Development Partner Meeting

December 1-2, 2010

Proceedings

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

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1. Background and Meeting Summary

The first Development Partners Meeting for the Republic of Palau was convened in Majuro from December 1-2, 2010. DPM participants included representatives from the RMI Government, as well as key representatives from within the development community, including:

- Asian Development Bank
- Government of Australia
- European Union
- International Monetary Fund
- Government of Japan
- Government of the Republic of China, Taiwan
- Secretariat of the Pacific Community
- United Nations Agencies
- Government of the United States of America
- World Bank

The meeting was chaired by the RMI Minister of Foreign Affairs, Hon. John Silk. Minister Silk welcomed participants to the meeting on behalf of President Jurelang Zedkaia, and set out the agenda for the two-day meeting.

2. Joint Communiqué

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

Development Partners Commend RMI for its Homegrown Fiscal and Economic Reform Program and Commit to Supporting Continued Implementation

At the invitation of the Government of the Republic of the Marshall Islands (RMI), the first Meeting of the Government and its Development Partners was held from 1st to 2nd December 2010, in Majuro. Participating Development Partners were the Asian Development Bank, Australia, European Union, International Monetary Fund, Japan, Republic of China (Taiwan), Secretariat of the Pacific Community, United Nations, United States, and the World Bank. The Honorable John M. Silk, Minister of Foreign Affairs, presided over the proceedings, with the Honorable Jack J. Ading, Minister of Finance, as co-chair.

The Meeting was called for by the RMI, with the encouragement of several of its Development Partners, in order to present the Government's fiscal and economic adjustment Program. The Program was developed in the aftermath of the global economic crisis leading to the period of economic emergency of the nation. The RMI's key reform and development priorities resulted from the efforts of several working groups and task forces that have included broad-based membership and sought substantial public input.

The agenda of the Meeting was developed following an assessment of RMI's economic performance in the past several years, and addressed its reform and development progress and priorities which included the expenditure reforms, tax and revenue reforms, energy sector reforms, state-owned enterprises performance and reform needs, climate change policy, the upcoming 2011 census and the National Development Plan.

The Development Partners noted the comprehensive nature of the RMI's fiscal and economic restructuring plans and the collaborative and deliberative manner in which those plans have been developed.

The Development Partners reviewed and highlighted the progress reported by the RMI and the financial and technical assistance needs identified to support implementation of the key elements of the Program.

The Development Partners presented their own programs and priorities demonstrating how they align with the RMI national policies. This provided a framework that will enhance coordination amongst the Partners in support of RMI's developmental goals.

All parties recognized the need for discipline, resolve and political will in implementing complicated and difficult reforms.

The Development Partners agreed that continued public outreach efforts will be an important ingredient to successful implementation of the Program.

The Development Partners reassured the RMI of continued support based on the Government's commendable efforts to determine a sensible path towards fiscal and economic sustainability for the long-term.

The Development Partners recognized the need for enhanced coordination among themselves as well as improved coordination and capacity in the RMI at the national level and agreed to improve the RMI's capacity to coordinate aid aimed at its development priorities.

All parties concluded by acknowledging the strong convergence of views between the RMI and the Development Partners expressed during the Meeting. The importance of continued and strengthened partnership was highlighted, with the RMI reiterating its gratitude to the Development Partners for their continued support for its development.

All parties agreed to convene regular Development Partner meetings to track progress toward implementation of the Program and enhance the targeting of development assistance to meet the RMI's emerging needs.

Adopted on 02December 2010
International Conference Center, Majuro

3. Conference Agenda

WEDNESDAY, 1 DECEMBER, 2010, DEVELOPMENT PARTNER MEETING
Chairman of Meeting: Hon. John M. Silk, *Minister of Foreign Affairs*

8:30 – 9:00	*Registration and Coffee*
	OPENING SESSION
9:00 – 9:05	Opening prayer by Rev. Enja Enos
9:05 – 9:15	Opening remarks and review of agenda, Hon. John Silk, Minister of Foreign Affairs
9:15 – 9:25	**** Photo Session following the opening ****
	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 Comprehensive Adjustment Program (CAP) Advisory Group
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	*** Coffee/Tea Break ***
10:40 – 11:00	c) Energy sector reforms and Marshalls Energy Company update – presented by Ms. Angeline Heine, RMI National Energy Planner, Ministry of Resources and Development, and Mr. David Paul, General Manager of Marshalls Energy Company
11:00 – 11:20	d) State-owned enterprises performance and reform needs – presented by Mr. Ben Graham, CAP Advisory Group member and SOE review author
11:20 – 11:40	e) RMI Climate Change Roadmap and National Policy – presented by Ms. Yumiko Crisostomo, Director of the Office of Environmental Policy, Planning and Coordination (OEPPC)
11:40 – 12:00	f) Upcoming events: RMI Census, National Development Plan – presented by Ms. Maybelline Andon-Bing, Chief of Performance Management, Economic Policy, Planning and Statistics Office (EPPSO)

WEDNESDAY, 1 DECEMBER, 2010, DEVELOPMENT PARTNER MEETING (CONT)

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

12:00 – 1:00	*LUNCH (provided at meeting venue)*
1:00 – 4:15	**SESSION 2: Development Partner Presentations** *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 alphabetically.*
1:00 – 1:15 1:15 – 1:30 1:30– 1:45 1:45– 2:00 2:00 – 2:15 2:15 – 2:30 2:30 – 2:45	Asian Development Bank Australia European Union International Monetary Fund (written submission) Japan Republic of China, Taiwan Secretariat of the Pacific Community
3:00 – 3:15	***Coffee/Tea Break ***
3:15 – 3:30 3:30 – 3:45 3:45 – 4:00	United Nations agencies United States World Bank
4:00 –	**SESSION 3: Open dialogue** Open discussion and dialogue – facilitated by Stephen Pollard, Principal Economist, Pacific Department, Asian Development Bank

--- END OF DAY 1 ---

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 – 4:30	**SESSION 5: Bilateral Consultations**
10:00 – 10:30	United States
10:30 – 11:00	Japan
11:00 – 11:30	ROC Taiwan
11:30 – 12:00	Australia
12:00 –2:00	*** LUNCH ***
2:00 – 2:30	SPC
2:30 – 3:00	EU
3:00 – 3:30	World Bank
3:30 – 4:00	ADB
4:00 – 4:30	UN

--- END OF DAY 2 ---

4. Opening Remarks by Hon. John Silk, Minister of Foreign Affairs

Heads of Delegations and esteemed representatives from bilateral partner countries and from multilateral institutions; Members of the Diplomatic Corps; Honored Guests; Ladies and Gentlemen:

At the outset, on behalf of H.E. President Jurelang Zedkaia and the government, let me start by extending a warm Marshallese iakwe to all our distinguished development partners who have responded to the RMI Government's invitation to participate in this first ever development partners' meeting here in the Republic. I also wish to convey the RMI Government's sincere gratitude to you all for your continuing interests in the welfare of the people of the Marshall Islands.

Ladies and Gentlemen,

As mentioned in the invitation letters we sent to you, the three over-arching objectives of this meeting are:

1) to provide an opportunity for the RMI to present and discuss its key reform and development priorities and objectives for the 2011 and 2012 period, including an update on progress made to-date;
2) to provide each development partner the opportunity to present its RMI specific priorities, projects and activities, with a focus on the 2011-2012 period; and
3) to provide an opportunity for a round-table, open dialogue among all partners to foster aid coordination, followed by time for one-on-one bilateral discussions between each partner and the RMI, with the specific objective of identifying further areas of development cooperation.

Ladies and Gentlemen,

It has been more than a decade since the RMI last participated in a comprehensive meeting with a broad cross-section of our development partners. That process, entitled the "Consultative Group Meetings" was typically convened by the Asian Development Bank, although the last of the CGM's that we held was hosted by the Government of Japan in Tokyo. Today, we welcome the attendance of each of you

at our table; and consistent with the spirit of homegrown reform efforts and ownership of our development process-the RMI is re-initiating and has modified the process in small, but we believe important ways.

Ladies and Gentlemen,

The written materials, and most especially the presentations should prove fruitful to you, as you listen and learn from the team of government officials and private sector representatives who will be presenting today. We are building momentum for reform after coming out-just barely=of a period of perilous fiscal crisis in 2008 and 2009. Finally, as you will see from our draft agenda, we have added time to have separate, bi-lateral meetings with each of our participating development partners in order to follow-up in a timely manner on our meeting today and, where it may be more appropriate, to address matters that may not be of concern to the broader group.

Ladies and Gentlemen,

Evidence and analysis, however rigorous, are rarely enough to affect real change. In recent years we have seen evidence that the governments of the rich nations are listening to the collective demand for action against poverty. Rich countries have also committed to seriously exploring innovative financing instruments to effect developmental changes on the ground.

