUATION

Housing allowances¹ are direct cash payments made to certain government employees for the intended purpose of helping to cover their accommodation costs. Housing allowances have been a standard expense on the budget for many years, and were traditionally given to expatriate workers who do not have accommodation in the RMI. Over time, however, a number of non-expatriate workers (both elected officials and civil servants) have been granted housing allowances, to the point where it is now a relatively significant budget expense (particularly on the General Fund).

There are currently 30 known recipients of the \$9,000 annual housing allowance, as indicated in the table below. The vast majority of these individuals are Marshallese, have been long-term residents of Majuro, and own their own homes.

¹ "Housing allowances" are treated separately from "Leased and Rental Housing"; housing allowances constitute direct payments of \$9,000 annually to individuals for the intended purpose of defraying their housing costs, while leased and rental housing is the provision of housing accommodation to government workers (expatriates) paid for directly by the government.

HOUSING ALLOWANCE (KNOWN) RECIPIENTS AS OF 2009

Recipients	Number	Annual Cost
President and Cabinet Ministers	11	\$99,000
Chief Secretary/Deputy Chief Secretary	2	\$18,000
Chairman/Vice Chairman Council of Iroij	2	\$18,000
Nitijela Speaker/Vice Speaker/Legal Counsel	3	\$27,000
Auditor General	1	\$9,000
Judges and Justices	5	\$45,000
PSC Chairman and Commissioners	3	\$27,000
Attorney General	1	\$9,000
Civil Aviation Operation Inspector	1	\$9,000
Ambassador At Large	1	\$9,000
TOTALS	30	\$270,000

REFORM AREA #3 OPTIONS

Eliminate all housing allowances for all public officials (elected or otherwise) who are known residents of Majuro and who own their own homes; housing allowances must only be granted to officials whose true residences are outside of the RMI and who have incurred a cost of living adjustment by their relocation to the RMI. These would then be subject to individual contract terms and conditions and would not be a separate entitlement item.

If these principles are applied, then almost all of the current recipients of housing allowances will be disqualified; this would yield an **annual savings in excess of \$250,000**.

REFORM AREA #4 - ELECTRICITY ALLOWANCES

TRENDS AND CURRENT SITUATION

In 1992 Cabinet passed the original authorization for an electricity allowance for Majuro landowners. The allowance was based on the premise that landowners deserve some form of compensation for the use of their land for the power distribution system. The electricity allowance covered the first 1,000 kWh of monthly electricity consumption per landowner. In the original Cabinet authorization in 1992, an estimated 150 landowners on Majuro were eligible for the allowance; the estimated annual cost to the budget at that time was \$180,000 [(150 landowners) x (\$.10/kWh) x (1000 kWh) x (12 months)].

Over the ensuing 17 years to 2009, the official list of landowners who receive this allowance (this list is kept by the Ministry of Internal Affairs) has grown nearly four-fold, from 150 to 565. At the prevailing residential electricity rate of \$.24 per kWh, the annual expenditure for this allowance to Majuro landowners will now total \$1.627 million, nearly ten times the originally estimated amount. But in addition to the rapid growth seen in the landowner list, at least 24 known public officials have also been added to the list in recent years, including: the President and Cabinet Ministers, Chairman and Vice Chairman of Council of Iroij, Speaker and Vice Speaker, Chief Secretary, Auditor General, Judges/Justices, and PSC officials.

In the first eight months of FY2009 (October through May), \$677,000 was spent on landowners' allowance, suggesting that by fiscal year-end well over \$1 million will be spent. For public officials, around \$28,000 was spent in the first eight months of FY2009, meaning for the entire year it will total \$42,000.

Electricity allowance spending has essentially doubled in the past five years because of both rising electricity tariffs and the growth in the number of recipients of this allowance. In the early 2000s total spending on this allowance was below \$500,000 but in FY2008 it approached \$800,000, in FY2008 it exceeded \$900,000 and by end of FY2009 it will exceed \$1 million. The table below summarizes the original (1992) situation versus the situation today.

ELECTRICITY ALLOWANCE (KNOWN) RECIPIENTS AS OF 2009

Recipients	Original # Recipients	Original Cost (a)	Current # Recipients	Current Cost (a)
President, Ministers, Chief Sec.			12	\$ 34,560
Chair & Vice Chair Council of Iroij			2	\$ 5,760
Nitijela Speaker/Vice Speaker			2	\$ 5,760
Auditor General			1	\$ 2,880
Judges and Justices			4	\$ 11,520
PSC Chairman and Commissioners			3	\$ 8,640
Majuro Landowners	150	\$180,000	565	\$1,627,200
TOTALS	150	\$180,000	589	\$1,696,320

Note: Based on \$.10 per kWh, (b) based on \$.24 per kWh

REFORM AREA #4 OPTIONS

OPTION 4: ELICTRICITY ALLOWANCE COST SAVINGS

Action	# of individuals affected	Annual Savings
Cut all electricity allowances for public officials (effective Oct. 1, 2010)	34	\$69,120
Return Landowner list to max. of 150 (effective Oct. 1, 2010)	415	\$1,195,200
Shift to monthly limit of \$100 (effective Oct. 1, 2010)	150	\$252,000

Note: Assumes average landowner usage of \$2,880 per year.

REFORM AREA #5 – LEASED AND RENTAL HOUSING

TRENDS AND CURRENT SITUATION

Expatriate government workers who do not receive housing allowances directly (and possibly some non-expatriate, resident workers) are provided leased and rental housing. Over the past five years (between FY2004 and FY2008), this expense has more than doubled, jumping by 101 percent. In fact, in years FY2006 and FY2007 it actually exceeded \$1.3 and \$1.1 million, respectively. The table below summarizes growth in this expense since FY2004 from the General Fund only. In the last five years alone, well over \$4 million was spent out of the General Fund only on leased housing (not counting larger amounts spent from other funds).

ANNUAL GENERAL FUND EXPENDITURE ON LEASED/RENTAL HOUSING

FY2004	FY2005	FY2006	FY2007	FY2008
\$358,032	\$678,797	\$1,365,178	\$1,161,161	\$718,917

In FY2008, another \$1.6 million was spent on leased and rental housing from all other funds (non-General Fund). This means that nearly \$2.4 million was spent in total on leased and rental housing in FY2008. So far in FY2009 (through early July 2009), over \$400,000 has been spent out of the General Fund and nearly \$1.1 million from all other funds.

REFORM AREA #5 OPTIONS

No CAP phase I savings are proposed, however, it is expected that total costs could be reduced by **\$70,000** within three years and by **\$150,000** within five years.

REFORM AREA #6 – UTILITY BILLS

TRENDS AND CURRENT SITUATION

As electricity tariffs have grown rapidly in the past four years, so too has the Government's electric utility billings. General Fund spending on utilities has more than doubled (113 percent), jumping from \$1,070,146 to \$2,279,218 from FY2004 to FY2008. Part of the large increase in FY2008 could be explained by the advances to MEC from the national Government to help cover fuel supply payments (these advances are now being offset against electricity billings in FY2009, which suggests that the amount expended in FY2009 will be far lower than that in FY2008).

In FY2008, in addition to the General Fund spending on utility bills of \$2,279,218, spending from all other funds totaled around \$1.6 million. In FY2009, as of early July, around \$373,000 was expended from the General Fund while around \$1.1 million was expended from all other funds.

Government electricity consumption has been falling steadily over the past several years. In calendar year 2005, average monthly Government electricity consumption (inclusive of all Government entities) was 862,171 kWh, translating into annual electricity billings for that year of just under \$2 million. In the 12 months leading to April 2009, monthly Government electricity consumption averaged 5,107 kWh, but with much higher tariffs total billings were nearly \$3 million.

Much more can be done to further reduce Government electricity consumption and more aggressive measures must be pursued as soon as possible to improve electricity efficiency, given the likely rise in electricity tariffs over the near to medium term.

REFORM AREA #6 OPTIONS

OPTION 6: UTILITY BILLS – POTENTIAL

Action	% reduction in kWhrs	Annual Savings
Demand reduction phase 1	10%	\$250,000
Extended demand reduction	20%	\$500,000
Further demand reduction	30%	\$750,000

Note: Assumes government utility billing average of \$2.5 million annually

At a minimum, the Government can undertake a program of rapid conversion of all public building lighting systems to high-efficiency lighting systems, installation of motion sensor light switches, and much more aggressive program to reduce consumption and improve

efficiency across all departments of government. With phased implementation, it is estimated that the 10 percent reduction could be achieved in the first year, the 20 percent reduction within three years and the 30 percent reduction within 5 years.

REFORM AREA #7 – COMMUNICATIONS

TRENDS AND CURRENT SITUATION

Spending on communications has grown by 30 percent in the past five year period and is now in excess of half a million a year (in FY2007 it actually peaked at over \$650,000). Details on the exact composition of this spending are not available, but it is expected that internet charges are the primary cost driver (a number of national government organizations have established dedicated “leased lines” with NTA for higher speed internet access, but these usually come at a minimum \$600 monthly price tag).

ANNUAL GENERAL FUND EXPENDITURE ON COMMUNICATIONS

FY2004	FY2005	FY2006	FY2007	FY2008
\$392,909	\$470,138	\$479,781	\$650,870	\$506,130

Communication expenses from other funds have also grown rapidly over the years. In FY2008, nearly \$850,000 was spent on communications from Compact and other funds, and with the half a million spent from the General Fund, the total spent on communications in FY2008 was over \$1.3 million.

So far in FY2009 (through early July), \$396,066 has been expended out of the General Fund and around \$280,000 from all other funds, suggesting that by FY2009 year-end the total will again reach the \$1 million mark.

REFORM AREA #7 OPTIONS

No CAP phase I savings are proposed, however, it is expected that total costs could be reduced by **\$50,000** within three years and by **\$100,000** within five years.

REFORM AREA #8 – VEHICLES

TRENDS AND CURRENT SITUATION

Spending on new vehicles is another area where notable growth has taken place. In FY2008, \$66,346 was spent from the General Fund on new vehicles, while another \$684,524 was spent from all other funds, totaling three-quarters of a million dollars. In FY2009, as of early

July, the General Fund trend had doubled, totaling \$126,223 while all other funds have reached \$356,816.

REFORM AREA # 8 OPTIONS

No CAP phase I savings are proposed, however, it is expected that total costs could be reduced by \$50,000 within three years and by \$100,000 within five years.

REFORM AREA #9 – FUEL

TRENDS AND CURRENT SITUATION

Spending on fuels (petroleum, oils and lubricants or “POL” in the budget) has crept upwards in recent years as gasoline and diesel prices have steadily risen.

ANNUAL GENERAL FUND EXPENDITURE ON FUEL

FY2004	FY2005	FY2006	FY2007	FY2008
\$441,313	\$445,408	\$704,679	\$514,313	\$484,405

In FY2008, in addition to the \$484,405 spent from the General Fund, another \$1.5 million was spent on fuels from all other funds. Through early July 2009, nearly \$300,000 was expended out of the General Fund for fuels and another \$500,00 was expended from all other funds; in all of FY2009 the total will exceed the \$1 million mark.

REFORM AREA #9 OPTIONS

No CAP phase I savings are proposed, however, it is expected that total costs could be reduced by **\$70,000** within three years and by **\$100,000** within five years.

REFORM AREA #10 – TRAVEL AND PER DIEM

TRENDS AND CURRENT SITUATION

While travel and per diem spending in FY2008 dropped markedly, it has grown sharply over the long term (since the late 1990s) and is now a significant expense. In FY2008, General Fund spending dropped to \$1,135,305, the lowest level seen since FY2002 when \$1,134,136 was spent.

ANNUAL GENERAL FUND EXPENDITURE ON TRAVEL AND PER DIEM

FY2004	FY2005	FY2006	FY2007	FY2008
\$1,417,384	\$1,448,365	\$1,760,941	\$1,473,227	\$1,135,305

Through early July 2009, around \$617,000 was spent out of the General Fund and another \$1 million from all other funds. This suggests that FY2009 might be another year of lowered spending on travel and per diem, but the total will still be around \$1 million for the General Fund (if the trend through early July continues).

REFORM AREA #10 OPTIONS

No CAP phase I savings are proposed, however, it is expected that total costs could be reduced by **\$100,000** within three years and by **\$200,000** within five years.

REFORM AREA #11 – PROFESSIONAL SERVICES

TRENDS AND CURRENT SITUATION

Professional services spending from the General Fund has increased by 27 percent between FY2004 and FY2008 and has exceeded \$600,000 in FY2008 and FY2006. This consists of special contracts with short-term consultants (need more info on this).

ANNUAL GENERAL FUND EXPENDITURE ON PROFESSIONAL SERVICES

FY2004	FY2005	FY2006	FY2007	FY2008
\$480,768	\$418,411	\$668,652	\$375,025	\$612,926

Spending on professional services from all other funds in FY2008 totaled around \$1.2 million, a total of around \$1.8 million for all of FY2008. In FY2009,

REFORM AREA #11 OPTIONS

No CAP phase I savings are proposed, however, it is expected that total costs could be reduced by **\$30,000** within three years and by **\$60,000** within five years.

REFORM AREA #12 – GRANTS AND SUBSIDIES

TRENDS AND CURRENT SITUATION

Grants and subsidies (including “transfers out” from the General Fund) to public enterprises and other entities have grown markedly over the recent five years, exceeding \$6 million from the General Fund in both FY07 and FY08. Overall, this expense category has grown by 43 percent since FY04.

ANNUAL GENERAL FUND EXPENDITURE ON GRANTS AND SUBSIDIES

FY2004	FY2005	FY2006	FY2007	FY2008
\$4,458,911	\$5,371,188	\$5,741,805	\$6,393,028	\$6,366,073

REFORM AREA #12 OPTIONS

RMI should conduct an in-depth review of State Owned Enterprises with the aim of improving their financial and operational viability and to rationalize subsidies and transfers.

No CAP phase I savings are proposed, however, it is expected that total costs could be reduced by **\$600,000** within two years and by **\$1,800,000** within five years.

REFORM AREA #13 – ORGANIZATION/FACILITIES CONSOLIDATION

TRENDS AND CURRENT SITUATION

Previous efforts to consolidate organizations (e.g. Ministry of Public Works and the Ministry of Resources and Development) have since been reversed, and recommendations made in several reports for the consolidation of certain organizations have not been seriously considered. Consolidation of organizations with duplicative functions may yield significant savings.

REFORM AREA #13 OPTIONS

Several consolidation options should be re-considered.

Merging ministries and other government agencies. The previous merging of the Public Works and Resources and Development ministries may warrant reconsideration, with the role and function of the current Public Works entity re-organized so as to emphasize contracting and monitoring only (versus direct participation in works activities).

Merge EPA and OEPPC. The Office of Environmental Policy, Planning and Coordination (OEPPC), established in the early 2000s as a new government agency, was set up with the intention of improving environmental planning and coordination. While these intentions are admirable, in reality this entity and the existing EPA have overlapping functions and should be consolidated.

Merge UN and DC missions. The RMI United Nations mission can also be considered for consolidation into the Washington, DC embassy, with one dedicated staffer resident in DC appointed to cover UN issues and the DC Ambassador accredited to cover both the UN and the US. Such a move would reduce Ambassador and staff numbers, reduce office lease and other expenses, etc. Moreover, sale of the RMI Ambassador's residence in New Rochelle, New York would yield at least several hundred thousand dollars to the General Fund.²

Centralize facilities. In the longer term, there should be consideration to centralize and consolidate government facilities on Majuro, moving ministries and agencies into a single area to reduce lease and other costs.

No specific CAP phase I savings are proposed, however, it is expected that total costs could be reduced by **\$150,000** within three years and by **\$300,000** within five years.

² The medium price for homes for sale in the New Rochelle area as of July 13, 2009 was \$525,000 (source: Yahoo RealEstate)

SUMMARY MATRIX OF EXPENDITURE REFORM AREAS AND OPTIONS

REFORM AREAS	MINIMUM SAVINGS (\$m)	MAXIMUM SAVINGS (\$m)
The Civil Service	1.7	4.9
Nitijela Member Compensation	.14	.17
Housing Allowances	.25	.27
Electricity Allowances	.5	1.52
Leased and Rental Housing	.07	.15
Utility Bills	.25	.75
Communications	.05	.1
Vehicles	.05	.1
Fuel	.07	.1
Travel and Per Diem	.1	.2
Professional Services	.03	.06
Grants and Subsidies	.6	1.8
Organization/Facilities Consolidation	.15	.3
TOTAL	3.96	10.42

Mid-point average = **\$7 million**

OTHER EXPENDITURE REFORM AREAS

As already mentioned, while the above list constitutes the largest and fastest-growing expenditures under the General Fund, other expenditure areas should also be targeted for reform and rationalization. These include: Representation; Contractual Services (aside from Professional Services); Rentals (aside from Leased/Rental Housing); Printing and Reproduction; Repairs; Office/Computer Supplies; Food Stuff; Equipment and Tools (non-capitalized); Other Supplies/Materials; and Other Charges and Expenses. Altogether, these expenditures total around \$2 million from the General Fund.

NEXT STEPS

While the “Summary Matrix of Expenditure Reform Areas and Options” shows a minimum savings level of \$3.96 million annually and a maximum savings level of \$10.42 million, the CAP Advisory Group is prepared to work collaboratively following Cabinet general endorsement of the “scope and scale” of the CAP measures and also following a full round of public education and outreach on the need for and the elements of the CAP.

Clearly the next step is for the Cabinet to endorse the CAP concept or to consider an alternative to the CAP proposal to fully address the RMI’s looming fiscal and economic imbalances. The CAP Advisory Group and our macroeconomic advisor stand ready to provide a full technical and conceptual briefing and dialogue session with Cabinet upon invitation. Through such a session—perhaps spanning over a 2 day period to allow for collaboration and consideration—it is expected that Cabinet could have all or most of its questions and concerns addressed in a closed-door, open dialogue session.

If and when Cabinet endorses moving the CAP concept toward full “action-planning” and pre-implementation phase, we would strongly recommend bringing all or most of our external development partners into a process of dialogue. If Cabinet endorsement is EXPLICIT and the general “scope and scale” of the CAP is agreed, we have tremendous potential to mobilize extensive donor support for our internally-designed program.

At a minimum we would recommend a policy and action **roundtable meeting**, perhaps in Washington, DC, with the US Government hosting, the ADB participating and the IMF and World Bank participating or observing. The Minister of Finance would play the leading role in leading that meeting to achieve the RMI’s objectives for technical assistance, grant projects and loan-financed projects to:

- (a) support reform design and implementation,
- (b) finance reform measures,
- (c) finance infrastructure requirements with concessional loans that can also be repaid using donor (including Compact) grants to thereby reduce net external debt, and
- (d) finance RIF payments and otherwise finance other measures to mitigate the short-term impacts of CAP measures, and (e) support longer-term institutional reform and efficiency improvements.

Alternatively—but still requiring Cabinet endorsement—the RMI might request a full donor “Consultative Group” Meeting (CGM) hosted by the ADB. The participation in such a meeting would be broader—including all donor partners and multi-lateral agencies—however, the focus might be less targeted to some of the RMI’s most pressing and urgent needs.

APPENDIX I: WORK IN PROGRESS AND OTHER REFORM AREAS FOR CONSIDERATION

FISCAL CONTROL AND ENFORCEMENT OF APPROPRIATIONS LAW

There are numerous examples of spending above and beyond the legally set limits in the appropriations bill.

In the FY2008 Budget Appropriations Bill, \$725,620 was budgeted for the Majuro Landowner subsidy, but this was exceeded by \$203,651 (totaling \$929,271).

As previously discussed in this report, there needs to be a more structured way of approaching the budget process utilizing the MTBIF and performance based budgeting for all funds and not just the ones affecting Compact.

LOAN GUARANTEES

The government has guaranteed numerous loans to various entities, including non-government entities.

The long-term impacts of these guarantees need to be evaluated and determine if some of these entities are at risk of defaulting on their loans. Recently, Bank of Marshall Islands liquidated a government TCD to pay off a loan outstanding by Air Marshall Islands.³

Some of these loan guarantees were made to entities outside the government. The government guaranteed a \$178,000 loan for the Assembly of God Church with MIDB.⁴ The details of the guarantee are not known, but guaranteeing a loan for a church is outside the scope of what the government should be doing.

Not included in these guarantees are liabilities owed by State Owned Enterprises (SOE's) and Statutory Authorities. For some SOE's and authorities, in order to continue to pay on these loans, subsidies are needed from the government.

The government has committed and guaranteed loans in excess of \$50 million.

If liabilities of the all the SOE's and Authorities are added, then direct and indirect RMI government commitment is substantial. The combined exposure (loans, loan guarantees and other liabilities) of the government is well over a \$100 million.

³ Marshall Islands Journal Friday, September 25, 2009 page 14

⁴ FY2008 Audit Report, page 68

IMPROVING THE CIVIL SERVICE

During the late 1990's, the PSRP concluded and the government of the time accepted that the civil service was overstaffed and there existed a serious shortage of technically qualified staff. Government organizational structures were excessively fragmented, resulting in functional duplication of ministries and statutory authorities and agencies, which suffered from both waste and paralysis of the public service management system. Inability to enforce personnel procedures was a major contributor to the high cost of the civil service.

The RMI continues to be plagued by the same issues today and recent studies confirm this.⁵

The structural deficit faced by the RMI government today is largely a result of the way the national policies are formulated and implemented (inconsistencies often have developed between goals and mission statements and the policy tools that are meant to help development, but are often in conflict both between and even within ministries). How financial resources are allocated and the way the civil service is managed compound the structural deficits.

The result of a combination of factors has created a situation where we now face persistent budgetary shortfalls and economic decline. Thus, the greater questions are: can the government continue to afford the current levels of service and more importantly, should the government be the sole provider of these services, and finally where does the private and NGO sector fit into all of this?

The CAP recommends that Cabinet endorse and initiate a systematic review of how government prioritizes and provides essential services to the public.

This will require a revisit of the Vision 2018 policy document, which was endorsed by the Nitijela in 2001 as a statement of national goals and objectives of the Marshall Islands. All of the development sectors (i.e. health, education, transportation, environment, fisheries, tourism and agriculture) need to be revised, updated and incorporate new development sectors (i.e. energy, infrastructure and others) into a new national development strategy or National Policy Matrix Framework (NPMF).

The NPMF then needs to be costed and tied to the Medium Term Budget and Investment Framework (MTBIF) and a proposed Long Term Budget and Investment Framework (LTBIF).

In order to implement the national development objectives and the budgets that support those objectives, the public personnel service and government institutions need to be

⁵ ADB TA 4458 revealed widespread inconsistencies in the personnel system at the Ministry of Education.

aligned. This will require a comprehensive review first aligning the institutions with the stated policy and second allocating the personnel needed to staff those institutions.

The CAP recommends that the Cabinet seek Technical Assistance (TA) from its development partners that should be packaged in a Consultative Group Meeting (CGM).

The TA should focus on the following areas:

- a. assist the Public Service Commission conduct a government wide personnel audit and improve personnel management generally;
- b. assist the Office of the President/Chief Secretary/Economic Planning, Policy and Statistics Office develop a new National Policy Matrix Framework that will be costed and tied to the MTBIF and LTBIF;
- c. assist the Office of the President/Chief Secretary conduct an institutional review with the aim of reorganizing the public sector that are inline with the NPMF;
- d. assist the Office of the President/Chief Secretary conduct an institutional review of existing State Owned Enterprise with the aim of rationalizing of subsidies and transfers and where appropriate, privatize;
- e. assist the Office of the President/Chief Secretary conduct a feasibility study on outsourcing government public services (i.e. contracting out hospital services, government maintenance etc.)
- f. assist the Ministry of Finance, Procurement and Supply Division improve procurement processes that include bulk/volume purchasing and bidding processes;
- g. assist the Economic Planning, Policy and Statistics Office improve economic planning, external aid coordination and statistics capabilities;
- h. finally, assist the RMI Government to generally improve governance structures and procedures that include building capacity within the Auditor General's Office (in addition to financial audits, assist in building capacity to conduct performance and program audits), the Attorney General's Office, Nitijela's Public Accounts Committee and the establishment of an independent Ombudsman Commission.

IMPROVING DONOR AID COORDINATION

Often, institutional developments within the government have responded to funding sources rather than to the priorities of the nation (i.e. donors pushing grants and or projects on the recipient nation). The RMI needs to be in a position to accept or deny grants when

those grants are not inline with national priorities or those that have the potential of creating duplication or those that override existing priorities.

There is a cost to the RMI when accepting grants that are not inline with national priorities.

One of the functions of the Economic Policy, Planning and Statistics Office (EPPSO) is donor aid coordination as required under statute. All external aid activities by all ministries, authorities and agencies should be coordinated by EPPSO.

All aid sources should be aligned with the national development strategies or NPMF that are tied to the MTBIF and LTBIF. There should be an external aid component of the budget/appropriations bill.

APPENDIX II: TERMS OF REFERENCE OF CAP ADVISORY GROUP

The CAP Advisory Group will be responsible to the Minister of Finance to complete the following within the specified timeline:

- (a) An initial progress report of *The Advisory Group* to be completed no later than May 15, 2009;
- (b) A fully specified Framework of Fiscal and Economic Adjustment options to be completed in draft form no later than May 30, 2009;
- (c) Completion of a Cabinet briefing, incorporating participatory measures to capture both generalized and detailed feedback from Cabinet members with respect to the appropriate size, specific elements, phasing of elements, and timing of any fiscal and economic adjustment program that Government may implement on its own or in beneficial coordination with donor partners. To take place at Cabinet's invitation following May 30, 2009;
- (d) Subject to Cabinet approval to proceed, additional reports and deliverables as required; and
- (e) Prior to dissolution of *The Advisory Group*, a Final report to Cabinet by June 30, 2009.

In order to provide for timely completion of its responsibilities *The Advisory Group* shall convene meetings at least on a monthly basis and as called by the Chairman when necessary to conduct the businesses of *The Advisory Group*. In order to conduct the business of *The Advisory Group*, a quorum of at least [four or five] members (excluding non-member advisors) of *The Advisory Group* must be present.

Where there are a requirement for certain individuals or organizations to make presentations or provide information before *The Advisory Group*, under such mandate, it is also proposed that the Cabinet authorize *The Advisory Group* the "power" to call for parties to appear before the Commission.

Public Service Commission Limited Personnel Audit

December 2009

Lenest Lanki, Deputy Commissioner Public service Commission, Republic of the Marshall Islands.

William Pitkin, ADB Structural Reform and Human Resource Adviser.

Contents

Introduction	3
Audit Process	3
Outcomes.....	4
Audit Area One: Duplication of roles and responsibilities	4
Audit Area Two: Job description accuracy	5
Audit Area Three: Position category and remuneration alignment	5
Recommendations	6
Appendix One: Work Group Members	7
Appendix Two: Data collection forms	8

Introduction

From November to December 2009 the Asian Development Bank (ADB) and Republic of the Marshall Islands (RMI) undertook a Technical Assistance Project to inform a proposal for a loan program to assist the RMI respond to current fiscal and economic challenges. This technical assistance involved analysis of State Owned Enterprises (SOE's), finance and budget analysis, public service analysis and public consultations.

The Public Service Commission (PSC) was assisted to explore opportunities for rationalizing public sector expenditure and improving performance with the input of a Human Resource and Structural Reform Adviser (SRHRA). The PSC requested that the part of the Adviser's input go towards working with the deputy Commissioner to conduct a limited personnel audit of the three largest Ministries: Ministry of Education, Ministry of Public Works and Ministry of Health. The PSC identified three areas of interest:

1. To identify examples of duplication in roles, responsibilities and activities between positions;
2. To examine the accuracy of job descriptions in describing the key responsibilities and tasks of positions, and;
3. To identify any examples of misalignment between categorizing positions and remuneration received by position holders.

Audit Process

The personnel audit was limited because of the time constraints of the SRHRA. The SRHRA had four weeks to complete his original terms of reference and assist in the personnel audit. The audit was limited to examining approximately sixteen staff position in each of the three Ministries over a two week period. It was decided to use three work groups to collect the audit information. Two representatives were nominated from each of the Ministries of Health, Education and Finance. Together with three Personal Officers of the PSC each work group consisted of three people. Working group members are attached as appendix one.

The working groups were briefed on their responsibilities at a meeting on the 20th November and provided with templates to collect the required data. The data collection forms are attached as appendix two. The process for collecting the data was discussed to ensure consistency and accuracy. The importance of collecting the data in a confidential and non threatening manner was highlighted. The working groups were also to ensure all participants in the audit were

voluntary and told the purpose of the audit and how the information was to be used. The need for confidentiality was reinforced at this and subsequent meetings. The working groups developed action plans and identifying positions to be audited. Two more meetings of the working groups with the SRHRA and Deputy Commissioner were held to monitor progress during the two week data collection period. The PSC personnel officers participating in the working groups also met regularly with the SRHRA and Deputy Commissioner during this time.

The Chairman of the PSC advised the three Ministers and Secretaries by memorandum of the audit and requested their Departments cooperation.

The PSC Personnel Officers collated the information for the working groups and the SRHRA summarized the results.

Outcomes

In discussing outcomes the small sample size audited has to be considered. While the quantitative results can not be statistically relevant their main contribution, when combined with the results of discussion, is to identify possible problem areas for further investigation and action. Similarly the reporting of the working group members was partially subjective, for example assessing whether duplication between positions was justified or not.

Audit Area One: Duplication of roles and responsibilities

Within this audit area position job descriptions of a sample were examined to ascertain any duplication. Position holders were then interviewed as to their key responsibilities and activities. Where duplication was identified the working group made an assessment as to if the duplication was 'justified' or 'unjustified'. Justified was defined as appropriate duplication e.g. a number of positions having the same responsibilities or doing the same activities because the volume of work demanded more than one person. Unjustified was where no reason could be found to explain why some positions duplicated work. E.G. Two positions from different categories with different remuneration doing the same work.

All three Ministries had identified cases of duplication with 30% of the cases being assessed as unjustified duplication. MPW had more than half the sample (9 out of 16) with unjustified duplication. This together with inaccurate or no job descriptions identified in audit area two suggests unclear roles and responsibilities. This would make it difficult for managers to implement plans, monitor progress and achieve outcomes on a daily basis. It is also difficult to manage the performance of work teams and individuals if staff are unclear about what is expected of them. An outcome of unclear roles and responsibilities is that people tend to do those parts of the job they like and leave those parts they don't. Gaps in the service delivery process can result in poor public service. Table 1 shows the results for audit area one;

Table 1: Duplication of Positions

Ministry	Number of Positions Reviewed	Number of cases where duplication of roles could be justified.	Number of cases where duplication of roles is not justified.	Number of reviewed cases with no duplication.
MOE	18	3	4	11
MPW	16	4	9	3
MOH	16	3	2	11
Total	50	10	15	25

Audit Area Two: Job description accuracy

This audit area clearly suggested that job descriptions in the public service were in need of review and updating. 90% of the sample showed some degree of inaccuracy and more than half the positions rated as having mostly inaccurate or no job description. This has implications for a range of workforce planning issues such as recruitment, transfers, promotion and skill development. Lack of accurate job descriptions is both a symptom and a cause of role duplication and can contribute to lack of accountability and poor performance. Table 2 identifies the job description ratings across a five point scale.

Table 2: Accuracy of Job Descriptions

Ministry	Number of Positions Reviewed	Rating 5 Accurate.	Rating 4 Mostly Accurate.	Rating 3 Some Accuracy.	Rating 2 Mostly Inaccurate.	Rating 1 Inaccurate or none.
MOE	18	2	0	4	5	7
MPW	16	0	0	0	16	0
MOH	16	3	0	7	3	3
Total	50	5	0	11	24	10

Audit Area Three: Position category and remuneration alignment

The sample results of this area identified a small number of positions in the sample as not being aligned and therefore being either under or overpaid. While this is a small number (4?) it is still a serious concern. From this limited audit it appears that the classification of position can sometimes change from the original classification when the position was first created to a higher classification when a person is appointed resulting in a higher remuneration than what was intended or for which the position holder may be qualified for. Table 3 shows the results for this audit area.

Table 3: Alignment of Job Category and Remuneration

Ministry	Number of Positions Reviewed	Number of Position Aligned	Number of Position not Aligned	Amount Overpaid	Amount Underpaid
MOE	18	15	3	\$7975	\$2000
MPW	16	15	1	\$4945	0
MOH	16	11	5	0	3000
Total	50	41	9	12920	5000+

Recommendations

Outcomes from this limited personnel audit suggest it would be of benefit for the Public Service Commission to conduct a similar but more detailed audit across all Ministries. The results could then be used to prepare a job evaluation exercise that would aim to bring equity and consistency of responsibility levels and remuneration to the public sector. This would be an important step towards workforce planning and rationalization of the public service to reduce expenditure and achieve sustained organizational performance through the development of a capable workforce.

Appendix One: Work Group Members

Mr. Jemi Nasion	MOF
Mr. Clarence Samuel	MOF
Mr. Richard Bruce	MOE
Mr. Peter Anjain	MOE
Mr. Sorry Riklon	MOH
Mrs. Salome Lanwi	MOH
Mr. Simon Katill	PSC
Mrs. Anna Ruth Reither	PSC
Mrs. Takwoj Lanwi	PSC

Appendix Two: Data collection forms

PSC Personnel Audit Worksheet 1

Ministry:

Division

Recorders Name

Duplication: *Identifying similar job descriptions that do similar tasks or have the similar responsibilities.*

Position A: Name and classification	Position B: Name and classification	Areas of duplication or similarity

PSC Personnel Audit Worksheet 2

Ministry:

Division

Job Title

Job Descriptions: Check that the job description has the following accurate information: Tick for 'yes' (✓) or Cross (X) FOR 'no'.

Does this job description have the following?

Checked by:

ELEMENT	YES	NO
Job title		
Classification level		
Division		
Who position holder reports to		
Overview or purpose		
Key areas of responsibilities		
Key tasks		
Standards of work experience required		
Pre-requisite qualifications		
Pre-requisite experience		
Pre-requisite skills and abilities		
PSC approval		
Comments on job description content and accuracy		

Rate each job description using the following scale: 5 = Accurate; 4 = Mostly accurate; 3 = Sometimes accurate; 2 = Mostly inaccurate; 1 = Inaccurate

PSC Personnel Audit Worksheet 3

Ministry:

Division

Recorders Name

Classification – Remuneration Alignment: Check alignment of position classification and remuneration of position holder against entitlement. Is the position holder receiving more or less than their entitlement?

Position Holder Name	Job Title	Classification	Entitled Remuneration Per Annum	Actual Remuneration Per Annum



**Republic of the Marshall Islands:
A Holistic Approach to Reforming the Tax and Revenue
System**

**Tax and Revenue Reform and Modernization Commission
Republic of the Marshall Islands**

**Submitted to the Minister of Finance
Honorable Jack Ading**

March, 2010

TABLE OF CONTENTS

Foreword	1
Executive Summary	2
Introduction: The Need for Reform	4
Objective and mandate of the Tax Reform Commission	5
The Challenge.....	6
Activities of the Commission	7
Results of Consultation with the Private Sector	8
PFTAC Report and Recommendations of the Commission	9
High Tax Rate vs., Low Tax Rate Scenarios	10
Reforming Personal Income Tax: Relief for the Poor	12
Taxation of Dividends and Interest	13
Reforming Business Taxation: Replacing GRT	13
Minor Issues in the PFTAC Report	15
<u>Replacing Import Taxes: Consumption Tax</u>.....	16
MISSA	19
Revenue Administration	19
Conclusion	21
Annex: RMI Current Taxation Structure	22

Foreword

Among its three main mandates approved by RMI Cabinet on July 11, 2008, the Tax and Revenue Reform and Modernization Commission (The Commission) core mandate is; “to deliver to the Government, a proposal for consideration to reform the current tax system and structure, that are appropriate and suitable for the purpose of meeting, the current and future financial needs of the Republic of the Marshall Islands, and a tax and revenue design conducive to current realities and circumstances.”

Accordingly, with the support of IMF and PFTAC in an advisory capacity, the Commission sets out to deliver this mandate. The Commission made presentations to members of the Chamber of Commerce, private sector on Ebeye, conducted radio interviews, solicited comments from the public using the Yokwe Online website and the Marshall Islands Journal. In short, a deliberated public engagement leading to this report has been achieved.

Resulting from the wide and long process of public engagement and numerous meetings of the Commission, the IMF and PFTAC Report was published on September, 2009. Then soon followed the Commission’s Report entitled “Republic of the Marshall Islands: A Holistic Approach to Reforming the Tax and Revenue System.”

On behalf of the Commission, I wish to express our Kommol Tata to the Honorable members of the Cabinet for allowing the Commission the opportunity to review, examine and make recommendations of a tax regime best conducive to the RMI as it navigates into the new millennium. I also wish to express gratitude to each Members of the Commission for their commitment and tireless efforts throughout the long two years in producing this report. Thank you to members of the Chamber of Commerce, Marshall Islands Journal, Mr. Aenet Rowa of the Yokwe.net, Ministry of Internal Affairs, Ebeye business community, the General Public, and staff of the Ministry of Finance, MalGov, EPPSO and MISSA for their cooperation and contribution. Lastly, I wish to give a big Kommol Tata to Honorable Minister Ading, Secretary Barton, and Chief Secretary Nemra.

Francis Carlos Domnick

Chairman, Tax and Revenue Reform and Modernization Commission

Executive Summary

The Commission appreciates the concise format of the Executive Summary in the PFTAC Report. We present below a summary of the recommendations of the Commission in the same format for easy comparisons.

Recognizing the unique aspects of the economy in the RMI, several of the PFTAC Report recommendations have been modified to be more appropriate to the social, business and political realities of the RMI.

RECOMMENDATIONS

1. *General*

- As per the mandate of the Commission, tax reform is to be revenue neutral to existing taxpayers as a group and thus not result in tax increases.
- Increased tax revenues should come from enforcement of those not currently paying or underpaying.
- Tax regulations are to be applied equally to the Private Sector, National and local governments and state owned enterprises.
- Broadening Tax Base to minimize tax burden and to include other items not currently taxable.
- Consideration for Introduction of the Revenue Authority of the Republic with a governing board of directors, which shall also oversee the mandate to provide for rules and approval of tax exemptions.

2. *Personal income tax*

Reform the personal income tax by:

- Expanding the range of taxed income to include allowances and in-kind benefits. Unlike the recommendations in the PFTAC Report, the Commission makes the recommendation to impose interest and dividends at a low rate at 3%.
- Expanding the tax free threshold to \$4,160 per year and apply it to all taxpayers.
- Adding an additional rate of tax of 16 percent for salary and wages greater than \$20,800 as opposed to the recommended 20 percent rate in the PFTAC Report which does not consider the tax revenue from taxing housing allowances.

Current Personal Tax Rates		Proposed Personal Tax Rates	
0-\$1,560	0 percent	0-\$4,160	0 percent
\$1,561-\$5,200	8 percent (with first \$1,560 being exempt)	\$4,161-\$10,400	8 percent
\$5,201-\$10,400	8 percent	\$10,401-\$20,800	12 percent
>\$10,400	12 percent	>\$20,800	16 percent

3. *Business net profit (Income) tax*

Replace GRT by introducing an income tax with the following features:

- Rate of approximately 20 percent to be determined by a confidential study of business net margins for neutrality to existing GRT revenues.
- Apply to all taxpayers with gross annual revenue greater than \$100,000 (including pooling of revenue of commonly owned businesses).
- Apply to professionals grossing less than \$100,000 where appropriate.
- Standard straight line asset depreciation rather than the PFTAC Report's recommendations of group and accelerated depreciation.
- Allow loss carry forward for 3 to 5 years.
- Resist pressure to introduce tax incentives. Any tax incentives should have "claw back" provisions for recovery in the event that businesses do not meet agreed upon criteria.

4. *Presumptive tax*

Retain the GRT as a presumptive tax for small businesses (that is those not covered by the income tax) with the following features:

- For businesses with gross annual revenue of less than \$10,000, retain the flat rate but consider increasing the amount.
- For businesses with gross annual revenue between \$10,000 and \$100,000 introduce two presumptive tax rates: 3 percent for trading enterprises and 6 percent for services recognizing that some professionals in this group should pay income tax.
- Allow small business taxpayers to opt into the net profits tax.

Clarify the law that wages and salaries or similar payments such as drawings are captured under the personal income tax.

5. *Consumption tax*

Introduce a consumption tax in the form of a sales tax (as opposed to VAT as recommended in the PFTAC Report) to replace the hotel and resort tax, standard rate import duties, and local government sales taxes with the following features:

- Rate of 10 percent assessed at first point of sale.
- Exemptions kept to a minimum and exports zero-rated.
- Applying to government purchases of goods and services.
- The national government collecting and administering the tax with the local and national governments entering into a revenue sharing arrangement.

6. *Excise taxes*

- Replace the existing import duties on alcohol, tobacco, motor vehicles, and fuels with excise taxes.
- Increase the rates to take account of the current local government taxes on these goods. Increase the existing low rates on alcohol, and decrease the existing high rates on beer to more nearly equalize taxation based on alcohol content.

Introduction: The Need for Reform

Outside advisory groups have recommended reform of the tax structure and tax administration of the RMI for several years. It is deemed to be archaic, inefficient, inequitable, and an impediment to the economic growth of the Republic. In short, to adapt to changing social and economic factors, the tax system needs to be modernized or reformed. It has additionally been reported that the system is been poorly administered, and tax collections are far below the levels that would result from universal and honest compliance practices including improvements in enforcement of tax laws. .

There have previously been a few consultative meetings with the private sector to discuss tax reform issues including an excellent “retreat” under the auspices of the ADB in August of 2005 with public and private sector stakeholders. None of these meetings resulted in any agreed upon conclusions in the RMI as to the best course of tax reform for the RMI. No group of informed people was specifically organized to evaluate the complex problems and options and to recommend the most appropriate course of action for the RMI prior to the establishment of the Tax Reform and Modernization Commission.

The deteriorating financial condition of the National Government has made reforms imperative. The payroll of the National Government has doubled, and is becoming unsustainable compared with 10 years prior, world market conditions have raised commodity prices to unprecedented levels with oil/fuel costs a particularly critical problem for the national budget. Downsizing at the US Army Base at Kwajalein has deprived the government of payroll taxes on furloughed employees. The downsizing has affected American and Marshallese employees working on the base that had earned high wages. The squeeze of increasing expenses and decreasing revenues has created the need to stabilize government revenue streams. At the initiative of the Minister of Finance, Hon. Jack Ading, on July 11, 2008, the Cabinet approved a Tax Reform and Modernization Commission to evaluate the problems, many alternatives for reform, and to recommend the best system of taxation for the RMI’s specific circumstances. The Tax Reform Commission was to be assisted and advised by a representative of the Pacific Financial Technical Assistance Centre (PFTAC), a regional organization within the International Monetary Fund. On April 22, 2009, also at the initiative of the Minister of Finance, a separate Comprehensive Adjustment Program Advisory Group was formed to address recommendations for expenditure reform.

Objective and mandate of the Tax Reform Commission

The underlying rationale of the commission is based on the following tenets (1) strengthen RMI Tax administration and Enforcement, (2) provide ways and means to ensure fiscal sustainability and (3) promote sustainable private sector growth.

The Cabinet endorsed the following objectives to the Tax Reform Commission:

1. To deliver to the Government a proposal for consideration to reform current tax system and structure that are appropriate and suitable for the purpose of meeting the current and future financial needs of the Republic of the Marshall Islands and a tax and revenue design conducive to current realities and circumstances;
2. To deliver to the Government a proposal for consideration to strengthen the capabilities and effectiveness of the revenue collecting administration, sufficient to implement the revenue and tax reforms and improve the level of (voluntary) compliance of RMI Tax Payers.
3. To take the role and responsibility of governing and oversight of the design to ensure effective implementation of these changes needed to enhance a sustainable revenue stream to the Government

To provide for an approach to making sound recommendations, the Tax Commission adopted the following guiding principles:

- Transparent and certain
- Effective and efficient to administer
- Simple and broad based
- Fair and equitable
- Financially neutral
- Low tax burden
- Promote private sector development
- Attractive to foreign investment

In short, the recommended system should be clear and simple for those paying and collecting taxes, and broad enough to capture taxes on all segments of the economy. It should be fair and equitable to all taxpayers, financially neutral to the existing taxpayers as a group, and the existing level of taxes should be redistributed among taxpayers in the fairest manner possible by recognizing an ability to pay. This system should be favorable to the private sector to encourage development and attractive to foreign investors.

The Tax Commission has been discussing options since its founding with the assistance of the PFTAC advisor and has come to some broad conclusions. The PFTAC advisor who was aided toward the conclusion of the project by another experienced advisor completed a report with recommendations and published it in September, 2009, as “Republic of the Marshall Islands: Reforming the Tax System” - Peter Mullins and Carson McNeill. We will refer to it as the PFTAC Report.

The purpose of this report by the Tax Reform and Modernization Commission is to explain our deliberations, conclusions, endorsements, and recommended revisions of the conclusions in the PFTAC Report.

This report should be read in conjunction with the PFTAC Report, as that report and its detailed tables will generally be referenced rather than duplicated herein.

The Challenge

Tax schemes are not “one size fits all” that can simply be applied everywhere. Taxation policies must be tailored to the specifics of each country’s economy and national goals. What works well in one country may be a failure in another.

The RMI has some unique aspects in its economy. Little is produced either for domestic consumption or export. As a result there are few locally originated products while most are imported. . Large amounts of financial assistance, resources and contributions come into the Republic from outside sources mostly from the Compact of Free Association with the U.S. Government, the Republic of China (Taiwan), and others including Japan, Australia, New Zealand and the EU. The government spends this for purchased products, services, construction, and government payroll. This allows local businesses to import and sell the vast majority of products sold in the country and to pay their own employees. Most of the proceeds from these sales leave the country immediately to pay for the imported products. Much of the profit from these sales in turn also leaves the country: (1) although there are no statistics, foreign businesses are presumed to be sending money elsewhere; (2) foreign expatriate employees send money home and take their local savings when they repatriate; (3) some local businesses invest their profits elsewhere; and (4) the majority of deposits in the overseas banks doing business in the RMI are often repatriated to their home country where the money is loaned and circulates in that economy. As a result there is little circulation of money in the RMI, and the ‘multiplier’ that economists discuss as a measure of this is very low here.

As the funding of the Compact decrements for grants and increases for the trust fund, less revenue money will be available for government spending thus creating hardships for a private sector currently dependent upon government spending.

The economy of the RMI needs to move from being based on government spending of outside funds to an economy driven by a healthy private sector producing products, services, profits, and employment. This is no simple task, and it will take years. There are many aspects of making the RMI more conducive to business, but a business-friendly tax policy is one of the more important. Encouraging and assisting local business is as important as attracting foreign investors as local businesses can more easily be enticed to keep their money in the local economy.

Salaries and wages are generally low particularly in the private sector. Unemployment is high, and the employed typically have to support large households.

The RMI is not rated highly in the annual World Bank's "Doing Business" report. The 2010 Report shows the RMI as 98th which is a twelve position drop from 2007 and below every other Pacific country except the FSM at 127th and the Solomon Islands at 104th.

The Commission has been looking at tax reform proposals in view of the above circumstances of the RMI, and as a result which will be detailed later in this report, believes that some of the excellent recommendations of the PFTAC Report should be modified accordingly to suit the circumstances and realities of the RMI.

Activities of the Commission

The Commission was formed with nine members, five from the private sector and four from the public sector. The members are:

Mr. Carlos Domnick, Chairman
Mr. Ben Chutaro, Vice Chairman
Mr. Ben Graham, Member
Mr. Phil Marshall, Member
Mr. Mr. Hermai Makroro – Proxy Jim McLean, Member

Mr. Bruce Bilimon, Secretary
Ms. Saane Aho, Proxy Bryan Edejer Member
Mr. Carl Hacker, Member
Mr. Joseph Batol, Proxy John Peralta Member

Support Staff:

Mr. Itibo Tofinga Chief of Revenue and Taxation, Mr. Daniel Timothy Chief of Customs and the Staff of the Ministry of Finance

Advising the Commission were:

Mr. Carson McNeill, PFTAC Revenue Administration and Policy Advisor and
Mr. Peter Mullins, International Monetary Fund.

The Commission reviewed a number of the more recent tax reform reports, including:

- Macroeconomic Issues and Fiscal Policy, 1995
- Taxation Issues, 1995
- Trade Policy, the Labor Market and Private Sector Development, 1995
- A Structure for a Value Added Tax, 1996
- Tax Reform other than VAT, 1996
- Revenue Collection - Administrative Issues, 1996
- Local Government and Proposed National Tax Reforms, 1997
- Tax Policy and Administration in The Republic of the Marshall Islands, 2006
- Country Analysis, 2006
- Selected Issues and Statistical Appendix, PFTAC 2008
- Republic of the Marshall Islands: Reforming the Tax System, PFTAC 2009

Solicitation of recommendations and comments from the public on a new system of taxes was considered critically important to attain trust and future compliance from businesses and individual taxpayers. Accordingly, the Commission published a notice of the Commission's establishment and a request for public comments in the Marshall Islands Journal. Public notices were also broadcast on V7AB, published on the Marshall Islands Journal and the Yokwe.net website. Mr. Bruce Bilimon was interviewed on V7AB on the topic of tax reform and the activities of the Commission.

As a result, the Commission published a notice of the Commission's establishment and a request for public comments in the Marshall Islands Journal. Requests were also broadcast on V7AB.

Mr. Bilimon traveled to Ebeye with a delegation from the Ministry of Finance, and he met with private sector people to discuss the coming tax reform.

On behalf of the Commission Mr. Bilimon made a presentation to the Chamber of Commerce on the subject of reform and the role of the Commission. He requested comments and recommendations. Members of the Commission met individually with many of the business owners and managers in Majuro.

The public and private sector Commission members evaluated alternatives and prepared separate proposals over many months of discussion from their differing perspectives, and the Secretary of the Commission prepared a comparative chart of these for public distribution and comment.

The Chamber of Commerce devoted part of a later meeting to a presentation of recommendations from one of the business owners in response to the varied recommendations presented in the comparative chart.

Following public engagements, the Commission met on number of occasions.

Results of Consultations with the Private Sector

Candidly, it was very difficult to get businesses to offer recommendations or comments. The reasons for this were twofold. First, the business community was involved in the project to reform immigration laws two years ago. When the final law was passed it contained several anti-business provisions, and the recommendations/comments of businesses during the law's discussions had been mostly ignored. This increased the distrust of the Government by the business community, and several cited this in their disinterest in working on a tax reform measure. They expected to be similarly ignored. Also, businesses saw no advantage in a new system expecting a similar lack of compliance by those not complying with the current system coupled with a similar lack of enforcement.

Discussions with members of the private sector, without exception, named the biggest problem with the existing system of taxes to be lax enforcement and smuggling. There is no way to minimize the importance of this issue to those who have been paying taxes, and voluntary compliance with a new system of taxes will be heavily reliant upon the perceptions of the private sector as to a commitment of the taxing agencies to enforcing tax laws and vigorously prosecuting violators. The lack of prosecutions was often cited, including some of the high profile cases such as one incident where a foreign business person was caught smuggling vodka in water bottles that was reported in the Marshall Islands Journal.

Nonetheless, Commission members were able to hold some fruitful discussions with members of the business community.

The Chamber meeting in which a member commented on the Commission's chart of its members' alternate proposals began with a display by the member and Chamber president of products easily purchased in Majuro for prices below the value of the taxes that should have been assessed and thus obviously smuggled. A picture of these two gentlemen and the products was on the front page of the Journal. Moving on to specific comments about the Commission's chart, there were several substantive objections. On the subject of personal taxes they believed that too many wage ranges and tax rates were included and that it should be simplified. The upper tax rates were too high and would be too costly to businesses to pay them. On the subject of consumption taxes, they were opposed to VAT as being inappropriate to the simple economy of the RMI. It would also require too much unnecessary work by businesses to comply. On the subject of business taxes, they objected to several proposed new increased taxes in the government list of proposals.

PFTAC Report and Recommendations of the Commission

In September 2009, the PFTAC "Republic of the Marshall Islands: Reforming the Tax System" was published.

This excellent report draws upon previous tax reform reports, the deliberations of the Tax Commission, and the authors' own research and extensive expertise in international taxation.

In broad terms, the Commission members agree with the conclusions of the PFTAC Report. The Commission had moved toward the three basic conclusions: (1) a consumption tax was likely to be necessary; (2) personal tax brackets should provide relief for the working poor; and (3) business taxation should be on a net income basis. We have several material differences regarding the details of these taxes as proposed in the PFTAC Report. We feel that the proposed taxes should be appropriate to the RMI.

The authors use the terminology of Commonwealth countries. There are some minor differences as compared with the American terms in common use in the RMI. To avoid confusion, this report will use the terms that are familiar here. Income Tax, with which

we are familiar, is called a Net Profits Tax in the PFTAC Report. The term “revenue” in use in the RMI is called “turnover” in the PFTAC Report.

For each category of taxation, this report will offer some of the discussion points on alternate views debated by the Commission, and the reasoning behind the conclusions of the Commission.

High Tax Rate vs., Low Tax Rate Scenarios

The PFTAC Report presents tables showing the tax ramifications of a high and a low tax rate scenario. (Table 1. Summary of Estimated Fiscal Impact of Tax Reform Package). One of the basic founding principles of the Commission was that tax reform was to be neutral, collectively, to the current taxpayers and would redistribute the tax burden equitably. The Commission therefore can not recommend the high rate scenario. It is worth mentioning that the low rate scenario raises taxes by 1.4% of GDP on businesses and employees representing an additional \$2 million in taxes. The PFTAC projected taxes do not take into account increased taxes from additional definitions of income to be taxed (to be discussed later) or increased collections from those currently evading or underpaying taxation. The following is from the PFTAC Report: “taxpayer non-compliance is broadly estimated to be in a range of 40 – 60 percent.”

From the Final Report of The Comprehensive Adjustment Program Advisory Group: “Currently tax revenues are equivalent to 17-18% of GDP and the IMF suggest the optimal range should not be above 20% GDP. Raising taxes beyond this could further weaken the economy.” Enforcement of tax laws may well raise taxes as a percentage of GDP above 20% without the additional taxes contemplated even in the PFTAC Report’s Low Rate Scenario.

Table 3. Regional Comparison of Tax Revenue, 2007
(as a percent of GDP)

	Fiji 1/	FSM	Kiribati	Marshall Islands	Palau	Samoa 1/	Solomon Islands	Tonga 1/	Vanuatu
Tax revenue	22.4	11.7	19.7	17.9	18.3	26.2	31.1	26.8	18.9
<i>Income taxes</i>	8.1	2.3	7.8	7.4	4.3	4.5	10.0	5.9	n.a.
PIT/Wages and salaries tax	4.2	2.3	4.8	7.4	4.3	-	4.9	-	n.a.
Corporate tax	4.0	n.a.	3.0	n.a.	n.a.	-	5.1	-	n.a.
<i>Domestic goods and services taxes</i>	10.2	2.6	n.a.	3.9	6.0	17.0	11.3	11.6	11.6
VAT/CT	8.6	n.a.	n.a.	n.a.	n.a.	10.4	n.a.	11.5	11.6
GRT	n.a.	2.6	n.a.	3.9	6.0	n.a.	n.a.	n.a.	n.a.
Sales Tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9.5	n.a.	n.a.
Excises	1.5	n.a.	n.a.	n.a.	n.a.	6.6	1.8	0.1	-
<i>International trade taxes</i>	4.0	4.0	11.9	6.2	4.5	3.9	9.7	9.3	6.5
Imports	3.8	4.0	11.9	6.2	4.5	3.9	3.7	9.3	6.5
Exports	0.2	n.a.	n.a.	n.a.	n.a.	n.a.	6.0	n.a.	n.a.
<i>Other</i>	n.a.	2.9	n.a.	0.3	3.6	0.7	0.0	n.a.	0.8

Source: Mission compilation based on Ministry of Finance data in each country.

1/ 2006 data - Republic of the Marshall Islands: Reforming the Tax System Report by IMF.

By rearranging the data in the PFTAC table, it is easier to see the effects of the proposed tax changes. Tax figures are expressed as percentages of GDP.

Tax Changes	Existing Taxes	Low Rate Scenario	Increase - Decrease
Income Tax Replacing GRT:			
GRT	3.9		
Net Income Tax		3.7	
Presumptive Tax		0.1	
Totals	3.9	3.8	-0.1
Modifying Personal Income Tax			-1.0
VAT Replacing Import Taxes And Local Gov't:			
Import Taxes	5.6		
Fuel Taxes	0.6	0.6	
Local Governments	1.9		
VAT		7.0	
Excise Taxes (Alcohol, Tobacco, Other)		3.1	
Totals	8.1	10.7	2.6
New Taxes:			
Interest and Dividends		0.5	0.5
Total Revenue Impact			2.0
Less: Change in Price Effect of Government Spending		-0.7	-0.7
Net Fiscal Impact			1.3

As seen in the above comparisons:

A nearly neutral tax effect results from replacing GRT as business taxation with an income tax.

There would be a decrease of 1.0% of GDP by modifying personal income taxes.

Replacing import taxes and Local Government taxes with VAT and excise taxes results in an increase of 2.6% of GDP.

New taxes, in the form of interest and dividend taxes, raise an additional .5% of GDP.

The net effect to employees and business is taxes of an additional 1.3% of GDP. There is a minor difference in this table and that of the PFTAC Report (1.4%) due to a footing error in the PFTAC Report that is presumably from rounding.

Reforming Personal Income Tax: Relief for the Poor

The Commission recommends that all forms of allowances be defined as taxable income. There is some contention in the business community on housing allowance, however, which in theory is paid to foreign workers to help defray the high costs of living in the RMI. Eliminating the exclusion from taxation would drive up employers' costs as employees seek pay increases to compensate. The private sector believes that this would affect them particularly as private sector salaries and wages are generally lower than those of the public sector and thus would be more subject to pressure. Nonetheless, we believe that housing allowance, too, should be taxable income as should be housing directly provided. Over the years, housing allowance has also become a method of evading taxes as it is often paid to residents solely for the tax exclusion in addition to payments to legitimate foreign workers. Another form of excluded income that should be addressed is domestic per diem. Under the law, Per diem is excluded from taxation provided that reasonable per diem and travel allowance to the extent that they do not exceed any comparable Government rates. The Commission believes that the current definition need to be more elaborated to specify taxable amount applied to per diem. The Commission deems that some companies, recognizing the loophole, are paying management and employees part of their salaries/wages as per diem in Majuro to avoid some taxes.

The Commission believes that the current taxation of the lowest earning taxpayers is an inequitable hardship on those struggling to provide for themselves and their families. As a result, we are recommending that the first \$4,160 of annual income be exempted from taxation - this is the level of the minimum wage. The Commission debated several revisions to tax brackets and rates, but agrees with the private sector opinion that such brackets should be limited for simplicity. This same opinion is expressed in the PFTAC Report.

The Commission does believe, however, that the tax rate of 20% proposed in the PFTAC Report for the highest tax bracket is too high. The PFTAC Report does not include the impact of including housing allowance as taxable income. This is significant for many of the approximate 11% of taxpayers in the proposed highest bracket, and it would result in not only higher rates but higher income subject to taxation. The Commission estimates that a highest bracket tax rate of 16%, inclusive of housing allowances, will yield the same tax revenue as the proposed 20% in the PFTAC Report which ignores housing allowance. For most taxpayers the additional tax burden individually should not be excessive at the 16% rate.

Taxation of Dividends and Interest

The PFTAC Report recommends the taxation of dividends and interest. The Commission believes that this is inappropriate for the RMI given the limited amount of capital retained in the country and the need to attract outside investment. Adding taxes on dividends and interest would create disincentives to savings and investment in the Republic making alternative locations more attractive.

The traditional argument against taxing dividends is that they are distributed from after-tax corporate earnings, and such additional taxation raises total taxes to an unacceptable level. Consider this from the standpoint of corporate business owners. If a corporation's profits were taxed at 20% and dividends were taxed at 8-10%, then the total tax on profits paid to the business owners would be 28-30%.

Taxing interest would similarly be a disincentive for savings in the Republic and potentially drive deposits elsewhere.

On these topics, the following are excerpts from "Tax Policy and Administration in The Republic of the Marshall Islands", by Dr. Fuat M. Andic, Ph.D:

"The system also is not necessarily conducive to foster economic development. There are no provisions to encourage savings and reinvestment, nor are there specific tax incentives to encourage foreign investment. It is of paramount importance to realize that with a fairly low income level in the country capital formation cannot be financed only by internal savings alone."

"For the sake of encouraging savings, exemption of interest income from tax may be considered. This exemption is justifiable as a development policy."

Although the Commission recognizes the arguments in favor of exemption of dividends and interest from taxation to attract investment, it believes that a compromise low tax rate of 3% can raise revenue without unduly affecting investors negatively. We do have a minority opinion; however, that dividends and interest should remain tax exempt for the reasons discussed

Reforming Business Taxation: Replacing GRT

GRT is generally considered as an inequitable form of business taxation in that it imposes tax at a uniform rate on revenues with no regard to profit and ability to pay. It under-taxes high margin businesses, overtaxes low margin business, and helps force money-losing business into receivership. There is no need here to list all of its deficiencies that are adequately covered in the PFTAC Report, but a relevant point noted in the PFTAC Report is that, unlike income tax, GRT is not generally recognized as a form of taxation for which foreign governments allow tax credits in their own tax systems causing an investment disincentive for the RMI.

Net profit tax (Income tax) has been proposed previously as the most equitable form of business taxation. In consultations with the business community, the Commission has received mostly negative feedback, however. There are three aspects to this. First, the net profit tax was implemented early in RMI history, and it was a failure with tax collections dropping off dramatically. This resulted in the re-implementation of GRT. The tax changes had been rushed into implementation with inadequate training of the government employees responsible for its enforcement as well as inadequate preparation of the business community. The well-considered three year implementation period proposed in the PFTAC Report should prevent a re-occurrence of the previous problems

Secondly, the business community sees the net profit tax as having onerous filing requirements. This seems to stem from the net profit tax requirements in developed countries with which many business people are familiar. Required forms for filing income taxes in the RMI can, and should be, relatively simple with data easily obtainable from the financial statements and books of businesses. This makes filing and auditing of taxes easier for all concerned.

Thirdly, businesses believed that net profit tax would be easier to evade than the current GRT. The implementation period proposed in the PFTAC Report should provide time for adequate hiring and staff training for those businesses that need it and the Ministry of Finance. Hopefully there will be a commitment to beef up enforcement by Finance and the Attorney General in bringing businesses into voluntary compliance with a resulting increase in tax revenue.

The Commission believes that net profit tax is the best and most equitable form of business taxation and if properly implemented and administered will be accepted as beneficial by the business community. This will also make the RMI a more attractive investment location. It should also be noted that the RMI private sector is dramatically different today from what it was when income taxation was first tried. Today, businesses have the ability to keep records and calculate income taxes.

The Commission generally agrees with the excellent net profit tax proposal described in the PFTAC Report. We do have a few comments. The PFTAC Report mentions capital gains but makes no recommendations as to tax treatment. The Commission suggests that capital gains should be taxed at a lower rate than net income.

The Commission agrees with the PFTAC proposal that tax losses be allowed to be carried forward to offset future income. No mention is made of tax loss carry back, but the Commission does not recommend this although it is allowed in some countries.

The PFTAC Report recommends that \$100,000 in gross revenue is an appropriate amount above which income tax should be mandatory and that this captures 96% of the current GRT payments and thus presumably would capture a similar percentage of income tax. This is excellent reasoning and a solid proposal. The report further recommends that companies grossing less may opt into net profit tax if they wish or pay a presumptive tax similar to GRT. The Report recommends retaining the 3% rate for companies selling

goods and establishing a 6% rate for those selling services. This too is a solid proposal, but the Commission recommends considering a higher tax rate or required income tax filing for some service businesses below the \$100,000 threshold which have relatively lower costs of doing business absent the cost of goods sold. Consider a lawyer or consultant grossing \$90,000. Such a person might have office expenses of \$12,000 and MISSA employer payments of \$2,100 netting \$75,900 in profit. At 6 % GRT this person would pay just \$5,400 in presumptive income tax rather than \$15,800 at the Report's proposed 20% business tax rate and \$12,767 at the personal income tax rates proposed in the PFTAC Report. Such service businesses have the expertise to file income taxes. The Commission recommends that criteria or regulation be established so that such personal businesses pay their fair share of taxes.

Minor issues in the PFTAC Report

The PFTAC Report recommends group depreciation of assets for tax purposes. The commission believes that this is inappropriate from an accounting standpoint and can lead to errors and audit difficulties. The PFTAC Report also recommends accelerated depreciation. The Commission believes that this offers limited business benefit and that taxation should be strictly on a book basis, and thus not require book-to-tax reconciliations and separate tax bases for assets to complicate tax filings and audits.

In the section on anti-avoidance measures, the PFTAC Report recommends limiting interest deductions to prevent a business from unnecessary borrowing just for the deduction. The Commission finds it highly unlikely that a business would do so especially at a relatively low 20% tax rate. A business suffering decreased profits could find itself unable to deduct interest from prudent previous borrowing. We do not endorse this idea.

The PFTAC Report recommends avoiding the offering of tax incentives to entice new business in the RMI. Replacing GRT with net profit tax removes the largest problem that would require a tax holiday since, unlike GRT, RMI net profit tax would likely be a deductible tax credit in the home countries of investors, therefore an incentive for investors. Nonetheless, the Commission believes that tax incentives can be a useful tool as long as they are not offered for unreasonable lengths of time as has been done in the past. Any tax holiday offer should contain "claw back" provisions so that taxes waived would be recovered if the business does not meet specific criteria such as duration of investment or numbers of employees.

The biggest uncertain issue is probably the proposed rate of business net profit tax. This is the most difficult of the proposals in the PFTAC Report to predict as there are no reliable statistics of the profit margins of businesses in the Republic. The PFTAC Report predicts that a proposed 20% tax rate will be approximately revenue neutral to the current 3% GRT. For this to be accurate businesses would have to net 15% of their gross revenue as pre-tax profit. This is so critical to the success of implementing net profit tax that the Commission recommends a confidential study of the net profit margins of the businesses above the \$100,000 threshold. A significant error could result in excessive

taxation or tax revenue shortfalls which doomed the previous attempt at implementing income tax.

The Commission notes that some countries consider that a nation that has a business tax rate of less than 25% represents a tax haven. This is becoming a negative assessment that may further influence the setting of the business tax rate. The current estimated net profit tax rate to replace GRT is 20%, although this may change with a study of businesses margins. In light of the tax equivalency, implications of tax haven status should be easily deflected. It is worthy of note that of the thirty OECD countries, nine have net profit tax rates below 25% and seven have rates of 20% or less. In the event that outside opinions influenced an increase in domestic RMI income taxes (a disadvantage for the business community) other taxes would need to be decreased to avoid exceeding total reasonable taxation.

One additional recommendation comes from complaints from the business community. Businesses which do business with national and local governments report lengthy delays in collections. These businesses, on standard accrual basis accounting, could be required to pay income tax to the government although they had not yet received payment from the government(s). The Commission recommends that unpaid receivables from national and local governments be excluded from taxable income until such time as they are collected. The Commission recognizes the reconciliation issues but this inequity needs to be addressed. Alternately, new tax laws could allow businesses to offset government accounts receivables against tax payables.

Replacing Import Taxes: Consumption Tax

The Commission believes that import taxes are an effective and flexible form of taxation with the advantage of relatively easy enforceability and variable tax rates. It is expected, however, that trade agreements will eliminate import taxes requiring suitable tax substitutes that are acceptable to the standards of the international community and the expected trade agreements.

The Commission has discussed many alternatives for the replacement of import taxes and came to the conclusion that the most appropriate are a combination of consumption tax on most goods and services and specific excise taxes for some high value goods. It is worth mentioning at this point that such consumption taxes are applied directly to the goods and services and paid by the consumer. Many of the reports that the commission has read including the PFTAC Report equate consumption taxes with VAT. In fact, VAT is merely one form of a consumption tax and one that we feel is inappropriate to the specific circumstances of the RMI economy as well as potentially an unnecessary burden on its businesses and its government auditors.

VAT originated in countries whose economies are characterized by multiple steps from raw materials through manufacture to final sales. VAT, taxing at each step and also crediting taxes at each step, provides tax revenue throughout these processes over a period of time rather than only at the point of sale. Many other countries with more

simple economies have adopted VAT as well often for other reasons. This requires careful recordkeeping at each step and not just for the filing, collection, and payment of taxes at each step but filing for tax credits at each step. The business environment of the RMI is vastly different. Most economic activity is the result of imported products being sold retail in one step or in imported products being sold wholesale and then retail in two steps. Significant activity in the RMI such as construction involves importing products (or buying from an importer) and incorporating them along with labor into a final billing that represents two or three steps. Import to final sale is in a short period of time. The Commission believes that the additional recordkeeping of VAT is an unnecessary imposition of work for the businesses likely to require the costs of additional labor and an unnecessary complication for government auditors more of whom presumably must also be hired to administer VAT. There is no clear benefit to the adoption of VAT in the limited economy here. The PFTAC Report argues that VAT is superior because it eliminates tax cascading, but this is otherwise easily prevented. From the Report on justifying VAT: “While the problems from cascading and the impact of taxes on exports may not be currently significant in RMI, due to the small amount of exports and short production chains; removing these distortions will be important so as not to constrain future economic development.” The Commission feels that it is difficult to reasonably forecast long production chains for prospective new businesses in the RMI.

From “Tax Policy and Administration in The Republic of the Marshall Islands”, by Dr. Fuat M. Andic, Ph.D: “When all the above recommendations are implemented the possibility of a general sales tax at the retail level of, say, 5% should be considered. This will be in lieu of the local sales tax and proceeds will be shared between the national and local governments according to an established formula. It is imperative, however, that local governments forgo their right to impose local sales taxes. Those items which are considered as basic food items (similar to those items that will be exempted from customs duties), medicines and books may also be exempted.”

“Possibility of VAT instead of a sales tax is worthy of consideration. Several reports previously prepared argued strongly in favor of VAT and against the general sales tax. Certainly there are several advantages of VAT and many developing countries and most of all developed countries opted for VAT. This Report wishes to emphasize that given the prevailing conditions in RMI, instituting a VAT immediately may very well be premature. After some years of good experience in administering of and complying with the provisions of the sales tax by the taxpayers VAT may very well be a viable option.”

The traditional argument against consumption taxes is that they disproportionately affect the poor, who must spend all of their disposable income on necessities. To minimize the impact on the poor, many countries with consumption taxes in the developed world exempt certain necessary products from consumption tax, as noted above, and additionally have social welfare programs providing monetary support to the poor in part to compensate for consumption taxes otherwise paid by the poor. The Commission recommends that consumption taxes in the RMI be as low as possible to minimize the effects on the poor.

The Commission believes that a consumption tax in the form of a national sales tax at 10% is a simple and easily implemented alternative more appropriate to the economy of the RMI. This would replace import taxes on those general items not subject to excise taxes, replace Local Government taxes, and thus have no additional effect on the poor any more than the taxes that they replace. A person earning a minimum wage receives only \$208 in income tax benefit from the proposed income tax revisions so it is important then to not add an additional tax burden by increasing consumption taxes. As detailed in the PFTAC Report, National Government would share this National Sales Tax revenue with the local governments in the same fashion as would be done with VAT.

For businesses in Majuro, a national sales tax could be implemented immediately with little change as they are already paying MALGOV sales taxes of 4%. These taxes are collected at the first point of sale so there has been no cascading of taxes that the more complicated VAT is to prevent. The implementation in Kwajalein would be more complicated than in Majuro but still far more simple than VAT.

The PFTAC Report mentions implementation of VAT in other Pacific countries noting particularly Tonga and Samoa and their higher VAT rates of 15%. In consultative meetings with the Commission the success of VAT in Niue was also mentioned. These are very different economies than the RMI as they are heavily dependent on remittances by expatriate citizens sending money home to families from overseas employment. 80% of families in Tonga receive such remittances, and a similar rate is probable in Samoa. 1,500 people remain in Niue while over 10,000 have emigrated to New Zealand many of whom send money home. Taxing such remittances would be unacceptable but VAT effectively taxes this money earned elsewhere but spent locally. The RMI has in fact a slight net remittance outflow so the examples of VAT rates in Tonga, Samoa and Niue are inappropriate in comparison to the RMI.

Replacing the import taxes on high value items with excise taxes as proposed in the PFTAC Report is an excellent idea and simple to achieve as the mechanism would be the same. The Commission believes that if the importation of betel-nut is to continue to be allowed it should be taxed at a level similar to tobacco or alcoholic beverages. Many people in the business and general communities have complained for years that hard liquor is under-taxed as compared to beer and thus encourages more irresponsible drinking. Additionally there appears to be widespread smuggling of inexpensive vodka. The PFTAC Report addresses this with proposed increased excise taxes on liquor although it does not compute the additional tax revenue. Many people have also noted that beer is overtaxed, liquor is under taxed, and have expressed to Commission members the opinion that as liquor taxes increase beer taxes should correspondingly decrease keeping the tax revenue neutral but normalizing the respective taxes. This is worthy of consideration.

A couple of final comments on the PFTAC Report regarding VAT recommendations. The report recommends VAT also being assessed on the items subject to high excise taxes. This is the sort of cascading that the PFTAC Report otherwise has sought to

prevent. The Commission recommends that these items be exempted from the National Sales Tax as is currently done with MALGOV tax.

MISSA

The Commission did not evaluate MISSA taxes, investment income, expenses, disbursements, or actuarial assumptions as being outside of the scope of the Commission's mandate. MISSA has its own tax revenues and specific expenditure requirements and is unrelated to the RMI national accounts.

Several people have recommended to the Commission that small business owners should not be subject to paying both employer and employee taxes for themselves as the double taxation is too burdensome to such small business owners. Payments at the point of retirement would be actuarially reduced for the lesser payments. This would increase compliance while still providing retirement benefits. The Commission believes that this is an excellent recommendation to assist small business owners.

Revenue Administration

The Commission supports the recommendation of the IMF/PFTAC Report to consider establishing an independent revenue authority.

To complement the tax policy changes it is suggested that an omnibus Revenue Administration Act (RAA) be drafted to include the administration law of all taxes and revenues administered by the DRT. This is to achieve commonality and standardizing of all procedures for both tax and customs.

A framework of headings and considerations for a RAA follows:

Administration scope and principles

Through a governing board, the Authority shall derive its strategic directions from the tax laws and policies developed by the board of directors. The Board of Directors will report to the Minister of Finance.

Some RAA's incorporate a purpose or philosophy for the tax administration as a guide for managers and staff as they go about their business. This has an intended effect of influencing management and staff decisions in areas of developing and implementing tax compliance strategies and effective use of resources.

One country example where the purpose of the revenue administration is drafted as -
The obligation to administer the law in such a way as to collect the highest net revenue over time as is practicable within the law, having regard to promoting voluntary compliance, compliance costs to the taxpayer and the resources available

Self assessment

Consideration needs to be given to adopting self assessment processes in which the taxpayer takes self responsibility for preparing returns and paying taxes based on their own self calculation. Compliance risks are managed through assistance to taxpayers, risk based audits and other methods to encourage voluntary compliance behaviors.

Full self-assessment would require adequate assistance to taxpayers, the removal of discretions from the substantive provisions of the income tax (other than anti-avoidance provisions), an effective penalty regime that encourages voluntary compliance but does not punish genuine attempts to comply, and a binding ruling system.

Taxpayer objection and dispute resolution

This provision provides the rights and process for a taxpayer to dispute the assessment of tax made by the Secretary of Finance. The assessment of additional taxes can arise following an audit of a taxpayer's business affairs. A suggested objection and disputes resolution process is discussed later in this report, which if adopted, would need to be provided for in the RAA.

Collection powers

Powers of collection will need to be provided for including the personal liability of directors, preference of debt, distress and seizure, caveats and business closure in the case of default on wages and salaries withheld taxes.

Investigation powers

This provision relates to powers of access to information and property and the retention of records. Common law privileges are dealt with under this provision including professional privilege.

Refunds

Refunds are an important and common occurrence, particularly for exporters where refunds arise because of the consumption tax zero rating of exports. Refunds for consumption tax are normally delayed until after processing the return for the following period, when any remaining balance is then refunded.

Credits will also arise from overpaid installments of net profits tax where the taxpayer will request the overpayment be credited to another payment due or refunded. A provision is needed to allow the DRT to transfer credits between the different revenues and periods.

It is important that a separate appropriation is made to ensure there are sufficient funds to finance the refunds.

Conclusion

All these recommendations presume that both the private and public sectors are to be treated equally regarding taxes. This is imperative for a tax reform system to work. Everyone has to carry his own weight.

Businesses that are evading taxes at the expense of those paying taxes should be penalized to the fullest extent of the law. The recommendations set forth in this report address this problem. The government and its employees should pay their fair share of the taxes and be reasonable to tax-paying companies whom they owe. A tax reform system that is just, fair, transparent, efficient, low in tax burden, promotes private sector development, and attracts foreign investment will bring the Republic to a greater state of financial stability and security.

Annex:

1. RMI current Taxation Structure.

Overview of the current system

The three main sources of tax revenue in RMI are the wages and salaries tax, the gross revenue tax (GRT) and import duties. There are a number of other smaller taxes including the hotel and resort tax, immovable property tax, and non-resident gross income tax. Local governments have also been given authority to collect certain taxes with some local governments imposing a general sales tax in addition to the national government taxes. Social contributions are also required to be made to the retirement and health funds.¹ Box 1 sets out the main taxes in the RMI tax system.

Tax Type	Tax Rate
Wages and salaries tax	Wage income: 0-\$1,560 0 percent \$1,560-\$5,200 8 percent (with first \$1,560 being exempt) \$5,200-\$10,400 8 percent (no exemption for first \$1,560) >\$10,400 12 percent
GRT	\$80 if gross revenue less than \$10,000 3 percent of gross revenue if greater than \$10,000
Import duties	Standard rate 8 percent Food & public transport 5 percent (some basic food is exempt) Fuel: - Gasoline 0.25 cents per gallon - Jet and Diesel 0.08 cents per gallon Motor vehicles Greater of \$1,500 or 15 percent of Kelly's Blue Book value (if no Blue Book value then \$2,500 for new and \$1,500 for used vehicles) Tobacco: - Cigarettes \$1 per pack of 20 rolls - Cigars 151 percent - Other \$2.75 per 34.2 grams Alcohol: - Beer \$0.50 per can or 12oz unit - Wine \$2.75 per gallon - Spirits \$12 per gallon - Mixed drinks 26 percent
Immovable property tax	3 percent of gross income from leased property
Hotel and resort tax	8 percent of the daily room rate
Non-resident gross income tax	10 percent of the gross income earned on non-resident contracts
Local government sales taxes (the local governments also raise revenue from business license fees and other minor taxes and fees)	Majuro Local Government (MALGOV): - General sales tax 4 percent - Sales tax on alcohol 35 percent of c.i.f. value - Sales tax on tobacco 35 percent of c.i.f. value - Fuel tax 4 percent - Hotel room tax \$3 per room per day

¹ Social contributions are collected by the Marshall Islands Social Security Administration (MISSA).

Kwajalein Atoll Local Government (KALGOV):

	• Wholesale sales tax 10 percent • Sales tax on alcohol Specific rates • Gross rent tax 4 percent • Fuel tax \$0.06 per gallon • Hotel room tax \$2 per room per day
Retirement fund contribution	Employer 7 percent of gross wage and salary Employee 7 percent of gross wage and salary Self Employed 14 percent of presumed wage (twice highest paid employee or if no employees, 70 percent of gross turnover)
Health fund contribution	Employer 3.5 percent of gross wage and salary Employee 3.5 percent of gross wage and salary Self Employed 7 percent of presumed wage



Republic of the Marshall Islands

National Energy Policy and Energy Action Plan

VOLUME 1: NATIONAL ENERGY POLICY

Majuro, September 2009

The Government of the Republic of the Marshall Islands is grateful to the European Union for supporting the development of this national energy policy through the 9th European Development Fund.



Foreword

In 2008, the Republic of the Marshall Islands experienced unprecedented increases in the costs of imported petroleum fuel and staple food items. This high level of inflation had serious impacts on the economy and people of the RMI and prompted President Litokwa Tomeing and his Cabinet to declare a State of Economic Emergency on July 3, 2008. This led to an ADB-funded analysis of key energy issues in September 2008 and the Government's decision to develop a national energy policy and an action plan for its implementation.



MRD Minister Mattlan Zackhras

Although fuel prices fell dramatically in late 2008, they are again increasing substantially and imported petroleum still accounts for a high percentage of our imports. In the medium to long term, oil prices are expected to be unstable but remain at higher levels than they are today. Sustained high energy prices would result in a far worse crisis for the RMI than that of 2008. Reducing the expected social and economic impact requires serious action now. There must be an immediate and significant reorientation of the energy sector, with changes to reduce energy demand and diversify energy supply. The RMI must significantly improve energy efficiency and begin shifting its reliance away from oil and towards practical and affordable renewable energy sources for its urban and rural communities. This effort is also part of the nation's strategy to build resilience to climate change. Although the RMI as a small island nation contributes almost no greenhouse gases to atmosphere, we have no choice but to adapt to the severe impacts being caused by others.

This energy policy has been developed after extensive consultation within government and with the public. It expresses the RMI's commitment towards a new energy direction and serves as the foundation for planning and development in the energy sector over the medium term. It is expected to be endorsed by Cabinet and the Nitijela as official policy of the Government of the Republic of the Marshall Islands.

A handwritten signature in blue ink, appearing to read 'Mattlan Zackhras', written over a light blue horizontal line.

Mattlan Zackhras
Minister of Resources and Development

Acknowledgements

This energy plan was developed over a relatively short period beginning in late 2008. Its development and finalization were done so quickly that it required the considerable effort by many people during a few short months. The efforts of the following are greatly appreciated:

- The former Minister of Resources & Development, Hon. Frederick H. Muller, for his patience, confidence and trust throughout the entire process;
- Members of the national Energy Task Force for their commitment, willingness to meet frequently, ideas, guidance and reviews of various drafts, with special recognition of the work of ETF member Ben Graham, who provided guidance and sound advice throughout the process;
- The Asian Development Bank for supporting a Rapid Energy Assessment of key energy issues in September 2008, an Energy Public Policy Forum in January 2009, an Energy Fair in February 2009 and an ongoing energy awareness campaign;
- The European Union for financing the development of this policy and the action plan through the European Commission's REP-5 Pacific energy program;
- The private sector, government and NGO participants at a September 2008 workshop who actively and enthusiastically considered a wide range of strengths, weaknesses, opportunities and threats regarding energy issues in the Marshall Islands;
- The College of the Marshall Islands Public Policy Institute, which helped to organize the 2009 Energy Public Policy Forum; and
- Participants at the Forum, who produced *The Majuro Energy Declaration 2009*, which was endorsed by the Council of Iroij, the Marshall Islands Chamber of Commerce, the Marshall Islands Council of NGOs, the Office of the Chief Secretary and the Asian Development Bank, providing invaluable input to the policy development.
- Peter Johnston and Herb Wade for their patience, guidance, and professionalism in contributing to this National Energy Policy and medium-term Energy Action Plan.

This policy also benefitted from earlier analyses and strategies particularly *Marshall Islands: Issues and Options in the Energy Sector* (World Bank, et. al., 1991); *Marshall Islands National Energy Policy 2002* (draft, 2003); *Republic of the Marshall Islands Ministry of Resources and Development Strategy and Action Plan 2005-2010* (2004); the *Marshall Islands National PIREP Report* of the Pacific Islands Renewable Energy Project (RMI GEF/SPREP, 2005); and the RMI chapter of the *United States of America Insular Areas Energy Assessment Report* (PPA/USDOJ, 2006).



MRD's Key Energy Staff and Adviser

Thomas Kijiner, Jr.
Secretary of Resources and Development

Energy Planning Division
Ministry of Resources and Development
PO Box 1727, Majuro MH 96960

Tel: 692 625-4020 or 3206

Fax: 692 625-7471

E-mail: rndsec@gmail.com

Acronyms and Abbreviations

ACP	African, Caribbean and Pacific countries
ADB	Asian Development Bank
ADMIRE	Action for the Development of Marshall Islands Renewable Energies (RMI GEF/UNDP)
ADO	Automotive Diesel Oil = light diesel fuel
AusAID	Australian Agency for International Development
CMI	College of the Marshall Islands
EC	European Commission
EE	Energy Efficiency
EPD	Energy Planning Division of MRD
EPPSO	Economic Policy, Planning and Statistics Office
ETF	Energy Task Force
FY	Fiscal Year (ends September 30 th)
GEF	Global Environment Facility
GHG	Greenhouse gas
GWh	Gigawatt hour = million kWh
Iroij	Marshallese chief or king
JICA	Japan International Cooperation Authority
KADA	Kwajalein Atoll Development Authority
KAJUR	Kwajalein Atoll Joint Utility Resource
kW	Thousand Watt (common unit of electrical power)
kWh	Kilowatt hour (common unit of electrical energy)
LPG	Liquid Petroleum Gas (propane)
M&E	Monitoring and Evaluation
MEC	Marshalls Energy Company
MEPS	minimum energy performance standards
ML	Megaliter = million liter (1 liter = 0.264 US gallon)
MPW	Ministry of Public Works
MRD	Ministry of Resources and Development
MW	Megawatt = million Watt = thousand kW
MWh	Megawatt hour = million Watt hour = thousand kWh
NGO	Non Governmental Organization
Nitijela	The Parliament of the RMI
O&M	Operations and Maintenance
OEPPC	Office of Environmental Planning and Policy Coordination
PIC	Pacific Island Country
PIREP	Pacific Islands Renewable Energy Project (GEF/SPREP)
PPA	Pacific Power Association
PV	Photovoltaic(s) = Solar Electric
RE	Renewable Energy
REP-5	Support to the Energy Sector in 5 ACP Pacific Islands (including the RMI; EC-funded)
RMI	Republic of the Marshall Islands
RMIEPA	RMI Environmental Protection Agency
\$	US dollar, the official currency of the RMI
SOPAC	South Pacific Applied Geosciences Commission

SPREP	Secretariat of the Pacific Regional Environment Programme
SUV	Sport Utility Vehicle
SWOT	Strengths, Weaknesses, Opportunities and Threats
UNDP	United Nations Development Program
WUTMI	Women United Together Marshall Islands

Table of Contents

Foreword	i
Acknowledgements	ii
Acronyms and Abbreviations	iii
Table of Contents	v
Objectives and Goals for Energy Development	vi
1. National Context and Economic Overview	1
2. Overview of the Energy Sector	2
3. A Framework for National Energy Policy and Its Implementation	7
4. Energy Policy Administration and Implementation	9
5. Petroleum and Liquid Fuels	12
6. Electric Power	14
7. Transport and Energy Use	17
8. Energy Efficiency	19
9. Renewable Energy	22

Annexes

Annex 1:	The Public Consultation Process
Annex 2:	The Majuro Energy Declaration 2009

Objectives and Goals for Energy Development

The *national vision* of the RMI, as expressed in “Vision 2018”, the Marshall Islands Strategic Economic Development Plan for 2003-2018 is:

To become a country within an inter-dependent world, with an enhanced socio-economic self-reliance, and an educated, healthy, productive, law-abiding and God-loving people in which individual freedom and fundamental human rights are protected, and culture and traditions are respected, and development and environmental sustainability are in harmony

(from the Second National Economic and Social Summit, 2001)

The *objective* for national energy development is consistent with the above national vision:

An improved quality of life for the people of the Marshall Islands through clean, reliable, affordable, accessible, environmentally appropriate and sustainable energy services

Broad *goals* for the development of energy services are:

- Electrification of 100% of all urban households and 95% of rural outer atoll households by 2015;
- The provision of 20% of energy through indigenous renewable resources by 2020;
- Improved efficiency of energy use in 50% of households and businesses, and 75% of government buildings by 2020; and
- Reduce supply side energy losses from MEC by 20% by 2015.

1. National Context and Economic Overview

The Republic of the Marshall Islands (RMI) consists of two groups of 29 atolls and five raised coral islands extending 750 miles (1200 km) north-south and 800 miles (1300 km) east-west, with the capital Majuro located 2000 miles (3200 km) from both Honolulu and Tokyo. The 1999 census recorded 50,840 people. Due to considerable emigration to the US, net population growth has been low; the current estimated population is 54,000, with roughly 51% residing on Majuro and 20% on Ebeye in Kwajalein atoll.



The Marshall Islands

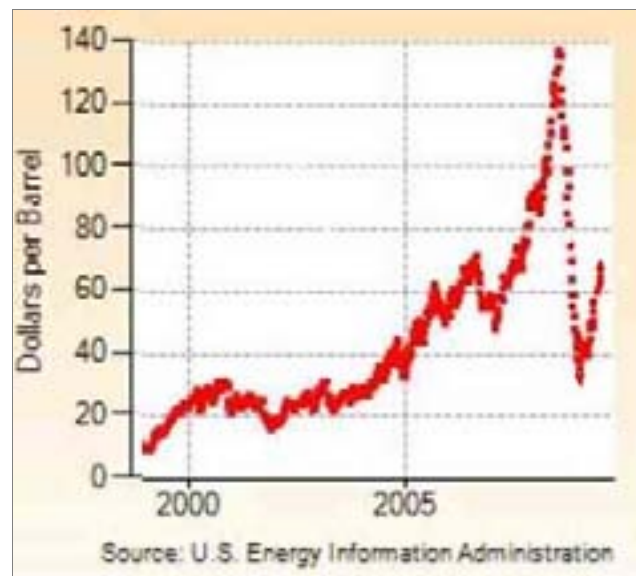
The RMI is heavily dependent on compensation payments from the US and external assistance, grants recently averaging \$70 million annually, or 45% of Gross Domestic Product (GDP) and 70% of fiscal revenue, mostly through two Compacts of Free Association with the USA, the current one from FY 2004–2023. The economy declined between 1990 and 2001 but annual growth in real terms averaged 3% from 2001–2003 and 3.6% from 2004–2007. Unemployment remains high, human development indicators lag behind other middle-income countries, and income distribution is uneven, with relatively high poverty on some outer atolls. Conducting business can be difficult due to problems of access to finance and land, sometimes ineffective laws and regulations, relatively poor infrastructure, and the huge role of the state, which accounts for some 40% of GDP and 46% of paid employment. Although Japan and Taiwan have contributed significant grant funding, the budget remains highly dependent on the Compact, with US grants accounting for 64% of projected 2009 revenue. Public debt remains high, arrears on the debt have been a problem, and the fiscal position is weak. The government is addressing these issues but progress can be slow.

According to the Asian Development Bank, GDP grew by about 1.5% in FY 2008, due mainly to grant-financed public expenditure. Copra production rose in response to high international prices, with production exceeding 7,000 tons for only the third time in 50 years. However copra prices have since dropped substantially. Fuel imports accounted for nearly 20% of the national budget in FY 2008, with some of the aid funds allocated for capital projects redirected to finance fuel. The high prices for imported petroleum – coupled with large price increases for electricity, transportation and rice – resulted in inflation of 29.4% in the third quarter of 2008 compared to the same period in 2007. This was the highest inflation rate in the Pacific, reflecting the RMI's remoteness and extreme import dependency. It also demonstrates the importance of containing the cost of energy imports.

Much of the income on the outer islands has traditionally come from copra sales but widely fluctuating, and often low, copra prices have led to an interest in using coconut oil as a fuel to reduce diesel fuel imports. Remittances from relatives on Majuro and Ebeye and pensions are also common sources of outer island cash.

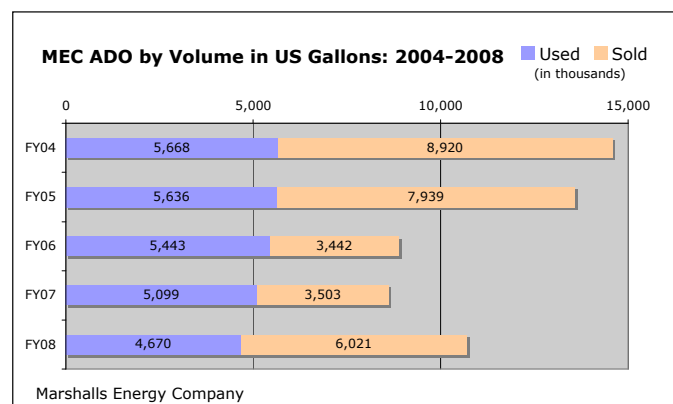
2. Overview of the Energy Sector

Petroleum. The graph at the right shows the average spot price for OPEC crude oil from 1999 through mid June 2009. Prices in mid 2009 are only half of the 2008 peak, but have rebounded to the high 2006 levels despite the depressed global economy. The RMI remains extremely dependent on imported oil, which accounts for about 90% of national energy use (in tonnes of oil equivalent). Biomass provides most of the rest. Petroleum, or liquid fuels that can economically replace it, are the lifeblood of the RMI economy, essential for both transport (about 65% of fuel use) and electricity production. The main imports are gasoline, diesel fuel, dual-purpose kerosene (for aviation and household use) and propane (liquid petroleum gas, LPG). Although no comparative data have been available since early 2008, landed fuel prices (excluding duties and taxes) have been about average for Pacific Island Countries. However consumer prices are significantly higher as there is no wholesale or retail fuel price control on Majuro or Ebeye, and maximum allowable retail margins applicable for outer islands are difficult to enforce.



OPEC Crude Oil Price Trends: 1999 – mid June 2009

The government-owned Marshalls Energy Company (MEC) owns and operates a fuel tank farm of 6 million US gallons (23 ML) capacity, the largest functional non-military fuel storage facility in Micronesia outside of Guam. MEC imports and distributes diesel fuel and propane on Majuro and until recently subsidized electricity costs through profitable bunkering of diesel fuel to fishing fleets. Mobil Oil Micronesia (MOMI) and Pacific International Incorporated (PII) also import fuel products.



Data on the volume of petroleum imports are unreliable, but they may have fallen by about half between 2003 and 2008. MEC diesel fuel bunker sales to fishing fleets have fluctuated considerably but as shown in the graph (above right), sales have exceeded internal use for power generation for three of the past five years, depending in large part on government's shifting policy on import duties and taxes. Based on rough estimates, about 68% of total 2003 fuel imports – MEC, MOMI and others – were used for transport, 30% for electricity generation and 2% for direct commercial or household use. More recent energy end-use data are not available.

Electric power. MEC is responsible for all electric power generation and distribution on Majuro (including Rongrong Island); manages small power systems on Jaluit and Wotje under government contract; and installs, operates and maintains solar photovoltaic (PV) systems for home lighting in remote

atolls, also through government contracts. On Majuro, MEC has 24.4 MW of operational diesel capacity, and had about 12 MW of maximum demand from 2003-07, dropping below 10 MW in 2008-09. There were about 3900 active MEC customers in late 2008, of whom nearly 3700 were on Majuro. MEC generation in calendar year 2008 was 70 GWh, sales (i.e. billings) were 50 GWh and residential consumption per household averaged 531 kWh/month including subsidized ‘lifeline’ customers who constitute about two thirds of household customers. This is relatively high consumption by Pacific Island standards. Since peaking in FY 2005 at 82.4 GWh, MEC generation and sales have steadily dropped in subsequent years.

Average revenue per kWh sold to all customers was about \$0.30 in January 2008, peaked at \$0.45 in September and dropped to \$0.36 in December. By April 2009 it had dropped further to \$0.275. The tariff formula is the same for MEC and other utilities managed by MEC, with a fixed base price and an adjustable fuel price component based on a 2006 formula approved by Cabinet. The tariff does not cover MEC’s full costs with the operations of the smaller utilities subsidized even more than Majuro and Ebeye operations.

MEC sales away from Majuro, i.e. Jaluit and Wotje, accounted for 1 GWh, only 2% of 2008 MEC demand. There are no data readily available on household consumption but overall consumption per customer in 2008 was about 400 kWh/m (Jaluit) and over 480 kWh/m (Wotje), with wide monthly variations.

The second largest power system is KAJUR on Ebeye in Kwajalein atoll. In May 2009, KAJUR had about 4.2 MW of installed capacity and a maximum demand of 1.8 MW. Generation in 2008 was about 12-14 GWh, but generation has only been accurately metered since early 2009. Nearly all customers use pre-pay meters, making average sales per customer difficult to calculate.

Household energy use. At the time of the 1999 census, 63% of all RMI households used diesel-generated electricity for lighting, 31% used kerosene and 5% relied on solar PV systems. Nearly 90% of urban households had electric lighting compared to only 13% in outer islands, 71% of which used kerosene. By 2006, the urban electrification rate had reached 93% in Majuro and 97% in Ebeye. Since the 1999 census, a significant percentage of outer island households have received solar lighting systems.

A 2006 EPPSO community survey – which covered Majuro, Ebeye, Eniburr, Wotje, Jaluit, Arno and Ailuk – demonstrated the scale of biomass (wood/charcoal and coconut waste) for rural cooking, the main cooking fuel for 40% (Jaluit) to 91% (Arno) of house-holds, except for Eniburr (10%). For Majuro and Ebeye, kerosene was the main cooking fuel for about 40% of households, followed by electricity. A

Main Energy Source for Urban Cooking, 2008			
Fuel	Both Atolls	Majuro	Ebeye
Propane	38%	35%	43%
Kerosene	22%	20%	27%
Biomass	21%	24%	13%
Electricity	19%	20%	17%

2008 UNDP/EPPSO household energy survey suggests that nearly 40% of Majuro/Ebeye households now use mainly propane for cooking, with about 20% each dependent mainly on kerosene, biomass, or electricity. As shown in the table above, in Majuro there was considerably higher use of biomass, whereas in more crowded Ebeye, there was far less biomass available for cooking and more use of propane, kerosene and electricity. The 2006 and 2008 survey results are not fully comparable due to different techniques and sample sizes but they nonetheless demonstrate how quickly consumers can adjust to changing energy prices for cooking.

According to the 2006 survey, 40% of all households had a refrigerator and 38% a deep freezer, rising to about 50% of each in Majuro and Ebeye, a very high rate of ownership compared to other PICs. The 2008 UNDP survey indicated that 54% of Majuro households and 70% of those on Ebeye had at least one

air conditioner, although a 2009 EC-funded survey, incomplete as the energy policy was being drafted, apparently shows that a significant percentage are not currently being used. The pattern of appliance ownership suggests that a very high percentage of household electricity use is for cooling.

Transport. Transport probably accounts for two-thirds of the RMI's fuel use. In 2008, there were 2464 registered road vehicles in Majuro, of which 93% were private, 6% government (including Majuro local government) and 1% diplomatic. Of the total, 55% were sedans and 20% pick-up trucks. Registrations grew by 28% from 2005-2007 before declining by 12% in 2008. In 2005, Cabinet approved a new policy requiring government departments to purchase only diesel-fueled vehicles, which are considerably more efficient than gasoline for the same engine size, but this has not been enforced. Nonetheless, despite the lack of data on the percentage of gasoline and diesel-fueled vehicles, importers suggest that diesel imports have dominated sales in recent years.

As in other widely-scattered PICs, the RMI uses a substantial amount of petroleum fuel for air and sea transport.

Efficiency of energy use. Electricity use has been subsidized in the Marshall Islands since well before Independence in 1986 though a range of grants for capital investments, fuel purchases, hidden subsidies, and recently cross-subsidies from MEC bunkering profits, understandably resulting in high, and now unsustainable, levels of electricity use. Where energy to the consumer has long been priced below its actual cost, there is inevitably waste. The ADB's 2008 Rapid Energy Assessment concluded that there were significant cost-effective opportunities for improved energy efficiency but that renewable energy investments in urban electricity production would require capital grants to compete with petroleum fueled electricity, at least in the short term. Investments in energy efficiency are designed to provide the equivalent service, or an improved service, at lower cost and with less energy use. There have been only limited estimates of the practical potential in the Marshall Islands but these studies, and experience elsewhere in Micronesia and the Pacific, suggest that there are numerous financially attractive opportunities. The College of the



Test of energy efficient street light

Marshall Islands (CMI) on Majuro has embarked on a construction program that incorporates principles of good energy management in its buildings, with considerable savings expected through reduced electricity demand and production of energy through renewable sources. This is expected to provide a good model of what others may also be able to achieve.

By early 2009, MEC had replaced about 3500 standard incandescent lights in Majuro households with more efficient compact fluorescent lights (CFLs), at a typical savings of \$17/household/month. If three inefficient lights had been replaced in all Majuro households at the peak of 2008 oil prices, annual fuel savings for MEC would have been nearly \$580,000 and consumer electricity savings \$660,000 at a cost to MEC of under \$50,000. Even at lower mid 2009 fuel prices, savings would remain substantial. 2009 MRD tests suggest that replacing all current street lights in Majuro and Ebeye with more efficient models could save 65-75% of MEC's street lighting energy use. The cost of generating and distributing one kWh depends highly on fuel price; at a full cost of approximately \$0.5/kWh, MEC would save over \$250,000 per year.



Replacing inefficient light bulb with a compact fluorescent light

Urban households in the RMI use excessive amounts of electricity for air conditioning and could probably reduce electricity use by 20% or more through relatively simple means. More generally, buildings in Majuro account for well over half of all MEC electricity consumption mainly for cooling and lighting; the opportunities for saving are considerable. However, little has been done due to a generally low awareness of energy efficiency, relatively limited capacity to assess opportunities and provide advice, a lack of affordable finance, and other factors.



Inefficient badly corroded heat exchangers are very common in Majuro's air conditioners

There are also substantial opportunities to improve the efficiency of MEC's energy supply – improved 'supply-side management' – although determining financially attractive investments will require further technical studies, which are planned during 2009 with assistance of the Pacific Power Association (PPA).