To this end, it is our aim that the RMI, in alliance with its development partners, will be responsive to where aid is making a difference-but also where it has the potential to make a difference. We will need to take risks and explore new ways of working to see how we can better reach the most vulnerable and excluded. This is why we must recognize the need to disproportionately finance human development now, and with predictable, secure funding over the long term.

Ladies and Gentlemen,

To work in true partnership - we must first show our own commitment. The first session today entails presentations that will highlight some vital steps the RMI has taken and will need to take with respect to fiscal and economic reforms. Minister Ading will elaborate more on these.

We will also provide some short presentations on the important issue of climate change, as well as some imperative national activities that will take place in the coming months.

In the area of climate change, the Marshall Islands government has endorsed a new climate change roadmap, spelling out specific actions to cut our own emissions by 40% by 2020, and concrete strategies to ensure the growth of our local communities are safeguarded from climate impacts.

Practical and "shovel ready" adaptation actions taken now - water security, resource conservation and infrastructure protection - will sharply reduce the long-term risks to our security and sovereignty. But we cannot ignore such threats – it should be a matter of serious concern to the UN that we are actively contemplating legal risks to our territorial integrity and UN membership, that we are considering how to safeguard our population’s political rights of our land - and our thin water table - becomes unusable in the face of rising seas.

Ladies and Gentlemen,

Last, but by no means least, we would like to take this opportunity to point out a long term need of the RMI, and opportunity for our development partners. I am referring to our need and desire to seek additional subsequent contributors to the Trust Fund for the People of the Republic of the Marshall Islands. This is an important way that our development partners can assist in assuring the long-term financial and budgetary stability of the RMI in the future. We would be most pleased to provide additional information on the Trust Fund at this meeting and initiate discussions regarding additional future contributions, investments, and participation with our development partners.

This meeting presents us with a valuable opportunity to re-engage with our development partners. We have much to discuss today and tomorrow, and so we look forward to open and frank discussions that I hope in the end will identify some areas for improved collaboration on RMI's priority needs. I believe with hard work, we can meet our targets ... but we will need your partnership.

Komol tata.

5. Opening Statement by Hon. Jack Ading, Minister of Finance

Mr. Chairman, I would like to join in your comments welcoming each and every one of our development partners to our first Development Partners Meeting. As indicated by our President and as fully articulated by the Chairman, this DPM is something our Government has been eagerly awaiting since we began the process of considering a "homegrown" fiscal and economic adjustment program. Our deliberations began when we were being most severely affected by the global economic crisis in general and by the food, fuel and commodity price shocks in particular.

Because that period of price shocks and the attending crisis we faced was so severe, and, frankly, because we entered that period without the fiscal reserves that we would have needed to weather the storm, we were required to ask for substantial support to augment our own efforts. Many of our development partners provided timely responses to our calls for assistance. In particular I would like to thank the Republic of China, the Asian Development Bank through its own resources and the Japan Fund for Poverty Reduction, the Government of Japan directly through non-project aid, the Government of the United States for both flexibility and advances of Compact funding, the Government of Australia, and the European Union. The willingness of our partners to respond even when the global crisis was affecting them in their own domestic economies, and perhaps more importantly the timeliness of the responses to our needs, was most welcome and served to significantly mitigate the negative impacts of the crisis.

Ladies and Gentlemen, today I wish to emphasize to you all that even though the period of crisis has, for the most part, passed, many of the negative impacts—both financial and social—remain as lasting reminders that we must act responsibly as a nation to prepare ourselves better for the unavoidable shocks that will, we can all be certain, affect us again and again on a periodic basis. Specifically, and in my role as Minister of Finance, I want to highlight several key objectives:

- Creation of ongoing fiscal surpluses, at a measured pace, to enable us to
    - Restore fiscal reserves that may be needed to respond to periodic shocks;
    - Reduce our excessive external debt burden, including both official debt to development partners and loan guarantees on behalf of State-Owned Enterprises; and
    - Contribute to our long-term fiscal sustainability by addressing the large currently projected shortfall of the RMI Compact Trust Fund
- Rationalization of core government services to eliminate redundancies, reduce inefficiencies, expand service areas currently under-funded, and make room for emerging obligations as we continue to integrate ourselves within the global economy

- Improve policies with respect to our State-Owned Enterprises to reduce the risk they represent to our fiscal balance and to ensure they are better prepared themselves to respond to external shocks.
- Improve the efficiency, and ultimately the fairness, of our tax and revenue systems so that they are as supportive of private sector growth as possible, while also growing as a share of GDP to reduce our level of dependence on external aid and transfers.

Mr. Chairman, I wish to highlight just a couple of key areas that relate to budget discipline and key elements of our expenditure and revenue reform plans. Many additional points including updates on progress to-date will be highlighted in the presentations to follow.

With respect to budget discipline, the FY2010 budget for our general fund represented a 5 percent reduction from the FY2009 level. There were no supplemental budget actions for the general fund for all of FY2010 which ended on September 30, 2010. Our current budget, for FY2011, represents a further cut of 5.5 percent. These reductions have been absorbed by our Ministries with considerable difficulty and I anticipate that further cuts as we move forward will need to be more targeted in order to avoid more detrimental impacts on essential service delivery. The result of our consecutive budget reductions is that in both FY2010 and FY2011 we have been able to budget fully for our substantial external debt burden as well as achieving a surplus of $1.4 million for FY2011 which is targeted for deposit in the RMI Compact Trust Fund.

With respect to our largest expenditure item, payroll, you will note that the CAP report presents a broad range of possible reductions in payroll cost. I am aware that some of our development partners have, from time-to-time, made explicit suggestions as to substantial payroll reductions. The very fact that our payroll in terms of numbers of workers and costs (in the National Government) has expanded greatly is an indication that we need to look to eliminate redundancies and non-essential positions. However, may I point out two important facts: first, almost all of the expansion in national government employment took place from 2001 to 2006, and from 2007 to this year, employment numbers have been flat, and in fact we have seen a slight reduction since 2006; second, the bulk of the expansion in government employment was in education and health, our two highest priority sectors. The path forward is impacted by three major constraints:

- First, because most of the added government jobs have been in the education and health ministries, we must consider any reform in employment in these areas with great care, ensuring that these essential services are not jeopardized in any way;
- Second, there is an urgent technical requirement to improve our personnel management systems and to carefully identify and prioritize priority functions and positions to provide those functions across all of our Ministries. This technical review requires significant time, technical assistance and financial support to get it right. In late 2009, at the request of my Government, ADB provided technical assistance to the Public Service Commission to conduct a limited personnel audit. We hope to expand this work in 2011 in order to gain a more complete understanding of how reforms in the civil service can best proceed;

- And third, my Government has a concern for the phasing and pace of any potential payroll reductions due to the anticipated social and economic impacts of such a policy.

In the interim, my Government will continue our current tight policies on hiring, will initially attempt to reduce the size of government through attrition and enforcing our mandatory retirement policy and will consider, once the technical review of our Civil Service requirements and management systems is complete a well designed voluntary downsizing approach. If we face a near-term fiscal shock, and certainly in the medium-term, we may need to consider more rigorous efforts, but we would need substantial financial support to be able to mitigate the negative effects of a more concentrated program should we need to do so.

May I also briefly mention a very significant reform development that my Government is pursuing. In 2008 Cabinet formed a new Tax and Revenue Reform and Modernization Commission which has worked diligently over the past two years to develop a comprehensive tax reform plan. This work was supported by the Pacific Financial Technical Assistance Center (or PFTAC) and drew on earlier tax analyses funded by the ADB. The tax reform and modernization plan has undergone some final refinements, including the consensus agreement on a new national Value-Added Tax (instead of the originally proposed National Sales Tax). In 2011, we will begin executing this reform plan, which will be the first major overhaul of the RMI tax system in the history of this country.

Today I ask all of our development partners, as you prepare to deliver your own statements and as you participate frankly and actively in our open dialogue, to take note of the many participants and observers we have here today. Many of them, even though they may not have an opportunity to make presentations today, are actively engaged in planning for and implementing development programs across all sectors. They will be listening attentively to learn about your programmatic priorities and your observations and concerns. I trust that some of the informal time we have scheduled will allow for productive dialogue even outside of our formal sessions today and tomorrow.

Mr. Chairman, at this point I would like to shift to a more structured review of how we will proceed for the remainder of this morning's session.

The first presentation this morning will summarize the expenditure reform recommendations made by the CAP Advisory Group in 2009 and provide an update on expenditure related reforms and recent developments in this area. While that presentation will focus on expenditure reforms, I commend to you the CAP Report's summary sections, including: the "Goals and Characteristics of a Phased CAP" and the general "Findings." As part of our internally designed reform plans, we anticipate greater emphasis on gradual expenditure reforms in relation to revenue increases, and we anticipate considerable technical review and preparation for many aspects of our reforms. Reform efforts over the past decade were, regrettably, done in a manner that resulted in shock reforms, that were followed, also regrettably, by setbacks and reversals. Ladies and Gentlemen, you will see that we wish to tackle the problem of our long-term fiscal sustainability in a more disciplined manner, addressing underlying institutional weaknesses to the best of our ability. The second presentation will describe the Tax and Revenue Reform and Modernization plan that I briefly mentioned earlier. An important point is that we have made every effort to consider this long-needed comprehensive reform to be implemented on a generally "tax revenue" neutral basis. We do anticipate some revenue increases from the broadening of the tax base, closing of loopholes and improvements in compliance through the modernization of our tax administration. Notably, ladies and gentlemen, we also anticipate the new tax regime will be slightly more progressive. Most importantly, we will have an efficient and effective tax regime that is more supportive of private sector investment and growth.

The third presentation will focus on the recent and ongoing reforms in our energy sector and largest energy utility, the Marshalls Energy Company.

Fourth, we will hear a presentation on the state of our public enterprises and the reform priorities that my Government has identified for improving public enterprise performance in the coming years.

While the main focus of this Development Partners Meeting is on fiscal and economic reforms, we cannot ignore the serious risks that climate change poses on the RMI, and in this vein we will hear a short presentation and summary on the recently adopted RMI Climate Change Roadmap and National Policy.

Finally, our presentations will wrap up with a brief overview of two important events that will take place in 2011 – and of course I am not referring to the 2011 elections! Our final presentation of the morning will cover the 2011 Census and the new RMI National Development Plan.

Ladies and Gentlemen, in each of the presentations you are about to hear, we will identify certain areas where technical and/or financial assistance may be required to effectively complete the priority tasks we have outlined. When we transition to session two (2) this afternoon we will be listening carefully to your presentations of programmatic plans and priorities. I trust we will, during today's subsequent open dialogue and in tomorrow's individual bi-lateral meetings, be able to confirm some areas for improved collaboration on our highest priority needs.

Mr. Chairman, with your permission I suggest that we move on to our first presentation.

6. A. Expenditure Reforms & the Bigger Reform Picture
Mr. Ben Chutaro, Chairman of the Comprehensive Adjustment Program

RMI Expenditure Reforms
& the Bigger Reform Picture

Session 1 Presentation 1a
by Ben Chutaro

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Outline

- Background
- Expenditure Reform Options
- Recent Developments
- The Bigger Reform Picture
- Some Progress Made
- Assistance Needed
- Conclusion

Background

- Tightening fiscal position, 2008 emergency, other factors highlight need for fiscal rebalancing
- Cabinet formed Comprehensive Adjustment Program (CAP) Advisory Group to identify options
- Advisory Group initial focus on expenditure side adjustment, to complement work of tax/revenue advisory group (established mid 2008)
- Focus on General Fund only
- CAP initial report late 2009

Expenditure Reform Options

1. The Civil Service
2. Nitijela 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

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Recent Developments

- Broad-based expenditure compression has been immediate policy priority
- FY2010 budget bill: 5% across-the-board appropriation cuts
- FY2011 budget bill: 5.5% further cut imposed
- Closer monitoring, tighter control in key areas
- FY09 reductions in travel, rentals, and fuel
- FY09 4% reduction in total General Fund expenditure
- More targeted expenditure reforms now needed

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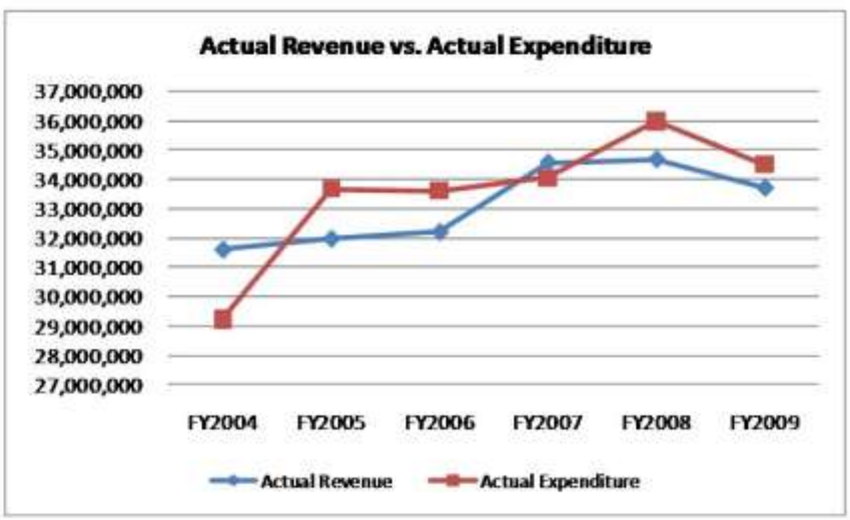
Recent Developments

- Some General Fund expenditures difficult to contain:
  - loan servicing obligations
  - utility costs
  - need for critical professional services
  - wages and salaries
- Changes in some expenditure areas will first require background analysis and technical assistance:
  - civil service reform (productivity, size of wage bill)
  - SOE subsidies
  - landowner right-of-way easement allowance

Recent Developments



The Bigger Reform Picture

- While CAP's initial focus on expenditure reform…
- Expenditure reform just one component of what the CAP Advisory Group recommends should be a broader reform program or framework
- Advisory Group recommends an integrated, medium-term reform approach, addressing the most critical areas in need of reform revisiting
- Advisory Group recommends that three over-arching goals of an integrated reform program should be, to:

The Bigger Reform Picture

1. Stabilize the fiscal position in the short term, ensure longer term structural stability and sustainability of public finances;
2. Strengthen public sector management capacity, particularly in the core areas of civil service, fiscal and economic management; and
3. Continue to improve the environment for private sector development to encourage broader based economic growth.

The Bigger Reform Picture

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Some Progress Has Been Made

- Much work to do, but some progress has been made:
  - On the expenditure side:
    - Broad expenditure compression imposed through FY10 and FY11 appropriations
    - Targeted cuts/control in some key areas
  - On the revenue side:
    - New Tax and Revenue Reform and Modernization Plan developed, ready to move forward
    - Continued efforts to strengthen collections through audits and other means

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Some Progress Has Been Made

- In the SOE Sector:
  - MEC Comprehensive Recovery Plan in full swing (as part of broader Energy Sector and SOE reforms)
  - Financial review of next-priority (high-risk) SOEs and options for reform underway
  - Mid-2010 Cabinet adoption of SOE 'good practices' principles, including call for new SOE Act in 2011
- In the Civil Service:
  - Initial 'Limited' Personnel Audit in three largest ministries conducted in late 2009

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Some Progress Has Been Made

- Private Sector Development:
  - Passage of Secured Transactions Act and establishment of online Secured Transactions Registry
  - Sector-specific reform efforts ongoing (e.g. fisheries, tourism)
- Debt Management:
  - Debt arrears cleared, payments now back on track
  - Debt servicing 'sinking fund' established to service new loan (and possible expansion of its scope)

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Assistance Needed

- Technical assistance and possible financing required in all of the major reform areas identified
- Help needed even in areas where reforms already underway (e.g. MEC and Energy)
- On expenditure side, technical assistance can help accelerate civil service (and wage bill) reforms, landowner easement allowance reform, SOE reforms (subsidies)
- Detailed reform cooperation discussions can take place during bilateral sessions (Day 2)

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Conclusion

- CAP initially focused on expenditure-side reforms
- But Advisory Group recommends a 'big picture' reform approach be taken
- CAP 'framework' identifies the major areas where reforms should be considered
- Advisory Group recommends that this framework be used to guide RMI and development partner reform cooperation in the coming years
- Broad-based expenditure compression helped, but more targeted expenditure cuts now needed