Renewable energy. By mid 2008, MEC had installed about 1300 stand-alone photovoltaic (PV) systems in outer atoll households; this should reach 1500 by early 2010 and about 2800-2900 over the next five years, effectively providing PV lighting to nearly all outer island households. There are also plans to provide much larger PV systems for outer island schools, with installations in six schools to be completed by early 2010. For rural PV, the key donors (Taiwan, the European Commission and others) provide the equipment and RMI is responsible for operations and maintenance (O&M) and eventual battery replacement. There are various PV initiatives additional to the MRD/MEC household program. Solar PV is being installed by the ministries of telecommunications, fisheries, health and education, with different management and financial arrangements, sometimes rudimentary, for each.

For household PV systems, users have until recently been charged \$12/month to meet in part MEC's O&M costs but this has not covered full costs if battery replacement is included, and actual collections from users have been considerably lower than planned. In 2009, Cabinet reduced the charge to \$5/household per month, raising serious concerns about sustainability.



Household solar PV system Installed at Jeh, Ailinglaplap Atoll

There have been some trials of coconut oil as a fuel for small-scale power production in outer islands and for vehicle use on Majuro, but these have not been technically or economically successful. In 2008, the RMI produced 1.4 million US gallons (5.3 ML) of coconut oil, which could be used in place of diesel fuel (as filtered raw oil or chemically-processed into coconut based biofuel) or blended with diesel fuel to reduce imports for electricity generation or transport. Since the export value of coconut oil is highly variable, rising and falling dramatically, there has been renewed interest among coconut producers and processors in exploring this option, which could stabilize producer prices while reducing fuel imports.

In recent years, there have been numerous suggestions for large scale development of renewable energy on Majuro but there have been various constraints regarding their practicality. Systems based on ocean energy, particularly Ocean Thermal Energy Conversion (OTEC) are not mature or even commercially

available, practical and affordable systems being some years away. For wind energy there has been no assessment of the RMI's resource, which is essential to evaluate its practicality. In addition, commercial systems may not be available that match local requirements of relatively small size, low operating costs and long life under the difficult environmental conditions on atolls. For large scale solar, the technology is mature and the local resource is adequately known but investment costs have been too high unless supported in part by donor grants. Several small grid-connected solar PV systems have been installed in Majuro, the largest being a 60 kW system at the College of the Marshall Islands, and a larger system has been proposed by JICA. Within the next 5-10 years, it is likely that only solar and possibly coconut-based biofuel may be technically, economically and financially practical for the RMI.

3. A Framework for National Energy Policy and Its Implementation

The framework used for developing the national energy policy is as follows. Five specific areas where improvement is required have been identified as keys to shifting toward more sustainable energy development and use in the Marshall Islands:

- Petroleum and Liquid Fuels,
- Electric Power,
- Transport and Energy Use,
- Energy Efficiency, and
- Renewable Energy



RMI National Energy Task Force, May 29th, 2009

In addition there is a need for effective Energy Policy Administration and Implementation.

For each of the above areas:

- Government policies specific to each energy sub-sector are summarized;
- key issues are identified that hinder more rational energy use,
- medium-term objectives are stated, and
- strategies are listed to achieve the objectives.

Action plan. A more detailed action plan has been prepared to implement the policies and strategies. The Energy Action Plan is a separate document, comprising volume 2 of this policy. A broad statement of policy can remain effective for some years but an effective action plan needs to be linked to the annual national budget process, include specific prioritized activities, incorporate a monitoring and evaluation mechanism, and be time-bound. Thus it requires regular revision and updating, preferably every year.

Cross-cutting issues. The key areas are also inter-dependent so there is some duplication of issues, objectives and strategies. In addition, there are cross-cutting areas that apply to all key areas. These need to be addressed when implementing strategies and actions:

- *Climate change.* Climate change will severely test the resiliency of the RMI's institutions and infrastructure, with expectations of increased flooding, longer periods of drought, changing patterns of disease and serious issues of access to clean water. This energy policy is consistent with, and supportive of, national efforts to address climate change. All new energy investment decisions and investments, including design and construction of new buildings, must consider resilience for adapting to climate change, which will also result in longer term savings to the government and people of the RMI.
- *Governance.* Development of transparent decision-making processes, appropriate legal tools and regulations, and consistent enforcement of regulations. Performance-based budgeting within the

government is needed including energy criteria as performance measures for each government ministry and agency.

- *Social and environmental sustainability.* Development of mechanisms to improve the likelihood of long-term sustainable operation, minimal production of pollutants; and reduced emissions of greenhouse gases (GHG) per unit of energy produced. Although the RMI has no legal obligation to reduce GHG emissions, which are practically nil, it plans to do so whenever practical.
- *Gender awareness.* Assurance of equal access by women and men to training opportunities (e.g. community-level solar system management) and decision-making (e.g. management and boards).
- *Capacity building.* Strengthening of a range of public, private, civil society and academic institutions so agreed initiatives can be effectively implemented. Strengthened public/private partnerships in energy production and efficient use.
- *Education and information dissemination.* Developing and disseminating appropriate public awareness materials and school curricula on energy issues.
- *Data development.* Developing and maintaining appropriate databases on energy imports, resources, production and consumption, that are easily accessed and suitable for more effective decision-making.
- *Appropriate technology choice.* Choice of energy production and energy efficiency equipment that is commercially available and proven in small island environments.
- *User pays principle.* Adoption and consistent application of the principle that the urban end-user pays at the full costs of energy and outer atoll end-users pay at least all O&M costs for renewable energy services.

The chapters that follow cover the specific key topics of Energy Policy Administration and Implementation, Petroleum and Liquid Fuels, Electric Power, Transport and Energy Use, Energy Efficiency and finally Renewable Energy. However, as noted above, these areas are intimately interconnected: strategies for improving energy efficiency or for producing more energy from renewable sources cannot be effective if developed in isolation from those for petroleum fuels and the power sector. There is a single national energy policy, not discreet policies for the various components. Some topics that are usually discussed under renewable energy (e.g. biofuels) are covered elsewhere (in this case liquid fuels). Key linkages are noted in individual chapters but it is impractical to list all of them.

4. Energy Policy Administration and Implementation

Policy Statement

The Government of the Marshall Islands recognizes weaknesses in administering past energy policies and will:

develop and enforce laws and regulations necessary to provide MRD with the authority required for effective and transparent implementation of this policy, including electric power legislation, clear guidelines for the MEC board and management, and a consistent management system for all government renewable energy programs.

Responsibilities for energy within government and government-owned enterprises are as follows:

- i) The Ministry of Resources and Development (MRD) is responsible for energy policy, coordination and some implementation. MRD's Energy Planning Division consists of a national energy planner, an energy officer, one support staff and an AusAID-funded energy adviser, initially for 18 months from April 2009. There is very little government funding for routine operations, no likelihood of additional staff positions, and heavy dependence on donor support for energy studies and project implementation. Despite responsibility for overall energy policy, MRD is not represented on the MEC board.
- ii) MEC was established in 1984 under Articles of Incorporation and associated bylaws, which have since been amended. Although 100% government-owned, there are provisions for private shareholding. With its urban and rural power responsibilities, fuel import, storage and bunkering, and rural PV program, MEC is the dominant energy supplier in the RMI with a strong role in both policy and implementation. The board is appointed by Cabinet, chaired by the Minister of Public Works and includes both government (5) and private sector (5) members. MEC is independently audited annually but has not produced an annual operational report for some years. The company's website contains limited operational information and management is currently looking at producing an annual operational report.
- iii) The Ebeye utility, KAJUR, was owned by the Kwajalein Atoll Development Authority (KADA), but after the dissolution of KADA, oversight of KAJUR is now under the Joint Utilities Board. KAJUR shares the same board as MEC, which provides management and technical assistance, but is financially and operationally independent. Substantial operational losses are met through US grant funding specifically allocated for Ebeye. KAJUR also operates the Ebeye water and sewer system and is audited annually.
- iv) Other government offices with energy responsibilities include the Economic Policy, Planning and Statistics Office (EPPSO), the key national development planning and statistics agency which was actively involved in developing rural electrification policy; and the Office of Environmental Planning and Policy Coordination (OEPPC) which is mandated to coordinate planning for and development of climate change policies. The OEPPC is charged with responsibilities to review and identify benefits of multilateral environmental treaties for the RMI, is the focal point for the GEF and authorizes the development of GEF-funded support for the RMI. It has also developed a number of GEF projects, including the RMI - GEF/UNDP project, "Action for the Development of Marshall Islands Renewable Energies" (ADMIRE) which effectively began operationally in June 2009 and is expected

to compliment the RMI's renewable energy activities particularly the Outer Islands Electrification Program by supporting capacity building, awareness training on operations and maintenance of solar PV resulting in more climate change resilience, the reduction of GHG emissions and improved rural livelihoods.

- v) The National Energy Task Force (ETF) with government, MEC and private membership was established by Cabinet in 2005 and revitalized in 2008. Since mid 2008 it has met regularly, typically 2-4 times per month, with MRD as the Secretariat. The ETF plays an influential energy advisory role.

There are overlapping responsibilities for some aspects of energy. To the extent practicable, these will be addressed through activities of the Energy Action Plan.

Issues, Objectives & Strategies for Improved Energy Policy Administration and Implementation

Issues:

- Very limited human and financial capacity to develop, refine and implement energy policies
- No Energy Planning Division work plan or priorities and limited monitoring and evaluation of activities
- Processes for prioritizing appropriate donor assistance and accessing donor funding are weak
- Data on energy imports, production and end-use are inadequate for analysis and policy development, particularly for petroleum
- Limited formal MRD authority on key energy decisions (both electricity and petroleum)
- Annual budget actually available to Energy Planning Division very limited
- Duplication of responsibilities for outer atoll solar PV development, with inconsistent management and financial mechanisms
- Tendency (by donors as well as government) for renewable energy and energy efficiency to be treated as independent project areas, rather than components of an integrated overall energy policy
- Fragmented energy policy and authority landscape, requiring clarification through Cabinet decisions, regulations or law
- Limited real cooperation and coordination among Pacific Island Countries on energy

Objectives:

- Energy Planning Division develops the level of skills necessary to review, update and implement the energy policy framework
- The Energy Planning Division uses its limited human and financial resources effectively, concentrating on important, practical and achievable goals
- MRD influences key energy decisions, shifting RMI toward more sustainable and rational energy use
- National energy database adequate (for analysis and policy development) is developed and regularly updated
- Consistent management and financial mechanism is developed and implemented for all solar PV and

other renewable energy initiatives

- There is investment in renewable energy and energy efficiency as part of all energy initiatives where appropriate; RE/EE, not considered as stand-alone activities or special interests
- Improved cooperation on energy within Micronesia and the wider Pacific region

Strategies:

- Informal training of Energy Planning Division staff through Energy Adviser, their inclusions in RE/EE training, and possible diploma or degree level training in energy
- Maintain an up-to-date active registry of opportunities for donor support in cooperation with Foreign Affairs
- MRD's Energy Planning Division to work in close collaboration with the OEPPC in mainstreaming of climate change activities, particularly support for appropriate and practical RE/EE, capacity building for environmental sustainability and economic opportunities
- Production by MEC of annual reports (including KAJUR, Jaluit & Wotje) on generation, sales, fuel operations and finances
- Annual work plan developed for MRD's Energy Planning Division with clear objectives, priorities and timeframe, reviewed quarterly
- MRD coordinates energy database development production and regular revision with MEC, Finance, importers & EPPSO
- MRD participation in the budget reform process, including advocacy of performance-based budgeting within the government with energy criteria as performance measures for each government ministry and agency
- MRD membership on MEC board and inclusion in any government mechanism that is established to monitor petroleum pricing
- MRD to coordinate development of a framework for development and implementation of all government solar and other RE initiatives
- Integration of renewable energy and energy efficiency considerations into mainstream energy policy, planning, studies, proposals and implementation
- legislative amendments, a new energy law, regulations or a Nitijela resolution will be considered as appropriate to clarify powers and responsibilities within government for energy
- independent assessment of organizational changes (MRD, other ministries, MEC) that may be necessary to implement the energy policy
- The Marshall Islands to play an active role in developing the proposed Micronesia Energy Challenge and in future revisions to the Pacific Islands Regional Energy Policy and Plan

5. Petroleum and Liquid Fuels

Policy Statement

The Government of the Marshall Islands recognizes that nearly total national dependence on imported petroleum fuels results in great social and economic vulnerability. It will:

develop and enforce international standards for the storage, handling and transport of petroleum products; develop a mechanism for obtaining competitive fuel prices and monitor results; ensure that there are fair wholesale and retail fuel prices; require suppliers as a part of the supply contract to provide monthly data on imports and sales by product; and place high priority on developing the infrastructure and capacity to process coconut oil for use as a petroleum fuel replacement.

Petroleum imports overwhelmingly dominate energy use in the Marshall Islands. Efforts to shift toward more sustainable energy use require access to petroleum fuels at a fair price, assurance of the quality of products supplied, more efficient use of petroleum, and a shift to locally-produced liquid fuels to replace petroleum where this is practical. The MEC tank farm is a valuable national asset but its real value to the economy has not been determined.



MEC Fuel Storage, Majuro

Issues, Objectives and Strategies for Improved Petroleum and Liquid Fuel Use

Issues:

- Lack of reliable time-series data on total imports and retained imports of petroleum fuel products
- Limited understanding within the RMI of the value to the national economy and to MEC of the MEC fuel storage facilities
- Limited ability to effectively negotiate and monitor the terms of supply of petroleum fuels, and assure competitive supply terms
- Limited knowledge of the potential benefits and pitfalls for the RMI of the proposed regional bulk purchase of petroleum fuels
- Weak enforcement of regulations regarding safe storage, handling and transport of petroleum products and disposal of waste oil
- Ineffective mechanism for fair wholesale and retail prices in Majuro and elsewhere for petroleum products (including propane) to protect consumers, as well as suppliers and service station owners
- Limited knowledge of the technical, environmental, economic and financial issues related to development of local liquid fuels, especially coconut-derived, to reduce petroleum imports

Objectives:

- Up-to-date and reliable data on the volume of petroleum product imports, sales and end-use
- An understanding of the real value of the MEC storage facilities for the Marshall islands and ways to maximize its value
- Better understanding of the pros and cons of participation in the regional bulk petroleum purchase scheme
- Equitable wholesale and retail prices of fuel products on Majuro and elsewhere in the RMI
- Safe storage and distribution of petroleum products
- Development of a local biofuel industry where economically, environmentally and financially practical

Strategies: *

- Independent evaluation of the MEC tank farm and MEC bunkering operations
- In the short term arrange expert, neutral advice on tendering, negotiating and monitoring of petroleum supply contracts, including likely costs and benefits of participation in the proposed bulk fuel purchase scheme
- In the medium term, develop expertise within the government as appropriate to tender, negotiate and monitor petroleum supply contracts
- Establish and maintain a system for inspection and certification of storage, handling and safety procedures and licensing of petroleum storage and distribution facilities
- Arrange an independent study of gasoline, diesel fuel and propane pricing on Majuro and outer atolls to determine benefits and costs of a mechanism to establish allowable wholesale and retail price margins , and develop clear pricing and price monitoring system for Majuro and outer islands
- Establish and enforce regulations to require all petroleum suppliers to provide quarterly reports (to MRD, EPPSO (additional to Customs requirements) on volumes of fuel imported and sold
- Arrange independent study of technical, economic, environmental and financial practicality of developing local biofuels with different assumptions regarding the landed cost of petroleum fuels

* For data, see the section on 'Energy Policy Administration and Implementation'

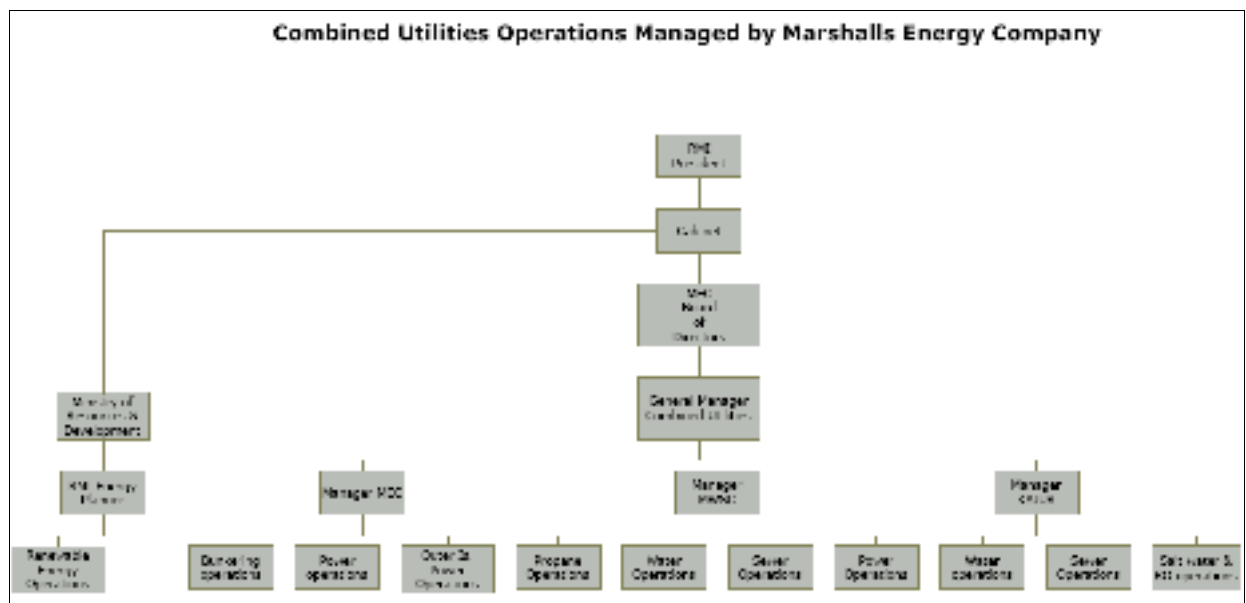
6. Electric Power

Policy statement

The Government of the Marshall Islands recognizes the importance of electrifying all households on all islands with sustainable and environmentally appropriate energy supplies. The Government will develop and enforce:

clear and equitable electricity tariffs, laws and regulations necessary to provide MRD with the authority required for effective and transparent implementation of this policy including electric power legislation, clear guidelines for the MEC board, mechanisms for allowing renewable energy to feed into the grid, and a consistent management system for all government renewable energy programs

Electricity is a versatile and high-value form of energy. The RMI aims to provide affordable and environmentally responsible forms of electricity to all households over time, though a resourceful, efficient, well-managed MEC which recovers the real costs of supply to its customers. With nearly total dependence on petroleum fuel, MEC costs will inevitably increase with petroleum fuel price increases, unless less-expensive local alternatives are found for large-scale electricity production.



Issues, Objectives and Strategies for Improved Electricity Supply

Issues:

- Lack of a legislative and regulatory framework for the electric power sector
- MEC supply side losses that may be excessively high
- For urban consumers, the electricity tariff does not recover full costs of supply
- non-transparent policy regarding free electricity to landowners and some others
- Although MEC has a 'lifeline' tariff designed to subsidize costs for low-income households, the maximum monthly consumption level of 500 kWh is too high (reducing MEC revenue) while the savings to low-income consumers are too low (providing limited financial relief to them)
- A common tariff for MEC, KAJUR, Jaluit and Wotje requires very high rural subsidies
- The monthly charge for solar home PV electric systems is too low to recover O&M costs and does not provide revenue for battery replacement
- It is not known whether the current solar home PV systems meet the aspirations of outer island communities for electric power supply
- The monthly charge for larger solar PV electric systems (e.g. schools, health) is unclear but probably far too low to recover O&M costs including battery and inverter replacement
- Unclear costs and benefits of pre-pay metering on Majuro, which could allow re-connection of defaulting customers and recovery of some of the outstanding debt
- Lack of a clear affordable alternative to diesel fuel for large-scale power generation

Objectives:

- Clear authority and responsibilities for electric power supply, including a regulatory system that allows private supply to the grid under conditions fair to MEC and the supplier
- Reduction of MEC supply side energy losses by 20% of 2009 levels by 2015, consistent with sound technical and financial criteria
- A transparent tariff structure for those receiving full electricity supply that covers the real costs at each island system, with a lifeline tariff that genuinely benefits low-income consumers without adversely affecting MEC income
- A management and financial system for outer island PV electrification that is sustainable and recovers O&M and battery replacement costs, for household and institutional systems (e.g. health, fisheries, telecoms, and school installations)
- Use of appropriate mechanisms, possibly including pre-pay meters, for defaulting customers to be reconnected and repay arrears over time
- Development of alternatives to diesel fuel for power generation where economically sound

Strategies:

- Development of appropriate legislation and regulations with clearly-defined authority, obligations and responsibilities for electric power supply in Majuro and throughout the RMI
- Development of appropriate technical guidelines and regulations for self-generation through renewable energy sources and feed-in tariffs* under conditions fair to MEC and the supplier.
- Technical study on the level of MEC supply side losses and practical means to reduce them at reasonable cost
- Development and implementation of a revised electricity tariff structure for MEC and utilities it manages based on actual costs at each island, with a lifeline tariff set at a level that provides clear benefits to the bottom quintile of MEC's household consumers without adversely affecting MEC income.
- Assessment of the real costs of rural PV electrification (households, schools, etc) and appropriate management and financial systems for sustainability including training needs.
- Assessment of the attitudes of rural households regarding the quality of the solar PV program, with recommended improvements where necessary to improve supply.
- Study of appropriate mechanisms, including pre-pay meters, for reconnecting defaulting customers with a strong likelihood of regular payment of charges
- Independent study of the viability of alternatives to diesel fuel for power generation where economically sound (e.g. coconut oil, heavy fuel oil, grid-connected solar).
- Assessment of costs and benefits to the government and MEC of free electricity as part of government efforts to rationalize payments to landowners and others.
- Collaboration of MRD with the OEPPC to develop RMI's greenhouse gas emissions report, including coverage of the comparative advantages and costs of savings through efficiency and conservation, reporting obligations and exploration of funding opportunities to support the energy policy

* Feed-in tariffs offer a minimum guaranteed price for energy sold to the utility, which is obliged to allow generators to connect to the grid, and to buy an agreed amount of electricity at the agreed- price

7. Transport and Energy Use

Policy Statement

The Government of the Marshall Islands recognizes that land, sea and air transport is the largest user of imported energy in the country and measures to improve the energy efficiency of transport are at the core of an energy policy that focuses on reducing foreign energy dependence. It will:

take the lead in the procurement of more efficient vehicles, ships and boats, and establish rules for improved maintenance and operations with the goal of improving transport efficiency and lowering imported transport fuels by 20% by 2020

adjust tax structures to encourage the import and sale of energy efficient forms of transport; and

mandate the use of locally produced biofuel in diesel powered government vehicles by 2015.

Available data suggest that transport – land, sea and domestic aviation – probably accounts for more petroleum fuel use in the Marshall Islands than all other uses combined. Although there are opportunities to reduce transport energy use, these generally require some years to have a substantial impact. In the short term, improved maintenance can have measurable impacts.



Majuro traffic is frequently congested, increasing fuel consumption

Issues, Objectives and Strategies for Improved Energy Use in Transport

Issues:

- Import duties and taxes do not discriminate between energy-efficient and inefficient vehicles
- Past policies restricting government vehicle purchases to efficient vehicles not strictly enforced
- No standards for allowable vehicle emissions, although high emissions are linked to poor efficiency
- Government budgets are inadequate for proper vehicle maintenance
- Limited capacity for proper vehicle maintenance
- Interisland transport energy efficiency is probably low
- Need for improved capacity for financial management and strategic uses of funds

Objectives:

- A fleet of well-maintained vehicles, government and private, that is increasingly energy-efficient over time
- A more energy efficient transport network for urban and rural Marshallese

Strategies:

- Amend import duties and taxes, with higher rates for energy inefficient vehicles (or to simplify administration, for vehicles of varying engine displacements and fuels used)
- Mandate all government vehicles purchased to be energy-efficient and develop mechanisms to assure this.
- Introduce spot-checks on vehicle emissions with penalties for emissions above a specified level
- Establish and enforce clear guidelines for the efficient use and maintenance of the Government vehicle fleet and ships, including strict servicing and maintenance procedures, with an adequate budget allocation
- Enforce the RMIEPA regulations regarding ozone depleting substances in vehicle air conditioning
- Investigate the practicality of retrofits to reduce fuel use in sea transport, e.g. more efficient propellers, sail-assist technologies, etc.
- Short term practical training for proper maintenance of vehicles

8. Energy Efficiency

Policy Statement

The Government of the Marshall Islands recognizes that improving the efficiency of energy use has greater short term value for reducing dependence on foreign sources of energy than any other action. The MRD will develop an energy management plan for government, including processes for its implementation and monitoring. Government will:

revise taxes to encourage the import and sale of appliances, vehicles and boats having the highest energy efficiency;

develop energy efficiency standards for new buildings and renovations including homes, businesses and government premises, with financing on subsidized terms for designs and construction meeting the standards;

carry out energy audits on government facilities, with the responsible departments each developing and submitting an investment plan for the capitalization of energy efficiency improvements for the facilities; and

require government departments to each name an energy manager who will develop and implement an energy management plan. Monitoring will be by MRD and annual reports detailing energy usage will be submitted.

Government policy is to offer incentives and opportunities to private citizens and businesses for increasing the efficiency of energy use through improved information, tax reform, access to finance, and regulation where appropriate but primarily through reliance on market mechanisms.

Standards for new or renovated buildings offer considerable opportunity for lowering energy use. The local climate is conducive to comfort without the need for high levels of air conditioning. Shading and orientation of buildings to take account of prevailing breezes and the sun's position can reduce heating of the building while the addition of reflective roof paint and attic heat radiation barriers can greatly reduce the need for air conditioning. Government itself will strive to set an example through better energy efficiency in its own facilities.



With no insulation, many urban and rural homes are uncomfortably hot

Issues, Objectives and Strategies for Improved Energy Efficiency

Issues:

- Lack of adequate technical capacity within government to identify, appraise, develop and implement energy efficiency initiatives
- limited capacity within the private sector to provide energy management services to government, businesses or households
- Import duties and taxes do not encourage energy efficient appliances or equipment
- Relatively poor knowledge by the public about affordable ways to reduce energy costs
- Perception of high investment risks by financiers along with lack of affordable and accessible finance for energy efficiency improvements
- No standards for energy efficiency in building design or building renovation
- No mandatory labelling or energy efficiency standards for key electrical appliances
- No incentives within government for individual departments or officers to reduce the government's own energy use

Objectives:

- Measurable and substantial improvement of energy efficiency by 2020, in at least 50% of households and businesses and 75% of government buildings.
- An improved stock of more energy-efficient appliances and equipment within government, businesses, and private homes

Strategies:

- Training of government, MEC and private sector in energy auditing and energy management techniques, possibly using CMI facilities as a model
- Revision of Import duties and taxes to encourage the purchase of energy efficient appliances and equipment (e.g. refrigeration, air conditioning, major appliances, lighting)
- Continuation of the public awareness campaign of late 2008/early 2009 (e.g. providing Energy Saving Tips with MEC bills, and TV/radio campaigns) strengthened through linkages to global warming awareness with respect to energy efficiency and socio-economic welfare
- All new or renovated government buildings will incorporate energy-efficient designs and the RMI govt will work with Compact and other funding sources to develop mechanisms for effective implementation
- Development of low interest loans, rebates and other innovative financing mechanisms through the banking system for energy efficiency investments by households and businesses

- Establish and enforce codes for new construction with mandatory minimum energy standards (possibly based on simplified version of a new tropical building code being developed for Guam and other US territories)
- Develop a practical appliance labelling scheme and mandatory minimum energy performance standards (MEPS) for refrigerators, air conditioners and other electrical appliances to remove the poorest performing appliances from the market
- Establishment of practical mechanism for reduction of energy use within the government, with incentives (carrots and sticks) for individual departments
- Develop and implement a practical program to replace inefficient lighting (household, business, government and street lighting) with efficient lighting on Majuro and Ebeye and throughout the Marshall Islands.

9. Renewable Energy

Policy statement

The Government of the Marshall Islands recognizes that socio-economic development will require an increased level of energy production and that only through the development of local renewable energy resources can there be a reduction in long-term dependence on imported petroleum. The government will:

aggressively support the development of all environmentally appropriate, practical and economic Indigenous energy resources so that local renewable energy will provide 20% of electrical energy generated in the Marshall Islands by the end of 2020;

mandate that Imported energy for land transport will be replaced where practical by locally produced biofuel and for sea transport both wind energy and biofuel will be increasingly used;

take the lead in the use of indigenous energy to replace imported petroleum with a goal of a 40% total reduction in energy from petroleum fuels within government by the end of 2020

ensure that all outer island energy development will be through the use of indigenous energy sources where technically practical; and

require that all renewable energy technologies accepted by government for use in the Marshall Islands shall be commercially proven and shall have more than five years of successful service in remote, tropical islands through installations of a similar type and size as those needed in the Marshall Islands.

Renewable energy technologies tend to have a higher profile than energy efficiency actions. They are more visible as new installations and are generally perceived as more cutting-edge by governments and donors alike, despite often higher initial capital costs than energy efficiency measures. The RMI policy on any energy technology, system, product or venture that is unproven commercially and that has not already been successfully operating in a coral atoll environment will be to exercise great caution. The RMI will not assume any financial, technological, legal or any other form of risk. For such technologies, systems, products or ventures, the RMI will demand that all costs and risks must be born fully by the promoter or developer, and will ensure that alternative sources of energy will remain available in the event of failure.



Outer atoll solar energy system for fisheries

Objectives and Strategies for Expanded Use of Renewable Energy

Issues:

- Lack of information on indigenous renewable energy resources, particularly wind and wave energy
- Inadequate training for those developing RE project proposals, trainers of those who manage outer island systems and trainers of household users in the proper operation and maintenance of solar installations
- Different and incompatible management systems for various government programs implementing rural renewable energy installations
- High initial costs and, for some RE resources and locations, imprecise knowledge of likely energy production (e.g. kWh output per year)
- Although grid-connected renewable energy may be important in the future, there is very limited experience with it in the Marshall Islands, with two small grid-connected systems operating in mid 2009.
- Outer island household electrification schemes have a “one size fits all” mentality but actual needs can vary widely
- Poor access to land suitable for indigenous energy development
- Promoters visiting the RMI sometimes advocating and trying to sell unproven or untried RE systems or those of doubtful quality. At best this causes confusion and wastes time; at worst it results in investment of funds for energy projects that cannot provide promised results

Objectives:

- Improved capacity within the RMI to plan, develop, implement and manage renewable energy systems (small and medium-scale rural; large scale urban)
- provision of 20% of electrical energy through indigenous renewable resources by 2020
- Outer island energy development to be through indigenous energy sources where technically practical and economically attractive

Strategies: *

- Arrange wind measurements over 12- 18 months and obtain an independent analysis of the wind energy potential for Majuro
- Arrange independent assessment of the technical, environmental and economical feasibility of waste to energy conversion for Majuro
- Develop and implement training of trainers programs covering PV system design, installation and management; develop training programs for village level O&M
- Develop and implement consistent mechanisms for the design and O&M of PV systems of different ministries to provide for consistent management, operational and financial mechanisms

- Develop and implement a program for solar water heating, particularly in Majuro, Ebeye and the hotel industry to replace electricity based water heating
- Continue the program of outer island household solar energy installations and develop a mechanism for covering full user costs (through user fees and possibly a sustainable RE fund)
- Arrange with donor support a pilot program to introduce renewable energy into the MEC or KAJUR grids to gain experience in integrating RE into the grid
- Assess options for RE development that do not require access to private land (i.e.. at government facilities, possibly reef-based installations)
- Ensure Cabinet is kept up-to-date regarding the capabilities of and progress in renewable energy technologies, particularly ocean energy from waves, tides and ocean thermal gradients (OTEC).

* Some strategies, (e.g. MEC management of solar PV, user fees, biofuels development and regulatory reform) have been covered in earlier chapters of this policy. There is also some overlap among the chapters.

Annex 1: The Public Consultation Process

The SWOT Energy Workshop. A SWOT workshop ('Strengths, Weaknesses, Opportunities and Threats') to consider a more sustainable approach to energy development and use in the RMI was held at the Marshall Islands Resort on December 3rd, 2008. Invitations were widely circulated. In addition to facilitators, it was attended by 22 participants from government, civil society and the private sector and covered by the Marshall Islands



One of the discussion Groups, SWOT Workshop, Dec 2008

Journal. Discussions were open, constructive and spirited, with nearly all participants remaining long after the workshop was scheduled to end. In the views of the facilitators, this was among the most productive of many similar SWOT energy workshops held in the Pacific in recent years. A full report is available from MRD.

Participants developed a list of issues and recommended actions that they felt could realistically be implemented within 6-12 months:

- More aggressive energy awareness / education so people agree on the issues and can have more impact on decisions and actions;
- Encouragement of “green” products (e.g. tax breaks for energy-efficient lights and appliances) and discouragement of inefficient appliances (e.g. outlaw highly inefficient products and enforce the rules; high taxes for SUVs);
- Reform government transport and vehicle policy (e.g. establish a government bus service);*
- Power utilities should initiate programs of energy audits (e.g. for government sector lighting) and produce publications on opportunities for improved efficiency;
- Establish and enforce building codes for energy-efficient design (including for government buildings);
- Continue the current program for financing outer island solar energy installations;
- Develop, endorse (Cabinet) and implement a national energy policy and action plan;
- Develop, endorse and implement a national electric code;
- Establish and fund a genuine National Energy Fund for fuel and renewable energy, with a real monetary injection, not just apparent funding;
- Specific proposals for energy projects should be developed, completed and submitted to financing agencies;
- Develop a national policy for reducing carbon emissions, with support for specific targets;
- Strengthen public/private partnerships for renewable energy and energy efficiency;
- Develop a local biofuel industry;*
- Improve enforcement of laws/regulations against illegal power connections and tampering with power lines and meters; Attorney General should prosecute offenders; and
- Strengthen the MRD’s Energy Planning Division.

Note: * Indicates considerable discussion and some disagreement

The Energy Public Policy Forum. A public forum to discuss national energy issues and means to address them was held on January 30th, 2009 at the International Conference Center, and attended by about 50 participants. The entire Forum was broadcast on national radio, resulting in considerable attention, including those in the outer islands. The resulting declaration and recommendations are attached as a separate annex. The forum deliberations and declaration constituted a vital and important input into this policy.

The Energy Fair. An Energy Fair attended by hundreds of people was organized by MRD and opened by the President of the RMI on February 28th, 2009, with speeches on energy issues, and demonstrations of various renewable energy and energy efficiency technologies and energy efficient appliances. The Energy Fair program was broadcast nationally. Although this was not formally part of consultations for the energy policy, there were numerous discussions that have contributed to the process of the policy development.



Volunteers at the Energy Fair, February 2009

Interviews with importers. Key importers of appliances (air conditioners, refrigeration, lighting, etc.) and vehicles were interviewed for their views and advice on how to encourage the use of more energy-efficient equipment and automobiles.

Annex 2: The Majuro Energy Declaration 2009

Joint Declaration on Energy Policy Priorities RMI Energy Public Policy Forum Majuro, Republic of the Marshall Islands International Conference Center, January 30, 2009

Mindful that in July of 2008 the Republic of the Marshall Islands issued a Proclamation declaring a State of (Economic) Emergency due to soaring commodity prices;

Reaffirming our common belief that concrete adjustments have to be introduced at multiple levels, particularly at the policy level, to effectively deal with high energy prices and to promote clean, reliable, accessible and sustainable energy;

Agreeing that addressing energy issues requires collaborative leadership, common goals, and a shared national vision;

Having participated in the 2009 Energy Public Policy Forum, and having presented and discussed our respective views and opinions on the current situation and the necessary responses that must be taken by the nation over the coming years;

Now, therefore, we, the undersigned, hereby declare and proclaim the following policy priorities and actions to be duly implemented by the People and Government of the Republic of the Marshall Islands to ensure stronger energy security and sustainability moving forward:

We make these declarations and commit to their full and proper implementation.

We commit to ensuring that proper resources are made available to implement these recommendations in an effective and timely manner.

We further commit to revisiting these recommendations in exactly one year's time, in January of 2010, to review and evaluate progress made in implementing these recommendations.

Given under our hands this 30th day of January, 2009

Iroij Kotak Loeak
Chairman, Council of Iroij
Republic of the Marshall Islands

Casten Nemra
Chief Secretary
Republic of the Marshall Islands

Daisy Alik-Momotaro
Director WUTMI and
Member Marshall Islands Council of NGOs

Hirobo Obeketang
President
Marshall Islands Chamber of Commerce

Kiyoshi Nakamitsu
RMI Country Officer
Pacific Operations Department
Pacific Department, Asian Development Bank

Recommendations As Endorsed by RMI Energy Public Policy Forum

Recommendations from the Council of Iroij

- the MEC begin using pre-paid meters to improve its cash-flow and assist disconnected households get back on line;
- the National Government strengthen its Renewable Energy (RE) and Energy Efficiency (EE) programs as much as possible;
- the National Government give serious consideration to the establishment of loans or financing programs for families who want to switch to more efficient air-conditioning, refrigeration, lighting and cooking systems;
- the National Government continue to invest in and expand the Outer Island Solar Program; and
- we explore and utilize alternative energy sources, including appropriate renewable energy technologies and energy efficient measures, to mitigate against economic hardship while promoting sustainable environmental practices.

Recommendations from the Chamber of Commerce

- we promote vehicle fuel saving tips to reduce commercial and private expense and thus provide funds for other energy saving measures (e.g. address road policies, improve engine performance, and enforce government vehicle use hours);
- electricity saving measures be pursued to reduce dependence on fossil fuels (e.g. adjust import duties to promote energy efficient products, retrofit streetlights to more efficient systems, reduce excess lighting, improve building efficiencies, encourage pay-before-you-use systems, and encourage green technology);
- we explore how biomass including vegetable waste, can be converted to fuel;
- we cease needless duplication, achieve greater effectiveness, and encourage more start-up businesses (eliminate duplication in equipment and services in government that are offered by private sector, outsource certain government functions, and retrofit all public buildings with more efficient systems); and
- we pursue coordinated solutions to solve a variety of problems (reconsider taxes altogether).

Recommendations from Women United Together Marshall Islands and Marshall Islands Council of NGOs

- the government capital development and housing loan programs incorporate both energy-saving and energy-production construction/renovation guidelines;
- all households, particularly those located in the urban centers, are equipped with energy-production units for lighting, heating, and cooking;
- teaching and learning indicators related to saving and production of energy are developed and incorporated in the existing or to-be-developed school curricula and training syllabi;
- all socio-economic and environmentally related programs incorporate energy-saving and/or energy-production objectives and measures;
- the National government promote collection and use of disaggregated data to identify and quantify energy needs and uses of women/men and design and implement programs for current and transformational uses;
- That the National Government promotes investments and promotes awareness about alternative energy technologies that can transform women's lives;
- we support affirmative action to increase women's decision-making authority in energy sector institutions such as MEC;
- training of women in technical fields and involvement in design, promotion, and use of energy technologies and resources be strengthened;
- we incorporate "green" energy options wherever possible and that we identify early in the process who will develop, implement, and enforce guidelines for green options;
- we ensure that hardware used (solar panels, wind generators, etc.) do not quickly become landfill – that is, they are of a quality that will last for many years;
- we explore using waste and ocean as sources of energy; and
- we explore how we can increase copra production to use the oil as a renewable energy source.

Recommendations from the Asian Development Bank

- RMI adopt policies and plans that maximize energy efficiency as its immediate priority –encouraging energy efficient products, being more careful about consumption patterns and promoting efficient lighting, air conditioning and refrigeration systems and also consider encouraging switching from electric cooking to gas stoves and incentivizing the importation of more fuel-efficient vehicles;
- RMI adopt renewable energy technologies as a high priority, as the RMI has already done with its impressive solar program;
- RMI promotes energy conservation in each community, government office, and all households;
- RMI prioritizes the completion of its new National Energy Policy and medium-term Energy Action Plan; and
- the National government improves its budget management, financial efficiency, and reduce its high wage bill so as to reduce budgetary pressures and improve its preparedness for future energy emergencies.

Recommendations from the RMI National Government

- even as energy prices have fallen sharply in recent months, that RMI from a policy basis assume that global fossil fuel based energy prices will eventually rise again;
- RMI expedite the finalization of its new RMI National Energy Policy and Medium Term Energy Action Plan and that these emphasize Energy Efficiency and Renewable Energy;
- energy efficiency campaigns targeting the general public be aggressively pursued and sustained;
- we strive to reduce the cost of imported fossil fuels by exploring the regional bulk procurement initiative and related options;
- our utilities, MEC and KAJUR, improve operational efficiency – in particular, reduce technical losses, reduce non-technical losses, and aggressively explore alternative generation options;
- MEC and KAJUR reform their tariff templates to reflect the full costs of their services;
- MEC phase in pre-pay meters;
- National government lower or reduce import taxes on energy efficient products and restrict imports on inefficient appliances and vehicles; and
- we establish loans to help households finance energy efficient home improvements.

Additional Recommendations from Forum Participants

- Emphasize the private sector's role in the growth of new energy jobs and industries;
- Consider providing a matching fund to assist people with purchase of energy efficient products;
- As a matter of urgency, investigate the current gasoline pricing issue and determine why retail gasoline prices are so high, the investigation to include all gasoline suppliers;
- Widen the energy policy analysis to include more analysis of environmental issues (e.g. waste).
- Emphasize simple, low-tech options for the RMI;
- Consider traditional practices and how they can improve current energy policies;
- Reconsider suggestion to switch from electric to propane cooking;
- MEC and other companies consider providing energy audits to individual households as an additional service;
- Emphasize performance-based budgeting in the government and include energy criteria as a performance measure for each government ministry and agency;
- Emphasize coconut and other bio-fuel production in the RMI as a means to raise our energy independence;
- Emphasize the diversification of energy sources;
- Consider the reduction of work hours in the national government as a means to save funds;
- Emphasize capacity development in the energy sector and facilitate more active partnerships among academia, donors, and the National Training Council; and
- Provide renewable energy assistance (e.g. solar panels) to urban families in addition to outer islands.



Republic of the Marshall Islands

National Energy Policy and Energy Action Plan

VOLUME 2: ENERGY ACTION PLAN (September 2009 – August 2012)

Majuro, September 2009

Introduction

The Republic of the Marshall Islands National Energy Policy of 2009 provides an overall framework for a shift toward more sustainable national use of energy. It emphasizes the procurement of petroleum fuel on better terms to reduce its financial cost and the reduction in the use of petroleum fuels through investments in renewal energy and increased energy efficiency. The policy begins with the following background chapters:

1. National Context and Economic Overview,
2. Overview of the Energy Sector, and
3. A Framework for National Energy Policy and Its Implementation

These are followed by six chapters covering sub-sectors of energy in which action is required. Each chapter includes a statement of Government policy, key issues or obstacles that hinder more rational energy use, specific objectives, and strategies to achieve the objectives.

4. Energy Policy Administration and Implementation,
5. Petroleum and Liquid Fuels,
6. Electric Power,
7. Transport and Energy Use,
8. Energy Efficiency, and
9. Renewable Energy

This Action Plan provides details of actions necessary to implement the national energy policies and strategies of chapter 4 through 9 of the policy. It includes specific activities, priorities, time required, possible funding sources, and a monitoring and evaluation (M&E) mechanism. Although this plan covers a period of 3 years, priorities, opportunities and constraints will inevitably change over time, sometimes quickly. The policy issues are likely to remain unchanged for some years but the Action Plan must be adjusted regularly to reflect current needs.

MRD and the ETF will review and amend as necessary this action plan during the third quarter of 2010. An action plan cannot be rigid. After one year, and every following year, the specific actions and timing will be reviewed through the ETF and updated as required. This will also form the basis for the annual work program of the Energy Planning Division of the Ministry of Resources and Development.

Explanatory Notes:

Prioritization of activities. In the following tables, activities are prioritized as follows:

Immediate	To be completed within four weeks of approval of the action plan
Very High	Activity which is very important and/or there is an opportunity for very significant gain; complete as soon as possible
High	Activity which is important and/or there is an opportunity for significant gain; complete as soon as practicable
Medium	To be completed during the time frame indicated

Time frame of activities. It is difficult to judge the timing of activities. Some may begin later than expected as MRD or external resources are delayed or unavailable. In many cases, an activity with preparatory work in 2009 or 2010 may not be complete for 3 or 4 years or more. In general, the timeframes are indicative and will be regularly revised as required. Time frames referred to are in Calendar Years, not Fiscal Years.

Monitoring and Evaluation. The action plan is an outline table summarizing what needs to be done, by whom and when. It does not specify a mechanism for monitoring and evaluation (M&E), which will differ according to the activity. Donor-supported activities generally have an M&E requirement specific to that donor. Regardless of the type of activity and source of funding, effective M&E requires the same sort of information. It is important that MRD specify and quantify as far as possible from the beginning the following information for each activity, so that MRD and the ETF can later judge progress, obstacles, the extent of success, and remedial actions, if required:

- A clear description of the baseline situation, against which to judge progress.
*(For example: There are 800 old street lights which use 250 watts each for an average of 6 hours daily. **
- The objective(s) of the activity.
(e.g. replace 75% of street lights within 12 months with energy efficient models that provide similar lighting levels.
- The outcomes of the activity.
(e.g. a reduction of at least 67% in the use of electricity for street lighting in Majuro and Ebeye with overall net savings to MEC and KAJUR (initial costs and operating costs).
- The specific person and organization with prime responsibility; others who will support the activity.

* These examples are illustrative only; they are not based on actual numbers.

The Annex. The annex to this action plan is a list of project proposals that have been prepared for a number of specific follow-up actions. These are available from MRD for comment. Although they will require some modification to meet the requirements of individual funding agencies, they provide the basic information donors will require before considering requests for assistance.

Acronyms and Abbreviations

ACP	African, Caribbean and Pacific countries	ETF	Energy Task Force
ADB	Asian Development Bank	FY	Fiscal Year (ends September 30th)
ADMIRE	Action for the Development of Marshall Islands Renewable Energies (GEF/UNDP)	GEF	Global Environment Facility
AG	Attorney General	IFC	International Finance Corporation
AusAID	Australian Agency for International Development	IUCN	International Union for the Conservation of Nature (World Conservation Union)
CFL	Compact Fluorescent Light	JICA	Japan International Cooperation Agency
CMI	College of the Marshall Islands	KAJUR	Kwajalein Atoll Joint Utility Resource
CNMI	Commonwealth of the Northern Mariana Islands	LPG	Liquid Petroleum Gas (propane)
CROP	Council of Regional Organisations of the Pacific	M&E	Monitoring and Evaluation
DBEDT	Dept. of Business, Econ. Development & Tourism (Hawaii)	MEC	Marshalls Energy Company
DSM	Demand Side Management (EE)	MEPS	minimum energy performance standards
EC	European Commission	MFA	Ministry of Foreign Affairs
EC TCF	EC Technical Cooperation Fund under EDF envelope A	MIA	Ministry of Internal Affairs
EDF10	10th European Development Fund (EC)	MICS	Marshall Islands Conservation Society
EDIN	International Partnership for Energy Development in Island Nations (USA, New Zealand, Iceland)	MIDB	Marshall Islands Development Bank
EE	Energy Efficiency	MIJ	Marshall Islands Journal
EIB	European Investment Bank	MOE	Ministry of Education
EPD	Energy Planning Division of MRD	MOF	Ministry of Finance
EPPSO	Economic Policy, Planning and Statistics Office	MPW	Ministry of Public Works
		MRD	Ministry of Resources and Development
		MTC	Ministry of Transportation & Communications

MAWC	Majuro Atoll Waste Company, Inc.	RMI EPA	RMI Environmental Protection Authority
NGO	Non Governmental Organization(s)	SEFP	Sustainable Energy Financing Project (IFC)
NOAA	National Oceanic & Atmospheric Administration (USA)	SOPAC	South Pacific Applied Geosciences Commission
NREL	National Renewable Energy Laboratory (USA)	SPC	Secretariat of the Pacific Community
O&M	Operations and Maintenance	SPREP	Secretariat of the Pacific Regional Environment Programme
OEPPC	Office of Environmental Planning and Policy Coordination	SSM	Supply Side Management (EE)
OTEC	Ocean Thermal Energy Conversion	TA	Technical Assistance
PIFS	Pacific Islands Forum Secretariat	TCF	Technical Cooperation Facility
PPA	Pacific Power Association	UNDP	United Nations Development Program
PSC	Public Service Commission	UNIDO	UN Industrial Development Organization
PV	photovoltaic(s) = Solar Electric	USDOE	United States Department of Energy
RE	Renewable Energy	USDOI /OIA	United States Department of Interior /Office of Insular Affairs
REEEP	Renewable Energy & Energy Efficiency Partnership	WB	World Bank

Energy Policy Administration and Implementation

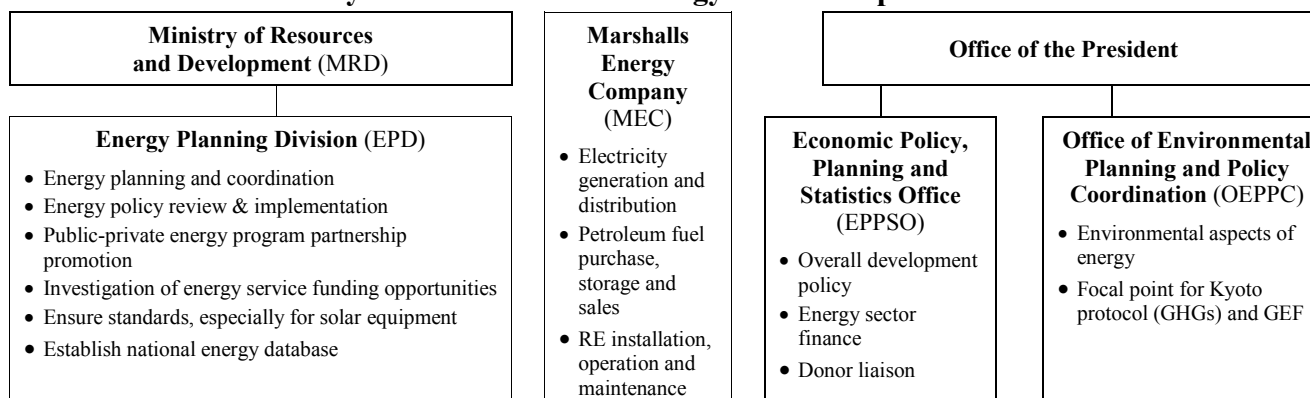
Policy Statement

The Government of the Marshall Islands recognizes weaknesses in administering past energy policies and will:

develop and enforce laws and regulations necessary to provide MRD with the authority required for effective and transparent implementation of this policy, including electric power legislation, clear guidelines for the MEC board and management, and a consistent management system for all government renewable energy programs.

The table below, taken from the RMI ‘Pacific Islands Renewable Energy Program’ (PIREP) report summarized the main responsibilities for energy within government in 2004, particularly those related to policy. This remains reasonably valid in 2009 but omits a number of important links: 1) the role of the Ministry of Foreign Affairs in overall aid coordination; 2) the subsequent formation of the national Energy Task Force as a key advisory body reporting indirectly to Cabinet; 3) the power of the Ministry of Internal Affairs to set maximum retail margins for some products, including outer island petroleum fuels, and 4) the roles of the Ministry of Finance in the allocation of funds and as the formal link to development agencies active in the energy sector, including the Asian Development Bank and the World Bank. Other government agencies are of course also involved in energy.

Key RMI Government Energy Sector Responsibilities in 2009



Notes: A separate power utility (KAJUR) serves the second main urban center of Ebeye
The telecommunications, fisheries, education and health ministries are also involved in solar PV.

Because energy is an input to all government and private development efforts, there is inevitably a range of overlapping, fragmented and sometimes unclear energy sector responsibilities, and these responsibilities will change over time. In the Action Plan, there is therefore no attempt to provide one definitive organization chart showing responsibilities and linkages among key players. Instead, there are a series of charts which attempt to show these linkages within specific types of energy activities. Some of these will be *ad hoc*, some will change as activities are implemented, and some may be more-or-less permanent.

Although energy matters important to all sectors of the economy and all agencies of government, the human resources of RMI are modest; it is important that duplication of effort in the supply, distribution and regulation of energy be minimized. To achieve better coordination of energy-related activities, some legislation

needs amending or creation, regulatory activities clearly assigned and responsibilities for the several forms of government energy activities specified. The numerous detailed objectives and related strategies of chapter 4 of the national energy policy have been summarized as several broader objectives below, followed by specific actions to implement them.

Objective 1: To provide the necessary management, legal and regulatory structure for efficient and responsible management of energy supplies and services in the RMI.

Objective 2: To develop the information and capacity necessary to provide efficient and responsible management of energy supplies and services in the RMI.

Objective 1: To provide necessary management, legal & regulatory structure for efficient and responsible management of energy supplies and services in the RMI						
Activity * (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Potential Source
	Lead Agency	Participating or Supporting				
1.1 Detailed review of all legislation, bylaws and regulations relating to energy activities in the RMI specifically including those relating to: a) Petroleum supply, storage, transport and distribution b) RMI electricity utilities and their activities c) Land, sea and domestic air transport d) Land use for renewable energy development and energy distribution e) Import duties, taxes and import regulations relating to fuels, renewable energy components, appliances, vehicles, boats, large pumps and other equipment that are major energy providers or users on the national scale.	MRD	AG MOF MEC KAJUR RMI EPA MIA	High	2009 Q4 to 2010 Q1	Preparation of a report with findings of legislation, regulations or bylaws that now have or may have in the future an effect on consistent and effective energy management.	estimated \$85,000 World Bank TA
1.2 Based on the 1.1 Review, prepare amendments or new legislation, regulations and bylaws to clearly delineate responsibilities and structures for energy supply, distribution and their management (continuation of 1.1. under the same project)	MRD	AG Nitijela MEC MIA	High	2010 Q2	Completion of draft regulations, legislation and bylaws as noted by the review	Continuation of 1.1
1.3 Confirm ETF membership to include at least one representative from each Ministry as well as the existing membership. Prepare clear terms of reference for the ETF to include coordination of energy related efforts and improving energy efficiency within government	MRD	ETF All Ministries	Immediate	2009 Q4	Participation in the expanded ETF	No additional budget required
1.4 Determine the human resources needed to effectively implement the revised legislation, regulations and bylaws.	MRD	MEC/KAJUR ETF PSC MOF MIA	High	2010 Q3	Recruitment and training of personnel needed to perform the tasks required under the new legislation, regulations and bylaws	ADMIRE Internal Budget
1.5 Create and fill the positions needed. Develop a capacity building program where needed, prepare project document (if needed) for capacity building.	as above	as above	High	2010 Q4	Positions filled	as above

Objective 1: To provide necessary management, legal & regulatory structure for efficient and responsible management of energy supplies and services in the RMI						
Activity * (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Potential Source
	Lead Agency	Participating or Supporting				
1.6 Develop energy related performance measures for government ministries and agencies, internally or with technical assistance if needed. Participate in the budget reform process, advocating performance-based budgeting with energy criteria as performance measures for each government ministry and agency	MRD	MOF All departments involved in the budget reform process	depends on timing of, and progress with, overall govt. budget reform	2010 Q1	Development of clear & easy to implement guidelines; incorporation of these into the budget process	Internal with possible ADB assistance

Note: The activities necessary to implement some the strategies listed in chapter 4 of the Energy Policy are dealt with in later sections of this action plan. Many activities relate to more than one aspect of energy – administration, power, fuel, renewable, etc. – and can logically fit within various headings.

Objective 2: To develop the information and capacity necessary to provide efficient and responsible management of energy supplies and services in the RMI						
Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Potential Source
	Lead Agency	Participating or Supporting				
2.1 Develop MRD Energy Planning Division Annual Work Plan, based on this action plan, with clear objectives, priorities, persons responsible, and timeframe. If necessary, review and amend Action Plan according to resources available.	MRD	ETF All Ministries MEC	Very High	2009 Q4	Completion of work plan. Implementation of work plan.	Internal
2.2 Develop an energy sector database (or databases) suitable for comprehensive planning and implementation of energy activities, with regular updates. [See Project Proposal 5 in Annex]	MRD	MEC/KAJUR EPPSO fuel importers MOF MFA	Very high	Begin 2009 Q4; initial database in 2009	Existence of database with fuel imports by product, volume & value; MEC / KAJUR production, sales and costs & other info to be determined	Budget unknown Probably SPC/SOPAC and possibly others
2.3 Maintain database/matrix of funding opportunities from donors and development agencies	MFA with MRD	ETF	Ongoing	quarterly	Continued production of the MFA matrix	none required

Objective 2: To develop the information and capacity necessary to provide efficient and responsible management of energy supplies and services in the RMI						
Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Potential Source
	Lead Agency	Participating or Supporting				
2.4 Independent assessment of organizational changes (MRD, possibly other ministries, MEC) that may be necessary to implement the energy policy	PSC MEC board	MRD MOF KAJUR	High	2010 Q1	Assessment reports	Budget unknown MRD: SPC/SOPAC MEC: World Bank TA
2.5 a) Preparation of a concept paper by MRD on the functions and priorities of the proposed Micronesia Energy Challenge; and b) Inputs to revisions to the Pacific Islands Regional Energy Policy and Plan to incorporate sub-regional perspective for Micronesia	MRD	AG Nitijela MEC MIA SPC	Medium	a) 2009 Q3 b) to be determined	a) Completion of the concept paper b) input to Micronesia Energy Challenge on sub-regional issues for submission to SPC for revised regional policy	Only staff time required; no additional budget
2.6 Informal training of Energy Division staff through Energy Adviser, their inclusions in RE/EE training, and possible diploma or degree level training in energy	MRD	CMI and AusAID Adviser	Immediate and Ongoing	from 2009 Q3	Training completed and brief reports provided to Sec of MRD	No added budget required

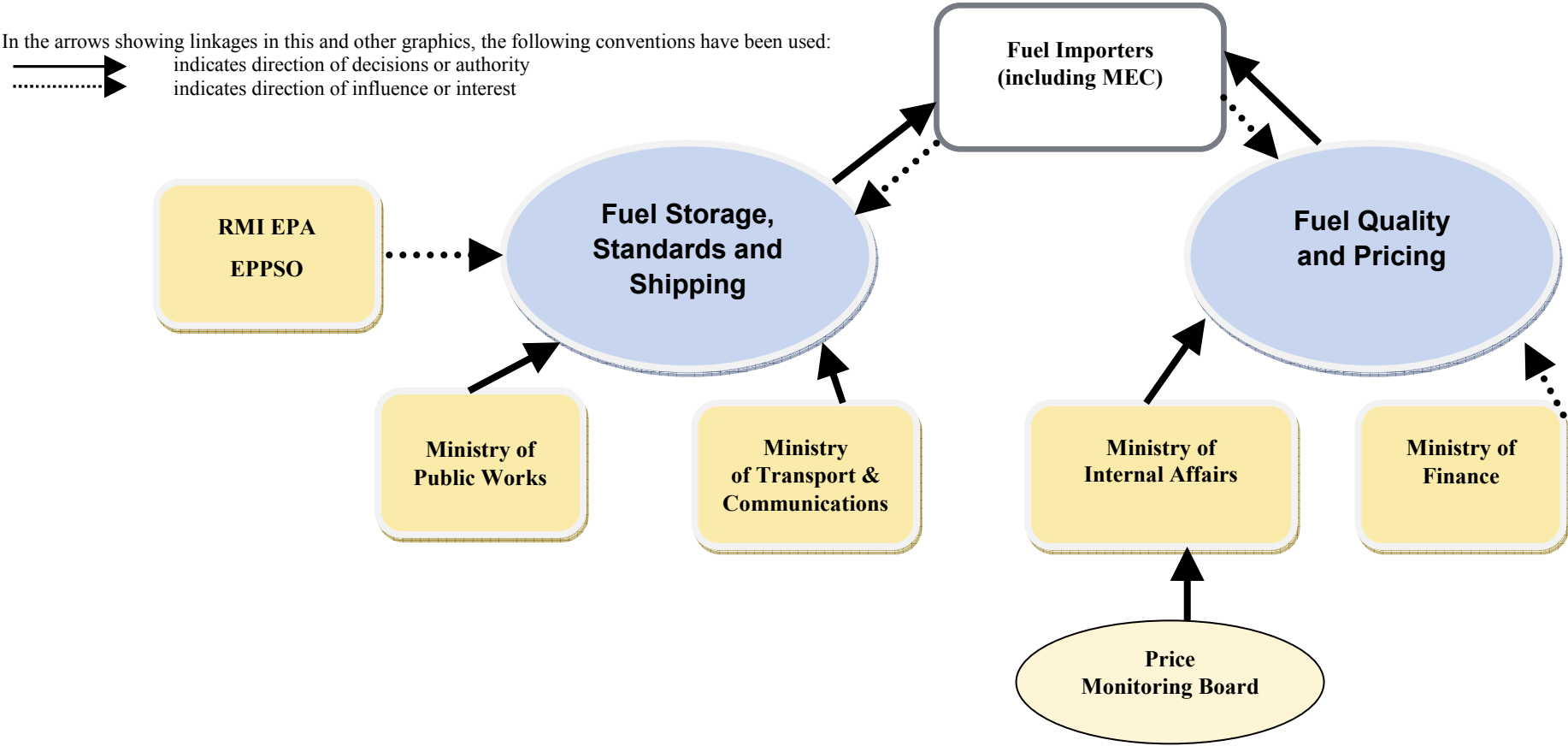
Petroleum and Liquid Fuels

Policy Statement

The Government of the Marshall Islands recognizes that nearly total national dependence on imported petroleum fuels results in great social and economic vulnerability. It will:

develop and enforce international standards for the storage, handling and transport of petroleum products; develop a mechanism for obtaining competitive fuel prices and monitor results; ensure that there are fair wholesale and retail fuel prices; require suppliers as a part of the supply contract to provide monthly data on imports and sales by product; and place high priority on developing the infrastructure and capacity to process coconut oil for use as a petroleum fuel replacement.

The responsibilities regarding petroleum standards and pricing are summarized below. However, some existing legislation and regulations have not always been adequately enforced and some need to be assessed and revised so that enforcement becomes practical.



As the text and diagram on the previous page suggest, there are two key objectives for petroleum fuels:

Objective 1: To develop to assure high quality fuel products, their storage and their transportation within the RMI

Objective 2: To develop effective mechanisms for fair import prices of petroleum fuels and equitable pricing of fuel products throughout the RMI

Objective 1: To develop to assure high quality fuel products, their storage and their transportation within the RMI						
Activity * (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Potential Source
	Lead Agency	Participating or Supporting				
1.1 Arrange an independent valuation of the MEC tank farm and MEC's bunkering operations	MOF with MRD	MEC	High	Immediate	Completion of report with costs & benefits to RMI & MEC of the tank farm	Budget unknown Requested from WB
1.2 Develop mechanism (including associated legal tools) for inspection and certification of storage, handling and safety procedures and licensing of petroleum storage and distribution facilities	MPW	MEC/KAJUR MRD MOF RMI EPA	Medium	2010	Completion and adoption of the standards and legal tools; clear responsibility for enforcement	Possibly SPC with WB support
1.3 Obtain professional advice on the quality and suitability of fuels imported into RMI and any biofuels produced locally. Develop standards if required.	MIA	MEC RMI EPA	Medium	2010	Paper assessing the quality of fuels imported or produced locally; Production and enforcement of any standards developed	Budget unknown Probably SPC &/or SOPAC

Note: * By mid 2009, TOR had been completed for several aspects of petroleum supply studies including MEC supply contracts and general RMI supply, (independent MEC and Government consultancies), and MEC storage issues (for WB). Project proposal 2 in the Annex is the proposed WB study. Details are available from MRD. The PIFS currently (mid 2009) retains CROP agency responsibility for petroleum fuel matters (bulk fuel purchase) but the SPC is expected to assume responsibility for all aspects of petroleum policy from early 2010. In late 2009, SOPAC may produce the regional quarterly petroleum pricing monitor formerly done by PIFS. In the event of local production of biofuels, this will be included in all fuel data and in any fuel pricing mechanism developed.

Objective 2: To develop effective mechanisms for fair import prices of petroleum fuels and equitable pricing of fuel products						
Activity * (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Potential Source
	Lead Agency	Participating or Supporting				
2.1 Obtain independent advice on tendering, negotiating and monitoring of petroleum supply contracts, including likely costs and benefits of participation in the proposed bulk fuel purchase scheme	Cabinet Office MEC	MIA MRD Fuel Importers	High	2009 Q4	Production of report and implementation of an improved pricing structure	Internal
2.2 Arrange training of RMI personnel in petroleum supply contracting and monitoring	MIA	MEC	Medium	2010-2011	Govt. staff trained in fuel contracting and price monitoring	PIFS / SPC Possibly others
2.3 Arrange an independent study to evaluate gasoline, diesel fuel, kerosene and propane pricing on Majuro, Ebeye and outer atolls to determine the fairness of current arrangements, the effectiveness of price control legislation, and the benefits and costs of a mechanism to establish maximum wholesale and retail price margins. Amend legislation as required to provide transparent and equitable fuel pricing and price monitoring for RMI	Cabinet Office MIA	MEC Fuel Importers MRD	Very High	2009 Q4	Completion of study; amendment of legislation as required; implementation of new mechanisms	Unknown Initially WB, Govt of RMI & MEC Probably SPC later
2.4 Develop regulations requiring all petroleum importers to provide quarterly reports (to MRD & EPPSO (in addition to Customs reporting requirements) on volumes of each type of fuel imported and sold. Enforce the regulations.	MRD with EPPSO	MOF all Fuel Importers	High	2010 Q1	Regulations developed and used; information regularly being provided by importers	Internal
2.5 Provide information quarterly to EPPSO on landed, wholesale, and retail prices of each type of fuel and to SOPAC/SPC * for incorporation into the quarterly regional fuel price monitor.	MRD with MIA	MOF Fuel Importers	Ongoing	as soon as fuel price monitor is produced	Provision of data to SOPAC or the relevant CROP agency	None
2.6 Arrange independent study of the technical, economic, environmental (including GHG implications) and financial practicality of developing local coconut based biofuels with varying assumptions regarding the landed cost of petroleum fuels	MRD	MEC, MOF MTC RMI EPA TOBOLAR OEPPC Fuel importers	Medium	2010	Study completed. If viable funds allocated for trials	ADMIRE SOPAC/SPC or possibly UNIDO support

Notes: * See note under Objective 5.1. In addition, it is expected that changes to the price control legislation will be required.

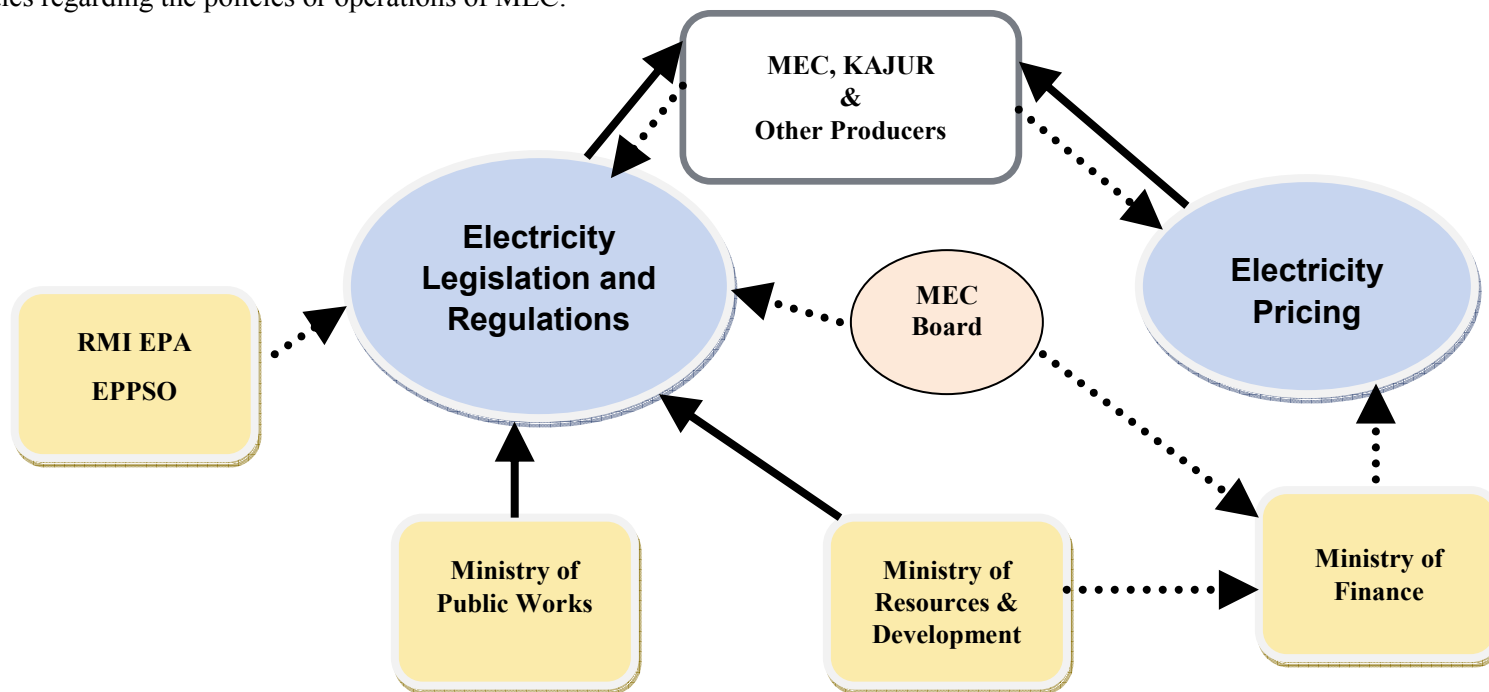
Electric Power

Policy statement

The Government of the Marshall Islands recognizes the importance of electrifying all households on all islands with sustainable and environmentally appropriate energy supplies. The Government will develop and enforce:

clear and equitable electricity tariffs, laws and regulations necessary to provide MRD with the authority required for effective and transparent implementation of this policy including electric power legislation, clear guidelines for the MEC board, mechanisms for allowing renewable energy to feed into the grid, and a consistent management system for all government renewable energy programs

The broad relationships indicating grid-connected electric power responsibility are shown below. MRD, despite responsibility for energy overall, has no direct responsibilities regarding the policies or operations of MEC:



The RMI has had a reasonable quality of power supply for many years in Majuro and a substantially improved service recently in Ebeye. However there has been some concern, whether fairly or not, within Cabinet about the management of MEC and the costs of electric power supply. Therefore, an independent and transparent review will be carried out of MEC's management and financial operations as a high priority. This review is implicitly included within the broader actions to be undertaken under chapter 4 "Energy Policy Administration and Implementation" but is spelled out further in this chapter. The findings are expected to form the basis for any necessary changes to legislation, regulations and guidelines.

There has been an increase in recent years in electrification in outer islands through solar PV, with household systems managed by MEC and others by various ministries, but without out any consistent management and financial framework for sustainability. A better management framework is necessary to improve operations of both existing systems and the new systems required to complete the electrification of 100% of all households desiring service. Therefore the management of solar PV in the RMI will also be reviewed, but this is covered in chapter 9, Renewable Energy.

The electric power sector objectives of the energy policy are summarized as follows for the purposes of follow-up actions:

Objective 1: To reduce MEC supply side energy losses by 20% of 2009 levels by 2015, consistent with sound technical and financial criteria.

Objective 2: Clear mechanisms and responsibilities for effective urban power supply

Objective 1: Reduction of MEC supply side losses by 20% of 2009 levels by 2015, consistent with sound technical & financial criteria						
Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Potential Source
	Lead Agency	Participating or Supporting				
1.1 Arrange independent study of actual MEC and KAJUR supply-side losses, and set a reasonable target and timeframe to reduce losses	MEC Board	MRD MOF	High	2009 Q4 *	Completion of measurements and the study	Unknown cost PPA, ADB
1.2 Carry out a supply-side loss reduction program within MEC and, if it is financially and economically practical, KAJUR	MEC KAJUR	MOF	High	2010-2012	Actual loss reductions in per cent	Cannot accurately estimate costs until studies completed. Some internal MEC funds; Possibly USDOL/OIA and others

Note: * Timing is dependent on PPA/ADB

Objective 2: Clear mechanism and responsibilities for effective urban power supply						
Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Potential Source
	Lead Agency	Participating or Supporting				
2.1 Develop legislation, regulations, etc. that clearly define the authority, obligations and responsibilities for electric power supply in Majuro and throughout the RMI [See Project Proposal 2 in the Annex]*	Cabinet Office & MEC Board	MOF MPW MRD	High	2009 Q4 to 2010 Q1	Legislation developed and adopted	Possibly WB as follow up to proposed 2009 study *
2.2 Develop clear rules and guidelines for the MEC board including membership and a staff handbook	MPW with MRD	MEC Board Cabinet Office	High	2009 Q4 to 2010 Q1	Board and staff rules etc developed and disseminated to members. MRD represented on MEC board.	Minimal cost Possibly WB as follow-up to 1.1 above.
2.3 Regular and timely production of MEC annual technical and operational reports	MEC	MRD ETF	Medium - High	2009 report by 2010 Q2	Production of informative, timely reports	internal budget Possibly PPA assistance
2.4 Development of technical guidelines and regulations for grid connected self-generation through renewable energy sources, pre-paid metering, and feed-in tariffs	MEC Board	MRD ETF	High	2010 Q2	Practical guidelines produced & implemented	EC UNDP Consultancy through SPC
2.5 Study to develop new tariff formula for MEC and utilities it manages based on actual costs on each island and incorporating a lifeline tariff that genuinely assists the bottom 20% of MEC consumers	MRD with MEC	Finance Business Community	High	2009 Q4	An appropriate new tariff system developed and put into operation	Low cost. WB follow-up to study
2.6 Production of RMI's national greenhouse gas inventory and report, including coverage of benefits and costs of energy efficiency and renewable energy	OEPPC	MRD MEC	Medium	dependent on OEPPC priorities	Completion of report	Unknown ADMIRE or other GEF support

Note: * Submitted to the WB for consideration. Details are available from the MOF or MRD.

It is expected that MRD will have a place on the MEC board as a result of board membership will change with MRD as a member.

Transport and Energy Use

Policy Statement

The Government of the Marshall Islands recognizes that land, sea and air transport is the largest user of imported energy in the country and measures to improve the energy efficiency of transport are at the core of an energy policy that focuses on reducing foreign energy dependence. It will:

take the lead in the procurement of more efficient vehicles, ships and boats, and establish rules for improved maintenance and operations with the goal of improving transport efficiency and lowering imported transport fuels by 20% by 2020

adjust tax structures to encourage the import and sale of energy efficient forms of transport; and

mandate the use of locally produced biofuel in diesel powered government vehicles by 2015.

The goal of the energy policy is to lower the amount of fuel imported for transport by 20% by 2020 relative to a 2009 baseline. Three types of efforts can help meet this goal: (1) improved average vehicle fuel efficiency in miles per gallon (mpg) of fuel used; (2) improved efficiency of management of vehicles through increased average passenger mpg of fuel or, for freight carrying vehicles, increased average ton mpg; and (3) replacement of imported fuel by locally produced biofuel.

Land, sea and domestic air transport is the largest user of imported fuel in the RMI. The quality of life and the economic survival of outer island residents is tied strongly to the cost of transporting goods and people to and from Majuro, Ebeye and other islands. It is especially important that the fuel efficiency of sea transport be improved both through technical means and through improved management of the available facilities.

Land transport fuel is mostly used for transporting people from place to place with efficiency gains both through improved vehicular efficiencies and through higher occupancy of transport vehicles.

Some of the improvement can come from better fuel efficiency brought about by improved maintenance of the existing vehicle stock. A project is proposed to develop private sector vehicle testing and basic car maintenance facilities, with equipment and personnel training provided under donor funding. Initially, testing and maintenance would be voluntary, with vehicle owners participating because they expect lowered operating costs. The testing process will later be extended to include emissions testing and become mandatory no later than 2015. The testing and maintenance process will be mandatory for government vehicles, and vehicles owned by government-owned corporations, from the time of initiation of the program.

Much of the improvement will have to come from replacing existing vehicles with more fuel efficient models which is a slow process. Thus the goal cannot be reached immediately. In particular, 100 per cent of vehicles used in public transport, mainly private taxis and mini-buses, should be mandated to be high fuel efficiency models within 10 years. If this goal is to be reached, all regulations and actions encouraging replacement of gasoline powered low efficiency vehicles with high efficiency hybrids and diesel powered vehicles and mandating improvement in the public transport fleet must come into force immediately (i.e. during 2009) so people can plan for vehicle replacement.

For improving sea transport efficiency, improved management of existing ships to optimize fuel use can provide a reduction in fuel import requirements. The ultimate replacement of existing shipping with high fuel efficiency vessels specifically designed for the type of transport service needed in RMI can dramatically improve sea transport efficiency. For personal and local transport the replacement of low efficiency outboard motors with higher efficiency outboards and inboards is practical provided users have access to a seller of the equipment and finance for its purchase. Where diesel engines are used, the use of island produced biofuel for local sea transport and the addition of sail supplementation for fishing and lagoon transport can further reduce the need for imported fuel for sea transport.

The numerous detailed objectives of chapter 7 of the national energy policy have been summarized as a single objective below, with the strategies rephrased, followed by specific actions to implement each strategy:

Objective: To lower the amount of fuel imported for transport use by 20% from the 2009 baseline by 2020

Objective: By 2020 to lower the amount of fuel imported for transport use by 20% from the 2009 baseline level						
Strategy 1: Improve the basic fuel efficiency of the government fleet						
Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Potential Source
	Lead Agency	Participating or Supporting				
1.1 Where available for the type of service required, all vehicles purchased by the RMI government and government-owned companies must have diesel engines or be highly efficient hybrids.	MPW	All ministries MEC/KAJUR other state-owned enterprises	High	Immediate through Executive Order	Issuance of and compliance with the EO	Internal
Strategy 2 Encourage the private sector to purchase fuel efficient vehicles when replacing existing vehicles						
2.1 Adjust transport fuel duties and taxation so that gasoline is always significantly more expensive than diesel fuel for vehicle use (as it is now) to encourage the purchase of diesel vehicles in the private sector	MOF	MRD	High	Immediately when gasoline consumer price falls below diesel	Relative wholesale and retail price of gasoline and diesel fuel	Internal
2.2 Mandate that by 2019 all public transport vehicles (buses, boats and taxis) be diesel powered or comparably high fuel efficiency gasoline powered models	MTC		Medium	Immediate issuance of regulation	Issuance and compliance	Internal
Strategy 3. Improve transport fuel efficiency through improved maintenance						
3.1 Develop a program for gasoline powered vehicle testing and maintenance in cooperation with Ministry of Public Works and private sector vehicle repair facilities. Program to utilize standard testing procedures, and includes the provision of testing equipment and training of personnel in the testing and repair process. Testing and maintenance to be voluntary for private vehicles until 2015 when annual testing will become mandatory	MTC	MPW OEPPC RMI EPA	Medium	2010 Q3	Number of vehicles per month tested and scheduled for maintenance	to be determined

Objective: By 2020, to lower the amount of fuel imported for transport use by 20% from the 2009 baseline level						
Strategy 4 Reduce imported fuel through substitution with biofuels						
Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Potential Source
	Lead Agency	Participating or Supporting				
4.1 Where available for the type of service required, all vehicles purchased by the RMI government and government-owned companies must have diesel engines or be highly efficient hybrids.	MPW	All ministries MEC/KAJUR other state- owned enterprises	High	Immediate through Executive Order	Issuance of and compliance with the EO	Internal
4.2 Mandate that all diesel powered government vehicles will use locally made coconut based biofuel (to the extent it is available) by 2015. Must be linked to the renewable energy project for the increased production of locally sourced biofuel	MTC	MOF MPW MRD	Medium	Immediate through Executive Order	Issuance of and compliance with the EO	Internal
Strategy 5 Reduce sea transport fuel use						
5.1 Engage shipping consultants to determine the process to be followed for scheduling and managing outer island shipping in a manner that minimizes fuel use while maintaining adequate transport activity. Included would be recommendations for the type and characteristics of ships to replace the existing fleet when retiring existing ships. Implement the recommendations.	MTC	MOF MIA	Medium	2010 Q2	Receipt of useable scheduling and management procedures to follow. Implementation of recommendations	ADB/WB
5.2 Investigate the feasibility of utilizing diesel powered outboard and inboard engines that can run on locally produced biofuel to replace existing gasoline powered units for fishing and short haul transport. If technically feasible the consultants would prepare a project that can encourage diesels for replacement of existing gasoline engines through favorable term financing and incentives.	MTC	MIA MOF USDA MIDB	Medium	2010	Feasibility study report. Preparation of project documents.	ADMIRE
5.3 Develop programs to encourage the use of wind supplementation for intra-atoll transport and lagoon fishing	MTC	OEPPC	Medium	2010	Number of sail assisted vessels operating in the lagoons	ADMIRE

Energy Efficiency

Policy Statement

The Government of the Marshall Islands recognizes that improving the efficiency of energy use has greater short term value for reducing dependence on foreign sources of energy than any other action. The MRD will develop an energy management plan for government, including processes for its implementation and monitoring. Government will:

revise taxes to encourage the import and sale of appliances, vehicles and boats having the highest energy efficiency;

develop energy efficiency standards for new buildings and renovations including homes, businesses and government premises, with financing on subsidized terms for designs and construction meeting the standards;

carry out energy audits on government facilities, with the responsible departments each developing and submitting an investment plan for the capitalization of energy efficiency improvements for the facilities; and

require government departments to each name an energy manager who will develop and implement an energy management plan. Monitoring will be by MRD and annual reports detailing energy usage will be submitted.

Energy efficiency improvements are the first and most effective actions to take for reducing fossil fuel use. Every sector can save 15% or more of electricity use without any major investment, degradation of quality of life or lower effectiveness of services. Attention to detail, the use of energy efficient equipment and an understanding of the actions needed are the main paths to successful reduction in energy use by households, businesses and government. This initial action plan focuses on determining where waste occurs, practical measures to improve efficiency, acceptable terms financing for any investment needed, education and management of electrical energy use.

In the RMI a particularly inefficient use of energy is for air-conditioning. Much, and in some cases all, of the energy used for air-conditioning can be saved if simple measures are carried out. These include adding relatively inexpensive heat transfer barriers under building roofs, decreasing the absorption of solar energy through white and reflective building surface coatings, shading air-conditioner condenser units, adding shading or reflective films for east and west facing windows, adding ceiling fans to increase personal comfort and replacing inefficient air-conditioners with high efficiency units. Buildings constructed using designs that provide a high level of energy efficiency can provide comfortable living with no air-conditioning at all. The action plan therefore has a strong focus on reducing air-conditioning loads and on providing affordable finance for the investments needed to make those actions work. For long term improvement in building energy efficiency, building codes and standards that promote energy efficiency are listed actions. Likewise, for new homebuilders and renovators actions include a financing program that can provide housing with improved energy efficiency at a monthly cost that is no greater than the reduced expenditure on energy thereby maintaining a constant cash flow for energy related expenditures.

Appliances in general, in particular air-conditioners, refrigerators and freezers, are available in RMI in a wide range of efficiencies with cheap Chinese made units very poor in efficiency as well as high quality, brand name Energy Star rated units available at typically a higher purchase price. Attempts have been made in numerous countries to mandate the energy efficiency of consumer appliances but without a substantial local infrastructure for testing, regulation and inspection those measures are not likely to succeed. For small island countries, raising import duties and taxes of inefficient equipment to a level that makes high efficiency equipment competitive in the market place probably has a better chance of success than mandatory labeling. Taxation of lower efficiency appliances also makes good economic sense since their import costs the nation in a number of ways and the taxes help recover some of those costs. A program to provide favorable finance for the efficient appliances is an important incentive to consumers and is included as an action. Voluntary labeling indicating appliance efficiency clearly is useful for consumer choice but only if the label is accurate and relates to the conditions of use in the RMI. The labeling schemes used in the various countries likely to export appliances to the RMI are not appropriate. If labeling is to be used, a local stick-on label that “translates” the label provided by the country of

origin needs to be used. For example, US energy efficiency tags show an expected annual energy cost for the appliance that send a very incorrect message to the RMI buyer. The US cost estimate of energy use is based on a much lower cost of electricity than the cost in the RMI. The annual energy cost to the RMI consumer may be four or more times larger than the number shown on the US label and to be useful to the consumer in decision making that needs to be corrected. With the relatively small turnover of major appliances in the RMI, the addition of local labels when new inventory is received should not be a major problem.

Government is a major but not a very efficient energy user. It is important that Government set an example for businesses and households by reducing the demand for imported fuel both directly as a user of petroleum products and indirectly through the reduced use of diesel-generated electricity. This action plan focuses on initiating in the short term the processes needed to reach the policy goal of 40% reduction of fossil fuels used by Government by 2020. The renewable energy section of the action plan provides for offsetting fossil fuel imports through solar and other renewable energies, the transport section provides for reducing the dependence on fossil fuels for land and sea transport and this energy efficiency section provides for reducing Government's fossil fuel use through increased efficiency of energy use in Government. The primary approach used is to make each Government Department individually responsible for its energy use and for improving energy efficiency. This approach has been used in other Pacific Islands with varying levels of success depending on how serious the Finance Ministry and other Ministry heads are regarding energy efficiency and how budgets are managed. The effectiveness of this approach is reduced if individual departments must return funds to the Treasury that were budgeted for energy and were not expended due to efficiency improvements. This is a disincentive for energy efficiency. For the process to be effective departments that come in under-budget on energy expenditures should be allowed to shift the left over funds to other areas within the departmental budget rather than penalizing the department for lowering energy expenditures below those budgeted.

Because of the complexity of government energy usage, actions to increase the efficiency of government energy use will be based on a government-wide energy audit carried out by a professional auditing firm familiar with tropical island systems.

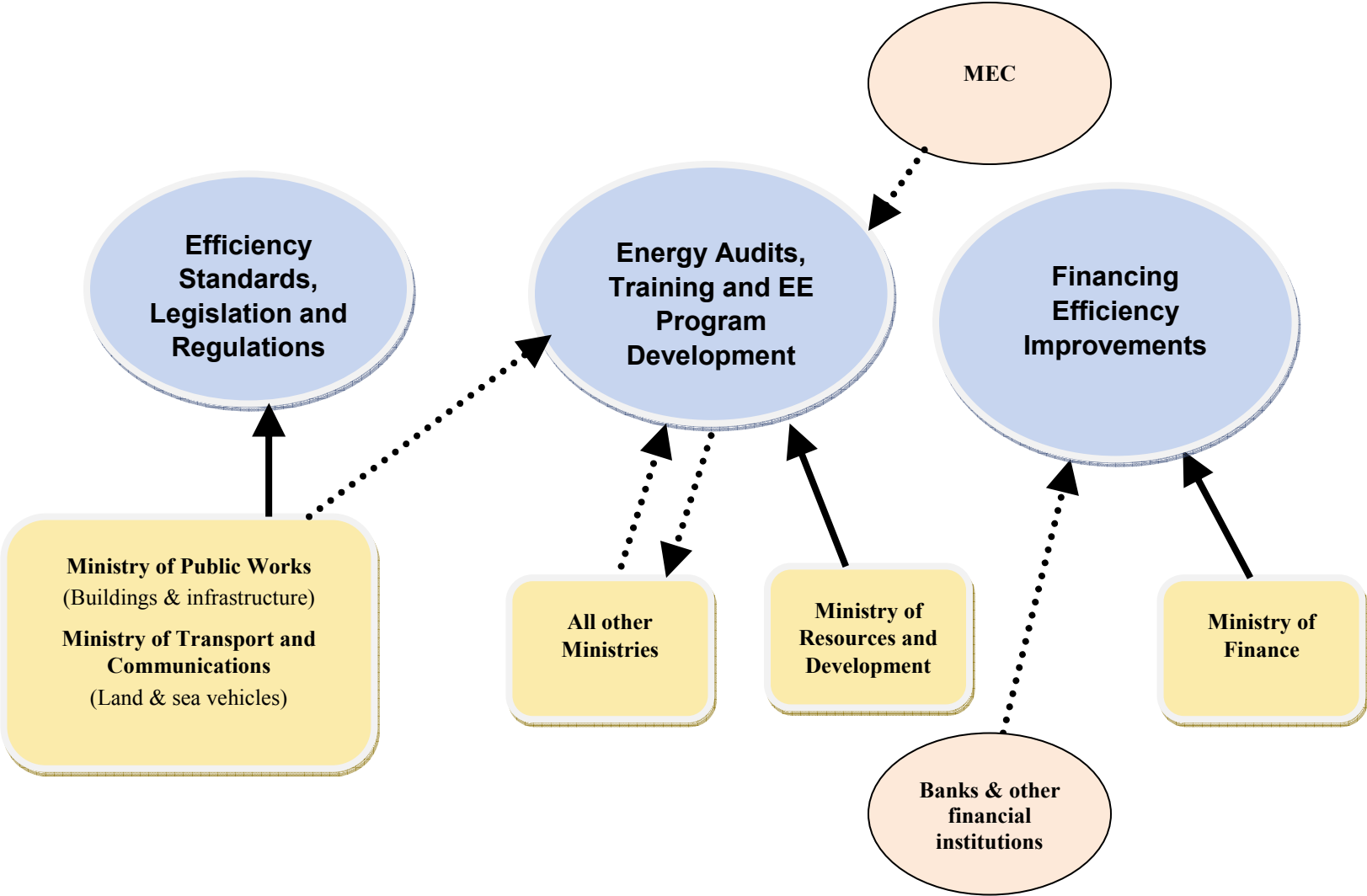
At the core of all programs for general improvement of national energy efficiency is increasing public awareness of both the value that energy efficiency provides individuals and the opportunities that exist for personal action. However, these actions should not be carried out in isolation. The process of gaining public attention is vital but once the attention is focused on energy efficiency, there needs to be a process available to guide and support individuals and businesses in taking the appropriate actions.

Effective public awareness programs are multifaceted. It has been shown elsewhere that public information effectiveness increases with the increasing number of channels used for distributing information; so all forms of public media available in RMI need to be used. Also public awareness fades rapidly if awareness programs are not continued for the long term making it necessary to create a semi-permanent work structure for the preparation and distribution of public awareness information. News articles, particularly those showing some local activity or experience that relates to improved energy efficiency, are generally more effective than paid advertisements, posters or flyers – although those are useful for maintaining the public's attention. So attention should be given to keeping the news media informed of actions or events relating to energy. Finally, including kiosks focusing on energy efficiency at fairs and special public events are another effective approach for keeping public attention on energy efficiency actions particularly if low cost free items are offered to those who stop by the kiosk (e.g. posters, stickers for light switches, key chains, etc.).

Since the students of today are the decision makers of tomorrow, the action plan includes educational programs for middle school, high school and tertiary school students. Besides the long term benefits of the student exposure to energy efficiency issues and actions, student bring those ideas home with them and provide family education through school homework that includes home energy audits, interviews with family members about energy and personal actions by the student to improve home energy efficiency.

The actions focus on improved efficiency rather than conservation. Conservation has a connotation of making do with less or accepting increased discomfort whereas efficiency means doing more and often doing better with less energy and money.

Currently, there is no clear responsibility for energy efficiency activities in the RMI. Experience elsewhere suggests that power utilities can be supportive but are unlikely to initiate and carry out a substantive program, because of other priorities and the impact on revenue. The government should take the lead.



Activity (brief description &any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Source
	Lead Agency	Participating or Supporting				
Strategy 1: Revise taxation system to encourage the import of energy efficient air-conditioners / major household appliances & introduce mandatory standards and labelling system						
1.1 Survey retailers to determine source of air-conditioners, refrigerators and freezers by country imported for sale to the public, the standards followed for efficiency labelling (if any), and the price variations for varying efficiency.	MRD	MOF EPPSO Importers and Retailers	High	Q1-2010	A report showing: 1) relative numbers of different types of air-conditioners, refrigerators and freezers that are available for purchase, their relative energy efficiency, country of origin and relative price. 2) retail price variation according to energy efficiency of air-conditioners, refrigerators and freezers for equipment available for import by local retailers 3) Efficiency labelling system used (if any) for imported appliances	ADMIRE and Internal
1.2 Amend sales and/or import taxes as appropriate to raise the selling price of low efficiency air-conditioners, refrigerators and freezers to become relatively equal to those of comparable models of appliances that have high efficiency ratings	MOF	MRD EPPSO Importers and Retailers	High	2010 Q3	Relative change (improvement) in percentage of appliances sold that are energy efficient	Internal
Strategy 2: Develop energy efficiency standards for new buildings and renovations including homes, businesses and government premises, with financing on subsidized terms for designs and construction/renovation meeting the standards						
2.1 Research energy codes and standards for buildings currently used by other tropical island nations specifically including those used by the Development Bank of Palau and the Government of CNMI and those being promoted by Hawaii state energy officials for US Pacific territories	MRD	MPW MIDB USDA Hawaii DBEDT	High	Immediate	Report on tropical energy codes for island buildings as currently implemented and appropriateness for the RMI	ADMIRE and Internal
5.2.2 Form a building codes task force and engage a consultant to prepare draft energy codes/guidelines for new building construction and building renovation appropriate to the type of building construction used in RMI	MRD	MPW Private Contractors MIA	High	2010 Q2	Completion of draft energy code/standards/guidelines for construction and renovation of buildings	ADMIRE UNDP Internal
5.2.3 Develop and implement construction finance program that provides incentives for the construction of energy efficient buildings and for the renovation of buildings to include improved energy efficiency (incentives may be lower interest rates, partial payment of the cost of including energy efficiency features, longer terms for finance, etc.)	RMI Banks	MRD	High	2011 Q1	Percentage of buildings constructed and renovated that meet the energy efficiency codes/standards/guidelines	WB (Commercial Banks) EIB (MIDB) EC

Activity (brief description &any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Source
	Lead Agency	Participating or Supporting				
Strategy 3: Carry out energy audits on government facilities, with the responsible departments each developing and submitting an investment plan for the capitalization of energy efficiency improvements for the facilities [See Project Proposal 7 in the Annex]						
3.1 Engage a professional energy audit firm experienced in tropical facility energy audits to carry out a detailed energy audit of all government buildings, water system and sewage system facilities and recommend changes including priorities, investment required and payback periods for each recommended action	MRD/MPW	All Government Agencies	High	2009 Q4	Completion report	WB/ADB \$150,000
3.2 Arrange a low interest loan to government to carry out the investments that have a payback time of seven years or less	MOF	MRD	High	2010 Q4	Percentage of recommended investments in the auditor’s report that have 7 years or less payback time that are actually completed	Depends on audit findings but probably millions of \$ WB/ADB
Strategy 4: require each government department to appoint an energy manager who will develop and implement an energy management plan.						
4.1: Develop an energy management plan for national government that includes the following points: 1. Each department has a person designated as responsible for maintaining and improving energy efficiency in departmental facilities and transport 2. Provide training for departmental energy managers and require periodic reporting and training upgrades 3. Require departments to directly pay energy bills from their own budgets but if a surplus is left in the energy budget allow that surplus to be used by the department, not sent back to Treasury. 4. Showcase a different department every month in the newspaper (MIJ) showing the public how that department is upgrading its efficiency	MRD	All Government Departments	High	2009 Q4	1. Participation by departments in trainings and meetings 2. Reductions in energy used relative to the baseline (as adjusted for the addition or retirement of facilities). Baseline refigured at the beginning of each fiscal year Monitoring will be by MRD and annual reports detailing energy usage and changes in energy usage from the last baseline will be prepared and circulated.	Internal

Activity (brief description &any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Source
	Lead Agency	Participating or Supporting				
Strategy 5: Carry out training, energy audits and efficiency improvements within households [See Project Proposals 6 and 9 in the Annex]						
5.1 Arrange training for contractors and importers in low cost energy efficiency improvements in air-conditioned homes and implement retrofits in five homes	MRD	Contractors Importers General Public Media	High	2010 Q4	Training completed and five homes renovated with improved energy efficiency	\$10,000 Possibly EC or REEEP
5.2 Based on results of 5.1 above, develop and implement a program to improve energy efficiency in 25% of all Majuro and Ebeye homes	MRD	As above plus RMI banks	High	2010 Q2	During this plan period, program developed and well underway, with demonstrated energy efficiency improvements in homes	About \$0.8 m
Strategy 6: Engage the public in energy efficiency improvement [See Project Proposal 10 in the Annex]						
6.1 Public events and information services 1. Continue organizing events highlighting energy efficiency and regularly include energy efficiency kiosks at general holiday and other special events (e.g. Earth Day). Arrange news coverage for the events in all media 2. Arrange special short term sales of energy efficiency related equipment (e.g. CFLs, timers, etc.) with retailers with publicity costs paid under the program 3. Short media spots aired and published frequently that relate to energy efficiency 4. Provide media releases (including photos and short videos) of actions by members of the public that relate to energy efficiency and renewable energy use (e.g. new home built to energy codes, somebody puts solar on their business or home, etc.)	MRD	General Public Media MICS OEPPC MEC	Medium	Immediate	Participation of media and retailers in energy related events by the general public	ADMIRE and Internal
6.2 Student participation in energy efficiency 1. Through middle and high school participation, provide one day’s training to selected teachers in home energy efficiency and home energy audits and provide them with support texts and materials for use in the classroom. 2. Trained teachers deliver a short module on home energy efficiency & home energy auditing to students. 3. Provide good media coverage including student interviews, parent interviews, etc. 4. Students take home energy audit forms and	MRD	DOE Media	Medium	2010 Q3	Percentage of students participating that return signed audit forms (multiple students from one home would be a team with one form but would count as the number of students on the team in the percentage calculation)	\$12,000 (preparation of training materials, course module materials and carrying out teacher training) ADMIRE

Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Source
	Lead Agency	Participating or Supporting				
carryout a home energy audit signed off by parents. 5. Provide CFL or other energy efficiency related gift to students bringing back a signed audit form and reporting on their audit.						UNDP
6.3 Work with CMI to develop and include energy efficiency modules for inclusion in elective courses in sub-degree and degree programs. Develop project to assist with course design, preparation of texts and support materials, provide laboratory materials, train instructors	MRD CMI		Medium	2011 Q1	Inclusion of energy efficiency module in courses offered at CMI	\$15,000
6.4 Continue MEC's earlier program of free provision of CFLs to households to demonstrate their effectiveness and encourage their continuing use for high efficiency lighting. Expand the program throughout Majuro and Ebeye. *	MRD		Immediate	2009 Q4	Remaining bulb inventory distributed to households	Internal; Expanded program through EC or Italy

* Several thousand CFLs are in stock and ready for distribution; more are to be provided from either EC or Italian support)

Renewable Energy

Policy statement

The Government of the Marshall Islands recognizes that socio-economic development will require an increased level of energy production and that only through the development of local renewable energy resources can there be a reduction in long-term dependence on imported petroleum. The government will:

aggressively support the development of all environmentally appropriate, practical and economic Indigenous energy resources so that local renewable energy will provide 20% of electrical energy generated in the Marshall Islands by the end of 2020;

mandate that Imported energy for land transport will be replaced where practical by locally produced biofuel and for sea transport both wind energy and biofuel will be increasingly used;

take the lead in the use of indigenous energy to replace imported petroleum with a goal of a 40% total reduction in energy from petroleum fuels within government by the end of 2020

ensure that all outer island energy development will be through the use of indigenous energy sources where technically practical; and

require that all renewable energy technologies accepted by government for use in the Marshall Islands shall be commercially proven and shall have more than five years of successful service in remote, tropical islands through installations of a similar type and size as those needed in the Marshall Islands.

Solar energy, wind energy and biofuel production use renewable energy technologies available to RMI that are well developed technically and can be developed rapidly. Each poses different types of problems that need to be overcome for large scale energy production and this action plan is intended to provide progress and direction in overcoming those problems. Of the three technologies, only biofuel has the potential for base load electricity generation. The RMI's solar and wind resource is too variable and seasonal to be developable as a reliable large scale source of energy that can operate alone without adding excessively costly energy storage. Solar PV and water heaters can be roof mounted but large scale wind energy development is hampered by land access issues and the nearly universal presence of tall trees on Majuro. For Majuro and certainly for Ebeye, large scale wind power will most likely have to be developed in the lagoon or on the reef. One unanswered but important question is how the local reef/lagoon life will react to the undersea noise and vibrations generated by the wind machines. As part of the action plan, there will be a study of the proposed CMI wind machine site on the Majuro reef, including a survey before and after the wind system installation of the surrounding reef ecosystem, to better understand the environmental effects.