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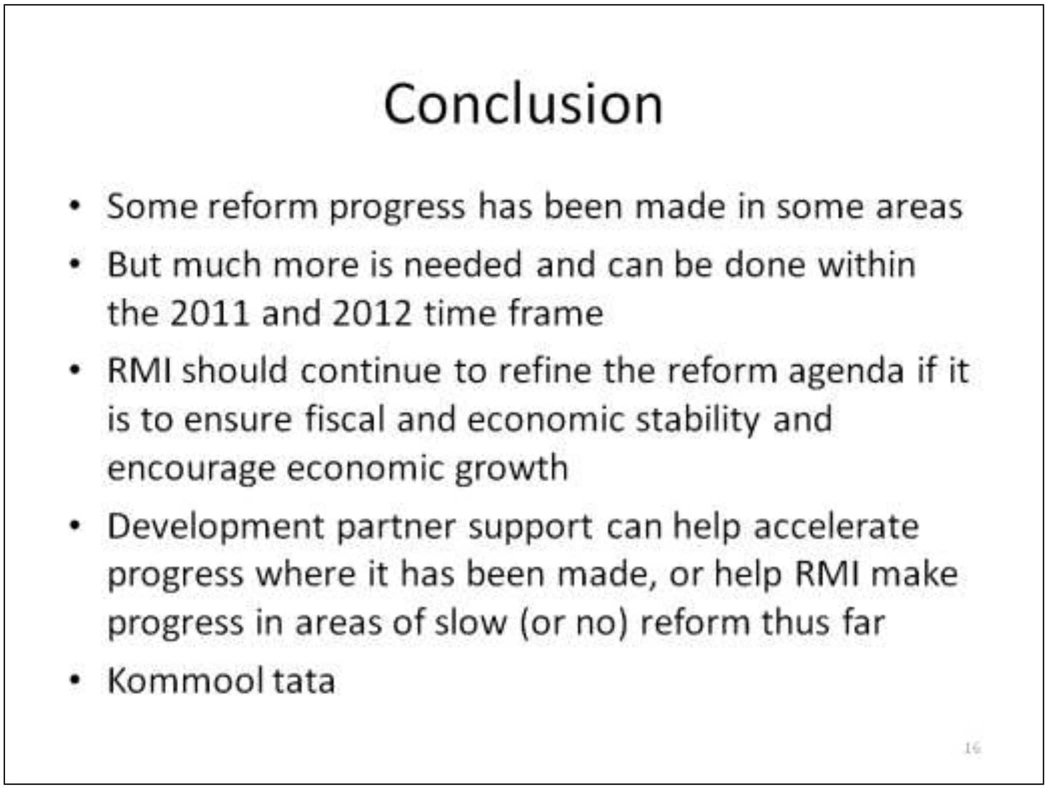
Conclusion
• Some reform progress has been made in some areas
• But much more is needed and can be done within the 2011 and 2012 time frame
• RMI should continue to refine the reform agenda if it is to ensure fiscal and economic stability and encourage economic growth
• Development partner support can help accelerate progress where it has been made, or help RMI make progress in areas of slow (or no) reform thus far
• Kommool tata
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6B. Tax and Revenue Reforms

Mr. Carlos Domnick, Chairman of the TRRAM Committee

RMI Tax and revenue Reforms
A Holistic Approach to Reforming the Tax and Revenue System

Session 1 Presentation 1b
by Francis Carlos Domnick

PRESENTATION OUTLINE:

I. Mandate
II. Tax Reform Objectives
III. Rationale – Why Reform?
IV. Principles
V. Reform Policies
VI. Specific Recommendations
VII. Tax Reform Timeline
VIII. Assistance Needed

MANDATE

1. In mid 2008 Cabinet established the Tax and Revenue Reform and Modernization Commission.
2. Includes private and public sector members.
3. Commission to make recommendations to Cabinet on a new tax regime.

TAX REFORM OBJECTIVES

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 RMI and a tax and revenue design conducive to current realities and circumstances;

TAX REFORM OBJECTIVES

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;

Tax Reform Objectives

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.

WHY REFORM?

- Compact funding impact:
  - $500,000 annual decrement in compact funding
  - Post Compact Financial Arrangement --- 2024
- Tax laws outdated and need to be modernized:
  - Gaps and weaknesses
  - Some areas not taxed at all – business income
  - GRT unfair for businesses and does not encourage investment
  - The level of compliance with the tax laws needs to be higher – non compliance unfair to those who comply

WHY REFORM?

- To adapt to the changing global economic and fiscal environment:
  - Encourage private sector investment
  - Promote exports
  - Provide an environment for job growth
  - Help reduce out-migration
  - Adapt to current economic and social realities

REFORM PRINCIPLES

Transparency and Certainty	Effective and Efficient Administration
Fairness and Equity	Simplicity
Fiscal Sustainability	Broad Based
Pro-Private Sector	Foreign Direct Investment
International Trade Focus	Keep Tax Burden Low
Neutrality	Consideration of Local Government Taxes

REFORM POLICIES

1. Revenue neutral to existing taxpayers as a group and thus not result in tax increases.
2. Increased tax revenues should come from enforcement of those not currently paying or underpaying.
3. Tax regulations are to be applied equally to the private sector, national and local governments and state owned enterprises.

REFORM POLICIES

4. Broadening of tax base to minimize tax burden and to include other items not currently taxable.
5. Consideration of the introduction of a Revenue Authority of the RMI with a governing board of directors, which shall also oversee the mandate to provide for rules and approval of tax exemptions.

SPECIFIC RECOMMENDATIONS (1)

Personal Income Tax:

1. Expand the range of taxed income to include allowances and in-kind benefits.
2. Impose interest and dividends at a rate at 3%.
3. Expand the tax free threshold to $4,160 per year and apply it to all taxpayers.
4. Add an additional rate of tax of 16 percent for salary and wages greater than $20,800.

SPECIFIC RECOMMENDATIONS (1)

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

SPECIFIC RECOMMENDATIONS (2)

Business Net Profit (Income) Tax from Current Gross Receipts Tax:

Apply 20% to all taxpayers with gross annual revenue greater than $100,000 (including pooling of revenue of commonly owned businesses).

SPECIFIC RECOMMENDATIONS (3)

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 $100,000, retain the flat rate but consider increasing the amount (current 3%).

SPECIFIC RECOMMENDATIONS (4)

Consumption Tax:

Introduce a consumption in the form of a VAT to replace the hotel and resort tax, standard rate import duties, and local government sales taxes.

SPECIFIC RECOMMENDATIONS (5)

Excise Tax:

Replace the existing import duties on alcohol, tobacco, motor vehicles, and fuels with excise taxes.

TAX REFORM TIMELINE

3 Year Implementation Program:

- 2011: Drafting legislation for consideration by Cabinet by early January 2011, begin developing the transition, training and automation estimates.
- 2012: Commence new authority, business and personal income taxes and ceasing of Gross Revenue Tax.
- 2013: Introduction and commencment of the consumption tax and other complementary works to ensure effective collection of revenues.

ASSISTANCE NEEDED

Administration reform needs:

- Customs Management Information System
- Tax Management Information System
- Legal Advisor – Pilot Program with the ADB
- Reform Program Coordinator (experienced Tax Reform specialist)
- Office Space

6C. Energy Sector Reforms & the Marshalls Energy Corporation (1)

Ms. Angeline Heine, National Energy Planner, R&D

RMI Energy Sector Reforms

Including Marshalls Energy Company Reform Update

Session 1 Presentation 1c

by Angeline Heine and David Paul

1

PART I:
ENERGY SECTOR REFORMS

2

July 2008

- Due to unprecedented increases in the costs of energy, the National Government officially declared a State of Economic Emergency

3

2009 RMI National Energy Policy

OBJECTIVE:

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

4

RMI VISION 2018

To become a country in 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

5

National Energy Policy: 5 Key Areas

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

6

Initial Steps towards Energy Security

- Energy Task Force
- Energy Planning Division (Ministry of Resources & Development)

7

Energy Efficiency

- CFL Distribution Project
- Energy Audit Workshop
- Energy Survey
- Energy Efficiency Public Awareness Campaigns
- Streetlights Retrofitting Project
- Installation of Pre-paid meters

8

Renewable Energy

- Majuro Hospital Grid Connected Project
- The NORTH REP Project
- Outer Island SHS Project
- REP 5 Project (Outer Island Solar School Project)
- Action for Development of Marshall Islands Renewable Energies (ADMIRE)

9

NO DUPLICATION
FIVE YEAR VIABILITY

10

RMI Energy Priorities

- 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
- Reduce supply side energy losses from MEC by 20% by 2015

11

"Many Partners, One Team"

- An energy secure Pacific based on a robust energy sector that supports and promotes sustainable development in Pacific Island countries and territories aiming at efficient production and use of energy for sustainable development, anticipating increased energy security and access to clean energy

– Pacific Regional Energy Policy

12

6D. Energy Sector Reforms & the Marshalls Energy Corporation (2)

Mr. David Paul, General Manager, MEC

PART II:
MARSHALLS ENERGY COMPANY
REFORM UPDATE

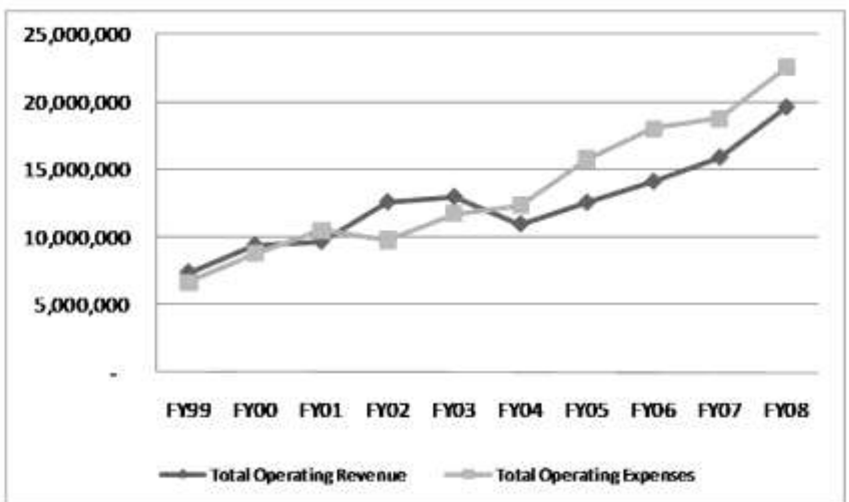
13

Background

- Commercial debt of over $16M
- Operating loss at $4M per annum (FY08)
- A/R at over $6M
- System Loss at 25% ($3.2M)
- Condition of core capital assets in disrepair (generators and distribution lines and fuel farm)

14

Background



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Comprehensive Recovery Plan

16

CRP Completed Objectives

GOAL 1: Strengthen MEC and Energy Sector Governance

- Reduction in Board Membership from 10 to 7
- Development of a Board of Director's governance manual
- The updating of MEC's Articles of Incorporation and Bylaws

17

CRP Completed Objectives

GOAL 2: Improve Organizational Policies, Performance and Capacity

- Development of MEC's Personnel Policies & Procedures Manual
- Development and implementation of a new Procurement Policy
- Development and implementation of new Departmental Reporting Templates for monthly reporting to Management
- Development and implementation of a new Transport Policy
- Development and adoption of Staff Capacity Development Plan
- Implementation of a Performance-based Management System

18

CRP Completed Objectives

GOAL 3: Strengthen and Stabilize Company Finances

- Restructuring of the commercial debt with the Bank of Guam
- Establishment of a debt-servicing Sinking Fund
- Development & adoption of Full-Cost Recovery Tariff template
- Strengthening collections on outstanding accounts receivables
- Adoption of aggressive measures to recapture the fuel business
- Strengthening of procurement procedures
- Carryout a staff job review to eliminate duplication of duties
- Reduction in non-essential expenditure
- Rehabilitation of Majuro Power Plant
- Renegotiate terms of Rural Utilities Services loan

19

CRP Objectives in Progress

GOAL 3: Strengthen & Stabilize Company Finances (continued)

- Implementation of recommendations stemming from the Power Plant and Distribution Network loss survey
- Reduction in generation costs using alternative fuels
- Full implementation of the Prepay Meter program
- Completion of Majuro and Ebeye Street lighting loss reduction
- Actively assist in implementing a Regional Bulk Fuel procurement plan
- Develop a new Asset Management plan

20

Objectives to be Actioned 2011-12

- Develop fuel handling Inspection & Certification rules
- Produce annual MEC Company Reports
- Elimination of cross-subsidization between Utilities
- The implementation of Community Service Obligation Contracts
- To carryout an integrity assessment of the Fuel Farm, and rehabilitate if necessary

21

Assistance Needed

- TA needed to strengthen organizational performance, policies and capacity
- Grants for several key areas
- Financing assistance to invest in our distribution system
- Financing assistance to invest in our fuel tank farm facilities

22

6E. State-Owned Enterprise Performance and Reform Needs

Mr. Ben Graham

RMI State-owned Enterprises (SOEs)

Performance Review and Reform Priorities

Session 1 Presentation 1d

by Ben Graham

1

Outline

- Background
- Summary of performance
- Revisiting SOE reforms
- Next steps
- Possible assistance requirements

2

Background

- SOEs established to provide 'critical' infrastructure and services
- Scale/scope of portfolio has grown over time
- But performance a major concern
- Earlier attempts at SOE reform very limited
- MEC's steady deterioration (and near-collapse in 2008) demanded renewed attention

3

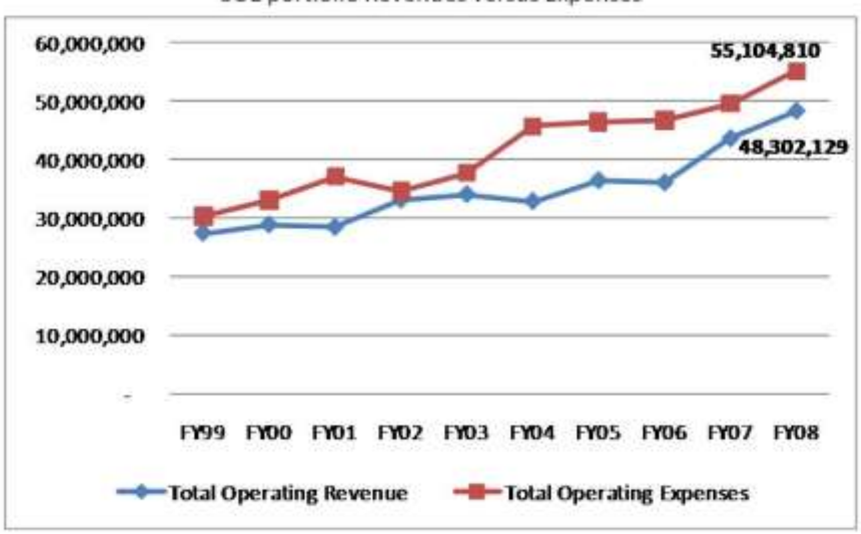
Summary of performance

- Financial reviews show severe weaknesses, growing fiscal and economic risks
- Persistent shortfalls, most SOEs insolvent
- SOEs absorb large and growing amounts of scarce public resources, but returns are very low
- Subsidies a growing burden on fiscal system
- Some SOEs drive up costs of business, crowd out private sector, and constrain growth