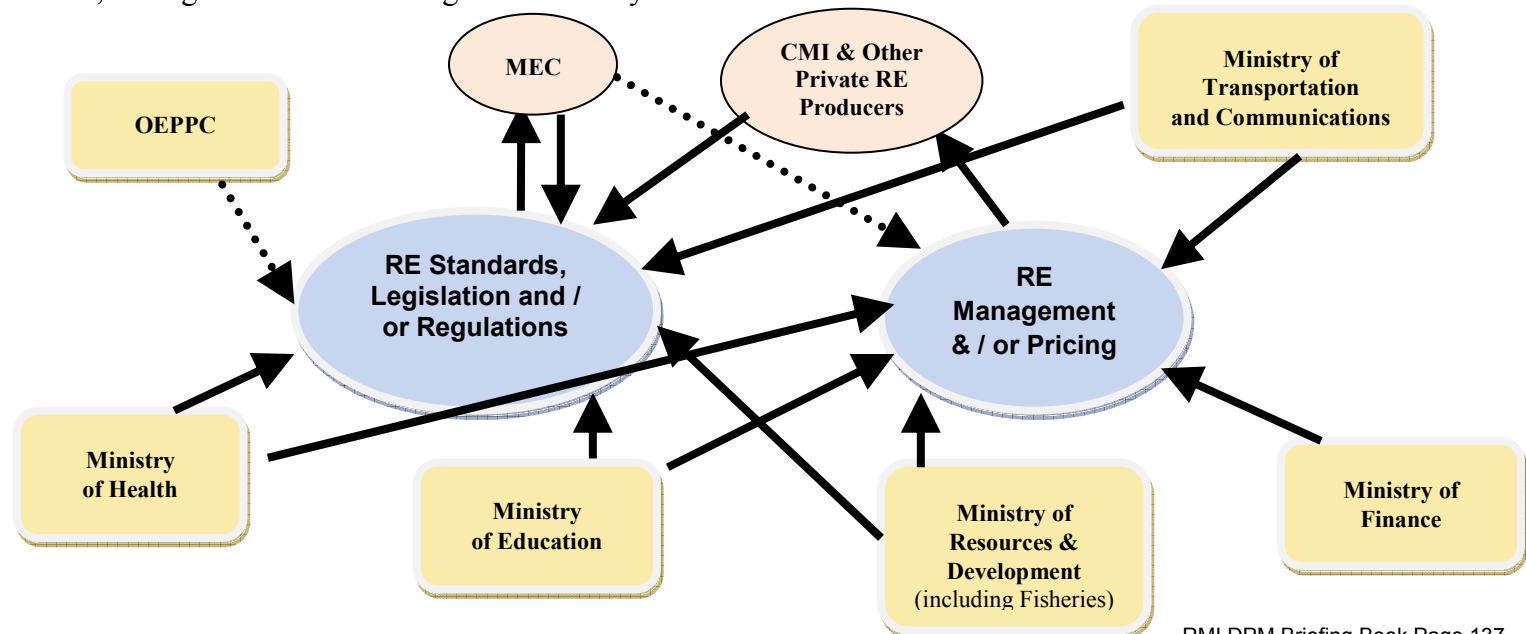
Until the technical and economic problems of large electrical energy storage are solved, solar and wind can only supplement other energy sources and reduce imports of fossil fuel, not provide base load generation. Biofuel on the other hand can directly replace fossil fuel for base load generation and, in combination with wind and solar, can be developed sufficiently in Majuro to reach the difficult but achievable goal of 20% of all electric generation from indigenous energy sources.

The goal for Government to reduce the use of petroleum fuels by 40% relative to the 2009 baseline is also achievable. At least half can be through improved energy efficiency. The rest will mostly be through solar PV on government buildings to offset their air-conditioning load and through the use of locally produced biofuel for diesel vehicle operation. Also, a significant reduction of government petroleum fuel use can be achieved by operating Majuro and Ebeye water pumps directly from solar energy.

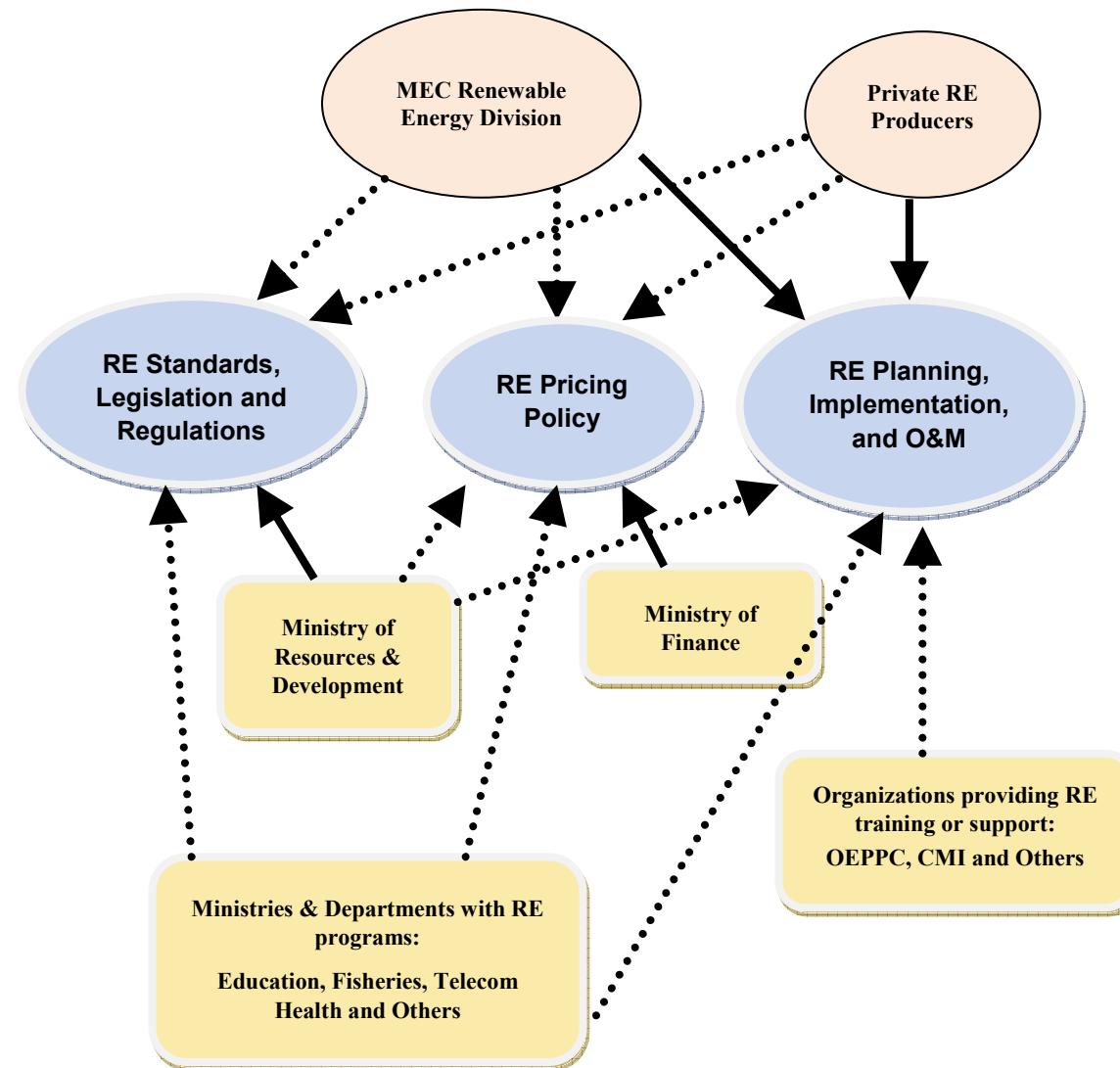
By the end of 2013 and the completion of the EC EDF10 project, most of the outer island population and public facilities should be electrified with solar energy. The next step can be the gradual conversion of existing diesel grid power systems – both local government-operated and MEC operated – to solar photovoltaics and battery storage. Conceptually, solar PV will provide the off-peak power with diesel engines providing peak power and topping off the solar batteries on days with insufficient solar for charging. As the action plan does not include hybrid systems with PV and diesel operating simultaneously and sharing the load for two reasons: (1) for most of these small outer island diesel systems, the peak occurs outside of the time when the solar is a maximum and solar could not be well utilized; and (2) the diesel engines will operate at much better efficiency if loading is controlled so that it always ranges between about 70% and 80% of the engine rating, and that can be achieved through operation only at peak load times plus controlled use of diesel power for battery charging.

The largest energy resource for the RMI is the ocean but as of 2009, the technical systems for harvesting that energy through OTEC, wave power, tidal power or ocean current power are not commercially proven for utility use and not yet ready for use in the RMI. When they become commercially available, which is expected to be well before OTEC, wave power systems may provide a small base load capacity when the ocean is not flat calm, but for RMI they would mostly provide varying power to supplement other base load generation as it the case with wind and solar. No data has been collected concerning the wave energy or OTEC resource in the RMI and these assessments are included as a part of this first action plan so their potential can be assessed relative to other indigenous energy sources.

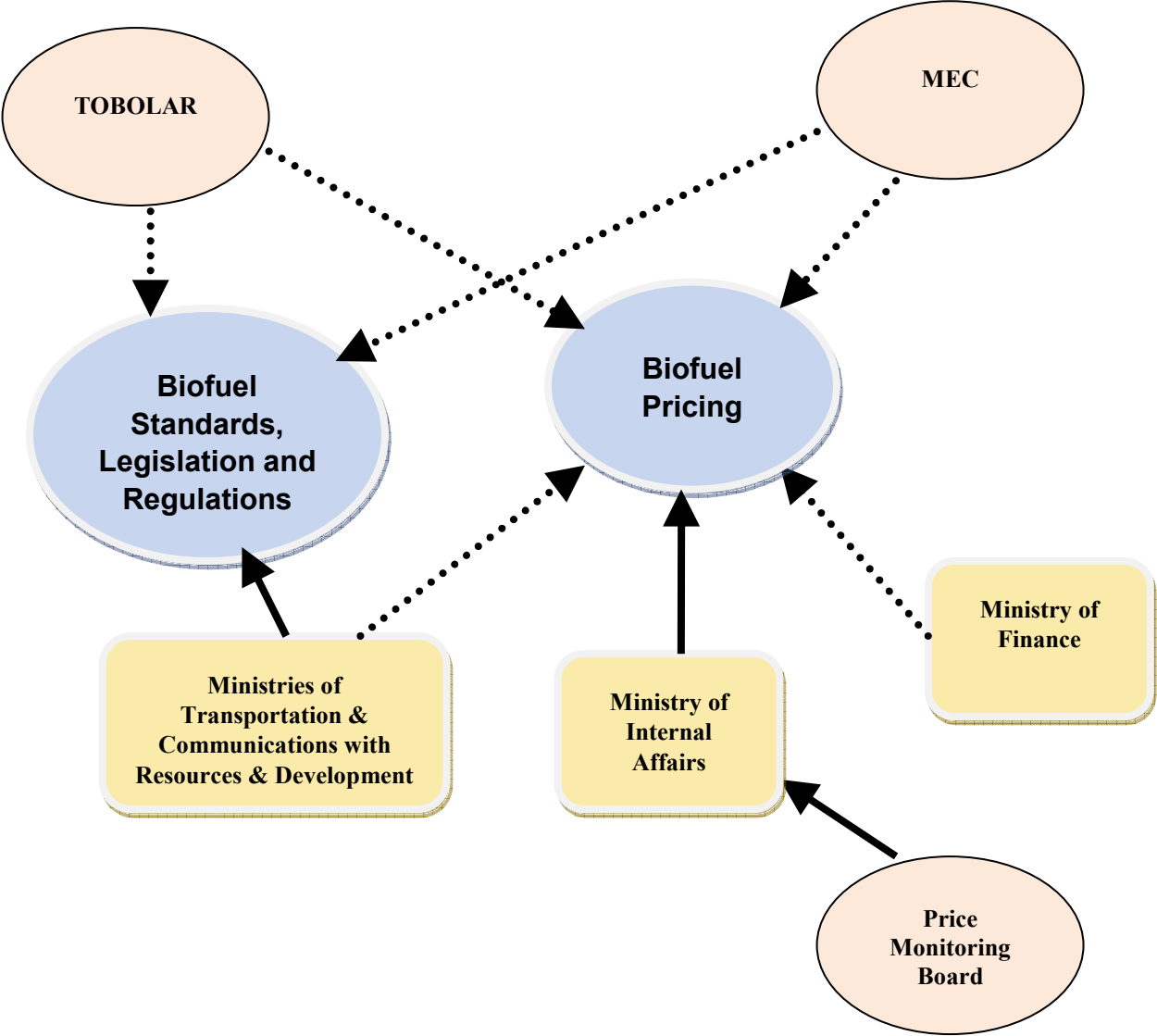
As shown in the following diagram for solar PV systems, the current management of renewable energy in the RMI is confusing with unclear and overlapping standards, responsibilities and inconsistent operations, maintenance and their financing. There must be clear responsibilities and a consistent approach to standards, management and financing if these RE systems are to become sustainable.



Details need to be resolved but for electrification through renewable energy, there should be a single ministry responsible for RE standards for government and government-owned enterprises (MRD) and a single entity for operations and maintenance (logically MEC, with a division dedicated to RE operating on a cost recover basis). There are actions to address this.



For biofuels, there are of course no current arrangements. However, responsibilities will differ from those of RE-based electrification.



Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Possible Source
	Lead Agency	Participating or Supporting				
Strategy 1: Determine the indigenous energy resources that are available for development [See Project proposal 3 in Annex]						
1.1 Review existing data and carry out a proper wind energy resource survey for Majuro utilizing two widely separated masts each with two wind measuring instruments, one at 15 meters and the other at either 30 or preferably 50 meters with data logging as needed for proper modeling of the island wind regime. Placement should be in an open area with no trees more than 5 meters tall within a 50 meter radius. Data will need to be taken continuously for at least one full year.	MRD	NOAA DPW	High	2010 Q1	Percent of time data actually was collected over the measurement period (goal at least 98% which is equivalent to one week of lost data over the year).	\$25,000 EC ADMIRE UNDP
1.2 Engage a firm to analyze the wind data and prepare a wind energy assessment report including a wind map for Majuro and recommendations for the specifications of the wind turbine types that are most appropriate for Majuro. Provide an estimate of the kWh that could be produced each year per installed kW of wind turbine.	MRD	NOAA DPW	High	2011 Q1	Wind map produced. Estimate of kWh per kW of turbine provided by consulting firm. Specifications of appropriate turbine type received.	\$15,000 DOI; NREL Possibly EC TCF EC; UNDP
1.3 Using the masts and dataloggers installed for wind measurements, install two good quality solarimeters (pyranometers) and log readings for at least one full year. Ensure that the instruments are located such that at no time of the year can the shadow of the pole fall on the solarimeter.)	MRD	NOAA DPW	Medium	2010 Q1	Percentage of the one year data collection period during which the data are actually collected and logged (Goal 98%)	\$2,500 EC ADMIRE
1.4 Review the prior work done by SOPAC, EC and others in determining the present and potential coconut oil resource of RMI. Update those reports using more recent information and, where needed, visit outer islands and do on site surveys of the existing and potential resource that can be made available for biodiesel production (total production less production needed for human or animal food).	MRD	MIA	Medium	2010 Q2	Completion of survey including all islands with significant coconut resource. Estimate of actual tons of oil that could be produced from currently available coconut production on each atoll and possible production should aggressive rehabilitation and planting programs be put into effect	\$18,000 UNDP French Embassy Taiwan
1.5 Using data available within SOPAC,* estimate the monthly wave energy potential for Majuro and Ebeye	MRD		Low	2010 Q3	Wave energy estimate completed and received for Majuro and Ebeye	SOPAC/SPC

Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Possible Source
	Lead Agency	Participating or Supporting				
1.6 Using data available to SOPAC,* determine the areas around Majuro and Kwajalein most suitable for OTEC development (depth of water, slope to reach deep water, temperature gradient, etc.)	MRD		Low	2010 Q3	OTEC siting map completed and received for Majuro and Kwajalein	SOPAC/SPC

* By the time of this activity, SOPAC may no longer exist. Technical assistance and data should be available from SPC

Strategy 2: Expand outer island solar electrification for off-grid areas [See Project Proposals 4 and 8 in the Annex]						
2.1 Complete electrification of outer island homes	MEC	MRD MOF	High	2011 Q2	All outer island homes that desire electricity have either grid or solar electrification	EC EDF Taiwan ADMIRE (training component)
2.2 Continue with solar based electrification of outer island schools and other public facilities	MEC	MRD MOE MOF	High	2011 Q2	Schools selected by MOE for electrification receive sufficient solar capacity for the operation of the intended programs	EC EDF Taiwan ADMIRE (training component)
Strategy 3: Expand Majuro grid connected solar capacity						
3.1 Install at least 160 kWp of grid connected solar equipment on the Majuro hospital (or at an appropriate location)	MEC	MRD MOF MOH	High	2010 Q2	Completion and proper operation of JICA funded project for grid connected solar	JICA
3.2 Prepare a feasibility study and project proposal for an additional 400 kWp of grid connected solar for Majuro schools and government offices with draft designs for each selected site showing a matching air conditioning or other load.	MRD	MEC DPW MOE	Medium	2010 Q4	Suitable sites found that offset air conditioning loads utilizing the full capacity of the 400 kWp of installed solar.	EC JICA UNDP
3.3 Develop a consistent framework among all government agencies for the development and implementation of solar projects (standardization of design procedures, standardization of components where practical, elimination of duplicative efforts, etc.)	ETF	MRD All ministries implementing solar energy projects	Medium	2010 Q4	Agreement among ministries for the framework for development and implementation of solar energy projects	Internal
Strategy 4: Initial trials of outer island biofuel production and village electrification and transport based on that production						
4.1 Based on the results of the resource study and the population distribution, select an atoll as a pilot area for local biofuel production and its use as their energy source for electrification and lagoon transport. Prepare a detailed project proposal for implementation	MRD	MEC MIA	Medium	2011 Q1	Completion of a project proposal suitable for donor submission	ADMIRE UNDP EC

Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Possible Source
	Lead Agency	Participating or Supporting				
4.2 Implement the project proposed in 4.1	MRD	MEC MIA	Medium	2011 Q4	Acceptance of the project by a donor and initiation of work	EC Taiwan JICA
Strategy 5: Project monitoring and evaluation of CMI installations						
5.1 Through site visits and analysis of project records, evaluate the performance of solar energy systems on the outer islands relative to the professed needs of the residents and agencies receiving services and the requirements of the project management for cost coverage through collected fees. Prepare recommendations as needed for technical and institutional changes to improve the match of needs and services and to improve cost recovery.	MEC	MRD MIA MOE MOH	High	2010 Q1	Provision of survey report and acceptance of recommendations for project improvements	ADMIRE UNDP
5.2 Monitoring and evaluation of CMI solar and wind installations. Add any needed data logging and instrumentation to the CMI solar and (soon to be installed) wind systems to measure: 1. Solar received at each site using PV type solarimeters set at the same tilt as the associated panels measured at no more than 10 minute intervals 2. Energy output from the panels at each site measured on the same time parameter as solar energy 3. Operating parameters of each installed wind machine including energy production measured at no more than 10 minute intervals 4. If reef mounted are to be installed, prior to installation carry out a detailed survey of life forms and their populations within a 1 km segment of the reef having the wind machine sites at the center. A second but smaller control area should also be surveyed at the same time. 5. Re survey the same areas of reef at the same time of the year for each of 5 years following installation or more often if deemed appropriate by the researchers. 6. Analyze the results of the surveys and report on the changes, if any, of the ecosystem in the area of the wind turbine installations.	CMI	MRD possibly MICS or other NGOs	High	Immediate for solar Within 6 months before wind turbine installation	Successful collection of data and its analysis for each installed solar array and each installed wind turbine at CMI	ADMIRE CMI
Strategy 6: Replacement of electric water heaters with solar water heaters in existing buildings and use of solar water heaters for new buildings. [See Project Proposal 11]						
6.1 Provide finance for the installation of solar water heaters on existing homes and businesses presently	MEC	MRD	Medium	2010 Q3	Percentage of electric water heaters replaced by solar	EIB

Activity (brief description & any links to other activities)	Organization(s) Responsible		Activity Priority	Time Frame for Initiation	Performance Indicators	Budget and Possible Source
	Lead Agency	Participating or Supporting				
using electricity for water heating using finance terms that allow the home owner to install and operate the solar water heater at a monthly cost of finance equivalent to the approximate monthly cost of electricity for the operation of the electric water heater being replaced. May be managed through renting the solar water heater from MEC with rental payments equal or lower than the cost of electric water heating for the household at the time of installation. Payments to be included in the electric bill.		Local Commercial Banks MIDB				WB/ADB possibly IFC's SEFP
6.2 Provide incentives for the installation of solar water heaters in lieu of electric water heating on new homes and commercial buildings. Incentives may include rebate of the purchase cost, reduced interest financing, and/or tax based incentives for businesses.	MOF	MRD Local Commercial Banks MIDB	Medium	2010 Q3 (associated with 6.5.1)	Percentage of new homes and commercial buildings installing solar over electric water heating	EIB WB/ADB possibly IFC's SEFP
Strategy 7: Feasibility study and project design for biofuel development. [See Project Proposal 12 in Annex]						
6.1 Independent assessment, feasibility study and project design for the production and use of biofuels on outer islands as a fuel for transport and electricity generation. Study to consider: 1. Requirements for and cost of replacement of senile coconut trees 2. Existing requirement for coconuts for human and animal food 3. Land tenure arrangements on outer islands 4. Human resource requirements for collection, transport and processing of coconuts 5. Economic and local use of oil production waste products 6. Local requirement for biofuel produced 7. Feasibility of generating surplus biofuel for sale to urban areas 8. Sensitivity of findings to fossil fuel price changes If technically and economically feasible, prepare a pilot project design for one atoll that is accessible by air for monitoring.	MRD	MIA MTC	High	2010 Q2	Completion of feasibility study with recommendation for pilot project atoll. Completion of pilot project document for implementation	French Embassy UNDP EC Estimated cost \$125,000

Annex - Initial List of RMI Energy Project Proposals Prepared

(EC REP-5 Project EP/RMI4/5/NPE1: Energy Policy and Planning)

The following project proposals for energy sector support to the RMI have been prepared as part of the European Commission's support for the RMI's energy policy development. These are expected to be revised by MRD and the ETF according to the criteria of the development agency approached to finance the activity. Draft proposals are available from MRD for comment.

Energy Project Proposals Completed	
1. EDF10 Project Identification Fiche (PIF)	
Status:	Completed and submitted to EC, Suva. Edited and expanded version of a draft PIF for the RMI solar PV expansion program in the RMI under the EC's EDF10 national assistance from 2010.
Estimated cost:	Not applicable (completed)
Filename:	"PIF RMI EDF10 PV final v1.doc" (6 March 2009)
2. World Bank Assistance to the Republic of the Marshall Islands: Terms of Reference (TOR) for a Management and Financial Review of the Marshalls Energy Company (MEC)	
Status:	Draft completed & submitted to ETF. TOR for October or November 2009 World Bank Assessment of MEC/KAJUR Management and Financial Operations including urban power, petroleum arrangements and possibly outer island solar PV program.
Estimated cost:	Not applicable. Proposed WB technical assistance at no cost to the RMI
Filename:	"TOR for WB energy assistance for RMI.doc" (23 May 2009)
3. Wind Resource Assessment for Majuro	
Status:	Draft completed. Goal is to determine the wind energy available for conversion to electricity on Majuro into the MEC grid. This would not provide direct information on the costs of electricity production but is essential before this can be done. There may be potential for some support from the US National Renewable Energy Laboratory (NREL).
Estimated cost:	Approximately \$50,000
Filename:	"Project-Wind energy resource assessment for Majuro (final draft June09).doc"
4. Training of Trainers for Outer Island Photovoltaic Electrification	
Status:	Draft completed. Goal is group of people with skills to go to outer islands and train local technicians, PV system users and village leadership in the proper O&M of solar home systems and PV powered stand-alone electricity systems for schools, health centers and other government facilities
Estimated cost:	Approximately \$70,000
Filename:	"Project-Training of PV trainers (final draft June09).doc"
5. Development of an Energy Sector Database for the RMI	
Status:	Draft completed. There is no reliable time series of data on petroleum supply by product and end-use, which are necessary for evaluating opportunities to reduce oil use. This project would develop a database mechanism for petroleum, electricity and other commercial energy.
Estimated cost:	Unknown but proposed as technical assistance from the SPC with help of the AusAID energy adviser
Filename:	"RMI Energy database development June09.doc"

6. Training of Contractors and Importers in Household Energy Efficiency Improvement	
Status:	Draft completed. The goal is locally-available materials to reduce solar heat gain and provide skills for local installation. This is an initial activity in support of programs to finance upgrading of homes in Majuro and Ebeye to reduce heat gain with reduce air conditioning loads and electricity use. Five homes will receive free energy efficiency retrofits as a part of the training program.
Estimated cost:	Roughly \$10,000
Filename:	"Project-Training of contractors & importers in household EE (final draft June09).doc"
7. Energy Auditing of Commercial and Government Facilities	
Status:	Draft completed. Project is to provide facility owners with detailed technical and financial information about practical actions that can be carried out to improve efficiency of electrical energy use.
Estimated cost:	Very approximately \$150,000
Filename:	"Project-Energy Auditing of commercial and govt facilities (final draft June09).doc"
8. Training on Outer Islands for the Maintenance, Operation and Management of Solar PV Electrification	
Status:	Draft completed. The goal is for outer island communities to be able to operate, manage and maintain solar PV installations with a minimum of support from MEC.
Estimated cost:	\$50,000 (\$5,000 each for 10 atolls)
Filename:	"Project-PV training for outer islands (final draft June09).doc"
9. Upgrading Housing to improve the Energy Efficiency of Air Conditioning (AC)	
Status:	Draft completed. This project seeks finance for soft energy efficiency retrofitting of initially about 25% of all homes on Majuro and Ebeye.
Estimated cost:	Approximately \$0.77 million (possibly through EIB, IFC, etc.) to subsidize loans
Filename:	"Project-AC Energy Efficiency in Housing (final draft June09).doc"
10. Middle School Program for Student Facilitated Home Energy Audits	
Status:	Draft completed. The goal is to teach middle school students about home energy efficiency and for them to carry out energy audits in their homes
Estimated cost:	\$12,000 for development of training materials, teacher orientation, student "prizes", support materials
11. Replacement of Electric Water Heaters with Solar Water Heaters	
Status:	Draft completed. The project provides incentives for the replacement of existing electric water heaters by solar units
Estimated cost:	\$45,000 for training of project personnel, development of standards for installation and maintenance, payment of rebates of initial cost or reduced interest rates, maintenance during the first five years of operation of the solar units
12. Feasibility Study and Project Design for Outer Island Production of Biofuel from Coconut Oil and its use for Transport and electrification	
Status:	Draft under preparation. The goal is to determine the feasibility of coconut oil production on outer islands, its' used as a biofuel for intra-island transport and for the electrification of villages on outer islands. Prepare a project document for implementation of a pilot project.
Estimated cost:	\$125,000



Marshalls Energy Company (MEC), Inc.

**Comprehensive Recovery Plan
SUMMARY DOCUMENT**

FY2010-2012

Marshall's Energy Company (MEC), Inc.

COMPREHENSIVE RECOVERY PLAN FY2010-2012

A Summary of Goals, Objectives and Actions

Background and Reform Resolution

Whereas the Republic of the Marshall Islands (RMI) experienced an unprecedented energy crisis in 2008, which was exacerbated by financial and operational challenges in the Marshall's Energy Company (MEC), and which had severe impacts on the budget, economy and people of the RMI; and

Whereas despite stabilization in MEC's operations in 2009, the financial and operational integrity of the company remains at risk; and

Whereas the MEC now continues to represent a major risk to the national budget, fiscal system and overall economy; and

Whereas MEC and the energy sector at large have been identified by the RMI as priority areas for national reform; and

Whereas the RMI Combined Utilities Board, the Asian Development Bank, the World Bank, the Pacific Power Association, the RMI National Energy Policy and Action Plan, and other sources have put forth practical and achievable policy, governance, technical, and operational reform recommendations for MEC and the energy sector;

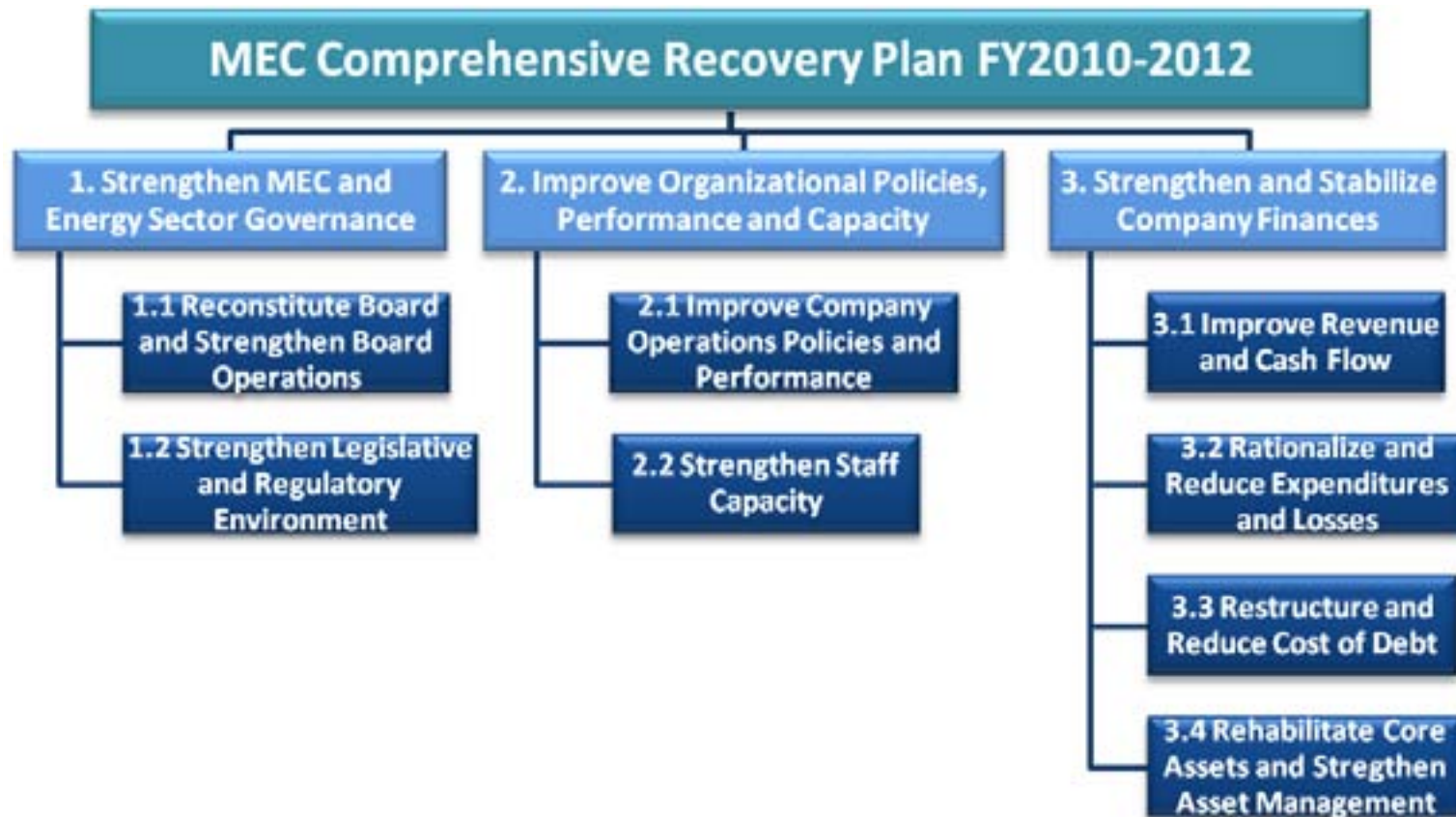
Now, therefore, the Board of Directors and Management of MEC hereby resolve to pursue a new Comprehensive Recovery Plan, with the following reform objectives and actions, to their best ability and within available resources;

These objectives and actions and the Comprehensive Recover Plan as a whole shall, furthermore:

- a) Support and form a key component of the broader national Comprehensive Adjustment Program (CAP) under development by the RMI;
- b) Be implemented over the three year FY2010 through FY2012 period;
- c) Serve the overarching aim of stabilizing MEC's operations and restoring the utility's reputation as a reliable and efficient supplier of energy;
- d) Build upon the earlier recovery plan developed in 2006 as a result of the performance review undertaken in that year with support from the Office of Insular Affairs, US Department of the Interior; and
- e) Evolve and expand as conditions and circumstances require.

The Comprehensive Recovery Plan: Goals, Objectives, Actions and Timeframe

MEC's Comprehensive Recovery Plan is simplified in the following diagram, with detailed Goals, Objectives and Actions following:



Goal 1. Strengthen MEC and Energy Sector Governance

Objective 1.1 Reconstitute Board and Strengthen Board Operations

Actions, Details and Timeframe:

1.1.1 Reduce Board membership from 10 to 7	This objective has been completed. Right sizing of the Board membership was necessary to provide practicality and efficiency for the Board of Directors to function properly. With a 7 member Board it only requires 4 members to be present to have a quorum.	FY2010 (completed)
1.1.2 Recompose Board membership to strengthen capacity and effectiveness	The role of the Board of Directors as an oversight authority to provide policy and management guidance as well as representation of various sectors within the community is imperative for the well being of the Utility Sectors. As part of effective governance, Board members must be well oriented of their fiduciary roles and responsibilities in order to provide effective policy and management guidance throughout their tenure as members. A Board of Directors' governance manual will be formulated and an orientation period for each members and subsequent members mandatory.	FY2010
1.1.3 Develop and adopt new policies to strengthen Board meetings and procedures	Board of Directors' governance manual will be formulated to clearly define the roles and responsibilities of the Board of Director to ensure proper appropriation of Company resources to help facilitate the function of the Board of Directors.	FY2010-2011
1.1.4 Adopt new corporate and Board bylaws	A review and update of the Corporate and Board of Directors' Bylaws is essential in order to take into account current Board and Management structures and the contemporary circumstances the Utility Sectors are confronting.	FY2010
1.1.5 Develop appropriate Board orientation and training program	Refer to objective 1.1.2	FY2010-2011
1.1.6 Develop new company policies handbook	The company's policies handbooks for each Department are essential as proper guides for internal control to facilitate effective management. The handbooks will entail specific terms of reference, vis-à-vis rules and guidelines, standard operating procedures and other guiding mechanisms deemed necessary.	FY2011

Objective 1.2 Strengthen Legislative and Regulatory Environment for Energy Sector

Actions, Details and Timeframe:

1.2.1 Adopt internal policies and regulations to clearly delineate responsibilities and structures for energy supply distribution and their management and to better define performance standards and strengthen overall governance regime including strengthening public reporting requirements	This is more or less an internal arrangement and setup needs to be done vis-à-vis the responsibilities and structures for the overall supply of energy. Develop internal policies and regulations defining the roles and responsibilities of the overall supply of energy structures to ensure processes are efficient and streamlined. Incorporate public reporting to support management accountability.	FY2010-2011
1.2.2 Develop inspection and certification mechanisms including associated legal tools for inspection and certification of fuel storage handling and safety procedures and licensing	This effort will have to be coordinated between the MEC Legal Counsel and the Safety Control Officer and the National and Local Authorities.	FY2011-2012

Goal 2. Improve Organizational Policies, Performance and Capacity

Objective 2.1 Improve Company Operations Policies and Performance

Actions, Details and Timeframe:

2.1.1 Develop and adopt new procurement policy	The Board of Directors formally adopted the RMI Government's Procurement code on October 15, 2009, as a guide for all procurement processes. To ensure proper and effective implementation of such a code, The Board of Directors established the Procurement Department and created the post of the Procurement Manager. As part of the new procurement process, all acquisition of supplies and services must be price quoted with three competitive bidders. The company has already realized significant returns on this investment with a one-time saving of \$90K through competitive bidding. On a daily basis, the company may realize potential savings of a \$500 to a \$1000 per day through the bidding process. For an Utility this size, a potential annual saving between \$182K to \$365K is significant which could positively affect the bottom line.	FY2010 (completed)
2.1.2 Develop and adopt new personnel policy	The Personnel Policy Manual will incorporate MEC's Corporate Policies and Procedures, with the aim and objective of providing all employees with a clear interpretation of the company's procedural guidelines. The scope of the Manual will incorporate policies relating to personnel, staff training and development, occupational health and safety and vehicles. The content of this Policy Manual will provide positive guidelines in determining correct decision-making and will clearly define what rights, privileges and entitlements each employee has within the company. It is envisaged that new policies and procedures will be added from time-to-time with Management and the MEC Board's approval.	FY2010
2.1.3 Develop and adopt new financial management and reporting policies	The new financial management and reporting template will be produced on monthly basis from each of the Departments. The reporting templates will provide critical statistical data for management to make informed business and management decisions for each respective Department.	FY2010

	These same reports will be the basis for management's monthly report to the board of directors to facilitate policy and management guidance to management from time-to-time. Proposal to provide RUS with financial reporting on a quarterly basis.	
2.1.4 Develop and adopt new vehicle use policy	The Vehicle Policy will provide comprehensive policy statements governing the operations, maintenance, procurement and financial control of the MEC vehicle fleet. The cost of vehicles represents a very large capital investment to MEC such that the proper care and maintenance of all vehicles is essential, in order to protect the Company's investment, the safety of drivers and passengers, the company's public image and to avoid unnecessary expenditure. To achieve these aims, the Vehicle Policy will provide a system for controlling vehicle use in order to maximize vehicle service life and to reduce associated maintenance costs to a minimum. The goal of the new vehicle use policy should result in an initial cost saving of 5% which equates to approximately 65K per year. Further assessment of the vehicle policy will need to be performed on an annual basis to identify additional cost saving opportunities.	FY2011
2.1.5 Develop and adopt other operational policies as deemed necessary by the Board and management	Refer to objective 2.1.2	FY2010-2012
2.1.6 Develop and adopt a new Performance-based Management System with Key Performance Indicators and periodic reporting and evaluation processes	The purpose of a Performance Based Management system (PBM) is to give an entity, such as MEC, a management tool to plan and measure corporate as well as unit performance. As well, it helps to link work plans with actual financial envelopes that helps allocate resources more efficiently in the planning stage. It also allows for measurements to be introduced so that organizational and financial performance can be measured on a timely basis, such as quarterly and annually. And, it links organizational performance along with financial performance on an ongoing basis to improve corporate and unit efficiency and effectiveness. A PBM system for the MEC should have the following components. The	FY2011

	team would use any existing plans and strategies and work with MEC management and staff to apply planning information in a useful way. Corporate Mandate and Mission Strategic Goals Medium Term Objectives and Expected Results (Outcomes) that result from the Strategic Goals A set of indicators that will measure corporate performance to achieve the objectives Cost activities that MEC units plan to achieve the Objectives and accompanying Outputs to measure the progress of implementing activities. Review of the above data to identify progress, issues confronted and potential next steps.	
2.1.7 Produce annual MEC Company Reports, including annual financial, technical and operational information	The annual report which include financial, technical and operational information is being developed and will be a requirement starting this FY 2010. The annual report will articulate the accurate financial standing of the company and data needed on the technical and operational aspects of the business, in order to make informed and sound management decisions year-in and year-out. The annual report will be the main tool for the Board of Directors to provide sound and informed management guidance. Proposal to include RUS in the annual MEC Company report distribution upon publication.	FY2010 onwards

Objective 2.2 Strengthen Staff Capacity**Actions, Details and Timeframe:**

2.2.1 Develop and adopt new MEC Staff Capacity Development Plan	The standardization of an employee evaluation process. The standardization of a training program for each of the Departments.	FY2010
2.2.2 Train Government, MEC and private sector representatives in energy auditing and energy management techniques	Improved energy efficiency represents the most cost effective option for reducing the impacts of global warming and the need for sustainable development. This initiative will provide training of selected Government, MEC and the private sector personnel in demand side management strategies, with the aim of increasing the efficiency of energy utilization, with resultant benefits to the customer, utility and society as a whole.	FY2010-2011

Goal 3. Strengthen and Stabilize Company Finances

Objective 3.1 Improve Revenue and Cash Flow

Actions, Details and Timeframe:

3.1.1 Develop and adopt full cost recovery tariff template and appropriate pricing structures for all goods and services	The new tariff template for electricity usage has been implemented to achieve full cost recovery. The new pricing structure went into effect as of February 1, 2010. The increase in tariff is expected to net an additional \$3.2M in revenue per annum to make the power generation/distribution part of the business break-even financially. MEC projections indicate additional revenue flow to be recognized as early as Fiscal Year 2011 in the amount of approximately \$700K. Current rates effective February 1st 2010 are as follows: Government – 36.8 cents Commercial – 35.8 cents Residential – 29.8 cents Lifeline – 27.8 cents The current rates are based on the Diesel Price per Barrel (MOPS) of \$85.00. Rates are subject to change (increase/decrease) by MEC management in compliance with the new tariff template approved by the RMI government. The fuel sales operation is one of only two profit making ventures for the company. In August 2009, a new pricing strategy was adopted and implemented to ensure full cost recovery for the operation and a sustainable return on investment. The propane/LPG sales operation is the other profit making venture of the company. Similar pricing strategy was also adopted to ensure business sustainability and a reasonable return on investment.	FY2010 Ongoing
3.1.2 Adopt an appropriate lifeline tariff that genuinely	Part of a tariff study, a benchmark will be established to	FY2011

assists the bottom 20 percent of residential accounts (based on household consumption levels)	accurately develop a lifeline tariff which will assist the bottom 20 percent of residential accounts so they can continue to have access to electricity while being able to afford it. With the implementation of the pre-paid metering program, the lifeline tariff will begin to phase out and no longer be applicable.	
3.1.3 Eliminate all cross-subsidization between services	The comprehensive recovery plan warranted a total cessation of cross-subsidization between all services within MEC. The cross-subsidization between the Fuel sales, LPG sales and Power Generation/Distribution services have been the model on which the company has based its operations on for over 20 years. Cross-subsidization between services only contributes to inefficiencies, un-competitiveness and sometimes ill-management. With the initiative of other CRP objections such as the system loss quantification and index engine, expectation is to eliminate cross-subsidization between services within one (1) calendar year. The objective to eliminate all cross-subsidization should not impact the electricity tariff rates due to the fluctuation of diesel price per barrel.	FY2011
3.1.4 Strengthen collections on outstanding accounts receivables	Effective as of October 2009, MEC and the Bank of the Marshall Islands (BOMI) entered into a debt collection agreement. BOMI is to collect all accounts receivable that are a 90 day outstanding or beyond. The total accounts receivable as of September 30, 2009 is \$5.3M, of which \$3.2M is greater than 90 days aged. The disconnection policy is being fiercely enforced with zero tolerance. The credit terms for all customers has been standardized to a 30 day credit term (changed from a 60 day credit term for all residential customers). Customers are to pay their electricity bills	FY2010 (Ongoing)

	within 30 days from the billing date. The goal is to minimize aging of accounts receivables and decrease the risk of bad debt activity.	
3.1.5 Initiate Majuro atoll-wide conversion to a pre-pay meters system to improve cash flow and reduce receivables accumulation	On February 1, 2010, a tender for a pre-pay metering system was issued. The bid is expected to be awarded by the end of March 2010. The implementation of the pre-pay metering System will be beneficial to MEC in its efforts to minimize future account receivables and future collection efforts on outstanding receivables. The pre-pay system will enable customers to proactively manage their consumption of electricity and will eventually reduce overall consumption. The pre-pay meters system will be applicable for residential customers only. As a result, there is an expectation of immediate cash flow injection of up to \$500K per month cost and cost savings to minimize the company's exposure to bad debt activity.	FY2010-2012 (Ongoing)
3.1.6 Adopt aggressive and innovative measures to recapture and expand fuels business	An exercise to streamline cost and to make the fuel sales more competitive is underway with the goal of being the most competitive fuel supplier in the region.	FY2010-2011

Objective 3.2 Rationalize and Reduce Expenditures and Losses

Actions, Details and Timeframe:

3.2.1 Conduct full system loss survey to locate and quantify key loss areas/sources	A quantification of system loss is underway. According to the FY 2008 audit report, the overall system loss was around 25% which is equivalent to \$3.2M in revenue loss per annum. The goal is to reduce the system loss to the industry standard of 9%-12%. The result of this exercise will identify what the losses are and where they are occurring and what steps to take to mitigate these	FY2010

	losses. This exercise will be of a major benefit to the survivability and sustainability of MEC as an electricity company.	
3.2.2 Develop and execute a Power Loss Reduction Plan to reduce avoidable supply side losses by 20 percent of the 2010 baseline by 2012	Part of the quantification of a system loss survey is to identify the parasitic loss at the power stations. The survey will specifically pinpoint what equipment on site is not necessary and what to replace it with to reduce the parasitic load. The industry standard is around 3%-5% compared to a staggering 12% loss in 2008.	FY2010-2012
3.2.3 Aggressively explore options to reduce generation cost factors, including exploration of alternative fuel sources and grid-connected alternative generation technologies	For FY2008, 89% of MEC's operating cost was attributed to fossil fuel to run the generators. The aim under the CRP is to explore options to reduce power generation cost by venturing into Clean Development Mechanism (CDM) technologies that should reduce the consumption of fossil fuel and increase efficiencies. There is a potential saving of a 30%-40% on fuel consumption once this new technology is operational The other viable option is to implement the solar to grid concept. Currently, the Japanese Government will be funding a \$4M Solar to Grid project for the Majuro Hospital. The hybrid system (Solar, Wind and Diesel Generator combined) which is being seriously considered, will be ideal for the remote rural atolls such as Wotje and Jaluit. This is one of the most viable investments to venture into as it should yield immediate dividends: these two rural centers being losing propositions year-in and year-out.	FY2010-2012
3.2.4 Reduce streetlight losses through Majuro streetlights retrofitting program	The streetlight retrofitting project for both Majuro and Ebeye is underway. The retrofitting project should reduce the consumption of electricity for public streetlights by 75%. The project is expected to be completed by FY2010.	FY2010 (underway)
3.2.5 Explore regional and sub-regional bulk procurement options	This is a regional effort and the premise behind this concept is to leverage the purchasing power of all the Utilities in the Pacific Region under a single tender for fuel procurement to maximize	FY2010-2012

	scale. This is still at the exploratory stage.	
3.2.6 Strengthen procurement procedures (including new procurement policy)	The procurement procedures are being standardized through the establishment of the Procurement Department and the creation of the Procurement Manager's position. All tenders must be competitively bid with a minimum of 3 eligible bidders. The most competitive prices usually win the tender provided that specifications are met. Procurement and financial controls are being implemented most especially for the fuels and propane sales processes. Customers are to deal directly with the Fuels Marketing Department only. The Fuels Marketing Manager coordinates with the Fuel Farm Operations Manager or the LPG/Propane Farm Operations Manager on the volume of product to be delivered to customers via the Product Delivery Receipt, which is independently verified by a Security Officer.	FY2010 (underway)
3.2.7 Conduct detailed expenditure review and reduce non-essential expenditures	This process has already been implemented and will be carried out on an annual basis. Recently as last month, Management identified several expenditures that could be eliminated by streamlining services within the company to absorb tasks once outsourced. The amount realized from such an undertaking is around \$148K for FY2010.	FY2010 (Ongoing)
3.2.8 Conduct a job review to eliminate duplication and streamline staffing	The objective is to conduct a personnel audit to ensure that there is no duplication of responsibilities within the company. If the audit happens to find any duplication occurring and suggests a possible reduction in the work force, then the process will be very objective and non-arbitrary. In our efforts to eliminate duplication and streamline staffing, MEC has recognized within FY 2010 a cost saving of \$43K due to	FY2011

	the cancellation of several service maintenance contracts that can be fulfilled using existing staff members with little to no disruption to other normal daily operations. To further add, it has been a common practice for MEC in the past to outsource major task such as engine overhauls. Within the second quarter of fiscal year 2010, MEC was able to utilize the required skill sets of new talents, thereby resulting in a cost saving of approximately \$231K.	
3.2.9 Initiate legal negotiations with RMI Government with the aim of establishing formal Community Service Obligation (CSO) contracts that will adequately compensate MEC for loss-making operations in Jaluit, Wotje, Rongrong, the Outer Island Solar Program, and other loss-making areas	This is fundamental for the survivability and sustainability of MEC as a Power Utility Company. Any loss-making operations within the MEC system will have to be subsidized via the CSO agreement to ensure longevity of these services in these remote communities of the Marshall Islands. As long as the Jaliut, Wotje, Rongrong and the Outer Island Solar Program continue to operate at a loss, it is crucial that MEC continues to receive subsidy funds from the RMI government. For fiscal year 2010, RMI government will be subsidizing 954K.	FY2010-2012

Objective 3.3 Restructure and Reduce Cost of Debt

Actions and Timeframe:

3.3.1 Renegotiate the terms of the Rural Utilities Services (RUS) loan with the aim of deferring loan servicing payments for at least 3 to 5 fiscal years	Part of the overall debt management strategy for MEC is to seek debt service deferment for 3 to 5 years to free up needed working capital to reinvest in the company's core assets. The overall aim is not to take on more debt but to explore this option and in return amortize the remainder of the loan plus the years deferred with the net present value of the loan.	FY2010
3.3.2 Restructure commercial debt with the Bank of Guam with the aim of securing concessional financing from a development finance institution (preferably the Asian Development Bank) to liquidate the Bank of Guam debt	Part of the overall debt management strategy for MEC is to seek a concessional financing arrangement with the Asian Development Bank (ADB) to liquidate the Bank of Guam's commercial debt. In the short, medium and long term, it will help MEC financially	FY2010

	though concessional rates of 1.5% interest per annum with a 7 year grace period. The working capital available will be used to upgrade the generation/ distribution systems by investing in equipment to help reduce overall system losses.	
3.3.3 Establish MEC Debt Servicing Sinking Fund with appropriate capitalization period to service future debt obligations	MEC will establish a new Debt Servicing Fund (DSF) by official Board resolution. The DSF will be held in a new bank account separate from MEC's core accounts. Starting in 2010, MEC will allocate a portion of the \$1.9 million annual savings accruing from the liquidation of the BOG loan towards the DSF. Assuming a seven year grace period if the loan is granted, MEC will apportion around \$500,000 per year into the account, leaving around \$1.4 million available each year to be used for MEC's recovery efforts. This will assure that a minimum balance of \$3.5 million is in the DSF by 2018, to serve as the core base for the servicing of the loan over the ensuing 20 to 40 year payback horizon.	FY2012 onwards

Objective 3.4 Rehabilitate Core Operating Assets and Strengthen Asset Management

Actions and Timeframe:

3.4.1 Develop new Asset Management Plan	The Asset Management Plan Database will enable MEC to effectively manage its assets properly at every aspect of its operation. The database will have a detailed list of all equipment and assets that are in the system and the life span for each item. Being equipped with such data, MEC will be able to plan effectively at every aspect of the planning process – be it for maintenance work, procurement or acquisition of new equipment and/or financial planning for future investments.	FY2011
3.4.2 Rehabilitate power plants, prioritizing full rehabilitation of the two Deutz generators	This is one of the most urgent undertakings and needs to be highly prioritized. The total MW output from these two generators is 12MW at maximum efficiency. Currently, one of the Deutz engines is out of service and the other engine is yielding only 4.7MW at the best.	FY2010

	The total cost to fully overhaul both generators will be around \$4.5M. Additionally, there is a 9-12 month lead time to receive the required parts. MEC has gained RMI government's commitment to support the rehabilitation initiative. To date, MEC has received 500K in grant funds for the purchase of parts from the US and RMI. Refer to the Procurement Schedule for a detailed listing of the parts and costs.	
3.4.3 Conduct environmental and integrity assessments of the Tank Farm	An Environmental Site Assessment has been carried out on the tank farm. The results should be available in a few weeks time. An integrity assessment of the fuel tanks is being explored and would require significant funding to complete such a task. The estimated cost per tank is around \$30K – do note that there are 9 tanks in total.	FY2010 (Ongoing)
3.4.4 Implement comprehensive rehabilitation of Tank Farm facilities	Refer to objective 3.4.3	

Development Partner Support

A number of the RMI's development partners are providing support and assistance (both financial and technical) to facilitate reforms in MEC and the broader energy sector. A summary of development partners and their assistance follows:

- US (Department of the Interior and JEMFAC)
 - Providing funding to the Pacific Power Association to undertake a full system survey in December 2009 to identify and quantify losses in MEC's generation and distribution systems (the results of which will form the basis for MEC's plans for reducing avoidable system losses)
 - Providing \$627,000 grant to MEC for initial phase of conversion to pre-pay meters (for residential customers), with disbursements to be made in three equal installments over 2010, 2011, and 2012
 - RMI seeking authorization of US Compact infrastructure grant funding for MEC capital investment
- World Bank
 - Sent initial fact-finding team to RMI in September 2009 to assess MEC situation and to identify possible follow-up technical assistance to support reform and recovery efforts
 - Proposing to conduct follow-up technical assistance efforts in 2010, including assistance to: develop an appropriate legislative/governance regime
 - investigate national liquid fuels issues
 - improve cost recovery
 - rationalize delivery of social service obligations by MEC
- Governments of Italy and Austria through IUCN
 - Providing \$1.1m for Majuro and Ebeye streetlight retrofitting and solar streetlight installation project and \$17,000 to complete household CFL project
- Government of Australia (Pacific Technical Assistance Mechanism):
 - Providing two-year Energy Advisor to RMI
- Asian Development Bank
 - Provided rapid energy assessment study in late 2008
 - Provided support for energy conservation program in late 2008 and early 2009
- Pacific Power Association
 - Providing MEC with technical assistance on procurement processes, asset management system, and system loss reduction efforts
- European Union
 - Provided funding for development of RMI's first National Energy Policy and medium-term Energy Action Plan in 2008/2009
- Government of Japan
 - Providing \$4 million solar-to-grid project on Majuro
 - Providing \$1.9 million under the JNPG
- Republic of China (ROC)
 - Provided short Term Budgetary support

Revisiting the Reform Agenda

Republic of the Marshall Islands

A Review of 11 Public Enterprises and Options for Reform



Asian Development Bank TA-7336: Responding to Economic Crisis
Ben Graham, Lowell Alik
February 2010

Contents

1. Background	2
2. Defining Public Enterprises.....	2
3. The Eleven Public Enterprises Analyzed	2
4. Public Enterprises and Underperformance	3
5. Past to Present: Efforts to Reform Public Enterprises.....	5
6. A Review of Financial Performance: Trends and Comparisons.....	7
7. Proposed Approaches to Public Enterprise Reform in the RMI	18
8. Summary and Next Steps	21
Appendix 1: Comparable Indicators	23
Appendix 2: Individual Public Enterprise Indicators	31
Air Marshall Islands (AMI), Inc.	31
Kwajalein Atoll Joint Utility Resources (KAJUR), Inc.	33
Majuro Atoll Waste Corporation (MAWC), Inc.	35
Marshalls Energy Company (MEC), Inc.	36
Marshall Islands Development Bank (MIDB), Inc.	38
Marshall Islands Ports Authority (MIPA), Inc.	40
Marshall Islands Shipping Corporation (MISC), Inc.	42
Majuro Resort, Inc. (MRI).....	43
Majuro Water and Sewer Company (MWSC), Inc.	45
National Telecommunication Authority (NTA), Inc.	47
Tobolar Copra Processing Plant (TOBOLAR), Inc.	49

1. Background

The Government of the Republic of the Marshall Islands (RMI) requested ADB assistance to develop effective response measures to the global financial and economic crisis. In response, ADB provided a Technical Assistance (TA) project to undertake an informed analysis of the options available to carry out fiscal adjustment and other reforms, including policy options that would help the RMI: (i) achieve the optimal size of the public sector (particularly to reduce the wage and salary burden and restore fiscal stability); (ii) reduce subsidies to statutory authorities; (iii) improve the efficiency of finance and budget processes; and (iv) improve data for economic planning and monitoring.

This review was conducted as part of the TA with the aim to: (1) assess the general performance of key public enterprises, and in particular their financial performance; and (2) identify possible options and approaches for reforming public enterprises.

There is a renewed effort to revisit the reform agenda in the RMI, and public enterprise reform will need to be a major consideration in any reform program. It is therefore anticipated that this review will help inform this process moving forward.

This analysis was conducted intermittently over the November 2009 to February 2010 period by consultants Ben Graham and Lowell Alik. Tommy Kijiner, Jim McLean, Ben Chutaro, and Kevin O’Keefe are acknowledged for their comments.

2. Defining Public Enterprises

For this analysis, a Public Enterprise is defined as:

A legal entity whose operations and ownership are mostly controlled by the Government, whose primary source of revenue is the sale of a good or service, and that is expected to operate under commercially self-sustaining means.

It is important to distinguish between public *enterprises* and public *agencies*. Public agencies are also legal entities (established by law or charter) and are also owned and controlled by the Government, but they are not commercially oriented and typically do not derive revenue from the sale of a good or service. This analysis excludes all public agencies operating in the RMI.

3. The Eleven Public Enterprises Analyzed

This analysis covers 11 key entities in the RMI that meet the definition of a public enterprise and for which financial and other data were readily available during the project period. The following table provides summary information on how each enterprise was established, its ownership and control, and the year it was established.

Entity	Legal Establishment	Ownership/Control	Year Established
AMI	Incorporated/chartered	Government	1989
KAJUR	Incorporated/chartered	Government	1990
MAWC	Incorporated/chartered	Government	2006
MEC	Incorporated/chartered	Government	1984
MIDB	Statutory (by law)	Government	1988
MIPA	Statutory (by law)	Government	2003
MISC	Statutory (by law)	Government	2005
MRI	Incorporated/chartered	Government	1995
MWSC	Incorporated/chartered	Government	1989
NTA	Statutory (by law)	Mixed	1990
Tobolar	Statutory (by law)	Government	1977

Note: public enterprise full names can be found in the Table of Contents; Marshall Islands Airports Authority (est. 1999) was merged into the pre-existing MIPA (est. 2003) at the outset of FY2004.

Appendix 2 provides detailed information on each public enterprise, including a summary of its function and operations and ten years worth of key financial and operational indicators (covering the FY99 to FY08 period).

4. Public Enterprises and Underperformance

The body of research and analysis on public enterprises and their origins, performance, roles and contributions to economic development is extensive. Much of the analysis has centered on the question of why public enterprises often struggle to deliver goods and services efficiently and effectively. Cross-country analysis has shown that poorly performing public enterprises have directly impacted economic growth by providing low returns on the public resources entrusted to them, by competing with and crowding out private firms, and through opportunity costs (resources diverted to public enterprises could have, alternatively, gone to other development priorities). Text Box 1 elaborates on these points with an excerpt from the 2009 ADB Study “Finding Balance: Making State-Owned Enterprises Work in Fiji, Samoa, and Tonga.”

In the Pacific, many public enterprises have not performed well and have had these same negative impacts on economic development – and the Marshall Islands is no exception. Public enterprises, including those in the RMI, have typically underperformed for the following reasons.

The incentive and governance structures for public enterprises usually do not reward strong performance, nor do they penalize poor performance. Public enterprise managers do not typically face very strict performance and financial requirements, and when performance is poor, usually there are no consequences.

The selection of managers, staff and even board directors of public enterprises is not always transparent and based on qualifications or merit. Often times, people are appointed to posts for which they have virtually no qualifications or experience.

Public enterprises often face a multiplicity of objectives and expectations and work under unclear or conflicting mandates. Some public enterprises are expected to provide social services, even when by law they are established to deliver goods and services through commercially self-sustaining means. The regulatory and legal environments in which public enterprises operate are often inadequately defined and do not clearly articulate the standards which public enterprises must follow. Public enterprises are often internally conflicted as they are expected to deliver services as well as regulate themselves.

Political influence (or direct interference) in the day-to-day running of public enterprises creates complications and conflicts that affect performance. At times, managers may be directed to take certain decisions that may be politically feasible but which are detrimental to the public enterprise. In other cases, the authority for setting prices for the goods and services offered by public enterprises is often vested with political authorities, and this can lead to situations where prices are unsustainably set below true costs.

Public enterprises that run persistent financial losses are often 'bailed out' or supported by national budgets or donors, and often these bail outs occur without any binding requirements for reform or restructuring. This essentially rewards poor performance and virtually ensures that public resources will flow disproportionately to poorly performing entities.

Information and indicators on public enterprises are often difficult to access. While public enterprises undergo annual financial audits, these audits usually present aggregated data that do not always allow for detailed financial analysis. Moreover, audit results are often not released on a timely basis – it can take as long as nine months after the end of a fiscal year for audit results to be publicized. Some public enterprises provide annual reports that, in addition to audits, provide financial and operational indicators, but this is uncommon. All of this makes in-depth measurement and evaluation of performance quite difficult (and in the RMI performance audits of public enterprises are extremely rare).

Text Box 1: How Poorly Performing Public Enterprises Impact an Economy

(Excerpt from ADB 2009 publication "Finding Balance: Making State-Owned Enterprises Work in Fiji, Samoa, and Tonga")

They provide low returns on investment. State-owned enterprises (SOEs) absorb a significant amount of scarce capital stock, while providing returns below the true cost of that capital.

They crowd out the private sector. Although private sector firms are generally more efficient, SOEs often compete on an unequal basis, making it difficult for private competitors to invest and grow.

They create opportunity costs. SOEs absorb government funds that could otherwise be spent on vital social sectors such as health and education.

5. Past to Present: Efforts to Reform Public Enterprises

Efforts to reform public enterprises in the RMI have been few and far between and where reforms have been attempted, the outcomes have been limited and not sustained. Public enterprise reform was a key component of the late 1990s RMI Public Sector Reform Program and the Private Sector Unit technical assistance project (both supported by ADB). These efforts had limited impacts in improving the operations of the public enterprises they targeted. On the whole, as shown in the next section, while the public enterprise sector still absorbs significant public resources, its returns and outcomes on those resources remain far below any sensible expectations.

While several public enterprises have managed over the years to reduce their need for subsidies, issues such as efficiency, opportunity cost, risk of service disruption, and crowding out remain. Still, 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 are given the public funds but have never been required to restructure themselves or to develop any semblance of a reform plan.

As stated in the previous section, repeatedly transferring significant public resources to weakly performing public enterprises without any strong accountability requirements has sent a very clear message: performance really does not matter.

Nevertheless, in recent years there has been increasing recognition for the need to revisit the reform agenda. Reforms are now underway or are being seriously considered for MEC, Tobolar and AMI, three enterprises that have encountered serious challenges in recent years and that have required subsidies and/or cash advances from the national government.

In the recent decade, the financial and operational performance of the RMI's main electric utility, the Marshalls Energy Company (MEC), has steadily worsened due to a range of factors. Most notably, the rise in diesel fuel prices beginning in the mid 2000s and the 2008 fuel crisis have pushed the utility into full-blown insolvency. The company now requires continual cash transfers and advances from the national government, thereby placing additional pressure on an already stressed fiscal system¹.

In 2008 the MEC Board and management adopted a series of reform measures and began drafting a Comprehensive Recovery Plan. However, these measures will require at least two to three years for full implementation and the imminent resurgence in fuel prices means that MEC still constitutes a source of risk on the fiscal system and broader economy. In depth diagnoses of MEC's financial and operational performance in 2008 and 2009 have revealed numerous long-standing problems that were not adequately addressed in years past. Most of the underlying factors for underperformance described in the previous section apply to the MEC case.

¹ Note that the bulk of cash provided to MEC from the national government in recent years has been in the form of cash advances, versus outright grants or subsidies; the data on subsidies received by MEC in this analysis show only true subsidies (transfers received as grants for either operations or capital) and do not account for the significant cash advances received by MEC. A large portion of cash advances provided to MEC has been subsequently offset against government electricity billings. Cash advances provided to MEC have been significant (for example, amounting to \$7.9 million from July 2008 to July 2009) and have put heavy pressure on government cash flow.

Early efforts are now underway to explore options to improve the operations of Tobolar, following recent changes in the Board and management. These efforts are still in their early phases and have not produced any concrete reform plans.

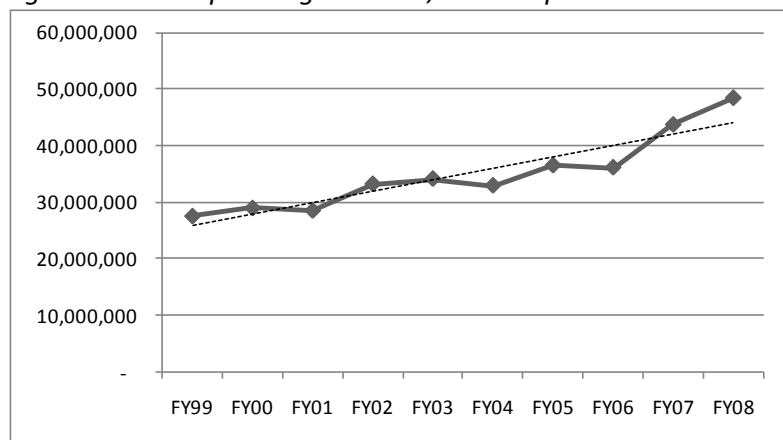
Most recently (in early 2010), a joint recommendation has been put forward to Cabinet by the Board of Directors of the Marshall Islands Visitors Authority (MIVA) and the Marshall Islands Tourism Association (MITA) for the creation of a special task force whose mandate will be to analyze AMI's status and future as well as the broader issues of domestic and international air connectivity, and to recommend options to reform AMI (including potential full privatization) and to improve air connectivity to and within the country. This effort has yet to gain full approval from Cabinet.

Reforms to other public enterprises have been discussed and considered, but in general there has not been serious consideration given to the idea of a comprehensive, sector-wide reform effort to public enterprises in the country.

6. A Review of Financial Performance: Trends and Comparisons

Revenue. Public enterprises now collectively receive nearly \$50 million in annual revenues. Revenue growth has averaged around 7 percent over the FY99 to FY08 decade, but revenue trends vary widely across the 11 public enterprises and much of the growth in recent years was due to higher tariffs charged by MEC (due to higher import fuel costs) and higher revenues earned by Tobolar due to favorable world market prices for coconut oil. Over the decade, Tobolar, AMI, MEC and KAJUR had the most volatile revenues (as measured by their coefficient of variation).

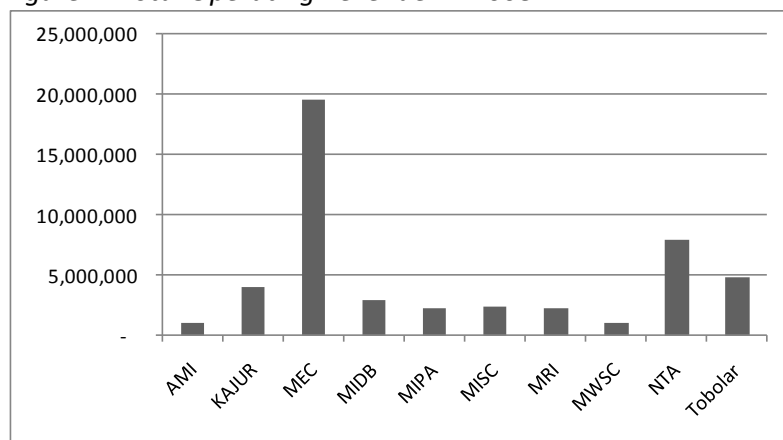
Figure 1. Total Operating Revenue, all enterprises: FY1999 to FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

Note: dotted line indicates simple linear trend line

Figure 2. Total Operating Revenue: FY2008



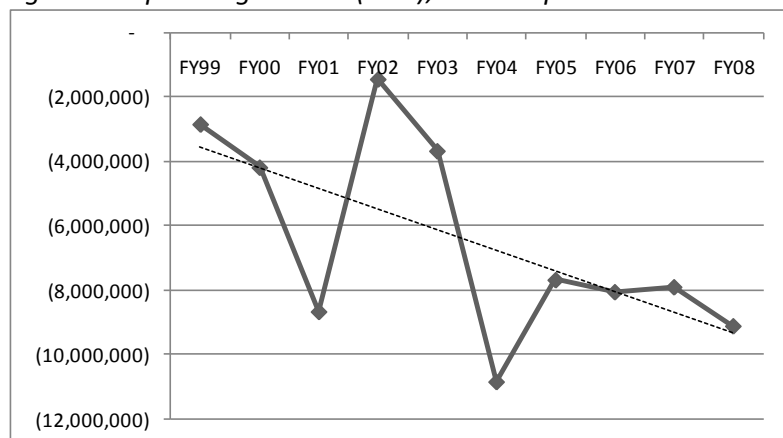
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

Most public enterprises collect less than \$5 million in annual revenues, with the exception of MEC and NTA. Tobolar received \$4.8 million in revenues in FY08, but this was an anomalous year for Tobolar given the unusually high global market prices for coconut oil. Over the period, Tobolar revenues averaged just under \$1.7 million.

Profitability. While public enterprises have seen fairly steady revenue growth over the decade, expenses have kept up and, in several cases, significantly exceeded revenues, resulting in continued

and worsening operating losses. The vast majority of public enterprises have run significant financial losses in the vast majority of years over the FY99 to FY08 decade. Collectively, public enterprises have run annual average losses of around \$6.4 million and in FY08 over \$9 million was lost, the second highest loss after FY04 when \$10.8 million was lost.

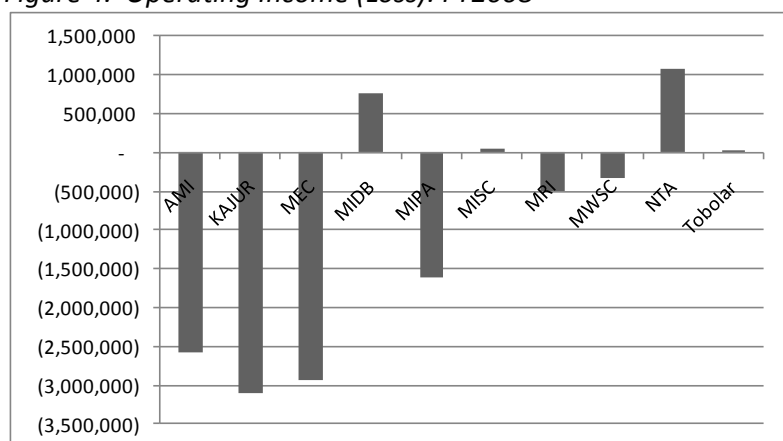
Figure 3. Operating Income (Loss), all enterprises: FY1999 to FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

Note: dotted line indicates simple linear trend line

Figure 4. Operating Income (Loss): FY2008

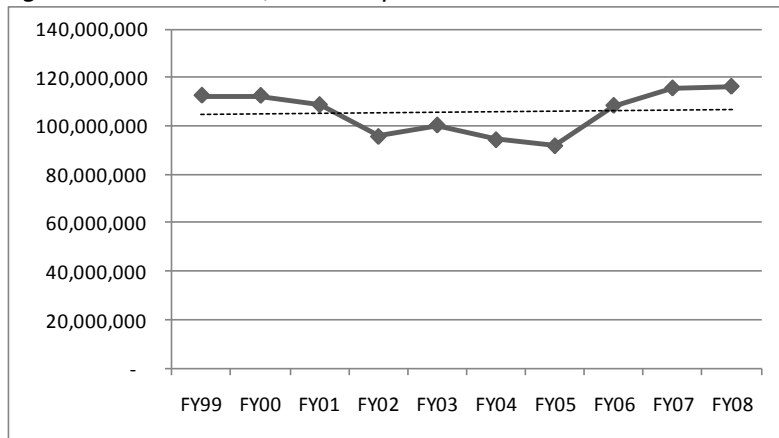


Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

In FY2008, well over half of public enterprises ran major financial losses and in most of the ten years between FY99 and FY08, NTA was the only company that generated consistent operational profits.

Asset balances. Public enterprises hold significant public assets. In FY08, they held \$116 million in assets, or the equivalent of 75 percent of GDP. Roughly 20 percent of total asset balances consist of current assets (cash, cash equivalents, inventories and other relatively liquid assets that are easily convertible to cash) and the remaining 80 percent consist of non-current assets (mostly property, plant and equipment). Asset values have grown in recent years, but this has been driven almost entirely by MIPA's major airport infrastructure projects as well as its build-up in cash reserves.

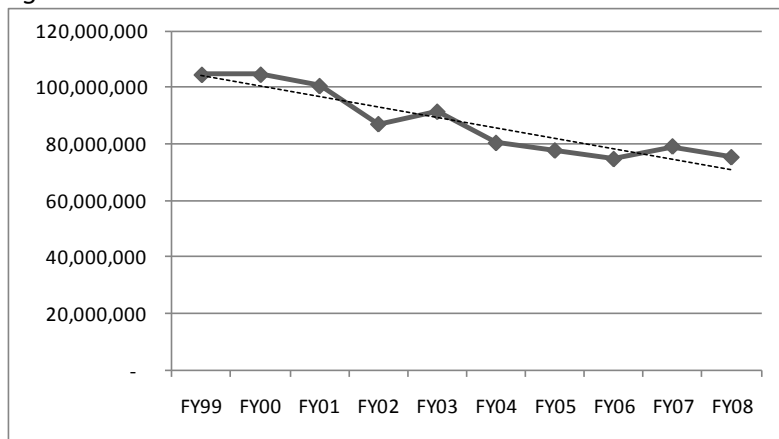
Figure 5. Total Assets, all enterprises: FY1999 to FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.
Note: dotted line indicates simple linear trend line

The graph below shows public enterprise asset balances without MIPA, illustrating a strongly negative trend. Many enterprises, such as MEC, have not followed adequate capital replacement policies and practices (mostly due to financial difficulty) and have therefore seen strong and steady deterioration in their net operating assets.

Figure 6. Total Assets without MIPA: FY1999 to FY2008

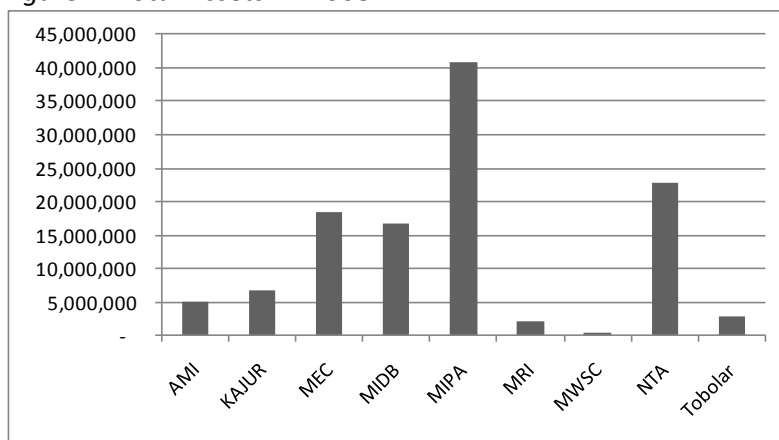


Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.
Note: dotted line indicates simple linear trend line

MIPA, NTA, MEC, and MIDB held 85 percent of the total assets of \$116 million in FY08.

Several public enterprises, such as MEC, have run up and subsequently written off significant accounts receivable balances (a current asset) over the years.

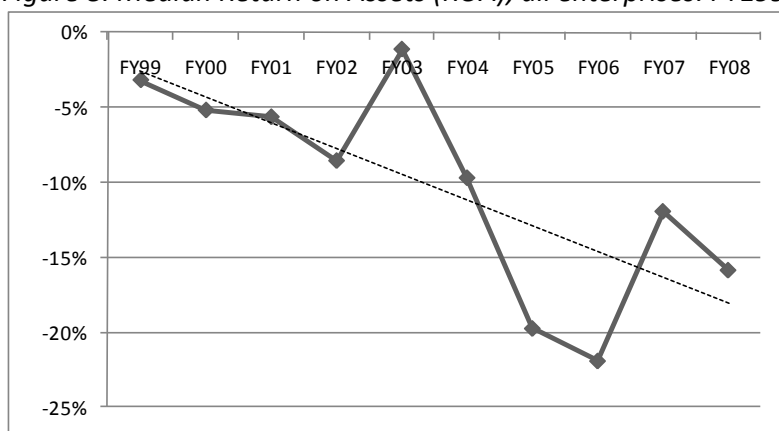
Figure 7. Total Assets: FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

Return on assets. The majority of public enterprises yield very low or negative returns on the significant public assets entrusted to them. As a group, from FY99 to FY08, for every dollar in assets held by public enterprises, they returned an annual median of negative 10 cents. Over the decade, this performance has worsened as shown in the graph below. In FY07 and FY08, the group median ROA was negative 12 and negative 16 percent, respectively.

Figure 8. Median Return on Assets (ROA), all enterprises: FY1999 to FY2008

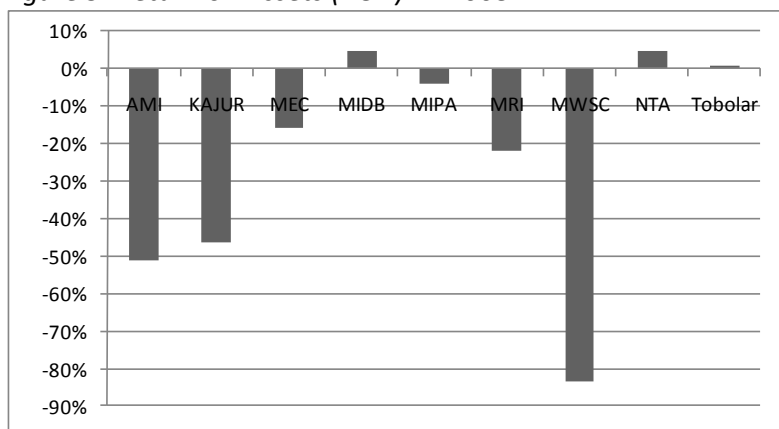


Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

Note: dotted line indicates simple linear trend line

In FY2008, NTA and MIDB returned 5 cents to the dollar while MWSC, AMI, KAJUR, MRI and MEC had highly negative ROA. Over the decade, only NTA and MIDB had consistently positive ROA. Audit data were not disaggregated sufficiently to allow analysts to calculate Return on Net Operating Assets (RNOA).

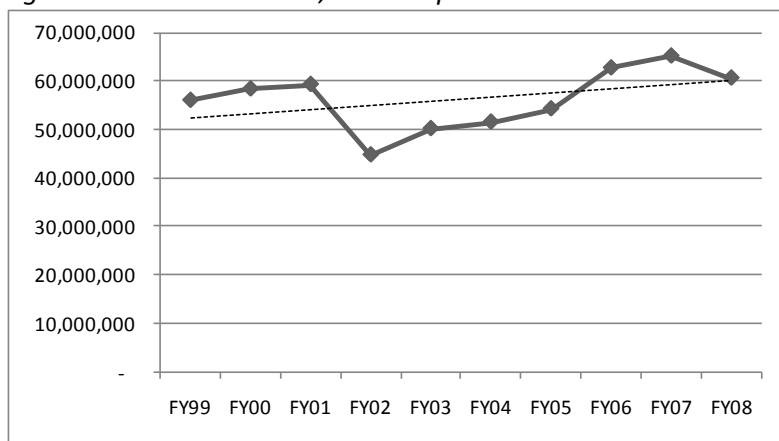
Figure 9. Return on Assets (ROA): FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

Liabilities. As component units of the Government, liabilities held by public enterprises are contingent liabilities for the Government. As a group, public enterprise liabilities totaled just over \$60 million in FY08, or around 40 percent of GDP. Total liabilities have grown over the decade. NTA and MEC hold the largest debt liabilities, mostly in the form of government-guaranteed loans that financed large infrastructure projects.

Figure 10. Total Liabilities, all enterprises: FY1999 to FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

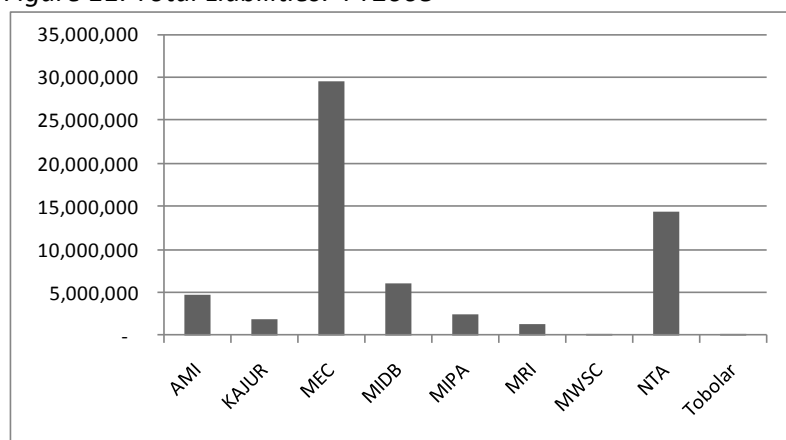
Note: dotted line indicates simple linear trend line

The non-current portion of total liabilities, mostly consisting of long-term commercial and concessional debt held by MEC and NTA, has been fairly stable at around \$30 million over the decade. In FY09 NTA incurred additional long-term debt to finance the RMI submarine fiber optic cable and this new liability is not shown here.

Over the years, several public enterprises have become delinquent on retirement and health fund taxes and have run up significant liabilities to the Marshall Islands Social Security Administration (MISSA). In these cases, public enterprises have withheld taxes from employee compensation, but have failed to match and remit these withholdings to MISSA. This has jeopardized the financial security of many public enterprise employees (who now have under-funded retirement accounts),

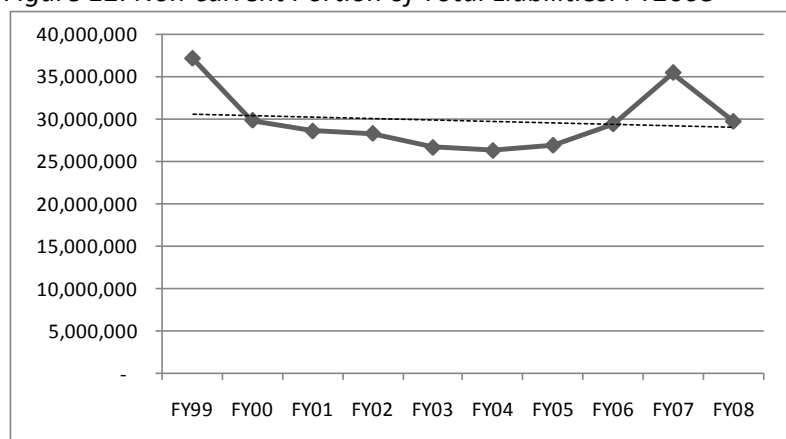
negatively impacted the national health fund, and has gotten public enterprises into serious legal complications. MISSA has aggressively pursued legal action against delinquent public enterprises and has levied penalty and interest charges that have further eroded these public enterprises' cash flow and solvency positions.

Figure 11. Total Liabilities: FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

Figure 12. Non-current Portion of Total Liabilities: FY2008



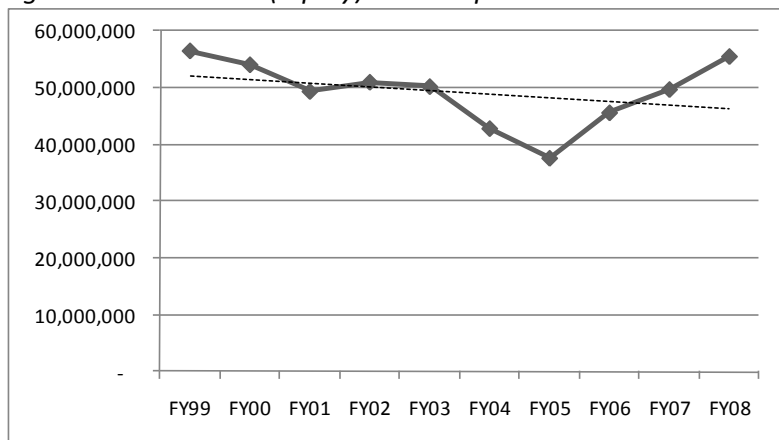
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

Note: dotted line indicates simple linear trend line

Net Assets (equity). The net asset (total assets minus total liabilities) balance for all public enterprises was on a general downtrend from FY99 through FY05, but grew rapidly from FY06 through FY08. This was a function of MIPA's rapid accumulation of assets from FY04 onwards (mostly from its large airport infrastructure projects, funded by US grants) as well as stable total liabilities levels.

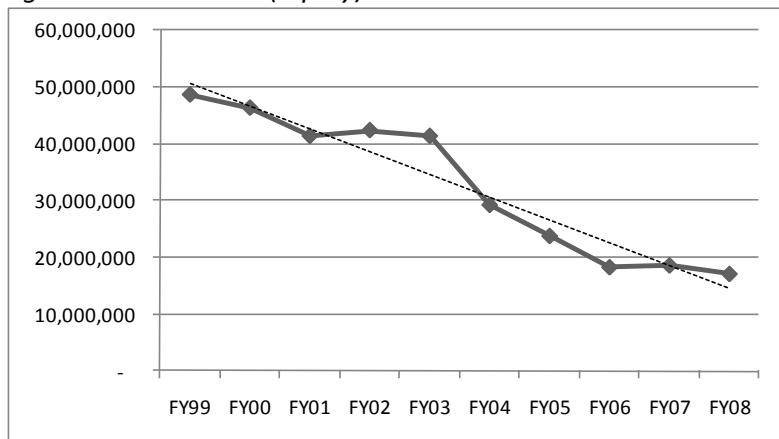
As shown in Figure 14 below, without MIPA, net assets for all enterprises fall dramatically over the period. In FY99, without MIPA, net assets were nearly \$50 million but by FY08 they had declined to under \$20 million.

Figure 13. Net Assets (equity) all enterprises: FY1999 to FY2008



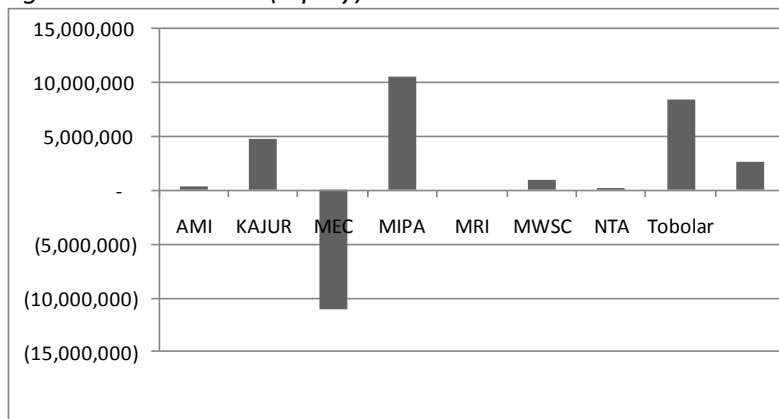
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.
Note: dotted line indicates simple linear trend line.

Figure 14. Net Assets (equity) without MIPA: FY1999 to FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.
Note: dotted line indicates simple linear trend line

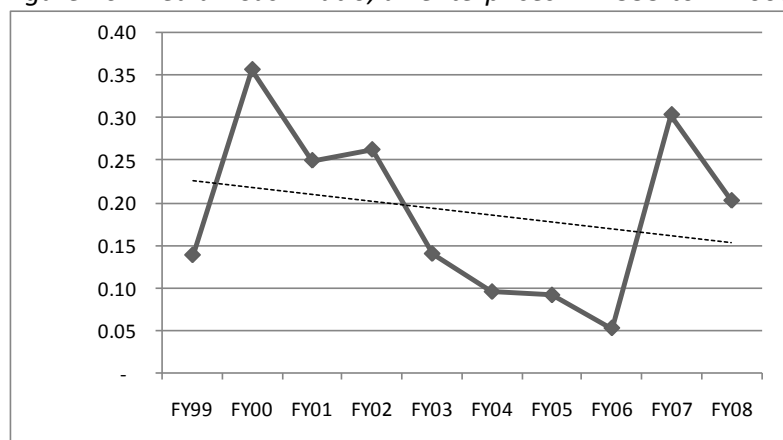
Figure 15. Net Assets (equity): FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

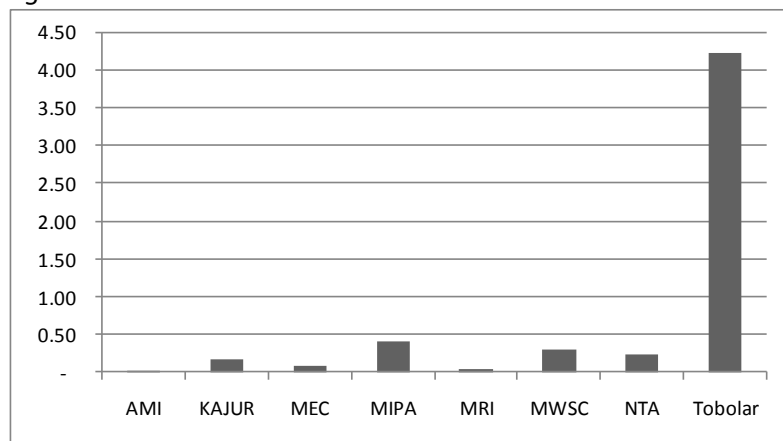
Short-term solvency (liquidity). Most of the public enterprises show deteriorating short-term solvency positions, as measured by their current and cash coverage ratios. The median cash ratio for the group averaged .19 for the ten year period, meaning there was 19 cents in cash (and near-cash assets) on hand to cover every \$1 in current liabilities (due within one year). This is hard evidence that nearly all the enterprises have been at high-risk for defaulting on their near-term obligations, which in turn raises the exposure of the national budget and fiscal system. Several public enterprises have actually defaulted on their obligations and had to call on the national government for emergency assistance, including in the past two years. The median cash ratio for all enterprises in FY07 and FY08 was .30 and .20, respectively.

Figure 16. Median Cash Ratio, all enterprises: FY1999 to FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.
Note: dotted line indicates simple linear trend line

Figure 17. Cash Ratio: FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

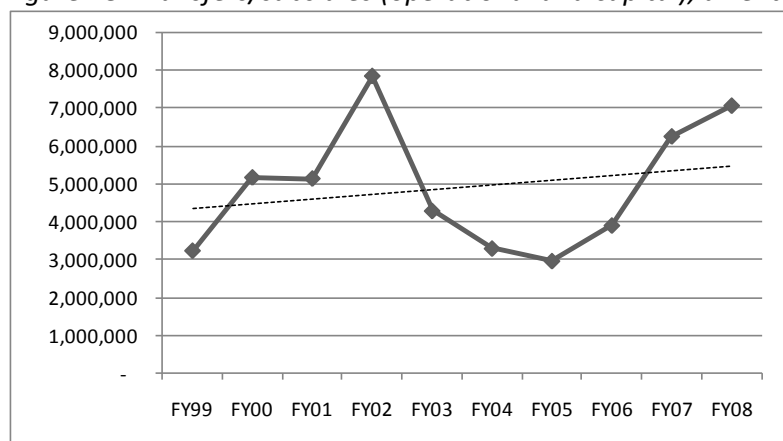
At end FY2008, all enterprises had cash coverage ratios of less than .50, except for Tobolar, which enjoyed favorable world-market prices for its exports in FY2008 and thus ended the year with a strong cash balance (an anomaly for Tobolar).

Subsidies (transfers). Subsidies, in the form of both operational and capital transfers, grew significantly (more than doubling) from FY05 to FY08. There is wide recognition that current subsidy

levels are unsustainable, given the fiscal outlook and the challenges that lie ahead. From FY99 to FY08, public enterprises received \$49.2 million in subsidies, or an average of just under \$5 million a year. As illustrated by the trend line below, subsidies are on an upward trajectory. Nevertheless, the difficult fiscal challenges now confronting the RMI will make this very difficult to continue.

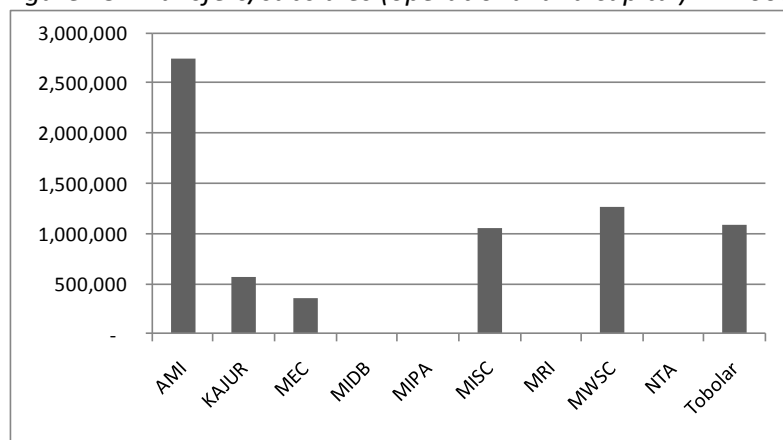
AMI, MWSC, Tobolar, and MISC were the top four subsidy recipients in FY2008, collectively absorbing over \$6 million in public funds from the national budget.

Figure 18. Transfers/subsidies (operational and capital), all enterprises: FY1999 to FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.
Note: dotted line indicates simple linear trend line

Figure 19. Transfers/subsidies (operational and capital): FY2008



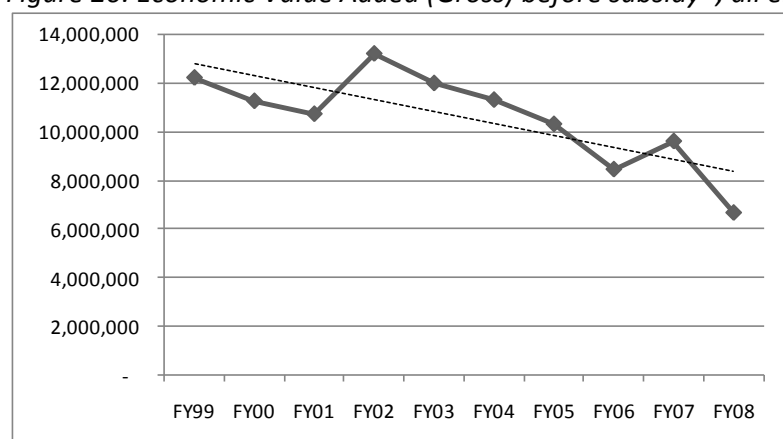
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

In FY2008, NTA, MIDB, MRI, and MIPA did not receive any subsidies (data for MAWC in FY2008 are not available). For MEC (as indicated in footnote 1, page 5) the bulk of cash received from the national government in FY2008 was in the form of cash advances, not outright grants or subsidies. This data here show only true subsidies (unrequited grants) and therefore do not reflect the burden MEC has placed on government cash flow. A large portion of the cash advanced to MEC has been subsequently offset against government electricity billings. Cash advances provided to MEC have been significant: from July 2008 to July 2009, \$7.9 million was advanced to allow the utility to maintain diesel fuel imports.

Economic value added. Economic value added is the contribution to GDP made by public enterprises and is calculated by subtracting intermediate consumption from gross output. In the data below, subsidies are excluded. Public enterprises that run net operating losses can still make positive contributions to GDP.

The contribution of the public enterprises to GDP (at purchaser prices, or before receipt of subsidies) varies from enterprise to enterprise, but is on a strong downtrend over the past decade. NTA, MIPA and MEC have been among the largest public enterprise contributors to GDP over the decade.

Figure 20. Economic Value Added (Gross) before subsidy, all enterprises: FY1999 to FY2008*

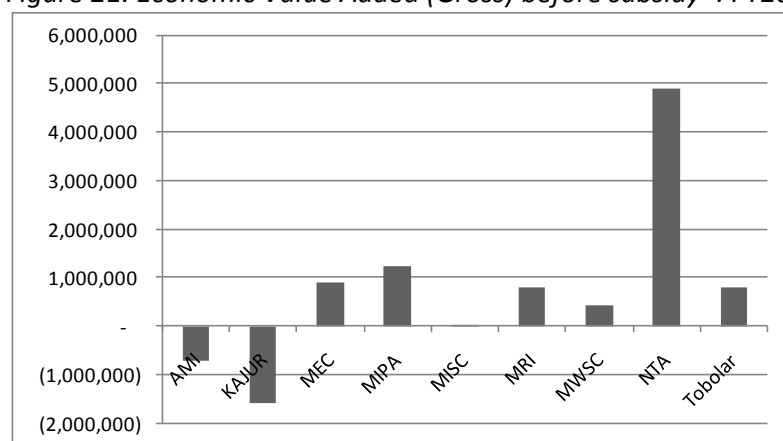


Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

Note: dotted line indicates simple linear trend line

* As derived in FY2008 Economic Statistics Tables

Figure 21. Economic Value Added (Gross) before subsidy: FY2008*



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

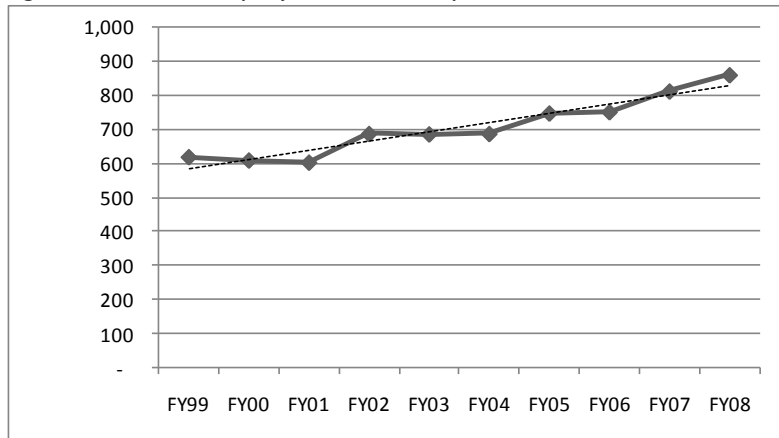
* As derived in FY2008 Economic Statistics Tables

Employment. Employment in public enterprises grew steadily over the decade, with public enterprises adding a total of 240 jobs over the period. Growth in employment at MEC, NTA and MIPA account for most of the growth (MIPA merged with MIAA in FY04, which accounted for an increase in its employment of 36 employees). New entities like MAWC and MISC have also added to the growth in recent years.

MEC and NTA remain the largest employers, with 161 and 160 employees respectively in FY08. All others have around 100 or fewer employees.

Tobolar, MEC, KAJUR and AMI have had the lowest revenue elasticity of employment over the past five years, meaning changes in their revenues from year to year have had little correlation with the number of employees on their payrolls. AMI, for instance, saw a 71 percent drop in revenue over the FY06 to FY08 period but only a 23 percent reduction in employment.

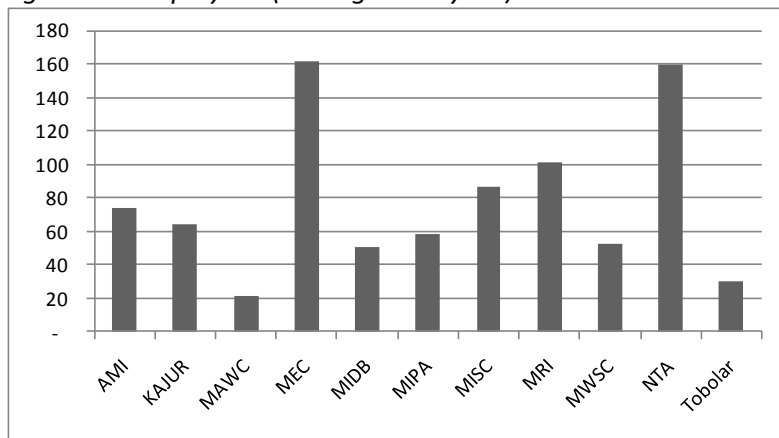
Figure 22. Total Employees, all enterprises: FY1999 to FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

Note: dotted line indicates simple linear trend line

Figure 23. Employees (average over year): FY2008



Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprises.

7. Proposed Approaches to Public Enterprise Reform in the RMI

Public enterprises in the RMI have been analyzed (to varying degrees) during several recent studies and exercises, including the Public Consultations Program (undertaken as part of this ADB-RMI TA), the FY2008 RMI Economic Review (funded by the US Department of the Interior), the IMF Article IV 2009 mission, the Comprehensive Adjustment Program (CAP) initial analysis on expenditure reform in 2009, a World Bank preliminary 2009 visit (which focused mostly on MEC reforms but which addressed some cross-cutting issues), and the 2008-2009 Special Evaluation Study conducted by the ADB on public sector reforms in the Pacific.

Some of the relevant findings and recommendations from these studies and exercises are summarized here.

Public Consultations Program (PCP). As summarized in the PCP Summary Report, participants in the program felt that reforms to public enterprises are long overdue and that this is an area that leaders have not given adequate attention to. Specific recommendations included:

- Prioritize reforms and phase out subsidies to the worst performing public enterprises
- Require that public enterprises adopt some type of harmonized pay scale
- Conduct a comprehensive review of all public enterprises to make sure they are complying with their mandates
- Establish stronger rules for how public enterprises are supposed to use their “profits” or financial surpluses
- Cabinet and Nitijela to take a more proactive and stricter approach to reviewing the performance of enterprises and in demanding more accountability; if public enterprise managers are failing, replace them
- Establish stronger regulation and legislation to require better performance from the public enterprise sector as a whole

On the topic of how the RMI can encourage growth, PCP participants suggested that reforming and privatizing (where feasible) public enterprises can be a way to encourage growth in the private sector and the broader economy. Participants viewed poorly performing public enterprises as a major constraint to growth, so reforming them (or transforming them through privatization) should be viewed as a good way to encourage private sector and economic growth.

FY2008 RMI Economic Review. The economic review, conducted by a team of local and international analysts (and funded by the US DOI through the Graduate School), put forward some succinct but insightful observations relating to public enterprises and their reform:

- “One key area that has yet to see any serious policy reform attention has been the state owned enterprises, most of which are inefficiently run, require heavy subsidies, and contribute to the high cost of doing business. State involvement in running enterprises remains high, and there have not been any serious reform efforts in this area since the Public Sector Reform Program in the late 1990s.”

- "...subsidies to public enterprises have grown notably in recent years, a trend that should raise serious concern. Most public enterprises continue to face critical challenges in maintaining efficient and effective operations and finances, and the recent experience of the Marshalls Energy Company is one of the most telling examples of how a struggling public enterprise can constitute a direct and significant threat to the national budget and overall economy."
- "The financial situation of the MEC and other state owned enterprises threatens the nation's financial viability, especially if world economic conditions deteriorate further or when, in the upswing, oil prices rise."
- "There is a need for RMI leadership to take a broader view and to make rational decisions about the nation's future during the remainder of the amended Compact. A comprehensive reform program remains highly relevant to consolidate the fiscal reforms under way, take a holistic approach to the SOEs, and, most importantly, to focus on measures to encourage the private sector."

IMF Article IV mission. The IMF Article IV 2009 mission stated that a comprehensive reform program, including public enterprise reform, is required if the RMI is to secure long-term fiscal sustainability and encourage private sector development. The mission forecasts an increasingly difficult fiscal position and foresees an emerging and deepening fiscal gap that RMI leaders must address through a program of adjustment. "This adjustment needs to be coupled with a modernization of the public sector, including through state-owned enterprise reform" stated the mission.