4

Summary of performance

SOE portfolio Revenues versus Expenses



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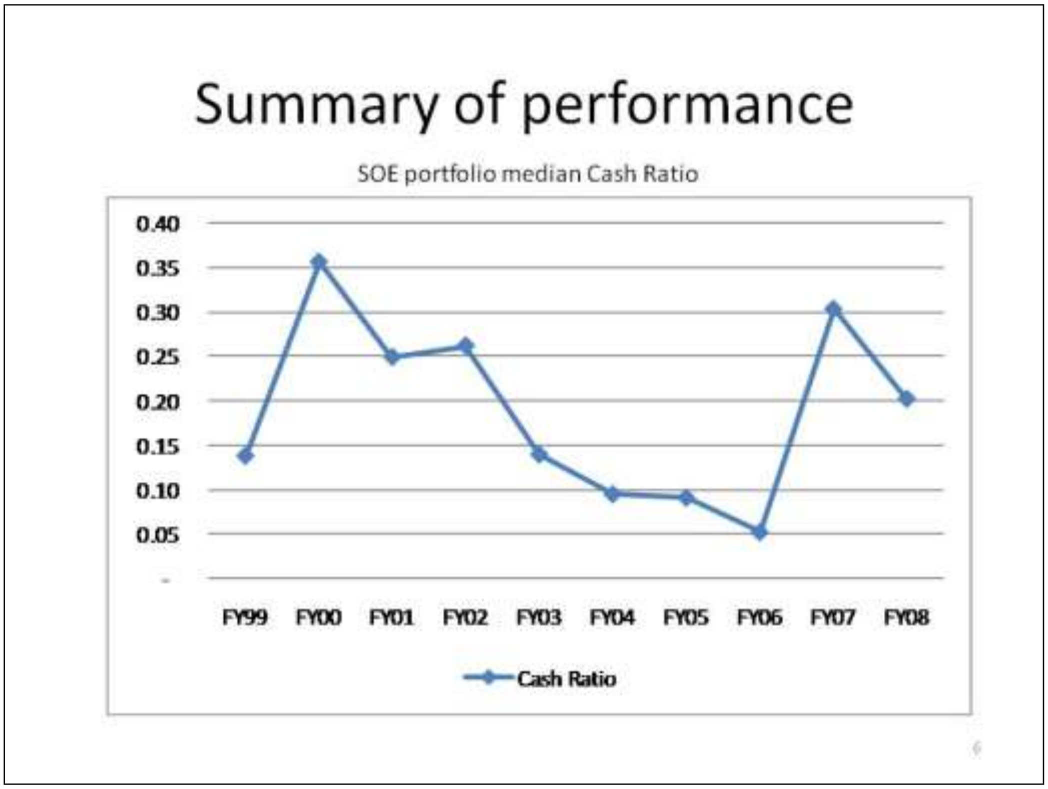
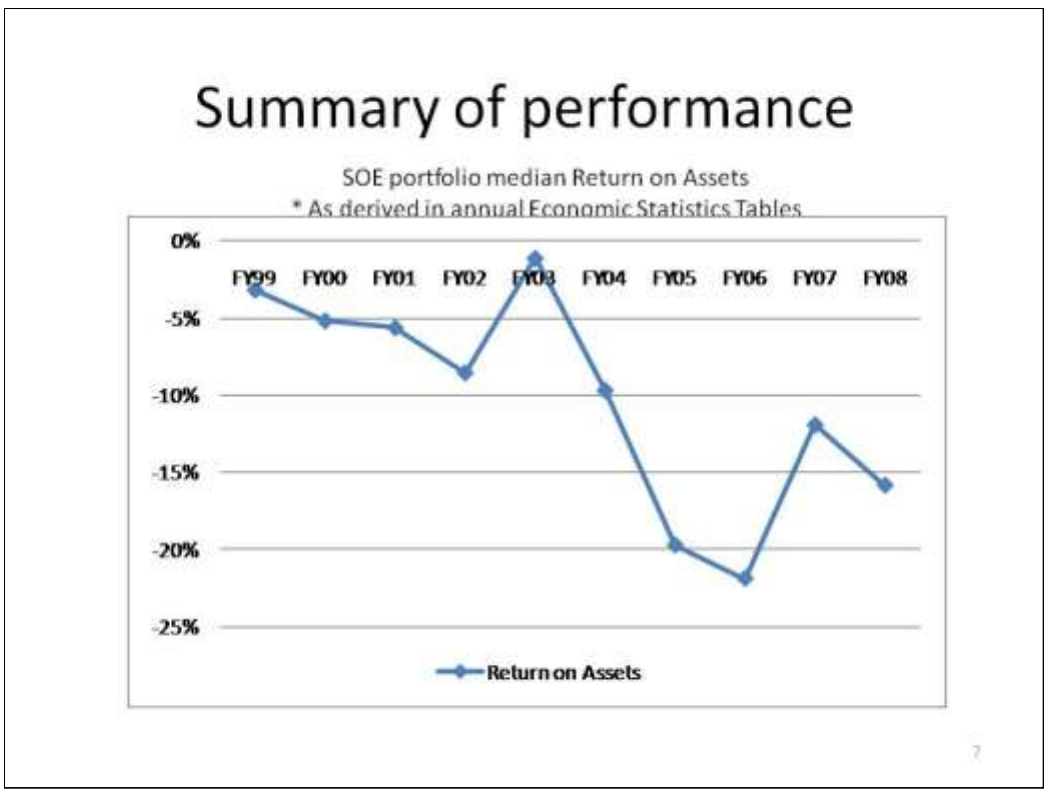
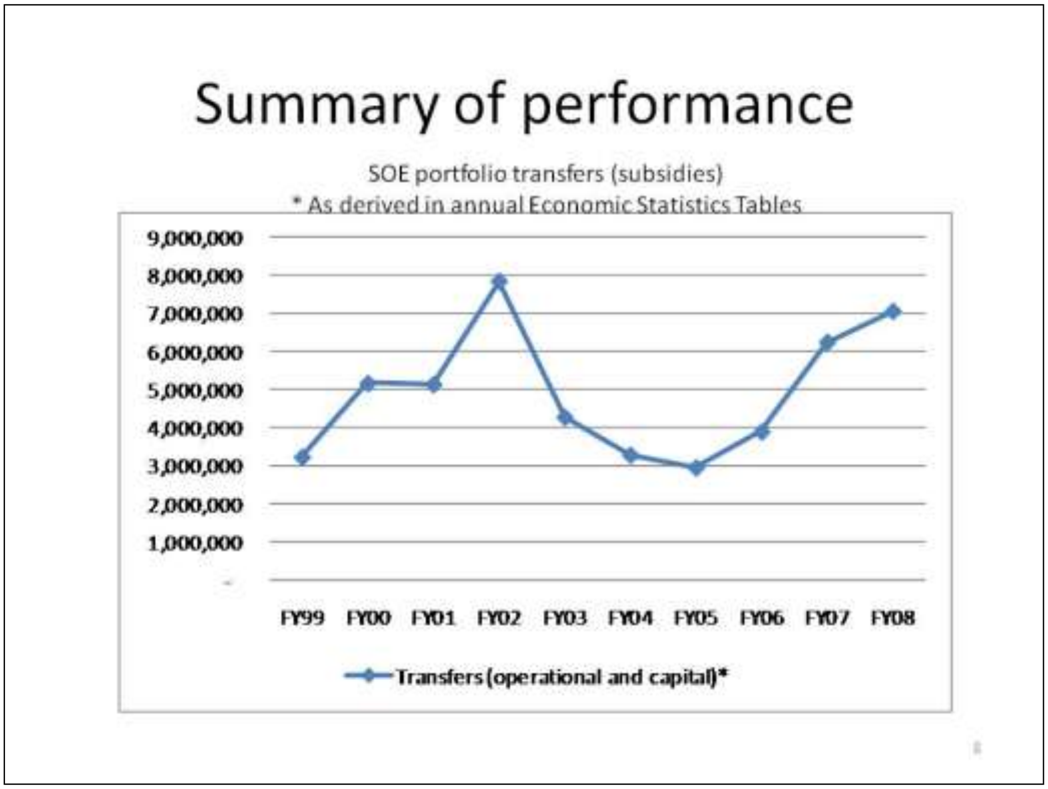
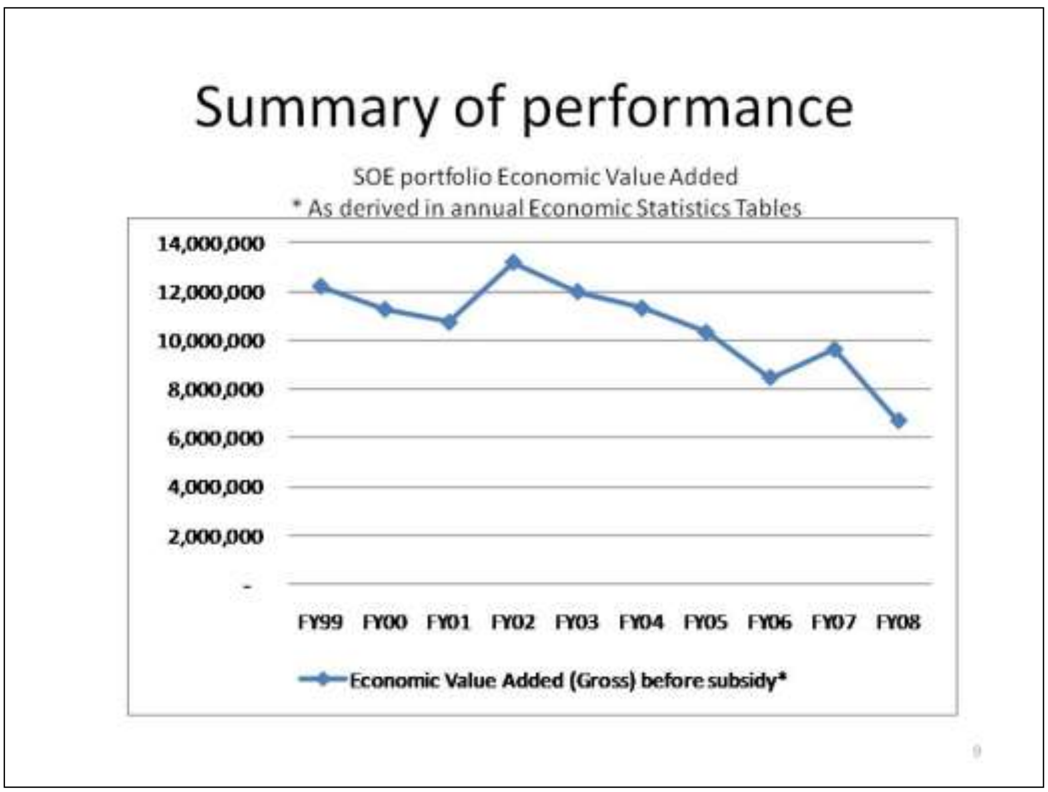

Summary of performance
SOE portfolio median Cash Ratio
0.40
0.35
0.30
0.25
0.20
0.15
0.10
0.05
-
FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08
Cash Ratio


Summary of performance
SOE portfolio median Return on Assets
* As derived in annual Economic Statistics Tables
0%
-5%
-10%
-15%
-20%
-25%
FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08
Return on Assets