Other relevant points made by the mission:

- "Many state owned enterprises have government mandated social service obligations which impair their ability to effectively provide services and support growth. The nature and magnitude of community services performed are often not clearly defined, and typically subsumed in the SOE's overall operating activities through cross-subsidization."
- "This lack of transparency complicates resource planning and has contributed to weak management, underinvestment, and a continued need for subsidies and capital injections. Bottlenecks in electricity provision (MEC) and high costs of telecommunications (NTA), which are magnified by a small market and a high debt burden, have raised the cost of doing business and limited the development of new livelihood opportunities for the outer islands..."
- "A more transparent delineation between commercial and non-commercial services could improve the performance of SOEs. A possible approach in tackling this problem is the use of contractual arrangements in the form of a community service obligation (CSOs). Such contractual operations between the government and SOEs have been successful in other countries (for example Fiji shipping company). The mission encourages the government to explore such options."
- "In areas where state owned enterprises provide purely commercial services, operation should be divested. The mission welcomes the government's decision to sell its hotel, the Marshall Islands Resort. We also encourage the government to contract out the management of Tobolar's commercial activities through a competitive and transparent process, and ensure that procurement processes are abided by. Currently, Air Marshall

Islands (AMI) cannot reasonably be expected to deliver on its community service obligations and the government should consider downsizing and divestment.”

CAP Advisory Group analysis. The initial expenditure-reform focused analysis conducted by the Comprehensive Adjustment Program (CAP) advisory group stated that:

- Grants and subsidies from the General Fund to State Owned Enterprises have grown by 43 percent since FY04, thus “RMI should conduct an in-depth review of State Owned Enterprises with the aim of improving their financial and operational viability and to rationalize subsidies and transfers.”
- Technical assistance is required to, “assist the Office of the President/Chief Secretary conduct an institutional review of existing State Owned Enterprises with the aim of rationalizing of subsidies and transfers and where appropriate, privatize.”

World Bank 2009 mission. A World Bank mission to the RMI in 2009 focused its analysis on one particular enterprise, MEC, but its findings have relevance to all public enterprises and to the issue of reforms. The most relevant points that came across from the mission follow:

- Public enterprises have a large impact on the Government’s financial position
- There is no legislative framework, such as a Public Enterprise Act or separate regulatory environment, and performance standards are not clearly defined
- Boards do not have a clear distinction between management and oversight responsibilities; present Board structures lead to competing objectives (e.g. political versus operational management)
- Community Service Obligations (CSO) arrangements should be considered
- A number of services are delivered below their true costs
- Cross subsidies should be discontinued
- An appropriate legislative and governance regime should be developed and corporate governance could be improved

ADB Special Evaluation Study on Pacific reforms. The ADB Special Evaluation Study on reforms in the Pacific emphasized the importance of political will (collective choice) and home-grown reform plans, and pointed out that some public enterprises may require medium to longer term time horizons for reform. Moreover, industry and topic-specific expertise will be required to help countries plan and implement reforms, especially during more complex privatization process. Where initial commitment to public enterprise reform is evident, there is a need to target advisory support to focus on “how-to” and implementation-oriented assistance for individual public enterprises.

Lastly, while the ADB “Finding Balance” analysis did not cover public enterprises in the RMI, it provides relevant advice worth repeating here. In particular, the seven key lessons pointed out in this analysis are important for the RMI context:

- Political commitment to reform is paramount.
- Legislative and governance frameworks will not improve SOE performance unless there is political will to enforce them.

- Successful SOE reform explores all available restructuring mechanisms, including but not restricted to privatization.
- Successful reform programs are driven from within, not imposed from outside.
- Competition is a powerful driver for SOE reform. The most efficient SOEs are those that compete with the private sector on an equal footing.
- Continued financing for poorly performing SOEs does not result in improved performance unless there is substantial restructuring.
- The private sector is mature enough to invest in SOEs, and should be given the opportunity to do so.

8. Summary and Next Steps

Section 4 of this review discussed some of the major reasons for public enterprise underperformance, all of which have direct relevance to the RMI. Section 5 discussed past reform efforts and their limited impacts, but also discussed the renewed interest in revisiting the reform agenda and the several reform efforts now underway. Section 6 gave a detailed analysis on the performance of the major public enterprises, showing clearly that most of them are underperforming across a range of financial and economic measures (including profitability and returns on assets, asset management, solvency positions, transfers and subsidies, and economic value added). Section 7 showed that a number of recent analyses have addressed public enterprises and proposed some relevant and useful reform recommendations.

The RMI's public enterprise sector poses increasing systemic risk on the fiscal system and the economy, and this alone warrants reform. But on top of this, the fiscal system and the economy are *already* under major stress on their own, and will continue to face severe challenges moving forward. This situation calls for strong and proactive leadership and a commitment to reforms at the highest levels. This is the only effective way to hedge and manage risk.

The poor performance and negative impacts of public enterprises in the Pacific region have prompted several governments to pursue reforms in a comprehensive and integrated fashion. Where political will has been strong and where the right approaches have been taken, clear progress has been made.

If the political will exists in the RMI to take the next major step in this direction, it is recommended that RMI develop a medium-term Public Enterprise Rationalization Program (PERP) that forms a key component of and supports the broader Comprehensive Adjustment Program (CAP) now under development. The PERP should articulate clear, agreed-upon and time-bound goals, objectives and actions and incorporate a number of the reform ideas already advanced by the earlier analyses (as summarized in Section 7). Moreover, it is also recommended that the PERP:

- Be planned and executed by a Cabinet-appointed and ADB-supported PERP Task Force, with appropriate representation from various sectors and with technical assistance and expertise provided where needed, including specialist expertise in the more technical areas where reforms must be made but where local expertise is thin (such as aviation, electric utilities, water and sewerage systems, etc.)

- Prioritize reforms to those public enterprises that pose the highest systemic risk over the short to medium term
- Follow an integrated approach: (a) focusing both on enterprise- and sector-specific reforms as well as broader institutional and legislative reforms that cut across all public enterprises and that aim to strengthen the governance, accountability, and incentive structures in which public enterprises operate; and (b) harmonize public enterprise reforms with other, ongoing reform components such as tax reform
- Customize reforms to each enterprise, following the most feasible and appropriate forms of reform (including full privatization, where feasible)
- Support and expedite (where possible) reforms already underway, including MEC reforms
- Include the use of both positive incentives (i.e. access to domestically and/or externally mobilized grant or loan funds to support positive transformation) and negative incentives (i.e. subsidy withdrawal and/or legislative measures to create clear consequences for persistently poor performance)
- Give serious consideration to a new policy of excluding elected officials and senior public servants from sitting on public enterprise boards (see Text Box 2)
- Take into account the failures of and lessons learned from past public enterprise reform efforts

Text Box 2: Why Ministers and Public Servants Should Not Serve on Boards

(Excerpt from ADB 2009 publication “Finding Balance: Making State-Owned Enterprises Work in Fiji, Samoa, and Tonga”)

Because it creates conflicts of interest. Public servants and ministers are typically very capable administrators who are appointed to formulate and implement government policy. There are inherent conflicts of interest in marrying this oversight role with the management role of a state-owned enterprise (SOE) director. Ministers who are both SOE chairs and responsible ministers violate a basic principle of good governance: SOE ownership functions (as exercised by the responsible or shareholding ministry) should be kept separate from SOE management functions (as performed by the board of directors).

Senior public servants who serve on an SOE board also violate the principle of separate ownership and management, particularly if they have any public service responsibility for the area in which the SOE operates. It is impossible for public servants to monitor SOEs effectively if they report to ministers or more senior public servants who serve on the boards of those SOEs.

Appendix 1: Comparable Indicators

Total Operating Revenue	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	5,194,594	3,629,902	2,773,750	3,122,945	3,454,205	4,129,474	3,497,086	3,622,104	3,410,752	1,058,484
KAJUR	2,245,970	1,893,643	2,108,066	2,435,931	2,459,775	2,966,963	3,575,170	2,837,283	3,674,531	4,029,959
MAWC									417,241	n/a
MEC	7,396,940	9,392,875	9,666,097	12,587,951	12,970,318	10,957,083	12,542,432	14,096,932	15,889,597	19,598,520
MIDB	1,620,200	2,099,749	1,957,882	1,625,708	2,114,164	2,749,192	2,701,030	2,861,582	2,873,953	2,885,887
MIPA	1,206,944	1,211,579	1,647,678	1,903,812	1,866,571	2,442,098	2,474,339	2,011,038	2,209,562	2,202,898
MISC									1,031,735	2,369,740
MRI	1,951,280	2,320,545	3,064,137	2,721,288	2,262,596	1,895,375	1,885,119	2,272,971	2,497,750	2,258,407
MWSC	946,135	919,581	1,059,032	1,147,585	1,160,596	1,113,556	1,071,747	1,069,323	1,010,135	1,088,043
NTA	5,627,941	6,167,175	5,965,372	6,661,244	6,268,626	5,594,266	5,785,596	6,818,179	8,196,395	7,964,259
Tobolar	1,274,303	1,252,551	208,822	940,133	1,511,893	1,036,776	2,909,976	475,917	2,393,911	4,845,932
Total	27,464,307	28,887,600	28,450,836	33,146,597	34,068,744	32,884,783	36,442,495	36,065,329	43,605,562	48,302,129
Operating Income (loss)	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	(1,316,089)	(1,917,530)	(3,969,947)	(1,870,047)	(1,924,853)	(1,023,400)	(1,137,915)	(1,083,256)	(558,100)	(2,579,754)
KAJUR	(388,939)	(1,488,573)	(1,873,813)	(1,641,516)	(2,595,344)	(2,143,422)	(2,109,634)	(1,983,330)	(2,811,127)	(3,092,740)
MAWC									16,215	n/a
MEC	744,666	603,061	(829,456)	2,840,744	1,265,931	(1,378,809)	(3,209,725)	(3,894,280)	(2,895,538)	(2,943,881)
MIDB	209,860	840,158	274,245	(1,241,114)	(192,537)	(47,013)	(387,154)	(137,326)	433,324	762,402
MIPA	(214,056)	(182,924)	151,120	558,676	484,605	(117,960)	129,084	(632,727)	(1,524,561)	(1,604,221)
MISC									(928,276)	53,602
MRI	(1,039,609)	(509,891)	(529,182)	(727,427)	(675,888)	(5,843,167)	24,616	(281,111)	(239,993)	(488,289)
MWSC	(307,906)	(701,301)	(565,748)	(88,359)	(6,666)	(54,542)	(211,702)	(121,724)	(262,386)	(334,218)
NTA	(55,975)	751,184	420,690	1,574,455	784,394	52,377	400,868	1,055,527	1,528,289	1,087,783
Tobolar	(479,322)	(1,583,204)	(1,750,919)	(852,137)	(817,552)	(296,364)	(1,184,594)	(980,908)	(663,694)	20,497
Total	(2,847,370)	(4,189,020)	(8,673,010)	(1,446,725)	(3,677,910)	(10,852,300)	(7,686,156)	(8,059,135)	(7,905,847)	(9,118,820)

" - " indicates zero, "n/a" not available

Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.

Total Assets	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	15,563,482	10,508,451	5,684,950	5,246,461	3,519,802	3,678,529	4,388,289	3,149,732	4,672,288	5,032,199
KAJUR	10,225,848	10,965,804	12,499,847	10,541,072	11,317,546	7,373,826	6,314,245	6,137,008	6,608,430	6,683,197
MAWC									151,960	n/a
MEC	17,848,378	19,850,107	18,921,468	18,313,588	18,417,048	17,656,381	16,246,513	17,761,375	20,615,125	18,552,666
MIDB	10,911,913	14,922,328	15,622,758	14,500,361	21,308,130	21,458,223	21,144,268	19,036,521	17,072,066	16,686,690
MIPA	7,893,410	7,775,398	8,079,893	8,704,199	8,944,788	14,075,307	14,307,412	33,788,754	36,359,774	40,884,761
MISC									801,068	n/a
MRI	10,105,939	9,830,955	9,386,613	8,761,910	8,066,135	2,444,570	2,581,341	2,458,677	2,436,835	2,229,009
MWSC	9,701,016	9,227,045	8,936,821	686,259	592,885	425,424	304,496	281,730	290,251	401,423
NTA	28,427,112	27,869,495	26,641,341	26,445,252	25,922,039	24,189,374	24,093,210	23,206,946	23,527,018	22,777,906
Tobolar	1,773,585	1,421,829	2,857,438	2,478,288	2,254,298	3,053,608	2,517,347	2,495,782	2,855,082	2,822,163
Total	112,450,683	112,371,412	108,631,129	95,677,390	100,342,671	94,355,242	91,897,121	108,316,525	115,389,897	116,070,014
Current Assets	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	3,767,413	3,300,351	1,603,475	2,527,718	1,568,869	1,725,118	1,576,318	870,104	860,952	934,984
KAJUR	727,332	1,134,074	1,077,147	1,163,941	526,998	123,305	520,343	262,108	1,917,468	1,518,968
MAWC									27,022	n/a
MEC	3,216,296	4,566,452	4,469,084	4,593,253	5,300,473	5,379,672	4,719,675	6,796,585	10,689,710	9,073,480
MIDB	not applicable									
MIPA	789,528	1,105,393	1,659,935	2,453,987	2,580,127	3,287,840	3,701,736	8,809,499	6,433,454	4,290,171
MISC									637,238	n/a
MRI	453,055	597,785	697,173	497,798	229,859	248,695	379,260	365,390	447,177	402,088
MWSC	309,113	383,739	490,433	638,521	499,936	329,444	228,261	228,294	258,927	356,543
NTA	7,968,575	6,767,958	6,981,656	7,636,783	6,576,041	5,844,945	6,318,987	5,623,213	6,457,620	4,645,676
Tobolar	1,039,375	690,964	1,761,376	1,392,350	1,186,145	2,045,891	1,553,004	1,589,495	2,036,419	2,052,657
Total	18,270,687	18,546,716	18,740,279	20,904,351	18,468,448	18,984,910	18,997,584	24,544,688	29,765,987	23,274,567

" - " indicates zero, "n/a" not available

Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.

Return on Assets	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	-8%	-18%	-70%	-36%	-55%	-28%	-26%	-34%	-12%	-51%
KAJUR	-4%	-14%	-15%	-16%	-23%	-29%	-33%	-32%	-43%	-46%
MAWC									11%	n/a
MEC	4%	3%	-4%	16%	7%	-8%	-20%	-22%	-14%	-16%
MIDB	2%	6%	2%	-9%	-1%	0%	-2%	-1%	3%	5%
MIPA	-3%	-2%	2%	6%	5%	-1%	1%	-2%	-4%	-4%
MISC									-116%	n/a
MRI	-10%	-5%	-6%	-8%	-8%	-239%	1%	-11%	-10%	-22%
MWSC	-3%	-8%	-6%	-13%	-1%	-13%	-70%	-43%	-90%	-83%
NTA	0%	3%	2%	6%	3%	0%	2%	5%	6%	5%
Tobolar	-27%	-111%	-61%	-34%	-36%	-10%	-47%	-39%	-23%	1%
Median	-3%	-5%	-6%	-9%	-1%	-10%	-20%	-22%	-12%	-16%
Total Liabilities	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	4,121,735	1,742,088	1,077,599	1,150,720	1,435,074	2,617,201	4,154,656	4,069,670	4,429,585	4,624,250
KAJUR	1,585,212	667,099	1,101,248	1,557,869	1,879,843	1,821,759	2,125,579	1,942,721	1,942,797	1,845,555
MAWC									10,807	n/a
MEC	13,224,048	15,151,263	15,794,062	13,110,088	12,616,960	13,697,724	15,453,794	21,011,622	27,497,953	29,531,598
MIDB	3,000,981	6,159,405	6,422,137	6,338,251	13,122,414	13,044,368	12,888,313	10,451,326	7,668,743	6,119,123
MIPA	61,881	47,031	58,184	82,053	73,889	403,925	342,724	6,368,802	5,180,663	2,436,666
MISC									261,878	n/a
MRI	611,251	682,240	657,035	791,404	767,717	469,267	589,227	755,905	928,580	1,241,604
MWSC	10,783,461	11,408,680	12,171,660	1,020,290	928,636	876,350	929,792	1,070,456	991,959	187,092
NTA	20,787,222	20,157,107	19,433,115	18,981,070	18,073,304	17,054,140	16,388,960	15,561,120	14,837,443	14,399,903
Tobolar	1,797,991	2,309,426	2,541,663	1,656,366	1,224,521	1,497,446	1,338,988	1,445,199	1,386,551	197,259
Total	55,973,782	58,324,339	59,256,703	44,688,111	50,122,358	51,482,180	54,212,033	62,676,821	65,136,959	60,583,050

" - " indicates zero, "n/a" not available

Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.

Non-current Portion of Total Liabilities	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	758,880	-	-	-	150,000	1,050,000	2,365,545	2,538,012	2,762,846	-
KAJUR	286,784	-	-	-	-	82,454	34,151	39,044	849,186	830,197
MAWC									-	n/a
MEC	9,620,059	11,170,259	10,567,717	10,234,294	9,781,020	9,292,039	8,903,917	12,706,140	18,194,956	16,389,299
MIDB	not applicable									
MIPA	-	-	-	-	-	26,728	-	-	314,512	40,600
MISC									-	n/a
MRI	-	99,048	59,905	715,129	-	17,951	13,309	-	-	-
MWSC	7,319,582	-	-	-	366,713	190,130	701,171	-	-	-
NTA	19,046,744	18,512,723	17,896,426	17,294,674	16,297,145	15,582,411	14,839,075	14,068,492	13,249,163	12,388,443
Tobolar	-	-	-	-	-	-	-	-	-	-
Total	37,032,049	29,782,030	28,524,048	28,244,097	26,594,878	26,241,713	26,857,168	29,351,688	35,370,663	29,648,539
Equity/Net Assets	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	11,441,747	8,766,363	4,607,351	4,095,741	2,084,728	1,061,328	233,633	(919,938)	242,703	407,949
KAJUR	8,640,636	10,298,705	11,398,599	8,983,203	9,437,703	5,552,067	4,188,666	4,194,287	4,665,633	4,837,642
MAWC									141,153	n/a
MEC	4,624,330	4,698,844	3,127,406	5,203,500	5,800,088	3,958,657	792,719	(3,250,247)	(6,882,828)	(10,978,932)
MIDB	7,910,932	8,762,923	9,200,621	8,162,110	8,185,716	8,413,855	8,255,955	8,585,195	9,403,323	10,567,567
MIPA	7,831,529	7,728,367	8,021,709	8,622,146	8,870,899	13,671,382	13,964,688	27,419,952	31,179,111	38,448,095
MISC									n/a	n/a
MRI	9,494,688	9,148,715	8,729,578	7,970,506	7,298,418	1,975,303	1,992,114	1,702,772	1,508,255	987,405
MWSC	(1,082,445)	(2,181,635)	(3,234,839)	(334,031)	(335,751)	(450,926)	(625,296)	(788,726)	(701,708)	214,331
NTA	7,639,890	7,712,388	7,208,226	7,464,182	7,848,735	7,135,234	7,704,250	7,645,826	8,689,575	8,378,003
Tobolar	(24,406)	(887,597)	315,775	821,922	1,029,777	1,556,162	1,178,359	1,050,583	1,468,531	2,624,904
Total	56,476,901	54,047,073	49,374,426	50,989,279	50,220,313	42,873,062	37,685,088	45,639,704	49,713,748	55,486,964

" - " indicates zero, "n/a" not available

Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.

Current Ratio	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	1.12	1.89	1.49	2.20	1.22	1.10	0.88	0.57	0.52	0.20
KAJUR	0.56	1.70	0.98	0.75	0.28	0.07	0.25	0.14	1.75	1.50
MAWC									2.50	n/a
MEC	0.89	1.15	0.86	1.60	1.87	1.22	0.72	0.82	1.15	0.69
MIDB	not applicable									
MIPA	12.76	23.50	28.53	29.91	34.92	8.72	10.80	1.38	1.32	1.79
MISC									2.43	n/a
MRI	0.74	1.03	1.17	6.53	0.30	0.55	0.66	0.48	0.48	0.32
MWSC	0.09	0.03	0.04	0.63	0.89	0.48	1.00	0.21	0.26	1.91
NTA	4.58	4.12	4.54	4.53	3.70	3.97	4.08	3.77	4.07	2.31
Tobolar	0.58	0.30	0.69	0.84	0.97	1.37	1.16	1.10	1.47	10.41
Median	0.82	1.42	1.07	1.90	1.09	1.16	0.94	0.69	1.40	1.64
Cash Ratio	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	0.22	1.24	0.37	0.31	0.08	0.06	0.02	0.02	0.00	0.02
KAJUR	0.02	0.05	0.01	0.01	0.00	-	0.00	0.01	0.42	0.17
MAWC									2.23	n/a
MEC	0.05	0.27	0.13	0.21	0.25	0.16	0.11	0.22	0.45	0.09
MIDB	not applicable									
MIPA	2.63	3.02	7.25	7.62	11.50	3.56	4.42	0.22	0.19	0.40
MISC									0.90	n/a
MRI	0.27	0.44	0.46	2.29	0.08	0.12	0.18	0.04	0.05	0.04
MWSC	0.02	0.00	0.00	0.08	0.08	0.07	0.07	0.05	0.03	0.30
NTA	2.04	2.26	2.86	0.93	0.86	0.82	0.76	0.69	0.72	0.23
Tobolar	0.06	0.00	0.00	0.00	0.19	0.05	0.04	0.05	0.08	4.21
Median	0.14	0.36	0.25	0.26	0.14	0.09	0.09	0.05	0.30	0.20

" - " indicates zero, "n/a" not available

Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.

Transfers (operational and capital)*	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	1,874,000	2,000,000	-	1,500,000	913,000	716,000	400,000	397,000	2,100,000	2,740,000
KAJUR	325,000	2,030,000	750,000	573,000	199,000	650,000	904,000	716,000	563,000	563,000
MAWC									n/a	n/a
MEC	-	-	-	1,867,000	1,867,000	205,000	400,000	1,470,000	874,000	356,000
MIDB	-	50,000	970,000	995,000	165,000	207,000	194,000	347,000	249,000	-
MIPA	-	50,000	89,000	-	-	-	99,000	-	-	-
MISC									920,000	1,056,000
MRI	462,000	100,000	186,000	-	-	545,000	-	-	-	-
MWSC	-	100,000	100,000	1,465,000	49,000	75,000	75,000	75,000	349,000	1,258,000
NTA	-	-	-	-	-	-	-	-	-	-
Tobolar	581,000	845,000	3,050,000	1,449,000	1,096,000	900,000	895,000	900,000	1,200,000	1,092,000
Total	3,242,000	5,175,000	5,145,000	7,849,000	4,289,000	3,298,000	2,967,000	3,905,000	6,255,000	7,065,000
Economic Value Added (Gross) before subsidy*	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	1,955,000	1,340,000	953,000	699,000	2,159,000	1,231,000	1,225,000	964,000	1,383,000	(718,000)
KAJUR	919,000	(27,000)	(383,000)	52,000	(709,000)	(178,000)	1,001,000	93,000	(1,119,000)	(1,609,000)
MAWC									n/a	n/a
MEC	3,002,000	3,454,000	2,042,000	4,164,000	2,982,000	2,299,000	470,000	(146,000)	678,000	892,000
MIDB	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
MIPA	811,000	1,910,000	1,772,000	2,319,000	2,252,000	1,956,000	1,947,000	1,395,000	1,362,000	1,229,000
MISC									(254,000)	12,000
MRI	700,000	883,000	2,547,000	739,000	701,000	653,000	913,000	983,000	1,098,000	797,000
MWSC	630,000	425,000	536,000	699,000	775,000	697,000	560,000	646,000	496,000	413,000
NTA	4,421,000	4,615,000	4,794,000	5,073,000	4,349,000	3,783,000	4,195,000	4,672,000	5,290,000	4,883,000
Tobolar	(223,000)	(1,341,000)	(1,531,000)	(547,000)	(521,000)	867,000	4,000	(143,000)	681,000	789,000
Total	12,215,000	11,259,000	10,730,000	13,198,000	11,988,000	11,308,000	10,315,000	8,464,000	9,615,000	6,688,000

* As derived in FY2008 Economic Statistics Tables

" - " indicates zero, "n/a" not available

Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.

Employment	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	111	111	102	104	104	104	104	96	89	74
KAJUR	52	46	54	76	73	76	70	64	62	65
MAWC									11	22
MEC	120	121	121	126	122	126	147	147	144	161
MIDB	23	23	22	31	30	31	46	50	55	51
MIPA	15	25	30	43	42	43	54	54	56	58
MISC									51	87
MRI	86	87	88	103	106	103	89	101	106	101
MWSC	49	52	56	59	59	59	58	57	56	52
NTA	113	108	104	114	112	114	150	155	152	160
Tobolar	53	39	28	34	41	34	29	29	31	30
Total	620	610	604	688	686	688	748	751	812	860
Revenue Per Employee	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI	46,658	32,776	27,260	30,101	33,374	39,802	33,545	37,829	38,216	14,304
KAJUR	43,611	41,391	38,858	31,912	33,850	38,869	50,832	44,506	59,507	62,319
MAWC									36,815	n/a
MEC	61,770	77,788	79,885	100,302	106,532	87,307	85,178	96,115	110,153	121,541
MIDB	72,009	93,322	88,995	53,302	70,472	90,137	58,401	57,519	52,017	56,865
MIPA	80,463	49,452	55,384	44,796	44,442	57,461	46,034	37,415	39,633	37,818
MISC									20,363	27,396
MRI	22,778	26,673	34,820	26,549	21,446	18,491	21,122	22,561	23,675	22,305
MWSC	19,408	17,770	19,082	19,533	19,839	18,954	18,478	18,843	18,119	20,924
NTA	49,915	57,103	57,359	58,689	55,970	49,289	38,635	43,988	54,102	49,933
Tobolar	24,272	32,117	7,594	27,449	37,331	30,271	101,217	16,271	77,223	161,531
Median	46,658	41,391	38,858	31,912	37,331	39,802	46,034	37,829	39,633	43,875

" - " indicates zero, "n/a" not available

Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.

Revenue Elasticity of Employment	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
AMI		0.02	0.34	0.16	0.02	0.01	0.03	2.28	1.16	0.25
KAJUR		0.71	1.64	2.62	4.91	0.24	0.38	0.45	0.11	0.49
MAWC										
MEC		0.03	0.07	0.12	0.98	0.20	1.20	0.03	0.13	0.50
MIDB		0.00	0.33	2.28	0.05	0.06	29.48	1.27	25.57	19.61
MIPA		164.92	0.60	2.76	0.60	0.04	20.05	0.00	0.38	14.87
MISC										0.55
MRI		0.08	0.04	1.47	0.17	0.18	23.89	0.63	0.48	0.42
MWSC		2.19	0.48	0.70	0.38	0.11	0.34	9.53	0.32	0.87
NTA		0.44	1.13	0.78	0.22	0.12	9.34	0.20	0.11	1.86
Tobolar		15.06	0.35	0.07	0.30	0.49	0.09	0.02	0.01	0.03
Median		0.4	0.4	0.8	0.3	0.1	1.2	0.5	0.3	0.5

" - " indicates zero, "n/a" not available

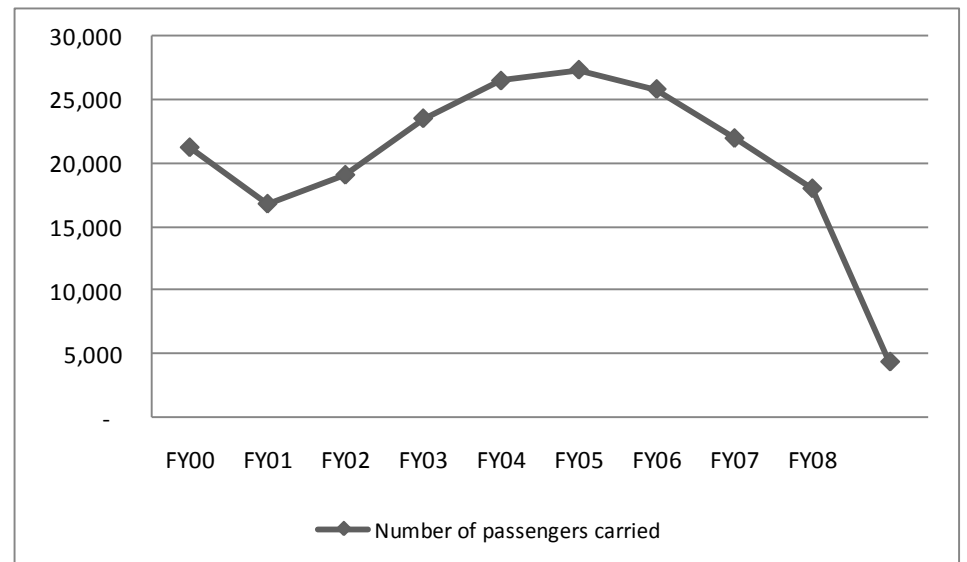
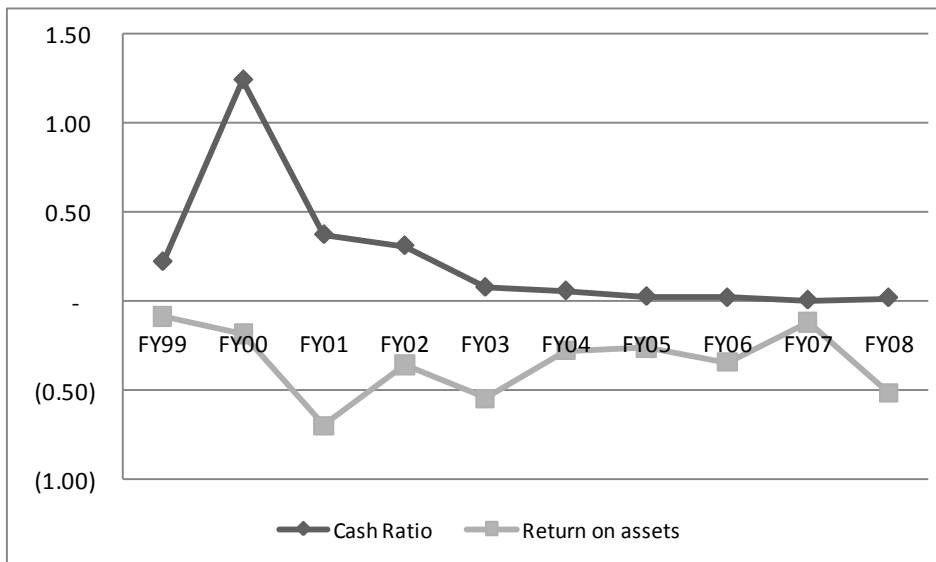
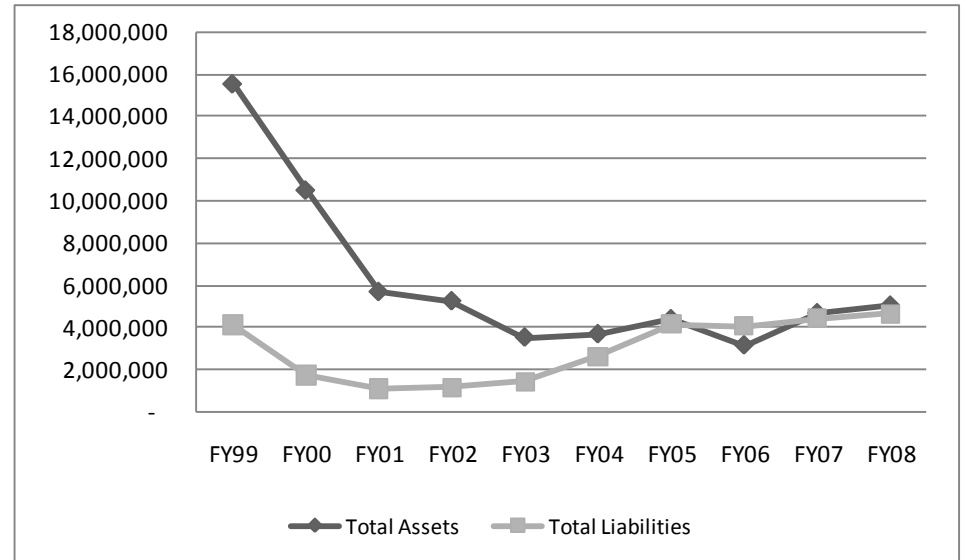
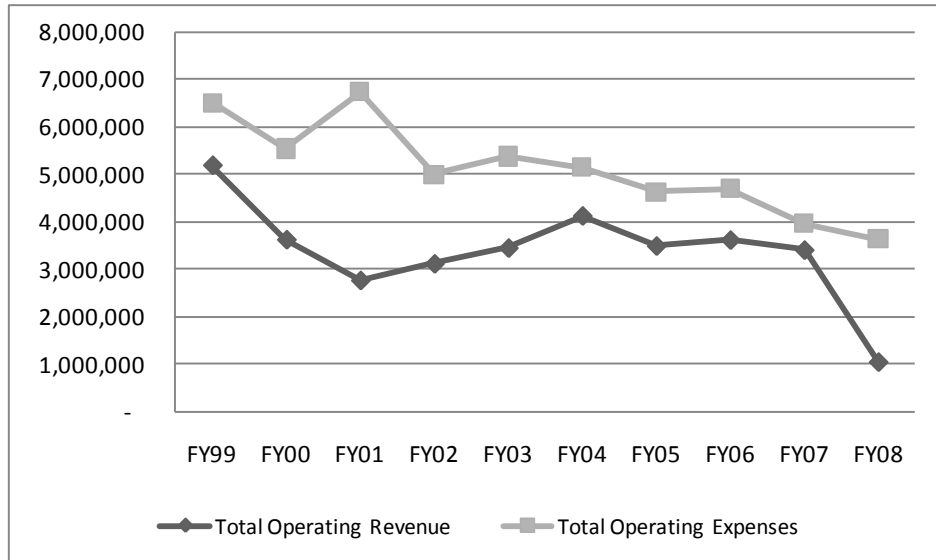
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.

Appendix 2: Individual Public Enterprise Indicators

Air Marshall Islands (AMI), Inc.

From FY08 Audit: AMI was chartered on October 12, 1989 to provide regular scheduled domestic and international passengers, charter and cargo service within and from the Marshall Islands. As of September 30, 2008, AMI operated a fleet of two Dornier 228 aircraft and a one Dash 8 aircraft. AMI is governed by a six-member Board of Directors appointed by the Cabinet.

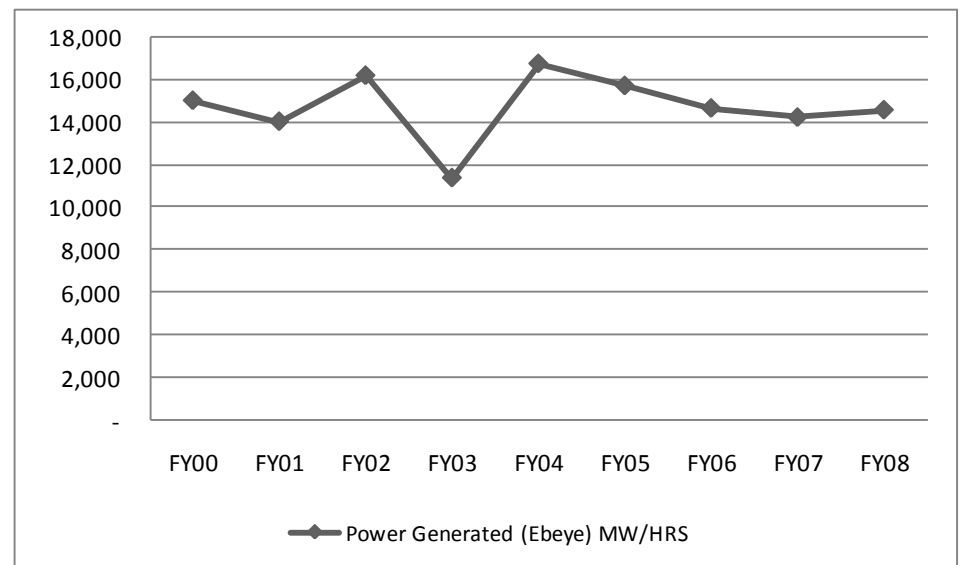
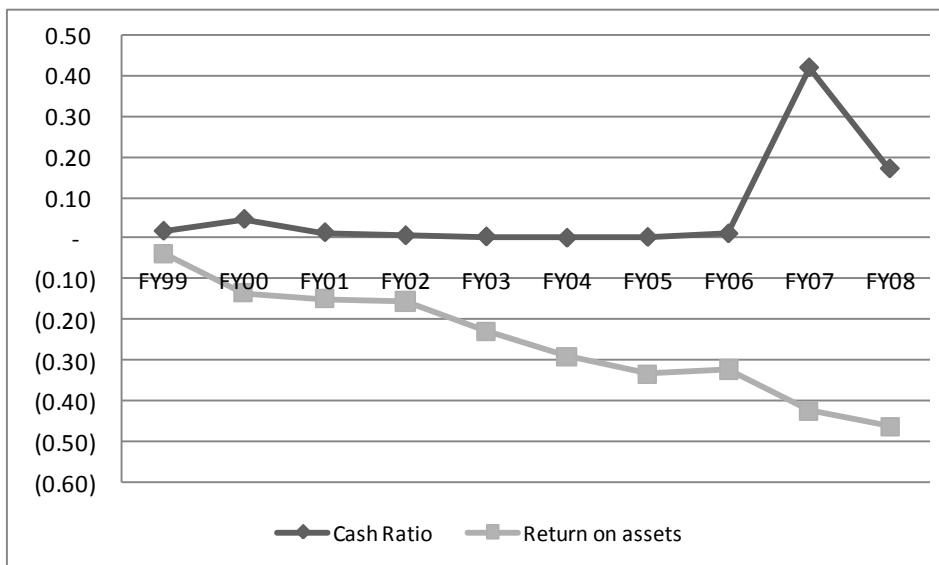
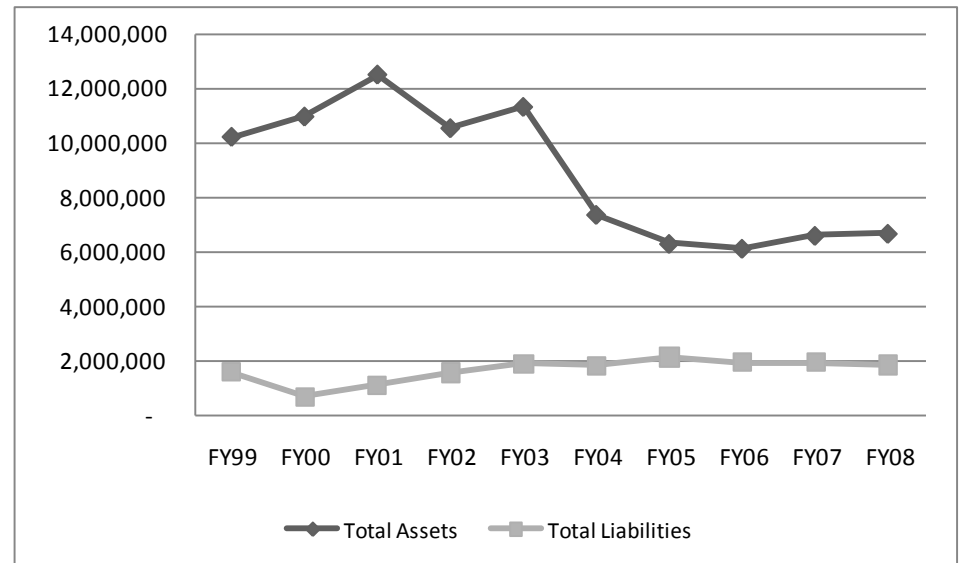
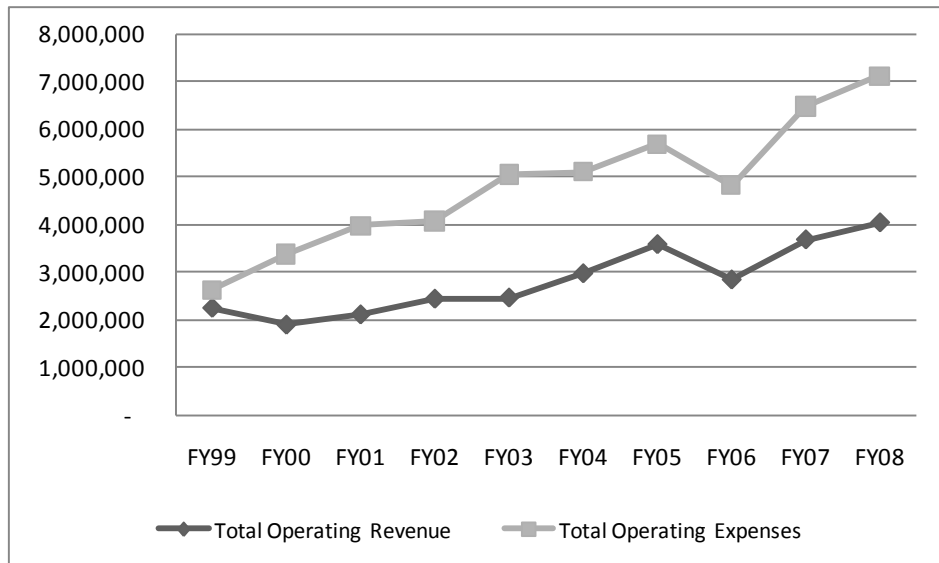
Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue	5,194,594	3,629,902	2,773,750	3,122,945	3,454,205	4,129,474	3,497,086	3,622,104	3,410,752	1,058,484
Total Operating Expenses	6,510,683	5,547,432	6,743,697	4,992,992	5,379,058	5,152,874	4,635,001	4,705,360	3,968,852	3,638,238
Operating Income (loss)	(1,316,089)	(1,917,530)	(3,969,947)	(1,870,047)	(1,924,853)	(1,023,400)	(1,137,915)	(1,083,256)	(558,100)	(2,579,754)
Change in Net Assets	(27,890)	(2,675,384)	(4,159,012)	(511,610)	(2,011,013)	(1,023,400)	(827,695)	(1,153,571)	1,162,641	165,246
Total Assets	15,563,482	10,508,451	5,684,950	5,246,461	3,519,802	3,678,529	4,388,289	3,149,732	4,672,288	5,032,199
Total Current Assets	3,767,413	3,300,351	1,603,475	2,527,718	1,568,869	1,725,118	1,576,318	870,104	860,952	934,984
Cash (and cash equivalents)	738,777	2,162,314	400,397	355,932	96,495	87,342	42,592	26,158	6,526	77,594
Total Liabilities	4,121,735	1,742,088	1,077,599	1,150,720	1,435,074	2,617,201	4,154,656	4,069,670	4,429,585	4,624,250
Total Current Liabilities	3,362,855	1,742,088	1,077,599	1,150,720	1,285,074	1,567,201	1,789,111	1,531,658	1,666,739	4,624,250
Equity/Net Assets	11,441,747	8,766,363	4,607,351	4,095,741	2,084,728	1,061,328	233,633	(919,938)	242,703	407,949
Current Ratio	1.12	1.89	1.49	2.20	1.22	1.10	0.88	0.57	0.52	0.20
Cash Ratio	0.22	1.24	0.37	0.31	0.08	0.06	0.02	0.02	0.00	0.02
Return on Assets	(0.08)	(0.18)	(0.70)	(0.36)	(0.55)	(0.28)	(0.26)	(0.34)	(0.12)	(0.51)
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*	1,874,000	2,000,000	-	1,500,000	913,000	716,000	400,000	397,000	2,100,000	2,740,000
Transfers treated as current subsidies in GDP estimates*	-	-	-	418,000	913,000	716,000	400,000	397,000	308,000	935,000
Value Added (Gross) before subsidy*	1,955,000	1,340,000	953,000	699,000	2,159,000	1,231,000	1,225,000	964,000	1,383,000	(718,000)
Number of flights	2,582	2,324	2,658	3,339	3,454	3,171	3,083	2,793	2,338	n/a
Number of passengers carried	21,199	16,754	19,033	23,484	26,454	27,309	25,789	21,924	17,967	4,313
Aircraft seat miles	n/a	n/a	n/a	6,930,034	10,174,634	9,593,385	8,904,171	8,605,107	7,193,192	n/a
Total Operating Revenue (sources):	5,194,594	3,629,902	2,773,750	3,122,945	3,454,205	4,129,474	3,497,086	3,622,104	3,410,752	1,058,484
Passengers	3,392,934	2,888,044	1,997,970	2,293,894	2,492,861	2,916,811	2,816,119	2,620,672	2,145,824	621,507
Cargo	506,208	324,890	282,112	391,545	408,424	573,230	444,403	455,438	427,805	127,288
Charter	896,033	236,390	177,929	133,662	190,478	286,902	280,821	338,393	496,536	190,275
Other	399,419	180,578	315,739	303,844	362,442	352,531	241,414	223,430	370,587	171,352
LESS:Provision for doubtful accounts	-	-	-	-	-	-	(285,671)	(15,829)	(30,000)	(51,938)
Number of employees (average over year)	111	111	102	104	104	104	104	96	89	74
Revenue per employee	46,658	32,776	27,260	30,101	33,374	39,802	33,545	37,829	38,216	14,304
* As derived in FY2008 Economic Statistics Tables										
" - " indicates zero, "n/a" not available										
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.										



Kwajalein Atoll Joint Utility Resources (KAJUR), Inc.

From FY08 Audit: a component unit of the RMI, KAJUR was established by law on September 13, 1990. Its primary lines of business include electricity generation and distribution, water and waste water services on Ebeye and Santo islands. On May 2, 2006, the Cabinet approved the transfer of all management responsibilities of KAJUR to the Board of Directors of the MEC.

Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue	2,245,970	1,893,643	2,108,066	2,435,931	2,459,775	2,966,963	3,575,170	2,837,283	3,674,531	4,029,959
Total Operating Expenses	2,634,909	3,382,216	3,981,879	4,077,447	5,055,119	5,110,385	5,684,804	4,820,613	6,485,658	7,122,699
Operating Income (loss)	(388,939)	(1,488,573)	(1,873,813)	(1,641,516)	(2,595,344)	(2,143,422)	(2,109,634)	(1,983,330)	(2,811,127)	(3,092,740)
Change in Net Assets	(128,825)	1,658,069	1,099,894	(2,415,396)	454,500	(3,885,636)	(1,363,401)	5,621	471,346	172,009
Total Assets	10,225,848	10,965,804	12,499,847	10,541,072	11,317,546	7,373,826	6,314,245	6,137,008	6,608,430	6,683,197
Total Current Assets	727,332	1,134,074	1,077,147	1,163,941	526,998	123,305	520,343	262,108	1,917,468	1,518,968
Cash (and cash equivalents)	22,132	30,768	14,852	9,377	6,041	-	4,032	20,344	456,412	172,578
Total Liabilities	1,585,212	667,099	1,101,248	1,557,869	1,879,843	1,821,759	2,125,579	1,942,721	1,942,797	1,845,555
Total Current Liabilities	1,298,428	667,099	1,101,248	1,557,869	1,879,843	1,739,305	2,091,428	1,903,677	1,093,611	1,015,358
Equity/Net Assets	8,640,636	10,298,705	11,398,599	8,983,203	9,437,703	5,552,067	4,188,666	4,194,287	4,665,633	4,837,642
Current Ratio	0.56	1.70	0.98	0.75	0.28	0.07	0.25	0.14	1.75	1.50
Cash Ratio	0.02	0.05	0.01	0.01	0.00	-	0.00	0.01	0.42	0.17
Return on Assets	(0.04)	(0.14)	(0.15)	(0.16)	(0.23)	(0.29)	(0.33)	(0.32)	(0.43)	(0.46)
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*	325,000	2,030,000	750,000	573,000	199,000	650,000	904,000	716,000	563,000	563,000
Transfers treated as current subsidies in GDP estimates*	325,000	898,000	550,000	498,000	199,000	327,000	904,000	712,000	563,000	563,000
Value Added (Gross) before subsidy*	919,000	(27,000)	(383,000)	52,000	(709,000)	(178,000)	1,001,000	93,000	(1,119,000)	(1,609,000)
Power Generated (Ebeye) MW/HRS	n/a	14,999	14,006	16,183	11,338	16,744	15,698	14,633	14,200	14,550
Drinking Water Supplied (Ebeye) Million of Gallons	n/a	n/a	n/a	n/a	27	46	27	48	38	40
Number of Households connected to Salt Water	n/a	1,037	1,146	1,266	1,310	1,415	1,350	1,650	1,650	1,750
Number of Households connected to Fresh Water	n/a	n/a	1,245	1,275	1,326	1,470	1,480	1,532	n/a	n/a
Number of employees (average over year)	52	46	54	76	73	76	70	64	62	65
Revenue per employee	43,611	41,391	38,858	31,912	33,850	38,869	50,832	44,506	59,507	62,319
* As derived in FY2008 Economic Statistics Tables										
Additional note: FY04 capital assets, due to affiliates, and change in net assets restated in FY05										
" - " indicates zero, "n/a" not available										
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.										



Majuro Atoll Waste Corporation (MAWC), Inc.

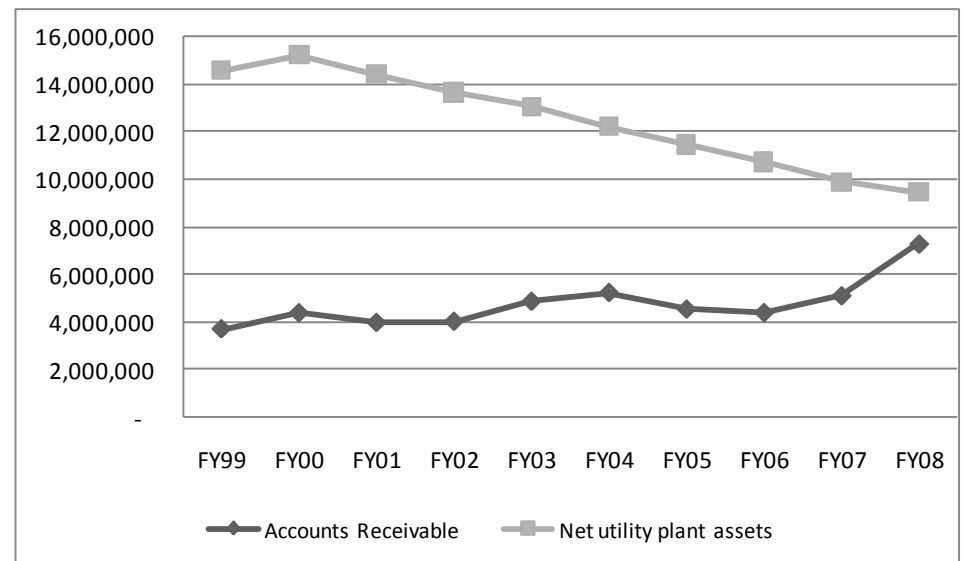
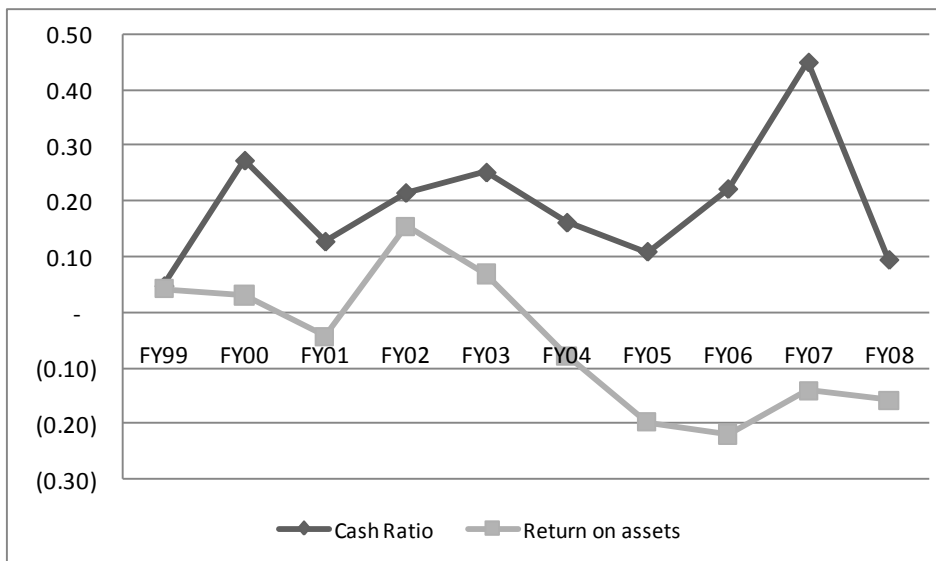
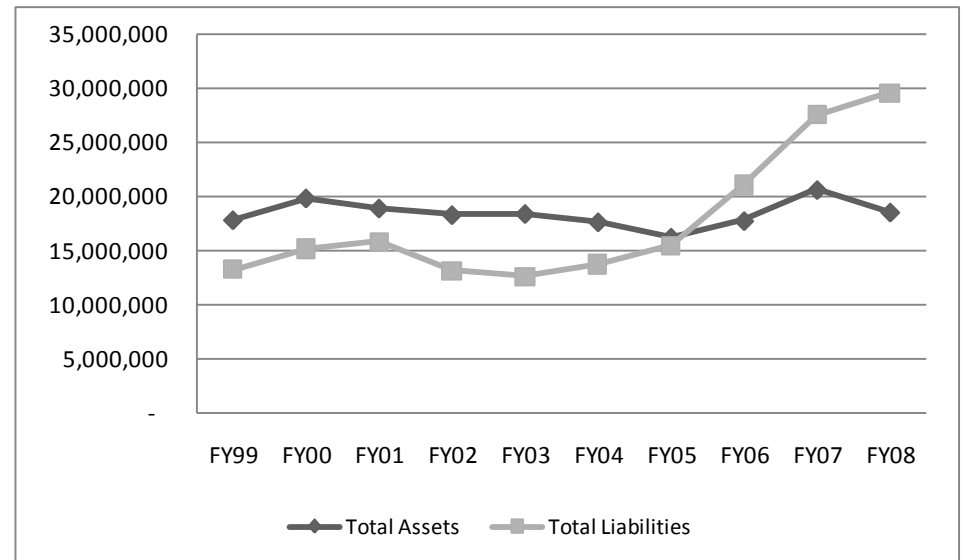
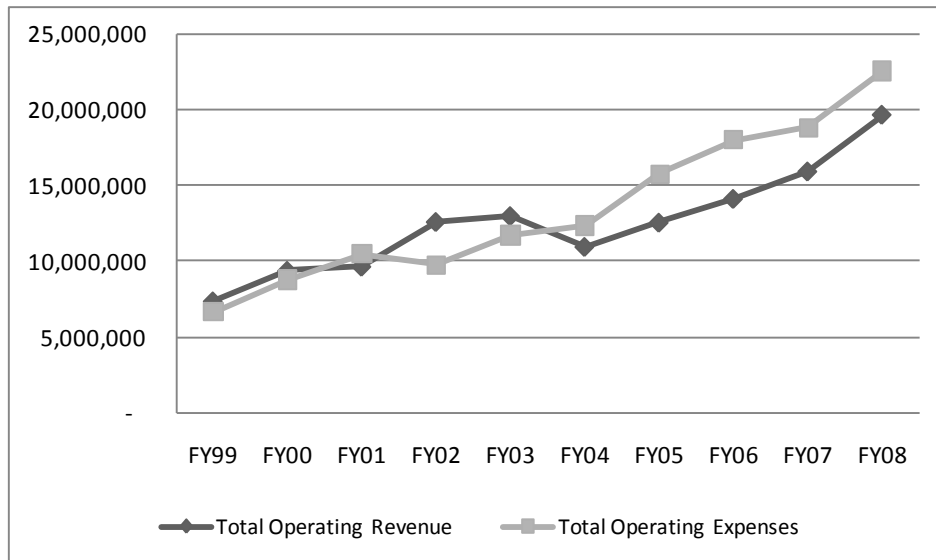
The Majuro Atoll Waste Corporation (MAWC) was chartered by Cabinet in 2006. MAWC's primary lines of business include solid waste collection and disposal on the atoll of Majuro, for government, commercial and residential clients. MAWC is governed by a five-member Board appointed by Cabinet.

Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue									417,241	n/a
Total Operating Expenses									401,026	n/a
Operating Income (loss)									16,215	n/a
Change in Net Assets									-	n/a
Total Assets									151,960	n/a
Total Current Assets									27,022	n/a
Cash (and cash equivalents)									24,120	n/a
Total Liabilities									10,807	n/a
Total Current Liabilities									10,807	n/a
Equity/Net Assets									141,153	n/a
Current Ratio									2.50	n/a
Cash Ratio									2.23	n/a
Return on Assets									0.11	n/a
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*									n/a	n/a
Transfers treated as current subsidies in GDP estimates*									n/a	n/a
Value Added (Gross) before subsidy*									n/a	n/a
Number of employees (average over year)									11	22
Revenue per employee									36,815	n/a
* As derived in FY2008 Economic Statistics Tables										
MAWC commenced operations in FY07										
" - " indicates zero, "n/a" not available										
Sources: MAWC management.										

Marshall's Energy Company (MEC), Inc.

From FY08 Audit: MEC was granted a corporate charter by the Cabinet of the RMI on February 2, 1984. MEC's principal lines of business are predominantly the generation and transmission of electricity and the buying and selling of petroleum products. Other line of business include the rental of equipment and accommodation facilities. The principal markets for the generation and transmission of electricity are government agencies, businesses and residential customers on Majuro, Jaluit and Wotje. Petroleum products are sold primarily to foreign and domestic fishing vessels.

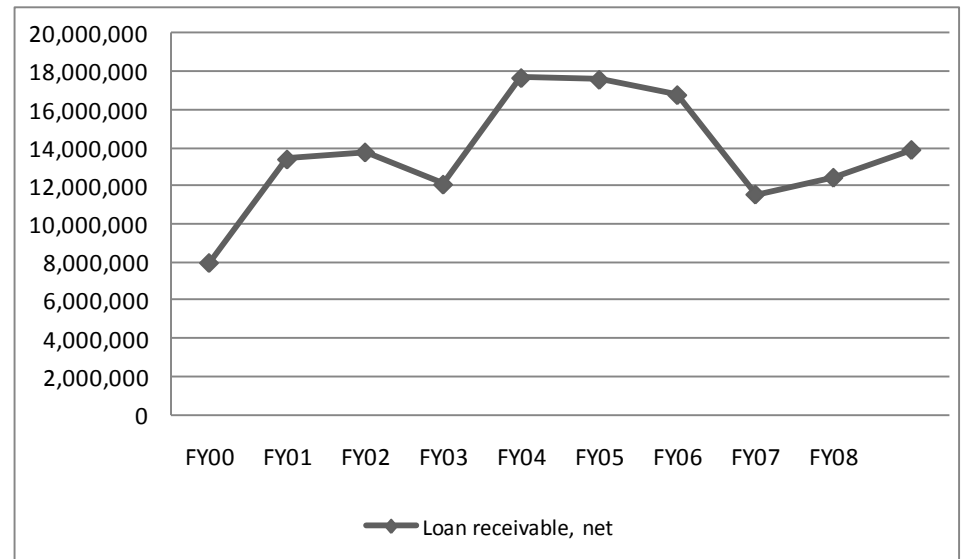
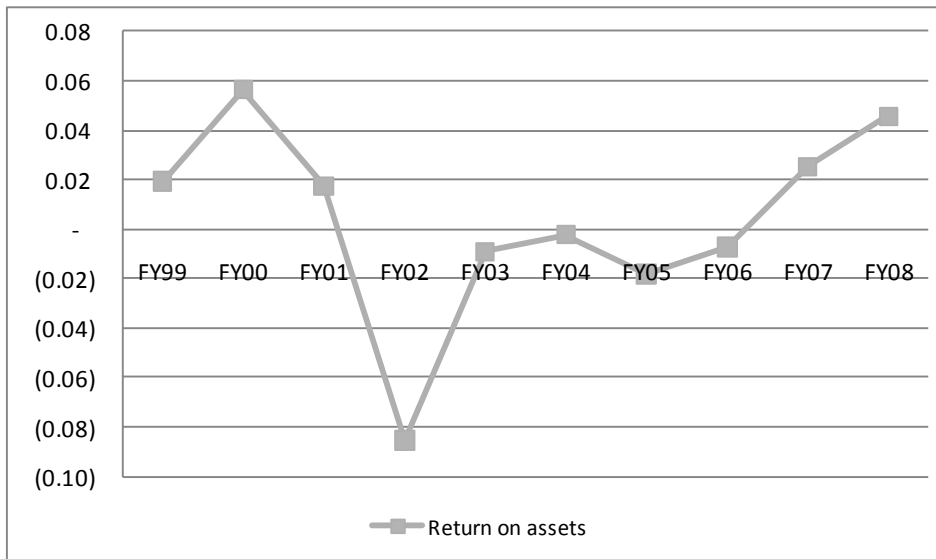
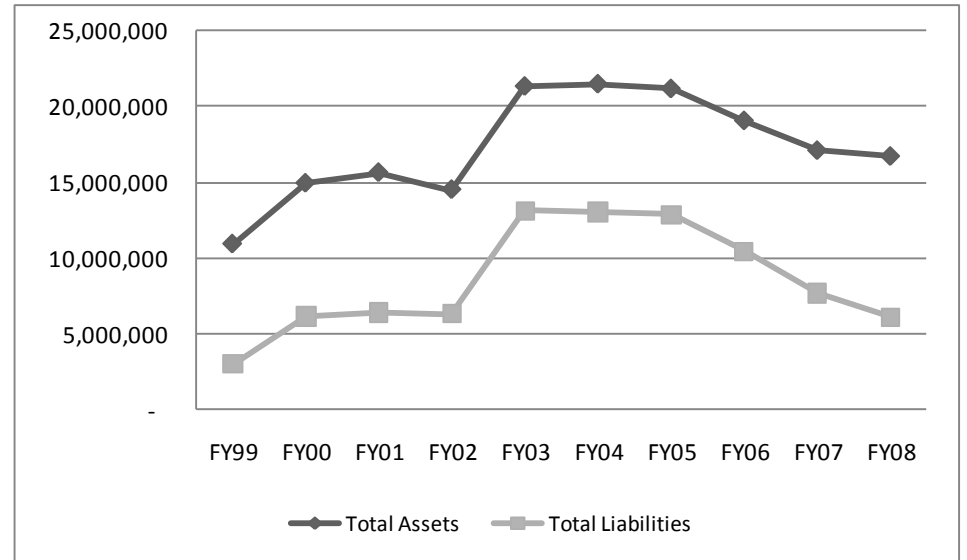
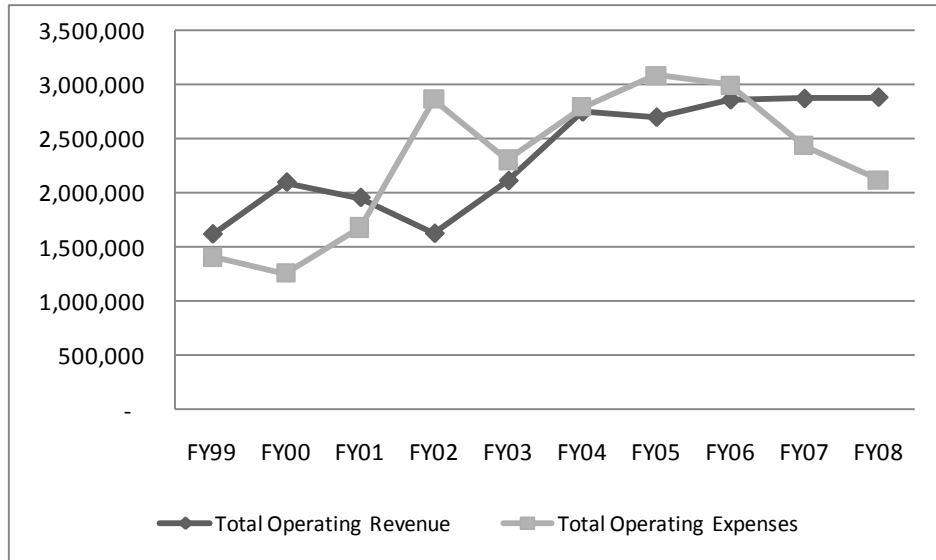
Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue	7,396,940	9,392,875	9,666,097	12,587,951	12,970,318	10,957,083	12,542,432	14,096,932	15,889,597	19,598,520
Total Operating Expenses	6,652,274	8,789,814	10,495,553	9,747,207	11,704,387	12,335,892	15,752,157	17,991,212	18,785,135	22,542,401
Operating Income (loss)	744,666	603,061	(829,456)	2,840,744	1,265,931	(1,378,809)	(3,209,725)	(3,894,280)	(2,895,538)	(2,943,881)
Change in Net Assets	744,666	74,514	(1,571,438)	2,076,094	596,588	(1,841,431)	(3,165,938)	(4,042,966)	(3,632,581)	(4,096,104)
Total Assets	17,848,378	19,850,107	18,921,468	18,313,588	18,417,048	17,656,381	16,246,513	17,761,375	20,615,125	18,552,666
Total Current Assets	3,216,296	4,566,452	4,469,084	4,593,253	5,300,473	5,379,672	4,719,675	6,796,585	10,689,710	9,073,480
Cash (and cash equivalents)	168,570	1,086,699	663,256	617,345	713,310	709,863	712,274	1,842,380	4,186,044	1,235,531
Total Liabilities	13,224,048	15,151,263	15,794,062	13,110,088	12,616,960	13,697,724	15,453,794	21,011,622	27,497,953	29,531,598
Total Current Liabilities	3,603,989	3,981,004	5,226,345	2,875,794	2,835,940	4,405,685	6,549,877	8,305,482	9,302,997	13,142,299
Equity/Net Assets	4,624,330	4,698,844	3,127,406	5,203,500	5,800,088	3,958,657	792,719	(3,250,247)	(6,882,828)	(10,978,932)
Current Ratio	0.89	1.15	0.86	1.60	1.87	1.22	0.72	0.82	1.15	0.69
Cash Ratio	0.05	0.27	0.13	0.21	0.25	0.16	0.11	0.22	0.45	0.09
Return on Assets	0.04	0.03	(0.04)	0.16	0.07	(0.08)	(0.20)	(0.22)	(0.14)	(0.16)
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*	-	-	-	1,867,000	1,867,000	205,000	400,000	1,470,000	874,000	356,000
Transfers treated as current subsidies in GDP estimates*	-	-	-	934,000	934,000	-	-	420,000	874,000	356,000
Value Added (Gross) before subsidy*	3,002,000	3,454,000	2,042,000	4,164,000	2,982,000	2,299,000	470,000	(146,000)	678,000	892,000
Net utility plant assets	14,554,502	15,217,592	14,397,839	13,641,708	13,047,044	12,205,134	11,463,248	10,714,888	9,873,875	9,438,041
Accounts Receivable	3,688,956	4,370,970	3,959,733	4,007,871	4,858,589	5,232,779	4,524,665	4,376,891	5,092,717	7,292,608
Days sales outstanding (electricity)	133	141	123	123	127	118	112	90	82	100
Ratio of Billed mWh to Gross mWh Generated	n/a	n/a	n/a	n/a	n/a	0.75	0.74	0.72	0.74	0.77
Fuel and lubricants expense as % of Net Operating Reven	0.33	0.39	0.54	0.33	0.39	0.56	0.73	0.83	0.73	0.79
Number of employees (average over year)	120	121	121	126	122	126	147	147	144	161
Revenue per employee	61,770	77,788	79,885	100,302	106,532	87,307	85,178	96,115	110,153	121,541
* As derived in FY2008 Economic Statistics Tables										
" - " indicates zero, "n/a" not available										
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.										



Marshall Islands Development Bank (MIDB), Inc.

From FY08 Audit: the MIDB, a component unit of the RMI, was incorporated under the laws of RepMar as a non-stock corporation pursuant to the Public Law 1988-1. MIDB was established to promote the development and expansion of the economy of the Marshall Islands in order to improve the standard of living of the people and is governed by a seven member Board of Directors appointed by the Cabinet. Its primary activities have been designed to strengthen the nation's economic base, increase employment and production, improve the standards of housing, promote exports, and reduce the country's dependence on imports and foreign aid through the approval of viable development loans. MIDB has received funds under Section 211 of the Compact, direct Rural Housing and Community Development Service Housing Preservation and Self-Help Housing Program Grants.

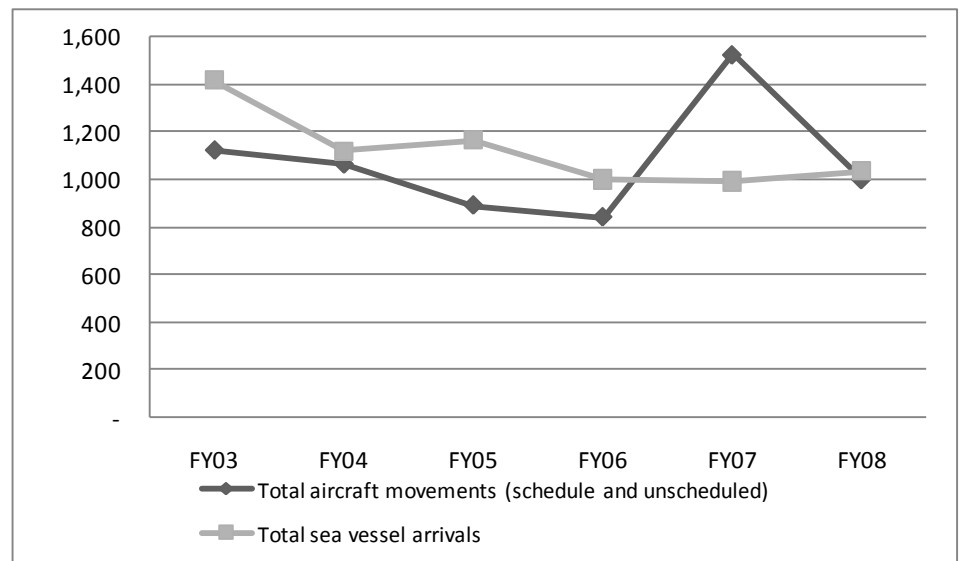
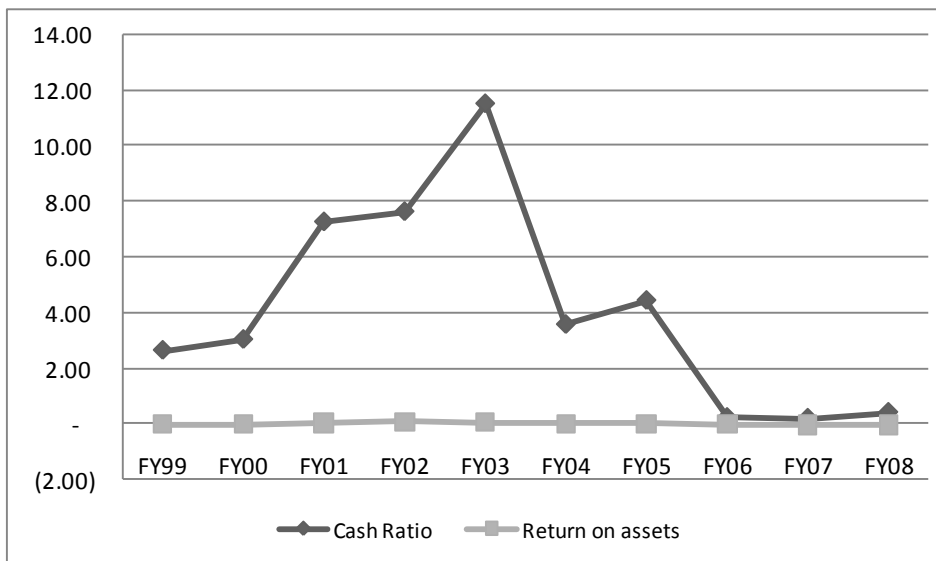
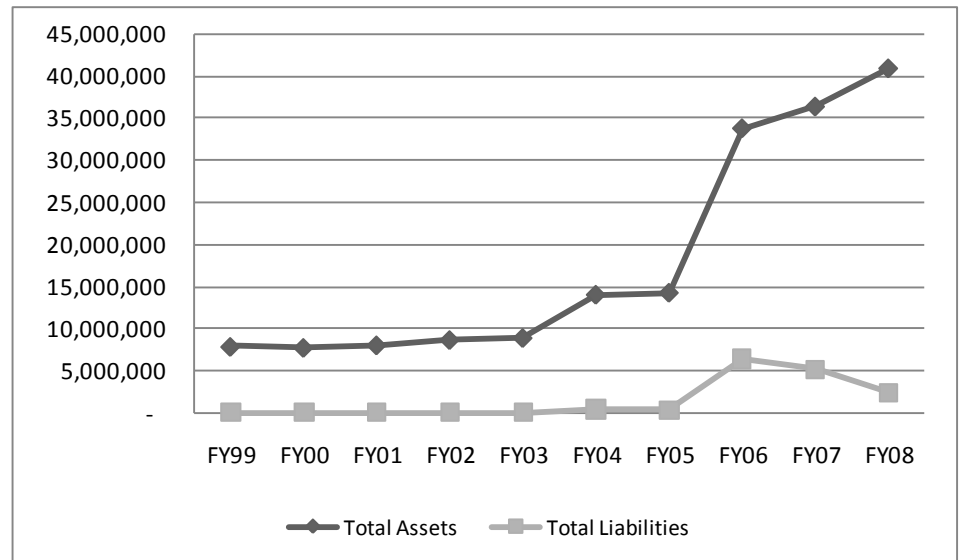
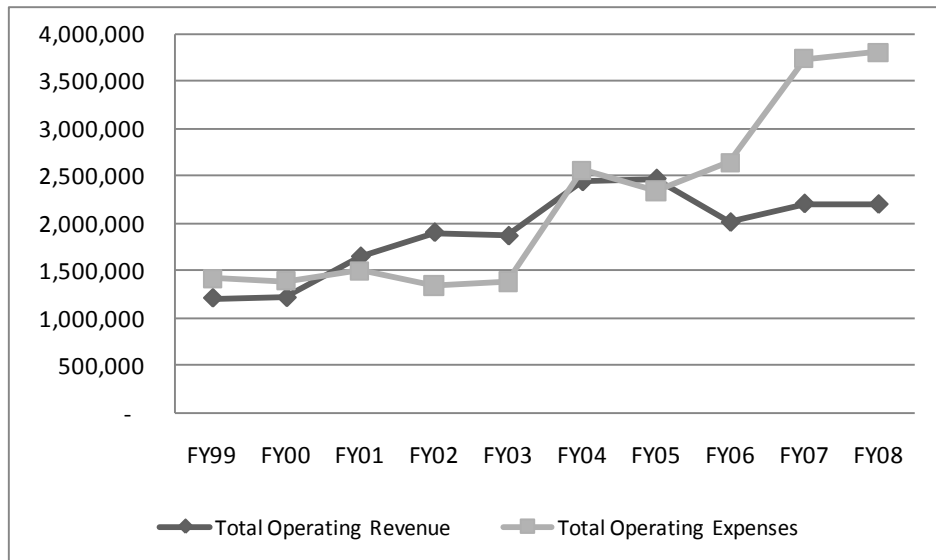
Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue	1,620,200	2,099,749	1,957,882	1,625,708	2,114,164	2,749,192	2,701,030	2,861,582	2,873,953	2,885,887
Total Operating Expenses	1,410,340	1,259,591	1,683,637	2,866,822	2,306,701	2,796,205	3,088,184	2,998,908	2,440,629	2,123,485
Operating Income (loss)	209,860	840,158	274,245	(1,241,114)	(192,537)	(47,013)	(387,154)	(137,326)	433,324	762,402
Change in Net Assets	205,743	851,991	437,698	(1,038,511)	23,606	228,139	(157,900)	329,240	818,128	1,164,244
Total Assets	10,911,913	14,922,328	15,622,758	14,500,361	21,308,130	21,458,223	21,144,268	19,036,521	17,072,066	16,686,690
Total Current Assets	not applicable									
Cash (and cash equivalents)	1,555,709	440,351	103,567	122,056	13,373	258,165	47,173	2,385,783	31,468	33,995
Total Liabilities	3,000,981	6,159,405	6,422,137	6,338,251	13,122,414	13,044,368	12,888,313	10,451,326	7,668,743	6,119,123
Total Current Liabilities	not applicable									
Equity/Net Assets	7,910,932	8,762,923	9,200,621	8,162,110	8,185,716	8,413,855	8,255,955	8,585,195	9,403,323	10,567,567
Current Ratio	not applicable									
Cash Ratio	not applicable									
Return on Assets	0.02	0.06	0.02	(0.09)	(0.01)	(0.00)	(0.02)	(0.01)	0.03	0.05
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*	-	50,000	970,000	995,000	165,000	207,000	194,000	347,000	249,000	-
Transfers treated as current subsidies in GDP estimates*	-	-	-	-	-	-	-	-	-	-
Value Added (Gross) before subsidy*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan receivable, net	7,973,483	13,398,437	13,769,364	12,080,923	17,664,057	17,572,373	16,770,507	11,560,653	12,443,232	13,898,260
Number of employees (average over year)	23	23	22	31	30	31	46	50	55	51
Revenue per employee	72,009	93,322	88,995	53,302	70,472	90,137	58,401	57,519	52,017	56,865
* As derived in FY2008 Economic Statistics Tables										
FY01 accrued interest payable restated in FY02										
" - " indicates zero, "n/a" not available										
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.										



Marshall Islands Ports Authority (MIPA), Inc.

From FY08 Audit: the RMIPA was created under Public Law 2003-81. This legislation repealed Public Laws 1999-86 and 1999-88 and integrated the Marshall Islands Airport Authority with the Marshall Islands Ports Authority into a single Ports Authority, effective June 4, 2004. The Authority's principal line of business is the operation and maintenance of commercial port facilities in the Marshall Islands. Services are currently provided to passengers and carriers, both commercial and private, arriving and departing at the Amata Kabua International Airport and all vessels arriving at port facilities in Majuro.

Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue	1,206,944	1,211,579	1,647,678	1,903,812	1,866,571	2,442,098	2,474,339	2,011,038	2,209,562	2,202,898
Total Operating Expenses	1,421,000	1,394,503	1,496,558	1,345,136	1,381,966	2,560,058	2,345,255	2,643,765	3,734,123	3,807,119
Operating Income (loss)	(214,056)	(182,924)	151,120	558,676	484,605	(117,960)	129,084	(632,727)	(1,524,561)	(1,604,221)
Change in Net Assets	(175,289)	(103,162)	293,342	600,437	248,753	98,489	293,306	13,455,264	3,759,159	7,268,984
Total Assets	7,893,410	7,775,398	8,079,893	8,704,199	8,944,788	14,075,307	14,307,412	33,788,754	36,359,774	40,884,761
Total Current Assets	789,528	1,105,393	1,659,935	2,453,987	2,580,127	3,287,840	3,701,736	8,809,499	6,433,454	4,290,171
Cash (and cash equivalents)	162,766	142,065	421,763	624,835	849,374	1,342,043	1,515,732	1,376,536	919,394	959,565
Total Liabilities	61,881	47,031	58,184	82,053	73,889	403,925	342,724	6,368,802	5,180,663	2,436,666
Total Current Liabilities	61,881	47,031	58,184	82,053	73,889	377,197	342,724	6,368,802	4,866,151	2,396,066
Equity/Net Assets	7,831,529	7,728,367	8,021,709	8,622,146	8,870,899	13,671,382	13,964,688	27,419,952	31,179,111	38,448,095
Current Ratio	12.76	23.50	28.53	29.91	34.92	8.72	10.80	1.38	1.32	1.79
Cash Ratio	2.63	3.02	7.25	7.62	11.50	3.56	4.42	0.22	0.19	0.40
Return on Assets	(0.03)	(0.02)	0.02	0.06	0.05	(0.01)	0.01	(0.02)	(0.04)	(0.04)
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*	-	50,000	89,000	-	-	-	99,000	-	-	-
Transfers treated as current subsidies in GDP estimates*	-	50,000	-	-	-	-	99,000	-	-	-
Value Added (Gross) before subsidy*	811,000	1,910,000	1,772,000	2,319,000	2,252,000	1,956,000	1,947,000	1,395,000	1,362,000	1,229,000
Annual Land Fee		266,799	192,986	290,705	352,032	339,747	383,740	347,028	312,720	295,797
Annual Port Fee	n/a	n/a	n/a	189,833	293,122	193,130	167,532	126,637	109,352	106,602
Twenty-Foot-Equivalent containers inbound Majuro	n/a	n/a	3,555	n/a	n/a	n/a	n/a	2,851	n/a	n/a
Total sea vessel arrivals	n/a	n/a	n/a	1,208	1,415	1,118	1,164	998	990	1,033
Total aircraft arrivals	n/a	n/a	n/a	n/a	1,121	1,062	889	839	1,523	996
Total international airline passenger embarkations	9,436	10,182	10,909	10,442	10,503	9,948	10,436	9,739	10,344	10,740
Total international airline passenger disembarkations	8,776	8,893	9,392	9,548	10,084	9,406	9,396	8,855	9,878	9,517
Number of employees (average over year)	15	25	30	43	42	43	54	54	56	58
Revenue per employee	80,463	49,452	55,384	44,796	44,442	57,461	46,034	37,415	39,633	37,818
* As derived in FY2008 Economic Statistics Tables, Transfers data from FY00 to FY04 include MIAA										
In FY04 MI Airports Authority and Ports Authority merged, \$4,701,944 in MIAA FY03 year end net assets added to MIPA balance sheet										
" - " indicates zero, "n/a" not available										
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.										



Marshall Islands Shipping Corporation (MISC), Inc.

From FY08 Audit: the Marshall Islands Shipping Corporation (MISC), a component of the RMI, was created by Public Law 2005-41, the Marshall Islands Shipping Act, 2004. MISC was established to manage and operate RMI's shipping vessels. MISC's line of business is to provide sea transportation; to carry on business as ship owners; and to build and maintain ships and vessels. MISC is governed by a five member Board of Directors.

Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue									1,031,735	2,369,740
Total Operating Expenses									1,960,011	2,316,138
Operating Income (loss)									(928,276)	53,602
Change in Net Assets									539,190	n/a
Total Assets									801,068	n/a
Total Current Assets									637,238	n/a
Cash (and cash equivalents)									236,498	n/a
Total Liabilities									261,878	n/a
Total Current Liabilities									261,878	n/a
Equity/Net Assets									n/a	n/a
Current Ratio									2.43	n/a
Cash Ratio									0.90	n/a
Return on Assets									(1.16)	n/a
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*									920,000	1,056,000
Transfers treated as current subsidies in GDP estimates*									920,000	1,056,000
Value Added (Gross) before subsidy*									(254,000)	12,000
Number of employees (average over year)									51	87
Revenue per employee									20,363	27,396
* As derived in FY2008 Economic Statistics Tables										
FY07 first year of available financial data										
" - " indicates zero, "n/a" not available										
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.										

Majuro Resort, Inc. (MRI)

From FY08 Audit: a component unit of the RepMar, MRI was formed on November 8, 1995 as a corporation. The primary business of the MRI is the operation of a 150-room hotel on the atoll of Majuro in the RMI.

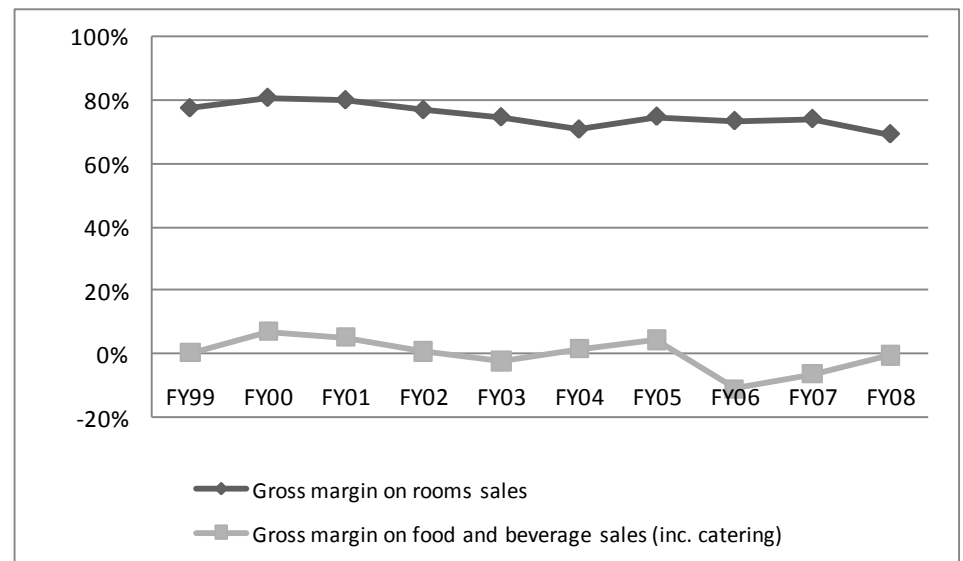
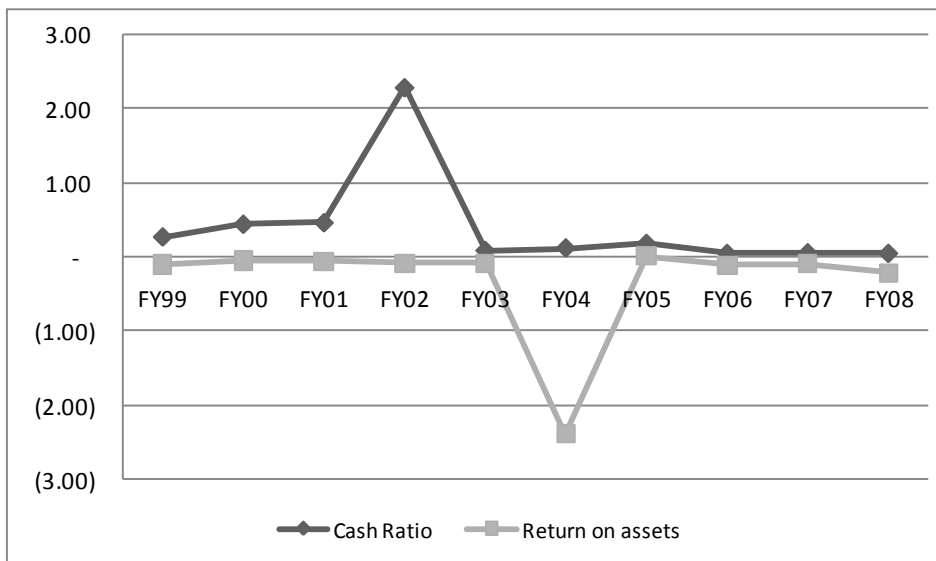
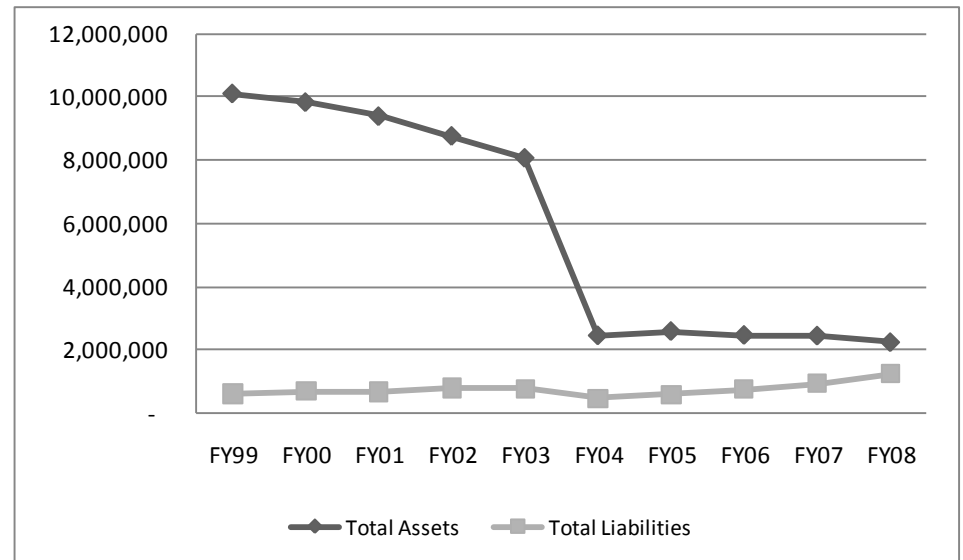
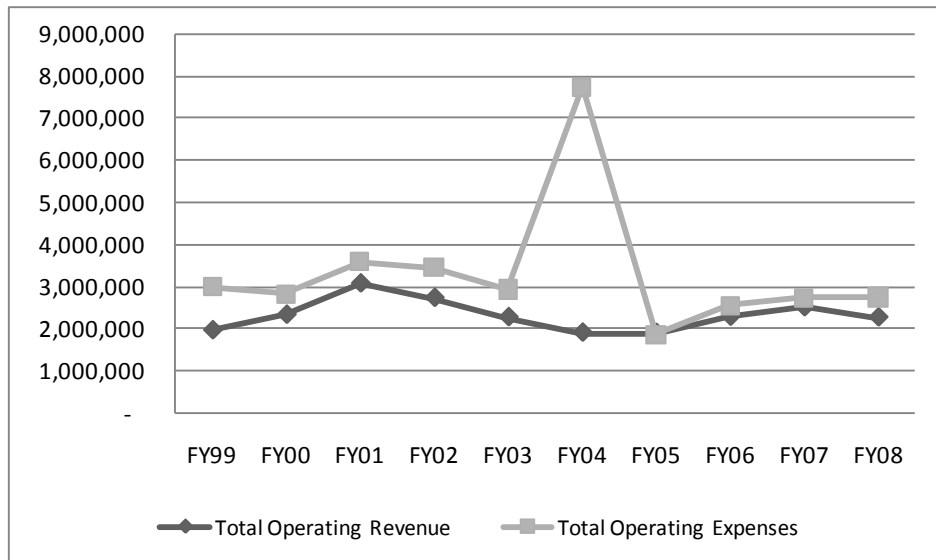
Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue	1,951,280	2,320,545	3,064,137	2,721,288	2,262,596	1,895,375	1,885,119	2,272,971	2,497,750	2,258,407
Total Operating Expenses	2,990,889	2,830,436	3,593,319	3,448,715	2,938,484	7,738,542	1,860,503	2,554,082	2,737,743	2,746,696
Operating Income (loss)	(1,039,609)	(509,891)	(529,182)	(727,427)	(675,888)	(5,843,167)	24,616	(281,111)	(239,993)	(488,289)
Change in Net Assets	(577,011)	(345,973)	(419,137)	(759,072)	(672,088)	(5,323,115)	16,811	(289,342)	(194,517)	(520,850)
Total Assets	10,105,939	9,830,955	9,386,613	8,761,910	8,066,135	2,444,570	2,581,341	2,458,677	2,436,835	2,229,009
Total Current Assets	453,055	597,785	697,173	497,798	229,859	248,695	379,260	365,390	447,177	402,088
Cash (and cash equivalents)	163,377	256,133	274,407	174,563	64,844	53,428	103,091	33,008	48,104	55,147
Total Liabilities	611,251	682,240	657,035	791,404	767,717	469,267	589,227	755,905	928,580	1,241,604
Total Current Liabilities	611,251	583,192	597,130	76,275	767,717	451,316	575,918	755,905	928,580	1,241,604
Equity/Net Assets	9,494,688	9,148,715	8,729,578	7,970,506	7,298,418	1,975,303	1,992,114	1,702,772	1,508,255	987,405
Current Ratio	0.74	1.03	1.17	6.53	0.30	0.55	0.66	0.48	0.48	0.32
Cash Ratio	0.27	0.44	0.46	2.29	0.08	0.12	0.18	0.04	0.05	0.04
Return on Assets	(0.10)	(0.05)	(0.06)	(0.08)	(0.08)	(2.39)	0.01	(0.11)	(0.10)	(0.22)
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*	462,000	100,000	186,000	-	-	545,000	-	-	-	-
Transfers treated as current subsidies in GDP estimates*	462,000	100,000	11,000	-	-	545,000	-	-	-	-
Value Added (Gross) before subsidy*	700,000	883,000	2,547,000	739,000	701,000	653,000	913,000	983,000	1,098,000	797,000
Total visitors (by air, calendar year)	4,622	5,246	5,444	6,002	7,195	7,022	7,496	5,659	6,959	6,022
Percent of paid occupancy	n/a	34%	41%	42%	36%	29%	38%	33%	46%	45%
Average room rate (\$ per night)	n/a	65	65	64	71	70	68	75	62	61
Net book value of property, plant and equipment	9,652,844	9,233,170	8,689,440	8,264,112	7,836,276	2,195,875	2,202,081	2,093,287	1,989,658	1,826,921
Gross margin on rooms sales	77%	81%	80%	77%	74%	71%	75%	73%	74%	69%
Gross margin on food and beverage sales (inc. catering)	0%	7%	5%	1%	-2%	2%	4%	-11%	-6%	-1%
Number of employees (average over year)	86	87	88	103	106	103	89	101	106	101
Revenue per employee	22,778	26,673	34,820	26,549	21,446	18,491	21,122	22,561	23,675	22,305

* As derived in FY2008 Economic Statistics Tables

Net book value of property decreased significantly in FY04 as a result of a write down based on an appraisal conducted in October 2004.

" - " indicates zero, "n/a" not available

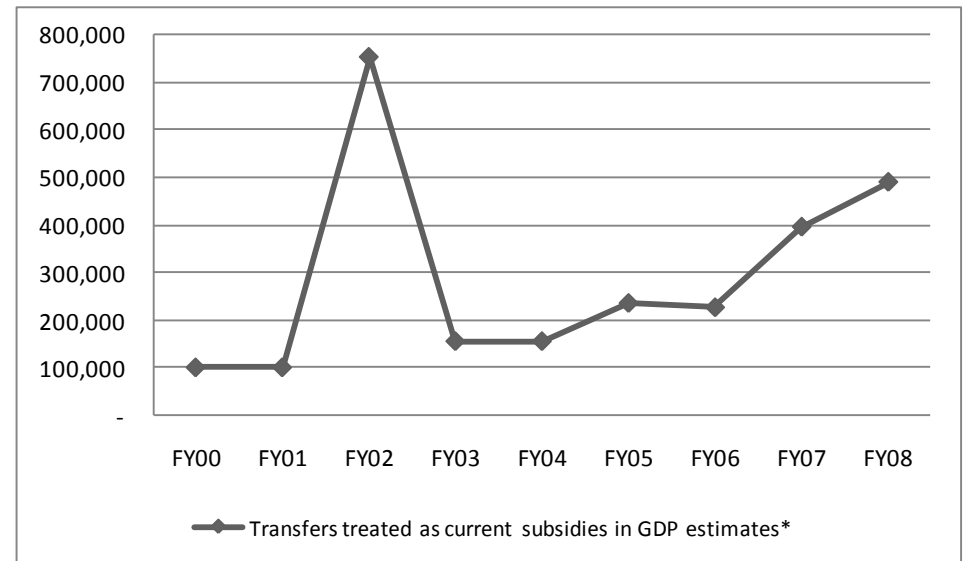
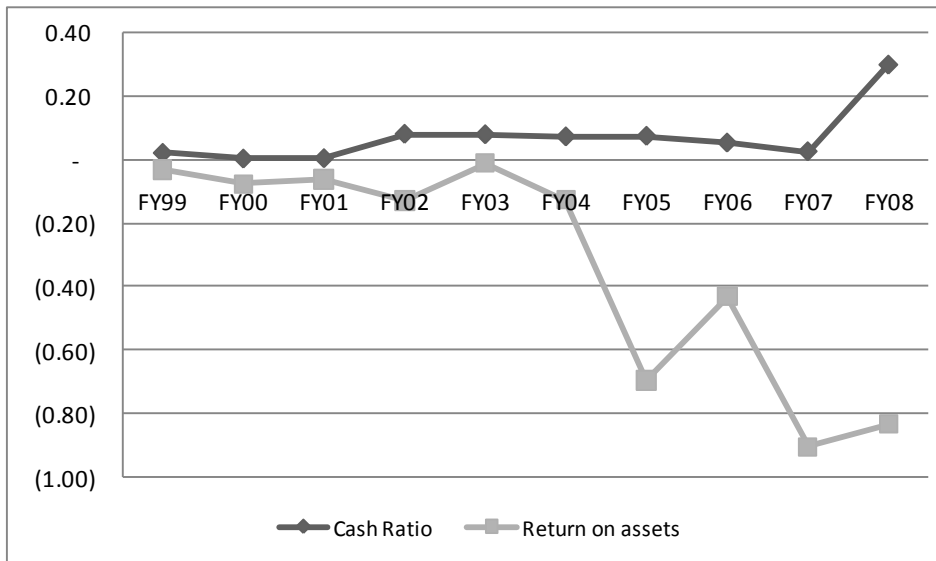
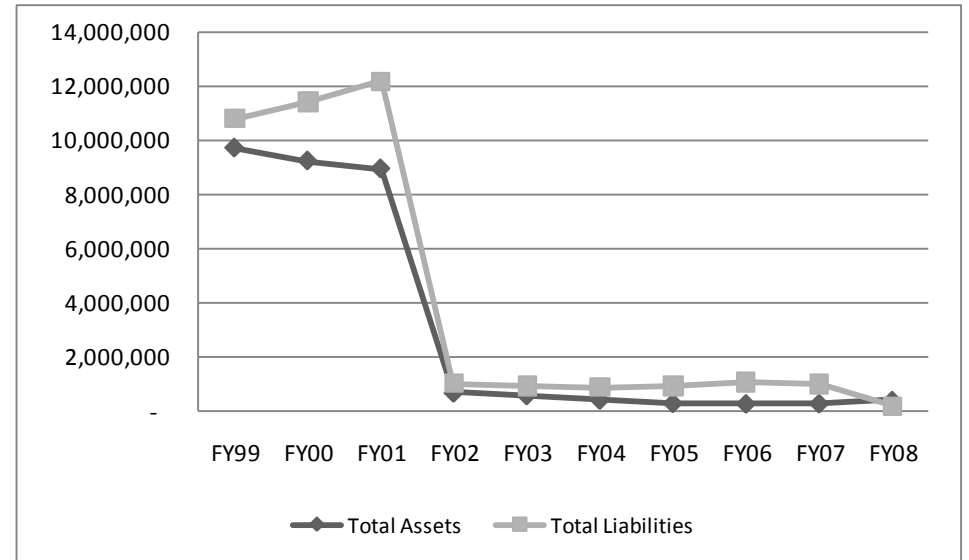
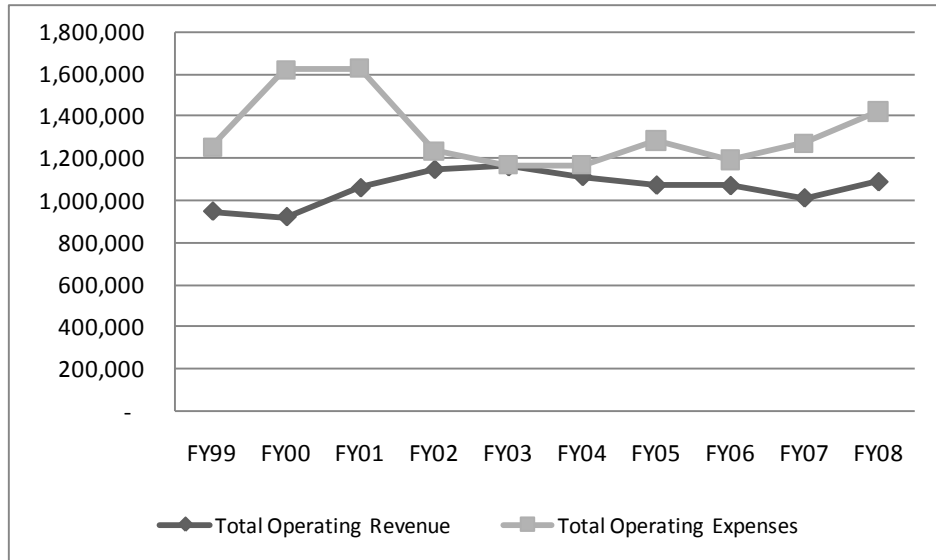
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.



Majuro Water and Sewer Company (MWSC), Inc.

From FY08 Audit: MWSC was granted a corporate charter by the Cabinet on January 26, 1989. Principal lines of business are predominantly the collection and distribution of fresh water and wastewater on Majuro Atoll to government, businesses and residential customers.

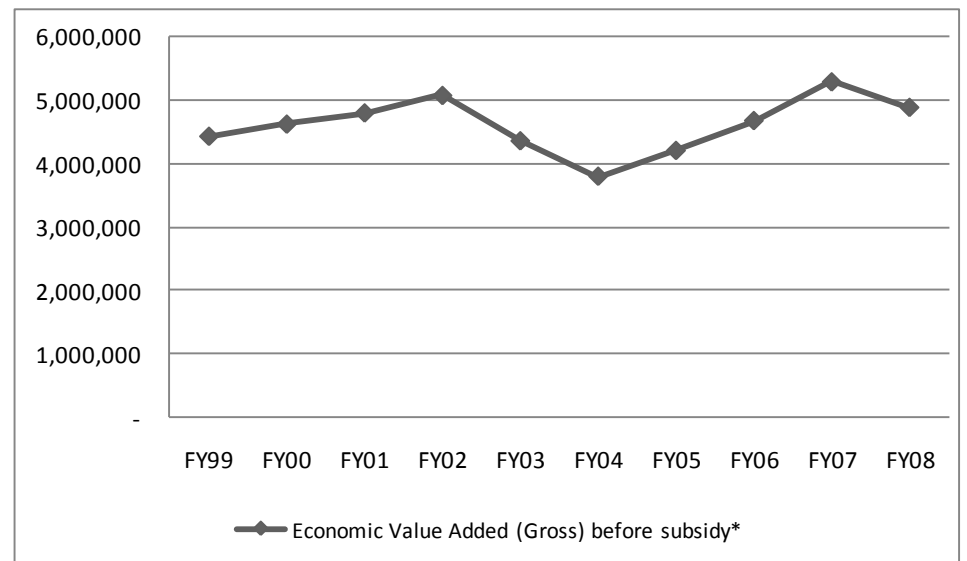
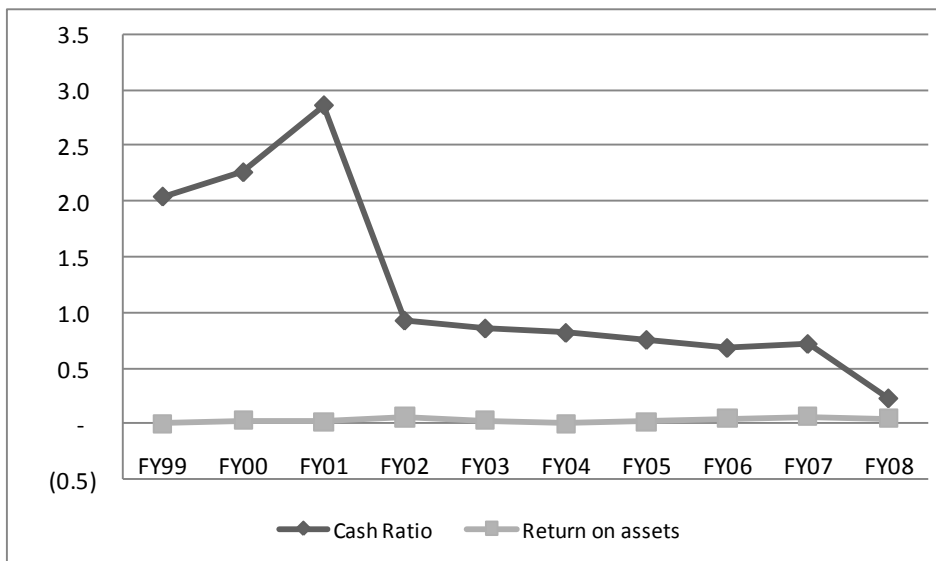
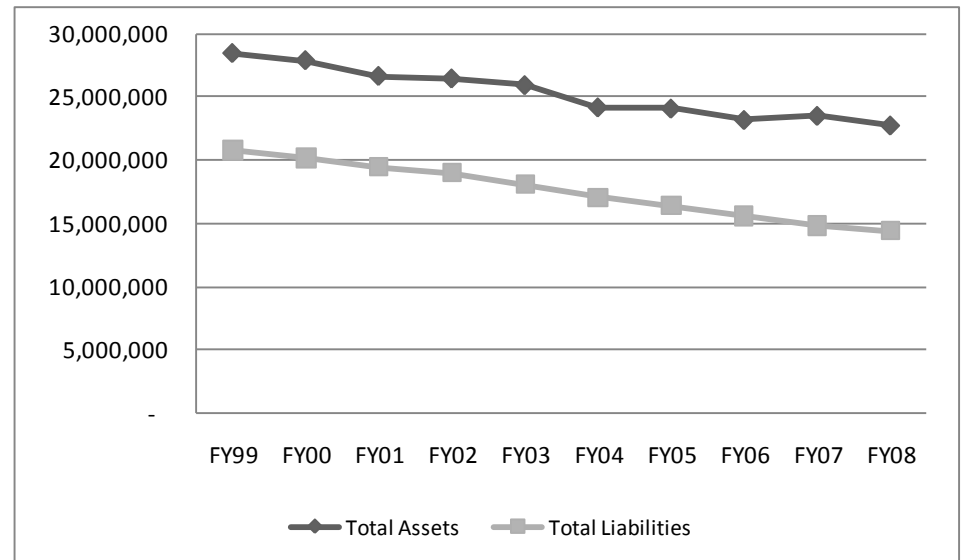
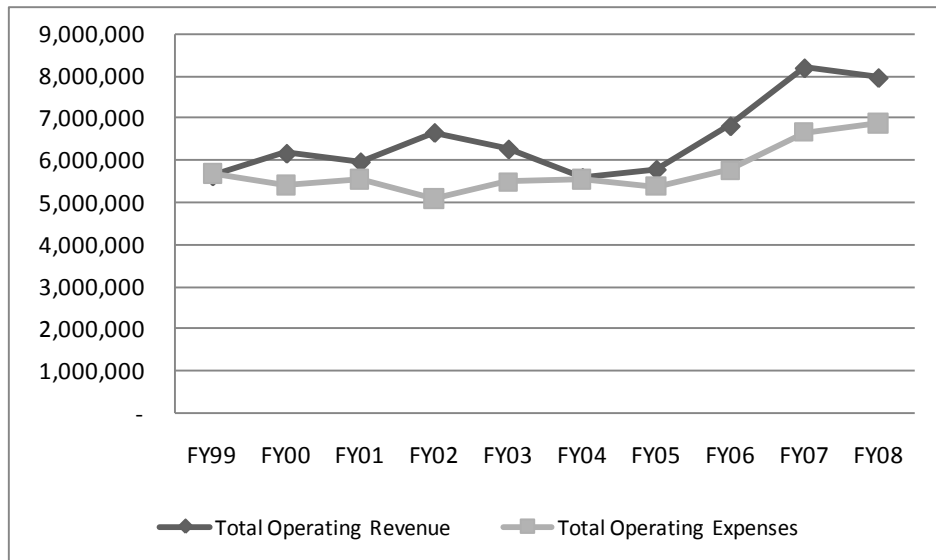
Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue	946,135	919,581	1,059,032	1,147,585	1,160,596	1,113,556	1,071,747	1,069,323	1,010,135	1,088,043
Total Operating Expenses	1,254,041	1,620,882	1,624,780	1,235,944	1,167,262	1,168,098	1,283,449	1,191,047	1,272,521	1,422,261
Operating Income (loss)	(307,906)	(701,301)	(565,748)	(88,359)	(6,666)	(54,542)	(211,702)	(121,724)	(262,386)	(334,218)
Change in Net Assets	(354,848)	(1,099,190)	(1,053,204)	2,900,808	(1,720)	(115,175)	(174,370)	(163,430)	87,018	916,039
Total Assets	9,701,016	9,227,045	8,936,821	686,259	592,885	425,424	304,496	281,730	290,251	401,423
Total Current Assets	309,113	383,739	490,433	638,521	499,936	329,444	228,261	228,294	258,927	356,543
Cash (and cash equivalents)	69,805	27,215	42,977	81,221	43,971	49,141	16,776	56,011	24,999	55,272
Total Liabilities	10,783,461	11,408,680	12,171,660	1,020,290	928,636	876,350	929,792	1,070,456	991,959	187,092
Total Current Liabilities	3,463,879	11,408,680	12,171,660	1,020,290	561,923	686,220	228,621	1,070,456	991,959	187,092
Equity/Net Assets	(1,082,445)	(2,181,635)	(3,234,839)	(334,031)	(335,751)	(450,926)	(625,296)	(788,726)	(701,708)	214,331
Current Ratio	0.09	0.03	0.04	0.63	0.89	0.48	1.00	0.21	0.26	1.91
Cash Ratio	0.02	0.00	0.00	0.08	0.08	0.07	0.07	0.05	0.03	0.30
Return on Assets	(0.03)	(0.08)	(0.06)	(0.13)	(0.01)	(0.13)	(0.70)	(0.43)	(0.90)	(0.83)
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*	-	100,000	100,000	1,465,000	49,000	75,000	75,000	75,000	349,000	1,258,000
Transfers treated as current subsidies in GDP estimates*	-	100,000	100,000	751,000	155,000	155,000	235,000	226,000	395,000	489,000
Value Added (Gross) before subsidy*	630,000	425,000	536,000	699,000	775,000	697,000	560,000	646,000	496,000	413,000
Number of Household connected to Fresh Water	2,818	3,098	3,016	3,064	3,130	3,195	3,219	3,241	n/a	n/a
Number of Household connected to Salt Water (Ben)	1,363	1,555	1,676	1,799	1,871	1,928	2,016	2,072	2,044	2,107
Drinking Water Supplied (Majuro) Million of Gallons	184	201	229	196	233	201	341	239	312	385
Number of employees (average over year)	49	52	56	59	59	59	58	57	56	52
Revenue per employee	19,408	17,770	19,082	19,533	19,839	18,954	18,478	18,843	18,119	20,924
* As derived in FY2008 Economic Statistics Tables										
FY00 adjustments made in FY01, FY00 figures subsequently restated										
" - " indicates zero, "n/a" not available										
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.										



National Telecommunication Authority (NTA), Inc.

From FY08 Audit: NTA was created under Public Law 1987-15, which was subsequently repealed and replaced by Public Law 1990-105. Line of work is to provide communication services to the people of the Marshall Islands.

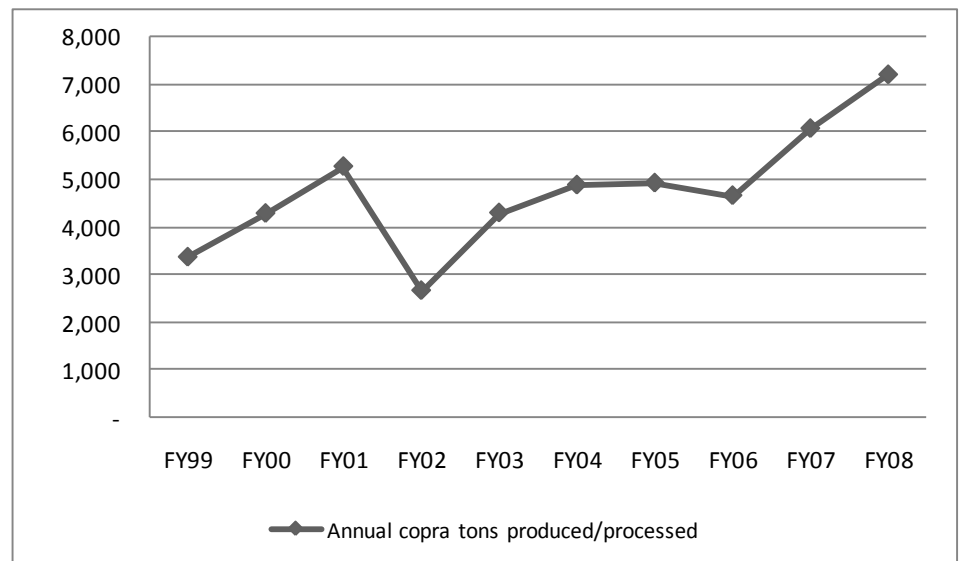
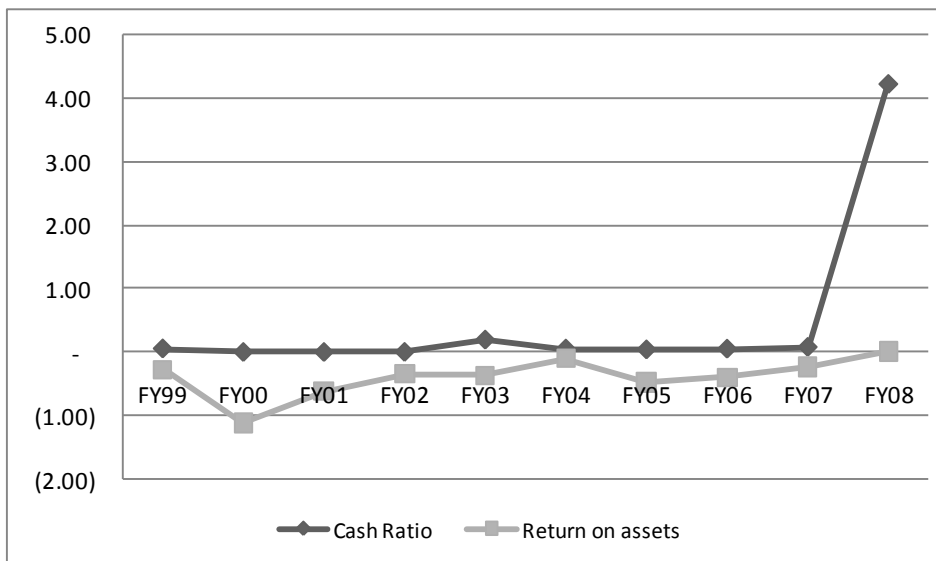
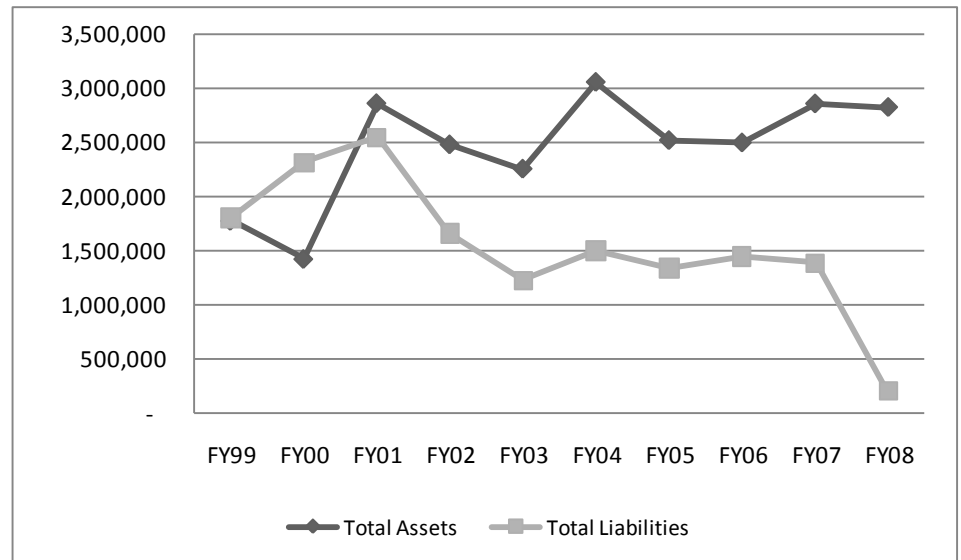
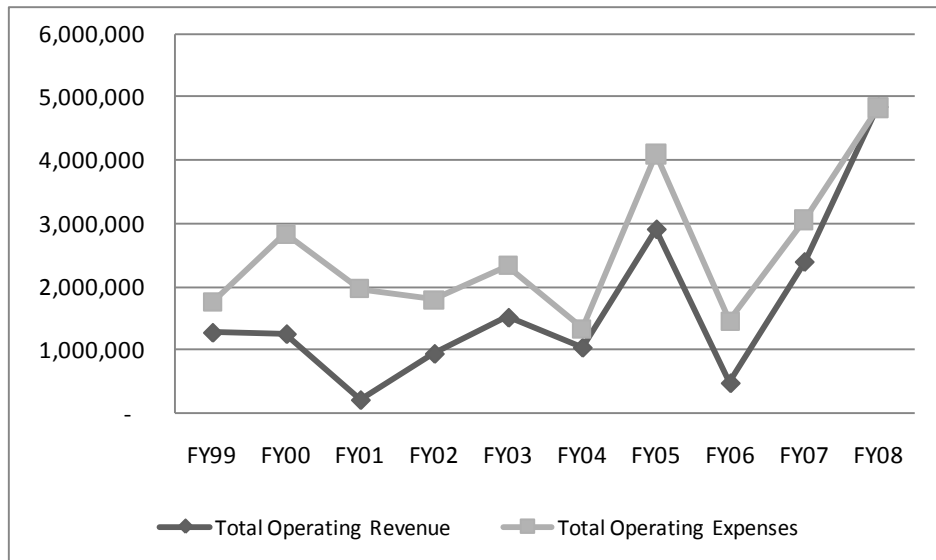
Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue	5,627,941	6,167,175	5,965,372	6,661,244	6,268,626	5,594,266	5,785,596	6,818,179	8,196,395	7,964,259
Total Operating Expenses	5,683,916	5,415,991	5,544,682	5,086,789	5,484,232	5,541,889	5,384,728	5,762,652	6,668,106	6,876,476
Operating Income (loss)	(55,975)	751,184	420,690	1,574,455	784,394	52,377	400,868	1,055,527	1,528,289	1,087,783
Change in Net Assets	(809,181)	72,498	(504,162)	255,956	384,553	(713,501)	569,016	(58,424)	1,043,749	(311,572)
Total Assets	28,427,112	27,869,495	26,641,341	26,445,252	25,922,039	24,189,374	24,093,210	23,206,946	23,527,018	22,777,906
Total Current Assets	7,968,575	6,767,958	6,981,656	7,636,783	6,576,041	5,844,945	6,318,987	5,623,213	6,457,620	4,645,676
Cash (and cash equivalents)	3,559,132	3,720,941	4,401,095	1,570,771	1,529,158	1,208,795	1,174,925	1,023,469	1,146,743	471,303
Total Liabilities	20,787,222	20,157,107	19,433,115	18,981,070	18,073,304	17,054,140	16,388,960	15,561,120	14,837,443	14,399,903
Total Current Liabilities	1,740,478	1,644,384	1,536,689	1,686,396	1,776,159	1,471,729	1,549,885	1,492,628	1,588,280	2,011,460
Equity/Net Assets	7,639,890	7,712,388	7,208,226	7,464,182	7,848,735	7,135,234	7,704,250	7,645,826	8,689,575	8,378,003
Current Ratio	4.58	4.12	4.54	4.53	3.70	3.97	4.08	3.77	4.07	2.31
Cash Ratio	2.0	2.3	2.9	0.9	0.9	0.8	0.8	0.7	0.7	0.2
Return on Assets	(0.00)	0.03	0.02	0.06	0.03	0.00	0.02	0.05	0.06	0.05
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*	-	-	-	-	-	-	-	-	-	-
Transfers treated as current subsidies in GDP estimates*	-	-	-	-	-	-	-	-	-	-
Value Added (Gross) before subsidy*	4,421,000	4,615,000	4,794,000	5,073,000	4,349,000	3,783,000	4,195,000	4,672,000	5,290,000	4,883,000
Number of Internet Accounts	342	409	472	674	695	877	807	712	n/a	n/a
Number of Mobile Phone Users	452	486	528	574	598	1,198	911	4,534	n/a	n/a
Number of Landline Phone Users	3,463	3,566	3,710	3,861	3,863	5,510	5,804	3,636	n/a	n/a
Total Operating Revenue (sources):	5,627,941	6,167,175	5,965,372	6,661,244	6,268,626	5,594,266	5,785,596	6,818,179	8,196,395	7,964,259
Long distance network services	4,305,489	4,394,606	4,024,035	4,287,232	3,621,005	2,815,099	2,808,949	3,182,944	3,247,037	3,347,768
Local network services	1,307,157	1,415,208	1,707,041	1,331,488	1,428,646	1,540,232	1,536,677	1,782,880	2,253,733	2,493,577
Prepaid card revenue	n/a	n/a	n/a	287,835	252,552	380,795	487,488	523,833	1,191,405	1,122,772
Internet services	n/a	n/a	n/a	868,789	1,077,328	1,155,728	1,263,264	1,124,714	1,157,831	757,641
Miscellaneous	383,640	671,445	800,290	-	17,639	42,889	19,627	15,527	35,465	17,384
Nonregulated revenue	n/a	n/a	n/a	54,561	21,456	15,979	17,782	193,919	288,185	139,406
Uncollectible	(368,345)	(314,084)	(565,994)	(168,661)	(150,000)	(356,456)	(348,191)	(5,638)	22,739	85,711
Number of employees (average over year)	113	108	104	114	112	114	150	155	152	160
Revenue per employee	49,915	57,103	57,359	58,689	55,970	49,289	38,635	43,988	54,102	49,933
* As derived in FY2008 Economic Statistics Tables										
" - " indicates zero, "n/a" not available										
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.										



Tobolar Copra Processing Plant (TOBOLAR), Inc.

From FY08 Audit: Tobolar was granted a corporate charter on August 13, 1977, under the laws of the Trust Territory of the Pacific Islands as subsequently adopted by the RMI. Primary purpose of establishment is to engage in the production and processing of copra products on Majuro Atoll. Principal lines of business are copra oil, copra cake and soap products. The principal market for sales is based on the world market price at the time of sale. Soap products are sold primarily to customers in the RMI. Raw copra is purchased at a price set by the Board of Directors.

Selected Financial Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Operating Revenue	1,274,303	1,252,551	208,822	940,133	1,511,893	1,036,776	2,909,976	475,917	2,393,911	4,845,932
Total Operating Expenses	1,753,625	2,835,755	1,959,741	1,792,270	2,329,445	1,333,140	4,094,570	1,456,825	3,057,605	4,825,435
Operating Income (loss)	(479,322)	(1,583,204)	(1,750,919)	(852,137)	(817,552)	(296,364)	(1,184,594)	(980,908)	(663,694)	20,497
Change in Net Assets	(19,347)	(863,191)	1,203,372	506,147	207,855	526,385	(377,803)	(127,776)	417,948	1,156,373
Total Assets	1,773,585	1,421,829	2,857,438	2,478,288	2,254,298	3,053,608	2,517,347	2,495,782	2,855,082	2,822,163
Total Current Assets	1,039,375	690,964	1,761,376	1,392,350	1,186,145	2,045,891	1,553,004	1,589,495	2,036,419	2,052,657
Cash (and cash equivalents)	101,740	450	50	2,194	238,665	80,578	55,096	75,642	110,539	831,248
Total Liabilities	1,797,991	2,309,426	2,541,663	1,656,366	1,224,521	1,497,446	1,338,988	1,445,199	1,386,551	197,259
Total Current Liabilities	1,797,991	2,309,426	2,541,663	1,656,366	1,224,521	1,497,446	1,338,988	1,445,199	1,386,551	197,259
Equity/Net Assets	(24,406)	(887,597)	315,775	821,922	1,029,777	1,556,162	1,178,359	1,050,583	1,468,531	2,624,904
Current Ratio	0.58	0.30	0.69	0.84	0.97	1.37	1.16	1.10	1.47	10.41
Cash Ratio	0.06	0.00	0.00	0.00	0.19	0.05	0.04	0.05	0.08	4.21
Return on Assets	(0.27)	(1.11)	(0.61)	(0.34)	(0.36)	(0.10)	(0.47)	(0.39)	(0.23)	0.01
Other Indicators	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Transfers (including subsidies and capital transfers)*	581,000	845,000	3,050,000	1,449,000	1,096,000	900,000	895,000	900,000	1,200,000	1,092,000
Transfers treated as current subsidies in GDP estimates*	581,000	845,000	1,849,000	949,000	1,096,000	900,000	845,000	900,000	1,200,000	1,092,000
Value Added (Gross) before subsidy*	(223,000)	(1,341,000)	(1,531,000)	(547,000)	(521,000)	867,000	4,000	(143,000)	681,000	789,000
Annual copra tons produced/processed	3,355	4,272	5,256	2,653	4,283	4,868	4,910	4,646	6,053	7,182
Average price paid to producers (per pound)	n/a	n/a	\$ 0.09	\$ 0.09	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.15	\$ 0.22
Total producers income	n/a	n/a	982,872	477,540	1,027,920	1,168,320	1,178,400	1,115,040	1,809,847	3,152,898
Net book value of property, plant and equipment	n/a	655,865	1,096,062	1,085,938	1,068,153	1,007,717	964,343	906,287	818,663	769,506
Number of employees (average over year)	53	39	28	34	41	34	29	29	31	30
Revenue per employee	24,272	32,117	7,594	27,449	37,331	30,271	101,217	16,271	77,223	161,531
* As derived in FY2008 Economic Statistics Tables										
" - " indicates zero, "n/a" not available										
Sources: Annual audit reports, FY2008 RMI Economic Statistics Tables, management and staff of enterprise.										



Republic of the Marshall Islands

Climate Change Roadmap 2010

A. Background and Objective

Based on discussions at a whole-of-government, inter-agency ‘Workshop on Climate Change Fast-Start Finance’ held in Majuro, RMI from 16 to 18 August 2010, participants elaborated the following RMI Climate Change Roadmap 2010 to:

1. Enhance the **coordination and coherence** of RMI’s efforts to address the challenges posed by climate change;
2. Inform the development and adoption of a **RMI National Climate Change Policy by the end of 2010**; and
3. In parallel, take advantage of the **unique window of opportunity afforded by climate change fast-start finance** for the period 2010 to 2012 (as captured in the Copenhagen Accord) by committing immediately to:
 - (a) expedite implementation and scaling-up of current climate-related development plans, programs and projects; and
 - (b) prioritize, initiate, design and seek development partner support for new initiatives.

The Roadmap should be implemented in line with a clear timetable of successive deliverables, with clear allocation of duties for achieving milestones along the way.

B. Guiding Principles

“All we have and are today as a people, we have received as a sacred heritage which we pledge ourselves to safeguard and maintain, valuing nothing more dearly than our rightful home on the islands within the traditional boundaries of this archipelago.”

- RMI Constitution

As one of world’s lowest-lying atoll nations, climate change represents a grave threat to the livelihood, sustainability and survival of the Marshall Islands.

Climate change severely compromises RMI’s efforts to achieve key national development priorities, as laid out in the Government’s **‘Vision 2018’ Strategic Development Plan**, and to establish a sound basis for future economic and resource self-sufficiency and sustainable growth, consistent with the Millennium Development Goals and the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States.

RMI will address the climate change challenge with national dignity, taking the future into its own hands. RMI's approach, to be expressed in a National Climate Change Policy, will:

- Be underpinned by political commitment and demonstration of “climate leadership” at the highest levels of government, including the President, the Cabinet and the Nitijela.
- Safeguard the country's natural assets or “vital organs”, and ensure that future generations of Marshallese rightfully enjoy *Aelon Kein* and have the opportunity to achieve national development and wealth.
- Focus on direct implementation (not just policies and plans); and mainstream climate change considerations into core social development goals and the development and implementation of sectoral plans and programs;
- Be mindful of RMI's international rights and obligations, including those under the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol, and leverage sub-regional, regional and international opportunities and partnerships.
- Be “Whole-of-Government” for the “Whole of the Marshall Islands”: take into account and address the unique characteristics and priorities of both the population centers and the outer islands.
- Recognize the inherent complexity of the climate change challenge, and the need for multi-focal and cross-sectoral responses, designed and implemented in a coherent and coordinated way.
- Establish a framework for long-term financial sustainability to support RMI's response to climate change.
- Be reinforced by the national legislature: regulation; legislation; and enforcement.

B. Institutional framework

An institutional framework to support the development and implementation of the RMI National Climate Change Policy must build on the substantial existing framework of sectoral approaches, while at the same time enhancing the coherence, coordination and effectiveness of national efforts. The overriding aim must be to “climate-proof” all development activities, including those under the US-RMI Compact of Free Association.

In January 2010, the RMI Government considered a Preliminary Report prepared by the Office of the Chief Secretary on RMI's current capacity to access and manage large-scale climate funds for climate adaptation and energy purposes. In approving the Report, the Government decided to establish a National Committee on Climate Change, or ‘N3C’.

The N3C is chaired by the Chief Secretary, with Director OEPPC as Vice-Chair, and should be comprised of Secretaries of the following RMI government agencies: Ministry of Resources & Development (R&D); Ministry of Foreign Affairs (MoFA); Marshall Islands Marine Resources Authority (MIMRA); Environment Protection Agency (RMIEPA); Ministry of Finance (MoF); Ministry of Health (MoH); and Ministry of Education, among others. Relevant NGOs (in particular the Marshall Islands Conservation Society) and CBOs also participate.

Recognizing the need to reinforce the mandate of the N3C, and significantly enhance its capacity to quickly coordinate and put forward climate-change-related plans, programs and project proposals to fast-start finance partners for support, it is proposed that the N3C be strengthened immediately by establishing a ‘**N3C Coordination Unit**’ within the Office of the Chief Secretary.

The N3C Coordination Unit should initially be staffed by one senior Technical Adviser (TA), reporting directly to the Chief Secretary, and who could act as ‘Chair Designate’ of the N3C when required. The N3C TA’s primary roles would be to expedite project development and implementation, and oversee the development of RMI’s National Climate Change Policy, including through a process of stakeholder consultation.

Meetings of N3C should be held at least monthly, with advance input sought from line agencies and key RMI diplomatic posts (New York, Washington, Taipei and Tokyo). Outcomes from N3C meetings should be reported quickly to Cabinet and key diplomatic posts, focusing on decisions taken and priority program or project proposals identified by the Committee.

The initial funding and hiring of the N3C TA is an urgent priority for RMI, and may be accelerated by drawing on existing technical assistance packages. Further expansion of the N3C should be considered while developing the National Climate Change Policy. Careful consideration should also be given to seeking support for placement of a resident TA within the Ministry of Finance to manage and coordinate the anticipated proliferation of funding sources on climate change, in close cooperation with the NC3.

C. Plans, Programs and Projects

RMI’s climate change-related plans, programs and projects must reflect its national goals and priorities, address its vulnerabilities and promote the achievement of key economic development aspirations. In other words, RMI’s development must be “climate-proofed”. But there is no need to “reinvent the wheel”. Action now and under the National Climate Change Policy must make best use of existing sectoral plans, institutions and governance arrangements, including:

- RMI National Energy Policy and Energy Action Plan and the Energy Taskforce;
- Micronesia Challenge, *Reimaanlok* National Conservation Area Plan and the Coastal Management Advisory Council (CMAC); and
- Disaster Response Management Plan and National Disaster Committee

RMI should adopt a ‘modular’ approach to developing its climate change initiatives, allowing RMI to work flexibly with development partners in choosing to pursue funding for a whole plan or program, or rather an individual project or cluster of projects, as available resources and funding priorities allow.

RMI’s climate actions now and under a National Climate Policy could be categorized broadly into four ‘implementation clusters’:

- 1. Energy security and low-carbon future;**
- 2. Adaptation for a climate-resilient future;**
- 3. Disaster preparedness, risk reduction and response capacity; and**
- 4. Education, awareness, community mobilization, culture and gender.**

More specific sub-categories have been outlined below in an effort to identify potential areas for priority action, to be considered further by the N3C. To this end, the N3C should begin work *immediately* to compile short descriptions of high-priority programs and projects to inform diplomatic efforts to secure technical and financial support from existing sources and emerging fast-start finance opportunities, including the www.faststartfinance.org initiative to be co-launched by RMI in early September 2010. These descriptions should fall generally into one of three categories: (i) projects underway and fully funded; (ii) projects currently implemented, but which require further funding or upscaling; and (iii) new project ideas.

A second stage should involve populating a Climate Action Matrix (to be developed) containing these priority action items, to be regularly updated by the NC3 Coordination Unit over time (with input from NC3 agencies). Once populated, the Matrix should grow organically as a key reference point for the coordination of RMI’s climate change response, and the further development of the National Climate Change Policy.

Implementation Clusters

① Energy security and low-carbon future

- Implement National Energy Policy and Action Plan (which could serve as a *de facto Low-Carbon Development Plan*), including broad goals / targets
- National target to reduce greenhouse gas (GHG) emissions to 40% below 2009 levels by 2020, based on the national energy plan and taking into account the GHG Inventory aspect of RMI’s forthcoming Second National Communication under the UNFCCC;
- Sub-regional Green Energy Micronesia (GEM) – 20:30:20 targets

Subcategories with examples / further ideas for implementation:

- (a) **Energy efficiency:** greatest emphasis for early action, through *inter alia*, grid improvement, further roll out of energy-saving lightbulbs.
- (b) **Renewables:** solar-to-grid power, outer-island solar, conduct wind-power feasibility study.
- (c) **Biofuels:** upscale current trialing for copra- and coconut-based fuels.
- (d) **Waste-to-energy:** feasibility study, connected to waste-management initiatives.
- (e) **Sectoral growth / emissions:** consider energy usage and emissions trajectories for RMI's potential growth sectors (eg. fisheries and tourism)

② *Adaptation for a climate-resilient future*

- Implement Micronesia Challenge (including conservation targets) and the *Reimaanlok* Action Plan
- Undertake enhanced planning and interventions to address climate vulnerabilities in food security, public health and other core social development goals
- Safeguard core infrastructure and resources on the basis of comprehensive planning and inter-agency coordination

Subcategories with examples / further ideas for implementation:

- (a) **Coastal erosion (including impact on infrastructure):** study of possible structural interventions (such as sea walls) and consider environmental/social impacts; further conservation and 'living shorelines' initiatives (upscale *Reimaanlok*); replanting native plants (panadus, koin, konnat, lukwe etc).
- (b) **Water security:** address substantial leakage/waste/evaporation (immediate issue); address failing and climate-exposed infrastructure (underground pipelines); consider desalinization potential.
- (c) **Agriculture / Food security:** boost climate-resilient crops, including coconut replanting and traditional foodstuffs to reduce import dependency
- (d) **Marine conservation:** promote coral and fishery health, including use of traditional knowledge.
- (e) **Natural resource mapping:** enhance use of GIS, remote sensing, and develop models to simulate weather events and impacts
- (f) **Waste management / recycling:** improve garbage-dump and sewage facilities, including climate resilience; address wave action overtopping waste infrastructure, including waste management and sewage facility
- (g) **Sectoral growth vulnerabilities:** consider climate-adaptive approaches for potential growth sectors, including sustainable fisheries and tourism

③ *Disaster preparedness, risk reduction and response capacity*

- ‘Climate-proof’ the Disaster Risk Management Plan (DRMP), to be overseen by the National Disaster Committee.
- Consider broad range of risk reduction initiatives, primarily in the infrastructure and health portfolios

Subcategories with examples / further ideas for implementation:

- (a) **‘Climate-proof’ the DRMP:** study impact of more frequent and intense natural disasters and weather events on operation and implementation of DRMP.
- (b) **Climate-related health impacts:** data collection underway on climate-related changes in prevalence of vector- and water-borne diseases.
- (c) **Government-wide risk reduction:** enhance zoning, local planning and possible building codes for government buildings.
- (d) **Climate-proof infrastructure:** conduct infrastructure vulnerability assessment; timetable key infrastructure upgrades in light of increasing climate impacts
- (e) **Insurance and micro-insurance:** commission advice on the likely impact of climate change on access to / cost of insurance for weather-event-related impacts and slow-onset damage; seek RMI-specific recommendations.

④ *Education, awareness, community mobilization, gender and culture*

- Ensure public education and participation, boost understanding of climate change within communities and traditional structures.
- Ensure inclusive consultation processes in the development and implementation of the National Climate Change Policy.

Subcategories with examples / further ideas for implementation:

- (a) **Translation** of core climate terminology into Marshallese.
- (b) **Curriculum** and sustained climate-related educational/community programming.
- (c) **Public participation & outreach:** enhance local government climate literacy, develop local conservation plans and adaptation initiatives; Bob festival.
- (d) **Gender:** promote female community groups and climate leaders, address gender-accentuated climate impacts.
- (e) **Broad-based consultation** with traditional leaders, religious institutions, private sector, NGOs, CBOs, etc.

- (f) **Traditional knowledge / preservation of vulnerable cultural resources:** identification of resources, including through consultation with cultural guardians (traditional leaders and elders).

D. Next steps

This RMI Climate Change Roadmap will be presented for consideration by the Government during the week of 23 August. If endorsed, the Roadmap should be publicized widely – locally, regionally and internationally – as reflecting RMI's desire to tackle the climate change challenge head on, and to take control of its own destiny.

The Office of the Chief Secretary should move quickly to implement the recommendations outlined in 'Section B: Institutions', establishing the basis for the strengthening of the N3C, the development of a coordinated and coherent National Climate Change Policy, and quick engagement with a wide range of development partners on the opportunities afforded by fast-start finance for the period 2010 to 2012.

Majuro, RMI
August 19, 2010



Republic of the Marshall Islands

Fiscal Year 2009 Economic Review

August 2010



US Department of the Interior
Office of Insular Affairs

GS GRADUATE
SCHOOL

PACIFIC ISLANDS TRAINING INITIATIVE

www.pitiviti.org

RMI DPM Briefing Book Page 222

CURRENCY EQUIVALENTS

Currency Unit – United States Dollar (US\$)

ABBREVIATIONS

ADB	—	Asian Development Bank
Amended Compact	—	Second Phase of the Compact, FY2004–FY2023
AMI	—	Air Marshall Islands
BoP	—	Balance of Payments
c.i.f.	—	Cost, insurance and freight
CIP	—	Capital Improvement Project
Compact	—	RMI Compact of Free Association with the United States
Compact I	—	First 17 years of the Compact, FY1987–FY2003
CPI	—	Consumer Price Index
CTF	—	Compact Trust Fund
CMI	—	College of the Marshall Islands
DoRC	—	Division of Revenue and Customs
EPA	—	Environmental Protection Agency
EPPSO	—	Economic Policy, Planning, and Statistics Office
EEZ	—	Exclusive Economic Zone
f.o.b.	—	Free on board
FDI	—	Foreign Direct Investment
FMS	—	Financial Management System
FSM	—	Federated States of Micronesia
GDP	—	Gross Domestic Product
GNI	—	Gross National Income
GNDI	—	Gross National Disposable Income
IMF	—	International Monetary Fund
JEMFAC	—	Joint Economic Management and Financial Accountability Committee
KAJUR	—	Kwajalein Atoll Joint Utilities Resources
KALGOV	—	Kwajalein Atoll Local Government
MALGOV	—	Majuro Atoll Local Government
MEC	—	Marshalls Energy Company
MTN	—	Medium Term Notes (Compact-backed bonds)
MIDA	—	Marshall Islands Development Authority
MIDB	—	Marshall Islands Development Bank
MIITF	—	Marshall Islands Intergenerational Trust Fund
MIMRA	—	Marshall Islands Marine Resources Authority

MISC	—	Marshall Islands Shipping Corporation
MISSA	—	Marshall Islands Social Security Administration
MIVA	—	Marshall Islands Visitors Authority
MoF	—	Ministry of Finance
MoE	—	Ministry of Education
MoH	—	Ministry of Health
MoJ	—	Ministry of Justice
MoPW	—	Ministry of Public Works
MoTC	—	Ministry of Transport and Communications
MTBI	—	Medium Term Budget Investment Framework
NESS	—	National Economic and Social Summit
NGO	—	Nongovernmental Organization
NTA	—	National Telecommunications Authority
PIER	—	Pacific Island Economic Report
PM&O	—	Philippines Micronesia and Orient Line
PMOP	—	PM&O Processing Plant
PSRP	—	Public Sector Reform Program
R&D	—	Ministry of Resources and Development
RIF	—	Reduction in Force
ROC	—	Republic of China
RMI	—	Republic of the Marshall Islands
SOE	—	State Owned Enterprises
TA	—	Technical Assistance
U.S.	—	United States
USDA	—	U.S. Department of Agriculture
VAT	—	Value Added Tax

NOTE

The RMI government's fiscal year (FY) ends on September 30.

TABLE OF CONTENTS

	Page
List of Tables	v
List of Figures	v
List of Appendix Tables	vii
Foreword	ix
I. Background and Summary	x
1. Background	x
2. Summary	xi
II. Review of Economic Developments	1
A. Growth and Employment	1
1. GDP, Growth, and Structural Change	1
2. Population, Incomes, Distribution, and Poverty	7
3. Employment, Earnings, and Wages	11
4. Sectoral Developments	14
B. Monetary Developments and Prices	18
1. Prices	18
2. Money and Banking	20
C. Balance of Payments and External Debt	23
1. Balance of Payments	23
2. GNI and GNDI	26
3. External Debt and International Investment Position	28
D. Fiscal Developments	31
1. Fiscal Policy Framework	31
2. Recent Fiscal Performance	33
III. Policy Developments, Prospects, and Issues	40
A. Background	40
B. Fiscal Issues	41
1. Public Sector Payroll	41
2. External Debt Management	43
3. Public Enterprise Issues	45
4. Trust Fund Viability -- Monitoring the Sufficiency of the Trust Fund	50
C. Fiscal Policy and Implementation	56
1. Fiscal policy	56

2.	The Medium Term Budget and Investment Framework	59
D.	<i>Public Sector Reform</i>	60
1.	The Comprehensive Adjustment Program (CAP)	60
2.	The Tax Revenue Reform and Modernization Commission	63
3.	ADB Public Sector Program	66
E.	<i>Private Sector Development</i>	68
F.	<i>Conclusion</i>	69

LIST OF TABLES

		Page
Table 1	Population by major centers and population growth	7
Table 2	Net movement of air passengers between the RMI and US ports of entry and percent population	8
Table 3	Balance of Payments, current account	24
Table 4	Balance of Payments, capital account	25
Table 5	External Debt by loan	28
Table 6	RMI International Investment Position	30
Table 7	U.S. Annual Compact Grants and Contributions to the Trust Fund	31
Table 8	Comparative Analysis of Fiscal Structure	35
Table 9	RMI government number of public servants by department	42
Table 10	RMI government number of public servants by fund	43
Table 11	Marshall's Energy Company indicators	47
Table 12	Trust Fund Performance analyzed by Source of Variation	54
Table 13	CAP Advisory Group Proposed Savings by Expense Category	62

LIST OF FIGURES

		Page
Figure 1	RMI Real GDP Growth	1
Figure 2	RMI Real GDP by Private and Public Sector	3
Figure 3	Public enterprises value added and subsidies at factor cost	4
Figure 4	Structure of the RMI Economy by Institutional Sector	6
Figure 5	GDP per capita, constant prices 2000	9

Figure 6	Average Per Capita Income by Island	10
Figure 7	Employment in the private, public and RMI government sectors	11
Figure 8	Employment in the Private Sector by Major Industrial Sector	13
Figure 9	Average wage rates by major institutional sectors	14
Figure 10	Change in CPI RMI, FSM and US	18
Figure 11	Change in CPI by selected major commodity groups	19
Figure 12	Commercial bank loans and deposits	21
Figure 13	Commercial Bank Credit by Sector	22
Figure 14	GDP, GNI and GNDI	27
Figure 15	RMI External Debt and Debt Servicing	29
Figure 16	RMI Consolidated Revenues and Expenditures	34
Figure 17	Expenditures on payroll and goods and services	37
Figure 18	RMI Payroll and Employees	41
Figure 19	RMI debt and debt servicing projections	44
Figure 20	State owned enterprises, net operating profit	45
Figure 21	Compact Trust Fund Sufficiency	52

LIST OF APPENDIX TABLES

Table 1a	Population by major centers, percent of population and growth, 1930-1999	S4
Table 1b	Working age population, economically active, and not economically active, 1988 and 1999	S4
Table 1c	Net Air Passengers from US, Majuro and Kwajalein Atolls: 1990 to 2008	S5
Table 2a	Current and constant price GDP, GDP per capita, 1981-2008	S6
Table 2b	Constant price GDP by institutional sector, FY1997-FY2008	S7
Table 2c	Constant price GDP by institutional sector, annual percent growth, FY1997-FY2008	S7
Table 2d	Current price GDP by institutional sector, FY1997-FY2008	S7
Table 2e	Implicit GDP price deflators by institutional sector, FY1997-FY2008	S8
Table 2f	Share of GDP by institutional sector, current prices, FY1997-FY2008	S8
Table 2g	GDP by income component, current prices, FY1997-FY2008	S9
Table 2h	GDP by income component, constant prices, FY1997-FY2008	S9
Table 2i	Current price GDP by institutional sector and income components	S10
Table 2j	National income measures in current prices and real terms, FY1997-FY2008	S11
Table 3a	Employment by institutional sector, numbers, FY1997-FY2008	S12
Table 3b	Employment by institutional sector, wage costs, FY1997-FY2008	S12
Table 3c	Employment by institutional sector, wage and salary rates, FY1997-FY2008	S12
Table 3d	Employment by industrial sector, numbers, FY1997-FY2008	S13
Table 3e	Employment by industrial sector, wage costs, FY1997-FY2008	S13
Table 3f	Employment by industrial sector, average wage and salary rates, FY1997-FY2008	S14
Table 3g	Employment in private sector by industry, numbers, FY1997-FY2007	S15
Table 3h	Employment in private sector by industry, wage costs, FY1997-FY2007	S15
Table 3i	Employment in private sector by industry, average wage and salary rates, FY1997-FY2007	S16
Table 4a	National government public servant employment by department, FY1999-FY2008	S17

Table 4b	National government public servant wage costs by department, FY1999-FY2008	S18
Table 4c	National government public servant average wage and salary rates by department, FY1999-FY2008	S19
Table 4d	National government public servant employment by fund, FY2004 Quarter 1 - FY2009 Quarter 2	S20
Table 4e	National government public servant wage costs by fund, FY2004 Quarter 1 - FY2009 Quarter 2	S20
Table 4f	National government public servant wage rates by fund, FY2004 Quarter 1 - FY2009 Quarter 2	S20
Table 5a	Copra production, average producer price and income to producers: 1951-2008	S21
Table 5b	PM&O tuna loining plant achievements, Majuro: FY1999 to FY2003	S21
Table 5c	Total fish catch in RMI EEZ, by method: 1998 - 2008	S22
Table 5d	Total fish catch by Marshall Islands and domestically based vessels: 2001 - 2008	S22
Table 5e	Visitors to Majuro, by year and purpose of visit: 1991, 1996, and 2001-2008	S23
Table 5f	Length of stay, visitors to Majuro, by year and purpose of visit: 2001-2008	S23
Table 5g	Visitors to Majuro by usual residence: 1998 to 2008	S23
Table 6a	Assets and liabilities of Deposit Money Banks, 1997-2008	S24
Table 6b	Income and expense of Domestic Money Banks, 1997-2008	S25
Table 6c	Interest rates of Domestic Money Banks, 1997-2008	S26
Table 7a	Majuro Consumer Price Index (CPI) by major groups, 1982-2001	S27
Table 7b	Majuro Consumer Price Index (CPI) by major groups, 2003-2008	S28
Table 7c	Ebeye Consumer Price Index (CPI) by major groups, 2005-2008	S29
Table 8a	Marshall Islands: Balance of Payments, FY1999-FY2006	S30
Table 8a	External debt, original value, and outstanding principle by loan	S31
Table 8c	External debt and debt service, RMI and national government, FY1992-FY2008	S32
Table 8d	External debt and debt service projections, FY2009-FY2038	S33
Table 9a	RMI Government Finances (GFS Format) FY1997-FY2008	S34
Table 9b	Transfers (including subsidies and capital transfers) to Public Enterprises, FY1997-FY2008	S35
Table 9c	Transfers treated as current subsidies in GDP estimates, FY1997-FY2008	S35

FOREWORD

This report has been prepared to assist the Government of the Republic of the Marshall Islands (RMI) and U.S. Department of Interior in fulfilling their respective reporting obligations under the Compact of Free Association with the United States. In the case of the RMI, the nation is required, under Title One, Section 215, to report to the U.S. President on the use of sector grant assistance and on progress in meeting mutually agreed program and economic goals. In the case of the U.S., under Title One, Section 104.h, the President is required to submit a similar report to the Congress concerning developments in the RMI.

This report has been prepared under a grant from the Department of Interior and is administered through the Graduate School. However, it is not intended to directly fulfill the reporting requirements of the two governments but rather to assess RMI's economic performance and policy environment and to present a set of economic statistics. Much of the material will be directly relevant to the two reports. However, the reporting requirements of the two governments are different; thus, not all the material will be relevant to both reports.

The report contains two sections: (i) a description of economic developments in the RMI; and (ii) a discussion of policy developments, prospects and issues. The descriptive section takes a standard macroeconomic approach and includes economic growth and employment; monetary developments and prices; the external sector; and fiscal developments. The policy discussions review key topical areas, rather than undertaking a comprehensive policy review. Discussion focuses on fiscal issues and policy, public sector reform, and private sector development. Following the descriptive and analytical sections, there is a comprehensive set of economic statistics.

This report and statistical appendix have been prepared by a team: Mark Sturton, Ben Graham, Glenn Mckinlay and Anna Lennblad. Mark Sturton, with support from Ben Graham, prepared the economic report, while Glenn McKinlay coordinated the statistics, assisted by Anna Lennblad, who compiled the external sector statistics. Thanks to Casten Nemra, Chief Secretary, Geelong Bing, Maybelline Bing and staff of EPSSO; to Junior Patrick, Jemi Nashion and Bruce Billimon of the Ministry of Finance; and David Paul of MEC, who all supported the preparation of the report and statistical appendix.

This report is available online at <http://www.pitiviti.org>.

I. BACKGROUND AND SUMMARY

1. BACKGROUND

This report has been prepared to assist both the RMI Government and the United States in fulfilling their respective obligations under the Compact of Free Association with the United States. In the case of the RMI, the amended Compact states, under Title One, Section 215 that:

“The Government of the Republic of the Marshall Islands shall report annually to the President of the United States on the use of United States sector grant assistance and other assistance and progress in meeting mutually agreed program and economic goals. The Joint Economic Management and Financial Accountability Committee shall review and comment on the report and make appropriate recommendations based thereon.”

In the case of the United States, the President is required to submit, to the Congress, a similar report on economic developments in the RMI:

(1) REPORT BY THE PRESIDENT. Not later than the end of the first full calendar year following enactment of this resolution, and not later than December 31 of each year thereafter, the President shall report to Congress regarding the Federated States of Micronesia and the Republic of the Marshall Islands, including but not limited to—

- (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 report contains two main parts: a review of economic developments and a section on policy developments, prospects, and issues. While this report relates to Fiscal Year 2009, analysis of developments in that year alone would provide a limited and one-sided view. The approach has been rather to review developments in a broader context so that a more

informed assessment can be made. The review of economic developments follows a standard macroeconomic approach: growth and employment; monetary developments and prices; the balance of payments and external debt; and fiscal developments. The policy, prospects, and issues part of the report covers selected topical issues and is not intended to review the whole range of public and private sector policies. The first section includes discussion of fiscal issues and includes trends in public sector payroll, external debt management, the operations of state owned enterprises, and the viability of the Compact Trust Fund. The next section relates to appropriate considerations in the design of fiscal policy and implementation. The third section describes recent public sector reform initiatives: the Comprehensive Adjustment Program (CAP), the Tax and Revenue Reform and Modernization Commission (TRAM), and lastly the ADB Public Sector Program (PSP). A final brief section deals with the need for private sector development.

2. SUMMARY

During the first four years of the amended Compact, the economy of the Marshall Islands has experienced sustained growth, averaging 2.6% per annum. However, the economic expansion has largely been based on substantial increases in grant assistance from the United States and the Republic of China. Initial usage of Compact funds was constrained by capacity limitations in adaptation to the new fiscal procedures, but by FY2007 these had largely been overcome. In FY2008 the expansion in the economy came to an end, with the onset of the world recession and rapidly rising food and fuel prices. The economy contracted by 1.6% in FY2008 and again in FY2009 by a further 2.1%. Employment grew strongly at the end of the 1990s and early 2000s but has largely stagnated during the initial years of the amended Compact. The lack of gainful employment opportunities has encouraged Marshall Islanders to seek jobs in the U.S., and outmigration has averaged 1.7% during the first six years of the amended Compact.

Expansionary fiscal policy was the main driving force behind the economic growth at the start of the amended Compact. Public expenditures grew by an annual average rate of 12% between FY2003 and FY2007, and employment in the public sector has expanded by 521 jobs (35%) since FY1999 and 13% since the start of the amended Compact. The various forces that permitted the rapid expansion came to a halt in FY2007, and as the increasing expenditures hit their ceilings, the nation was in a very fiscally stressed position, with the government suffering a tight cash flow. In addition, debt service on ADB loans had grown significantly as grace periods on prior debt expired. Further, subsidies to state owned enterprises had reached very high levels, exceeding 30% of general fund revenues. This situation was exacerbated by weak management at the Marshall Energy Company (MEC), rising world energy prices, and increasing competition from high-seas fuel distributors. The financial crisis of the MEC required continuing cash injections from the government to sustain electricity production and threatened the fiscal stability of the nation. Looking forward, fiscal pressure will continue to grow as the annual decrement and lack of full indexation in the Compact sector grants erode the capacity of the government to maintain real service levels.

The Trust Fund for the People of the RMI was created “to contribute to the long-term budgetary self-reliance of the RMI... [and] to provide the Government of the RMI with an ongoing source of revenue after FY2023.” The U.S. Government has made it clear that neither the terms of the amended Compact nor the terms of the Trust Fund Agreement make any guarantee, or even a commitment, that the Trust Fund will be able to sustainably achieve distributions of a size required to maintain the real value of the annual sector grants after 2023. However, the Trust Fund Agreement specifies a withdrawal rule that is precisely based upon the FY2023 annual grant assistance level plus full inflation. If the returns in a post-2024 year are insufficient and if the “C” account, established as a buffer, is empty, the RMI would suffer a severe fiscal shock. Zero funds would be made available for budgetary or investment support in such an event. For this and several other compelling reasons, it makes sense for the RMI and the U.S. to consider modifications to Trust Fund Agreement to correct the poorly specified buffer account and withdrawal rules embedded in the Trust Fund Agreement so as to reduce the risk of a fiscal shock of such immense proportions. Such an effort should also correct the flaw that leaves only the nominal value of the Trust Fund protected, despite the fact that the parties almost assuredly thought they were designing a Trust Fund mechanism that would protect the real (inflation-adjusted) value of the *corpus*.

It is also imperative that the RMI Government make every effort to assess the Trust Fund’s performance against a sensible goal. That sensible goal is taken to be the sufficiency of the Trust Fund to support a “smooth and sustainable transition” from direct, U.S.-appropriated, annual grants to annual Trust Fund distributions to the RMI. The terminal condition for sufficiency of the Trust Fund is projected to be \$737 million at the outset of FY2024. Comparing actual performance to a smooth trend line signifying “on-track” performance, the Trust Fund would have reached \$133.4 million as of June 30, 2010; however, the actual value was just \$101.4 million. If the returns from this date forward were to average the trend line rate of 7.87% annually, the final value of the fund at the outset of FY2024 would be just 88% of the target level, falling short by \$87 million. To offset this trend to date, the investment return required for the remaining 13.25 years of the amended Compact period is estimated at an annually compounded rate of return of 9.24%. This “catch-up” rate of return remains achievable, though by no means assured. To achieve such a return, given the current investment policy established by the RMI Trust Fund Committee, would require market returns in excess of asset class-weighted historical returns.

In a realization of the economic and financial circumstances facing the nation, the RMI leadership initiated a series of reforms. The Comprehensive Adjustment Program (CAP) Advisory Group and Tax and Revenue Reform and Modernization Commission (TRAM) were created, and the reports of both of these groups were endorsed by the Cabinet. A report on the SOE sector was initiated, and the MEC adopted a comprehensive recovery program. The ADB will support these reform efforts through a Public Sector Program, including loan finance to refinance the external debt of the MEC. However, all of these initiatives now require the political will to implement the reforms that have been endorsed. Reduction of an oversized public service corps and introduction of a modern tax

regime are not popular measures, especially with elections looming. While the current focus on the public sector is appropriate, attention will need to switch in the longer-term to engendering an environment conducive to private sector initiative, if the economy is to provide an increasing level of welfare to its citizens.

II. REVIEW OF ECONOMIC DEVELOPMENTS

A. Growth and Employment

1. GDP, GROWTH, AND STRUCTURAL CHANGE

1. Analysis of the RMI economy is based on the national accounts series for the FY1997–FY2009 period, and Fig. 1 indicates recent trends in constant price GDP. There are three distinct periods of economic performance: first, a depressed state in the late 1990s, with negative rates of growth, a more expansionary era in the first part of the 2000s, and most lately, a phase of economic contraction. The late 1990s were marked by an extended period of contraction and fiscal instability resulting from the reduction in Compact grants to fund government operations and the need to repay bonds issued in the early 90s. A Public Sector Reform Program (PSRP) was initiated with assistance from the Asian Development Bank (ADB), to assist with the fiscal adjustment. A reduction in force was the major component of the reforms intended to reduce the cost of government. There were further objectives: to improve tax administration, reform public enterprises, and improve the environment for the private sector, among others. While the PSRP of the late 90s is now more than 10 years behind, it remains especially relevant to the current circumstances facing the RMI.

2. By the start of FY2000 circumstances began to improve. In 1999, the RMI recognized the ROC and was to receive \$10 million annually in grant assistance. This signifi-

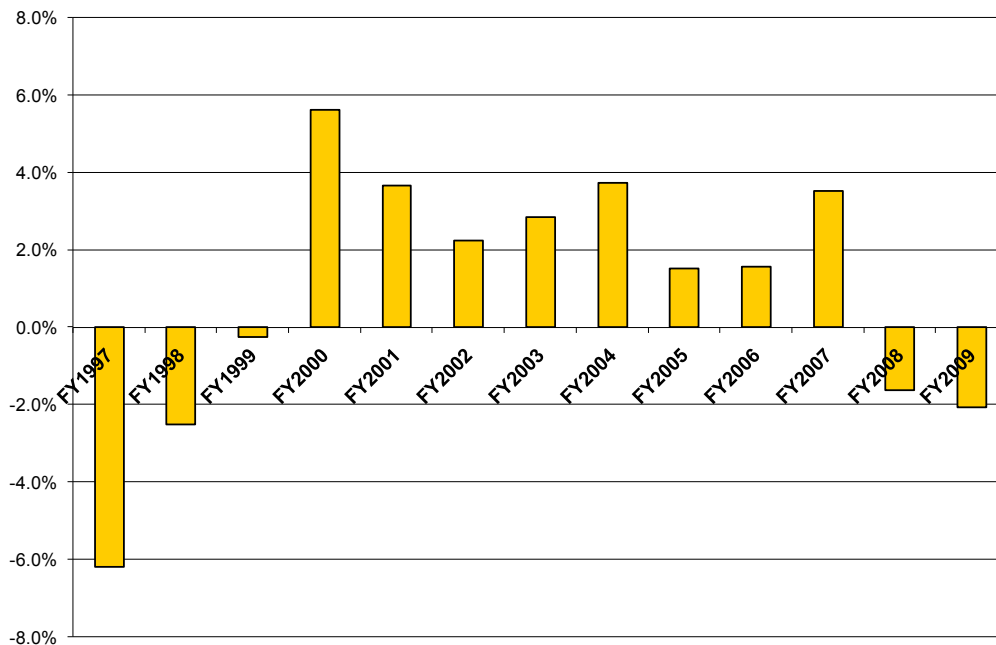


Figure 1 RMI real GDP growth (percent)

cantly eased fiscal pressure and permitted an expansion in government expenditures. By FY2002 repayment of the prior bond issues was complete; Compact funds that had in prior years been absorbed in debt repayment were now available. FY2002 and FY2003 were also the “bump-up” years of Compact I and saw infusion of additional resources. However, the RMI had committed and contributed \$25 million to a Compact Trust Fund at the start of FY2004; this had the impact of sterilizing a large component of what otherwise would have been a very sizeable infusion of resources. FY2004 was the start of the amended Compact, and the RMI had negotiated a favorable assistance package that resulted in an increase in funding of \$10 million above the pre-bump-up levels. FY2004 thus represented another year of fiscal stimulus.

3. By FY2005, the use of the very substantial increase in Compact resources over the FY1999-FY2004 period had reached a peak. This, together with the closure of the PMOP fish loining plant, meant that FY2005 would have been the culmination of a period of rapid economic growth. However, although the fiscal stimulus of the additional Compact resources had peaked, the forward momentum in public expenditures continued. The private sector maintained economic activity, with additional investment demand arising from the Compact infrastructure grant, renovation of the Majuro airport, the Taiwanese-funded convention center, and reconstruction of the Majuro fish loining plant, as a new owner saw potential to revitalize the activity. GDP grew by 1.5%, 1.6% and 3.5%, in the three years from FY2005-FY2007.

4. By FY2008 the economy had peaked, and GDP fell by 1.6% for the first time in the decade. The large number of construction projects had come to fruition, and further expansion in government was no longer possible as expenditures hit their ceilings. FY2008 also saw the end of rapid expansion in the world economy as fuel and food prices reached record levels. Inflation in the RMI reached 15%, eroding domestic real incomes and reducing demand for local business. Compounding these problems, the Marshalls Energy Company underwent a severe cash flow crisis as fuel prices reached record levels, requiring substantial cash infusions from government. These forces prompted the RMI leadership to declare a first-ever “state of economic emergency” in late FY2008. In FY2009, while inflation eased back to 0.7%, reducing the erosion in household incomes, the same general economic forces exerted themselves, and GDP fell by a further 2.1%. However, the main contributing force to the poor performance was the continued need to subsidize the State Owned Enterprise (SOE) sector, which contributed 1.6% -- or over $\frac{3}{4}$ -- of the overall decline of 2.1%.

5. Fig. 2 elaborates the story, indicating the performance and contribution of the private and government sectors to the economy. The contribution of the government is determined through the employment of public servants. The trend in constant prices indicates compression during the late 1990s, coinciding with the reduction in force, but this is followed by a continuing expansion of 4% per annum in real terms, the result of the additional infusion of funds from FY2001-FY2006. By FY2007, the potential for further employment of public servants peaked, and it fell in FY2008 and FY2009. The dependency

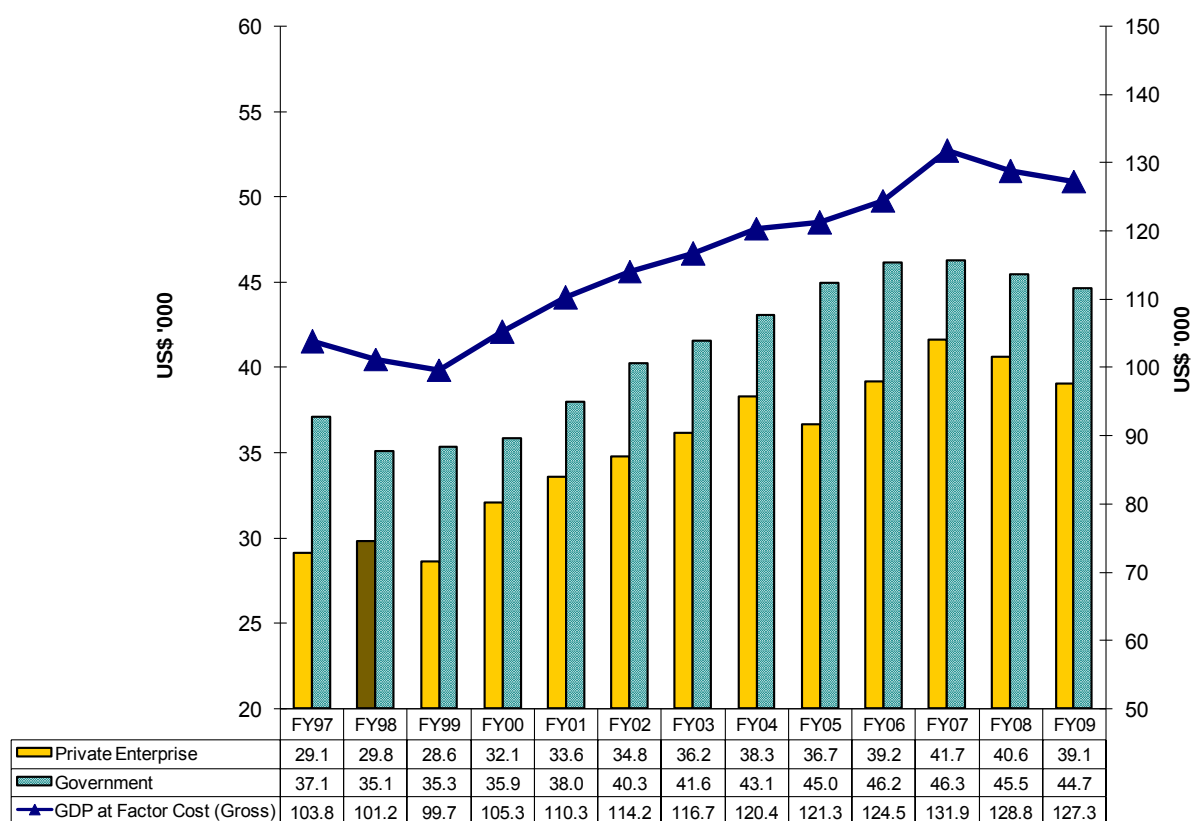


Figure 2 RMI real GDP by private and public Sector (FY2000 prices, US\$ millions)

of the private sector is clearly revealed during the period; it mirrors the growth in the public sector, but with significant deviation in some periods. With the exception of fisheries, the private sector is dominated by establishments largely producing services for the domestic market. Thus, as public expenditures rise and fall, demand for private sector services moves in tandem. This has critical implications for the RMI's future, in light of the decrement in Compact transfers.

6. The national accounts estimates are constructed by institutional sector in the RMI, and further discussion of economic developments is based on the GDP tables in the statistical appendix. From a low level of economic activity in the late 1990s, the private sector expanded in FY2000 with the opening of the Philippines Micronesia and Orient Line Processing Plant (PMOP) fish loining plant in Majuro. Through the early 2000s, private activity was influenced by the expansionary fiscal policy and fish loining, but in FY2005, the PMOP plant closed and resulted in a sizeable reduction in GDP. In FY2006 and FY2007, construction activity boosted demand for the private sector. In FY2007 Pan Pacific showed renewed interest in revitalizing the loining plant, and after two years of construction activity, the plant reopened in late FY2009. Private sector economic activity fell significantly in FY2008—by 3.2% and a further 2.2% in FY2009—reflecting the lack of

on-going construction projects, onset of the world recession, and the impact of rapid inflation in food and energy prices, which reduced real household incomes.

7. The SOE sector is a particularly significant in the RMI due to its large and frequently negative impact on GDP. Fig. 3 provides a snapshot of recent trends. During the late 1990s and up to FY2005, performance was relatively consistent, and although the level of subsidies was a concern, it was within bounds. This situation changed radically in FY2006 when deterioration in the financial viability of many SOEs increased the need for government subsidy. In FY2008 the contribution of the SOE sector to the economy declined by 11% and by a further 5% in FY2009. From an annual average level of government subsidy of \$2.7 million (FY2000 prices) over the FY1997-FY2005 period, the level of subsidy increased to an average of \$7.0 million in FY2007-FY2009. This result was due to a variety of forces but was heavily influenced by the impact of high energy prices on the financial position of the Marshall Energy Company and the Kwajalein Atoll Joint Utilities Resources. Subsidies to these two entities alone had reached \$5.4 million in FY2009. However, the finances of many other SOEs have also deteriorated: both Air Marshall Islands and the Majuro Water and Sewer Company have required increasing subsidies. The creation of the Marshall Islands Shipping Corp in FY2007 has required an annual average subsidy of \$1.2 million. The impact of the rising level of subsidies provided to the SOEs has become a major policy issue, and it threatens fiscal viability of the

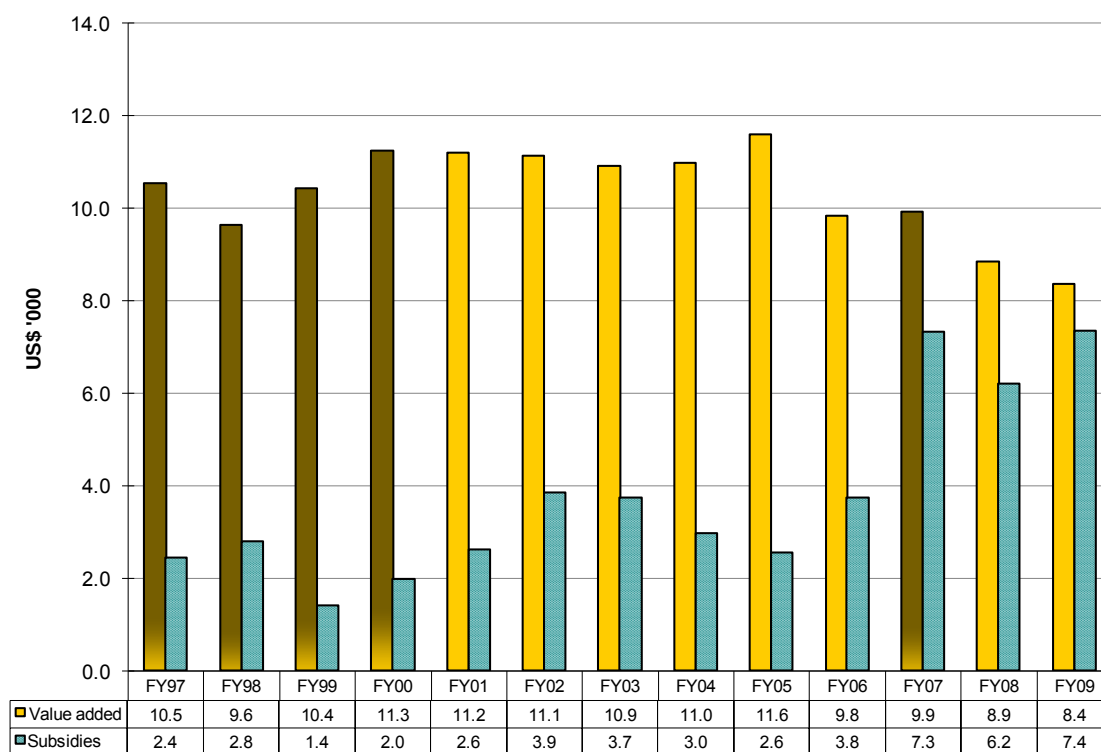


Figure 3 Public enterprises value added and subsidies in purchaser prices of FY2000

nation, as the government is faced with declining Compact grants. A special section in the policy part of this review discusses the SOE sector and the situation of the MEC.

8. While the Government of the RMI is the largest player in the public sector, government agencies and institutions, including the College of the Marshall Islands (CMI), and local government are also significant. Taken together, the two local governments (KALGOV and MALGOV) represented about 25% of the national government in FY2009 (by value-added). In the last few years, their contribution to GDP has been negative, reflecting the contraction in employment in the Kwajalein U.S. base and the cyclical downturn in the economy and the consequent impact on employment of falling revenues of local government. Government agencies grew rapidly between FY1997–FY2001, primarily as a result of growth in the CMI. In the next four years, the contribution of the Government agencies stabilized, but declined significantly in FY2006, with the amalgamation of the former U.S. Federal Program, Head Start, into the national government.

9. The household sector makes an important contribution to GDP, producing mixed incomes from copra, fishing, and handicrafts. Non-marketed production (subsistence) and home ownership are the main components and are estimated to grow in relation to population growth. Indirect taxes include import duties of the national government, receipts from the gross receipts tax (GRT), and local government indirect taxes, mostly sales taxes. In FY2008 and FY2009 certain changes in import taxes led to a decline in indirect tax collection of 3% and 11%, respectively. The MEC was exempted from import taxes on fuel resale to overseas shipping vessels, and certain food items were exempt following the large increases in world prices. The base of the fuel import tax was also switched from an *ad valorem* basis to a specific or volume basis. Finally, an adjustment is made to GDP for FISIM (financial intermediation services, indirectly measured), which is the difference between interest receipts and payments of the banking sector relating to productive activities.

10. Changes in the structure of the RMI economy during FY1997–FY2009 are summarized in Fig. 4. Not surprisingly, given the rapid rates of growth in government, its share has grown from 31.5% in FY1997–FY1999 to 35.3% during FY2007–FY2009. In the case of the SOEs, the share of the sector has fallen from 10.2% to 5.7% reflecting the large increases in subsidies and negative impact on sector value-added. As a result of deteriorating position of the SOEs, the share of the public sector (including both government and SOEs) has actually fallen from 41.6% to 40.0%. The private sector has increased its contribution, but the small increase reflects its inability to break out of its dependant status and assume a more dynamic role as the engine of economic growth. The share of the household sector, which represents subsistence and home ownership, has declined slightly. With low rates of population growth (on which the household sector estimates are based), a larger decline might have been expected, as growth in the cash economy outstripped the growth in population. The fact that the share of the household sector has remained largely unchanged reflects the relatively low growth in the modern sector. The share of indirect taxes has fallen slightly, reflecting recent discretionary reductions in

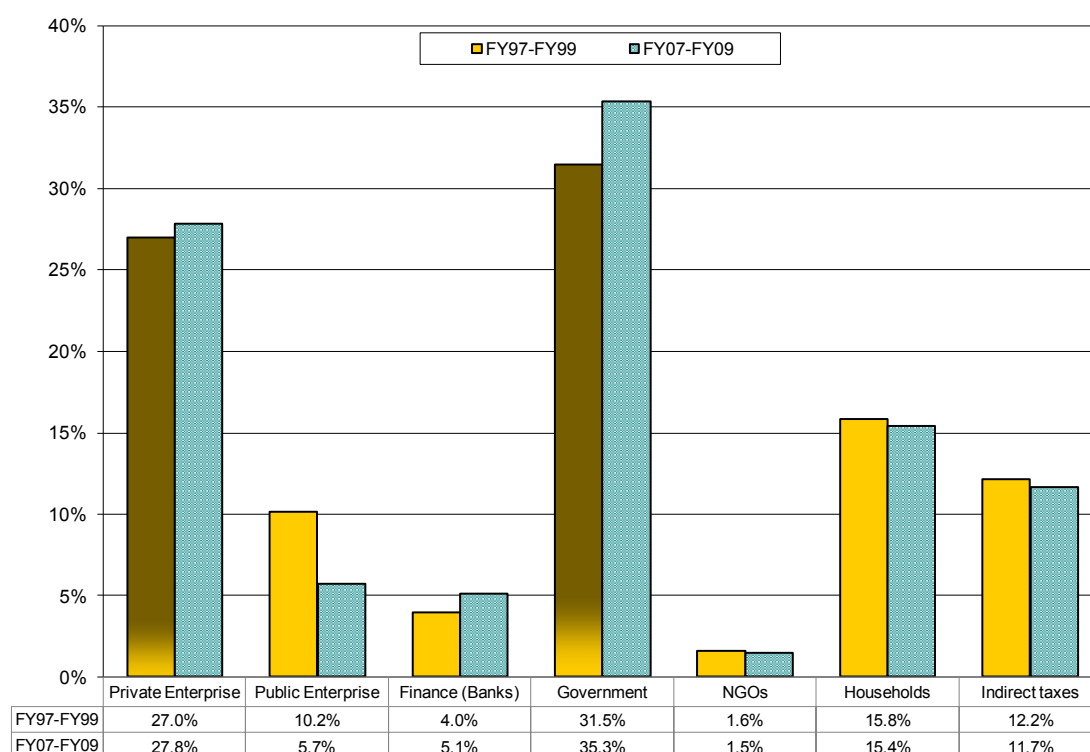


Figure 4 Structure of the RMI economy by institutional sector

tax rates, and weak collections resulted in lower tax revenues. The finance (or commercial banking) sector has increased its share and now represents 5.1% of GDP, while that of NGOs has fallen slightly.

11. Concluding this section of the review, we note an unanticipated increase in economic activity since 2000. This has been a period of public-sector-led growth. The repayment of bond issues in the early 1990s, additional funding received from the ROC, and the more favorable financial arrangements of the amended Compact enabled pursuit of a very expansionary fiscal policy. Perhaps surprisingly, the economy continued to expand past the peak of additional Compact funding in FY2004, but this was the result of greater private and public sector investment. With the onset of the world recession in FY2008 and large increase in prices of fuel and food, the economy went in to recession with declines in economic activity in both FY2008 and FY2009. While the world economy will inevitably grow out of recession, the RMI is faced with problems that require economic restructuring before a return to growth can be expected. The SOE sector requires substantial subsidies and support that are not sustainable in the medium or long-run. The utility sector has not fully adjusted to higher fuel prices and poses a significant risk to the financial stability of the nation. The trend increase in the size of government for much of the 2000s is also not sustainable, given the scheduled decline in real Compact revenues. While a period of restructuring targeted to achieve financial stability is

required in the medium term, only an improvement in the opportunities for private-sector-led growth can support sustained growth.

2. POPULATION, INCOMES, DISTRIBUTION, AND POVERTY

12. Population in the RMI has historically grown at very high rates. From 1980–1988, in the lead-up to Compact I, the annual average rate of growth was 4.3% (Table 1). Population in Majuro grew at 6.6%, reflecting the emergence of a modern 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 the scheduled population census of 2009 has been delayed, current indications are that the population in Majuro has grown rapidly, and there has been increased inward migration from the outer islands. A household water survey conducted by EPPSO in early 2009 found a total of 4,335 occupied residential households in the entire atoll; this number suggests that Majuro’s population has now reached nearly 33,000 (assuming an average household size of 7.6). While overall population growth has been moderated by out-migration, inward migration from Asia has been significant.

13. Limited job opportunities and the depressed nature of the economy during the latter part of Compact I encouraged large-scale migration to seek employment opportunities and better rates of remuneration in the United States. Migration plays an equilibrating role: as incomes decline, outward migration compensates, improving the average income levels for those remaining. However, outward migration will have a distorting impact on the local economy if it is achieved through a loss of economically active and skilled individuals. Such a loss of human capital would reduce the long-run productive potential of the economy.

14. Table 2 provides further information on current migration rates and net movement of passengers between the RMI and various U.S. destinations. Since the destination of nearly all flights originating from within the RMI is a U.S. point of entry, the figures pro-

Table 1 Population by major centers and population growth, 1967–1999

	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%

Source: Census Reports

vide a very useful indicator of net migration. The table indicates the average rates of migration since 1990 in three groups: expansionary phase of Compact I, contractionary phase, and Compact II. 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 0.8% during the early Compact years accelerated to 2.3% during the depressed era of Compact I and continued at the lower rate of 1.7% during the improved period of Compact II. The table also implies that out-migration from Majuro has been more rapid than from Kwajalein.

15. Fig. 5 indicates the changes in constant-price GDP and real GNDI per capita in 2000 prices. The constant-price GDP estimates are derived from chaining the earlier GDP series with the current national accounts series, and real GNDI includes the primary and secondary incomes received and paid to the rest of the world. The major differences between the two measures are the compensation of employees of Marshallese workers at the Kwajalein base, rent received by Kwajalein land owners, and the receipt of current transfers from the U.S. and other donors (see “Balance of Payments” for a list of primary and secondary income flows). The GNDI estimates begin in FY1997 and indicate the far higher level of disposable incomes when the additional flows are taken into account. In FY2009, GNDI per capita was over \$1,477, 61% higher than the current price GDP per capita of \$2,424.

16. Fig. 5 provides a clear picture of the developments in average real incomes. The advent of the Compact marks a clear and significant improvement in GDP per capita during the run-up and early years of the Compact. Growth was boosted by the new receipts of Compact funds and the series of bond issues that enabled the nation to fast-track public expenditures (including embarking on a series of risky public projects and ventures). However, the gamble on public sector involvement in productive activities did not pay off, and the nation was forced into a difficult period of decline, as the economy adjusted to low levels of net aid transfers depleted by the need to repay the former extravagances. In 2000, matters improved, as fiscal stability was restored with new donor assistance, repayment of the debt, and a favorable financial outcome of the amended Compact negotiations. Between FY2000 and FY2007, GDP per capita expanded by \$398, an average rate of 2.3% in each year, but failed to regain the level achieved in the mid 1990s. In FY2008

Table 2 Net movement of air passengers between the RMI and U.S. ports of entry and percent population

	1990-1996			1997-2003			2004-2009		
	Net Departures	Population	Net Migration	Net Departures	Population	Net Migration	Net Departures	Population	Net Migration
Kwajalein	-25	8,775	-0.3%	-211	9,446	-2.2%	-79	10,114	-0.8%
Majuro	-360	21,408	-1.7%	-970	24,093	-4.0%	-808	26,882	-3.0%
RMI	-384	47,147	-0.8%	-1,181	50,546	-2.3%	-887	52,790	-1.7%

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.

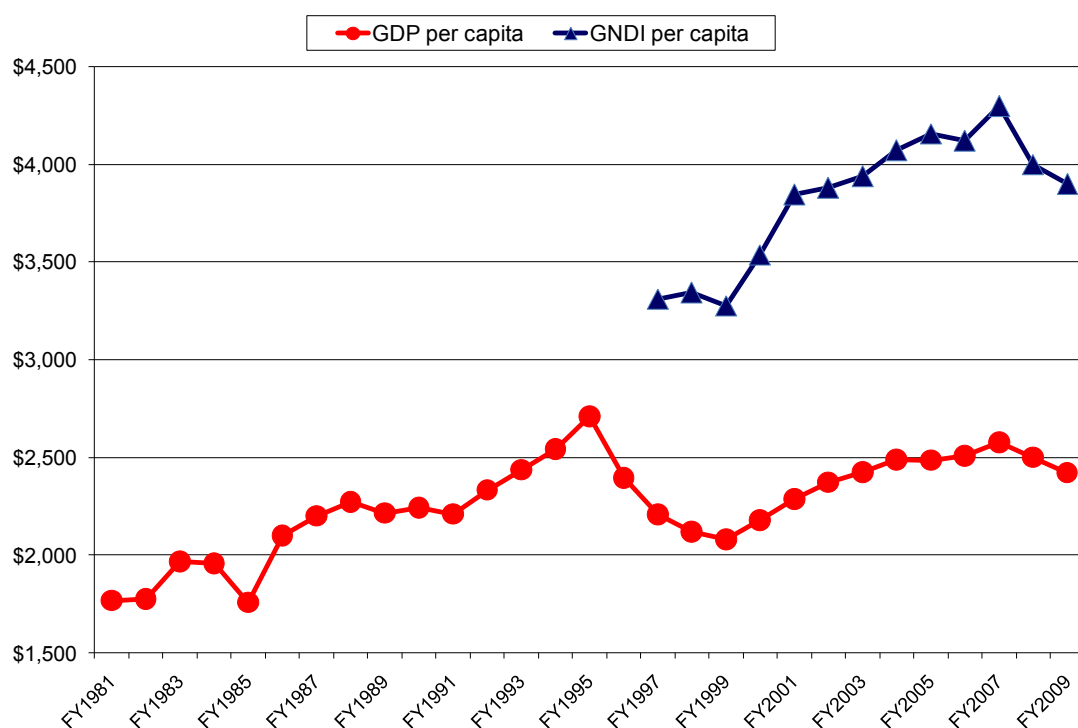


Figure 5 GDP per capita, constant prices 2000, \$'s 1981–2008

and FY2009, GDP per capita faltered and took a sharp downward turn as the economy went into recession.

17. Fig. 5 also includes the trend in GNDI per capita from FY1997. While the trend matches that of the GDP series, the rate of increase during FY2000–07 has been more rapid; GNDI per capita increased by a total of \$759 in FY2000 prices, an annual average growth of 2.8%. In FY2008 and again in FY2009, GNDI per capita took a strong downward dip, reflecting the world economic recession and loss of purchasing power due to rapid inflation. With significant population growth and a reduction in real revenues programmed over the remainder of the amended Compact period, the nation faces the harsh reality of declining real incomes and continued out-migration, unless an alternative source of growth is found.

18. While this review is macroeconomic in nature, it would be remiss not to comment on income distribution issues and their impact on the economy. Drawing on discussions raised in the 2002 Assessment of Hardship and Poverty (ADB), the 2005 Social and Economic Report (ADB), and the recently completed 2009 National Millennium Development Goals (MDG) Progress Report (UNDP/EPPSO), we note that while abject poverty, starvation, and destitution may not yet be present in the RMI, there are clear signs that certain groups are facing increasing hardship. RMI is demonstrating mixed progress on MDG1 (eradicate extreme poverty and hunger), and there are growing concerns over high

unemployment, financial hardship (including declining real incomes coupled with staggering consumer debt), hunger and poor nutrition.

19. According to 1999 census data, two-thirds of outer islanders have an income less than \$1 a day (in 1993 purchasing power parity terms). Fig. 6 provides an overview of average per-capita cash income in the various atolls of the RMI. The data are drawn from the 1999 census and exclude substance production and home ownership, which are usually included in the definition of income. In the outer islands, subsistence production compensates for the lack of cash income, and the emerging picture of income distribution is thus more extreme than the reality on the ground. Economic activity clearly differs between the urban centers of Majuro and Kwajalein—the centers of the nation’s cash economy and labor market—and the outer atolls. Cash incomes in Majuro and Kwajalein are four times those of the outer atolls. However, within the outer atolls, the cash incomes of the nuclear-affected communities of Enewetak and Kili are substantially above those in the other islands. In the non-nuclear affected islands, average per-capita incomes range from \$71 a year on Lib to \$672 on Jaluit; on average, this equates to slightly less than \$1 a day. Clearly the lack of income earning opportunities has provided a strong incentive to migrate to the two major urban atolls and, externally, to the United States.

20. While Fig. 6 provides an important picture of the spatial distribution of income, it says little about the characteristics of the distribution of income. According to 1999 census data on household income, the RMI has a Gini coefficient of 0.54 (a standard meas-

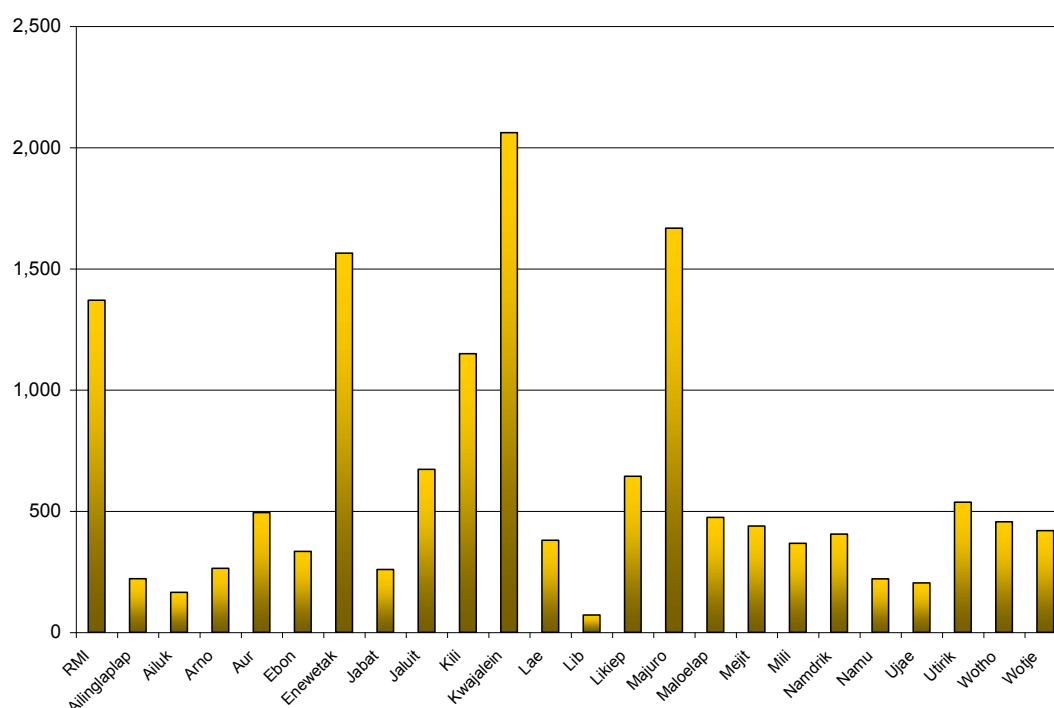


Figure 6 Average per capita income by island. \$'s (1999: population census).

ure of income inequality ranging between 0 and 1, with higher levels indicting greater inequality). The level of inequality in the RMI is greater than Fiji at 0.46, PNG 0.46, Samoa 0.43, Tuvalu 0.43, Tonga 0.42 and the FSM 0.41 for the similar period 1999-2000. While strict comparison between countries may not be appropriate, as other Pacific Island measures may include subsistence, the figures for RMI nevertheless indicate a high degree of inequality.

3. EMPLOYMENT, EARNINGS, AND WAGES

i Employment

21. At the end of the 1990s the economy underwent significant stress because of the need for significant reform, and it undertook a series of painful adjustments. These trends are reflected in Fig. 7 and are based on quarterly data collected by the Marshall Islands Social Security Administration (MISSA), adjusted by EPPSO. The figures are estimated from the returns submitted to MISSA by employers, and employment is measured by a count of individuals, regardless of how many hours each individual may have worked during the quarter. Two prominent trends are discernable from the data: the recent growth in numbers employed by the public sector—specifically, the RMI government—and similar but erratic growth in private sector employment

22. Developments in private sector employment in the first part of the 2000s have been dominated by public-sector-led expansion in the economy, the opening of the PMOP fish loining plant in FY2000, and its subsequent closure in FY2004. In FY2005 employment in the private sector fell by 14% (592 employees), to a level of 3,579, the lowest since FY2000, when the PMOP plant first opened. However, in the remainder of

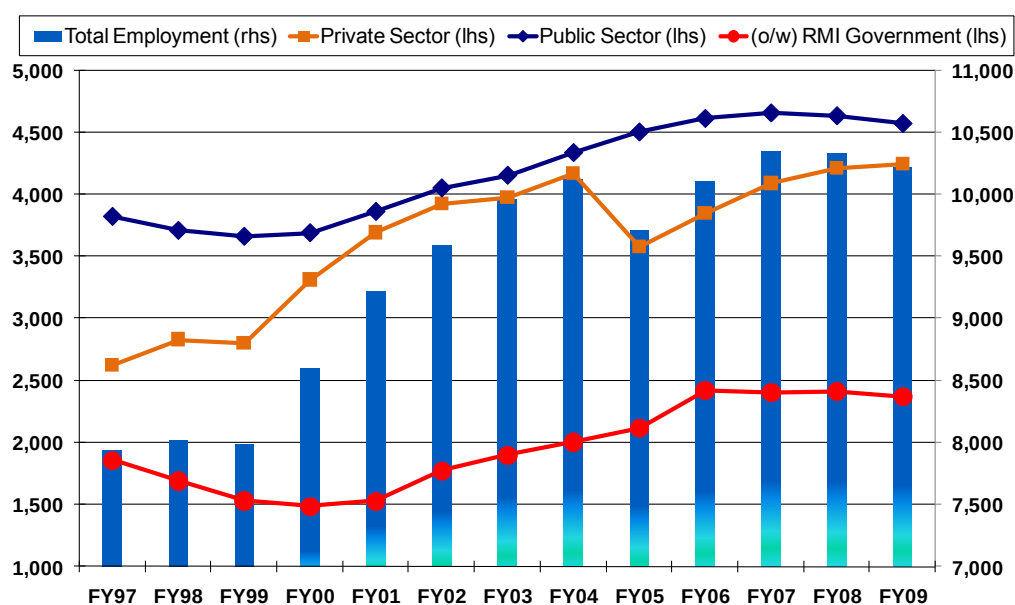


Figure 7 Employment in the private, public and RMI government sectors.

the period, private sector employment continued to expand, despite the drop in private sector GDP. In FY2006 and FY2007, construction activity created a strong demand for additional labor and in FY2008, the fish loining plant reopened, adding 160 jobs and a further 250 in FY2009, compensating for the reduction in construction activity.

23. From a declining level of employment in the late 1990s, public sector employment expanded strongly from FY2000 and peaked in FY2007. Public sector employment (including public enterprises, agencies, local and central government) grew by 27% between FY1999 and FY2007, an annual average rate of 3%. Of the four components of the public sector, the RMI government, which in FY2009 represented 52% of total public sector employment, has been the dominant force in the expansion. It is important to note the impact of the switch in funding of Head Start, which provided preschool education administered by the national government, through an independent unit, to the SEG. Also, in FY2007 the government created the Marshall Islands Shipping Corp., and there was a decline in national government employment as well as an offsetting rise in the SOE sector. In FY2008 and FY2009, while government employment has held its level, employment in the two local governments has fallen back, resulting in an overall fall in public employment.

24. The result of these trends is that employment in the economy as a whole expanded strongly between FY1999 and FY2007 at an annual rate of 3.3%. In FY2008 and FY2009 retrenchment in the US base at Kwajalein offset the reopening of the loining plant and employment fell by 8% and 6%, respectively. The combination of fiscal expansion, creation of substantial new jobs in the public sector, and expansion in the private sector, despite the closure and reopening of the fish loining plant, has provided gainful employment to a large number of Marshallese. However, public sector employment has peaked, and some retrenchment may be unavoidable as current fiscal pressures require adjustment. It is thus clear that generation of future employment opportunities will require a switch in strategy to private-sector-led growth, if the rate of out-migration is to decline.

25. Fig. 8 indicates the structure of employment, excluding government, education and health. The wholesale and retail trade sector (34%) employs the greatest number. Other activities, such as banks and real estate (8%), hotels and restaurants (4%), and construction (11%), provide much of the nation's private sector employment, with fishing making a relatively small contribution (12%) since the reopening of the loining plant in 2009. Manufacturing and agriculture ("others") are insignificant employers. The Kwajalein U.S. base is included in the dataset and represents a significant proportion of total private sector employment (17%). Employment in the base was projected to fall by 669 jobs out of a total of 1,239 due to advances in technology (such as the recently completed fiber optic connection) that enable operations to be conducted from the U.S. mainland. However, current data indicates that the anticipated reduction has been much less severe than expected, and jobs have actually fallen by only 211 since the downsizing.

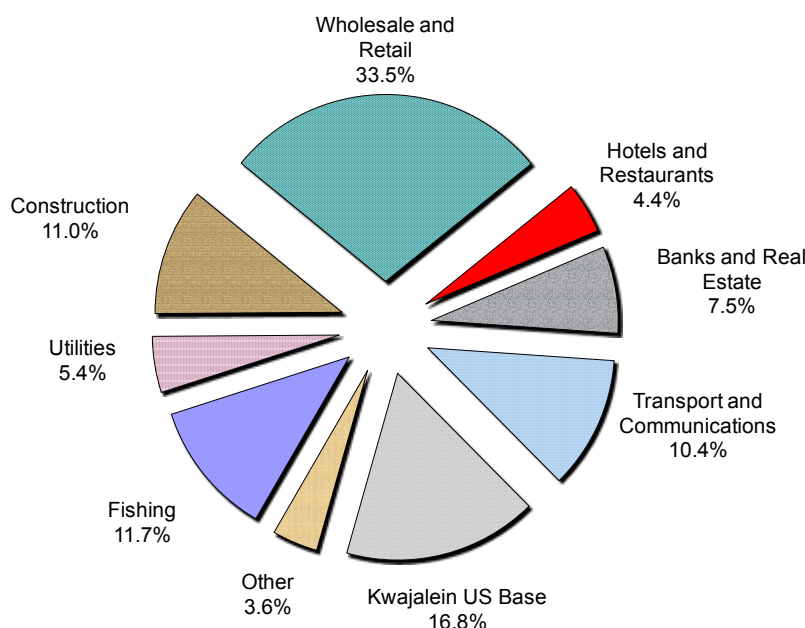


Figure 8 Employment in the Private Sector by Major Industrial Sector, FY2009

ii Wage Rates

26. The data on nominal and real wage rates is derived from dividing the MISSA-sourced reported earnings levels by employment numbers. Although this is not an exact estimate of wage rates, it should closely approximate change in wage levels. Fig. 8 reveals a series of interesting trends. First, public sector nominal wage rates rose during the late 90s, reflecting the fact that the RIF involved a disproportionate loss of low-paid workers. In the first part of the 2000s, nominal wage rates continued to rise rapidly approximating an annual average rate of 3.3% in the FY2000-FY2004 period reflecting the relative abundance of resources. In the FY2005-FY2009 period as the fiscal situation tightened public sector wages moderated and grew by 1.1%. For the private sector, the pattern is different. The PMOP plant depressed average rates when it came into operation in FY2000, but wages continued to fall through FY2004 until the plant ceased operations, and average wages rose in FY2005. During the later period through FY2009 nominal wage rates have grown modestly, but did not experience any dip in FY2009 when the fish loining plant reopened.

27. It is not possible to conclude that public sector wage rates for similar skills are higher than in the private sector. However, it is clear that the wage differential between the sectors has widened significantly. In FY1997 the wage differential was 51%, but by FY2004 this had increased to 148% and fell back to 116% in FY2009. The widening disparity would have encouraged a shift of resources (i.e., labor) to the public sector. Fig. 9 also indicates that real wages largely held their value through FY2007. However, in

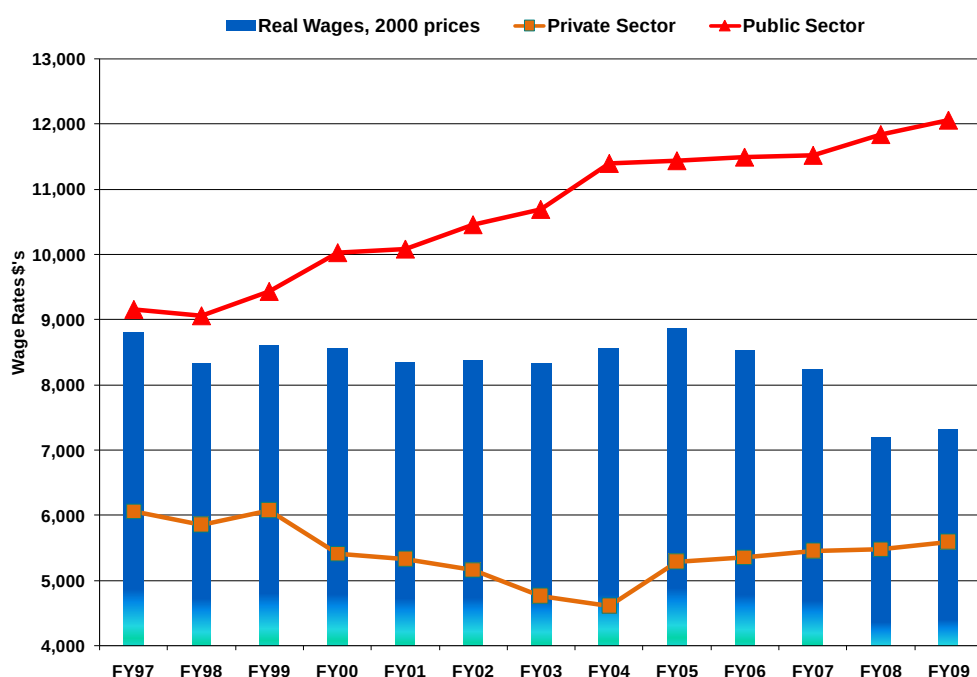


Figure 9 Nominal and real wage rates by major institutional sectors

FY2008 the RMI experienced a rapid increase in inflation, reflecting rising world prices in food and fuel which significantly eroded real living standards. The average real wage fell by 13% in FY2008, but moderated in FY2009 as prices returned to more normal levels reflecting the onset of recession in the world economy.

4. SECTORAL DEVELOPMENTS

i Agriculture

28. **Policy overview:** Policies and priorities surrounding agricultural activity and production have varied over the years. While the importance of agriculture for basic subsistence and nutrition has always been maintained, national agricultural policy has increasingly emphasized the potential of agriculture as a commercial and value-adding economic activity. Copra has been the dominant commercial agricultural activity in the RMI now for over 100 years, with productivity and export levels reaching their pinnacle during the 1920s and 1930s under Japanese administration. In 1976, while still under Trust Territory Administration, the RMI established a Copra Stabilization Board Act, which was subsequently replaced by the Tobolar Copra Processing Authority (by Act) in 1992.

29. Policy and planning for agriculture and related activities fall under the Ministry of Resources and Development, whose Strategic Plan for 2005-2010 articulated numerous objectives: increasing domestic food production and consumption (including establishment of new farmers' markets in the two urban areas); ensuring adequate supply of agricultural inputs into for the production of coconut, as well as handicraft, medicine, and

other non-food products; protection against the introduction and spread of injurious pests and diseases; increasing exports of niche and value-added products; increasing the value of coconuts and coconut products; and reducing dependence of outer island communities on imported fuel and copra subsidies. With limited national investment into agriculture (aside from the contributions to the copra industry), the majority of activities and projects are funded by development partners.

30. ***Trends and developments:*** Domestic (non-copra) agricultural production and consumption data are very limited. A household survey in 2006 conducted by EPPSO showed that a large portion of rural households continue to rely on home production for own consumption (of 244 homes surveyed in Wotje, Jaluit, Arno and Likiep, around 80% kept and relied on home-grown crops such as breadfruit and pandanus), and well over half relied on copra as a source of income.

31. In 2008, a sharp rise in global prices for coconut oil translated into a boom year for local copra production, but by mid-2009, prices had fallen back towards pre-2008 levels, and the RMI has had to revert to heavy copra subsidies. In 2009, management of the Tobolar processing plant reverted back to the Government after the private company that had been operating the plant since the late 1970s announced it would discontinue its management role. A newly appointed Tobolar board has expressed interest in re-contracting management and is looking into various options for upgrading the plant's production capability. In 2010, an Asian Development Bank (ADB) and Government of Japan grant was approved to trial a coconut oil and diesel blended fuel for the main power plant in Majuro. If successful, the use of the blended fuel for power generation would help to stabilize Tobolar's revenue source (and therefore the revenues of copra farmers) and possibly reduce costs for the Marshalls Energy Company.

32. In 2010, a second ADB grant was approved to support a national coconut tree replanting scheme. The scheme would support a nationwide replanting scheme that would replenish ageing coconut plantations as well as provide income support for outer islanders.

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

34. The high inflation in the prices of imported rice and other staple foods in 2008 prompted the Government to reconsider and refocus efforts on strengthening basic food security. Food security is now a key strategic priority of the Ministry of Resources and Development and recent technical assistance, including from the United Nations Food and Agriculture Organization, aims to strengthen domestic crop production and self-reliance.

ii Fisheries

35. **Policy overview:** 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 government's role to directly own, operate or tax the means of production, including the vessels, processing plants, and other facilities. Moreover, local participation in fisheries was strongly favored over foreign involvement and investment. But by the mid-1990s, 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. This prompted the RMI to rethink its policy, and with additional support from the ADB, a new direction was taken. The RMI's first National Fisheries Development Plan (NFDP 1997) aimed 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 significant new investment and growth since 1999.

36. The RMI maintains its business-friendly policy, but greater regional concern has emerged over several key issues, including (i) the sustainability of the tuna stocks (particularly yellow-fin and big-eye tuna); and (ii) 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 become increasingly vocal over the effectiveness of the current fishery model and have resolved to establish their own intergovernmental body to begin considering new and more collective policies and approaches to address their concerns. In 2009 the new PNA Secretariat was established on Majuro and plans are now underway to re-analyze the industry and to consider new options for reform. The overarching policy priorities are to conserve and sustain the fishery and to assert more influence on the impacts and outcomes of the fishery, including better economic returns to PNA states.