Summary of performance
SOE portfolio transfers (subsidies)
* As derived in annual Economic Statistics Tables
9,000,000
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
-
FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08
Transfers (operational and capital)*


Summary of performance
SOE portfolio Economic Value Added
* As derived in annual Economic Statistics Tables
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
-
FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08
Economic Value Added (Gross) before subsidy*

Revisiting SOE reforms

- MEC highest-risk SOE, developed Comprehensive Recovery Plan (CRP) in 2009
- CRP now underway, supported by several partners
- Other high-risk SOEs being reviewed, preliminary reform options analyzed and soon presented
- Cabinet approved *Six Good Principles for SOE Management* and call for new SOE Act
- SOE reform a key component of broader reform effort

10

Next steps

- RMI SOE review (ADB 2010) recommended:

  Follow an integrated approach:

  (a) focus on enterprise- and sector-specific reforms as well as broader institutional and legislative reforms to strengthen the governance and accountability frameworks in which public enterprises operate; and (b) harmonize public enterprise reforms with other ongoing reform and development efforts

11

Next steps

- In next two years, RMI will strive to:
  a. Maintain MEC reform momentum
  b. Assess performance, risks, and reform options in next-priority SOEs (AMI, MISC, Tobolar, etc.)
  c. Develop and begin executing reform plans for next-priority SOEs
  d. Establish and enforce new, stronger SOE governance and accountability policy and framework

12

Possible assistance requirements

- MEC still requires TA and project funding for several critical reform areas
- TA required for assessment and reform planning for next-priority SOEs, including expertise in key areas such as aviation and shipping
- TA also required for new SOE Act and policy
- Some SOE reforms may require project financing
- TA should not only cover analysis and planning but also implementation and monitoring (i.e. a medium term approach)

13

Kommool Tata

14

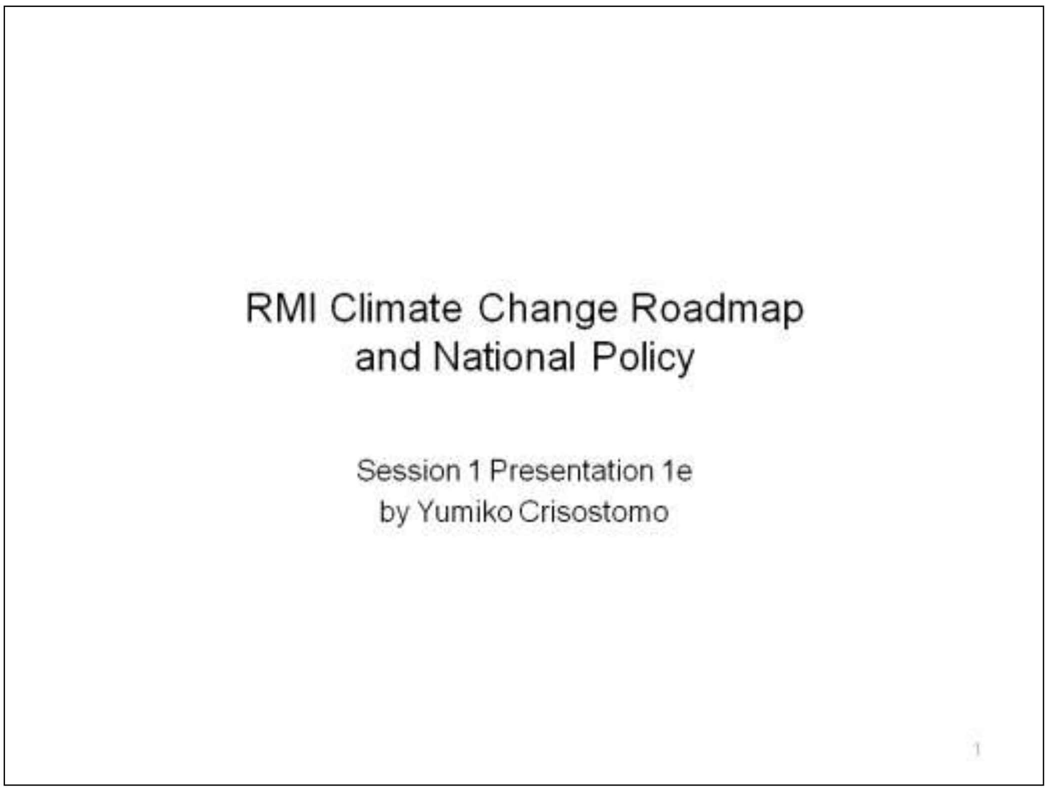
For addition details on RMI SOE reform issues, refer to:

- "A Review of 11 Public Enterprises and Options for Reform," ADB
- "Finding Balance II: Making State-Owned Enterprises Work" ADB (forthcoming)
- RMI Public Enterprise Database FY99-FY08
- MEC Financial Review FY99-FY08
- AMI Financial Review FY99-FY09

15

6F. RMI Climate Change Roadmap and National Policy

Ms. Yumiko Crisostomo, Director of OEPPC



Republic of the Marshall Islands Climate Change Roadmap 2010

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:
  - Enhance the coordination and coherence of RMI's efforts to address the challenges posed by climate change;
  - Inform the development and adoption of a RMI National Climate Change Policy by the end of 2010; and

Background and Objective

- 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.

4

Approach

- 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.

5

Approach

- 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;

6

Republic of the Marshall Islands National Climate Change Policy Framework

7

Processes and Sources of Information

Existing Policy/Plans:

- Strategic Dev Planning Framework 2003-18/Vision 2018
- 2005-06 Year Book (Sector Reports)
- National Climate Change Priorities for PAS
- EDF 8 & 9 National vulnerability priorities on the water sector, coastal processes and aggregates
- 1st National Communications
- National Energy Policy 2009
- Micronesian Challenge/National Conservation Area Plan
- MDG Progress Report 2009 – Goal 7

8

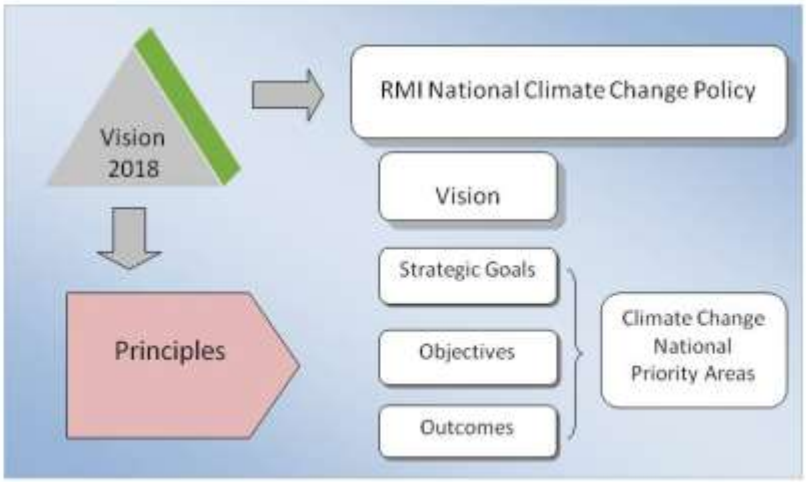
Processes and Sources of Information

Existing Policy/Plans (continued):

- 2009 National Report to the General Assembly on Security Implications of Climate Change
- DRM National Action Plan 2008 (consultation and 11 Sector Briefings)