37. **Trends and developments:** The RMI's commercial fishery sector has been a primary source of employment and economic growth. Currently, the industry employs 969 persons, with the recently established Pan Pacific Foods tuna loining plant, the largest single fisheries operator, now employing 380 persons.

38. The sector has grown and diversified in recent years. Currently, four Majuro-based operations are engaged in the harvesting, processing and export of skip jack (for the canned tuna market), yellow-fin, and big-eye (for the sashimi market). Fish exports from the RMI totaled \$5.8 million in FY2009. A recent Australian-owned venture in caged fish farming operated a pilot operation in Majuro lagoon, but recent rises in transport costs prevented full operations (and exports to Asia) and the business has now

closed. 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). A Taiwanese firm has gained clearance for establishing a large-scale drydock with capability to service purse seiners in Majuro. A site for the new drydock has been secured and initial work on the site is underway.

iii Tourism

39. **Policy overview:** Tourism has long been identified as a priority sector for development in the RMI. Tourism's potential as an economic driver was recognized in the early development plans of the first Compact, and in 1991, the Nitijela enacted the Marshall Islands Visitors Authority (MIVA) Act to facilitate tourism planning and development. Technical assistance from the ADB in 1996-1997 helped strengthen MIVA's autonomy and provided the RMI with its first medium-term marketing and development strategies (focusing on niche markets). 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).

40. The NTDP identifies three spatial and sequencing priorities over the short-term: (i) to further develop Majuro into an attractive and well functioning hub and gateway to the rest of the country; (ii) to begin laying the foundation for opening up Kwajalein Atoll for tourism development, with the longer term goal of developing Kwajalein into the second international hub and gateway; and (iii) 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.

41. **Trends and developments:** The industry remains small and has contracted in recent years. Total arrivals peaked in 2004 and 2005 with each of these years recording more than 9,000 air and sea visitors. But arrivals have fallen sharply in recent years, with 2008 and 2009 recording just 6,022 and 5,372 total arrivals. Cruise ship arrivals remain sporadic and special charter flights from Japan in 2007, 2008 and 2009 have been discontinued. In mid 2010 a new Continental 'mini-hopper' airline service commenced, adding one weekly direct flight from Guam and Honolulu to Majuro, increasing the number of available inbound seats by 33 percent. This service's direct Guam-Majuro weekly connection should help boost travel from Asia.

42. The accommodation base has seen some expansion in recent years, with new facilities in Majuro (on the main island and in the northern islands) and Rongelap. In 2008 a new live-aboard operator began offering seasonal tours in the RMI and in 2010 the same operator proposed plans to construct a small resort in northwestern Ailinlaplap

atoll. In 2008 one of the RMI's key tourism attractions, Bikini Atoll Dive Resort, terminated operations because of problematic domestic air service. In mid 2010, Bikini Atoll was accepted by the United Nations Education, Scientific and Cultural Organization (UNESCO) as a World Heritage site, and it is anticipated that this will spark interest in re-establishing resort operations on Bikini. Domestic air service, however, remains the binding constraint, with the poor and unreliable performance of Air Marshall Islands (a state-owned enterprise) continuing to prevent any real prospects of outer island tourism development. Hotels and resorts employ a total of 262 persons in FY2010, with no strong growth trend in the past five years.

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

B. Monetary Developments and Prices

1. PRICES

44. Fig. 10 indicates the annual percent changes in the RMI CPI since FY1990. It might be expected that inflation in the RMI would follow trends in the United States, given the close historical ties, although in recent times the emergence of strong ties with the ROC would have resulted in changed sources of supply. Inflation in the RMI has mostly

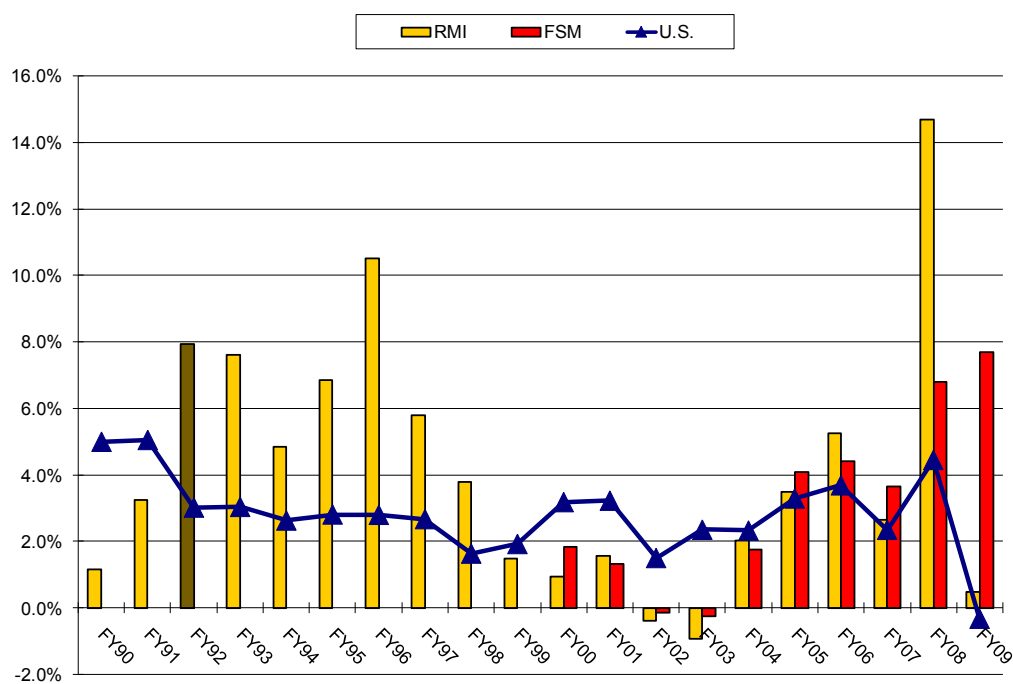


Figure 10 Change in CPI: RMI, FSM, and U.S. (percent); FY1984–FY2008

been moderate, although in the mid-1990s rates were above U.S. norms. The early part of the 1990s was a period of rapid growth in GDP, and expansion in demand would likely have resulted in acceleration of inflation. In more recent times, from FY1999-FY2004, the rate of inflation in the RMI moderated significantly and fell below U.S. rates, despite the pick-up in economic growth and additional demand in the economy. More recently, between FY2005 and FY2007, inflation in the RMI was very similar to the U.S. In FY2008, the rate of inflation rose to 15%, reflecting very large increases in food and energy prices, but dropped back to 0.5% in FY2009 with the moderation in prices as the world economy went into recession. Comparative data for the FSM have been included in Fig. 10 for those years for which they are available. The two countries show a very similar experience and trend in the average price level, although the recent experience of rapidly increasing food and energy prices was concentrated in FY2008 for the RMI, but was spread out over two years in the FSM.

45. From the first quarter of 2003, the Economic Planning, Policy, and Statistics Office (EPPSO) initiated a new CPI series based on the 2002 Household Income and Expenditure Survey. Fig. 11 indicates changes in the new index for selected commodity groups since Q1 of 2004. Clearly, the most dominant price change has been in the housing and utility section of the CPI, reflecting the impact of higher utility prices, which peaked at 62% in Q3 of 2008. The changing environment confronting the MEC required large changes in electricity prices because of both a hike in world fuel prices and a need to charge prices more closely related to the basic costs of operations. The direct impact of higher fuel prices is seen more clearly in transportation prices, which rose by 42% in the

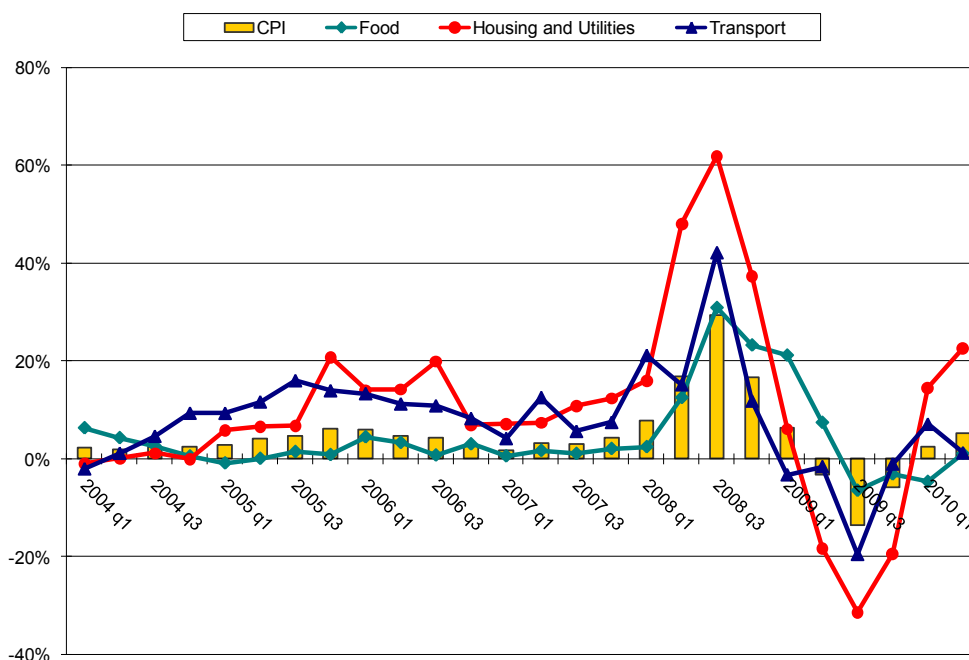


Figure 11 Change in CPI by selected major commodity groups; FY2004–FY2010

same quarter. Reflecting the increases in world food prices, which have had serious consequences for developing nations, the food section of the CPI rose by 31%. The combination of these forces resulted in the CPI rising by 15% in the RMI, to rates not experienced since the mid-90s. In 2009 food and fuel prices moderated significantly to levels below the 2008 levels. In the Q3 of 2009 fuel prices had fallen by 31% and food prices by 20%. By 2010 price changes were less erratic and the overall CPI rose by 2.5% and 5.2% in the first and second quarter, respectively, although the housing and utility section had again recorded a rate of inflation of 23%.

2. MONEY AND BANKING

46. With the adoption of U.S. currency in the RMI, macroeconomic policy and adjustment has been limited to fiscal policy. The use of a foreign currency is practiced in many other small island economies of the Pacific and has served the RMI well. While the range of macroeconomic policy options is limited, it has removed the potential to use inflationary monetary policy to adjust to changes and reductions in Compact funding. Consequently, the RMI has no means of adjustment to reduced levels of resource transfers, other than the more politically painful policy of directly cutting government expenditures, reducing public sector employment and wages, and increasing domestic revenues. Furthermore, the use of a foreign currency has removed exchange rate realignment and devaluation, to encourage the export and traded goods sectors of the economy. At this stage of RMI economic development, with many underlying structural impediments, exchange rate adjustment without accompanying supporting policies would be unlikely to have encouraged a favorable supply response in traded goods production.

47. The banking system in the RMI is regulated by the banking commissioner, whose role includes licensing of domestic and foreign banks, on and off-site supervision of all commercial banks, and consumer protection. The Marshall Islands Development Bank does not currently come under the regulatory inspection of the banking commissioner. Until December 2002, until the Bank of Hawaii withdrawal from the market, there were two U.S. banks operating in the RMI. There is one locally owned bank, the Bank of the Marshall Islands. The remaining U.S. bank, the Bank of Guam, is a branch of its parent registered in the U.S., comes under U.S. federal supervisory requirements and is FDIC insured. Although the financial system has provided satisfactory and secure banking services, the marketplace, because of its small size and lack of a well developed supervisory capability, requires careful monitoring.

48. Since there is no independent monetary policy, domestic interest rates are closely aligned with those in the U.S. Deposit interest rates observed in the market are broadly similar to those throughout the United States. From 1997–2000, average three-month deposit rates were just 4.1% (see Appendix, Table 6c), but they were subsequently reduced, following the general easing of monetary policy in the United States. By 2004, the three-month deposit rate had fallen to 1.3%; it strengthened slightly in FY2005–FY2007 but fell back to 1.8% in FY2008 and in FY2009 stands at 2.5%. Lending rates, however, are generally higher, reflecting the additional risk, costs of doing business in the RMI, and li-

mitted competition. Interest rates on consumer loans averaged 18.2% during FY1997–FY2009, while those on commercial borrowing have been more sensitive to market conditions and have fallen in each of the last 4 years to 8.9% in FY2009. As in many developing countries, financial intermediation is accompanied by a significant spread between lending and deposit rates.

49. Statistics on the RMI banking sector are available from 1992 onward (see Appendix, Table 6), and major trends in lending and the deposit base are shown in Fig. 12. On the deposit side, there has been a general steady increase between 1997 and FY2009 averaging 6.3%. On the lending side, developments reveal a different picture. Commercial bank credit was stagnant in the late 1990s as a result of the financial crisis and the RIF of public servants. Confidence returned in 2000 till the end of Compact I, and bank lending grew steadily by an annual average of 5.2% between 1999 and FY2004. In 2002, Bank of Hawaii departed the RMI, but Fig. 12 suggests that the runoff in business was picked up by the remaining banks. Certainly, the departure of Bank of Hawaii had much less financial impact on the RMI than on the FSM, where lending dropped by more than half. At the start of Compact II lending was largely static during the first three years through FY2006, but since that time has grown very rapidly by an annual average rate of 12.8% between FY2006 and FY2009.

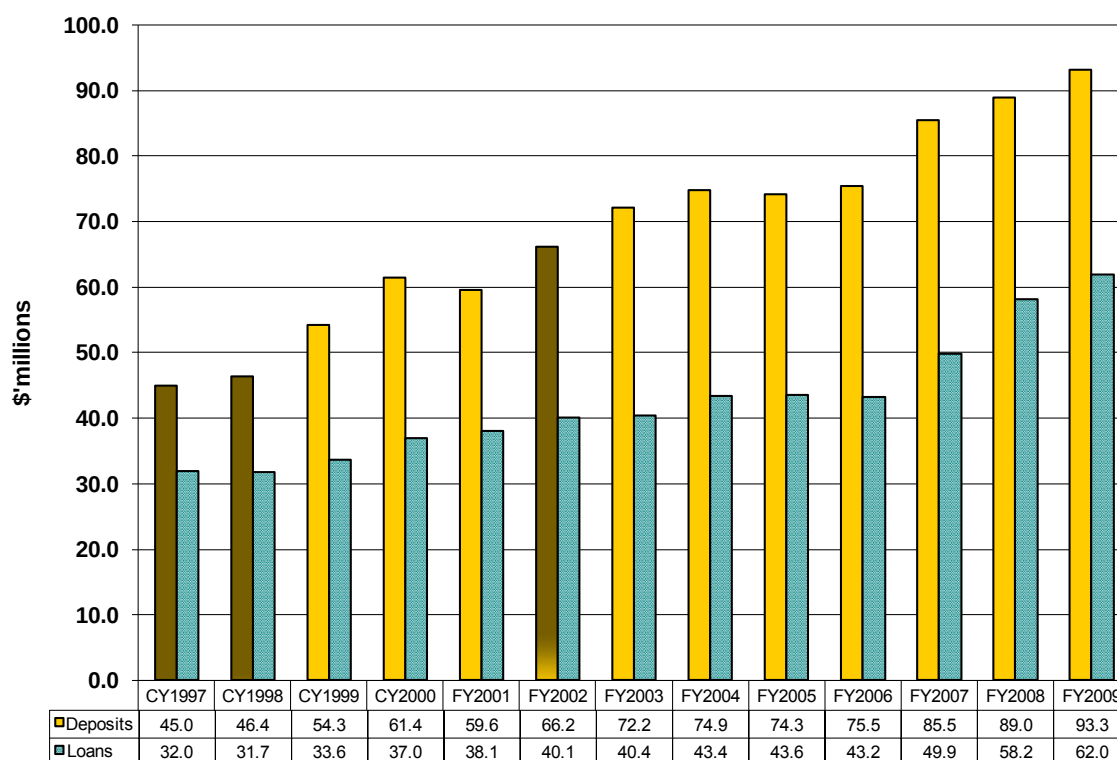


Figure 12 Commercial bank loans and deposits (end of period)

50. The difference between loans and deposits indicates the large level of liquidity in the RMI banking system and is another example of a widely observed phenomenon in the Pacific Islands region: capital is not a factor of production in short supply. Reflecting the trends described above with deposit growth outstripping the increase in lending, the loans-to-deposit ratio fell from 77% in 1997 to 57% in FY2006. In the last three years from FY2006 through FY2009 the ratio has since returned to 68% with the rapid growth in lending. The large difference between the level of deposits and loans is invested off-shore, and, mirroring the trends in credit, the level of foreign assets rose from \$19 million in 1997 to \$64 million in FY2009 – an annual average growth rate of 7%.

51. Fig. 13 indicates the extension of credit to the private sector in the consumer and commercial markets since 1997. After a weak period in the late 1990s, consumer credit expanded rapidly in the early 2000s, as confidence in the economy returned, and the government embarked on a rapid increase in the size of the public service sector. In 2005, lending opportunities for consumer credit took a dip but returned to their upward trend in FY2007. Between 1999 and FY2009, consumer credit grew by an annual average of 7.3%. As pointed out in the recent IMF article IV mission consumer lending stood at 47% of total compensation of employees in the economy. Deducting out payments for taxes, social security, and health insurance the ratio to household disposable income is even higher. While there may be some misclassification of consumer loans that may in fact be

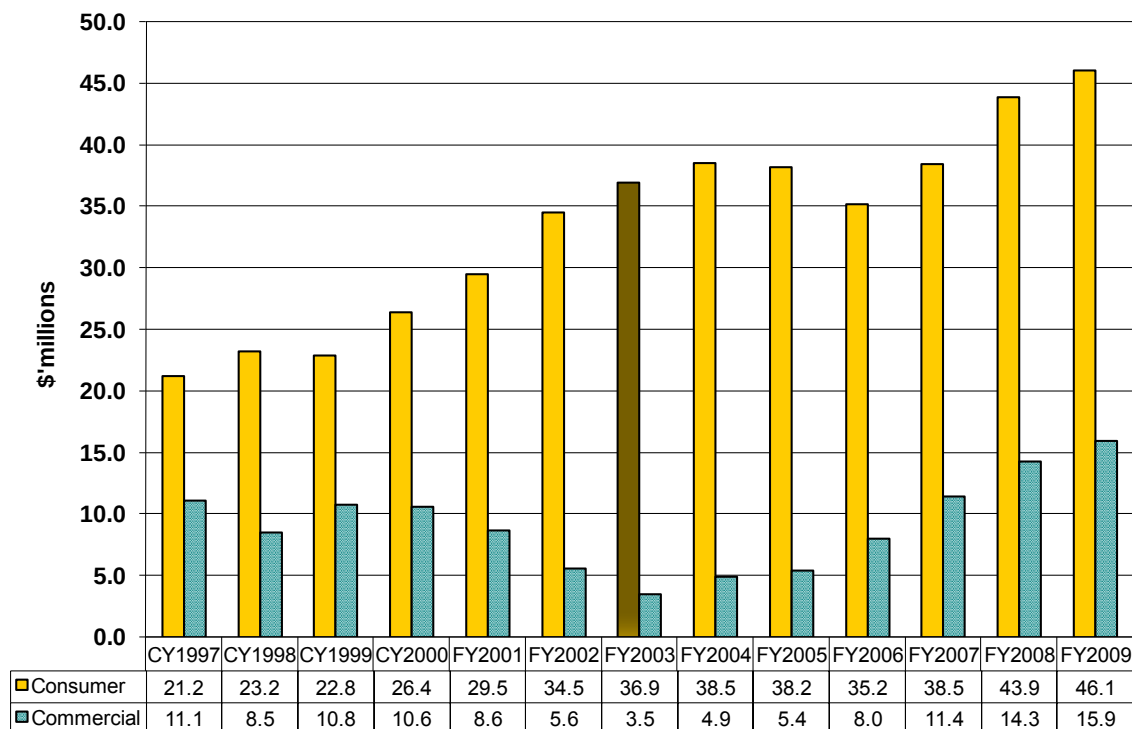


Figure 13 Commercial bank credit by sector

for business purposes, the figures indicate a high level of household indebtedness, which will not only place stress on household finances, but also poses a threat to the banking system.

52. While growth in consumer credit has been rapid the opposite happened in the commercial sector, which collapsed after 2000. This segment of the market was indeed affected by the loss of Bank of Hawaii. The remaining two banks failed to pick up the released business, in certain cases because of a lack of solvency. From a figure of \$10.6 million in commercial lending in 2000, the market fell to \$3.5 million in 2003. There has been improvement since that time, and outstanding commercial credit stood at \$15.9 million at the end of FY2009. However, commercial lending to the private sector has been lackluster and reflects lack of collateral, poor business management, and the many impediments to lending. With planned improvements in “secure transactions” law, it is hoped that this segment of the market, which is of critical importance to private sector development, will show signs of expansion.

C. Balance of Payments and External Debt

1. BALANCE OF PAYMENTS

53. During the preparation of the data for the FY2008 statistical appendix, a special effort was made to improve the RMI balance of payments. This effort continued with the current review for FY2009 and includes a presentation of the RMI International Investment Position or IIP. While much work is still to be undertaken, it is felt the current BoP statistics are now as accurate as the other RMI economic statistics. Although improvement of external statistics was the main reason for the overhaul of the BoP, a desire to produce estimates of GNI and GNDI was also important, and a new section has been added analyzing the changes in the national accounts aggregates.

54. The current account of the BoP is presented in abbreviated form in Table 3 and in more detail in the statistical appendix. The trade account is composed of imports and exports. Exports are comprised of three main items; fuel re-exports (MEC off-shore fuel sales), fish and others (coconut products, fish, and a few other small items). Up till FY2009 fuel represented 76% of total exports. In FY2009 with the re-opening of the fish loining plant exports of fish indicate a substantial increase, (the production of the PMOP plant has been classified as under services). Estimates of imports are based on customs duty collections and divided by an estimate of the average tariff rate. Detailed trade data by commodity is not produced in the RMI and has been a major weakness in the nation’s statistical systems. The government is considering implementing a new computerized tax administration system and hopefully this can be used to monitor information on imports and the commodity composition of supply.

55. The service account on the receipt side comprises a series of small items: trans-shipment fees of fishing fleets restocking in the RMI, travel expenses of visitors to the RMI, and a group of other exports including port facilities, telecommunications, etc. In

Table 3 Balance of payments, current account (FY2002–FY2009, US \$'millions)

(US\$ millions)	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
<i>Current account balance</i>	-0.8	-10.4	-3.1	-6.8	-4.4	-2.4	-2.0	-23.9
<i>Goods and services balance</i>	-76.4	-86.7	-85.0	-98.4	-98.5	-106.0	-105.2	-124.1
<i>Goods balance</i>	-49.3	-57.9	-53.2	-61.7	-63.9	-69.2	-68.6	-74.9
Exports of goods	15.1	17.5	18.8	23.4	17.9	18.3	21.7	22.1
Fish 1/	0.4	0.4	0.4	0.4	0.4	0.7	0.8	4.8
Other	14.7	17.1	18.4	23.0	17.4	17.6	20.9	17.3
Imports of goods f.o.b.	64.4	75.4	72.0	85.1	81.8	87.6	90.3	97.0
<i>Services balance</i>	-27.1	-28.8	-31.8	-36.7	-34.6	-36.8	-36.6	-49.2
Exports of services	10.4	11.8	10.8	10.2	10.2	10.0	10.7	12.2
Fish processing	3.2	4.3	3.7	2.0	2.3	2.3	3.5	4.8
Travel	2.8	3.1	3.0	3.1	3.1	2.9	2.7	2.9
Other	4.4	4.4	4.1	5.1	4.8	4.7	4.5	4.6
Imports of services	37.5	40.6	42.5	46.9	44.8	46.7	47.3	61.4
Transport	18.7	21.5	22.5	25.5	26.0	27.2	28.0	26.3
Freight and postal services	10.9	12.8	12.2	14.4	13.8	14.4	15.1	14.1
Passenger services	7.8	8.7	10.3	11.1	12.2	12.9	12.9	12.2
Other	18.8	19.1	20.1	21.4	18.8	19.5	19.3	35.0
<i>Primary income balance</i>	35.5	34.6	35.3	38.7	37.7	39.7	39.5	38.5
Primary income, inflows	43.9	43.2	46.1	49.8	53.9	54.5	53.5	49.7
Compensation of employees	19.1	20.4	20.6	21.2	23.3	22.3	19.9	20.1
Rent (Kwajalein landowners)	11.2	11.2	15.0	15.2	15.4	15.8	16.2	17.1
Dividends and interest	10.5	8.7	7.9	10.2	11.8	13.2	12.9	7.0
Other	3.1	2.8	2.5	3.2	3.4	3.2	4.5	5.5
Primary income, outflows	8.4	8.6	10.7	11.2	16.2	14.7	13.9	11.2
<i>Secondary income balance</i>	40.1	41.8	46.6	52.9	56.4	63.8	63.7	61.7
Secondary income, inflows	43.3	45.2	50.0	56.6	60.2	67.8	67.7	65.8
Government grants	33.4	35.9	40.1	46.0	49.6	53.6	57.2	54.5
Compact current grants	13.4	13.5	17.4	22.9	26.0	30.8	39.7	43.1
Other budget and off-budget grants	19.9	22.4	22.8	23.1	23.6	22.8	17.5	11.3
College of Marshall Islands	4.9	4.7	5.2	5.4	4.8	5.2	4.8	6.1
Other 3/	5.0	4.6	4.7	5.2	5.7	9.0	5.7	5.2
Secondary income, outflows 3/	3.2	3.4	3.5	3.6	3.8	4.0	4.0	4.0

total these flows have been largely static in recent years. On the payment side, the large item for freight and insurance represents the adjustment made to imports c.i.f. to estimate imports on an f.o.b. basis. Payments for passenger services represent payments for air travel which increased rapidly through FY2006, but since appear to have peaked. The remaining item, “other,” includes personal travel expenses overseas, business services, medical referrals, technical assistance, etc. The peak in payments in FY2009 for “others” represents payment of construction related services for a new fiber optic connection to the RMI.

56. On the primary income account, the two major items are the compensation of employees of Marshallese workers on the Kwajalein military base and the receipts for rent by the Kwajalein landowners. Since a substantial number of the Kwajalein landowners live in the U.S., only the transactions related to residents are included in the flows. Dividends and interest has grown strongly in recent years and largely represents earnings on the Compact and nuclear related trust funds. In FY2009 earnings fell reflecting poor market returns in the U.S. as markets crashed. The “other” category includes fishing rights

fees, shipping registry fees, and taxes on foreign owned businesses. While revenues from these items have generally been small there have been substantial increase in the receipts from the ship registry from \$1.0 million in FY2006 to \$3.3 million in FY2009. On the payments side, primary income flows are mostly represented by interest payments on external debt.

57. The secondary income account provides a very major source of income to the RMI. Budget grants include both the very sizeable Compact grants and other transfers received from the ROC and U.S. federal programs. Compact grants have shown an upward trend since the start of the amended Compact and reflects the increase in the absorptive capacity of the RMI to implement the grants rather than any increase in available funds. The drop in the other grants in FY2008 and FY2009 reflects completion of the FAA airport renovation at Majuro airport, and reduction of \$6 million in FY2009 of the ROC grant. "Other" receipts include inward remittance flows to households, which is an important item, but for which little reliable data exists. The College of the Marshall Islands also receives relatively large transfers from Pell grants and other U.S. federal grants. Remittance outflows are mainly household transfers and are estimated to be larger than inward remittances of Marshallese living in the U.S. Included in outward transfers are payments not only from Marshallese families but also from the sizeable Chinese and other Asian communities living in the Marshall Islands.

58. The capital and finance accounts of the balance of payments are shown in Table 4. The capital account includes Compact capital grants, which before FY2004 were represented by the original Compact I CIP funds and since that time by the use of the

Table 4 Balance of payments, capital account (FY2002–FY2009, US \$'millions)

(US\$ millions)	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
<i>Capital account balance</i>	21.8	19.2	10.3	17.9	33.8	32.9	29.4	33.8
Capital inflows	21.8	19.2	10.3	17.9	33.8	32.9	29.4	33.8
Compact capital grants	19.3	19.2	3.2	4.7	9.5	16.6	11.3	13.2
Other capital grants to government	2.5	0.0	7.2	13.2	24.3	16.4	18.1	20.5
<i>Net lending/Borrowing (Curr + Cap)</i>	21.0	8.9	7.2	11.1	29.4	30.5	27.4	9.9
<i>Financial account balance</i>	-0.8	-3.1	13.4	-12.4	4.8	-5.1	9.4	3.6
<i>Direct investment</i>	1.0	-1.0	1.3	3.4	-0.7	7.2	5.9	3.2
<i>Portfolio investment (increase in assets: -)</i>	-2.0	4.3	14.5	-10.7	-0.6	-7.7	4.4	-4.0
Assets	-2.0	3.6	13.9	-10.4	-0.5	-6.2	5.0	-4.8
Trust Funds, National Government	-17.5	-8.9	-7.0	-11.8	-11.5	-9.7	-9.7	-12.5
Trust Funds, nuclear related	15.3	13.9	26.3	6.3	14.5	9.9	6.8	10.4
Social Security	0.2	-1.9	-5.9	-4.8	-3.8	-6.4	8.0	-2.8
Other public sector investments	0.0	0.5	0.5	0.0	0.3	0.0	0.0	0.1
Liabilities	0.0	0.8	0.6	-0.3	-0.1	-1.5	-0.6	0.8
<i>Other investment (increase in assets: -)</i>	0.3	-6.4	-2.3	-5.2	6.1	-4.6	-0.9	4.4
Assets (bank deposits)	-7.2	-10.0	-2.7	-2.6	-4.0	-3.2	3.6	-6.5
Liabilities (public sector loans)	7.5	3.6	0.3	-2.5	10.1	-1.4	-4.6	10.9
<i>Errors and omissions</i>	20.2	5.8	20.7	-1.3	34.1	25.4	36.8	13.5

Compact infrastructure sector grant. In the early part of Compact II, capacity constraints limited the use of this grant, but performance has improved, and now most of the available funds are being used in capital projects. “Other” capital grants include receipt of funds for the Compact Trust Fund, which is matched by a contra entry in the finance accounts and grants to the Ports Authority.

59. As regards the financing account, direct investment flows have generally been small, but in FY2007 and FY2008 reflected the re-construction of the fish loining plant by Pan Pacific. Portfolio investment represents a series of important items. First, contributions to the Compact Trust Fund from the RMI, U.S. and ROC reflect the sizeable investments in the Fund (note that increases in assets are shown as negative in the BoP, while increases in liabilities are positive). Second, The U.S. paid sizeable reparations and funds for relocation to the islanders of Bikini, Eniwetok, Utrik and Rongelap atolls affected by the nuclear testing in the 1950s. Table 4 shows the sizeable recent drawdowns from trust funds and begs the question of sustainability in the longer-term. Third, the Marshall Island Social Security Administration, MISSA, holds significant reserves for future pension payments. In most years the figures indicate a buildup in funds, but in FY2008 a negative was recorded reflecting poor investment performance. The remaining item on the finance account—“other investment”—represents changes in commercial bank foreign assets, which has generally been a significant increase, and net changes in liabilities on external debt.

60. The structure of the balance of payments represents a large trade account deficit matched by substantial inflows on the primary and secondary income accounts. In essence the level of imports and services consumed is matched by earnings of Marshallese workers at the Kwajalein U.S. base, rent of the base, and Compact current transfers. The current account has recorded deficits in each year during the FY2002-FY2009 period averaging \$6.7 million. The capital account always makes a positive contribution, reflecting receipt of capital transfers from the U.S. and ROC. The finance account has indicated both negative and positive results depending on the balance of the flows. Overall the errors and omissions, the difference between net lending and the financing account has averaged \$19.4 million during the FY2002-FY2009 period suggesting a possible downward bias in the recording of current account payments such as imports.

2. GNI AND GNDI

61. The availability of a well constructed balance of payments enables derivation of a series of data for Gross National Income (GNI) and Gross National Disposable Income (GNDI). In most countries economic analysis tends to focus on GDP since this indicator most accurately reflects the economic circumstances of the country under investigation. However, in the RMI the large inflows of primary and secondary incomes from the rest of the world indicate that analysis should also feature changes in GNI and GNDI. In the RMI, GNI and GNDI were 23% and 61% higher than GDP, respectively. While analysis of GNI and GNDI might be placed in the section on GDP, it was felt better located in the

section following the analysis of the balance of payments since the data to construct the additional series comes from the BoP.

62. Figure 14 provides a description of the trends in GDP, GNI and GNDI over the FY1997 through FY2009 period. Both the primary and secondary incomes of the BoP have been deflated by a composite index of the CPI and GDP deflator. For the GNI series the figure indicates a growing trend but at a slower rate than GDP; GDP grew by 23% between FY1999 and FY2009, vs. 15% for GNI. The main determinants of growth were wages at the Kwajalein base, rent received by the Kwajalein landowners, and dividends and interest received on investments. In FY2008, retrenchments were made at the base as the new fiber optic cable was installed reducing the demand for Marshallese labor. Receipts of dividends and investments also dipped in the same year following the world recession, but were offset by reduced dividend outflows. GNDI growth from FY1999-2009 was faster than GDP by 2.7%. In this case the series has been driven by the receipts of Compact and other recurrent grants. In FY2008 the level of grants had peaked, with completion of the FAA construction work at the airport and a reduction in the ROC grant in FY2009, at the level agreed in the original understanding. Taking the picture as a whole, it is clear that the additional source of income the RMI receives from the rest of the world stimulated the economy through FY2007, but since that time the process has peaked. Since the receipt of many of the sources of income from the rest of the world is fixed in

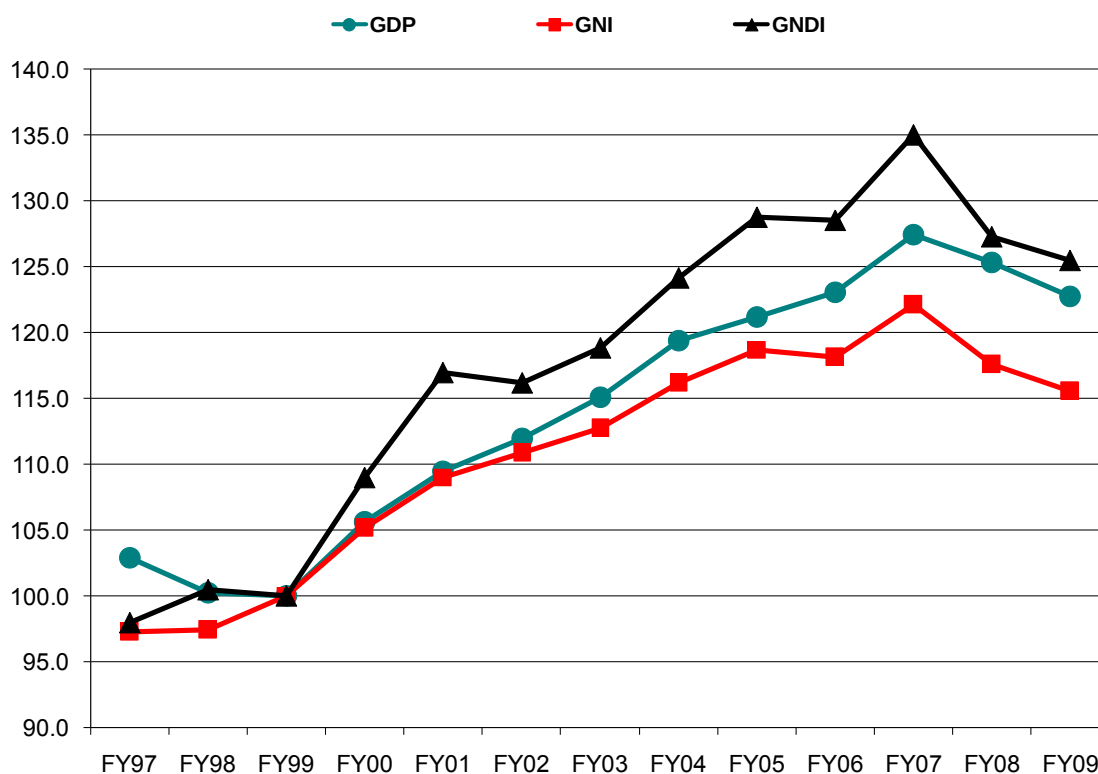


Figure 14 GDP, GNI and GNDI, indexed at 100 = FY1999, constant prices 2000

nominal terms, it is likely that in the future the trajectory of GNDI will fall below that of GDP. If the economy is able to invigorate the private sector, this may not be a bad thing, but without private sector growth, the lack of external stimulus will be a drag on the economy.

3. EXTERNAL DEBT AND INTERNATIONAL INVESTMENT POSITION

i External debt

63. During Compact I, the government developed a substantial portfolio of loans from the Asian Development Bank (ADB; see Table 5). The RMI commenced borrowing from the ADB in 1993 with the funding of the Fisheries Development Loan, which focused on fisheries development in Ebeye. Subsequent loans have included water supply, social sector, and transport projects, including reform program loans. In total, the ADB has approved \$76.2 million worth of loans since the RMI joined in 1991. After debt repayment and lack of full disbursement for some loans, outstanding ADB debt at the end of FY2009 was \$58.8 million. All but \$4 million of this outstanding amount is provided on highly concessional terms from the Asian Development Fund (ADF) resources of the ADB. These resources provide grace periods of 8–10 years and full repayment of principal over 40 years (inclusive of grace periods) for older loans and 32 years for more recent loans. No interest is applied to the principal of these loans, although a “service charge” of 1–1.5% is applied to the outstanding principal. New program loans, such as those through the Fiscal and Financial Management Program, now have a term of 24 years. The concessional nature of the lending means that the ADF loans have a significant grant component when valued on a discounted cash flow basis.

Table 5 External Debt by loan, commitment date, original debt and outstanding principal

Loan	Lender	Number	Year	Original debt, \$'000	Estimated outstanding principal September 2009, \$'000
Ebeye Fisheries Loan	ADB	1102-MAR (SF)	1992	3,522	2,959
Emergency Rehabilitation Loan (Typhoon Gay)	ADB	1218 MAR (SF)	1993	508	443
Basic Education Project Loan	ADB	1249 MAR (SF)	1993	8,383	6,943
Majuro Water Supply Project Loan No. 1	ADB	1250 MAR (SF)	1993	765	635
Majuro Water Supply Project Loan No. 2	ADB	1389-RMI (SF)	1995	8,400	7,639
Health and Population Project Loan	ADB	1316-RMI (SF)	1995	5,861	4,701
Public Sector Reform Program	ADB	1513-RMI (SF)	1997	12,000	10,726
Ebeye Health and Infrastructure	ADB	1694-RMI (SF)	1999	9,250	8,207
Skills Training and Vocational Education Project Loan	ADB	1791-RMI (SF)	2001	7,600	4,821
Fiscal and Financial Management Program Loan	ADB	1829-RMI (SF)	2001	8,000	8,389
Fiscal and Financial Management Program loan	ADB	1828-RMI	2001	4,000	2,869
Outer-Islands Transport and Infrastructure Loan	ADB	1948-RMI (SF)	2003	7,900	508
Marshall's Energy Company - New Powerplant Loan	RUS		1997	12,500	6,996
Marshall's Energy Company - Consolidation Loan	BoG		2007	12,000	9,472
NTA Loan	RUS		1989	18,800	14,110
NTA Loan Supplement	RUS		1993	3,900	0
MIDB ICBC Loan	ICBC		2004	4,000	2,275
PRC Loan for Garment Factory	PRC		1991	1,900	0
RMI Ports Authority	n.a.		2007	568	0
NTA Loan	RUS		2009	14,459	14,459
Total				144,317	106,151

64. Other major external debt commitments represent government guaranteed debt to the SOE sector and include the Rural Utilities Service (RUS, formerly the Rural Electrification Administration) loans for NTA and the Marshalls Energy Company (MEC). In 1989, the RMI guaranteed an \$18.8 million loan for NTA to finance fiber-optic cable and administration facilities in Majuro. NTA extended this loan by another \$4 million in 1993, though the extension of the loan was not guaranteed by the RMI. In 1997, MEC secured a RUS loan for \$12.5 million to finance the new power plant on Majuro. More recently, in FY2004 the government guaranteed a loan issued by the International Bank of China to the Marshall Islands Development Bank, and in FY2007 the government guaranteed a loan in the amount of \$12 million, on behalf of the MEC, to the Bank of Guam. In 2009, the NTA again extended the RUS facility by a further \$14.5 million to finance the fiber optic link from Kwajalein to Majuro. In all cases the RMI guarantees require that the RMI will meet debt service requirements in case of default by the state owned enterprises (SOEs).

65. Fig. 15 shows the substantial size of the RMI's external debt and the burden of the debt servicing from FY2002-09. In FY2002, the level of outstanding debt was \$87 million, which equated to 71% of GDP. Since then, external debt has risen to \$107 million in FY2009, but in relation to GDP fell slightly to 69%. Debt service, on the other hand, has risen from \$3.5 million, or 10% of general fund revenues in FY2002, to \$7.8 million or

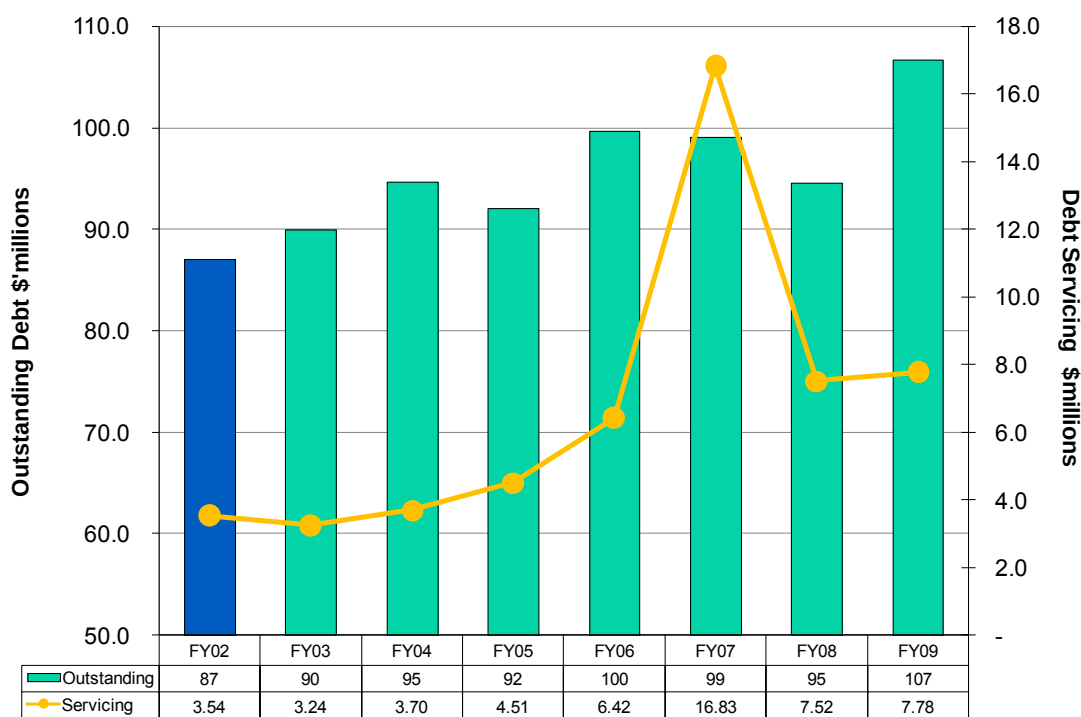


Figure 15 RMI external debt and debt servicing, FY2002–FY2009

23% of general fund revenues in FY2009. In FY2007, the sharp upward movement in debt service represents transactions relating to the MEC crisis, which were consolidated through a \$12 million loan from the Bank of Guam and brought the level of outstanding debt down to trend levels of FY2008. While much of the RMI external debt is on concessional terms to the ADB, there has been a substantial increase in debt service as prior loans have now passed expiration of their grace periods. Since external debt servicing is now funded out of the government's discretionary resources, or General Fund, there are significant implications for the RMI's fiscal policy. This issue is taken up further in the Policy Issues part of this report.

ii International Investment Position

66. Part of the work on improvement of the RMI's balance of payments involved compilation of the nation's international investment position. This is presented in Table 6. The data show stock positions at the end of each year corresponding to the financial account of the balance of payments. While no record of foreign direct investment is available, the table provides an important indication of the RMI's portfolio and other investments since the start of Compact II. The values of the Compact Trust Fund stood at \$97 million at the end of FY2009; these are analyzed in further detail in the policy section of this report. While the volumes are large, they stand below the anticipated levels projected at the start of Compact II because of late investment of the annual contributions and low market returns. The data also indicate the size of the RMI nuclear related trust funds that represent the largest single item in the IIP. The effort to document the size and flows related to the nuclear funds is on-going, but the magnitude and impact of the transfers on the economy is clear. The series shows a declining trend in FY2008 and FY2009, reflecting market performance and drawdown of the funds. Unlike the CTF, which is in the accumulation phase, the nuclear related funds are being actively dis-

Table 6 RMI International Investment Position, (FY2004–FY2009, US\$ millions)

(US\$ millions)	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
<i>TOTAL STOCKS, NET</i>	284.4	273.5	284.5	340.2	278.9	287.2
Direct investment, net	n.a	n.a	n.a	n.a	n.a	n.a
<i>Portfolio investment, net</i>	327.8	311.8	330.2	381.4	319.0	332.9
<i>Assets</i>	331.9	315.6	333.9	383.6	320.6	335.3
Trust Funds, National Government	65.1	52.6	69.2	89.5	80.2	97.0
Trust Funds, nuclear related 1/	233.7	225.0	223.2	246.2	200.4	195.5
Social security portfolio	32.7	37.6	41.4	47.8	39.8	42.6
NTA portfolio	0.4	0.4	0.1	0.2	0.2	0.1
<i>Liabilities</i>	4.1	3.8	3.7	2.2	1.6	2.4
Equity: Capital and retained earnings	4.1	3.8	3.7	2.2	1.6	2.4
<i>Other investment, net</i>	-43.4	-38.3	-45.7	-41.1	-40.2	-45.7
<i>Assets</i>	51.0	53.6	57.6	60.7	57.1	63.6
Deposits, commercial banks 2/	51.0	53.6	57.6	60.7	57.1	63.6
<i>Liabilities, loans</i>	94.4	91.9	103.3	101.9	97.3	109.3
Government	64.5	63.2	63.6	62.4	61.3	59.6
Public entities	29.8	28.7	39.6	39.4	35.9	49.7

bursed. The Social Security Administration is the other major holder of portfolio investments. Under the “other investment” category, the commercial banks hold significant foreign assets, representing that portion of bank deposits that are not loaned out in the RMI. These stood at \$64 million at the end of FY2009. Lastly, the external debt of the Government and public corporations represents the major external liabilities of the nation.

D. Fiscal Developments

1. FISCAL POLICY FRAMEWORK

67. The agreement and adoption of the amended Compact by the RMI and U.S. governments, which became effective in FY2004, initiated a new fiscal framework for the RMI. The structure entailed a series of sector grants earmarked for education, health, environment, private sector development, capacity building, and infrastructure. The innovative element of the amended Compact was the introduction of a Trust Fund, which was designed to provide a yield sufficient to replace the annual grants after 20 years. Table 7 indicates the aggregate structure of the annual Compact grants and the contribution to the Compact Trust Fund. Each year, over a 20-year period, the United States will contribute \$57 million to the RMI, partially adjusted for inflation. The inflation adjustment factor remains as in the original Compact. The annual sector grants start at \$35 million in FY2004 but are to be annually reduced by \$0.5 million. The difference between the total

Table 7 U.S. annual Compact grants and contributions to the Trust Fund

	Annual Sector Grants	Trust Fund Contribution	Kwajalein Impact	Total Contribution
FY04	35.0	7.0	15.0	57.0
FY05	34.5	7.5	15.0	57.0
FY06	34.0	8.0	15.0	57.0
FY07	33.5	8.5	15.0	57.0
FY08	33.0	9.0	15.0	57.0
FY09	32.5	9.5	15.0	57.0
FY10	32.0	10.0	15.0	57.0
FY11	31.5	10.5	15.0	57.0
FY12	31.0	11.0	15.0	57.0
FY13	30.5	11.5	15.0	57.0
FY14	32.0	12.0	18.0	62.0
FY15	31.5	12.5	18.0	62.0
FY16	31.0	13.0	18.0	62.0
FY17	30.5	13.5	18.0	62.0
FY18	30.0	14.0	18.0	62.0
FY19	29.5	14.5	18.0	62.0
FY20	29.0	15.0	18.0	62.0
FY21	28.5	15.5	18.0	62.0
FY22	28.0	16.0	18.0	62.0
FY23	27.5	16.5	18.0	62.0

contribution and the annual sector grant levels will be deposited in the Trust Fund to accumulate over the 20-year Compact period. In addition to the sector grants and Trust Fund, the United States will contribute \$15 million a year, for Kwajalein impact, to the Kwajalein landowners. The United States agreed to contribute a further \$5 million to the RMI in FY2014, \$2 million of which would be added to the annual sector grants; the remaining \$3 million would be used for Kwajalein impact.

68. In comparison with the original Compact, the new arrangement avoids the need for large fiscal adjustments every five years. However, in order to establish the viability of the Compact Trust Fund, the United States instigated the annual decrement. While avoiding large shocks to the system, the decrement will still require annual adjustment. Coupled with the lack of full inflation adjustment, the annual reduction in real resources—estimated to be approximately 2% per annum—will require active fiscal policy adjustments, unless the country can develop a policy regime that will attract and encourage private sector investment and economic growth great enough to offset the decline.

69. A special condition agreed upon by both parties is that the RMI will devote between 30% and 50% of the total Compact sector grant specifically to infrastructure. Of the infrastructure grant, 5% must be set aside for infrastructure maintenance, and the RMI must contribute an additional 5% out of local revenues. In general, the implementation of the sector grant approach of the amended Compact did not impose on the RMI any effective fiscal constraint or need for restructuring. There are sufficient general fund revenues to maintain operations without cutting back expenditures in non-Compact sectors. In FY2004-09, the use of the minor sector grants for private sector development, environment, and public sector capacity building was minimal.

70. In addition to the sector grants, Trust Fund, and Kwajalein impact, the amended Compact provides for the community needs of Kwajalein Atoll. Access to federal programs continues, with the exception of certain education programs, which were “cashed out” and have been replaced through the Supplemental Education Grant (SEG). Finally, the implementation of the amended Compact entails a whole new accountability regime that is specified in the fiscal procedures agreement (FPA). Taken as a whole, the new fiscal arrangements of the amended Compact have had an important impact on the conduct of fiscal policy and management in the RMI.

71. In addition to the special relationship the RMI enjoys with the United States, the RMI has also developed strong ties with the ROC. The ROC initially contributed \$10 million to the RMI government, of which \$4 million was transferred to the general fund and the remaining \$6 million was available for special projects to be agreed upon between the parties. As fiscal pressures have mounted, an increasing amount of the project money has been used for general activities, and, in effect, the project contribution now simply augments general fund revenues. Of special significance is the additional support provided by the ROC to the Compact Trust Fund. By way of a memorandum of understanding, the ROC has agreed to transfer \$50 million to the RMI over the period of the

amended Compact; \$40 million of this will accumulate in the “A” account and \$10 million in the “D” account. Funds in the A account may not be touched during the amended Compact period, while the RMI has the right to utilize the yield earned on the resources in the D fund once they have reached \$10 million.

72. Fiscal policy in the RMI is conducted under the constitutional requirement of a “balanced budget.” This, of course, does not guarantee that the final outcome will also be balanced: either revenue may fall short, or expenditures may exceed budget estimates. The execution of the budget operations is performed through a series of separate funds, the most important being the general fund. Expenditures from this fund are largely unrestricted, but there is limited flexibility or authority to use monies from the other funds. Under Compact I, a major part of the external assistance provided revenue to the general fund and thus was unrestricted. Under the amended Compact and sector grant approach, however, all such receipts are earmarked for specific purposes and must be liquidated if they remain unused at the end of the financial year. This requirement effectively inhibits deficit spending under the sector grants. Fiscal policy in the macroeconomic sense is thus executed only through the general fund. The structure of the standard Government Financial Statistics (GFS), which aggregates across funds and focuses on “above-the-line” revenues and expenditures and “below-the-line” financing, does not always highlight some of the additional constraints faced by fiscal policymakers.

73. Government in the RMI consists of the national government; the urban local governments of Majuro Atoll Local Government (MALGOV) and Kwajalein Atoll Local Government (KALGOV); the nuclear-affected atoll local governments of Bikini, Rongelap, Eniwetok, and Utrik; and other smaller atoll local governments. At present, local government provides services in administration, police, garbage collection, etc. Under the constitution, powers to raise taxes rest with the national government, but local governments may raise taxes, provided the increase has been authorized by law. The Local Government Act of 1989 provides the framework and limits the powers of local governments to levy taxes in specified areas, notably sales taxes, licenses, and other indirect taxes.

74. The RMI has a good record of timeliness in the preparation and publication of the annual single audits. This report is based on audit information through FY2009. In this part of the report, discussion will focus on fiscal developments during FY1997–2009. Analysis of the emerging fiscal situation and the fiscal outlook will be undertaken in Part III, “Policy Issues.” Table 10a in the statistical appendix shows fiscal performance on a consolidated basis, and the presentation follows the standard Government Financial Statistics (GFS) format.

2. RECENT FISCAL PERFORMANCE

75. **Fiscal Performance:** Fig. 16 depicts RMI fiscal performance and shows developments in total revenues and expenditures on a GFS basis, consolidating across the general and all other fund types. A detailed analysis of the components of revenue and expenditures will follow, but at this point discussion is limited to consideration of the major

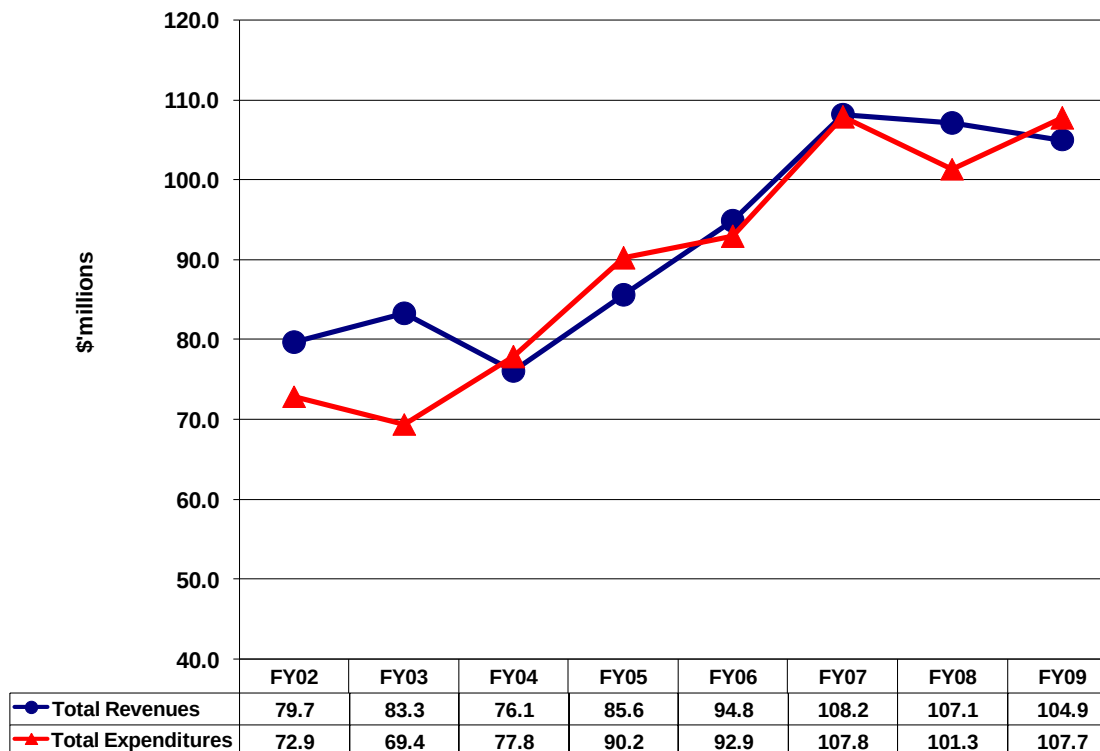


Figure 16 RMI consolidated revenues and expenditures, FY1997–FY2009.

forces behind the fiscal outturn. Towards the end of Compact I, the RMI underwent a difficult period of fiscal adjustment when the nation was forced to compress expenditures and lay off significant numbers of civil servants (see earlier annual reports for a fuller description). In FY1999, the RMI formally recognized the ROC and was to benefit from substantial contributions, both to the general fund and for capital projects. In FY2002 and FY2003, the nation entered the “bump-up” period and received a significant but temporary increase in Compact grants. As part of the amended Compact negotiations, the RMI had agreed to contribute \$30 million of the additional funds to the Compact Trust Fund (CTF). In FY2002, the RMI set aside \$17.5 million and a further \$16 million in FY2003 to the Intergenerational Trust Fund, which was later transferred to the CTF. Fig. 14 indicates the impact of these forces as revenues rose above expenditures and the nation ran a significant fiscal surplus.

76. In FY2004–FY2009, during the first six years of the amended Compact, the fiscal account shows a more normal trajectory, with revenues and expenditures in closer alignment. Expenditures moved strongly upward, boosted by the higher levels of funding available under the amended Compact and, in later years, by the increasing capacity utilization of the infrastructure sector grant. In FY2004, revenues were mostly in line with expenditures, and the fiscal account records a small deficit of \$1.8 million, or 1.3% of GDP. In FY2005, with the upward momentum in expenditures remaining in full swing, a

larger deficit of 3.4% of GDP was recorded. In FY2006 and FY2007, the fiscal situation continued to tighten, but the fiscal account recorded small surpluses of 1.3% and 0.2% of GDP, respectively.

77. By FY2008, the period of fiscal expansion had ran its course, and total expenditures dropped back by \$7.8 million, reflecting lower transfer payments and a large drop-off in capital expenditures. Revenues were also weak, dropping by 1.1% percent, and failed to exhibit the growth of earlier years. Overall, FY2008 indicated an apparently healthy surplus of 4.6 % of GDP. In FY2009, with continuing upward pressure on expenditures driven by large increases in transfers and subsidies to the SOE sector, and a weakened revenue position, the fiscal outturn again turned negative, and a deficit of \$2.8 million, or 1.8% of GDP, was recorded. The apparently close proximity of revenues and expenditures and relatively low levels of fiscal deficit in relation to GDP provide a misleading impression of the fiscal situation in the RMI. The emerging crisis in FY2008, with the onset of the world recession and higher fuel prices, precipitated a financial crisis at the MEC, which in turn threatened the fiscal stability of the nation. The limited ability of the government to borrow to finance a deficit, the fine balance between revenues and expenditures, and high risk of insolvency in the SOE sector, place the nation in a very precarious position.

78. **The Fiscal Structure:** Table 8 provides a summary of the structure of the fiscal account. Grants as a percent of GDP averaged 43% during the last two years of Compact I. In FY2004, the level dropped significantly—by over 10%—reflecting the inability of the RMI to fully utilize the resources available under the amended Compact. Of a total FY2004 budget ceiling of \$35 million, the RMI was able to utilize only \$20.5 million. Absorptive capacity limitations were reached in both of the operational sector grants and under the infrastructure grant. In FY2005, there was some improvement, and Compact expenditures rose to \$27.6 million, reflecting better performance on the operational grants, but significant underperformance on the use of the infrastructure funds. By FY2006, capacity constraints had all but been eradicated in all grant streams, and total use of Compact funds reached \$35.5 million. From FY2007-09, the level of Compact grants rose from \$47.4 to \$56.3 million, reflecting the greater use of the infrastructure grant and use of carry-over funds from previous years. Grants as a percent of total revenues indicate a similar trend, accounting for 64% in FY2009. There has been little change

Table 8 Comparative analysis of fiscal structure FY2000–FY2009

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
Grants as % of GDP	42.3	42.9	31.9	36.1	40.5	45.7	44.0	43.3
Grants as % of Total Revenue	65.5	65.6	56.0	58.5	61.7	64.4	63.5	63.9
Tax Revenue as % of GDP	16.3	18.1	16.9	17.5	17.4	17.8	16.9	15.7
Total Expenditure as % of GDP	59.1	54.6	58.3	65.0	64.3	70.8	65.6	69.5
Current Balance as % of GDP	3.7	6.6	4.6	2.4	4.8	6.2	8.4	0.6
Overall Balance as % of GDP	5.5	10.9	-1.3	-3.4	1.3	0.2	3.7	-1.8

in the level of dependency on external transfers as a percentage of both total revenues and GDP. While the dependency on U.S. grants has fallen, this decrease has been offset by increased funding from the ROC.

79. Tax revenues, which have averaged 17% of GDP since FY2002, have changed little, reflecting continuation of the existing regime, although in FY2008 and FY2009, the rate fell by 2%, the result of discretionary changes in customs duties. Tax effort is above that of the FSM but below that of the majority of other Pacific Island economies and below the rate prevailing in the United States. Public expenditure averaged 66% of GDP and has displayed an upward trend during Compact II as absorptive capacity improved. Clearly, the public sector, supported by external assistance, continues to play a dominant role in the economy.

80. **Revenues:** The tax regime in the RMI is based on a tax system inherited from—and largely unaltered since—Trust Territory days. The major source of tax revenue is a tax on wages, accounting for \$11 million out of a total tax yield of \$24 million in FY2009. The reduction in military presence on Kwajalein atoll in FY2008 and the anticipated drawdown in Marshallese employees in FY2009 and FY2010 was projected to erode the tax base, and a \$1.6 million reduction was projected. However, income tax receipts have remained constant while other sources of tax revenue have declined during the same period. Wage earners pay 8% of income, up to a threshold of \$10,400, and above that, 12%. Those earning less than \$5,200 receive a tax-free threshold of \$1,560. The gross receipts tax (GRT) is levied at 3% of business turnover and is intended as a proxy income tax, although the incidence is comparable to that of a sales tax. The tax suffers from the well known cascading effect, such that each sale from one business to another multiplies the tax yield and distorts resource allocation. Fish and fish products have been exempted from the GRT to enable the fishing sector to remain competitive in international markets.

81. Customs duties provide the second most significant category in terms of tax yield and have displayed surprising buoyancy in relation to GDP, with the exception of years when rates were adjusted. In FY2002 import duties collected \$6.3 million and had risen to \$9.4 million in FY2007. In FY2008 and FY2009 collections slid back to \$8.7 million and \$7.1 million, respectively, as the economy suffered the effects of the world recession. In FY2002 the general rate of import duties was 8%, which has remained unchanged, although food items attract a lower rate, and there are wide ranges of exemptions for different categories of importers. In FY2005, new higher rates were imposed on “sin” goods, with the additional revenues earmarked for the College of the Marshall Islands (CMI). In 2008, in a response to the high inflation in fuel and food prices, the government granted an import duty exemption to MEC for its imported diesel fuel (for generation and re-export) and to imports of basic food staples (rice, flour, etc.). Tax holidays continue to be granted by the Cabinet in special cases, including exemptions on GRT for the existing fishing operations. To encourage growth in exports and foreign exchange earnings, taxing export-oriented business activities is usually discouraged. This principle has not been ful-

ly adopted in the RMI, with several exporters still paying GRT on their export revenues, including MEC, which has re-exported an average of \$4.8 million worth of diesel to foreign vessels in FY2006-2008.

82. Other forms of national taxes on fuel and hotels make a minor contribution to the general tax effort. Of non-tax revenues, fishing fees have raised an average \$1.3 million during the Compact II period but have been a volatile source, depending on the location of the fishing stock. In FY2002, the rate of contribution to the health care fund was increased from 2.5% of gross pay to 3.5% for both employers and employees, bringing the total to 7%. In previous years these contributions had been collected and dispersed by the Marshall Islands Social Security Administration (MISSA). As of FY2002, the funds were directly allocated to the Ministry of Health, although MISSA remained in charge of collection. In FY2004, the funds were included in the audit for the first time and contributed \$6.7 million to local revenues in FY2009. In the last few years, ship registration fees have been a growing source of revenue, rising from \$1.0 million in FY2006 to \$3.3 million in FY2009. In addition to fishing fees, the health fund, and ship registration fees, domestic revenues included a variety of smaller fees, earnings on investments, etc.

83. **Expenditures:** Outlays on payroll and goods and services have grown rapidly in recent years. Fig. 17 shows recent trends in these two important categories of cost. At the

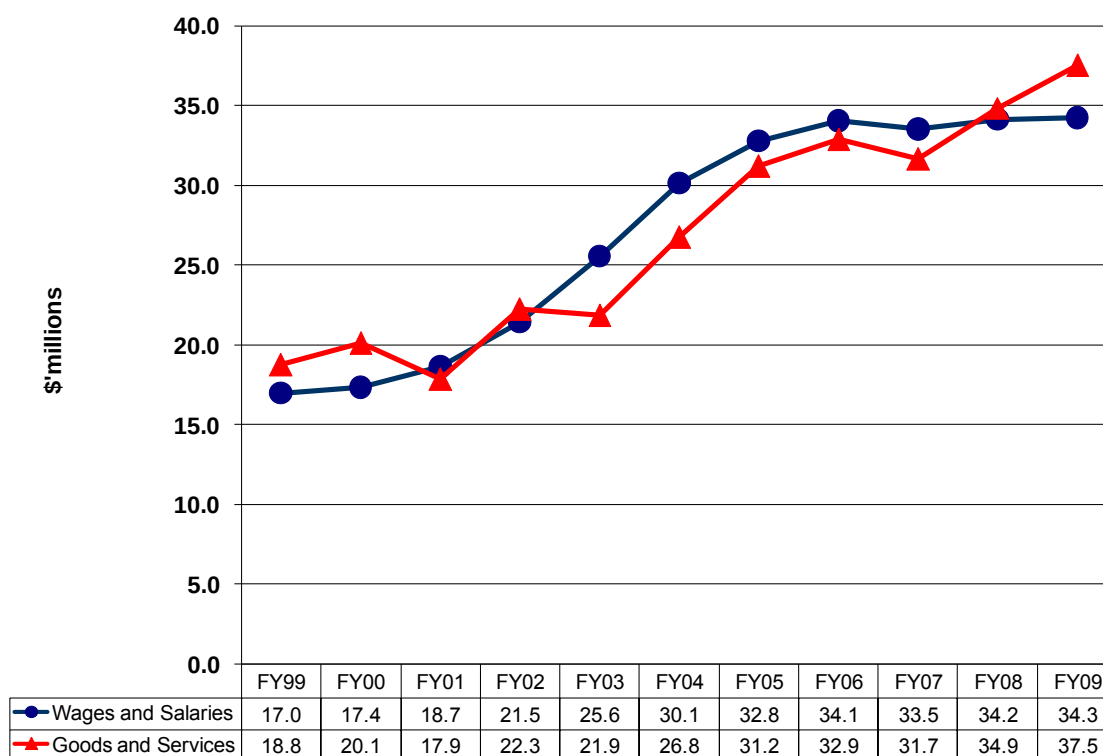


Figure 17 Expenditures on payroll and goods and services, FY2002–FY2009.

end of Compact I, payroll costs were compressed through the implementation of the RIF, as the financial crisis and PSRP necessitated fiscal discipline. However, as the revenue position began to improve—with the new grants from the ROC and bump-up years—payroll expenditures were allowed to rise almost unchecked. The amended Compact also permitted increased public servant recruitment in education and health. By FY2009, total payroll costs had risen to \$34.3 million, from \$17.0 million in FY1999—a 102% increase. The apparent downturn in FY2007 reflects the creation of the Marshall Islands Shipping Corp., whose function was previously executed through the Ministry of Transport and Communications. Wage and other costs of the Department of Transport are thus now funded out of a subsidy to the MISC. Further elaboration on public servant payroll trends is provided in Part III. Payroll costs were not the only item to show a significant increase; expenditures on goods and services rose rapidly, from \$22.3 million in FY1999 to over \$37.5 million in FY2009, a 68% increase. Expenditures on goods and services continued to rise in FY2008 and FY2009 despite the onset of the fiscal crisis in FY2008.

84. The rate of change in other major categories of cost has also been substantial, although of lesser magnitude. The level of current subsidy to the public enterprise sector has increased very significantly in the last few years. The graph in Fig. 3 above showed that subsidies to the SOE sector have risen from \$3.1 million in FY2004 at the start of the amended Compact to \$8.4 million in FY2009. The level of subsidy now represents a substantial drain on government's uncommitted resources, and the issue of SOE policy is taken up in further detail in Part III. Interest payments appear to have remained at low levels in the audit despite the increased need to service the RMI external debt. In previous years the RMI was in default on its ADB loan repayments, although it is now up to date. The other major remaining item of expense, capital expenditures, fell back at the start of the amended Compact because of capacity limitations. In the following four years, capital outlays grew rapidly as the constraints were overcome, from \$11 million in FY2004 to \$26 million in FY2007. In FY2008 and FY2009, capital outlays fell to \$19 million and \$17 million, respectively, with the completion of the FAA funded airport renovation and reduction in ROC funded capital projects.

85. ***The Compact Trust Fund (CTF)***: A final important component of fiscal policy has been the establishment of the Compact Trust Fund. In FY2002, the RMI created the Marshall Islands Intergenerational Trust Fund (MIITF), intended to be an initial source of funds for the RMI contribution to the CTF. The RMI had committed, during the Compact negotiations, to contribute \$25 million in FY2004 and \$2.5 million/year in FY2005 and FY2006. In FY2002 and FY2003, utilizing the funds freed up after the repayment of the bond issues and the “bump-up” funds, the government contributed \$17.5 million and \$16 million, respectively, to the MIITF. In FY2004, at the inception of the CTF, the RMI transferred \$25 million to the new fund, and the U.S. contributed \$7 million. In order to sustain the activities of certain businesses in the RMI economy, however, the government drew down \$7 million from the MIITF and invested the funds in certificates of deposit at the Marshall Islands Development Bank (MIDB). After accounting for investment losses due to weaknesses in the stock market, the investments in the MIDB nearly exhausted the

remaining funds in the MIITF. The government was thus short of funds to make up the remaining contribution to the CTF in FY2005 and FY2006.

86. In FY2005, the ROC made its first contributions to the “A” and “D” accounts of the CTF (including back payment for FY2004), a total of \$1.75 and \$3.75 million, respectively, for the two years. In order to meet the CTF commitment of \$2.5 million in FY2005, the RMI transferred \$1 million from the “D” to the “A” account, \$1.18 million (the remaining cash) from the MIITF, and \$0.32 million from the general fund. In FY2006, the RMI made the final contribution of \$2.5 million to the CTF through transfer of funds from the “D” account. As of the end of FY2006, the funds in the CTF stood at \$63.1 million in the “A” account and \$3.0 million in the “D” account.

87. During FY2007, the U.S. made its annual contribution of \$8.9 million, and the ROC contributed \$2.5 million, of which \$0.75 million was earmarked for the “A” account and the rest for the “D.” At the end of FY2007, the balance on the “A” account stood at \$83.9 million, after a bullish year on the U.S. stock market, and benefited from \$9.1 million in holding gains. In FY2008, the U.S. made an annual contribution of \$9.7 million, but unlike the prior year, FY2008 saw the onset of the worst recession since the great crash of the 1920s. Losses for the year were \$20.5 million. The ROC made no contributions in FY2008 to either account. In FY2009 the U.S. contributed \$10.8 million to the “A” account, and the ROC contributed \$4.9 million, making up for the shortfall of the previous year and bringing its total contributions up to date. At the end of FY2009, the “A” account stood at \$90.9 million and the “D” account at \$6.2 million. While the ROC contribution in FY2009 was the last of the scheduled ROC payments to the “D” account, the ROC still requires the RMI to make good on the \$3.5 million diverted in FY2005 and FY2006 to the “A” account to meet the RMI \$30 million contribution to the CTF.

88. Developments in the U.S. stock market during FY2008 and the late investing of funds in the early years raised concerns that the CTF would fall short of the target for FY2024, at which time withdrawals from the Fund are to replace the use of the annual sector grants. A special section in this report in Part III has been included to investigate the performance of the CTF and the question of whether it will meet its objectives.

III. POLICY DEVELOPMENTS, PROSPECTS, AND ISSUES

A. Background

89. In the mid-1990s, the RMI embarked on a Public Sector Reform Program (PSRP), assisted by the ADB, to adjust to an emerging financial crisis precipitated by the need to repay various bonds issued in the earlier part of the decade. While the PSRP is now part of history, the various reform issues, the programs implemented, the successes and failures, together with lessons learned, are exactly relevant to the situation the RMI finds itself in again today, 13 years later. This part of the review therefore starts with a brief review of the PSRP. The goals of the program were (i) to embark on a long-term reform program to avert a looming financial and economic crisis; and (ii) to set the economy on a more sustainable growth path. The program had four main elements: (i) fiscal stabilization and fiscal policies; (ii) privatization of public enterprises; (iii) public service reform; and (iv) a number of measures to stimulate private sector development. Three outputs were specified: (i) stabilization of the government's finances in the short term; (ii) long-term structural stability of government finances; and (iii) creation of an improved environment for the private sector.

90. Of the three outputs of the PSRP, fiscal stabilization was focused on revenue and expenditure policies. Improvements in tax collections were to come from increases in tax rates, removal of exemptions, and administrative strengthening. While tax rates remain at levels similar to those of the 1990s, administrative strengthening and removal of exemptions have not been achieved. Reduction in expenditures was to be achieved through removal of SOE subsidies. However, efforts to reform and transform the sector did not prove successful. In the late 1990s a Private Sector Unit was established, and KAJUR, the utility corporation supplying Kwajalein, was contracted out to the private sector. However, no further SOE transformation took place, KAJUR has reverted to public management, and the private sector unit was disbanded.

91. To achieve the second PSRP output of long-run structural stability, efforts to reduce expenditures focused on implementation of the RIF, restructuring of government operations, and civil service wage freeze. The RIF was implemented, but the size of the public sector today is much greater than before the PSRP. The work undertaken by the Ministry of Public Works and Ministry of Transport and Communications were to be managed by the private sector, and, although both were downsized during the PSRP, the Ministry of Public Works is once again sizeable, and the shipping operations of the Ministry of Transport and Communications have been transferred to the newly created MISC. On the revenue side, long-run gains were to be achieved through administrative strengthening and introduction of a modern tax regime such as the value-added tax (VAT). Little progress was made with administrative reforms, and the VAT met with strong opposition.

92. Regarding the third PSRP output—to create an improved environment for the private sector—the program was structured in two parts: reduction in the role of the government and improvements in the regulatory environment of the private sector. Reduction in the role of government focused on reducing subsidies to Air Marshall Islands (AMI) and on SOE reform. Although AMI still presents risk, but much less than in the mid-1990s; however, the Marshalls Energy Company (MEC), as discussed below, has had the potential to undermine fiscal stability. Improvements to the regulatory environment of the private sector focused on improving transparency in company registration, work permits, and the foreign direct investment (FDI) regime, as well as legislation to ensure security in land leases.

B. Fiscal Issues

1. PUBLIC SECTOR PAYROLL

93. The RMI government's payroll has grown considerably over recent years since the completion of the Public Sector Reform Program and RIF. 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 FY1999, the number of public servants has increased rapidly (Fig. 18). Employee numbers on the payroll fell to 1,475 in FY1999 but increased to 2,346 by the end of FY2009. This represents an increase of 871 employees (59%). The payroll cost over

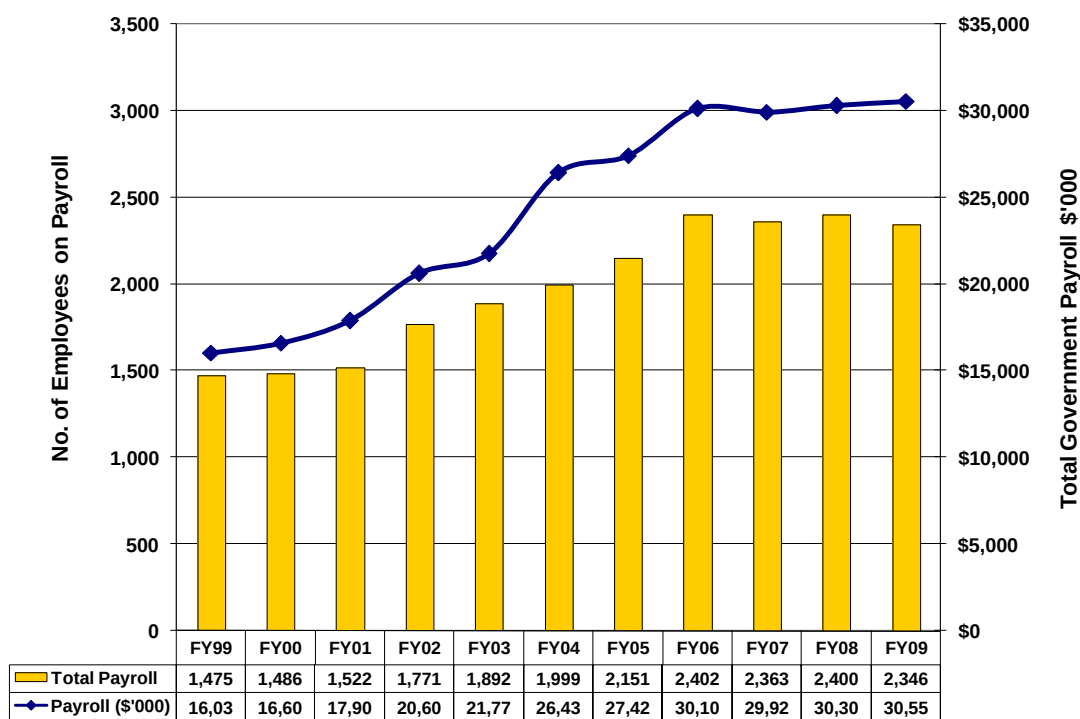


Figure 18 RMI government payroll cost and number of public servants, FY1999–FY2009

the same time increased by 91%. This very sizeable increase has been influenced by a number of extraordinary items that have accentuated the underlying growth taking place.

94. Most of the growth in the payroll and in employee numbers has been in the Ministry of Education (MoE). This growth reflects a number of structural changes that have increased staff numbers as the ministry has taken on more responsibilities. The implementation of the kindergarten program funded out of the SEG (replacing the previously externally managed Head Start program) added more than 200 staff to the payroll in FY2006. In FY2001 and FY2002, both Majuro and Ebeye elementary school teachers were brought back under the MoE, adding approximately 100 and 50 employees to the payroll, respectively. Previously, elementary education in Ebeye and Majuro had been managed by the MALGOV and KALGOV under the community based governance system (CBGS), but these arrangements collapsed and were reincorporated under MoE. Once allowance is made for these anomalies, expansion in education payroll during FY1999-FY2009 was 53% and added an extra 251 positions. Where recruitment has taken place, it has supported delivery in front-line services, e.g., with increases in teaching staff and elementary school services and support.

95. Substantial growth in the payroll has come from outside the MoE. Employment in the Ministry of Health (MoH) increased by 108 positions, from 389 in FY1999 to 497 in FY2009 (Table 9). Significant staff increases occurred in the Majuro and Kwajalein Hospitals, suggesting an greater emphasis on curative care. The Ministry of Internal Affairs has doubled, while the Ministry of Public Works (MoPW) is not far behind, after scaling back its operations after the RIF. The MoPW had adopted a largely oversight and regulatory role at the end of the RIF, but has now taken on a more proactive role in outer-island project implementation and maintenance. The Ministry of Transport and Communications (MoTC) was also scaled back during the RIF, with the intention of privatizing

Table 9 RMI government number of public servants by department, FY2000–FY2009

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
President & Cabinet	23	22	23	23	22	26	27	32	33	30
Chief Secretary Office	14	14	13	12	18	20	21	25	25	31
Special Appropriations	1	2	2	2	0	2	0	0	10	0
Council of Iroij	17	17	15	14	15	15	16	15	15	17
Nitijela	35	37	37	38	42	45	48	49	50	51
Auditor General	7	8	11	11	11	10	11	10	7	7
Foreign Affairs	56	34	34	33	32	36	34	37	37	39
Public Service Commission	11	12	11	11	13	13	14	15	15	15
Judiciary	21	22	22	20	30	35	40	40	37	35
Attorney General Office	10	16	18	24	25	25	26	25	22	23
Ministry of Education	474	478	671	706	720	800	1,028	1,032	1,067	1,073
Health & Environment	389	376	389	437	480	529	535	540	529	497
Transport & Communications	24	41	84	92	108	108	100	54	18	19
R & D	45	33	33	32	27	26	28	29	27	31
Internal Affairs	54	56	53	54	69	61	64	63	102	79
Justice	170	153	144	163	168	168	170	166	167	171
Finance	86	93	99	104	107	112	121	121	128	116
Public Works	50	111	114	115	99	100	99	90	91	92
Epa	0	0	0	0	16	18	19	19	19	19
Compact II Capital	0	0	0	0	1	2	3	3	3	5
Total	1,486	1,522	1,771	1,892	1,999	2,151	2,402	2,363	2,400	2,346

outer-islands shipping services. However, this policy was not successful, and the services were initially brought back into the public sector and later transferred to the newly formed Marshall Island Shipping Corporation.

96. The overall trend in payroll, after allowing for the structural changes in the Ministry of Education, is upward, from \$16 million in FY1999 to \$27 million in FY2009. Associated personnel expenditures, such as the government's MISSA contributions and housing allowances for expatriate staff, are also significant. Housing allowances alone required a budget of \$1.9 million in FY2009; nearly half was for MoH, which has a 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 20% during the period, while those in education and health rose by 26% and 38%, respectively.

97. While analysis of payroll trends by department is important, it is also useful to assess the impact of the amended Compact sector grant approach. Table 10 indicates public servant payroll by fund source during the amended Compact period. The table indicates the increase in general fund employees of 11% (94 employees). It also indicates that the changes in employees funded out of the Compact sector grants have not changed significantly during the period. While not shown in the table, average wage rates during the period have remained largely unaltered. The increase in public servants during the period has thus been almost entirely due to increases in general fund employment.

2. EXTERNAL DEBT MANAGEMENT

98. While the sizeable bond issues used to finance development projects in the 1990s are now part of the RMI's fiscal history, external debt management in the medium term presents a major challenge. There are two major components of debt service: government debt on concessional terms to the ADB and government guaranteed debt incurred by the SOE sector. Fig. 19 indicates the projected trend in outstanding debt and debt service for the two types, based on amortization schedules. For total debt, there are two phases: an existing high rate of debt service of about \$8 million, to be repaid over the next eight years, then a much reduced rate of about \$5 million. For its debt to the ADB, the gov-

Table 10 RMI government number of public servants by fund, FY2000–FY2009

Fund	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	Change ¹	% Change ¹
General Fund	825	861	871	865	885	920	94	11%
Compact II	888	933	1,171	1,130	1,134	1,107	19	2%
Special Revenue	69	74	76	79	85	68	-1	-2%
US Federal Grant	166	177	227	282	244	219	53	32%
ROC	36	34	30	27	38	28	-9	-24%
UNDP	1	2	3	5	5	6	5	
Total	1,985	2,080	2,377	2,388	2,390	2,346	361	8%

Note 1: adjusted for switch in employment of 200 teachers from Head Start to the SEG in FY2006

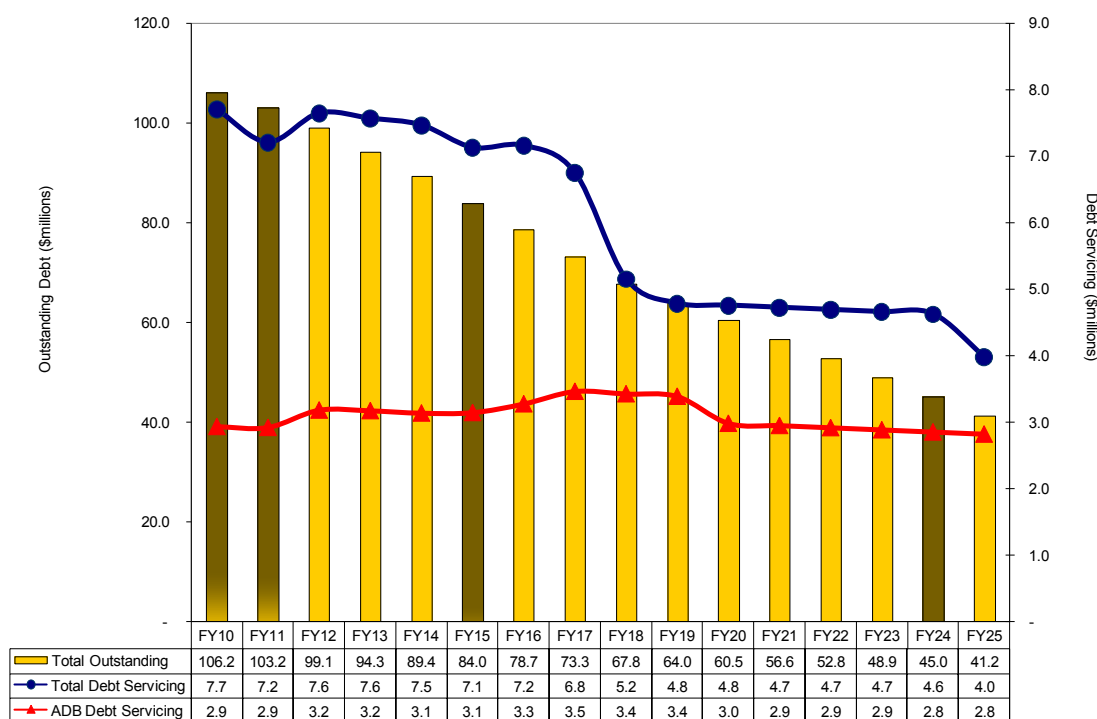


Figure 19 RMI debt and debt servicing projections, FY 2010–FY2025

ernment will be required to set aside about \$3 million from the general fund for the next 15 years. As a proportion of general fund revenues of \$30 million, this represents about 10%. In previous years, nearly all of the RMI debt was in the grace-period era, and debt service obligations were not significant. However, in the last four years, principal repayments for many of the loans have fallen due, and debt service has contributed to significant fiscal pressure. In FY2006, the government experienced its first problems in servicing ADB debt and defaulted on several loans. In FY2007, it remained in arrears, as service obligations rose to \$2.2 million. By FY2008, the government placed ADB debt service higher on its payment priority schedule, has made good on past delinquencies, and is currently up to date with payments.

99. The difference between the two curves in Fig. 19 indicates the debt service obligations of the SOE sector. External debt of the SOEs is at higher interest rates and shorter terms and thus incurs a proportionately higher service commitment. Current debt service levels of the NTA, MIDB, and MEC are \$2.1 million, \$0.6 million, and \$4.3 million, respectively. Given the current financial problems of the MEC, its existing debt service has presented a substantial financial risk for the government. However, as indicated below moves are afoot to refinance and place MEC liabilities on a more stable and less costly basis. The ADB debt service crisis has bought home the impact of a poorly managed external debt strategy. A well articulated debt management strategy is needed to assist the

RMI in determining the type of projects for which external loan finance is appropriate and identifying cases where there is some potential for projects to cover service costs.

3. PUBLIC ENTERPRISE ISSUES

i SOE performance and reform

100. In the above discussion of the economy and fiscal developments, we have noted the importance of the contribution of the SOE sector to the RMI economy. In particular, the increasing level of subsidy has been highlighted as a growing concern. The ADB recently (February 2010) commissioned *A Review of 11 Public Enterprises and Options for Reform*, which provides a thorough review. We do not intend to duplicate that work here, but to provide a brief overview of performance and of past and present reform initiatives. In the following section, we undertake a brief analysis and description of recent developments in the Marshall Energy Company; these have had a profound impact on fiscal stability.

101. Fig. 20 provides a useful description of the RMI SOEs and compares the operating income of the major enterprises in FY1999-2001 with FY2006-08. For Air Marshall Islands (AMI), there is a reduction of loss, from an average \$2.4 million to \$1.4 million.

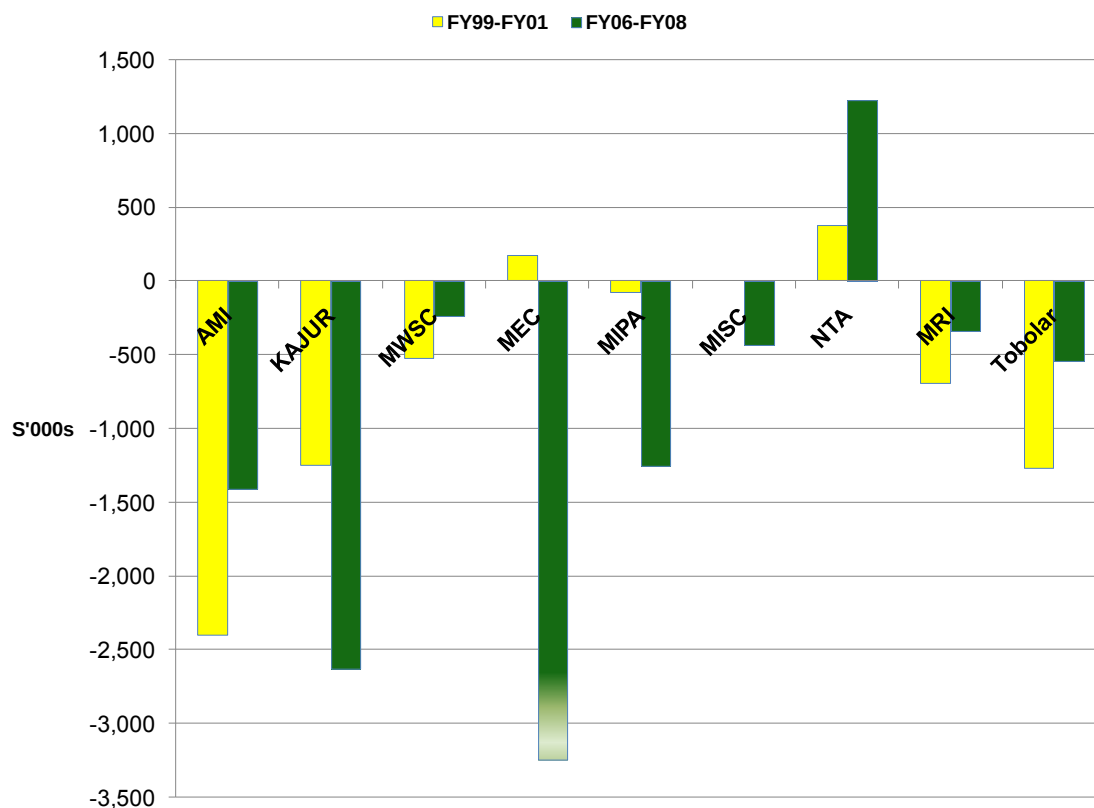


Figure 20 State Owned Enterprises, net operating profit

In the late 1990s, AMI was the SOE causing major financial concern; it was a particular focus of the ADB supported Public Sector Reform Program (PSRP). AMI provides both international air connectivity and local social services to the population of the outer atolls. While the level of operating loss has fallen from the late 1990s, the average level of subsidy over the same period has risen and continues to be a large cost to government. Fig. 20 indicates the very significant level of operating loss of the MEC, averaging \$3.2 million/year in FY2006-08, although the organization had operated profitably in the earlier period. The level of subsidy averaged only \$900,000 in FY2006-08, but this has been camouflaged by the very sizeable level of government advances (which have not been recorded statistically in the subsidy). While most focus has been on the operations of the MEC, both the level of operating loss and subsidy to KAJUR, the Kwajalein Atoll Joint Utilities Resources, has risen very significantly in recent years. The level of operating loss is revealed in Fig. 20, but the level of subsidy has risen from \$0.4 million to \$3.4 million in the same period. Although the operations of KAJUR have received less attention than those devoted to MEC, the data presented here clearly indicate that the utility is a major cause of concern.

102. The Majuro Water and Sewer is a smaller concern but operates with significant losses and with an average subsidy of \$0.6 million in the last three years. MIPA, the Marshall Islands Port Authority, currently records a significant level of operating loss, but receives no subsidy. In effect, the entity charges port fees that cover cost, but makes no allowance for depreciation and is decapitalizing its assets. The Marshall Islands Shipping Corporation commenced operations in FY2007 and was intended to provide better shipping services, which were formerly provided through a government department. The entity provides a social obligation to low income households in the outer island atolls and is financed by government subsidy, which averaged \$1.2 million in the last three years. The Marshall Islands National Telecommunications Authority (NTA) is the only SOE that has recorded an operating profit in the last three years. It is a monopoly provider and is able to set prices without political involvement. The Marshall Islands Resort has recorded an operating loss in each of the last three years but receives no subsidy. As in the case of MIPA, the entity effectively covers operating costs and has been decapitalizing its assets. Lastly Tobolor, the agency responsible for copra collection and production of coconut oil, records negative operating income levels and in the last three years has received subsidies averaging \$1.0 million/year. As with the MISC and AMI, Tobolar provides an important social obligation to support household incomes in the outer atolls.

103. The objective of the above description of the operations, profitability, and subsidies to the SOEs has been to indicate the magnitude and pervasiveness of the financial problem facing the RMI. During FY2004-06 the average level of subsidy and capital transfer was \$4.4 million. During the FY2007-09, this level had risen to \$10.3 million and represented 30% of general fund revenues. From being an important financial issue, the level of subsidy to the SOEs had reached a critical level; it is now clearly on the radar screen and indicates adjustment and reform is necessary.

104. In awareness of the growing imbalances in the economy, the Cabinet created in April 2009 a Comprehensive Adjustment Program (CAP) Advisory Group tasked with developing a framework for comprehensive fiscal and economic adjustment options. The CAP process and recommendations are summarized later in this report, but although they do not make any specific recommendations on the SOE sector, they recommend that technical assistance be sought to “assist the Office of the President/Chief Secretary conduct an institutional review of existing State Owned Enterprise with the aim of rationalizing of subsidies and transfers and where appropriate, privatize.” As a result of this recommendation, the ADB provided TA support and commissioned *A Review of 11 Public Enterprises and Options for Reform* (referred to at the beginning of this section).

105. The ADB review indicates that while efforts to reform public enterprises have been few and far between, the outcomes that have been achieved have been limited and not sustained. However, reforms are now underway in MEC and are being considered for Tobolor and AMI. The review goes on to say that “the RMI’s public enterprise sector poses an increasing systemic risk on the financial system and economy,” and recommends that if the political will exists, that “the RMI develop a medium-term Public Enterprise Rationalization Program (PERP).” A set of critical components of the reform process are itemized. It is clear from the review that SOE reform will be a long-term process, requiring several years, as well as the political will and substantial sustained technical assistance.

ii the Marshall Energy Company

106. This section is devoted to recent developments at the Marshall Energy Company. It starts with a description of recent events and shows how a struggling public enterprise can constitute a direct and significant threat to the national budget and overall economy. The analysis presented in last year’s review is recalled, and the subsequent adoption of a Comprehensive Recovery Plan adopted in 2010 by the MEC Board is summarized.

107. **Financial performance summary** (Table 11). Electricity revenue has nearly tripled in the decade from FY1999–FY2008, the direct result of rising global oil prices leading to higher local electricity tariffs. MEC raised tariffs twelve times between Janu-

Table 11 Marshalls Energy Company indicators, FY1999–FY2008

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Electricity revenue	\$6.36	\$6.99	\$7.24	\$8.29	\$8.86	\$8.62	\$9.71	\$11.51	\$14.06	\$18.69
Fuel and gas sale revenue	\$2.88	\$7.32	\$6.12	\$7.66	\$9.34	\$11.31	\$13.88	\$9.50	\$8.12	\$12.66
Total Revenue	\$9.24	\$14.31	\$13.36	\$15.95	\$18.21	\$19.93	\$23.59	\$21.01	\$22.18	\$31.35
Fuel and gas gross profit margin	26%	16%	23%	28%	21%	19%	19%	24%	20%	4%
Net operating income/loss	\$0.74	\$0.60	-\$0.83	\$2.94	\$1.27	-\$1.38	-\$3.21	-\$3.89	-\$2.90	-\$2.94
Current ratio	0.89	1.15	0.86	1.60	1.87	1.22	0.72	0.82	1.15	0.69
Net working capital	-\$0.39	\$0.59	-\$0.76	\$1.72	\$2.46	\$0.97	-\$1.83	-\$1.51	\$1.39	-\$4.07
Total debt ratio	0.74	0.76	0.83	0.72	0.69	0.78	0.95	1.18	1.33	1.59
Gross mVWh generated								79,078	76,652	68,033
Billed mVWh								56,761	56,996	52,385
Ratio of billed to generated mVWh								0.72	0.74	0.77
Fuel sales (gallons) to foreign vessels	1.48	5.21	3.01	5.44	6.03	7.26	7.21	1.60	1.95	2.51
Residential tariff (weighted avg)						0.12	0.14	0.17	0.21	0.32

ary 2005 and June 2008 (the weighted average residential tariff has risen from \$0.12 to \$0.32 in the past five years). Meanwhile, total demand has steadily deteriorated over time, with FY2008 seeing just 52,385 mWh billed. Fuel and gas sale revenue has generally improved in recent years, reaching \$12.66 million in FY2008. However, two factors—higher fuel costs to MEC (stemming from higher global fuel costs and the imposition of new taxes on the company in 2006) and limited ability to raise prices due to the entry of lower-cost oceangoing refueling vessels—dramatically compressed MEC’s gross margins, from a peak of 28% in FY2002 to just 4% in FY2008. Altogether, MEC’s strong record of net operating income through most of the 1990s and early 2000s has disappeared, with FY2008 seeing a \$2.94 million operating loss, the fifth straight year of losses for the Corporation.

108. MEC’s short- and long-term solvency positions have seriously deteriorated, with the ratio of current assets/current liabilities falling to 0.69 in FY2008, the lowest point in the past decade and sharply below historic averages. MEC’s overall debt load has worsened, with the ratio of total liabilities/total assets ballooning in FY2008 to 1.59 (fueled largely by the new Bank of Guam debt taken on after the resolution of the ExxonMobil transition in 2006-2007). MEC’s operating liquidity, as measured by its available net working capital, is in critical condition, with a working capital deficit (current assets minus current liabilities) of over \$4 million in FY2008.

109. ***An overview of significant events.*** Established at the beginning of the Compact (in 1986) as a wholly-owned Government corporation, MEC was long considered one of the better run electric utilities in the Pacific. MEC’s success capitalized on the RMI’s large bunkering capacity with its six-million-gallon tank farm, which allowed direct shipment of lower-unit-cost, larger volumes of diesel directly from Singapore refineries. Its consignment-based fuel supply arrangements with Mobil, Majuro’s proximity to productive fishing grounds, and its ideal port conditions established the RMI as an attractive refueling and transshipment hub in the central Pacific. High gross profit margins (in some years over 20%) on fuel sales allowed MEC to cross-subsidize and suppress electricity tariffs. This model worked quite well for over a decade.

110. A series of events during 2004 -2007 constituted a “perfect storm” for MEC, rapidly eroding the company’s financial position. These events included:

- steadily increasing global fuel prices;
- the inability of MEC to pass on higher fuel costs to its tariffs because of a rigid tariff template that did not recover full costs;
- the outbreak of a major legal dispute between MEC and its fuel supplier Mobil (the ultimate resolution of this dispute resulted in MEC shouldering significant debts and losing its consignment fuel supply arrangements);
- the imposition of new import taxes on MEC’s fuel imports (since rescinded), which raised MEC’s fuel costs and profoundly impacted its export business;

- the entry of lower-cost high-seas refueling vessels in the central Pacific, a development which directly and significantly ate into MEC's market share.

111. Moreover, in FY2002 and FY2003, MEC benefited from access to an energy grant made available through Compact I, valued at around \$1.9 million. In FY2004, with the commencement of the amended Compact, the company no longer received the grant, and this change, coupled with other factors, led to the company's first major operating loss, nearly \$1.4 million. These subsidies, in fact, had allowed MEC to mask its underlying fiscal situation in FY2002 and FY2003.

112. What was once a lucrative and well-run utility had by FY2005 and FY2006 very quickly turned into a major liability and risk to the fiscal system and overall economy. The 2008 global fuel crisis, which hit the RMI economy very severely, prompted the RMI leadership to declare a first-ever "state of economic emergency," which placed MEC and the overall energy sector front-and-center. Global oil prices peaked in July of 2008, and over the ensuing 12 months, the national Government was forced to transfer nearly \$8 million to MEC to allow it to continue fuel procurement.

113. **Reform program.** In response to the financial crisis, the Board, under new management, adopted, at the beginning of 2010, a comprehensive recovery plan for FY2010-12. The recovery plan features a set of financial, operational and governance reforms aimed at improving the fundamental solvency and sustainability of the utility. The reforms are focused on three key areas: (i) strengthening MEC and energy sector governance; (ii) improvement of organizational policies, performance and capacity; and (iii) strengthening and stabilization of company finances.

114. Key features of the financial reforms include:

- Adoption of a new tariff template which will, once company inefficiencies have been rectified, provide for full cost recovery. At present, the average weighted residential tariff is €32 and is about 15% below full cost recovery,
- Removal of cross subsidization between services,
- Strengthening of accounts receivable in conjunction with the Bank of the Marshall Islands, and installation of pre-pay meters for all residential customers,
- Reduction of power system losses both technical and financial,
- Removal of streetlight losses,
- Negotiation of community service obligation contracts with the RMI government to compensate MEC for loss making operations in outer island atolls,
- Renegotiation and deferment of loan repayments with the Rural Utilities Service for four years, and restructuring of the Bank of Guam loan through refinancing with the ADB, and

- Development of new asset management plans and rehabilitation of existing generators.

115. It is estimated that if the reforms are implemented on schedule, the MEC would return to an operating profit by 2011. The reform process will take several years and is currently the center piece of a public sector program loan under negotiation with the ADB. The success of this process will remove one of the most serious risks to financial instability facing not only the MEC but also the RMI government.

4. TRUST FUND VIABILITY -- MONITORING THE SUFFICIENCY OF THE TRUST FUND

116. The establishment of the Trust Fund for the Peoples of the RMI was a major feature of the amended Compact. The Trust Fund was created “to contribute to the long-term budgetary self-reliance of the RMI... [and] to provide the Government of the RMI with an ongoing source of revenue after FY2023.” The design of the Trust Fund specifies distributions from FY2024 forward that are explicitly tied to the fully inflation-adjusted value of the Compact annual grant assistance provided in FY2023. Notwithstanding this design feature, the U.S. Government has, on several occasions subsequent to the outset of the amended Compact period, stated that “the amended Compacts and their subsidiary agreements contain no commitments, either express or implied, regarding the level of the revenue that will be generated by the Trust Funds, nor is there any commitment regarding the degree to which the revenue will ‘contribute’ to the long-term budgetary self-reliance of the FSM and RMI.”

117. Despite the lack of a secure and sustained funding level, the Trust Fund Agreement does specify a withdrawal rule that is precisely based upon the FY2023 annual grant assistance level plus full inflation, and each year thereafter the withdrawal rate specified is increased by full inflation. In fact, the withdrawals specified would occur under current rules at this fully inflation-adjusted annual rate even if it was known by all parties that the Trust Fund had not achieved a sufficient size to reliably support such withdrawals over the long-term. This is, in fact, a serious technical flaw if the real value of the Trust Fund is meant to be protected and if the stability of annual flows to the RMI is a shared objective. As currently structured, only the nominal value of the Trust Fund is likely to be protected, while stability of annual distributions will be at severe risk.

118. The problem of immense and repeated fiscal shocks would arise, in the case of the Trust Fund not being sufficiently large, if the returns in any post-2024 year are insufficient (or negative) and if the “C” account, established as a buffer, is too small (or empty). In such events, the RMI would suffer the consequences of having zero funds made available for budgetary or infrastructure investment support in specific years. All too frequently, based on historical investment return patterns, such events could lead to two or more consecutive years with vastly diminished or zero funding. Thus it makes sense for the RMI and the US to consider modifications to the poorly specified buffer account and withdrawal rules embedded in the Trust Fund Agreement so as to reduce the risk of re-

peated fiscal shocks of potentially massive proportions. At a minimum, consideration should be given to modifying the operations of the “B” account which, as described now provides no benefit whatsoever, and of the “C” account which would be more reliably functional if it were created by *fiat* at the outset of FY2024. Subject to technical review, consideration should also be given to increasing the initial holding size and providing conservative guidelines for the investment policy of the buffer account. Consideration should also be given to the basic annual withdrawal rule which provides no feedback mechanism to relate the annual withdrawal rate to the actual size of the Trust Fund.

119. With the risk of a shortfall in the Trust Fund not being underwritten by the U.S. Government in any formal sense, it is imperative that the RMI Government make every effort to monitor the progress of the Trust Fund and to assess performance against a sensible goal. That goal is the sufficiency of the Trust Fund to support a “smooth and sustainable transition” from direct, U.S.-appropriated, annual grants to annual Trust Fund distributions to the RMI. By definition, that means the target value of the Trust Fund at the end of FY2023 must be sufficient to support annual withdrawals equal to the inflation adjusted value of the grants received in FY2023, while preserving the real value of the Trust Fund in perpetuity. A monitoring procedure is presented below that identifies the “terminal condition for sufficiency” of the Trust Fund at the outset of FY2024, the first year in which it must provide income to the RMI Government.

120. There is no clear documentation of the assumed rate of growth of the initial RMI Trust Fund deposits augmented by the assumed annual contributions; however, there is only one variable that affects the projected direct grant level in FY2023 — that is the rate of inflation. More precisely, the one variable is the cumulative inflation adjustment, pursuant to Compact Section 217, for the 20-year period beginning in FY2004.

121. The RMI began the amended Compact period with an annual direct grant draw-down rate of \$35.2 million. That stream of direct grants is adjusted annually in two countervailing ways: annual grant levels are adjusted upward by the addition of two-thirds of inflation and adjusted downward by the subtraction of the so-called “decrement” of \$500,000.

122. Using actual inflation adjustment data through FY2011 and projecting forward based on inflation at 3.0 percent, a direct grant level of \$37.4 million is projected for FY2023. Using that value, allowing for full inflation adjustment of subsequent withdrawals, and maintaining the real value of the Trust Fund corpus, there is one other variable required in order to determine the size of the Trust Fund at the outset of FY2024, namely the rate of return on investments in the combined “A” and “C” accounts (essentially the primary and buffer accounts).

123. It is assumed that the RMI investment strategy at that time would need to provide for a prudent balance of risk while allowing for long-term growth. From FY2024 onward, a balanced investment allocation is assumed, with 65percent of assets in equities with an assumed real rate of return of 6.5 percent annually and 35 percent in fixed in-

come with an assumed real rate of return of 2.5 percent annually. The blended real rate of return for the distribution period is thus estimated at 5.1 percent. If inflation were to average 3.0 percent, a nominal rate of return of 8.1 percent would thus be required.

124. Taking the above projections and assumptions into account, the terminal condition for sufficiency of the Trust Fund is projected to be \$755 million. If the Trust Fund had been funded in a timely manner and precisely as called for in the amended Compact (ignoring contributions from third parties), the meeting of this terminal condition value would have required an annually compounded rate of return of 8.03 percent. With annual inflation projected at 3.0 percent over the entire period, the implied real rate of return is 5.03 percent. The projected growth path from FY2004–FY2023 is presented as the base-line growth, and actual progress is compared to this baseline (see Fig. 21 showing the smooth line projection, from a planned deposit of \$37 million in FY2004 to the target level of \$755 million at the end of FY2023).

125. The current value of the RMI Trust Fund is significantly below the level consistent with a smooth growth trend line. In order to be precisely “on-track” to achieving that level as of June 30, 2010, the value would have grown to \$134.4 million; however the actual value of the RMI Trust Fund at that date was \$101.4 million. This shortfall of \$33 million leaves the Trust Fund fully 25 percent short at this stage after 6.75 years of the

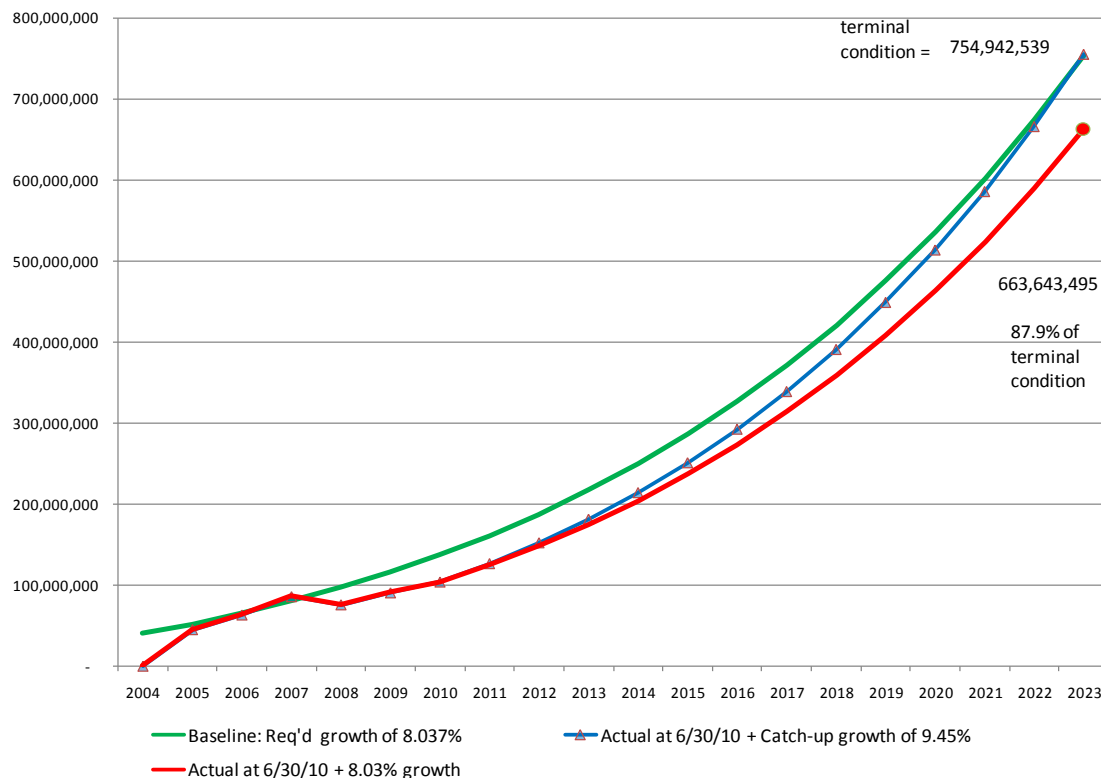


Figure 21 Compact Trust Fund Sufficiency, FY2004 – FY2024, \$'millions

20-year accumulation period projected. Even if the returns from this date forward were to average the (initially required) trend line rate of 8.03 percent annually, the final value of the fund at the outset of FY2024 would be just 87.9 percent of the target level, falling short by \$91.3 million.

126. A range of factors have combined to result in the RMI Compact Trust Fund value as at the end of June 2010 being below the projected path to support a smooth and sustained transition, although the actual performance of the markets was the most prominent factor in the shortfall to date.

- The most important factor—representing just over half of the shortfall—is the poor investment climate that existed over the initial period; since the time horizon for the Fund is twenty years in the accumulation phase it would have been expected that there would be several periods of poor investment performance. It is, of course, unfortunate that the Fund has experienced such a historically volatile and negative period early in the accumulation period.

127. Several other factors that were not “market-driven” follow below.

- The RMI failed to deposit in a timely manner its required \$30 million contribution; although the RMI was allowed to split its contributions over the initial year (\$25 million) and the two subsequent years (\$2.5 million each in FY05 and FY06). For projection purposes at the time the amended Compact was negotiated, the full sum was anticipated to be available to invest on October 1, 2003. In fact, the RMI deposited \$25 million on June 1, 2004, nine months late. The remaining deposits were made as follows: \$1.5 million on February 17, 2005, \$1.0 million on May 19, 2005, and the final \$2.5 million on October 5, 2005. Finally, the U.S. chose to delay its deposit awaiting the initial RMI contribution and made its initial deposit of \$7 million on June 3, 2004.
- The above delays were, in large part, due to the fact that the U.S. and RMI did not establish the Trust Fund on schedule. Although anticipated (for projection purposes) to be established on October 1, 2003, the RMI Trust Fund was incorporated as a non-profit corporation on April 28, 2004, and the amended Compact did not go into effect until May 1, 2004. Despite the delays, no changes to contribution commitments or anticipated withdrawal dates appear to have been discussed, although it should be noted that a 20-year accumulation period has been truncated as a result of legal requirements (i.e. the coming into effect of the Compact eight months after the beginning of the projected accumulation period) and the accumulation period was cut short even further by technical implementation issues.
- 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. This failure to invest according to the RMI’s investment policy was ill-timed, as the markets performed well during the

period of delay. Again, no discussions appear to have taken place to consider the impact of this and other delays relative to the originally projected 20-year accumulation period.

- While invested in the asset allocation identified in the Investment Policy adopted on August 19, 2005, and implemented on September 30, 2005, over the period from that implementation through June 30, 2010, it appears that the actual results have lagged, by a substantial margin, the weighted returns of the benchmarks for each asset class. The shortfall due to under-performance relative to its benchmark is \$6.1 million. Since the investment choices to date have involved passive instruments designed to track index performance, any under-performance would likely be a result of fees and expenses, combined with the effects of timing and tactical execution of the strategy.
- Finally, it is worth simply presenting the basic return performance of the RMI Trust Fund as at June 30, 2010. So far, contributions received have been \$102.2 million, while the market value of the Trust Fund was \$101.4 million, reflecting a total loss of \$0.8 million. This computes to a compound annual growth rate of -0.19 percent (negative). Had the portfolio (while invested) tracked its asset-weighted benchmark, the total gain would have been \$5.3 million and the compound annual growth rate would have been 1.28 percent.

128. A decomposition of the negative and positive factors is provided in Table 12. As noted above, 52 percent of the shortfall over the initial 6.75 year period is the result of market conditions that are truly out of the control of the parties to the Trust Fund. Taking all factors into account, the impact of the other positive and negative factors are highlighted. The market analysis utilized index comparisons against the initial investment strategy adopted by the RMI Trust Fund Committee. Specifically, U.S. Equity at 36% (of which 14% Large Cap Growth, 17% Large Cap Value, 5% Small Cap), 21% International Equity, 37% Fixed Income (of which 35% Aggregate Bond, 2% cash), and 6% Alternative (of which 6% Real Estate). While the strategy may have been amended slightly over time, the authors had no clear documentation of any such changes, and thus the “bench-

Table 12 Trust Fund Performance analyzed by Source of Variation as at end March 2009

RMI Trust Fund	Value at 6/30/2010	Difference from actual	Decomposition estimates	
If smooth trendline growth:	134,383,837	(\$2,526,979)	100%	The fund is 25% below target at this stage
If invested from original date:	117,379,836	(\$1,984,001)	-52%	This is the attribution to actual market
If invested from deposit dates:	113,965,080	(\$1,414,756)	-10%	This is result of delayed deposit
As entered into Inv. Policy:	107,522,486	(\$6,442,594)	-20%	This is result of delayed investment
Actual Market Value:	101,438,884	(\$6,085,622)	-18%	This is result of fees, underperformance, and changes from benchmarking inv. policy

mark” remained unchanged over the 6.75 year period of interest. The analysis utilized actual index-based measures and actual date of deposit data to estimate various effects as noted in Table 12.

129. One factor that has proven positive for the RMI Trust Fund is contributions from the Government of Taiwan, which have augmented the balance as of June 30, 2010. Taiwan has committed to a total funding level of \$40 million over the twenty-year period of the amended Compact. Taiwan has deposited \$8.75 million thus far—exactly equal to its stated intent. Contributions planned for FY2011 – FY2023 at \$2.4 million annually would complete the stated intent. Should these additional contributions be fully realized, the projected value of the RMI Trust Fund using the 8.03 percent rate of return would be 95 percent of the target value and the “catch-up” rate calculated (discussed below) would be reduced from 9.45 percent to 8.61 percent. Clearly, the value of third-party contributions is substantial and the allowance for third-party contributions to the Trust Fund, with mutual consent, was an enlightened feature of the amended Compact.

130. As shown in Fig. 21, the “catch-up” rate required for the RMI Trust Fund to achieve the terminal condition by the end of FY2023 is projected as a 9.45 percent compounded annual return for the remaining 13.25 years of the originally projected 20-year accumulation period. This return is slightly higher than the historical returns expected from the current investment strategy. Given the historically poor initial period—and the likelihood of a sustained period of above-average performance following the downturn—it remains possible that the RMI Trust Fund will achieve the target level. It would be sensible for the RMI Trust Fund Committee to re-visit its investment strategy—as it should in any event on a periodic basis—to consider the appropriate balance of risk versus reward and the appropriate mix of asset classes and allocations to those chosen asset classes. However, it is not recommended that the RMI over-allocate to risky assets in an overly-aggressive attempt to catch up. Rather, the most likely policy response would be to mobilize additional contributions—of modest proportion and from whatever sources—to the Trust Fund to more reliably support the RMI’s long-term fiscal stability and sustainability.

131. In recent interactions with the Asian Development Bank (ADB) and the International Monetary Fund (IMF) the RMI has received warnings related to the threat to their long-term fiscal sustainability resulting from the presumed level of under-performance of the RMI Trust Fund to date. The IMF warnings in particular have been based on a broader fiscal sustainability understanding than what the RMI Trust Fund was designed to specifically support. The IMF analysis sensibly considers the sustainability implications of a potential loss of all grants as opposed to limiting the analysis to the loss of only the Compact section 211 sector grants, for which future withdrawals from the RMI Trust Fund were designed to replace. In effect the IMF approach takes into account the large economic implications of withdrawal of sizeable resources available for the RMI regardless of the fact that the Trust Fund was designed only to replace a portion of the total grants. The next IMF staff visit, scheduled for November 2010, will emphasize the im-

portance of the broader approach to fiscal sustainability, in line with standard debt sustainability analysis of the IMF, to ensure smooth transition to self-sufficiency when the current period of sector grant funding comes to an end after FY2023. Subsequent analysis that has featured in the recently approved program loan from the ADB has, according to ADB staff, relied upon IMF fiscal forecasting; thus, the IMF-utilized assumptions need to be carefully considered. The best opportunity to achieve this, following upon the above-mentioned IMF staff visit, will be at the planned RMI Development Partners Meeting scheduled for December 1-2, 2010, in Majuro.

132. There are also several differences in assumptions between the IMF approach and that presented in this analysis, stemming from differences in global and national-level assumptions going forward. While the analysis in this section implies a somewhat higher expected real rate of return on the post-2024 RMI Trust Fund assets and assumes stream of grants to be replaced by the RMI Trust Fund of \$37.4 million after FY2023, the IMF 2009 Article IV Consultation projected a more cautious real rate of return and assessed that the Trust Fund needs to replace an annual stream of grants equal to \$45.3 million after FY2023. The latter number is 21 percent larger, implying that the Target Value of the Trust Fund would need to be 21 percent larger. The difference in grant size to be replaced—and hence the size of the fiscal challenge facing the RMI—is largely a result of the assessment by the IMF approach that the RMI faces the loss of not just sector grants, but also section 212 Kwajalein Impact payments, section 213(b) audit grants, and SEG education grants. In any event, it should be noted that regardless of the differences in global assumptions, there remains a need—perhaps with the IMF analysis signaling an upper boundary—for the RMI to improve both its current and long-term fiscal position.

C. Fiscal Policy and Implementation

1. FISCAL POLICY

133. Recent fiscal performance (Fig. 16 and Table 8), indicates a very tight fiscal position but does not reveal the large or growing deficits frequently associated with an unsustainable fiscal position. There is no question that the fiscal outturn requires adjustment. 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 accurately assess actual fiscal pressure, it is necessary to identify non-conventional signals of weakness. The following indicators have been evident during the amended Compact:

- A ruling in July 2005 by the U.S. Inspector General that Compact funds should be quarantined in special bank accounts. (This ruling curtailed the use of Compact resources to fund general operations and exposed the underlying tight fiscal posi-

tion in the general fund. In FY2007, Compact funds were in fact diverted for 24 hours to fund the general account.).

- Use of the Compact Trust Fund “D” account (\$3.5 million) to meet the RMI capital contributions to the “A” account in FY2005 and FY2006. Replenishment of the D account is outstanding.
- Difficulty in meeting the general fund payroll in FY2006, and delays in the payment of allotments and MISSA contributions from the salaries of government employees in FY2006.
- A very finely balanced fiscal outturn, existence of a priority list of recipients, and weekly cash flow management.
- Inability to service ADB debt in FY2007.
- The increasing use of the ROC project fund (\$6 million in FY2009) for advances to the SOE sector and general fund purposes. (In the preparation of the fiscal statistics the ROC project fund was originally classified as a capital project. However, this principle has become so distant it should be reclassified as “current.”).
- Low unreserved working balances of the general fund and a negative unreserved fund balance (-\$3.0 million in FY2009).

134. There is no doubt from the above observations that the daily operation of the RMI government budget is stressed. While the situation has improved from FY2008, when debt service, payroll and allotments were in arrears, the government’s cash flow position remains tenuous. Over the period of the annual cycle, the budget has been approximately in balance, but the timing of receipts and payments may be such that there is a cash short-fall during particular weeks or days. Clearly, this is an undesirable result that points to several answers to the question of what is suitable fiscal policy for the RMI. There would appear to be four different considerations in the design of fiscal policy:

- **Cash flow management:** maintenance of a sufficient fiscal balance and reserves to enable smooth operations of government and payment of expenditures. In economies with a central bank or developed capital markets, the government can borrow in order to smooth out irregularities in the short-term. The RMI does not have access to such funding and needs to hold sufficient cash balances to avoid payment arrears.
- **Cyclical downturn:** The nation also needs to be prepared for cyclical developments, usually in the medium-term, that arise from adverse world economic conditions, like the current world recession. This may arise from adverse changes in the external terms of trade such as fuel price shocks, food prices increases, or price reductions in primary commodities (e.g., coconut oil, fish). Again suitable reserves are needed to iron out cyclical movements in the business cycle.

- **Structural imbalances:** while the RMI fiscal position is tenuously in balance in the immediate short-term, the medium and longer-term outlook is less favorable, because of the decline in grants from the U.S. according to the annual decrement. Although nominal grants are likely to remain constant – because the decrement is offset by the 2/3rds inflation adjustment -- the real value of the Compact grants will decline.
- **Insufficiency of the CTF:** During the recent IMF Article IV consultations, the Fund defined the concept of fiscal balance in relation to the generation of sufficient saving to make up for the anticipated shortfall in the CTF in 2024. Based on the Fund's calculations, the RMI needs to increase fiscal savings to 5% of GDP within 5 years and to maintain it at that level through 2024.

135. During the annual Compact meetings of the JEMFAC in September 2009,, resolution JEMFAC 2009-1 “Sustainability of Sector Budgets,” was unanimously passed:

JEMFAC resolves that the RMI Government develop a plan for managing annual decreases in Compact direct assistance and/or general fund support, and use those plans as the basis for Fiscal Year 2012 budget decisions. The plan should include an evaluation of the ability of the health and education sectors to fulfill their strategic outcomes in fiscal years 2012-2014.

JEMFAC further resolves that the RMI submit its findings and plan through the Office of Insular Affairs to JEMFAC no later than August 1, 2010, and demonstrate it has used the findings and plan as part of its internal budget development process for Fiscal Year 2012.

136. While the JEMFAC resolution, which has yet to be developed, relates to the sustainability of the sector grants, it clearly recognizes that these cannot be considered in isolation; rather, a holistic approach to budget formulation is required. Decisions on maintenance of the sector grants in a declining environment interact with the use of general fund resources and other priorities of government. The nation clearly needs to develop a long-term fiscal framework to balance the needs of government against the objectives of fiscal policy outlined above and the JEMFAC resolution. We envisage a three-part process to address this issue, as follows:

137. **Establishment of Long-Term Fiscal Framework (LTFF).** This would include an economic modeling framework based on the structural characteristics of the RMI economy with a planning horizon through 2024. The model would need to be designed to enable simulation of the main policy instruments available to government: expenditures and revenues by economic and function category, including sector grants, public servant employment, wage rates, and taxes. The model would need to permit simulation of alternative assumptions of the exogenous variables such as exports, worker's remittances, landowner rents, interest earnings, grants, and transfers. A policy package could then be developed to meet the long-term objectives of the government of the RMI and to address sector grant considerations.

138. **Sector grant usage.** This involves identification of services delivered in the education, health and minor Compact sectors and priorities through the remaining amended Compact period, as well as costing of the deliverables and projection of Compact sector grant usage and services paid out of the general fund.

139. **Review of recommendations by leaders at a conference.** This conference would review the long-term fiscal framework, sector grant usage and delivery of general public services. The outcome of the conference would be the preparation of a public sector plan, for endorsement by government, to guide future budgetary allocations.

2. THE MEDIUM TERM BUDGET AND INVESTMENT FRAMEWORK

140. 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 under two components: the medium-term financial framework (MTFF) and the medium-term expenditure framework (MTEF). The MTFF is concerned with setting the overall fiscal envelope in which the budget is formulated, while the MTEF is concerned with the allocation of public resources (expenditure) in accordance with delivery of specified outputs. Both are set in the medium-term. Reflecting a PFM approach to budgeting in the Compact, the RMI system was termed the Medium-Term Budget and Investment Framework (MTBIF).

141. The medium-term framework was written into the language of the Compact in 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.

142. 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 is to update the MTBIF mid-year to include previous fiscal year audit information. As part of the process, a MTBIF Policy Framework Paper is prepared to provide macroeconomic and fiscal guidance. Its input is 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 and/or economy may be confronting in the medium term.

143. However, while the MTBIF approach has been incorporated into the amended Compact, the process has not been adopted as a meaningful budget planning tool or ac-

tive component of fiscal and macroeconomic planning. This situation is partly the result of weak capacity for economic policy formulation and management in EPSSO, and consequently the framework is rudimentary. To fulfill its function and provide a framework to explore alternative fiscal policy options, greater economic management capacity is needed, as well as improvements to the framework itself. At present, projections are based on the simplest of assumptions and a single estimated nominal GDP growth rate (1½%) is applied to all revenue forecasts. With the more advanced set of statistics in the RMI and intended estimation of GDP by industry, a more comprehensive MTBIF is and will be possible. Forecasts of GDP by industry can be developed, together with the balance of payments and the fiscal account, so as to generate a financial programming approach. A start has been made with preliminary econometric estimation of revenues, but these need to be extended to projection of individual elements of revenue based not just on total nominal GDP, but also on the relevant components of GDP, GNI and GNDI and the tax base.

144. While enhanced capacity in EPSSO and an improved MTBIF would be a desirable feature of fiscal management, it would not eliminate the need for the long-term fiscal framework (LTFF) outlined earlier. The MTBIF is a forecasting framework with projection covering three years based on existing trends. The scope of the LTFF would be structural in nature and policy orientated. The two frameworks would complement each other.

D. Public Sector Reform

145. In response to the emerging world economic crisis in 2008, rising fuel and food prices, onset of global recession, and, most importantly, the imminent financial collapse of the MEC, the Cabinet created two groups and commissions tasked with fiscal reform initiatives. In April 2009, an RMI CAP Advisory Group was created to develop an internally conceived and designed Comprehensive Adjustment Program. The program would promote the immediate interests of fiscal responsibility and stability, while also enhancing medium-term prospects for private-sector-led economic growth. The second group created by the Cabinet was the Revenue and Tax Reform and Modernization Commission, which was to develop a proposal to reform the existing revenue system and strengthen compliance and collections. Arising out of these internally generated reform initiatives, the ADB was requested to provide support through a Public Sector Program (PSP) aimed at consolidating the reform process and in particular providing of resources to re-finance MEC debt on concessional terms. Each of these initiatives is described in the following sections.

1. THE COMPREHENSIVE ADJUSTMENT PROGRAM (CAP)

146. The CAP was formed by the Minister of Finance and Cabinet on April 22, 2009; the report submitted by the Advisory Group to Cabinet on September 2009 identified two broad goals:

- *The first goal is to provide the Government with a well-defined series of actionable measures to recover from the recent (and continuing) deterioration in the fiscal position of the RMI Government and, following a period of fiscal restraint, to put the Government on a path toward long-term fiscal sustainability, while also placing the RMI economy on a similar path toward sustained growth.*
- *The second goal is to provide the Government with an internally designed program that can better guide its relations with the external donor community. Here the measurable objectives will be (a) to mobilize increased and better-targeted donor resources to support the implementation of the CAP, (b) to reduce the RMI's net external debt, and (c) to direct those resources towards the best uses for the RMI's long-term development.*

147. The CAP Advisory Group then goes on to make clear that the adjustment program will require significant political will on the part of the nation's leadership that will inevitably require sacrifices in the near to medium term. The reform program outlined should contain the following characteristics:

- *The larger share of the fiscal adjustment should be taken on [devoted to?] expenditure reductions, with significant, but lesser, reliance upon revenue increases.*
- *The fiscal adjustments approved for implementation by the Cabinet should be undertaken in two phases, with the items delivering the greatest fiscal savings/earnings prioritized for phase I. This front-loading will enable the benefits of adjustment to be realized earlier.*
- *All of the RMI's commitments for implementing its own internally-designed CAP should be shared with its major donor partners so that the RMI can benefit from coordinated and enhanced donor assistance.*
- *Finally, all of the elements of the CAP, and all of the RMI's future fiscal operations should be consistent with:*
 - *the "Decrement Management Plan" to be developed pursuant to JEMFAC Resolution No. 2009-1; and*
 - *an "External Debt Management Strategy." The goal will be to reduce the RMI's net-indebtedness over the period of CAP implementation and to ensure that the RMI never again subjects itself to unsustainable levels of external debt.*

148. Although the CAP Advisory Group outlined the general principals of reform, the specific measures were almost entirely related to expenditure reduction and followed a detailed examination of the major areas of expense. Table 13, reproduced from the CAP report, indicates a lower and upper range of potential savings by expense category. It is not intended to go through the list in detail, with the exception of two major categories relating to the civil service and SOE subsidization. In the RMI, the civil service

Table 13 CAP Advisory Group Proposed Savings by Expense Category

REFORM AREAS	MINIMUM SAVINGS (\$m)	MAXIMUM SAVINGS (\$m)
The Civil Service	1.7	4.9
Nitijela Member Compensation	.14	.17
Housing Allowances	.25	.27
Electricity Allowances	.5	1.52
Leased and Rental Housing	.07	.15
Utility Bills	.25	.75
Communications	.05	.1
Vehicles	.05	.1
Fuel	.07	.1
Travel and Per Diem	.1	.2
Professional Services	.03	.06
Grants and Subsidies	.6	1.8
Organization/Facilities Consolidation	.15	.3
TOTAL	3.96	10.42

represents nearly 50% of the cost of current operations. The Advisory group recommends the implementation of a reduction in force ranging from 50-400 civil servants and cost savings of \$0.7-\$5.6 million. It is clear that any reduction in force must be effected from the general fund, as other categories are protected by dedicated funding sources. At the time of the PSRP the general fund supported about 600 staff outside of education and health (now funded through Compact sector grants). Since that time, employment financed by the general fund has grown by about 300. The reduction in cost savings represented by the upper bound of the CAP in Table 13 corresponds to approximately this level, i.e., about 300 civil servants. The target is thus at the upper end of feasibility and would come at a hefty political cost.

149. The CAP study did not directly make any recommendations regarding the savings that could be generated from reduction in subsidies and transfers to the SOEs and other government agencies. As noted above, the CAP did recommend a review of the SOE sector; this review, now completed, recommends development of a comprehensive approach. Clearly, “stroke of the pen” savings are not easily achieved without disrupting delivery of existing government services, many of which support disadvantaged groups in the outer atolls. Reduction of these services would again come at a high political cost. However, the SOE sector is clearly an area where costs have risen very significantly, and long-run cost savings would be an essential element of reform.

150. Overall the CAP group recommends an expenditure reduction of \$7 to \$8 million over the next 1-3 years to address the structural deficit position. This corresponds to a similar level recommended in the recent IMF Article IV consultations. When this report was being prepared, the government was looking at a range of cost saving measures that includes those proposed by the CAP. However, it is noticeable a reduction in force is not

under consideration, although a reduction in working hours is being considered. Further, efforts to reduce subsidies are not popular, with an election coming in November 2011. While the Cabinet approved the CAP and TRAM proposals, implementation will require political will. Perhaps the best that can be hoped for at this time is an initiation of the process -- and a signal to the public that business as usual cannot continue.

2. THE TAX REVENUE REFORM AND MODERNIZATION COMMISSION

151. Complementing the creation of the CAP Advisory Committee, the Cabinet created the Tax and Revenue Reform and Modernization Commission (TRAM) on July 11, 2008. While the CAP was created to investigate ways to save cost in the operations of government, the TRAM was created to:

- *deliver to the Government for its consideration a **proposal to reform current tax system and structure** to meet the current and future financial needs of the Republic of the Marshall Islands and a tax and revenue design conducive to current realities and circumstances;*
- *deliver to the Government a proposal to **strengthen the capabilities and effectiveness of the revenue collecting administration**, sufficient to implement the revenue and tax reforms and improve the level of (voluntary) compliance of RMI taxpayers.*
- *take responsibility for governing and oversight of the design to **ensure effective implementation** of the changes needed to enhance a sustainable revenue stream to the Government*

152. In its proposal, the TRAM adopted the following guiding principles for tax reform:

- transparent and certain
- effective and efficient to administer
- simple and broad based
- fair and equitable
- financially neutral
- low tax burden
- promote private sector development
- attractive to foreign investment.

153. In order to support the recommendations of the TRAM, a request was made to PFTAC for technical assistance in the development and design of the tax reform package. In September 2009, PFTAC prepared its proposal. Two particular weaknesses were noted in the existing tax regime, the first relating to the Gross Revenue tax (GRT) and the second, to the wages and salary tax. In case of the GRT, the PFTAC report noted that although the system was simple, *there are a number of weaknesses, including: failure to distinguish between high profit and low profit businesses; lack of attractiveness to for-*

eign investors due to lack of creditability in foreign countries; tax cascading if the goods pass through more than one business; discouraging capital investment and replacement or reinvestment in capital equipment; and taxing exports, making them less competitive in international markets. In other words, the GRT, while it is simple to collect, displays a number of very undesirable characteristics. On the other hand, the wages and salaries tax also has some problems, including: the inequities which arise when taxpayers earning effectively the same amount of income are taxed differently due to some items of income not being taxable; and the anomaly in the tax-free threshold which results in some taxpayers earning lower net income even though their gross income increases.

154. PFTAC also noted some serious weaknesses with the existing tax administration; these arise from (a) *current levels of non-compliance, which is estimated at 50%; (b) needed improvements to administration processes in the Division of Revenue and Taxation (DRT); and (c) operational inefficiencies resulting from three different administrations collecting taxes and social security contributions.* In the RMI, taxes are collected by three different levels of government: the Division of Revenue and Taxation (DRT) in the Ministry of Finance, MALGOV and KALGOV at the local government level, and the Social Security Administration MISSA.

155. The essence of the tax reform proposed by PFTAC was the introduction of a modern tax system which is equitable, efficient and simple, while raising sufficient revenue to meet future fiscal challenges. The package of reforms would broaden the tax base, while attempting to keep rates low. The major elements of the system included the following:

- *replacing the GRT (except as a presumptive tax for small businesses), hotel and resorts tax, local sales taxes, and standard import duties with a broad-based consumption tax;*
- *replacing the special import duties and local government taxes on alcohol, tobacco, motor vehicles and fuel with similar excises;*
- *introducing a net profits tax for large businesses (that is, businesses with annual turnover greater than \$100,000);*
- *retaining the GRT for businesses with turnover less than \$100,000 but increasing the rates in certain cases; and*
- *modifying the wages and salaries tax by broadening the tax base to include items which are currently exempt, modifying and expanding the current tax-free threshold so that it is available to all taxpayers, and introducing a higher tax rate for high-income earners.*

156. While the PFTAC proposal outlines a set of reforms, it also stressed the need for strengthening of tax administration. In particular, the introduction of the consumption tax (VAT) would be instrumental to the implementation of a modern tax system and would contribute to better levels of compliance. PFTAC also proposed the creation of an inde-

pendent tax authority, which would incorporate an efficient culture of administration falling outside the norms of public service regulation. The tax reform strategy and administrative reforms would provide RMI with an internationally recognized tax system that is conducive to business and foreign investment and is more equitable for taxpayers. The proposed reforms would also increase the revenue yield.

157. The PFTAC tax reform proposal was well received by the TRAM Commission and, barring one major exception, was largely recommended to the Government without modification. The major exception was the introduction of the VAT, which in effect was the centerpiece of the PFTAC tax reform initiative. The Commission argued that a VAT was not suitable to the RMI, since production processes involved few steps compared with more advanced economies. The additional administration, bookkeeping, and compliance costs were seen as a burden on the private sector. The regressive nature of the VAT was noted, as was its adverse impact on the poor. Finally, the characteristics of other South Pacific nations where a VAT had been introduced were seen as not relevant or appropriate to the case of the RMI. The Commission recommended the replacement of the VAT with a sales tax at the first point of sale.

158. The adverse reaction to the implementation of a VAT has been long-standing in the RMI, going back to the time of the PSRP, when it was initially proposed and rejected. The rejection seems to be a reaction to the introduction of any new taxes on the private sector, whose members frequently come from the U.S., where there is little familiarity with the VAT and/or understanding of the concept. The arguments against are generally not well researched or considered, while the arguments in favor are voluminous and compelling. The successful introduction of a VAT in the South Pacific and in over 100 countries in the world does not seem to have had any influence on the choice of tax reform in the RMI.

159. The proposal of the Commission to replace the GRT and general import tax with retention of the GRT for small traders and the introduction of a sales tax at first point of sale for larger business is tantamount to replacing one sales tax (GRT) with two sales taxes (GRT and new sales tax). A subsequent mission by PFTAC in June 2010 was to assist the RMI with the tax reform process found many problems with the concept of the new sales tax.

The sales tax proposal is too vague at this point to objectively assess whether it is feasible or not, and its key policy points need to be clarified before any assessment can be made. The current proposal creates opportunities for revenue leakage and will neither minimize compliance costs to taxpayers and the revenue agency nor maintain the desired simplicity of the tax.

160. More specifically:

- Lack of clarity on the actual first point of sale. It is estimated that 10% of imports are directly imported by households, and 25% are imported by government. These components directly bypass the “first point of sale” concept.

- Composite supplies. Some businesses purchase imports and services from other businesses, and thus production would include elements of cascading that the “first point of sale” concept is designed to avoid.
- Services. Lack of clarity on issue of inclusion of service providers: would they be included in the system or not?
- Exports. Would exporters be zero-rated – i.e., would they be eligible for rebates on imbedded supplies from other businesses, and how would this be undertaken [*how would the rebates be calculated*]?

161. It is clear from the PFTAC report that the concept of a sales tax levied at the first point of sale has been insufficiently developed for implementation. It indicates that technical assistance from PFTAC/IMF could be provided only if these issues can be satisfactorily resolved, and recommends that the issue of the choice of VAT vs. sales tax should be revisited. While the report suggests the initial phase of the tax reform could proceed and the issue of which tax to implement could be left till later, this appears to be a dangerous strategy, given the critical nature the VAT plays in the development of a modern tax regime.

3. ADB PUBLIC SECTOR PROGRAM

162. Based on the recent internally designed reform initiatives developed by the CAP Advisory Group, the TRAM Commission and SOE report endorsed by the Cabinet, the ADB engaged with the Government in negotiations to develop a Public Sector Program (PSP) loan. The total value of the loan will be \$9.5 million, of which \$8.4 will be devoted to refinancing of the existing MEC debt to the Bank of Guam. The PSP (Subprogram 1 of 2) is designed to support the government in the achievement of its reform initiatives through the delivery of five outputs:

- improved medium term fiscal outlook,
- restraint of recurrent expenditure,
- increased tax revenue,
- improved SOE performance, and
- increased stakeholder participation.

163. **Improved medium term fiscal outlook:** The design of the first output is based on the IMF definition of fiscal sustainability as a CTF asset level that would create an income stream large enough to replace the Compact grants without eroding the real level of the assets. In practical terms, this would require the RMI to gradually increase the fiscal surplus to 5% of GDP over five years and to maintain that level until 2024, at the expiration of the amended Compact. With this general rationale, the PSP envisages the RMI running fiscal surpluses of 3% to GDP (equivalent to \$3.9 million in FY2011 and FY2012). The resulting surpluses would then be contributed to the CFT. As has been discussed in the fiscal policy section, there are many considerations in the design of fiscal policy. While viability of the CTF is clearly a key objective, it would be a shared respon-

sibility between the parties of the Compact and their mutually agreed goals; it should not be the sole or central feature of fiscal policy. However, while the objective of generating a fiscal surplus is clearly desirable, the RMI may be ill-advised to lock up the resulting funds in the CTF in perpetuity. The need to improve fiscal policy and management is well understood in the government, but commitment to devotion of savings to the CFT is less clear and poorly understood.

164. ***Restraint of recurrent expenditure:*** The second output is to be achieved through the implementation of the recommendations of the CAP and a reduction in the ratio of recurrent expenditures and wages to GDP to below FY2009 levels. While the Cabinet endorsed the recommendations of the CAP in 2009, actual implementation was under consideration during the annual budget formulation at the time of preparation of this report. It is understood that budgetary policy is normally quickly resolved, but in the present environment, with elections coming up in 2011, a decision has been slow in coming. There is thus some concern as to whether the nation has the political will to attain these objectives. The general output in the PSP is broad in concept and has the advantage of allowing the government to choose its own solution. However, the lack of definition also means that implementation may be vague, and there are no policies specifically relating to the all-important issue of reform and downsizing of the public service sector.

165. ***Increased tax revenue:*** The third output is to be achieved through implementation of the TRAM report and increased revenue effort. The initial priority of the PSP is to raise compliance through improved administration, and it is expected that the majority of the tax increase target (20% of GDP) would be achieved in this fashion. It is also expected that the tax reform initiative would be implemented in a revenue neutral manner as per TRAM recommendations. Lastly, revenues would be raised to 20% of GDP, per IMF recommendations, despite the TRAM recommendation not to increase rates. While tax reform is clearly needed in the RMI, the failure to adopt a broad based consumption tax (VAT) is of concern, given its pivotal significance to the implementation of a modern regime. To proceed with reform until this issue is resolved would be ill advised and risky.

166. ***Improved SOE performance:*** Improved SOE and MEC performance lie at the heart of the PSP. The SOE sector and MEC are targeted to achieve positive operating profits by 2012. In the case of the SOE sector, it is expected that reform will be achieved through implementation of subprogram 2 of the PSP. This entails annual reporting, development of an SOE policy, and implementation of an SOE Act. During subprogram 1, no resources are earmarked for SOE reform, and it is difficult to see how the return to positive profits can be attained, since it would require the overall elimination of the currently level of subsidy of \$8.4 million, a nearly impossible task. Even with the required political will, the reforms would require significant structural change and technical assistance.

167. Regarding the MEC, the PSP envisages (i) the replacement of the Bank of Guam loan by a concessional loan from the government (financed through the PSP of \$8.4 mil-

lion); (ii) the deferral of the Rural Utility Services (RUS) debt to the U.S. Department of Agriculture; and (iii) the establishment of a debt service sinking fund. Reform of MEC is to be achieved through implementation of the MEC Comprehensive Recovery Plan discussed earlier in this review. Unlike achievement of general SOE profitability by FY2012, independent assessment has indicated that if the MEC reforms proceed as planned, this output should be feasible.

168. ***Increased stakeholder participation*** The last output allows for the continued participation of stakeholders in the program. The preparation of the CAP and TRAM reports involved a significant degree of high level participation. However, the current program is not as well known as the original PSRP in the late 1990s when the need for reform was unavoidable. A lesson learned from the original PSRP was the consequences of attempting reform without sufficient public involvement. It is clear that the current program starts out with a disadvantage, inasmuch as the general public is not aware of the need for reform. Every effort will be needed to enhance general awareness if the reforms of the CAP, TRAM and SOE reports are to be effectively implemented.

169. Lastly, the PSP includes resources for Technical Assistance of four experts for four months each to assist with public service management, budget and fiscal management, revenue collection and enforcement, and energy sector financial advice. While it is clear that these resources are very much needed, the level of effort so far must be considered inadequate. The original PSRP provided resources for resident experts over a two-year period, plus a series of short-term experts. While the model employed for the PSRP may be questioned, the level of effort is much closer to that required. It is hoped the ADB TA funds can be supplemented from the loan itself, and other donors will join the initiative.

E. Private Sector Development

170. This report has devoted considerable attention to the public sector. At the current time, there is a realization that the public sector cannot continue to be the engine of growth that it was during the initial years of the amended Compact. The fiscal outturn is severely stressed and, together with rapidly rising costs of the civil service, mounting pressure from external debt service, and costly subsidies to the SOEs, has led to a series of reform initiatives. Effective implementation of these initiatives, reducing the cost of government and SOEs, and introduction of an efficient tax regime will provide support to the private sector. However, the nation must do more to provide an enabling regulatory environment that is conducive to doing business in the RMI. The lack of a comprehensive economic development strategy remains a critical policy challenge. Such a strategy could articulate how the RMI intends to address its business constraints and weaknesses and capitalize on its comparative strengths.

171. Private initiative in the RMI is generally constrained by the natural limitations of a remote location, a small and fragmented domestic market, a limited natural resource base, and weakness in the policy environment. Recent assessments of the RMI private

sector, including the World Bank “Doing Business” survey, have pinpointed some specific comparative disadvantages, such as difficulties in registering property, limited access to credit, a shortage of skilled domestic labor, and high costs of doing business. The RMI ranks 7th out of 10 Pacific Island economies and near the 50th percentile (98th out of 183 economies) in the global rankings of the 2010 “Doing Business” survey. This suggests that there is room for improvement in reducing the barriers and costs to starting and running businesses in the RMI.

172. Private sector indicators show continued signs of weakness and reaffirm the heavy reliance of RMI businesses on government consumption. As illustrated in Fig. 2 (in Section II, Review of Economic Developments), the private sector’s contribution to GDP contracted in both FY2008 and FY2009, paralleling the public sector trend. The private sector’s share of total GDP, which stood at 28.5% in FY2009, has increased only slightly since the late 1990s (see Fig. 4). Formal private sector employment has grown since FY2005, but has begun to level off. From FY2009 to FY2010, businesses added fewer than 100 new employees, with private sector employment as of FY2010 totaling 4,146 (Fig. 7). This represents 40% of total formal employment. Private sector employment on Kwajalein, which totaled 994 in FY2010, has steadily fallen from its peak of 1,453 in FY2003. Nonetheless, the magnitude of retrenchment on Kwajalein in FY2008–FY2010 has been less severe than initially expected. Financial sector data show significant unlent reserves, and commercial credit has grown only slightly in recent years. Foreign direct investment flows were relatively high -- \$7.2 million and \$5.9 million in FY2007 and FY2008 -- due to the re-establishment of the tuna loining plant on Majuro. Estimated foreign direct investment in FY2009 has moderated to an estimated \$3.2 million. As discussed in the section on sectoral developments, commercial fisheries are the only productive sector that has seen some growth in recent years.

173. For several years, efforts have been made through cooperation with the Asian Development Bank to reduce general administrative barriers and to tackle two specific constraints: (i) registering and accessing property and (ii) accessing credit. A Land Registration Authority (LRA) was established in 2003 to facilitate access to land (with secure title) for development, and in 2007, a Secure Transactions law was passed in the Nitijela to allow commercial financing to be secured by movable property; to provide for the creation of security interests in movable property; and to simplify enforcement against collateral when a debtor defaults. Land registrations in the LRA system remain slow. The Secure Transactions registry is now established and is expected to help improve access to capital.

F. Conclusion

174. There is no doubt that the RMI economy benefited from the additional fiscal stimulus during the initial years of the amended Compact. Economic growth averaged 2.6% per annum during the FY2003–07 period. However with the onset of the world recession and the lack of further fiscal stimulus, the economy has faltered and experienced negative growth in the last two years. Nevertheless, employment data indicates that the economy

has managed to generate significant additional jobs over the period. Both the private and public sectors have grown significantly, although this growth has been offset by declines at the Kwajalein military base. However, the generation of additional jobs has been insufficient to provide gainful employment opportunities for those seeking work, and outward migration remains substantial, averaging 1.7% annually.

175. This review indicates that the positive trend has peaked and is unlikely to continue. In fact, if anything, the FSM experience of a negative economic growth of 1.0% during the amended Compact period is more likely for the RMI, unless proactive decisions are made to confront the issues facing the nation. The review has indicated that the fiscal situation, while not deteriorating, is very tight—and fragile. A costly public service, external debt service, and the financial situation of the state owned enterprises threaten the nation's financial viability. The financial conditions of the amended Compact—decrement and lack of full indexation—will involve declining real resource inflows. Unless the private sector is able to take center stage and become the engine of growth, sustained economic growth is unlikely.

176. Realizing the economic and financial circumstances facing the nation, the RMI leadership initiated a series of reforms. The Comprehensive Adjustment Program (CAP) Advisory Group and Tax and Revenue Reform and Modernization Commission (TRAM) were created, and the reports of both of these groups were endorsed by the Cabinet. A report on the SOE sector was initiated, and the MEC adopted a comprehensive recovery program. The ADB will support these reform efforts through a Public Sector Program including loan finance to refinance the external debt of the MEC. However, all of these initiatives now require the political will to implement the reforms that have been endorsed. Reduction of an oversized public service sector and introduction of a modern tax regime are not popular measures, especially with elections looming. While the current focus on the public sector is appropriate, attention will need to switch in the longer term to engendering an environment conducive to private sector initiative, if the economy is to provide an increasing standard of living to its citizens.



Republic of the Marshall Islands

Fiscal Year 2009 Statistical Appendices

August 2010



US Department of the Interior
Office of Insular Affairs

GS GRADUATE
SCHOOL

PACIFIC ISLANDS TRAINING INITIATIVE
www.pitiviti.org

RMI DPM Briefing Book Page 306

Acknowledgements

Prepared under a grant awarded to:

Graduate School, Pacific Islands Training Initiative, Honolulu, HI
<http://www.pitiviti.org>

Jointly funded by:

US Department of Interior, Office of Insular Affairs
Government of the Marshall Islands

The Graduate School team for the RMI comprised:

Glenn McKinlay
Mark Sturton
Anna Lennblad

Thanks are due for the assistance provided by:

Staff of the Economic Planning Policy and Statistics Office (EPPSO)
Ministry of Finance
Office of the Public Auditor
Marshall Islands Social Security Administration
Marshall Islands Banking Commission
Marshall Islands Marine Resources Authority
Marshall Islands Visitor Authority
The many respondents to data requests, in both the public and private sector

Statistical tables were prepared as best possible at time of compilation

This Statistical Appendix is available as an Excel file.

Queries may be directed to Glenn McKinlay: gmckinlay@hotmail.com

Or to EPPSO: planning@ntamar.net

Also available online at <http://pitiviti.org/initiatives/rmi.php>

	List of Statistical Tables	Page
Table 1a	Population by major centers, percent of population and growth, 1930-1999	4
Table 1b	Working age population, economically active, and not economically active, 1988 and 1999	4
Table 1c	Net Air Passengers from US, Majuro and Kwajalein Atolls: 1990 to 2009	5
Table 2a	National income measures in current prices and real terms, FY1997-FY2009	6
Table 2b	Current and constant price GDP, GDP per capita, 1981-2009	7
Table 2c	Constant price GDP by institutional sector, FY1997-FY2009	8
Table 2d	Constant price GDP by institutional sector, annual percent growth, FY1997-FY2009	8
Table 2e	Current price GDP by institutional sector, FY1997-FY2009	8
Table 2f	Implicit GDP price deflators by institutional sector, FY1997-FY2009	9
Table 2g	Share of GDP by institutional sector, current prices, FY1997-FY2009	9
Table 2h	GDP by income component, current prices, FY1997-FY2009	10
Table 2i	GDP by income component, constant prices, FY1997-FY2009	10
Table 2j	Current price GDP by institutional sector and income components, FY1997-FY2009	11
Table 2k	Constant price GDP by institutional sector and income components, FY1997-FY2009	12
Table 3a	Employment by institutional sector, numbers, FY1997-FY2010	13
Table 3b	Employment by institutional sector, wage costs, FY1997-FY2010	13
Table 3c	Employment by institutional sector, average wage and salary rates, FY1997-FY2010	13
Table 3d	Employment by industry, numbers, FY1997-FY2010	14
Table 3e	Employment by industry, wage costs, FY1997-FY2010	14
Table 3f	Employment by industry, average wage and salary rates, FY1997-FY2010	15
Table 3g	Employment in private sector by industry, numbers, FY1997-FY2010	16
Table 3h	Employment in private sector by industry, wage costs, FY1997-FY2010	16
Table 3i	Employment in private sector by industry, average wage and salary rates, FY1997-FY2010	17
Table 4a	National government employment by department, FY1999-FY2010	18
Table 4b	National government wage costs by department, FY1999-FY2010	19
Table 4c	National government average wage and salary rates by department, FY1999-FY2010	20
Table 4d	National government employment by fund, FY2004 - FY2010 Quarter 2	21
Table 4e	National government wage costs by fund, FY2004 - FY2010 Quarter 2	21
Table 4f	National government average wage rates by fund, FY2004 - FY2010 Quarter 2	21
Table 5a	Copra production, average producer price and income to producers: 1951-2009	22
Table 5b	PM&O tuna loining plant achievements, Majuro: FY1999 to FY2003	22
Table 5c	Total fish catch in RMI EEZ, by method: 1998 - 2009	23
Table 5d	Total fish catch by Marshall Islands and domestically based vessels: 2001 - 2009	23
Table 5e	Visitors to Majuro, by year and purpose of visit: 1991, 1996, and 2001-2009	24
Table 5f	Length of stay, visitors to Majuro, by year and purpose of visit: 2001-2009	24
Table 5g	Visitors to Majuro by usual residence: 1998 to 2009	24
Table 6a	Assets and liabilities of Deposit Money Banks, 1997-2009	25
Table 6b	Income and expense of Domestic Money Banks, 1997-2009	26
Table 6c	Interest rates of Domestic Money Banks, 1997-2009	27
Table 7a	Majuro Consumer Price Index (CPI) by major groups, 1982-2001	28
Table 7b	Majuro Consumer Price Index (CPI) by major groups, 2003-2009	29
Table 7c	Ebeye Consumer Price Index (CPI) by major groups, 2005-2009	30
Table 8a	Marshall Islands: Balance of Payments (summary), FY1995-FY2009	31
Table 8b	Marshall Islands: Balance of Payments (detail), FY1995-FY2009	32
Table 8c	Marshall Islands: International Investment Position, FY1995-FY2009	34
Table 8d	External debt, original value, and outstanding principle by loan	35
Table 8e	External debt and debt service, RMI and national government, FY1992-FY2009	36
Table 8f	External debt and debt service projections, FY2009-FY2038	37
Table 9a	RMI Government Finances (GFS Format) FY1997-FY2009	38
Table 9b	Transfers (including subsidies and capital transfers) to Public Enterprises, FY1997-FY2009	39
Table 9c	Transfers treated as current subsidies in GDP estimates, FY1997-FY2009	39
Table 9d	RMI: Compact grants awarded, FY2004-FY2010	40

Table 1a Population by major centers, percent of population and growth, 1930-1999

	Population				Percent of Population			Population Growth			
	Total	Majuro	Ebeye	Other	Majuro	Ebeye	Other	Total	Majuro	Ebeye	Other
1930	10,412	753	19	9,640	7.2%	0.2%	92.6%				
1935	10,446	779	16	9,651	7.5%	0.2%	92.4%	0.1%	0.7%	-3.4%	0.0%
1958	14,163	3,415	1,284	9,464	24.1%	9.1%	66.8%	1.3%	6.6%	21.0%	-0.1%
1967	18,925	5,249	3,540	10,136	27.7%	18.7%	53.6%	3.3%	4.9%	11.9%	0.8%
1973	25,045	10,290	5,123	9,632	41.1%	20.5%	38.5%	4.8%	11.9%	6.4%	-0.8%
1980	30,873	11,791	6,169	12,913	38.2%	20.0%	41.8%	3.0%	2.0%	2.7%	4.3%
1988	43,380	19,664	8,324	15,392	45.3%	19.2%	35.5%	4.3%	6.6%	3.8%	2.2%
1999	50,840	23,676	9,345	17,819	46.6%	18.4%	35.0%	1.5%	1.7%	1.1%	1.3%

Source Annual Abstract 2004 Tables 1.3 and 1.6

Table 1b Working age population, economically active, and not economically active, 1988 and 1999

	Numbers		Percent	
	1988	1999	1988	1999
Working age population	21,244	28,698		
Economically active	11,488	14,677	54.1%	51.1%
Economically inactive	9,546	14,015	44.9%	48.8%
Not stated	210	6		
Employed	10,056	10,141	87.5%	69.1%
Employee - public sector	3392	3,106	33.7%	30.6%
Employee - private sector	3369	4,115	33.5%	40.6%
Self employed	2484	2,622	24.7%	25.9%
Employer in own farm or business		115		1.1%
Paid family worker	811	96	8.1%	0.9%
Unpaid family worker		87		0.9%
Unemployed	1,432	4,536	12.5%	30.9%

Source RMI Population Censuses

Table 1c Net Air Passengers from US, Majuro and Kwajalein Atolls: 1990 to 2009
(Arrivals minus departures)

Calender Year	Majuro	Kwajalein	RMI
1990	-309	320	11
1991	-197	535	338
1992	-330	-376	-706
1993	-254	-524	-778
1994	-330	207	-123
1995	-513	-280	-793
1996	-586	-54	-640
1997	-1,179	-236	-1,415
1998	-833	78	-755
1999	-660	203	-457
2000	-1,289	-627	-1,916
2001	-1,517	-512	-2,029
2002	-894	-19	-913
2003	-419	-362	-781
2004	-542	-11	-553
2005	-1,054	17	-1,037
2006	-792	-186	-978
2007	-466	-112	-578
2008	-1,223	-280	-1,503
2009	-771	99	-672
5 year averages			
1990-1994	-284	32	-252
1995-1999	-754	-58	-812
2000-2004	-932	-306	-1,238
2005-2009	-861	-92	-954

Source : US Department of Transportation "TRANSTATS" database

Notes : Only includes air passengers to/from Majuro or Kwajalein and US airports (Guam, Hawaii)

These data are used as proxy indicators of net migration to/from the RMI. However;

Passengers to/from FSM and other countries (e.g. FSM, Kiribati) are excluded.

Passengers between Majuro and Kwajalein are excluded.

Some one-way movements of non-residents (e.g. fishing crews and US military personnel) may be included.

Table 2a National income measures in current prices and real terms, FY1997-FY2009

(US\$'000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Current prices													
Gross Domestic Product (GDP)	106,531	108,935	108,079	111,811	114,716	123,392	127,210	133,498	138,786	144,466	152,307	154,549	155,002
Primary incomes 2													
Receivable from the rest of the world	37,042	41,003	44,685	44,479	44,981	43,988	43,372	46,090	49,832	53,919	54,453	53,478	49,710
Payable to the rest of the world	-12,690	-12,235	-11,235	-9,612	-8,848	-8,391	-8,592	-10,742	-11,178	-16,210	-14,744	-13,945	-11,246
Net primary incomes	24,352	28,767	33,450	34,867	36,133	35,597	34,780	35,348	38,654	37,709	39,709	39,533	38,464
Gross National Income (GNI)	130,883	137,702	141,529	146,679	150,849	158,989	161,990	168,846	177,440	182,175	192,016	194,082	193,466
Secondary Incomes (Current transfers) 2 3													
Receivable from the rest of the world	29,290	34,327	30,465	38,710	46,907	43,287	45,157	50,036	56,574	60,166	67,825	67,709	65,757
Payable to the rest of the world	-2,801	-2,881	-2,866	-3,006	-3,064	-3,223	-3,350	-3,481	-3,645	-3,773	-3,980	-4,022	-4,030
Net secondary incomes	26,489	31,445	27,599	35,704	43,843	40,064	41,807	46,555	52,930	56,393	63,845	63,687	61,726
Gross National Disposable Income (GNDI)	157,372	169,147	169,128	182,382	194,693	199,053	203,797	215,401	230,370	238,568	255,861	257,770	255,192
Constant 2000 prices													
GDP, at constant prices	108,887	106,143	105,870	111,811	115,893	118,490	121,860	126,401	128,307	130,306	134,904	132,697	129,950
Trading gains/losses 4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Real Gross Domestic Income	108,887	106,143	105,870	111,811	115,893	118,490	121,860	126,401	128,307	130,306	134,904	132,697	129,950
Primary incomes 5													
Receivable from the rest of the world	39,741	42,105	45,229	44,479	44,794	43,794	43,309	45,324	46,952	48,072	47,392	41,205	39,284
Payable to the rest of the world	-13,615	-12,564	-11,372	-9,612	-8,811	-8,354	-8,580	-10,564	-10,532	-14,452	-12,832	-10,745	-8,888
Net primary incomes	26,126	29,540	33,857	34,867	35,983	35,440	34,729	34,761	36,421	33,620	34,560	30,460	30,397
Real Gross National Income (GNI)	135,013	135,683	139,726	146,679	151,876	153,930	156,589	161,162	164,728	163,926	169,464	163,157	160,347
Secondary Incomes (Current transfers) 5													
Receivable from the rest of the world	31,424	35,249	30,836	38,710	46,712	43,096	45,092	49,205	53,305	53,642	59,030	52,170	51,966
Payable to the rest of the world	-3,005	-2,959	-2,901	-3,006	-3,051	-3,208	-3,346	-3,423	-3,434	-3,364	-3,464	-3,099	-3,185
Net secondary incomes	28,419	32,290	27,935	35,704	43,661	39,888	41,746	45,782	49,871	50,278	55,566	49,071	48,781
Real Gross National Disposable Income (GNDI) 1	163,432	167,974	167,661	182,382	195,536	193,818	198,336	206,944	214,599	214,204	225,030	212,228	209,128
Annual changes													
GDP at constant prices		-2.5%	-0.3%	5.6%	3.7%	2.2%	2.8%	3.7%	1.5%	1.6%	3.5%	-1.6%	-2.1%
Real GNI		0.5%	3.0%	5.0%	3.5%	1.4%	1.7%	2.9%	2.2%	-0.5%	3.4%	-3.7%	-1.7%
Real GNDI		2.8%	-0.2%	8.8%	7.2%	-0.9%	2.3%	4.3%	3.7%	-0.2%	5.1%	-5.7%	-1.5%
Per capita income measures 6													
Population	49,286	50,028	50,840	51,299	50,675	49,917	50,266	50,799	51,592	51,953	52,338	53,033	53,616
Current price GDP per capita (US\$)	2,161	2,177	2,126	2,180	2,264	2,472	2,531	2,628	2,690	2,781	2,910	2,914	2,891
Current price GNI per capita (US\$)	2,656	2,752	2,784	2,859	2,977	3,185	3,223	3,324	3,439	3,507	3,669	3,660	3,608
Current price GNDI per capita (US\$)	3,193	3,381	3,327	3,555	3,842	3,988	4,054	4,240	4,465	4,592	4,889	4,861	4,760
Constant price GDP per capita (US\$)	2,209	2,122	2,082	2,180	2,287	2,374	2,424	2,488	2,487	2,508	2,578	2,502	2,424
Real GDI per capita	2,209	2,122	2,082	2,180	2,287	2,374	2,424	2,488	2,487	2,508	2,578	2,502	2,424
Real GNI per capita (US\$)	2,739	2,712	2,748	2,859	2,997	3,084	3,115	3,173	3,193	3,155	3,238	3,077	2,991
Real GNDI per capita (US\$)	3,316	3,358	3,298	3,555	3,859	3,883	3,946	4,074	4,160	4,123	4,300	4,002	3,900
Implicit Price deflators													
Gross Domestic Product (GDP)	97.8	102.6	102.1	100.0	99.0	104.1	104.4	105.6	108.2	110.9	112.9	116.5	119.3
Gross National Income (GNI)	96.9	101.5	101.3	100.0	99.3	103.3	103.4	104.8	107.7	111.1	113.3	119.0	120.7
Gross National Disposable Income (GNDI)	96.3	100.7	100.9	100.0	99.6	102.7	102.8	104.1	107.3	111.4	113.7	121.5	122.0

1) GDP, GNI and GNDI are at purchasers prices.

2) Refer to Balance of Payments tables for breakdown of primary and secondary Income flows

3) US Federal and other grants not passed through the Government of the RMI may be understated

4) Changes in the terms of trade. Not currently estimated.

5) Primary, Secondary income and capital grants are deflated by an equal weighting of the RMI CPI and the RMI GDP implicit price deflator, as a proxy for the Gross Domestic Expenditure deflator

6) Income comparisons between countries should be made using Purchasing Power Parities (PPP) rather than US\$. However, these measures are currently not available for the RMI.

Table 2b Current and constant price GDP, GDP per capita, 1981-2009

	GDP \$'000 (old series) ¹	GDP \$'000 (new series) ²	Linked Series ³	Real GDP \$'000 ⁴	Real GDP annual growth	Population	GDP per capita, Constant prices ⁴	Real per capita GDP annual growth
FY1981	27,152		31,020	56,993		32,214	1,769	
FY1982	30,564		34,918	59,747	4.8%	33,613	1,777	0.5%
FY1983	36,543		41,749	69,012	15.5%	35,073	1,968	10.7%
FY1984	39,515		45,144	71,681	3.9%	36,596	1,959	-0.5%
FY1985	38,408		43,879	67,195	-6.3%	38,185	1,760	-10.2%
FY1986	49,008		55,989	83,687	24.5%	39,844	2,100	19.4%
FY1987	55,130		62,983	91,523	9.4%	41,574	2,201	4.8%
FY1988	61,874		70,688	98,652	7.8%	43,380	2,274	3.3%
FY1989	63,721		72,798	96,983	-1.7%	43,734	2,218	-2.5%
FY1990	68,691		78,476	99,578	2.7%	44,392	2,243	1.2%
FY1991	72,219		82,507	99,666	0.1%	45,060	2,212	-1.4%
FY1992	79,709		91,063	106,783	7.1%	45,739	2,335	5.6%
FY1993	87,059		99,461	113,196	6.0%	46,427	2,438	4.4%
FY1994	94,596		108,071	119,850	5.9%	47,126	2,543	4.3%
FY1995	105,239		120,230	129,693	8.2%	47,835	2,711	6.6%
FY1996	97,036		110,858	116,331	-10.3%	48,555	2,396	-11.6%
FY1997	92,184	106,531	106,531	108,887	-6.4%	49,286	2,209	-7.8%
FY1998	95,659	108,935	108,935	106,143	-2.5%	50,028	2,122	-4.0%
FY1999	95,360	108,079	108,079	105,870	-0.3%	50,840	2,082	-1.9%
FY2000	98,849	111,811	111,811	111,811	5.6%	51,299	2,180	4.7%
FY2001	99,174	114,716	114,716	115,893	3.7%	50,675	2,287	4.9%
FY2002		123,392	123,392	118,490	2.2%	49,917	2,374	3.8%
FY2003		127,210	127,210	121,860	2.8%	50,266	2,424	2.1%
FY2004		133,498	133,498	126,401	3.7%	50,799	2,488	2.6%
FY2005		138,786	138,786	128,307	1.5%	51,592	2,487	-0.1%
FY2006		144,466	144,466	130,306	1.6%	51,953	2,508	0.9%
FY2007		152,307	152,307	134,904	3.5%	52,338	2,578	2.8%
FY2008		154,549	154,549	132,697	-1.6%	53,033	2,502	-2.9%
FY2009		155,002	155,002	129,950	-2.1%	53,616	2,424	-3.1%

Notes 1 GDP estimates old series 1981-2001

2 GDP estimates, EPPSO from 1997

3 Series linked based on differential between the average figures 1997-1999

4 Constant price GDP is in 2000 prices. U.S. CPI used as deflator for 1981-1997

Table 2c Constant price GDP by institutional sector, FY1997-FY2009

	(constant prices of FY2000, US\$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
1.1 Private Enterprise		29,454	30,178	28,952	32,436	33,940	35,119	36,573	38,759	37,099	39,658	42,129	40,767	39,876
1.2 Public Enterprise		12,980	12,434	11,851	13,251	13,837	14,992	14,674	13,976	14,163	13,601	17,271	15,063	15,721
2 Finance (Banks)		4,499	4,753	4,970	5,082	5,562	5,534	5,384	5,771	5,801	5,952	6,521	7,182	7,367
3 Government		37,141	35,121	35,337	35,890	37,983	40,288	41,590	43,065	44,964	46,169	46,401	45,771	45,101
4 NGOs		1,776	1,815	1,771	1,783	1,853	1,909	1,843	1,910	2,102	1,997	2,016	1,900	1,866
5 Households		18,296	17,275	17,108	17,177	17,511	16,656	17,035	17,371	17,571	17,593	18,099	18,587	18,660
GDP at Factor Cost (Gross)		104,147	101,576	99,989	105,619	110,686	114,499	117,099	120,852	121,700	124,969	132,437	129,270	128,590
Indirect taxes less Subsidies		7,094	6,954	8,392	9,047	8,183	7,168	7,422	8,294	9,550	8,601	6,325	7,047	4,488
Less intermediate FISIM		-2,355	-2,387	-2,511	-2,855	-2,977	-3,176	-2,661	-2,744	-2,942	-3,264	-3,858	-3,621	-3,128
Real GDP at Market Prices (Gross)		108,887	106,143	105,870	111,811	115,893	118,490	121,860	126,401	128,307	130,306	134,904	132,697	129,950

Table 2d Constant price GDP by institutional sector, annual percent growth, FY1997-FY2009

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
1.1 Private Enterprise		2.5%	-4.1%	12.0%	4.6%	3.5%	4.1%	6.0%	-4.3%	6.9%	6.2%	-3.2%	-2.2%
1.2 Public Enterprise		-4.2%	-4.7%	11.8%	4.4%	8.3%	-2.1%	-4.8%	1.3%	-4.0%	27.0%	-12.8%	4.4%
2 Finance (Banks)		5.6%	4.6%	2.2%	9.5%	-0.5%	-2.7%	7.2%	0.5%	2.6%	9.6%	10.1%	2.6%
3 Government		-5.4%	0.6%	1.6%	5.8%	6.1%	3.2%	3.5%	4.4%	2.7%	0.5%	-1.4%	-1.5%
4 NGOs		2.2%	-2.4%	0.7%	3.9%	3.0%	-3.5%	3.7%	10.0%	-5.0%	0.9%	-5.7%	-1.8%
5 Households		-5.6%	-1.0%	0.4%	1.9%	-4.9%	2.3%	2.0%	1.2%	0.1%	2.9%	2.7%	0.4%
GDP at Factor Cost (Gross)		-2.5%	-1.6%	5.6%	4.8%	3.4%	2.3%	3.2%	0.7%	2.7%	6.0%	-2.4%	-0.5%
Indirect taxes less Subsidies		-2.0%	20.7%	7.8%	-9.6%	-12.4%	3.6%	11.7%	15.1%	-9.9%	-26.5%	11.4%	-36.3%
Less intermediate FISIM		1.4%	5.2%	13.7%	4.3%	6.7%	-16.2%	3.1%	7.2%	10.9%	18.2%	-6.2%	-13.6%
Real GDP at Market Prices (Gross)		-2.5%	-0.3%	5.6%	3.7%	2.2%	2.8%	3.7%	1.5%	1.6%	3.5%	-1.6%	-2.1%

Table 2e Current price GDP by institutional sector, FY1997-FY2009

	(US\$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
1.1 Private Enterprise		29,194	29,169	28,847	32,436	34,034	34,534	34,512	36,588	35,340	39,022	41,328	43,101	44,169
1.2 Public Enterprise		11,051	14,532	13,583	13,251	13,337	17,064	15,830	14,392	12,877	12,481	18,349	14,207	16,943
2 Finance (Banks)		3,979	4,283	4,569	5,082	4,933	5,574	5,357	5,840	6,704	7,664	8,580	8,089	7,065
3 Government		34,004	33,807	34,041	35,890	37,993	41,522	44,694	48,399	51,997	54,055	54,010	54,587	54,620
4 NGOs		1,749	1,731	1,765	1,783	1,952	2,022	2,038	2,027	2,326	2,197	2,247	2,194	2,258
5 Households		17,825	16,340	16,990	17,177	17,314	16,760	17,259	18,011	18,638	19,361	20,583	24,677	25,788
GDP at Factor Cost (Gross)		97,802	99,863	99,795	105,619	109,564	117,476	119,689	125,257	127,882	134,781	145,097	146,854	150,844
Indirect taxes less Subsidies		10,956	11,322	10,730	9,047	8,112	9,104	10,251	11,081	14,012	13,178	11,345	11,717	7,723
Less intermediate FISIM		-2,226	-2,250	-2,445	-2,855	-2,960	-3,187	-2,730	-2,839	-3,108	-3,492	-4,135	-4,021	-3,565
Nominal GDP at Market Prices (Gross)		106,531	108,935	108,079	111,811	114,716	123,392	127,210	133,498	138,786	144,466	152,307	154,549	155,002

Source: EPPSO estimates

Table 2f Implicit GDP price deflators by institutional sector, FY1997-FY2009

	(FY2000=100)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
1.1 Private Enterprise		99.1	96.7	99.6	100.0	100.3	98.3	94.4	94.4	95.3	98.4	98.1	105.7	110.8
1.2 Public Enterprise		85.1	116.9	114.6	100.0	96.4	113.8	107.9	103.0	90.9	91.8	106.2	94.3	107.8
2 Finance (Banks)		88.4	90.1	91.9	100.0	88.7	100.7	99.5	101.2	115.6	128.8	131.6	112.6	95.9
3 Government		91.6	96.3	96.3	100.0	100.0	103.1	107.5	112.4	115.6	117.1	116.4	119.3	121.1
4 NGOs		98.5	95.4	99.6	100.0	105.4	105.9	110.6	106.1	110.6	110.0	111.5	115.5	121.0
5 Households		97.4	94.6	99.3	100.0	98.9	100.6	101.3	103.7	106.1	110.0	113.7	132.8	138.2
GDP at Factor Cost (Gross)		93.9	98.3	99.8	100.0	99.0	102.6	102.2	103.6	105.1	107.9	109.6	113.6	117.3
Indirect taxes less Subsidies		154.4	162.8	127.9	100.0	99.1	127.0	138.1	133.6	146.7	153.2	179.4	166.3	172.1
Less intermediate FISIM		94.5	94.3	97.4	100.0	99.4	100.4	102.6	103.5	105.6	107.0	107.2	111.1	114.0
GDP at Market Prices (Gross)		97.8	102.6	102.1	100.0	99.0	104.1	104.4	105.6	108.2	110.9	112.9	116.5	119.3

Table 2g Share of GDP by institutional sector, current prices, FY1997-FY2009

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
1.1 Private Enterprise	27.4%	26.8%	26.7%	29.0%	29.7%	28.0%	27.1%	27.4%	25.5%	27.0%	27.1%	27.9%	28.5%
1.2 Public Enterprise	10.4%	13.3%	12.6%	11.9%	11.6%	13.8%	12.4%	10.8%	9.3%	8.6%	12.0%	9.2%	10.9%
2 Finance (Banks)	3.7%	3.9%	4.2%	4.5%	4.3%	4.5%	4.2%	4.4%	4.8%	5.3%	5.6%	5.2%	4.6%
3 Government	31.9%	31.0%	31.5%	32.1%	33.1%	33.7%	35.1%	36.3%	37.5%	37.4%	35.5%	35.3%	35.2%
4 NGOs	1.6%	1.6%	1.6%	1.6%	1.7%	1.6%	1.6%	1.5%	1.7%	1.5%	1.5%	1.4%	1.5%
5 Households	16.7%	15.0%	15.7%	15.4%	15.1%	13.6%	13.6%	13.5%	13.4%	13.4%	13.5%	16.0%	16.6%
GDP at Factor Cost (Gross)	91.8%	91.7%	92.3%	94.5%	95.5%	95.2%	94.1%	93.8%	92.1%	93.3%	95.3%	95.0%	97.3%
Indirect taxes less Subsidies	10.3%	10.4%	9.9%	8.1%	7.1%	7.4%	8.1%	8.3%	10.1%	9.1%	7.4%	7.6%	5.0%
Less intermediate FISIM	-2.1%	-2.1%	-2.3%	-2.6%	-2.6%	-2.6%	-2.1%	-2.1%	-2.2%	-2.4%	-2.7%	-2.6%	-2.3%
Real GDP at Market Prices (Gross)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: EPPSO estimates

Table 2h GDP by income component, current prices, FY1997-FY2009

(US\$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Compensation of employees	62,146	62,531	63,009	66,361	71,003	75,520	77,951	81,348	85,363	89,385	92,135	94,779	96,449
Operating surplus (Gross before depreciator	17,831	20,992	19,795	22,081	21,247	25,196	24,479	25,898	23,881	26,035	32,379	27,398	28,607
Household mixed income	4,084	2,967	3,246	3,517	3,368	2,958	3,602	3,920	4,045	4,138	4,941	6,740	6,893
Indirect taxes less Subsidies	10,956	11,322	10,730	9,047	8,112	9,104	10,251	11,081	14,012	13,178	11,345	11,717	7,723
Less intermediate FISIM	-2,226	-2,250	-2,445	-2,855	-2,960	-3,187	-2,730	-2,839	-3,108	-3,492	-4,135	-4,021	-3,565
Total Monetary	92,791	95,562	94,335	98,152	100,771	109,590	113,553	119,408	124,193	129,243	136,665	136,613	136,108
Percentage Monetary	87.1%	87.7%	87.3%	87.8%	87.8%	88.8%	89.3%	89.4%	89.5%	89.5%	89.7%	88.4%	87.8%
Household subsistence	6,876	6,924	7,136	6,932	7,177	7,161	7,033	7,260	7,414	7,614	7,775	8,795	9,608
Owner occupied housing	6,865	6,449	6,608	6,728	6,769	6,641	6,624	6,830	7,179	7,609	7,867	9,142	9,286
Total Non-Monetary	13,741	13,373	13,744	13,660	13,946	13,802	13,657	14,090	14,593	15,223	15,642	17,937	18,894
Percentage Non-Monetary	12.9%	12.3%	12.7%	12.2%	12.2%	11.2%	10.7%	10.6%	10.5%	10.5%	10.3%	11.6%	12.2%
Nominal GDP at Market Prices (Gross)	106,531	108,935	108,079	111,811	114,716	123,392	127,210	133,498	138,786	144,466	152,307	154,549	155,002

Table 2i GDP by income component, constant prices, FY1997-FY2009

(constant prices of FY2000, US\$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Compensation of employees	66,281	65,904	64,823	66,361	70,912	75,076	76,118	78,761	80,663	83,410	86,079	86,401	85,711
Operating surplus (Gross before depreciator	19,570	18,397	18,057	22,081	22,263	22,766	23,947	24,720	23,466	23,966	28,259	24,282	24,219
Household mixed income	3,802	3,523	3,221	3,517	3,806	3,100	3,601	3,830	3,871	3,821	4,249	4,598	4,554
Indirect taxes less Subsidies	7,094	6,954	8,392	9,047	8,183	7,168	7,422	8,294	9,550	8,601	6,325	7,047	4,488
Less intermediate FISIM	-2,355	-2,387	-2,511	-2,855	-2,977	-3,176	-2,661	-2,744	-2,942	-3,264	-3,858	-3,621	-3,128
Total Monetary	94,392	92,391	91,983	98,152	102,188	104,934	108,426	112,860	114,607	116,534	121,054	118,708	115,844
Percentage Monetary	86.7%	87.0%	86.9%	87.8%	88.2%	88.6%	89.0%	89.3%	89.3%	89.4%	89.7%	89.5%	89.1%
Household subsistence	7,232	7,123	7,219	6,932	7,059	7,009	6,842	6,879	6,934	6,959	6,985	7,034	7,074
Owner occupied housing	7,262	6,629	6,668	6,728	6,646	6,547	6,592	6,662	6,766	6,814	6,864	6,955	7,032
Total Non-Monetary	14,494	13,752	13,887	13,660	13,705	13,556	13,434	13,541	13,700	13,772	13,850	13,989	14,106
Percentage Non-Monetary	13.3%	13.0%	13.1%	12.2%	11.8%	11.4%	11.0%	10.7%	10.7%	10.6%	10.3%	10.5%	10.9%
Real GDP at Market Prices (Gross)	108,887	106,143	105,870	111,811	115,893	118,490	121,860	126,401	128,307	130,306	134,904	132,697	129,950

Source: EPPSO estimates

Table 2j Current price GDP by institutional sector and income components, FY1997-FY2009

(US\$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
1.1 Private Enterprise	29,194	29,169	28,847	32,436	34,034	34,534	34,512	36,588	35,340	39,022	41,328	43,101	44,169
Compensation of employees	16,476	17,120	17,773	17,768	19,549	19,705	17,741	17,577	18,067	19,541	21,147	21,684	21,711
Pelagic fishing & related (1)	246	169	27	961	1,188	1,595	1,814	1,471	773	950	1,040	1,843	2,933
Operating surplus (gross)	12,308	11,769	11,029	13,171	12,771	12,548	14,118	16,815	16,174	18,215	18,970	20,145	19,186
Pelagic fishing & related (1)	164	112	18	536	525	686	838	724	326	316	171	-572	339
1.2 Public Enterprise	8,743	11,894	12,214	11,259	10,729	13,197	11,988	11,307	10,179	8,464	10,484	7,306	8,564
Compensation of employees	8,151	8,090	7,646	8,127	8,212	8,307	9,379	9,356	9,295	9,429	10,280	11,015	11,347
Operating surplus (gross)	2,900	6,443	5,936	5,124	5,126	8,757	6,451	5,037	3,582	3,052	8,069	3,192	5,596
Less Subsidies	-2,308	-2,639	-1,368	-1,993	-2,609	-3,868	-3,842	-3,085	-2,697	-4,017	-7,865	-6,900	-8,380
2 Finance (Banks)	3,979	4,283	4,569	5,082	4,933	5,574	5,357	5,840	6,704	7,664	8,580	8,089	7,065
Compensation of employees	1,520	1,614	1,758	1,833	2,108	2,370	2,285	2,518	2,904	3,212	3,411	3,456	3,579
Operating surplus (gross)	2,459	2,669	2,812	3,249	2,824	3,205	3,072	3,323	3,800	4,452	5,168	4,633	3,486
3 Government (compensation of employees)	34,004	33,807	34,041	35,890	37,993	41,522	44,694	48,399	51,997	54,055	54,010	54,587	54,620
3.1 RMI Government	22,041	20,736	19,204	19,446	20,779	23,523	26,842	30,385	33,396	37,109	36,924	37,299	37,541
3.2 Government Agencies	4,780	5,656	6,944	7,891	8,605	9,449	9,656	9,297	9,436	7,551	7,628	7,972	8,400
3.3 Local Government	7,183	7,414	7,893	8,553	8,609	8,550	8,196	8,718	9,165	9,396	9,458	9,315	8,679
4 NGOs (compensation of employees)	1,749	1,731	1,765	1,783	1,952	2,022	2,038	2,027	2,326	2,197	2,247	2,194	2,258
5 Households	17,825	16,340	16,990	17,177	17,314	16,760	17,259	18,011	18,638	19,361	20,583	24,677	25,788
Mixed Income	4,084	2,967	3,246	3,517	3,368	2,958	3,602	3,920	4,045	4,138	4,941	6,740	6,893
Copra production	2,062	821	1,007	1,183	949	478	1,027	1,186	1,178	1,115	1,810	3,153	2,889
Fishing	909	975	1,043	1,116	1,194	1,278	1,367	1,462	1,565	1,674	1,748	2,012	2,280
Handicrafts	913	962	980	998	1,004	985	992	1,048	1,067	1,100	1,125	1,276	1,421
Other	200	209	216	220	222	217	217	224	235	249	258	299	304
Subsistence	6,876	6,924	7,136	6,932	7,177	7,161	7,033	7,260	7,414	7,614	7,775	8,795	9,608
Home Ownership	6,865	6,449	6,608	6,728	6,769	6,641	6,624	6,830	7,179	7,609	7,867	9,142	9,286
Indirect taxes	13,264	13,961	12,098	11,040	10,720	12,971	14,093	14,166	16,709	17,195	19,209	18,617	16,103
Import and fuel taxes (REPMAR)	7,810	8,335	6,227	4,523	4,451	6,323	7,040	6,681	8,830	8,601	9,354	8,672	7,138
Other Indirect taxes (REPMAR)	2,725	2,663	2,545	2,993	2,901	2,995	3,407	4,015	3,882	4,778	5,851	5,849	5,394
Indirect taxes (Local Government)	2,728	2,963	3,327	3,524	3,369	3,654	3,646	3,470	3,997	3,816	4,003	4,095	3,571
Less intermediate FISIM	-2,226	-2,250	-2,445	-2,855	-2,960	-3,187	-2,730	-2,839	-3,108	-3,492	-4,135	-4,021	-3,565
Nominal GDP at Market Prices (Gross)	106,531	108,935	108,079	111,811	114,716	123,392	127,210	133,498	138,786	144,466	152,307	154,549	155,002
Memo items:													
Non-resident pelagic fishing vessels (2)	3,020	2,728	0	0	13,879	15,975	15,418	19,477	24,314	19,162	35,577	26,225	24,455
Labor Income, Kwajalein base (3)	15,022	15,175	16,630	19,182	20,129	19,100	20,393	20,643	21,231	23,323	22,172	19,719	19,910

(1) Value added for shore based processing and support units directly related to pelagic fishing, and one purse seiner treated as resident from FY2009

(2) Estimated value added for pelagic fishing vessels of RMI incorporated companies that are treated as economic non-residents and outside the RMI GDP

(3) Income earned by Marshallese workers on Kwajalein military base and in foreign embassies in Majuro - outside the economic territory and GDP of the RMI

Source: EPPSO estimates

Table 2k Constant price GDP by institutional sector and income components, FY1997-FY2009

(US\$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
1.1 Private Enterprise	29,454	30,178	28,952	32,436	33,940	35,119	36,573	38,759	37,099	39,658	42,129	40,767	39,876
Compensation of employees	16,287	17,676	17,593	17,768	19,608	20,374	19,498	20,211	20,719	21,947	23,464	23,130	22,008
Pelagic fishing & related (1)	220	157	24	961	1,196	1,667	2,080	1,762	822	999	1,076	1,878	2,945
Operating surplus (gross)	12,801	12,240	11,319	13,171	12,690	12,436	13,903	16,322	15,275	16,657	17,106	16,643	15,609
Pelagic fishing & related (1)	146	105	16	536	446	642	1,092	464	283	55	483	-884	-686
1.2 Public Enterprise	10,538	9,636	10,445	11,259	11,214	11,138	10,929	10,994	11,609	9,846	9,934	8,851	8,368
Compensation of employees	9,325	9,425	8,277	8,127	8,068	8,753	9,092	9,546	9,706	9,708	10,396	10,891	10,998
Operating surplus (gross)	3,655	3,009	3,574	5,124	5,769	6,240	5,582	4,430	4,456	3,893	6,875	4,172	4,723
Less Subsidies	-2,442	-2,798	-1,405	-1,993	-2,624	-3,854	-3,745	-2,982	-2,554	-3,755	-7,338	-6,212	-7,352
2 Finance (Banks)	4,499	4,753	4,970	5,082	5,562	5,534	5,384	5,771	5,801	5,952	6,521	7,182	7,367
Compensation of employees	1,532	1,710	1,822	1,833	2,204	2,085	2,015	2,267	2,349	2,590	2,727	2,831	2,794
Operating surplus (gross)	2,967	3,043	3,148	3,249	3,358	3,449	3,370	3,504	3,452	3,362	3,794	4,351	4,573
3 Government (compensation of employees)	37,141	35,121	35,337	35,890	37,983	40,288	41,590	43,065	44,964	46,169	46,401	45,771	45,101
3.1 RMI Government	24,283	22,128	20,021	19,446	19,951	23,215	24,852	26,199	27,679	31,664	31,488	31,553	31,038
3.2 Government Agencies	5,624	5,095	6,825	7,891	9,004	8,820	8,936	8,329	8,513	5,673	6,487	6,066	6,290
3.3 Local Government	7,234	7,899	8,490	8,553	9,028	8,253	7,803	8,537	8,772	8,832	8,427	8,152	7,773
4 NGOs (compensation of employees)	1,776	1,815	1,771	1,783	1,853	1,909	1,843	1,910	2,102	1,997	2,016	1,900	1,866
5 Households	18,296	17,275	17,108	17,177	17,511	16,656	17,035	17,371	17,571	17,593	18,099	18,587	18,660
Mixed Income	3,802	3,523	3,221	3,517	3,806	3,100	3,601	3,830	3,871	3,821	4,249	4,598	4,554
Copra production	1,599	1,264	929	1,183	1,455	735	1,186	1,348	1,360	1,287	1,676	1,989	1,819
Fishing	1,025	1,055	1,085	1,116	1,148	1,181	1,214	1,249	1,284	1,321	1,358	1,397	1,437
Handicrafts	966	989	989	998	985	971	987	1,022	1,006	985	982	971	1,076
Other	212	215	218	220	218	214	214	211	221	229	233	242	223
Subsistence	7,232	7,123	7,219	6,932	7,059	7,009	6,842	6,879	6,934	6,959	6,985	7,034	7,074
Home Ownership	7,262	6,629	6,668	6,728	6,646	6,547	6,592	6,662	6,766	6,814	6,864	6,955	7,032
Indirect taxes	9,536	9,752	9,798	11,040	10,807	11,022	11,167	11,275	12,104	12,356	13,663	13,260	11,840
Import and fuel taxes (REPMAR)	3,767	3,785	3,767	4,523	4,501	4,396	4,292	4,041	4,644	4,323	4,468	4,306	3,974
Other Indirect taxes (REPMAR)	2,883	2,824	2,614	2,993	2,918	2,984	3,322	3,880	3,676	4,466	5,459	5,266	4,733
Indirect taxes (Local Government)	2,886	3,143	3,417	3,524	3,388	3,641	3,554	3,354	3,784	3,567	3,735	3,687	3,133
Less intermediate FISIM	-2,355	-2,387	-2,511	-2,855	-2,977	-3,176	-2,661	-2,744	-2,942	-3,264	-3,858	-3,621	-3,128
Real GDP at Market Prices (Gross)	108,887	106,143	105,870	111,811	115,893	118,490	121,860	126,401	128,307	130,306	134,904	132,697	129,950
Memo items:													
Non-resident pelagic fishing vessels (2)	3,410	3,323	0	0	18,615	20,701	20,085	25,001	30,511	23,201	32,064	18,527	24,022
Labor Income, Kwajalein base (3)	17,427	16,975	17,703	19,013	19,626	18,801	22,262	18,837	18,504	18,985	18,287	16,807	15,757

(1) Value added for shore based processing and support units directly related to pelagic fishing, and one purse seiner treated as resident from FY2009

(2) Estimated value added for pelagic fishing vessels of RMI incorporated companies that are treated as economic non-residents and outside the RMI GDP

(3) Income earned by Marshallese workers on Kwajalein military base and in foreign embassies in Majuro - outside the economic territory and GDP of the RMI

Source: EPPSO estimates

Table 3a Employment by institutional sector, numbers, FY1997-FY2010

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
1.1 Private Sector	2,524	2,718	2,684	3,191	3,548	3,788	3,844	4,018	3,421	3,676	3,911	4,024	4,060	4,146
1.2 Public Enterprise	676	683	600	589	585	635	659	692	704	704	762	811	829	809
2 Banks	103	115	123	124	149	141	136	153	158	175	184	191	188	196
3.1 RMI Government	1,856	1,692	1,531	1,487	1,525	1,775	1,900	2,003	2,116	2,421	2,407	2,412	2,373	2,423
3.2 Government Agencies	401	363	487	563	642	629	637	594	607	405	454	411	417	468
3.3 Local Government	893	975	1,048	1,056	1,114	1,019	963	1,054	1,083	1,090	1,040	1,006	959	903
4 NGO's and Non-Profits	339	346	338	340	354	364	352	364	401	381	385	363	356	349
5 Households	~	~	~	~	~	~	~	~	~	~	~	~	~	~
6.1 Foreign Embassies	12	12	13	14	15	13	14	14	15	16	17	16	16	28
6.2 Kwajalein US Base	1,137	1,108	1,155	1,241	1,281	1,227	1,453	1,229	1,208	1,239	1,193	1,097	1,028	994
Total	7,941	8,012	7,978	8,602	9,212	9,589	9,957	10,121	9,711	10,105	10,352	10,330	10,226	10,317

Source: Social Security plus EPPSO 'non-reported' estimate

Table 3b Employment by institutional sector, wage costs, FY1997-FY2010

(US\$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
1.1 Private Sector	14,538	14,979	15,474	16,398	17,993	18,330	16,936	16,941	16,229	17,657	19,090	19,955	20,446	20,787
1.2 Public Enterprise	7,009	7,023	6,265	6,402	6,352	6,798	7,553	7,851	8,160	8,225	8,674	9,755	10,061	10,241
2 Banks	1,388	1,600	1,569	1,534	1,683	1,952	1,999	2,262	2,665	2,975	3,217	3,156	3,264	2,989
3.1 RMI Government	17,485	15,854	15,843	16,645	17,938	20,665	21,863	26,478	27,500	30,233	30,144	30,425	30,897	32,557
3.2 Government Agencies	4,049	4,071	5,499	6,741	7,066	7,522	8,043	7,646	7,996	6,372	6,686	6,555	6,849	7,365
3.3 Local Government	6,486	6,672	6,952	7,244	7,628	7,436	7,021	7,513	7,912	8,221	8,248	8,213	7,390	6,783
4 NGO's and Non-Profits	1,543	1,528	1,558	1,574	1,711	1,756	1,766	1,758	2,018	1,904	1,947	1,902	1,958	2,120
5 Households	~	~	~	~	~	~	~	~	~	~	~	~	~	~
6.1 Foreign Embassies	106	113	140	150	165	143	147	175	182	199	221	208	199	304
6.2 Kwajalein US Base	13,181	13,323	14,603	16,877	17,601	16,566	17,689	17,892	18,413	20,123	19,230	17,064	17,292	15,739
Total	65,785	65,163	67,904	73,565	78,138	81,168	83,018	88,515	91,075	95,908	97,457	97,233	98,355	98,885

Source: Social Security plus EPPSO 'non-reported' estimate. Wage Costs = Gross wages and salaries as per Social Security regulations

Table 3c Employment by institutional sector, average wage and salary rates, FY1997-FY2010

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
1.1 Private Sector	5,760	5,510	5,767	5,139	5,072	4,839	4,405	4,216	4,745	4,803	4,882	4,959	5,036	5,014
1.2 Public Enterprise	10,368	10,279	10,442	10,867	10,860	10,715	11,459	11,345	11,597	11,687	11,382	12,028	12,140	12,655
2 Banks	13,445	13,879	12,785	12,422	11,334	13,892	14,729	14,807	16,840	17,046	17,509	16,547	17,336	15,230
3.1 RMI Government	9,420	9,373	10,352	11,198	11,762	11,645	11,508	13,221	12,997	12,490	12,523	12,614	13,022	13,435
3.2 Government Agencies	10,097	11,207	11,300	11,981	11,007	11,961	12,624	12,875	13,173	15,753	14,726	15,948	16,424	15,737
3.3 Local Government	7,265	6,845	6,635	6,863	6,847	7,300	7,292	7,131	7,309	7,543	7,931	8,164	7,704	7,509
4 NGO's and Non-Profits	4,556	4,414	4,610	4,626	4,841	4,823	5,024	4,824	5,031	4,996	5,064	5,246	5,501	6,074
5 Households														
6.1 Foreign Embassies	8,803	9,586	10,540	11,106	10,793	11,010	10,713	12,489	12,523	12,860	13,392	13,185	12,637	10,948
6.2 Kwajalein US Base	11,590	12,027	12,641	13,602	13,743	13,503	12,176	14,555	15,249	16,243	16,114	15,559	16,817	15,838
Total	8,284	8,133	8,512	8,552	8,482	8,465	8,338	8,746	9,379	9,492	9,415	9,413	9,618	9,585

Source: Social Security plus EPPSO 'non-reported' estimate

Table 3d Employment by industry, numbers, FY1997-FY2010

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
A Agriculture, Hunting and Forestry	10	9	8	7	1	~	21	24	24	27	31	28	25	25
B Fisheries (1)	83	84	48	546	618	735	902	1,002	280	343	314	464	716	969
C Mining and Quarrying	~	~	~	~	~	~	~	~	~	~	~	~	~	~
D Manufacturing	75	86	61	48	41	48	48	41	48	48	60	57	50	43
E Electricity, Gas and Water Supply	230	233	220	218	231	251	261	281	285	279	274	286	297	311
F Construction	405	610	613	424	490	636	563	498	516	705	851	813	675	587
G Wholesale and Retail Trade	1,424	1,400	1,422	1,583	1,777	1,748	1,657	1,766	1,838	1,850	1,827	1,835	1,731	1,749
H Hotels and Restaurants	245	242	233	258	268	269	311	272	240	265	306	300	269	262
I Transport, Storage and Communications	415	393	392	408	410	450	474	540	561	577	710	672	703	638
J Financial Intermediation	121	133	139	140	168	159	151	169	174	193	208	211	208	213
K Real Estate, Renting and Business Activities	217	230	194	212	224	222	221	232	248	208	215	223	253	270
L Public Administration	2,877	2,799	2,673	2,636	2,728	2,885	2,957	3,123	3,297	3,608	3,540	3,513	3,403	3,393
M Education (2)	456	401	520	561	627	624	606	590	624	383	435	399	417	447
N Health and Social Work (2)	183	207	213	217	235	238	234	251	268	276	281	283	284	256
O Community, Social & Personal Service Activities	44	62	71	87	94	80	79	82	83	84	86	121	136	127
P Private Households With Employed Persons	6	4	4	3	4	5	8	8	6	4	5	12	15	8
Q Extra-Territorial Organizations and Bodies	1,152	1,120	1,169	1,254	1,296	1,240	1,467	1,243	1,222	1,254	1,210	1,113	1,044	1,022
Total	7,941	8,012	7,978	8,602	9,212	9,589	9,957	10,121	9,711	10,105	10,352	10,330	10,226	10,317

(1) Includes Shore based fish processed and vessel support services. 2) Not including government workers which are included under "Public Administration"

Source: Social Security plus EPPSO 'non-reported' estimate

Table 3e Employment by industry, wage costs, FY1997-FY2010

(US\$'000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
A Agriculture, Hunting and Forestry	24	19	18	14	1	~	54	68	79	73	85	82	78	76
B Fisheries (1)	423	416	421	1,686	1,911	2,018	2,203	2,547	1,528	1,847	1,856	2,182	2,792	3,169
C Mining and Quarrying	~	~	~	~	~	~	~	~	~	~	~	~	~	~
D Manufacturing	379	365	237	230	219	278	277	281	317	318	391	313	290	322
E Electricity, Gas and Water Supply	2,605	2,682	2,426	2,615	2,587	2,843	3,298	3,425	3,655	3,592	3,396	3,888	4,043	4,121
F Construction	2,589	3,604	3,825	2,590	3,009	3,369	3,017	2,685	2,746	3,980	4,712	4,815	4,342	4,144
G Wholesale and Retail Trade	7,815	7,458	7,755	8,667	9,622	9,177	7,883	8,080	8,266	7,987	8,253	8,469	8,681	8,751
H Hotels and Restaurants	1,289	1,291	1,265	1,346	1,286	1,397	1,445	1,208	1,185	1,345	1,527	1,471	1,452	1,369
I Transport, Storage and Communications	4,175	3,927	3,853	3,964	4,018	4,200	4,559	4,962	4,666	4,681	5,443	5,998	6,198	6,232
J Financial Intermediation	1,585	1,800	1,774	1,717	1,909	2,130	2,164	2,433	2,857	3,181	3,434	3,389	3,493	3,234
K Real Estate, Renting and Business Activities	1,592	1,468	1,380	1,414	1,489	1,630	1,619	1,316	1,350	1,332	1,351	1,433	1,715	1,961
L Public Administration	25,650	24,364	24,313	25,449	26,907	29,497	30,177	34,906	36,784	39,872	39,654	39,887	39,230	40,242
M Education (2)	2,827	2,748	4,210	5,031	5,369	5,824	6,393	6,341	6,708	4,643	5,015	4,899	5,325	5,852
N Health and Social Work (2)	1,276	1,270	1,313	1,389	1,544	1,599	1,625	1,698	1,868	2,242	2,313	2,291	2,278	2,524
O Community, Social & Personal Service Activities	247	297	350	407	480	479	444	472	437	458	518	750	872	808
P Private Households With Employed Persons	19	17	21	18	20	17	23	27	35	34	57	95	76	39
Q Extra-Territorial Organizations and Bodies	13,289	13,436	14,743	17,027	17,766	16,709	17,836	18,067	18,595	20,322	19,451	17,272	17,491	16,043
Total	65,785	65,163	67,904	73,565	78,138	81,168	83,018	88,515	91,075	95,908	97,457	97,233	98,355	98,885

(1) Includes Shore based fish processed and vessel support services. 2) Not including government workers which are included under "Public Administration"

Source: Social Security plus EPPSO 'non-reported' estimate. Wage Costs = Gross wages and salaries as per Social Security regulations

Table 3f Employment by industry, average wage and salary rates, FY1997-FY2010

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
A Agriculture, Hunting and Forestry							2,614	2,830	3,315	2,713	2,741	2,966	3,132	3,035
B Fisheries (1)	5,131	4,948	8,865	3,088	3,093	2,747	2,443	2,542	5,456	5,382	5,922	4,701	3,898	3,272
C Mining and Quarrying														
D Manufacturing	5,047	4,247	3,902	4,777	5,308	5,787	5,777	6,884	6,569	6,695	6,487	5,484	5,779	7,528
E Electricity, Gas and Water Supply	11,313	11,522	11,025	11,983	11,211	11,350	12,631	12,211	12,830	12,891	12,401	13,606	13,600	13,261
F Construction	6,396	5,904	6,239	6,111	6,141	5,297	5,361	5,393	5,325	5,646	5,537	5,921	6,435	7,062
G Wholesale and Retail Trade	5,488	5,327	5,454	5,477	5,414	5,251	4,756	4,574	4,498	4,316	4,518	4,616	5,015	5,004
H Hotels and Restaurants	5,264	5,329	5,422	5,210	4,791	5,202	4,651	4,450	4,930	5,070	4,992	4,898	5,398	5,234
I Transport, Storage and Communications	10,051	9,992	9,836	9,710	9,796	9,329	9,614	9,189	8,321	8,113	7,665	8,920	8,812	9,775
J Financial Intermediation	13,157	13,560	12,788	12,252	11,381	13,418	14,329	14,420	16,418	16,483	16,510	16,079	16,836	15,167
K Real Estate, Renting and Business Activities	7,321	6,386	7,117	6,679	6,659	7,328	7,340	5,668	5,450	6,417	6,288	6,425	6,780	7,269
L Public Administration	8,917	8,705	9,095	9,653	9,862	10,226	10,206	11,176	11,158	11,050	11,203	11,354	11,528	11,860
M Education (2)	6,197	6,846	8,099	8,965	8,560	9,337	10,559	10,749	10,755	12,122	11,522	12,277	12,786	13,085
N Health and Social Work (2)	6,986	6,143	6,174	6,399	6,572	6,718	6,960	6,769	6,981	8,115	8,239	8,097	8,012	9,863
O Community, Social & Personal Service Activities	5,590	4,798	4,967	4,694	5,132	5,974	5,631	5,785	5,298	5,461	6,039	6,183	6,410	6,384
P Private Households With Employed Persons												7,793	5,071	4,978
Q Extra-Territorial Organizations and Bodies	11,541	12,002	12,617	13,575	13,708	13,477	12,162	14,532	15,217	16,201	16,077	15,525	16,754	15,705
Total	8,284	8,133	8,512	8,552	8,482	8,465	8,338	8,746	9,379	9,492	9,415	9,413	9,618	9,585

(1) Includes Shore based fish processed and vessel support services. 2) Not including government workers which are included under "Public Administration"

Source: Social Security plus EPPSO 'non-reported' estimate

Table 3g Employment in private sector by industry, numbers, FY1997-FY2010

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
A Agriculture, Hunting and Forestry	8	8	8	7	1	~	~	2	2	1	~	~	~	~
B Fisheries (1)	82	81	45	516	574	688	852	947	218	267	236	397	647	885
C Mining and Quarrying	~	~	~	~	~	~	~	~	~	~	~	~	~	~
D Manufacturing	4	13	8	9	14	15	14	14	20	18	29	27	22	19
E Electricity, Gas and Water Supply	~	~	~	~	~	~	~	3	9	11	12	8	3	3
F Construction	405	610	613	424	490	636	563	498	516	705	851	813	675	587
G Wholesale and Retail Trade	1,424	1,400	1,422	1,583	1,777	1,748	1,657	1,766	1,838	1,850	1,827	1,835	1,731	1,749
H Hotels and Restaurants	149	150	148	171	179	165	208	185	151	165	200	199	177	170
I Transport, Storage and Communications	171	148	162	168	175	209	224	256	298	318	405	344	353	314
J Financial Intermediation	17	18	16	17	19	18	15	16	16	19	24	20	19	17
K Real Estate, Renting and Business Activities	210	222	186	205	216	215	211	224	240	198	205	213	245	262
L Public Administration	~	~	~	~	~	~	~	~	~	~	~	~	~	~
M Education	1	1	1	1	2	2	2	2	2	2	2	2	1	1
N Health and Social Work	8	7	6	7	8	11	15	20	27	37	40	57	69	38
O Community, Social & Personal Service Activities	40	57	66	82	89	75	75	79	80	82	74	97	103	97
P Private Households With Employed Persons	6	4	4	3	4	5	8	8	6	4	5	12	15	8
Q Extra-Territorial Organizations and Bodies	~	~	~	~	~	~	~	~	~	~	~	~	~	~
Total	2,524	2,718	2,684	3,191	3,548	3,788	3,844	4,018	3,421	3,676	3,911	4,024	4,060	4,146

(1) Includes Shore based fish processed and vessel support services

Source: Social Security plus EPPSO 'non-reported' estimate

Table 3h Employment in private sector by industry, wage costs, FY1997-FY2010

(US\$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
A Agriculture, Hunting and Forestry	17	17	18	14	1	~	~	2	6	2	~	~	~	~
B Fisheries (1)	419	399	402	1,374	1,448	1,543	1,711	1,966	810	1,036	1,004	1,395	1,997	2,317
C Mining and Quarrying	~	~	~	~	~	~	~	~	~	~	~	~	~	~
D Manufacturing	17	33	20	25	42	51	41	40	62	64	120	79	58	57
E Electricity, Gas and Water Supply	~	~	~	~	~	~	~	27	44	45	48	35	15	16
F Construction	2,589	3,604	3,825	2,590	3,009	3,369	3,017	2,685	2,746	3,980	4,712	4,815	4,342	4,144
G Wholesale and Retail Trade	7,815	7,458	7,755	8,667	9,622	9,177	7,883	8,080	8,266	7,987	8,253	8,469	8,681	8,751
H Hotels and Restaurants	581	557	555	627	592	613	681	593	559	643	785	755	722	703
I Transport, Storage and Communications	1,137	1,036	1,099	1,191	1,186	1,347	1,442	1,556	1,654	1,651	1,924	1,962	1,840	1,815
J Financial Intermediation	197	201	205	183	226	178	164	172	192	207	217	232	230	245
K Real Estate, Renting and Business Activities	1,416	1,287	1,186	1,268	1,318	1,460	1,389	1,109	1,149	1,097	1,137	1,200	1,510	1,744
L Public Administration	~	~	~	~	~	~	~	~	~	~	~	~	~	~
M Education	44	40	14	2	4	5	8	15	13	8	8	12	4	5
N Health and Social Work	44	38	31	39	51	97	138	202	260	449	378	338	354	396
O Community, Social & Personal Service Activities	242	291	344	400	473	473	439	467	434	454	447	566	617	555
P Private Households With Employed Persons	19	17	21	18	20	17	23	27	35	34	57	95	76	39
Q Extra-Territorial Organizations and Bodies	~	~	~	~	~	~	~	~	~	~	~	~	~	~
Total	14,538	14,979	15,474	16,398	17,993	18,330	16,936	16,941	16,229	17,657	19,090	19,955	20,446	20,787

(1) Includes Shore based fish processed and vessel support services

Source: Social Security plus EPPSO 'non-reported' estimate. Wage Costs = Gross wages and salaries as per Social Security regulations

Table 3i Employment in private sector by industry, average wage and salary rates, FY1997-FY2010

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
A Agriculture, Hunting and Forestry														
B Fisheries (1)	5,144	4,925	8,926	2,664	2,523	2,243	2,008	2,077	3,724	3,880	4,257	3,517	3,087	2,620
C Mining and Quarrying														
D Manufacturing		2,580			3,033	3,446	2,992	2,924	3,165	3,481	4,112	2,928	2,688	3,099
E Electricity, Gas and Water Supply										3,936	3,982			
F Construction	6,396	5,904	6,239	6,111	6,141	5,297	5,361	5,393	5,325	5,646	5,537	5,921	6,435	7,062
G Wholesale and Retail Trade	5,488	5,327	5,454	5,477	5,414	5,251	4,756	4,574	4,498	4,316	4,518	4,616	5,015	5,004
H Hotels and Restaurants	3,911	3,710	3,761	3,659	3,313	3,713	3,269	3,202	3,698	3,908	3,920	3,796	4,068	4,145
I Transport, Storage and Communications	6,633	7,024	6,784	7,093	6,783	6,444	6,429	6,082	5,550	5,189	4,752	5,702	5,212	5,788
J Financial Intermediation	11,433	11,459	12,806	10,989	11,742	9,771	10,764	10,733	12,180	11,178	8,941	11,617	11,944	14,438
K Real Estate, Renting and Business Activities	6,756	5,799	6,380	6,202	6,090	6,790	6,588	4,959	4,798	5,553	5,549	5,633	6,162	6,670
L Public Administration														
M Education														
N Health and Social Work						8,607	9,388	10,104	9,546	12,137	9,445	5,908	5,153	10,565
O Community, Social & Personal Service Activities	6,011	5,089	5,249	4,903	5,349	6,286	5,825	5,948	5,404	5,565	6,024	5,834	6,009	5,755
P Private Households With Employed Persons												7,793	5,071	
Q Extra-Territorial Organizations and Bodies														
Total	5,760	5,510	5,766	5,139	5,072	4,839	4,405	4,216	4,745	4,803	4,882	4,959	5,036	5,014

(1) Includes Shore based fish processed and vessel support services

Source: Social Security plus EPPSO 'non-reported' estimate

Table 4a National government employment by department, FY1999-FY2010

	FY1999 ¹	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008 ²	FY2009	FY2010 ³
10 President & Cabinet	24	23	22	23	23	22	26	27	32	33	30	15
11 Chief Secretary Office	15	14	14	13	12	18	20	21	25	25	31	19
12 Special Appropriations	~	1	2	2	2	~	2	~	~	10	~	~
13 Council of Iroij	17	17	17	15	14	15	15	16	15	15	17	17
14 Nitijela	39	35	37	37	38	42	45	48	49	50	51	51
15 Auditor General	7	7	8	11	11	11	10	11	10	7	7	8
16 Foreign Affairs	30	56	34	34	33	32	36	34	37	37	39	37
17 Public Service Commission	12	11	12	11	11	13	13	14	15	15	15	16
18 Judiciary	22	21	22	22	20	30	35	40	40	37	35	34
19 Attorney General Office	9	10	16	18	24	25	25	26	25	22	23	23
20 Ministry of Education	472	474	478	671	706	720	800	1,028	1,032	1,067	1,073	1,083
30 Health & Environment	386	389	376	389	437	480	529	535	540	529	497	500
40 Transport & Communications	33	24	41	84	92	108	108	100	54	18	19	18
45 R & D	61	45	33	33	32	27	26	28	29	27	31	33
50 Internal Affairs	51	54	56	53	54	69	61	64	63	102	79	98
55 Justice	158	170	153	144	163	168	168	170	166	167	171	174
60 Finance	89	86	93	99	104	107	112	121	121	128	116	117
70 Public Works	52	50	111	114	115	99	100	99	90	91	92	90
75 Epa	~	~	~	~	~	16	18	19	19	19	19	17
80 Compact II Capital	~	~	~	~	~	1	2	3	3	3	5	5
Total	1,475	1,486	1,522	1,771	1,892	1,999	2,151	2,402	2,363	2,400	2,346	2,353

1) Based on last 2 quarters of FY1999.

2) Temporary election staff adjusted for full time equivalent basis.

3) Based on first two quarters of FY2010

Table 4b National government wage costs by department, FY1999-FY2010

	(US\$'000 ¹⁾	FY1999 ²	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010 ³
10 President & Cabinet		549	537	586	650	649	720	702	740	760	702	777	817
11 Chief Secretary Office		249	225	244	264	262	385	455	465	473	543	583	639
12 Special Appropriations		~	15	41	41	40	~	14	~	~	189	~	~
13 Council of Iroij		195	205	204	187	180	248	249	252	248	240	268	245
14 Nitijela		815	628	792	819	798	791	907	919	1,022	870	997	993
15 Auditor General		98	109	124	167	165	176	164	167	158	132	107	114
16 Foreign Affairs		596	788	743	781	756	723	800	762	841	826	866	877
17 Public Service Commission		270	267	250	257	258	331	323	334	342	346	342	372
18 Judiciary		359	345	376	480	479	547	520	529	578	574	516	438
19 Attorney General Office		171	263	321	357	442	459	474	479	462	424	422	432
20 Ministry of Education		3,883	4,087	4,290	5,775	5,953	8,015	8,010	10,444	10,500	10,857	11,139	11,559
30 Health & Environment		3,948	4,054	4,145	4,502	5,026	5,971	6,704	6,805	7,093	7,249	7,027	7,152
40 Transport & Communications		488	428	494	919	1,094	1,412	1,398	1,241	723	324	334	351
45 R & D		635	445	387	431	415	361	320	369	398	363	438	478
50 Internal Affairs		549	589	677	704	689	1,074	895	958	854	968	1,081	1,216
55 Justice		1,507	1,931	1,728	1,630	1,825	2,147	2,157	2,124	2,060	2,124	2,225	2,320
60 Finance		1,266	1,259	1,329	1,415	1,472	1,641	1,848	1,933	1,915	2,021	1,838	1,970
70 Public Works		459	434	1,172	1,230	1,267	1,172	1,156	1,200	1,117	1,166	1,174	1,152
75 Epa		~	~	~	~	~	223	274	288	282	295	287	276
80 Compact II Capital		~	~	~	~	~	42	51	98	96	91	132	139
Total		16,037	16,608	17,903	20,609	21,771	26,438	27,422	30,107	29,922	30,305	30,552	31,539

1) Sum of gross salary and wages, does not include benefits.

2) Based on last 2 quarters of FY1999.

3) Based on first two quarters of FY2010

Table 4c National government average wage and salary rates by department, FY1999-FY2010

	(US\$ per annum)	FY1999 ¹	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010 ²
10	President & Cabinet	23,366	23,859	26,329	27,952	28,777	32,382	26,753	27,174	23,754	21,601	26,106	55,383
11	Chief Secretary Office	16,584	16,347	17,740	21,136	21,363	21,974	22,482	21,868	19,321	21,715	19,106	34,086
12	Special Appropriations		14,749	20,394	20,500	19,787		6,829			18,470		
13	Council of Iroij	11,318	12,069	11,837	12,258	13,058	16,820	16,300	16,000	16,558	16,249	15,980	14,825
14	Nitijela	20,892	17,944	21,550	22,143	20,802	18,939	20,166	19,245	21,082	17,571	19,644	19,468
15	Auditor General	14,003	16,099	16,490	15,199	14,950	15,980	16,008	15,492	16,221	18,899	14,772	14,212
16	Foreign Affairs	20,046	14,140	21,860	23,150	22,855	22,959	22,368	22,756	22,877	22,463	22,213	23,711
17	Public Service Commission	22,460	24,237	21,270	23,362	23,435	25,441	24,880	24,289	23,178	23,089	22,405	23,239
18	Judiciary	16,695	16,218	17,487	22,318	23,911	18,530	14,762	13,233	14,351	15,625	14,744	12,881
19	Attorney General Office	20,090	25,661	20,035	20,386	18,178	18,164	18,959	18,615	18,467	19,065	18,749	18,772
20	Ministry of Education	8,235	8,618	8,974	8,604	8,431	11,136	10,019	10,162	10,172	10,176	10,386	10,678
30	Health & Environment	10,236	10,435	11,032	11,573	11,509	12,453	12,668	12,726	13,147	13,716	14,139	14,305
40	Transport & Communications	14,670	18,219	12,128	10,936	11,827	13,137	12,917	12,377	13,451	17,769	18,075	19,489
45	R & D	10,414	9,880	11,804	13,271	13,042	13,620	12,414	13,402	13,722	13,320	14,357	14,489
50	Internal Affairs	10,874	10,915	12,142	13,351	12,664	15,568	14,729	15,081	13,656	9,515	13,776	12,407
55	Justice	9,570	11,342	11,316	11,359	11,203	12,799	12,838	12,510	12,388	12,716	12,992	13,334
60	Finance	14,189	14,599	14,295	14,255	14,149	15,374	16,501	15,977	15,858	15,819	15,911	16,909
70	Public Works	8,778	8,776	10,585	10,810	10,990	11,872	11,593	12,123	12,414	12,810	12,832	12,797
75	Epa						13,749	15,210	14,955	14,866	15,946	15,488	16,736
80	Compact II Capital						41,537	34,150	32,775	32,102	30,424	26,405	27,885
	Total	10,876	11,180	11,761	11,639	11,505	13,224	12,750	12,537	12,665	12,628	13,026	13,407

1) Based on last 2 quarters of FY99.

2) Based on first two quarters of FY2010

Table 4d National government employment by fund, FY2004 - FY2010 Quarter 2

Fund	2004-Q1	2004-Q2	2004-Q3	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1	2008-Q2	2008-Q3	2008-Q4	2009-Q1	2009-Q2	2009-Q3	2009-Q4	2010-Q1	2010-Q2
General Fund	855	804	817	838	870	863	871	861	881	890	851	858	897	893	812	816	998	859	866	908	911	927	932	930	925	970
Compact II	892	881	891	925	938	936	934	1,117	1,207	1,202	1,158	1,184	1,110	1,122	1,103	1,117	1,128	1,152	1,139	1,120	1,099	1,107	1,101	1,119	1,117	1,128
Special Revenue	67	71	70	73	74	74	76	71	74	78	79	78	79	79	80	78	93	88	82	84	81	51	56	52	48	43
US Federal Grant	166	167	164	169	176	179	182	243	183	210	270	271	283	289	284	283	234	233	225	220	216	218	220	224	227	229
ROC	36	36	36	35	34	33	33	30	30	31	30	28	27	27	26	26	26	26	73	25	27	31	27	26	26	26
UNDP	~	~	2	2	1	2	2	3	1	3	3	6	4	5	6	4	4	5	5	6	6	5	7	9	9	10
Total	2,016	1,959	1,980	2,042	2,093	2,087	2,098	2,325	2,376	2,414	2,391	2,425	2,400	2,415	2,311	2,324	2,483	2,363	2,390	2,363	2,340	2,339	2,343	2,360	2,352	2,406

Table 4e National government wage costs by fund, FY2004 - FY2010 Quarter 2

Fund ² (\$US000)	2004-Q1	2004-Q2	2004-Q3	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1	2008-Q2	2008-Q3	2008-Q4	2009-Q1	2009-Q2	2009-Q3	2009-Q4	2010-Q1	2010-Q2
General Fund	3,215	2,669	3,133	3,287	2,962	3,016	3,481	3,446	3,008	3,521	2,966	3,458	3,125	3,626	2,929	3,370	3,120	3,444	3,100	3,772	3,293	3,898	3,317	3,836	3,499	3,883
Compact II	3,087	2,303	2,737	2,825	2,566	2,560	3,005	3,104	3,195	3,676	3,163	3,603	2,960	3,453	2,952	3,332	3,067	3,604	3,081	3,412	2,951	3,499	3,008	3,413	3,161	3,467
Special Revenue	268	238	294	296	262	224	262	255	227	252	234	268	241	277	243	287	275	262	219	250	163	183	165	143	117	140
US Federal Grant	448	351	423	438	414	413	483	597	446	529	561	650	636	750	653	742	548	631	526	574	498	608	525	617	597	644
ROC	107	100	101	98	83	81	95	84	76	84	71	81	69	82	66	78	69	73	127	80	73	105	71	86	81	84
UNDP	~	~	11	10	3	13	9	6	3	7	8	18	9	16	13	13	12	15	18	24	17	17	26	41	38	42
Total	7,125	5,661	6,699	6,953	6,290	6,305	7,335	7,491	6,954	8,070	7,003	8,080	7,040	8,204	6,855	7,822	7,092	8,030	7,070	8,113	6,995	8,310	7,112	8,136	7,492	8,261

Table 4f National government average wage rates by fund, FY2004 - FY2010 Quarter 2

Fund (US\$)	2004-Q1	2004-Q2	2004-Q3	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1	2008-Q2	2008-Q3	2008-Q4	2009-Q1	2009-Q2	2009-Q3	2009-Q4	2010-Q1	2010-Q2
General Fund	15,043	13,280	15,337	15,688	13,620	13,979	15,988	16,008	13,655	15,827	13,941	16,123	13,937	16,243	14,428	16,520	12,507	16,039	14,319	16,618	14,460	16,819	14,236	16,500	15,129	16,014
Compact II	13,841	10,457	12,289	12,215	10,944	10,940	12,870	11,116	10,589	12,233	10,925	12,173	10,667	12,312	10,704	11,931	10,875	12,513	10,818	12,187	10,740	12,642	10,928	12,199	11,320	12,295
Special Revenue	16,010	13,398	16,829	16,215	14,148	12,108	13,815	14,344	12,244	12,906	11,832	13,756	12,204	14,014	12,157	14,731	11,824	11,918	10,675	11,914	8,058	14,319	11,798	11,029	9,714	13,043
US Federal Grant	10,798	8,413	10,319	10,367	9,407	9,219	10,613	9,831	9,749	10,082	8,314	9,600	8,988	10,383	9,198	10,488	9,371	10,829	9,350	10,430	9,227	11,157	9,540	11,014	10,513	11,252
ROC	11,857	11,067	11,205	11,147	9,707	9,767	11,467	11,167	10,098	10,886	9,446	11,643	10,194	12,132	10,121	12,026	10,637	11,286	6,932	12,753	10,792	13,586	10,537	13,275	12,423	12,851
UNDP	~	~	21,881	20,068	11,397	25,116	17,762	8,040	13,846	9,928	11,238	12,007	9,250	12,585	8,616	12,796	12,408	12,170	14,652	16,269	11,073	13,804	14,817	18,006	16,932	16,878
Total	14,137	11,559	13,534	13,620	12,021	12,085	13,986	12,889	11,708	13,372	11,715	13,327	11,734	13,589	11,866	13,463	11,425	13,593	11,833	13,733	11,957	14,211	12,142	13,790	12,741	13,734

1) For 2008 Q1, Q2 and Q3, temporary election staff are adjusted for full time equivalent basis

2) Sum of gross salary and wages, does not include benefits. Quarter on quarter changes may reflect the number of pay days per quarter

Table 5a Copra production, average producer price and income to producers: 1951-2009

	Total Production (Short Tons) ¹	Average Producer Price Per S.Ton	Total Producer Income (\$,000)
1951	4,980	84	418
1961	6,060	126	764
1971	5,344	154	823
1981	5,760	171	985
1991	4,213	155	653
2001	5,256	187	949
2002	2,653	180	478
2003	4,283	240	1,027
2004	4,868	240	1,186
2005	4,908	240	1,178
2006	4,646	240	1,115
2007	6,053	299	1,810
2008	7,182	439	3,153
2009	6,567	440	2,889

Source: Tobolar Processing Plant and EPPSO

Note ¹ Short Ton=0.984, Metric Ton=907.2 Kgs.

Table 5b PM&O tuna loining plant achievements, Majuro: FY1999 to FY2003

Fiscal Year	Number of employees			Fish processed (Short Tons)	Value of fish exported (\$)	Animal feed produced	
	Male	Female	Total			Quantity (S.Tons)	Value (\$)
FY1999	20	80	100	300	60,000	50	15,000
FY2000	60	240	300	10,000	2,500,000	1,600	480,000
FY2001	80	320	400	9,700	2,450,000	1,400	420,000
FY2002	100	400	500	10,200	2,550,000	1,750	525,000
FY2003	110	420	530	12,400	3,350,000	1,300	400,000
FY2004 ¹	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>

Source: PM&O Tuna Loining Plant, Majuro

1) Loining plant was closed down towards the end of year 2004.

Table 5c Total fish catch in RMI EEZ, by method: 1998 - 2009

	Method of catch (<i>metric tons</i>)			
	Long Line	Purse-Seine	Pole and Line	Total
1998	2,147	65,551	18,392	86,090
1999	4,829	23,743	3,944	32,515
2000	2,110	20,403	8,208	30,721
2001	4,176	36,324	16,243	56,743
2002	2,090	28,915	7,316	38,321
2003	3,100	3,381	94	6,575
2004	2,232	16,425	1,171	19,828
2005	4,526	19,637	655	24,818
2006	4,768	14,618	987	20,373
2007	3,836	9,580	4,400	17,816
2008	4,473	16,177	2,467	23,117
2009 ¹	4,916	9,424	438	14,778

Source: Marshall Islands Marine Resources Authority

1) 2009 data are provisional, but coverage is "high"

Table 5d Total fish catch by Marshall Islands and domestically based vessels: 2001 - 2009

	Method of catch (<i>metric tons</i>) ¹	
	Domestic based Long Line	Marshall Islands Purse-Seine
2001	n.a.	35,774
2002	n.a.	38,952
2003	n.a.	37,875
2004	2,016	46,672
2005	3,175	56,164
2006	4,543	42,689
2007	3,683	59,485
2008	4,473	32,878
2009 ²	4,916	44,159

Source: Marshall Islands Marine Resources Authority

1) Includes fish caught outside RMI EEZ

2) 2009 data are provisional, but coverage is "high"

Table 5e Visitors to Majuro, by year and purpose of visit: 1991, 1996, and 2001-2009

Purpose	1991	1996	2001	2002**	2003**	2004	2005	2006 ¹	2007	2008	2009
Transit/Stop Over	1,633	1,447	676	997	1,988	1,779	1,590	965	1,415	1,325	773
Business	2,271	2,513	1,892	2,165	2,245	2,999	3,061	2,033	2,218	2,147	2,119
Holiday/Vacation	947	1,113	1,483	1,445	1,380	2,683	2,727	1,255	2,060	1,385	1,430
Visiting Friends/Relatives	606	634	662	763	769	810	931	661	718	587	511
Other/Not Stated	415	409	731	632	813	736	864	866	548	578	539
Total	5,872	6,116	5,444	6,002	7,195	9,007	9,173	5,780	6,959	6,022	5,372

** Does not include those who arrived at Kwajalein airport

1) In 2006 some visitors arriving by sea were not included

Table 5f Length of stay, visitors to Majuro, by year and purpose of visit: 2001-2009

Purpose	2001	2002	2003	2004	2005	2006 ¹	2007	2008	2009
Transit/Stop Over	1.5	1.1	0.8	0.7	0.9	2.4	1.1	1.1	1.2
Business	6.2	7.9	6.8	4.8	6.4	6.3	5.4	4.8	5.3
Holiday/Vacation	5.4	5.4	6.2	3.7	5.6	6.6	4.9	4.0	4.3
Visiting Friends/Relatives	8.9	9.1	12.9	9.1	10.7	11.5	7.1	6.2	8.2
Other	9.0	9.8	11.8	10.3	8.8	9.5	6.8	5.5	10.2
Not Stated	0.8	1.0	0.5	1.0	1.0	1.5	0.1	2.0	1.1
Total	5.6	6.1	5.6	4.2	5.5	6.3	4.6	4.0	5.2

Prior to 2004 only visitors travelling by air were included

1) In 2006 some visitors arriving by sea were not included

Table 5g Visitors to Majuro by usual residence: 1998 to 2009

Usual residence	1998	1999	2000	2001	2002	2003	2004	2005	2006 ¹	2007	2008	2009
USA/Canada & other America	1,975	2,071	2,022	1,994	2,156	2,189	2,099	2,554	1,831	1,690	1,480	1,547
Australia/ New Zealand	229	223	202	222	263	279	277	578	293	496	275	271
Other Pacific Island countries	1,318	864	1,181	1,070	1,072	1,650	1,669	2,024	1,236	1,024	965	665
European Countries	89	91	129	115	147	196	160	404	180	275	177	153
Japan	104	100	856	940	828	961	984	1,565	907	1,600	1,427	1,349
Taiwan	670	585	211	353	347	209	321	476	228	311	375	255
People's China	165	85	83	80	159	57	87	142	58	157	61	89
Philippines	211	280	170	180	239	245	192	532	204	255	236	196
Other Asian Countries	240	223	181	228	489	1,021	936	731	565	320	324	207
Others & Not Stated	43	100	211	262	302	388	2,282	167	278	831	702	640
Total	5,044	4,622	5,246	5,444	6,002	7,195	9,007	9,173	5,780	6,959	6,022	5,372

Source: Marshall Islands Visitors Authority (MIVA), EPPSO

1) In 2006 some visitors arriving by sea were not included

Table 6a Assets and liabilities of Deposit Money Banks, 1997-2009

(US\$ millions)	CY1997	CY1998	CY1999	CY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Assets ¹	55.1	52.7	60.7	71.8	70.6	83.3	89.1	94.3	95.6	98.3	109.3	113.9	122.0
Foreign assets	18.8	18.1	23.5	33.0	31.1	38.3	48.3	51.0	53.6	57.6	60.7	57.1	63.6
Claims on central and local governments	2.9	3.1	4.3	2.9	2.6	2.3	1.4	1.3	0.5	0.3	0.5	2.9	1.7
Claims on public enterprises											1.4	0.0	0.0
Claims on private sector	32.0	31.7	33.6	37.0	38.1	40.1	40.4	43.4	43.6	43.2	49.9	58.2	62.0
Consumer	21.2	23.2	22.8	26.4	29.5	34.5	36.9	38.5	38.2	35.2	38.5	43.9	46.1
Commercial	11.1	8.5	10.8	10.6	8.6	5.6	3.5	4.9	5.4	8.0	11.4	14.3	15.9
Unclassified assets	1.5	-0.3	-0.7	-1.1	-1.2	2.6	-1.0	-1.4	-2.1	-2.7	-3.2	-4.3	-5.3
Liabilities ¹	55.1	52.7	60.7	71.8	70.6	83.3	89.1	94.3	95.6	98.3	108.8	113.9	122.0
Deposits	45.0	46.4	54.3	61.4	59.6	66.2	72.2	74.9	74.3	75.5	85.5	89.0	93.3
Demand deposits	16.8	13.9	15.9	20.5	19.6	20.6	23.6	27.0	26.1	25.7	25.6	24.7	24.2
Time deposits	11.5	11.9	16.6	19.8	19.9	21.9	22.0	20.0	17.7	16.2	19.0	20.6	19.0
Savings deposits	8.1	8.2	12.0	14.5	14.8	16.6	17.6	18.1	22.7	26.6	33.3	35.7	41.3
Central government deposits ²	9.4	9.9	8.1	6.6	5.3	7.0	9.0	9.8	7.8	7.0	7.7	8.0	8.8
Foreign liabilities	2.3	2.8	1.6	2.6	2.7	2.7	3.5	4.1	3.8	3.7	2.2	1.6	2.4
Capital accounts	5.7	5.4	5.9	7.1	7.4	10.0	12.9	14.8	17.0	18.6	20.4	22.5	25.6
Unclassified liabilities	1.4	0.6	0.4	0.7	1.0	4.4	0.5	0.5	0.5	0.6	0.7	0.8	0.7
Memorandum items:													
Loan/deposit ratio (in percent)	77.3	74.9	69.9	64.9	68.3	64.1	57.8	59.7	59.3	57.6	60.5	68.7	68.3
Deposits (12-month percent change)	-7.4	3.2	17.0	13.1	-3.0	11.1	9.1	3.6	-0.8	1.6	13.3	4.1	4.8
Loans (12-month percent change)	9.9	0.0	9.1	5.0	2.1	4.2	-1.5	7.0	-1.4	-1.3	17.9	18.0	4.3
Consumer loans (in percent of total loans)	61.0	66.7	60.2	66.2	72.4	81.4	88.4	86.2	86.6	81.0	75.0	84.7	72.4
Commercial loans (in percent of total loans)	31.8	24.4	28.4	26.5	21.2	13.1	8.3	10.9	12.3	18.4	22.3	27.6	25.0

Source: Banking Commission and IMF

1) Calendar-year basis 4 quarter average to 2000. Fiscal-year basis 5 quarter average from FY2001.

2) Includes deposits of Social Security administration and other trust funds

Table 6b Income and expense of Domestic Money Banks, 1997-2009

(US\$ '000)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Interest Income:													
Interest and fees on loans	5,030	5,467	5,632	6,686	6,781	7,488	7,342	7,552	7,156	7,231	8,514	9,132	8,852
Deposit with banks	1,218	1,133	1,038	1,504	1,431	2,022	369	510	1,429	2,410	2,521	833	111
Other interest income	91	91	195	236	106	95	56	59	46	122	158	115	52
Total interest income	6,339	6,691	6,865	8,426	8,318	9,605	7,767	8,121	8,631	9,763	11,193	10,080	9,015
Interest Expense:													
Deposits	1,610	1,509	1,554	1,941	2,085	2,228	1,578	1,241	1,136	1,370	1,669	1,447	1,428
Other interest expense	0	0	10	13	32	0	0	0	0	0	0	0	0
Total interest expense	1,610	1,509	1,564	1,954	2,117	2,228	1,578	1,241	1,136	1,370	1,669	1,447	1,428
Net interest income	4,729	5,182	5,301	6,472	6,201	7,377	6,189	6,880	7,495	8,393	9,524	8,633	7,587
Provision for loans losses	865	1,124	656	732	2,327	630	930	988	648	448	422	260	267
Net interest income after loan loss provisions	3,864	4,058	4,645	5,740	3,874	6,747	5,259	5,892	6,847	7,945	9,102	8,373	7,320
Noninterest Income:													
Service charges and fees	646	712	854	918	985	630	634	640	631	661	613	783	730
Other noninterest income	159	119	287	457	866	1,269	773	767	645	724	911	824	966
Total noninterest income	805	831	1,141	1,375	1,851	1,899	1,407	1,407	1,276	1,385	1,524	1,607	1,696
Noninterest Expense:													
Salaries and employee benefits	1,209	1,320	1,426	1,510	1,750	2,091	1,634	1,888	2,240	2,449	2,625	2,665	2,733
Occupancy	358	392	371	393	398	468	248	261	281	306	333	351	350
Furniture and equipment	171	200	337	394	393	466	276	180	144	93	109	87	96
Other operating expense	1,216	1,272	1,204	1,744	2,043	1,614	1,783	1,917	1,751	1,818	1,978	2,154	2,215
Total noninterest expense	2,954	3,184	3,338	4,041	4,584	4,638	3,941	4,246	4,416	4,666	5,045	5,257	5,394
Net Income (Loss)	1,715	1,705	2,448	3,074	1,141	4,008	2,725	3,053	3,707	4,664	5,581	4,723	3,622

Source: Banking Commission and EPPSO

Table 6c Interest rates of Domestic Money Banks, 1997-2009

(Percent ¹)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Deposit rates													
Savings accounts ²	2.8	2.9	3.1	2.5	2.7	2.1	1.5	1.1	1.2	1.7	1.7	1.1	1.1
Time deposits ³													
Three months	4.3	3.7	4.4	4.3	3.5	2.6	1.8	1.3	2.2	2.5	2.8	1.8	2.5
Six months	5.0	4.2	4.6	4.8	3.8	2.9	2.0	1.6	2.9	3.2	3.1	2.4	3.0
One year or more	5.4	5.1	5.0	6.8	4.4	3.5	2.6	2.1	3.5	4.0	4.1	3.6	6.0
Loan rates ⁴													
Consumer loans	18.0	18.7	20.5	18.3	19.2	18.4	17.7	17.4	18.5	18.5	18.5	18.5	13.9
Commercial loans	11.0	11.5	12.5	13.3	11.8	10.8	9.8	9.7	11.0	11.0	9.5	9.4	8.9

Source: Banking Commission

1 year average

2 average of rates offered by deposit money banks.

3 average of minimum rates offered by deposit money banks.

4 average of maximum rates charged by deposit money banks.

Table 7a Majuro Consumer Price Index (CPI) by major groups, 1982-2001

Base 1982=100					
	All Groups	Food	Household & Personal	Apparel	Durables & Fuel
Weights	100.0	57.7	14.8	12.0	15.6
FY1983	102.3	104.2	99.7	98.1	100.9
FY1984	107.3	108.5	104.7	101.8	109.2
FY1985	108.1	105.0	110.1	108.4	117.5
FY1986	110.2	108.2	109.2	109.5	119.2
FY1987	112.8	104.7	119.7	129.1	119.0
FY1988	113.7	108.0	128.9	127.7	110.0
FY1989	116.5	113.5	125.8	124.0	112.7
FY1990	117.8	117.7	130.2	114.5	110.8
FY1991	121.6	121.6	129.8	125.0	111.3
FY1992	131.3	129.3	152.2	128.5	121.0
FY1993	141.2	135.6	162.9	151.4	133.9
FY1994	148.1	137.2	183.3	157.3	148.0
FY1995	158.2	139.1	212.1	175.0	165.1
FY1996	174.8	155.6	244.4	189.4	173.7
FY1997	185.0	167.2	254.6	195.0	177.9
FY1998	191.9	173.1	270.5	200.2	181.0
FY1999	194.8	175.7	273.7	206.1	182.2
FY2000	196.6	174.3	279.6	219.2	183.5
FY2001	199.7	175.3	288.5	232.1	180.9
Percent change year-on-year					
FY1984	4.8%	4.1%	5.1%	3.8%	8.1%
FY1985	0.8%	-3.3%	5.1%	6.5%	7.7%
FY1986	2.0%	3.1%	-0.8%	1.0%	1.4%
FY1987	2.3%	-3.2%	9.6%	17.9%	-0.2%
FY1988	0.8%	3.1%	7.6%	-1.1%	-7.6%
FY1989	2.5%	5.1%	-2.3%	-2.9%	2.5%
FY1990	1.2%	3.7%	3.5%	-7.6%	-1.7%
FY1991	3.3%	3.3%	-0.4%	9.2%	0.5%
FY1992	7.9%	6.3%	17.3%	2.8%	8.7%
FY1993	7.6%	4.9%	7.0%	17.8%	10.7%
FY1994	4.9%	1.2%	12.5%	3.9%	10.5%
FY1995	6.8%	1.4%	15.7%	11.3%	11.6%
FY1996	10.5%	11.8%	15.2%	8.3%	5.2%
FY1997	5.8%	7.5%	4.2%	2.9%	2.5%
FY1998	3.8%	3.5%	6.2%	2.7%	1.8%
FY1999	1.5%	1.5%	1.2%	2.9%	0.7%
FY2000	0.9%	-0.8%	2.1%	6.4%	0.7%
FY2001	1.6%	0.6%	3.2%	5.9%	-1.4%

Source: EPPSO

Table 7b Majuro Consumer Price Index (CPI) by major groups, 2003-2009

Base 2003 1st qtr=100 Weights	All	Food	Alcoholic Beverages	Housing, Utilities, Appliances	Apparel	Transport	Medical Care	Recreation	Education and Comm.	Other Goods and Services
	100.0	35.9	1.7	17.1	4.3	13.7	2.2	2.3	6.6	16.2
2003 q1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2003 q2	100.5	102.3	100.0	99.3	99.7	98.1	100.0	100.2	100.0	100.5
2003 q3	101.0	103.1	103.8	99.2	102.1	97.7	100.0	100.1	100.0	101.1
2003 q4	102.0	105.7	101.5	99.0	102.8	97.8	100.0	99.1	100.0	101.7
2004 q1	102.2	106.3	102.3	99.0	105.7	98.0	100.0	99.6	100.0	100.8
2004 q2	102.5	106.6	102.3	99.4	103.7	99.2	100.0	100.9	100.0	100.4
2004 q3	103.4	105.8	102.3	100.4	103.6	102.2	100.0	96.7	111.1	101.0
2004 q4	104.4	106.3	120.3	98.9	102.4	106.9	100.0	94.2	111.1	102.1
2005 q1	105.1	105.3	120.3	104.8	102.8	107.1	100.0	92.6	111.1	102.4
2005 q2	106.7	106.7	123.5	105.9	102.4	110.7	100.0	95.2	111.1	104.2
2005 q3	108.3	107.3	126.4	107.1	103.8	118.4	100.0	94.5	113.8	103.1
2005 q4	110.8	107.1	128.6	119.5	103.5	121.7	100.0	90.3	115.9	103.3
2006 q1	111.3	110.0	131.7	119.5	104.0	121.3	100.0	91.3	115.9	99.3
2006 q2	111.6	110.2	133.4	120.9	110.0	123.1	100.0	90.0	115.9	96.3
2006 q3	113.0	108.1	135.6	128.4	106.1	131.3	100.0	83.7	115.9	96.4
2006 q4	113.7	110.3	130.6	127.7	104.3	131.7	100.0	84.9	115.9	96.9
2007 q1	113.2	110.6	133.1	127.9	105.8	126.3	100.0	85.6	115.9	96.9
2007 q2	115.1	112.0	134.3	129.9	102.9	138.5	100.0	85.5	115.9	96.8
2007 q3	116.4	109.2	136.2	142.3	103.1	138.6	100.0	85.6	115.9	94.7
2007 q4	118.6	112.6	136.2	143.5	105.3	141.5	100.0	83.7	115.9	96.7
2008 q1	122.0	113.3	137.0	148.4	113.1	153.0	100.0	83.7	115.9	98.7
2008 q2	134.5	126.0	138.3	192.3	104.0	159.4	100.0	83.7	115.9	98.6
2008 q3	150.6	143.0	134.5	230.3	108.1	196.9	100.0	85.6	117.1	87.2
2008 q4	138.3	138.8	143.8	197.0	108.4	158.2	100.0	83.0	117.1	87.7
2009 q1	129.6	137.3	143.8	157.5	105.7	148.0	100.0	83.0	117.1	88.4
2009 q2	130.2	135.4	142.7	157.1	102.0	156.9	100.2	84.0	117.1	90.0
2009 q3	130.1	133.7	142.7	158.0	103.8	158.5	100.2	85.3	117.1	90.1
2009 q4	130.3	134.4	143.2	158.8	104.7	156.5	100.2	85.3	117.1	90.1
2010 q1	132.9	130.8	143.2	180.3	104.7	158.4	100.2	85.3	117.1	90.1
2010 q2	137.0	136.8	143.2	192.5	100.7	158.8	100.2	85.3	117.1	90.1
FY2003	100.5	101.8	101.3	99.5	100.6	98.6	100.0	100.1	100.0	100.5
FY2004	102.5	106.1	102.1	99.5	103.9	99.3	100.0	99.1	102.8	101.0
FY2005	106.1	106.4	122.6	104.2	102.9	110.8	100.0	94.1	111.8	102.9
FY2006	111.7	108.9	132.3	122.1	105.9	124.3	100.0	88.8	115.9	98.8
FY2007	114.6	110.5	133.6	131.9	104.0	133.8	100.0	85.4	115.9	96.3
FY2008	131.4	123.7	136.5	178.6	107.6	162.7	100.0	84.2	116.2	95.3
FY2009	132.1	136.3	143.2	167.4	105.0	155.4	100.1	83.8	117.1	89.0
Percent change year-on-year										
2004 q1	2.2%	6.3%	2.3%	-1.0%	5.7%	-2.1%	0.0%	-0.4%	0.0%	0.8%
2004 q2	2.0%	4.3%	2.3%	0.1%	4.0%	1.1%	0.0%	0.8%	0.0%	-0.1%
2004 q3	2.4%	2.6%	-1.5%	1.1%	1.5%	4.6%	0.0%	-3.4%	11.1%	-0.1%
2004 q4	2.4%	0.5%	18.5%	-0.1%	-0.3%	9.3%	0.0%	-4.9%	11.1%	0.4%
2005 q1	2.8%	-0.9%	17.6%	5.8%	-2.8%	9.3%	0.0%	-7.1%	11.1%	1.6%
2005 q2	4.1%	0.0%	20.7%	6.5%	-1.3%	11.6%	0.0%	-5.7%	11.1%	3.8%
2005 q3	4.7%	1.4%	23.6%	6.7%	0.2%	15.9%	0.0%	-2.3%	2.5%	2.1%
2005 q4	6.2%	0.8%	6.9%	20.8%	1.0%	13.9%	0.0%	-4.2%	4.3%	1.1%
2006 q1	5.9%	4.5%	9.5%	14.0%	1.2%	13.3%	0.0%	-1.3%	4.3%	-3.1%
2006 q2	4.6%	3.3%	8.1%	14.2%	7.4%	11.2%	0.0%	-5.5%	4.3%	-7.6%
2006 q3	4.3%	0.7%	7.3%	19.9%	2.2%	10.8%	0.0%	-11.4%	1.8%	-6.4%
2006 q4	2.6%	3.0%	1.5%	6.9%	0.7%	8.2%	0.0%	-5.9%	0.0%	-6.1%
2007 q1	1.7%	0.5%	1.1%	7.1%	1.7%	4.1%	0.0%	-6.3%	0.0%	-2.4%
2007 q2	3.2%	1.7%	0.7%	7.4%	-6.5%	12.5%	0.0%	-5.0%	0.0%	0.5%
2007 q3	3.1%	1.0%	0.5%	10.8%	-2.8%	5.6%	0.0%	2.3%	0.0%	-1.8%
2007 q4	4.3%	2.1%	4.4%	12.3%	1.0%	7.4%	0.0%	-1.4%	0.0%	-0.3%
2008 q1	7.7%	2.4%	2.9%	16.0%	6.9%	21.1%	0.0%	-2.1%	0.0%	1.8%
2008 q2	16.8%	12.5%	2.9%	48.0%	1.1%	15.1%	0.0%	-2.1%	0.0%	1.9%
2008 q3	29.4%	30.9%	-1.3%	61.8%	4.9%	42.1%	0.0%	0.0%	1.1%	-7.9%
2008 q4	16.6%	23.2%	5.5%	37.3%	2.9%	11.8%	0.0%	-0.9%	1.1%	-9.3%
2009 q1	6.3%	21.2%	5.0%	6.1%	-6.5%	-3.3%	0.0%	-0.9%	1.1%	-10.4%
2009 q2	-3.2%	7.4%	3.2%	-18.3%	-1.9%	-1.6%	0.2%	0.4%	1.1%	-8.6%
2009 q3	-13.6%	-6.5%	6.1%	-31.4%	-4.0%	-19.5%	0.2%	-0.4%	0.0%	3.2%
2009 q4	-5.8%	-3.2%	-0.4%	-19.4%	-3.4%	-1.1%	0.2%	2.7%	0.0%	2.7%
2010 q1	2.5%	-4.7%	-0.4%	14.5%	-0.9%	7.1%	0.2%	2.8%	0.0%	1.8%
2010 q2	5.2%	1.0%	0.4%	22.5%	-1.3%	1.2%	0.0%	1.5%	0.0%	0.0%
FY2004	2.0%	4.2%	0.8%	-0.1%	3.3%	0.7%	0.0%	-1.0%	2.8%	0.4%
FY2005	3.5%	0.3%	20.1%	4.7%	-1.0%	11.6%	0.0%	-5.0%	8.8%	2.0%
FY2006	5.3%	2.3%	7.9%	17.2%	2.9%	12.3%	0.0%	-5.6%	3.7%	-4.0%
FY2007	2.6%	1.6%	0.9%	8.1%	-1.8%	7.6%	0.0%	-3.8%	0.0%	-2.5%
FY2008	14.7%	11.9%	2.2%	35.4%	3.5%	21.6%	0.0%	-1.4%	0.3%	-1.1%
FY2009	0.5%	10.1%	4.9%	-6.3%	-2.5%	-4.5%	0.1%	-0.5%	0.8%	-6.6%

Source: EPPSO

Table 7c Ebeye Consumer Price Index (CPI) by major groups, 2005-2009

Base 2006 4th quarter=100

	All	Food	Alcoholic Beverages	Housing, Utilities and Major Appliance	Apparel	Transport	Medical Care	Recreation	Education and Comm.	Other Goods and Service	Other (old CPI)
Weights (new)	100.0	46.7	1.5	15.9	6.1	12.3	0.9	2.2	4.4	10.1	19.0
Old Ebeye CPI ⁽¹⁾											
2005 q1	92.2	91.9	n.a.	70.1	115.6	80.0	n.a.	n.a.	n.a.	n.a.	111.5
2005 q2	95.4	94.4	n.a.	77.2	115.6	88.0	n.a.	n.a.	n.a.	n.a.	111.5
2005 q3	96.1	90.5	n.a.	84.5	115.6	93.7	n.a.	n.a.	n.a.	n.a.	114.9
2005 q4	96.7	91.6	n.a.	86.7	121.4	93.9	n.a.	n.a.	n.a.	n.a.	111.6
2006 q1	95.6	92.4	n.a.	84.8	110.8	89.4	n.a.	n.a.	n.a.	n.a.	111.4
2006 q2	98.3	96.7	n.a.	97.7	110.8	97.6	n.a.	n.a.	n.a.	n.a.	99.0
2006 q3	99.9	98.0	n.a.	100.9	100.7	106.1	n.a.	n.a.	n.a.	n.a.	99.0
New Ebeye CPI											
2006 q4	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
2007 q1	100.4	100.1	101.5	100.0	101.8	101.9	100.0	100.0	100.0	100.5	
2007 q2	102.2	102.3	101.5	100.0	101.7	105.1	100.0	100.0	100.0	101.1	
2007 q3	104.3	106.3	101.5	99.5	97.1	110.5	100.0	100.0	100.0	103.6	
2007 q4	107.0	108.3	101.5	103.1	101.2	120.1	100.0	100.0	100.0	101.5	
2008 q1	111.5	111.8	101.5	103.4	101.2	135.4	100.0	107.9	100.0	108.2	
2008 q2	118.9	116.6	102.8	120.6	115.3	145.5	100.0	107.9	100.0	111.4	
2008 q3	128.5	126.1	94.6	143.5	129.9	149.7	100.0	108.0	100.0	113.5	
2008 q4	119.9	125.8	97.5	118.1	118.2	119.9	100.0	108.0	100.0	112.5	
2009 q1	114.3	125.6	97.5	91.4	114.5	109.0	100.0	108.0	100.0	115.1	
2009 q2	116.5	126.7	98.9	92.2	114.5	119.4	100.0	107.8	100.0	118.2	
2009 q3	118.5	129.6	100.2	93.0	114.5	121.7	100.0	107.8	100.0	120.3	
2009 q4	121.0	135.6	100.4	93.4	114.5	123.0	100.0	107.8	100.0	115.1	
2010 q1	126.0	139.7	100.4	109.5	122.3	124.8	100.0	107.8	100.0	113.3	
2010 q2	127.7	140.0	100.4	117.6	122.7	126.4	100.0	107.8	100.0	114.2	
FY2006	97.6	94.7	n.a.	92.5	110.9	96.8	n.a.	n.a.	n.a.	n.a.	
FY2007	101.7	102.2	101.1	99.9	100.2	104.4	100.0	100.0	100.0	101.3	
FY2008	116.5	115.7	100.1	117.7	111.9	137.7	100.0	105.9	100.0	108.6	
FY2009	117.3	126.9	98.5	98.7	115.4	117.5	100.0	107.9	100.0	116.5	
Percent change year-on-year											
2006 q1	3.7%	0.5%	n.a.	21.1%	-4.2%	11.8%	n.a.	n.a.	n.a.	n.a.	
2006 q2	3.0%	2.5%	n.a.	26.6%	-4.2%	11.0%	n.a.	n.a.	n.a.	n.a.	
2006 q3	3.9%	8.4%	n.a.	19.5%	-12.9%	13.3%	n.a.	n.a.	n.a.	n.a.	
2006 q4	3.4%	9.2%	n.a.	15.4%	-17.6%	6.5%	n.a.	n.a.	n.a.	n.a.	
2007 q1	5.0%	8.4%	n.a.	17.9%	-8.1%	14.0%	n.a.	n.a.	n.a.	n.a.	
2007 q2	3.9%	5.8%	n.a.	2.4%	-8.2%	7.6%	n.a.	n.a.	n.a.	n.a.	
2007 q3	4.5%	8.4%	n.a.	-1.4%	-3.6%	4.1%	n.a.	n.a.	n.a.	n.a.	
2007 q4	7.0%	8.3%	1.5%	3.1%	1.2%	20.1%	0.0%	0.0%	0.0%	1.5%	
2008 q1	11.1%	11.7%	0.0%	3.4%	-0.6%	32.9%	0.0%	7.9%	0.0%	7.6%	
2008 q2	16.4%	14.0%	1.3%	20.6%	13.3%	38.5%	0.0%	7.9%	0.0%	10.2%	
2008 q3	23.2%	18.7%	-6.8%	44.2%	33.8%	35.5%	0.0%	8.0%	0.0%	9.6%	
2008 q4	12.0%	16.1%	-3.9%	14.6%	16.9%	-0.1%	0.0%	8.0%	0.0%	10.9%	
2009 q1	2.5%	12.3%	-3.9%	-11.6%	13.2%	-19.5%	0.0%	0.2%	0.0%	6.4%	
2009 q2	-2.0%	8.7%	-3.8%	-23.6%	-0.7%	-17.9%	0.0%	-0.1%	0.0%	6.1%	
2009 q3	-7.8%	2.8%	5.9%	-35.2%	-11.9%	-18.7%	0.0%	-0.2%	0.0%	6.0%	
2009 q4	0.9%	7.8%	3.0%	-20.9%	-3.2%	2.6%	0.0%	-0.2%	0.0%	2.3%	
2010 q1	10.3%	11.3%	3.0%	19.8%	6.8%	14.5%	0.0%	-0.2%	0.0%	-1.5%	
2010 q2	9.6%	10.5%	1.6%	27.5%	7.1%	5.8%	0.0%	0.0%	0.0%	-3.4%	
FY2007	4.2%	7.9%	n.a.	8.0%	-9.7%	7.9%	n.a.	n.a.	n.a.	n.a.	
FY2008	14.5%	13.3%	-1.0%	17.8%	11.7%	31.9%	0.0%	5.9%	0.0%	7.2%	
FY2009	0.7%	9.7%	-1.6%	-16.1%	3.2%	-14.6%	0.0%	1.9%	0.0%	7.3%	

Source: EPPSO

(1) Data prior to 2006 q4, are old Ebeye CPI series, using the new CPI weights

Table 8a Marshall Islands: Balance of Payments (summary), FY1995-FY2009

(US\$ millions)	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Current account balance	-30.6	-39.2	-23.5	-19.0	-21.6	-20.5	-15.1	-0.7	-10.2	-3.1	-6.8	-4.4	-2.4	-2.0	-23.9
<i>Goods and services balance</i>	<i>-83.5</i>	<i>-83.9</i>	<i>-74.3</i>	<i>-79.2</i>	<i>-82.7</i>	<i>-91.1</i>	<i>-95.0</i>	<i>-76.4</i>	<i>-86.8</i>	<i>-85.0</i>	<i>-98.4</i>	<i>-98.5</i>	<i>-106.0</i>	<i>-105.2</i>	<i>-124.1</i>
<i>Goods balance</i>	<i>-57.7</i>	<i>-57.0</i>	<i>-48.5</i>	<i>-50.6</i>	<i>-53.9</i>	<i>-62.5</i>	<i>-64.8</i>	<i>-49.3</i>	<i>-57.9</i>	<i>-53.2</i>	<i>-61.7</i>	<i>-63.9</i>	<i>-69.2</i>	<i>-68.6</i>	<i>-74.9</i>
Exports of goods	11.8	12.0	13.6	11.8	10.0	15.4	13.9	15.1	17.5	18.8	23.4	17.9	18.3	21.7	22.1
Fish 1/	0.3	0.3	0.0	1.0	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.7	0.8	4.8
Other	11.4	11.7	13.5	10.8	9.6	15.1	13.5	14.7	17.1	18.4	23.0	17.4	17.6	20.9	17.3
Imports of goods f.o.b.	69.5	69.0	62.1	62.3	64.0	77.9	78.6	64.4	75.4	72.0	85.1	81.8	87.6	90.3	97.0
<i>Services balance</i>	<i>-25.8</i>	<i>-26.9</i>	<i>-25.8</i>	<i>-28.6</i>	<i>-28.7</i>	<i>-28.6</i>	<i>-30.3</i>	<i>-27.1</i>	<i>-28.8</i>	<i>-31.8</i>	<i>-36.7</i>	<i>-34.6</i>	<i>-36.8</i>	<i>-36.6</i>	<i>-49.2</i>
Exports of services	7.0	6.8	6.7	7.0	6.7	9.5	9.1	10.4	11.8	10.8	10.2	10.2	10.0	10.7	12.2
Fish processing	0.0	0.0	0.0	0.0	0.1	2.5	2.5	3.2	4.3	3.7	2.0	2.3	2.3	3.5	4.8
Travel	2.6	2.4	2.3	2.4	2.4	2.6	2.4	2.8	3.1	3.0	3.1	3.1	2.9	2.7	2.9
Other	4.4	4.4	4.4	4.6	4.3	4.4	4.1	4.4	4.4	4.1	5.1	4.8	4.7	4.5	4.6
Imports of services	32.8	33.8	32.5	35.7	35.5	38.1	39.4	37.5	40.6	42.5	46.9	44.8	46.7	47.3	61.4
Transport	18.5	17.8	15.7	17.4	17.4	20.7	20.4	18.7	21.5	22.5	25.5	26.0	27.2	28.0	26.3
Freight and postal services	12.2	11.9	10.1	11.1	11.0	13.8	13.2	10.9	12.8	12.2	14.4	13.8	14.4	15.1	14.1
Passenger services	6.4	5.9	5.6	6.2	6.3	7.0	7.2	7.8	8.7	10.3	11.1	12.2	12.9	12.9	12.2
Construction services	~	~	~	~	~	~	~	~	~	~	~	~	~	~	12.3
Other	14.3	15.9	16.8	18.3	18.1	17.4	18.9	18.8	19.1	20.1	21.4	18.8	19.5	19.3	22.7
<i>Primary income balance</i>	<i>25.6</i>	<i>22.4</i>	<i>24.4</i>	<i>28.8</i>	<i>33.4</i>	<i>34.9</i>	<i>36.1</i>	<i>35.6</i>	<i>34.8</i>	<i>35.3</i>	<i>38.7</i>	<i>37.7</i>	<i>39.7</i>	<i>39.5</i>	<i>38.5</i>
Primary income, inflows	37.1	36.0	37.0	41.0	44.7	44.5	45.0	44.0	43.4	46.1	49.8	53.9	54.5	53.5	49.7
Compensation of employees	14.1	14.1	15.0	15.2	16.6	19.2	20.1	19.1	20.4	20.6	21.2	23.3	22.3	19.9	20.1
Ship registration fees	0.8	0.8	0.8	0.8	0.9	1.1	1.0	1.1	1.0	1.0	1.0	1.0	1.8	2.0	3.3
Fishing licence fees	2.2	2.0	1.9	3.8	4.8	2.8	0.9	1.1	1.2	0.9	1.4	1.6	0.8	1.7	1.4
Dividends and interest	8.2	7.1	7.7	8.6	9.4	9.2	11.1	10.6	8.9	7.9	10.2	11.8	13.2	12.9	7.0
Other	11.9	11.9	11.6	12.6	13.0	12.3	11.9	12.1	11.9	15.7	16.0	16.2	16.5	17.0	18.0
Primary income, outflows	11.5	13.5	12.7	12.2	11.2	9.6	8.8	8.4	8.6	10.7	11.2	16.2	14.7	13.9	11.2
<i>Secondary income balance</i>	<i>27.3</i>	<i>22.2</i>	<i>26.5</i>	<i>31.4</i>	<i>27.6</i>	<i>35.7</i>	<i>43.8</i>	<i>40.1</i>	<i>41.8</i>	<i>46.6</i>	<i>52.9</i>	<i>56.4</i>	<i>63.8</i>	<i>63.7</i>	<i>61.7</i>
Secondary income, inflows	30.4	25.2	29.3	34.3	30.5	38.7	46.9	43.3	45.2	50.0	56.6	60.2	67.8	67.7	65.8
Government grants	19.8	14.5	18.4	23.3	19.2	27.1	35.2	33.4	35.9	40.1	46.0	49.6	53.6	57.2	54.5
Compact current grants	14.2	7.0	7.6	7.4	8.0	8.1	8.1	13.4	13.5	17.4	22.9	26.0	30.8	39.7	43.1
Other budget and off-budget grants	5.6	7.5	10.8	15.9	11.3	19.1	27.2	19.9	22.4	22.8	23.1	23.6	22.8	17.5	11.3
College of Marshall Islands	4.8	4.8	4.8	4.8	4.8	4.9	4.8	4.9	4.7	5.2	5.4	4.8	5.2	4.8	6.1
Other 3/	5.8	5.9	6.1	6.2	6.4	6.7	6.9	5.0	4.6	4.7	5.2	5.7	9.0	5.7	5.2
Secondary income, outflows 3/	3.2	2.9	2.8	2.9	2.9	3.0	3.1	3.2	3.4	3.5	3.6	3.8	4.0	4.0	4.0
Capital account balance	28.5	72.9	28.2	29.1	28.2	28.2	28.6	20.6	19.2	10.3	17.9	33.8	32.9	29.4	33.8
Capital inflows	28.5	72.9	28.2	29.1	28.2	28.2	28.6	20.6	19.2	10.3	17.9	33.8	32.9	29.4	33.8
National Gov't, Compact capital grants	22.2	27.6	22.8	23.5	23.0	23.0	23.4	19.3	19.2	3.2	4.7	9.5	16.6	11.3	13.2
Other capital grants to government	6.3	45.3	5.4	5.6	5.2	5.2	5.2	1.3	~	7.2	13.2	24.3	16.4	18.1	20.5
Net lending/Borrowing (Curr + Cap)	-2.1	33.6	4.7	10.1	6.6	7.7	13.5	19.9	9.1	7.2	11.1	29.4	30.5	27.4	9.9
Financial account balance	29.7	-44.1	6.1	10.7	-11.3	-7.3	-5.9	1.1	-3.1	16.9	-12.6	7.6	-12.1	9.9	4.9
<i>Direct investment</i>	<i>0.8</i>	<i>0.8</i>	<i>0.9</i>	<i>0.9</i>	<i>3.9</i>	<i>0.9</i>	<i>0.9</i>	<i>1.0</i>	<i>-1.0</i>	<i>1.3</i>	<i>3.4</i>	<i>-0.7</i>	<i>7.2</i>	<i>5.9</i>	<i>3.2</i>
<i>Portfolio investment (increase in assets: -)</i>	<i>24.7</i>	<i>-44.4</i>	<i>-4.9</i>	<i>-5.4</i>	<i>-18.2</i>	<i>-7.0</i>	<i>-16.5</i>	<i>-0.2</i>	<i>4.3</i>	<i>17.9</i>	<i>-10.9</i>	<i>2.2</i>	<i>-14.8</i>	<i>4.9</i>	<i>-2.7</i>
Assets	9.4	-30.5	9.0	10.2	9.2	8.9	6.0	-0.2	3.6	17.3	-10.6	2.3	-13.3	5.5	-3.5
National Gov't, Compact Trust Fund	~	~	~	~	~	~	~	~	~	-32.0	-11.8	-11.5	-9.7	-9.7	-12.5
Other public sector investments 2/	9.4	-30.5	9.0	10.2	9.2	8.9	6.0	-0.2	3.6	49.3	1.2	13.7	-3.6	15.2	9.1
Liabilities (mainly MTN)	15.3	-14.0	-13.9	-15.6	-27.4	-15.9	-22.5	-0.0	0.8	0.6	-0.3	-0.1	-1.5	-0.6	0.8
<i>Other investment (increase in assets: -)</i>	<i>4.2</i>	<i>-0.5</i>	<i>10.2</i>	<i>15.3</i>	<i>3.0</i>	<i>-1.2</i>	<i>9.7</i>	<i>0.3</i>	<i>-6.4</i>	<i>-2.3</i>	<i>-5.2</i>	<i>6.1</i>	<i>-4.6</i>	<i>-0.9</i>	<i>4.4</i>
Assets (bank deposits)	0.7	-2.4	1.3	0.7	-5.3	-9.6	1.9	-7.2	-10.0	-2.7	-2.6	-4.0	-3.2	3.6	-6.5
Liabilities (public sector loans)	3.5	1.9	8.9	14.6	8.4	8.4	7.8	7.5	3.6	0.3	-2.5	10.1	-1.4	-4.6	10.9
Errors and omissions	27.6	-10.4	10.8	20.8	-4.7	0.4	7.6	21.0	6.0	24.1	-1.5	36.9	18.4	37.3	14.8
MEMO ITEM															
"Exports", non-resident fishing vessels 1/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	28.3	35.2	33.7	44.1	56.0	47.1	81.2	66.7	64.7
1/ Pelagic fishing vessels operated economically from abroad are treated as non-resident; thus, their sales are not included in exports in the main dataset.															
2/ Coverage of nuclear-related trust funds is incomplete.															
3/ Mainly households															

Table 8b Marshall Islands: Balance of Payments (detail), FY1995-FY2009

(US\$ millions)	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Current account balance	-30.6	-39.2	-23.5	-19.0	-21.6	-20.5	-15.1	-0.7	-10.2	-3.1	-6.8	-4.4	-2.4	-2.0	-23.9
<i>Goods and services balance</i>	-83.5	-83.9	-74.3	-79.2	-82.7	-91.1	-95.0	-76.4	-86.8	-85.0	-98.4	-98.5	-106.0	-105.2	-124.1
<i>Goods balance</i>	-57.7	-57.0	-48.5	-50.6	-53.9	-62.5	-64.8	-49.3	-57.9	-53.2	-61.7	-63.9	-69.2	-68.6	-74.9
Exports of goods	11.8	12.0	13.6	11.8	10.0	15.4	13.9	15.1	17.5	18.8	23.4	17.9	18.3	21.7	22.1
Re-exports	9.2	9.4	9.9	9.0	8.2	12.7	11.9	13.3	15.3	17.4	20.4	17.0	15.5	16.6	15.3
Copra/ coconut oil	2.3	2.3	3.6	1.8	1.4	2.4	1.6	1.4	1.9	0.9	2.6	0.4	2.2	4.4	2.0
Fish	0.3	0.3	0.0	1.0	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.7	0.8	4.8
Imports of goods f.o.b.	69.5	69.0	62.1	62.3	64.0	77.9	78.6	64.4	75.4	72.0	85.1	81.8	87.6	90.3	97.0
<i>Services balance</i>	-25.8	-26.9	-25.8	-28.6	-28.7	-28.6	-30.3	-27.1	-28.8	-31.8	-36.7	-34.6	-36.8	-36.6	-49.2
Exports of services	7.0	6.8	6.7	7.0	6.7	9.5	9.1	10.4	11.8	10.8	10.2	10.2	10.0	10.7	12.2
Fish processing	~	~	~	~	0.1	2.5	2.5	3.2	4.3	3.7	2.0	2.3	2.3	3.5	4.8
Transport	2.3	2.3	2.2	2.5	2.2	2.2	2.0	2.2	2.4	2.2	3.2	2.8	2.6	2.3	2.4
Government services	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.2	1.3	1.4
Travel	2.6	2.4	2.3	2.4	2.4	2.6	2.4	2.8	3.1	3.0	3.1	3.1	2.9	2.7	2.9
Telecommunication	1.2	1.2	1.2	1.1	1.1	1.2	1.1	1.1	1.0	0.9	0.8	0.9	0.9	0.9	0.8
Imports of services	32.8	33.8	32.5	35.7	35.5	38.1	39.4	37.5	40.6	42.5	46.9	44.8	46.7	47.3	61.4
Transport	18.5	17.8	15.7	17.4	17.4	20.7	20.4	18.7	21.5	22.5	25.5	26.0	27.2	28.0	26.3
Freight and postal services	12.2	11.9	10.1	11.1	11.0	13.8	13.2	10.9	12.8	12.2	14.4	13.8	14.4	15.1	14.1
Passenger services	6.4	5.9	5.6	6.2	6.3	7.0	7.2	7.8	8.7	10.3	11.1	12.2	12.9	12.9	12.2
Construction services	~	~	~	~	~	~	~	~	~	~	~	~	~	~	12.3
Business services	5.1	6.5	7.2	8.4	6.8	6.0	6.2	6.3	6.5	6.8	7.5	7.7	8.1	7.9	9.1
Medical referral programme	1.7	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.1	1.9	2.1	2.2	2.6	2.7	2.9
Other travel	6.4	6.3	6.3	6.4	7.7	7.7	9.0	9.0	9.0	9.7	10.0	7.1	7.0	6.8	7.4
Repair of aircraft	~	~	~	~	~	~	~	~	~	~	~	~	~	~	1.4
Technical assistance	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Other	0.8	1.0	1.1	1.2	1.3	1.3	1.2	1.0	1.0	1.2	1.3	1.3	1.2	1.4	1.3
<i>Primary income balance</i>	25.6	22.4	24.4	28.8	33.4	34.9	36.1	35.6	34.8	35.3	38.7	37.7	39.7	39.5	38.5
Primary income, inflows	37.1	36.0	37.0	41.0	44.7	44.5	45.0	44.0	43.4	46.1	49.8	53.9	54.5	53.5	49.7
Compensation of employees	14.1	14.1	15.0	15.2	16.6	19.2	20.1	19.1	20.4	20.6	21.2	23.3	22.3	19.9	20.1
of which: Kwajalein	14.0	14.0	14.9	15.0	16.5	19.0	19.9	18.9	20.2	20.4	21.0	23.1	21.9	19.5	19.7
Rent receipts for use of Kwajalein land	10.8	10.9	10.7	10.9	10.9	10.9	11.1	11.2	11.2	15.0	15.2	15.4	15.8	16.2	17.1
Ship registration fees	0.8	0.8	0.8	0.8	0.9	1.1	1.0	1.1	1.0	1.0	1.0	1.0	1.8	2.0	3.3
Fishing licence fees	2.2	2.0	1.9	3.8	4.8	2.8	0.9	1.1	1.2	0.9	1.4	1.6	0.8	1.7	1.4
Taxes on foreign-owned businesses	1.1	1.0	1.0	1.7	2.1	1.4	0.8	0.9	0.7	0.7	0.8	0.8	0.7	0.7	0.9
Dividends and interest	8.2	7.1	7.7	8.6	9.4	9.2	11.1	10.6	8.9	7.9	10.2	11.8	13.2	12.9	7.0
Government and social security	3.3	1.2	1.2	1.5	1.1	1.1	1.1	1.1	1.0	1.0	1.2	1.3	1.6	1.7	1.1
Trust Funds	3.7	4.7	5.3	5.9	7.2	6.6	8.6	7.5	7.6	6.4	7.6	8.1	8.2	9.5	5.0
Direct investment	~	~	~	~	~	~	~	~	~	~	~	~	~	0.8	0.8
Commercial banks	1.1	1.1	1.2	1.1	1.0	1.5	1.4	2.0	0.4	0.5	1.4	2.4	2.5	0.8	0.1
Primary income, outflows	11.5	13.5	12.7	12.2	11.2	9.6	8.8	8.4	8.6	10.7	11.2	16.2	14.7	13.9	11.2
Non-resident Kwajalein land owners	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	2.0	2.0	2.0	2.1	2.1	2.3
Dividends related to direct investment	3.8	4.0	4.1	4.1	4.1	4.3	4.2	4.6	4.7	6.1	6.6	10.7	8.8	8.2	5.7
Interest on loans	1.5	1.6	1.6	2.0	2.0	2.1	2.1	2.2	2.3	2.5	2.5	3.3	3.7	3.3	3.1
Interest on bonds	4.6	6.3	5.5	4.6	3.6	1.7	0.9	~	~	~	~	~	~	~	~
Compensation of employees	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2

continued...

Table 8b Marshall Islands: Balance of Payments, detail, continued

(US\$ millions)	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
<i>Secondary income balance</i>	27.3	22.2	26.5	31.4	27.6	35.7	43.8	40.1	41.8	46.6	52.9	56.4	63.8	63.7	61.7
Secondary income, inflows	30.4	25.2	29.3	34.3	30.5	38.7	46.9	43.3	45.2	50.0	56.6	60.2	67.8	67.7	65.8
Government grants	22.2	16.9	20.8	25.7	21.6	29.5	37.6	34.0	35.9	40.1	46.2	49.9	53.7	57.2	54.5
Compact current grants	14.2	7.0	7.6	7.4	8.0	8.1	8.1	13.4	13.5	17.4	22.9	26.0	30.8	39.7	43.1
Other budget and off-budget grants	8.0	9.9	13.2	18.3	13.7	21.5	29.6	20.5	22.4	22.8	23.3	23.8	22.9	17.5	11.3
Income tax from Kwajalein US workers	1.6	1.6	1.7	1.7	1.9	2.2	2.3	2.2	2.3	2.3	2.4	2.6	2.5	2.3	1.5
College of Marshall Islands	4.8	4.8	4.8	4.8	4.8	4.9	4.8	4.9	4.7	5.2	5.4	4.8	5.2	4.8	6.1
Transfers to NPISH	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Households	1.7	1.8	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.3	2.5	2.7	2.9	3.2	3.6
Non-life insurance, claims	~	~	~	~	~	~	~	~	~	~	~	~	3.4	~	~
Secondary income, outflows	3.2	2.9	2.8	2.9	2.9	3.0	3.1	3.2	3.4	3.5	3.6	3.8	4.0	4.0	4.0
Household remittances	2.9	2.7	2.6	2.7	2.6	2.7	2.8	3.0	3.1	3.2	3.4	3.5	3.7	3.8	3.8
Non-life insurance, net premiums	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Capital account balance	28.5	72.9	28.2	29.1	28.2	28.2	28.6	20.6	19.2	10.3	17.9	33.8	32.9	29.4	33.8
Capital inflows	28.5	72.9	28.2	29.1	28.2	28.2	28.6	20.6	19.2	10.3	17.9	33.8	32.9	29.4	33.8
National Gov't, Compact capital grants	22.2	27.6	22.8	23.5	23.0	23.0	23.4	19.3	19.2	3.2	4.7	9.5	16.6	11.3	13.2
National Gov't, Compact Trust Fund grants	~	~	~	~	~	~	~	~	~	7.0	9.3	9.0	9.7	9.7	12.5
Local Government, Trust Fund grants 1/	5.2	44.9	5.2	5.2	5.2	5.2	5.2	1.3	~	~	1.8	1.8	1.8	~	~
Other capital grants to government	1.1	0.4	0.2	0.4	0.0	~	~	~	~	0.2	2.1	13.6	4.9	8.4	8.0
Capital outflows	~	~	~	~	~	~	~	~	~	~	~	~	~	~	~
Net lending/Borrowing (Curr + Cap)	-2.1	33.6	4.7	10.1	6.6	7.7	13.5	19.9	9.1	7.2	11.1	29.4	30.5	27.4	9.9
Financial account balance	29.7	-44.1	6.1	10.7	-11.3	-7.3	-5.9	1.1	-3.1	16.9	-12.6	7.6	-12.1	9.9	4.9
<i>Direct investment</i>	0.8	0.8	0.9	0.9	3.9	0.9	0.9	1.0	-1.0	1.3	3.4	-0.7	7.2	5.9	3.2
Abroad (increase: -)	~	~	~	~	~	~	~	~	~	~	~	-2.9	~	~	~
In the RMI (increase: +)	0.8	0.8	0.9	0.9	3.9	0.9	0.9	1.0	-1.0	1.3	3.4	2.2	7.2	5.9	3.2
<i>Portfolio investment (increase in assets: -)</i>	24.7	-44.4	-4.9	-5.4	-18.2	-7.0	-16.5	-0.2	4.3	17.9	-10.9	2.2	-14.8	4.9	-2.7
Assets (increase: -)	9.4	-30.5	9.0	10.2	9.2	8.9	6.0	17.3	12.5	-7.7	-10.6	2.3	-13.3	5.5	-3.5
National Gov't, Compact Trust Fund	~	~	~	~	~	~	~	~	~	-32.0	-11.8	-11.5	-9.7	-9.7	-12.5
National Gov't, Investment Portfolio 2/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Local Government, Trust Funds 2/	9.4	-30.5	9.0	10.2	9.2	8.9	11.1	17.1	13.9	29.7	6.1	17.3	2.8	7.2	11.8
Social Security	~	~	~	~	~	~	-5.2	0.2	-1.9	-5.9	-4.8	-3.8	-6.4	8.0	-2.8
National Telecommunications Authority	~	~	~	~	~	~	~	~	0.5	0.5	-0.0	0.3	-0.0	-0.0	0.1
Liabilities (increase: +)	15.3	-14.0	-13.9	-15.6	-27.4	-15.9	-22.5	-0.0	0.8	0.6	-0.3	-0.1	-1.5	-0.6	0.8
Banks, capital & reinvested earnings	-1.6	0.4	0.8	0.5	-1.1	1.0	0.1	-0.0	0.8	0.6	-0.3	-0.1	-1.5	-0.6	0.8
Government, medium-term notes	16.9	-14.3	-14.7	-16.1	-26.3	-16.8	-22.6	~	~	~	~	~	~	~	~
<i>Other investment (increase in assets: -)</i>	4.2	-0.5	10.2	15.3	3.0	-1.2	9.7	0.3	-6.4	-2.3	-5.2	6.1	-4.6	-0.9	4.4
Assets (increase: -)	0.7	-2.4	1.3	0.7	-5.3	-9.6	1.9	-7.2	-10.0	-2.7	-2.6	-4.0	-3.2	3.6	-6.5
Banks, deposits	0.7	-2.4	1.3	0.7	-5.3	-9.6	1.9	-7.2	-10.0	-2.7	-2.6	-4.0	-3.2	3.6	-6.5
Liabilities (increase: +)	3.5	1.9	8.9	14.6	8.4	8.4	7.8	7.5	3.6	0.3	-2.5	10.1	-1.4	-4.6	10.9
Loans, government	4.1	2.1	10.7	8.0	3.3	9.0	9.2	9.2	4.9	1.7	-1.3	0.3	-1.2	-1.1	-1.8
Loans, public entities	-0.6	-0.2	-1.8	6.7	5.1	-0.7	-1.4	-1.7	-1.3	-1.4	-1.2	9.8	-0.2	-3.5	12.7
Errors and omissions	27.6	-10.4	10.8	20.8	-4.7	0.4	7.6	21.0	6.0	24.1	-1.5	36.9	18.4	37.3	14.8
MEMO ITEM															
"Exports", non-resident fishing vessels 1/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	28.3	35.2	33.7	44.1	56.0	47.1	81.2	66.7	64.7
1/ Pelagic fishing vessels operated economically from abroad are treated as non-resident; thus, their sales are not included in exports in the main dataset.															
2/ Coverage of national government investment portfolio and local government trust funds is incomplete.															

Table 8c Marshall Islands: International Investment Position, FY1995-FY2009

(US\$ millions)	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
TOTAL STOCKS, NET	64.2	137.5	165.8	194.5	249.1	248.8	233.9	210.5	230.6	263.2	281.3	292.6	351.7	289.3	297.6
Direct investment, net	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portfolio investment, net	80.7	152.0	191.1	234.5	292.4	291.2	286.3	263.5	276.3	306.5	319.7	338.2	392.8	329.5	343.3
Assets	186.4	243.8	268.9	296.6	327.2	316.5	289.0	266.2	279.8	310.6	323.5	341.9	395.0	331.1	345.7
National Government, portfolio 1/ of which: Compact Trust Fund	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	32.2	48.9	66.2	89.5	80.2	97.0
Local Government, Trust Funds 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.2	48.9	66.2	89.5	80.2	97.0
Social security portfolio	165.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.2	48.9	66.2	89.5	80.2	97.0
NTA portfolio	20.0	222.4	247.6	275.3	305.9	295.2	262.6	240.0	252.1	245.4	236.7	234.2	257.6	210.9	206.0
NTA portfolio	1.3	20.0	20.0	20.0	20.0	20.0	25.2	24.9	26.8	32.7	37.6	41.4	47.8	39.8	42.6
Liabilities	105.7	1.3	1.3	1.3	1.3	1.3	1.3	1.3	0.8	0.4	0.4	0.1	0.2	0.2	0.1
Equity: Capital and retained earnings	1.2	91.7	77.8	62.2	34.8	25.2	2.7	2.7	3.5	4.1	3.8	3.7	2.2	1.6	2.4
Debt: Medium-term notes	104.5	1.5	2.3	2.8	1.6	2.6	2.7	2.7	3.5	4.1	3.8	3.7	2.2	1.6	2.4
Other investment, net	-16.5	90.2	75.5	59.4	33.1	22.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets	17.7	-14.5	-25.3	-40.0	-43.3	-42.4	-52.4	-53.0	-45.7	-43.4	-38.3	-45.7	-41.1	-40.2	-45.7
Deposits, commercial banks 3/	17.7	20.1	18.8	18.1	23.5	33.0	31.1	38.3	48.3	51.0	53.6	57.6	60.7	57.1	63.6
Liabilities, loans	34.2	20.1	18.8	18.1	23.5	33.0	31.1	38.3	48.3	51.0	53.6	57.6	60.7	57.1	63.6
Government	6.4	34.6	44.1	58.1	66.7	75.4	83.4	91.4	94.0	94.4	91.9	103.3	101.9	97.3	109.3
Public entities	27.8	8.5	19.2	27.1	30.4	39.4	48.7	57.9	62.8	64.5	63.2	63.6	62.4	61.3	59.6

1/ Data on other investments of national government than the Compact Trust Fund is missing.

2/ Coverage of local government trust funds is incomplete.

3/ At banks abroad

Table 8d External debt, original value, and outstanding principle by loan

Loan	Lender	Number	Year	Original debt, \$'000	Estimated outstanding principal September 2009, \$'000
Ebeye Fisheries Loan	ADB	1102-MAR (SF)	1992	3,522	2,959
Emergency Rehabilitation Loan (Typhoon Gay)	ADB	1218 MAR (SF)	1993	508	443
Basic Education Project Loan	ADB	1249 MAR (SF)	1993	8,383	6,943
Majuro Water Supply Project Loan No. 1	ADB	1250 MAR (SF)	1993	765	635
Majuro Water Supply Project Loan No. 2	ADB	1389-RMI (SF)	1995	8,400	7,639
Health and Population Project Loan	ADB	1316-RMI (SF)	1995	5,861	4,701
Public Sector Reform Program	ADB	1513-RMI (SF)	1997	12,000	10,726
Ebeye Health and Infrastructure	ADB	1694-RMI (SF)	1999	9,250	8,207
Skills Training and Vocational Education Project Loan	ADB	1791-RMI (SF)	2001	7,600	4,821
Fiscal and Financial Management Program Loan	ADB	1829-RMI (SF)	2001	8,000	8,389
Fiscal and Financial Management Program loan	ADB	1828-RMI	2001	4,000	2,869
Outer-Islands Transport and Infrastructure Loan	ADB	1948-RMI (SF)	2003	7,900	508
Marshall's Energy Company - New Powerplant Loan	RUS		1997	12,500	6,996
Marshall's Energy Company - Consolidation Loan	BoG		2007	12,000	9,472
NTA Loan	RUS		1989	18,800	14,110
NTA Loan Supplement	RUS		1993	3,900	0
MIDB ICBC Loan	ICBC		2004	4,000	2,275
PRC Loan for Garment Factory	PRC		1991	1,900	0
RMI Ports Authority	n.a.		2007	568	0
NTA Loan for undersea fibre-optic connection	RUS		2009	14,459	14,459
Total				144,317	106,151

Table 8e External debt and debt service, RMI and national government, FY1992-FY2009

(US\$ millions)	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
External Debt Total															
New	34.39	3.21	11.32	15.25	5.85	10.09	10.42	9.25	4.98	6.05	1.04	9.83	12.00	-	14.46
Outstanding	151.89	140.96	126.19	126.74	118.58	100.49	94.52	78.94	86.18	94.11	92.79	101.91	111.73	99.09	95.60
Debt Service	20.14	23.13	23.34	23.54	34.38	22.05	27.77	3.54	3.24	3.70	4.51	6.42	16.83	7.52	7.78
Principal	14.04	15.20	16.28	16.94	28.80	18.32	24.97	1.58	1.17	1.38	2.03	3.09	13.22	4.24	4.74
Interest	6.11	7.92	7.06	6.60	5.58	3.73	2.80	1.96	2.07	2.32	2.48	3.33	3.61	3.28	3.03
Principal balance	137.80	125.80	119.44	117.30	94.72	93.32	78.94	87.10	90.02	94.69	92.08	99.73	99.09	94.61	106.75
External debt (adjusted) as % of GDP	114.6%	113.5%	112.1%	107.7%	87.6%	83.5%	68.8%	70.6%	70.8%	70.9%	66.3%	69.0%	65.1%	61.2%	68.9%
Debt service as % of general fund revenues ¹	62.8%	80.5%	90.8%	103.6%	138.0%	80.0%	96.2%	10.1%	8.8%	11.7%	14.1%	19.9%	48.7%	21.7%	23.1%
Memorandum items:															
Debt to ADB (all concessional)	4.49	6.60	17.27	25.22	28.52	37.54	46.76	56.01	60.91	62.63	63.13	63.04	61.70	60.60	58.84
ADB Debt Servicing	0.02	0.07	0.07	0.17	0.25	0.29	0.40	0.48	0.63	1.10	1.41	1.12	2.18	1.94	2.61
Interest	0.02	0.07	0.07	0.17	0.25	0.29	0.39	0.45	0.52	0.85	0.87	0.84	0.83	0.84	0.84
Principal	-	-	-	-	-	-	0.01	0.03	0.11	0.25	0.54	0.28	1.35	1.09	1.77
General Fund Revenues	32.06	28.74	25.72	22.73	24.92	27.54	28.86	34.96	36.75	31.49	31.90	32.20	34.53	34.66	33.69
ADB Share of General Fund	0.1%	0.2%	0.3%	0.8%	1.0%	1.0%	1.4%	1.4%	1.7%	3.5%	4.4%	3.5%	6.3%	5.6%	7.7%
GDP	120.23	110.86	106.53	108.94	108.08	111.81	114.72	123.39	127.21	133.50	138.79	144.47	152.31	154.55	155.00
Export of Goods and Services	18.81	18.85	20.27	18.78	16.79	24.96	22.95	25.51	29.29	29.55	33.68	28.08	28.31	32.46	34.26

Source: Department of Finance and Administration and EPPSO estimates.

1) General Fund revenue = uncommitted government revenue available for debt service

Table 8f External debt and debt service projections, FY2009-FY2038

	Total External Debt (US\$ millions)				Debt to ADB			
	Outstanding	Debt Service	Principal	Interest	Debt to ADB (concessional)	ADB Debt Servicing	General Fund Revenues (est.)	ADB Share of General Fund
FY10	106.2	7.7	4.2	3.5	57.6	2.9	34.9	8.4%
FY11	103.2	7.2	3.9	3.3	55.3	2.9	36.1	8.1%
FY12	99.1	7.6	4.6	3.1	52.7	3.2	37.4	8.5%
FY13	94.3	7.6	4.8	2.8	50.1	3.2	38.7	8.2%
FY14	89.4	7.5	5.0	2.5	47.5	3.1	40.1	7.8%
FY15	84.0	7.1	5.1	2.1	44.9	3.1	41.5	7.6%
FY16	78.7	7.2	5.3	1.9	42.1	3.3	42.9	7.6%
FY17	73.3	6.8	5.1	1.7	39.0	3.5	44.5	7.8%
FY18	67.8	5.2	3.7	1.5	35.9	3.4	46.0	7.4%
FY19	64.0	4.8	3.4	1.4	32.9	3.4	47.6	7.1%
FY20	60.5	4.8	3.8	1.0	30.2	3.0	49.3	6.0%
FY21	56.6	4.7	3.8	0.9	27.5	2.9	51.1	5.8%
FY22	52.8	4.7	3.8	0.9	24.8	2.9	52.9	5.5%
FY23	48.9	4.7	3.8	0.9	22.2	2.9	54.7	5.3%
FY24	45.0	4.6	3.8	0.8	19.5	2.8	56.7	5.0%
FY25	41.2	4.0	3.5	0.4	16.9	2.8	58.6	4.8%
FY26	37.6	3.4	3.0	0.4	14.7	2.3	60.7	3.7%
FY27	14.7	2.2	2.1	0.2	12.6	2.2	62.9	3.6%
FY28	12.6	2.2	2.1	0.1	10.5	2.2	65.1	3.4%
FY29	10.5	2.2	2.1	0.1	8.5	2.2	67.4	3.2%
FY30	8.5	2.0	1.9	0.1	6.6	2.0	69.7	2.8%
FY31	6.6	1.6	1.5	0.1	5.1	1.6	72.2	2.2%
FY32	5.1	1.4	1.4	0.1	3.7	1.4	74.7	1.9%
FY33	3.7	1.4	1.4	0.0	2.4	1.4	77.4	1.8%
FY34	2.4	1.3	1.3	0.0	1.1	1.3	80.1	1.7%
FY35	1.3	0.8	0.8	0.0	0.6	0.8	82.9	1.0%
FY36	0.6	0.5	0.5	0.0	0.1	0.5	85.9	0.5%
FY37	0.1	0.1	0.1	0.0	0.0	0.1	88.9	0.1%
FY38	-	-	-	-	-	-	-	-

Table 9a RMI Government Finances (GFS Format) FY1997-FY2009

US\$ millions	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Total revenue and grants	69.1	71.8	65.5	74.1	81.7	79.7	83.3	76.1	85.6	94.8	108.2	107.1	104.9
Total domestic revenue	28.1	25.0	23.7	24.4	23.6	27.5	28.7	33.4	35.5	36.4	38.6	39.1	37.8
Taxes	18.9	19.0	16.9	17.0	18.4	20.1	23.1	22.5	24.3	25.1	27.1	26.2	24.3
Income	8.1	7.6	7.6	8.7	9.6	9.6	12.0	10.6	10.9	11.1	11.2	11.0	11.2
Gross revenue	2.7	2.7	2.5	3.2	3.8	3.5	3.4	4.0	3.9	4.8	5.9	5.8	5.4
Imports	7.8	8.3	6.2	4.5	4.5	6.3	7.0	6.7	8.8	8.6	9.4	8.7	7.1
Other	0.3	0.3	0.5	0.6	0.4	0.6	0.6	1.2	0.6	0.6	0.6	0.7	0.6
Nontax	9.2	6.0	6.8	7.3	5.3	7.4	5.6	11.0	11.2	11.2	11.5	12.9	13.5
Fishing rights	1.9	1.3	2.3	3.7	1.8	3.3	1.7	0.9	1.4	1.5	1.3	1.5	1.5
Social contributions (6)	~	~	~	~	~	~	~	6.3	6.2	6.4	6.3	6.9	6.7
Fees and charges (2)	1.9	0.6	0.6	0.9	1.0	1.6	0.8	1.4	1.4	1.3	1.2	1.5	1.4
Investment income	0.8	1.6	0.6	0.5	0.4	0.4	0.2	0.1	0.1	0.1	0.2	0.4	0.1
Other	4.6	2.4	3.3	2.3	2.0	2.1	2.8	2.1	2.2	1.8	2.4	2.7	3.8
Grants	41.0	46.8	41.8	49.7	58.1	52.2	54.6	42.6	50.1	58.5	69.6	68.0	67.1
Of which: current grants	18.0	22.9	18.8	26.7	34.8	32.9	35.4	39.5	45.4	49.0	53.0	56.7	53.9
Compact (3)	30.4	30.9	30.9	31.1	31.4	32.7	32.7	20.5	27.6	35.5	47.4	51.0	56.3
Other	10.6	15.9	10.9	18.6	26.7	19.5	21.9	22.1	22.5	23.0	22.2	16.9	10.7
Total expenditure	60.4	56.6	55.3	65.1	72.1	72.9	69.4	77.8	90.2	92.9	107.8	101.3	107.7
Current expenditure	52.9	51.8	48.4	52.9	52.8	55.8	55.7	66.7	77.5	78.3	82.1	82.9	90.8
Wages and salaries	18.8	18.0	17.0	17.4	18.7	21.5	25.6	30.1	32.8	34.1	33.5	34.2	34.3
Goods and services	17.8	21.6	18.8	20.1	17.9	22.3	21.9	26.8	31.2	32.9	31.7	34.9	37.5
Interest payments	6.8	5.4	4.3	2.0	1.5	0.6	0.9	0.8	0.9	0.9	0.9	1.3	0.9
Subsidies to public enterprises	2.3	2.6	1.4	2.0	2.6	3.9	3.8	3.1	2.7	4.0	7.9	6.9	8.4
Other subsidies and transfers	5.2	3.5	6.1	11.1	12.1	7.7	3.5	5.9	9.8	6.4	8.2	5.6	9.7
Subsidies and transfers	7.5	6.2	7.5	13.1	14.7	11.5	7.4	9.0	12.5	10.5	16.0	12.5	18.1
Grants and subsidies	5.1	4.8	4.2	5.0	4.7	4.4	14.7	13.1	14.2	15.1	16.6	13.1	18.6
Transfers	2.4	1.4	3.2	8.1	10.0	7.1	-7.3	-4.2	-1.6	-4.7	-0.5	-0.5	-0.5
RIF payment 3/	2.1	0.6	0.8	0.3	~	~	~	~	~	~	~	~	~
Capital expenditure (4)	7.5	4.8	6.9	12.1	19.4	17.1	13.8	11.1	12.7	14.5	25.7	18.5	16.9
Current balance	-6.9	-3.9	-5.9	-1.9	5.6	4.5	8.4	6.2	3.4	7.0	9.5	12.9	1.0
Overall balance	8.7	15.2	10.2	9.0	9.6	6.8	13.8	-1.8	-4.7	1.9	0.4	5.7	-2.8
Financing	-8.7	-15.2	-10.2	-10.3	-9.6	-6.8	-13.8	1.8	4.7	-1.9	-0.4	-5.7	2.8
Net government debt repayment	-7.3	-11.0	-27.0	-5.6	-14.8	8.6	4.1	2.1	0.5	-0.6	-1.7	-1.1	-2.2
Principal repayment	-17.9	-19.0	-42.3	-16.7	-24.0	-1.1	-0.2	-0.2	-0.5	-0.7	-1.8	-1.1	-2.2
Gross borrowing	10.7	7.9	15.3	11.1	9.2	9.6	4.3	2.3	1.0	0.1	0.1	~	~
Asset sales 5/	~	~	~	-1.3	~	~	~	~	~	~	~	~	~
Payment to refunded bond escrow	~	~	22.2	~	~	~	~	~	~	~	~	~	~
Change in government financial assets	-1.4	-4.1	16.8	-3.4	5.2	-15.3	-18.0	-0.3	4.1	-1.3	1.4	-4.6	4.9
Of which: Intergenerational Trust Fund	~	~	~	~	~	-17.5	-16.0	~	-0.3	-0.6	5.9	~	~
<i>(In percent of GDP)</i>													
Revenue and grants	64.9	65.9	60.6	66.2	71.3	64.6	65.5	57.0	61.7	65.6	71.0	69.3	67.7
Revenue	26.4	23.0	21.9	21.8	20.6	22.3	22.5	25.1	25.6	25.2	25.3	25.3	24.4
Taxes	17.8	17.4	15.6	15.2	16.0	16.3	18.1	16.9	17.5	17.4	17.8	16.9	15.7
Grants	38.5	43.0	38.7	44.4	50.7	42.3	42.9	31.9	36.1	40.5	45.7	44.0	43.3
Expenditure	56.7	52.0	51.1	58.2	62.9	59.1	54.6	58.3	65.0	64.3	70.8	65.6	69.5
Current	49.7	47.6	44.8	47.3	46.0	45.2	43.8	50.0	55.8	54.2	53.9	53.6	58.5
Wages and salaries	17.7	16.5	15.7	15.5	16.3	17.4	20.1	22.6	23.6	23.6	22.0	22.1	22.1
Goods and services	16.7	19.8	17.3	18.0	15.6	18.0	17.2	20.1	22.5	22.8	20.8	22.6	24.2
Capital	7.0	4.4	6.4	10.9	16.9	13.8	10.8	8.3	9.2	10.1	16.9	12.0	10.9
Current balance	-6.4	-3.6	-5.5	-1.7	4.9	3.7	6.6	4.6	2.4	4.8	6.2	8.4	0.6
Overall balance	8.2	13.9	9.5	8.1	8.4	5.5	10.9	-1.3	-3.4	1.3	0.2	3.7	-1.8
<i>(In percent of GDP)</i>													
Memorandum items:													
Total expenditure excl. non-compact grants	49.8	40.8	44.4	46.5	45.4	53.4	47.5	55.8	67.7	69.9	85.6	84.4	96.9
Foreign Contributions	~	~	~	~	~	~	~	7.0	14.1	2.6	~	~	~
Compact Trust Fund	~	~	~	~	~	~	~	7.0	14.1	2.6	~	~	~
Trust Fund Balances	~	~	~	~	~	15.9	32.9	40.4	41.4	47.6	46.7	36.9	37.4
Intergenerational	~	~	~	~	~	15.9	32.9	40.4	7.5	5.8	~	~	~
Compact	~	~	~	~	~	~	~	~	33.9	41.9	46.7	36.9	37.4
Closing Fund Balances	42.5	47.0	29.6	34.1	28.9	16.3	5.0	8.3	3.0	3.2	8.0	12.6	12.1
Of which	~	~	~	~	~	~	~	~	~	~	~	~	~
Usable government financial assets (5)	9.3	12.4	4.8	2.8	1.5	2.7	0.8	5.3	1.6	0.3	1.7	-2.9	2.0
Outstanding government debt	108.1	97.0	70.1	97.9	49.6	58.2	62.4	64.5	66.1	66.9	68.8	69.8	72.0
ADB and others	21.0	28.5	31.2	~	~	~	4.3	6.6	7.6	7.7	7.8	7.8	7.8
Compact backed	87.1	68.5	38.9	~	~	~	~	~	~	~	~	~	~
Government Guaranteed Debt	~	~	39.9	~	40.1	29.4	28.7	38.9	~	~	~	~	~
Debt from financing	~	~	~	97.9	131.1	141.8	146.3	148.7	150.3	151.1	153.0	154.1	156.2
Check Debt	~	~	~	~	81.5	83.6	83.9	84.2	84.2	84.2	84.2	84.2	84.2
Nominal GDP	106.5	108.9	108.1	111.8	114.7	123.4	127.2	133.5	138.8	144.5	152.3	154.5	155.0

Sources: Government of RMI Audits

1/ The fiscal year ends on September 30.

2/ From FY04 onward figures include fees and charges related to the Ministry of Health's health fund.

3/ Does not include Compact funds earmarked for Kwajalein rental payments and trust fund contributions.

4/ Excludes \$10.4 million in FY02 and \$1.37 million in FY05 for loan write-offs.

5/ Cash and cash equivalents that are not reserved for specific uses.

6/ In FY02 employer and employee contributions (7% of payroll) for health insurance were transferred from the Marshall Island Social Security Administration to Government. Only in FY04 did the audit capture these changes

Table 9b Transfers (including subsidies and capital transfers) to Public Enterprises, FY1997-FY2009

US\$000	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Air Marshall Islands	785	500	1,874	2,000	-	1,500	913	716	400	397	2,100	2,740	499
Kwajalein Atoll Joint Utilities Resources	488	325	325	2,030	550	1,825	3,104	1,253	1,470	2,081	3,821	3,585	3,076
Majuro Water and Sewer Company	100	-	-	100	100	1,465	155	155	235	226	395	1,258	347
Marshalls Energy Co. Inc.	601	-	-	-	-	1,867	1,867	205	400	1,470	874	356	3,370
Marshall Islands Airports Authority	-	-	-	50	89	-	-	-	-	-	-	-	-
Marshall Islands Development Bank	-	-	-	50	970	995	165	207	194	347	249	249	250
Marshall Islands Ports Authority	395	115	-	-	-	-	-	-	99	-	-	-	-
National Telecommunications Authority	-	-	-	-	-	-	-	-	-	-	-	-	1,000
Outrigger - Marshall Islands Resort	420	1,120	462	100	186	-	-	545	-	-	-	-	-
Marshall Islands Shipping Corporation	-	-	-	-	-	-	-	-	-	-	1,468	1,008	1,092
Tobolar	450	579	581	845	3,050	1,449	1,096	900	895	900	1,200	1,092	997
Total	3,239	2,639	3,242	5,174	4,945	9,100	7,300	3,981	3,693	5,422	10,106	10,288	10,631

Memo: Units treated as government agencies in the RMI economic statistics

Majuro Atoll Waste Company											425	1,111	695
College of Marshall Islands (current transfers from REPMAR)			n.a.	n.a.	n.a.	n.a.	1,942	2,200	4,540	3,326	3,327	3,093	3,247
College of Marshall Islands (capital transfer, from REPMAR)			n.a.	n.a.	n.a.	n.a.	n.a.	200	108	1,000	5,507	4,848	5,766

Source: Compiled from Government of RMI and selected Public Enterprise Audits. Data for earlier years may be incomplete.

Table 9c Transfers treated as current subsidies in GDP estimates, FY1997-FY2009

US\$000	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Air Marshall Islands	785	500	-	-	-	418	913	716	400	397	308	935	499
Kwajalein Atoll Joint Utilities Resources	488	325	325	898	550	817	744	769	1,119	2,074	3,536	3,020	2,708
Majuro Water and Sewer Company	-	-	-	100	100	751	155	155	235	226	395	489	346
Marshalls Energy Co. Inc.	115	-	-	-	-	934	934	-	-	420	874	356	2,738
Marshall Islands Airports Authority	-	-	-	50	-	-	-	-	-	-	-	-	-
Marshall Islands Development Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
Marshall Islands Ports Authority	50	115	-	-	-	-	-	-	99	-	-	-	-
National Telecommunications Authority	-	-	-	-	-	-	-	-	-	-	-	-	-
Outrigger - Marshall Islands Resort	420	1,120	462	100	110	-	-	545	-	-	84	-	-
Marshall Islands Shipping Corporation	-	-	-	-	-	-	-	-	-	-	1,468	1,008	1,092
Tobolar	450	579	581	845	1,849	949	1,096	900	845	900	1,200	1,092	997
Total	2,308	2,639	1,368	1,993	2,609	3,868	3,842	3,085	2,697	4,017	7,865	6,900	8,380

Source: EPPSO GDP estimates

Table 9d RMI: Compact grants awarded, FY2004-FY2010

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2004-2010
Education	9,648,932	10,066,921	10,834,083	11,408,682	11,336,978	12,457,410	11,600,728	77,353,734
Health	5,894,448	5,564,197	5,597,181	5,815,108	6,512,349	7,040,240	7,159,858	43,583,381
Public Sector Capacity Building	~	103,514	103,514	~	300,000	425,000	413,380	1,345,408
Private Sector Development	356,620	361,943	361,943	~	~	~	~	1,080,506
Environment	400,000	404,720	408,000	210,579	215,860	228,138	230,202	2,097,499
Ebeye Special Needs	3,100,000	3,136,580	3,185,560	3,263,969	3,345,830	3,536,134	3,451,055	23,019,128
Kwajalein Development Fund	1,900,000	1,922,420	1,952,440	2,000,497	2,050,670	2,167,308	2,115,163	14,108,498
Infrastructure	13,700,000	13,385,745	12,495,679	12,573,086	11,855,213	11,547,382	11,189,235	86,746,340
Supplemental Education Grant	~	6,100,000	5,941,769	5,990,490	5,895,668	5,886,017	5,895,667	35,709,611
Inflation correction	~	~	~	~	~	1,098,701	12,110	1,110,811
Trust Fund Contribution	7,000,000	7,588,500	8,220,800	8,949,592	9,713,700	10,784,291	11,132,214	63,389,097
Kwajalein Land Owners	15,000,000	15,177,000	15,414,000	15,793,397	16,189,500	17,110,328	16,698,653	111,382,878
Total	57,000,000	63,811,540	64,514,969	66,005,400	67,415,768	72,280,949	69,898,265	460,926,891