9

Key Components of Policy



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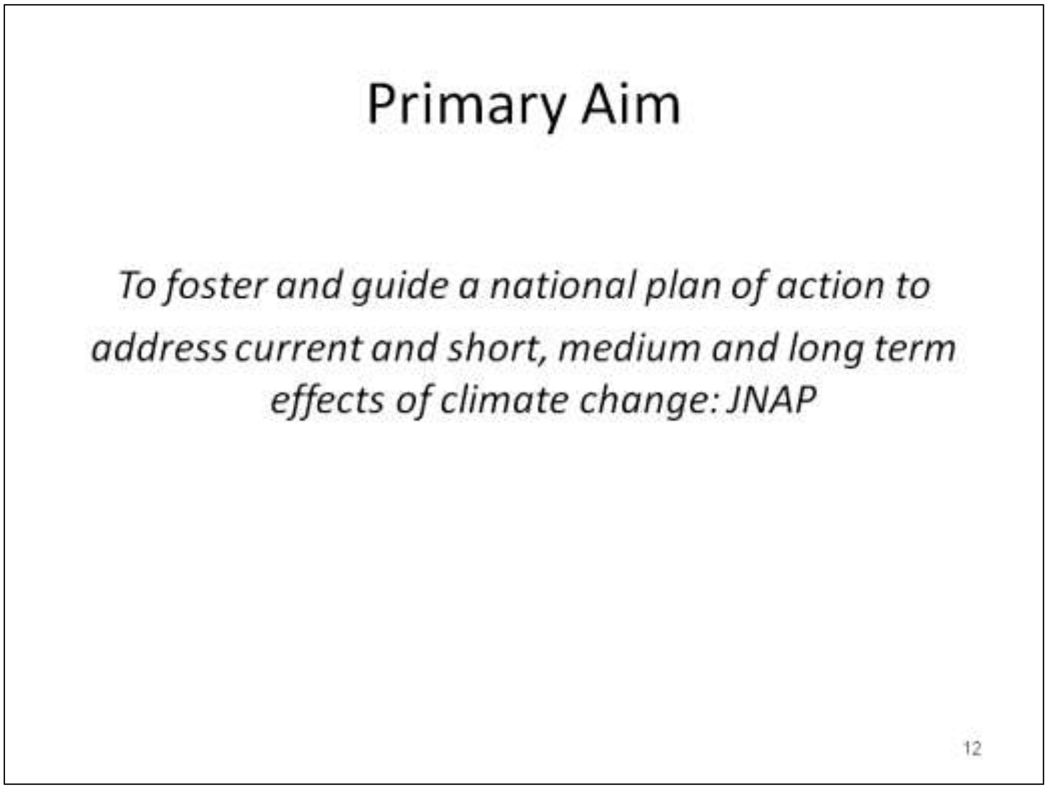
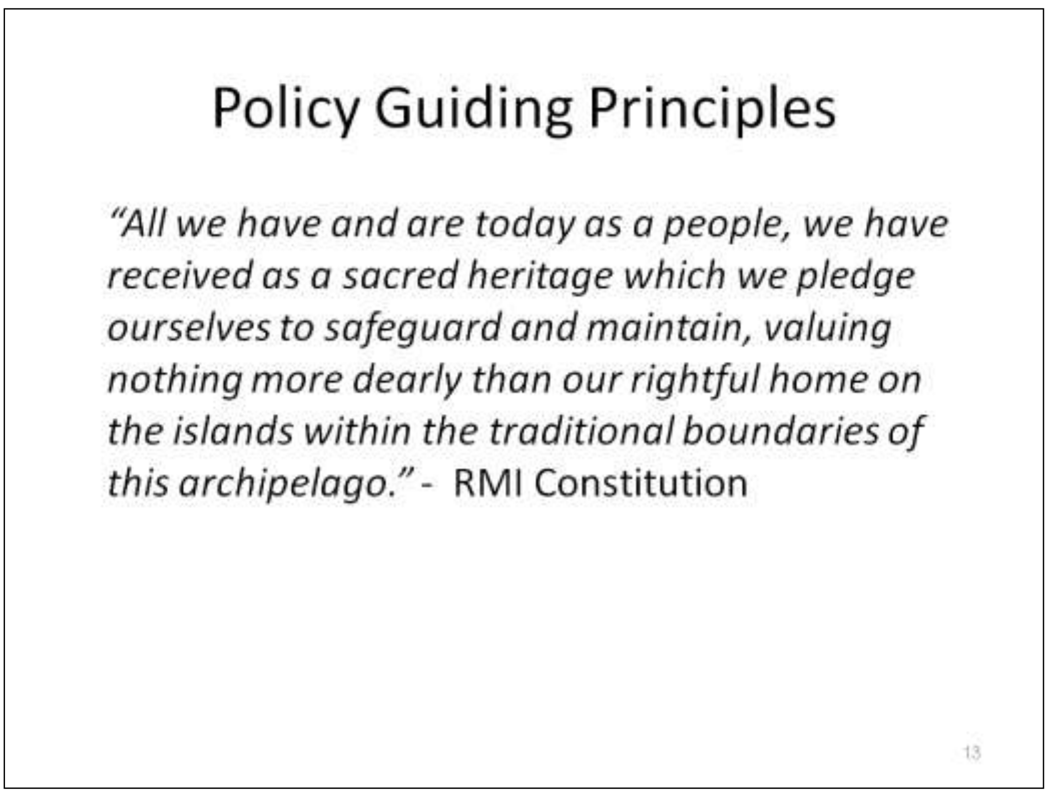
Priority Areas

– Food and Water Security
– Energy Security and Conservation
– Biodiversity and Ecosystem Management
– Human Resources Development, Education and Awareness
– Health
– Urban Planning
– Disaster Risk Management
– Land and Coastal management
– Transport and Communication

11


Primary Aim
To foster and guide a national plan of action to address current and short, medium and long term effects of climate change: JNAP
12


Policy 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
13

Preamble

The Republic of the Marshall Islands (RMI) overview/views on climate change

- The RMI believes that climate change is the greatest threat to our low lying atolls and people.
- Climate change will gravely undermine our efforts towards sustainable development and threaten our survival and the sovereignty of our nation and people.
- While longer-term impacts such as sea level rise could result in the unavoidable out-migration of some of our people, we have a right to pursue any and all means to ensure our nation survives and our legacy remains in these islands, with our future generations living productive lives on these islands.

14

Policy Vision

A Resilient Marshall Islands to the impacts of climate change

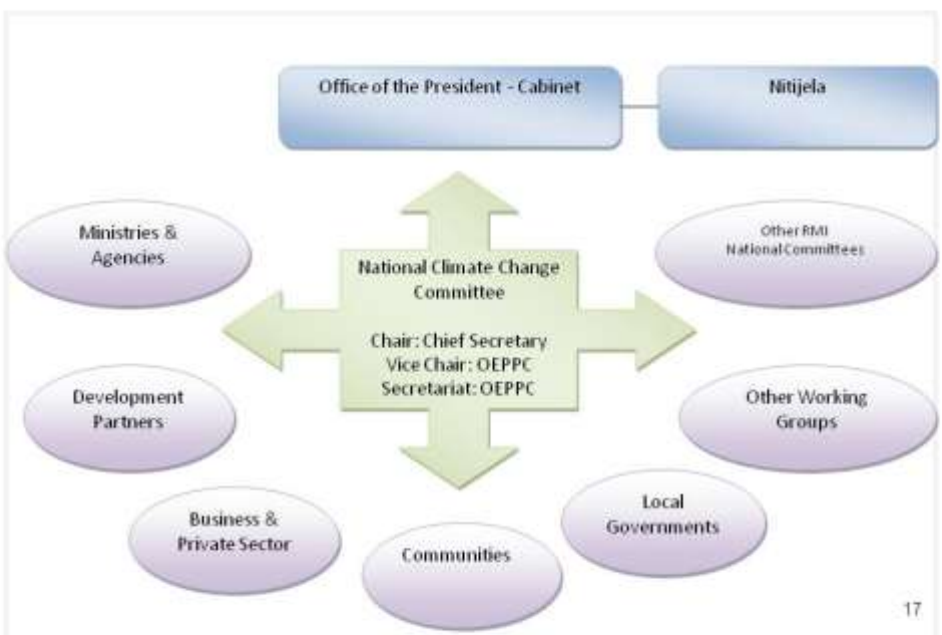
15

5 Strategic Goals

1. Sustainable financing and institutional coordination for climate change;
2. Energy security and low-carbon future;
3. Adaptation for a climate-resilient future;
4. Disaster risk reduction preparedness and response capacity; and
5. Building education and awareness, community mobilization, whilst being mindful of culture and gender.

16

Institutional Framework



17

Next Steps

1. Draft with the Chief Secretary
2. Approval of the Policy through Cabinet
3. Endorsement of the Policy by Nitijela
4. Development of the JNAP
5. Implementation

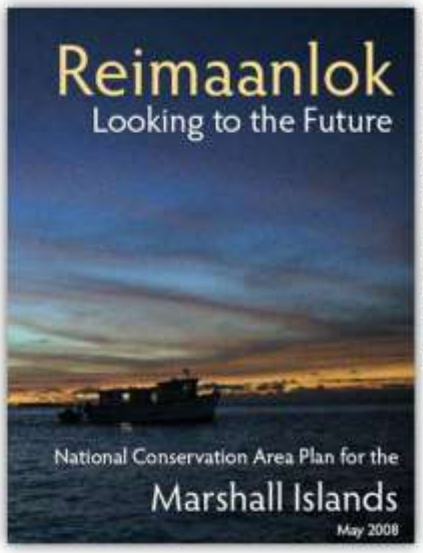
18

Assistance Needed

1. Sustainable financing and institutional coordination for climate change;
2. Adaptation for a climate-resilient future;
3. Building education and awareness, community mobilization, whilst being mindful of culture and gender.

19

MC: Community Based Adaptation



Micronesian Challenge and Reimaanlok:

Designed as a technical tool to assist resource agencies facilitate resource management planning with local governments & traditional leaders through a consultation process;

20

Pledges and Current Match

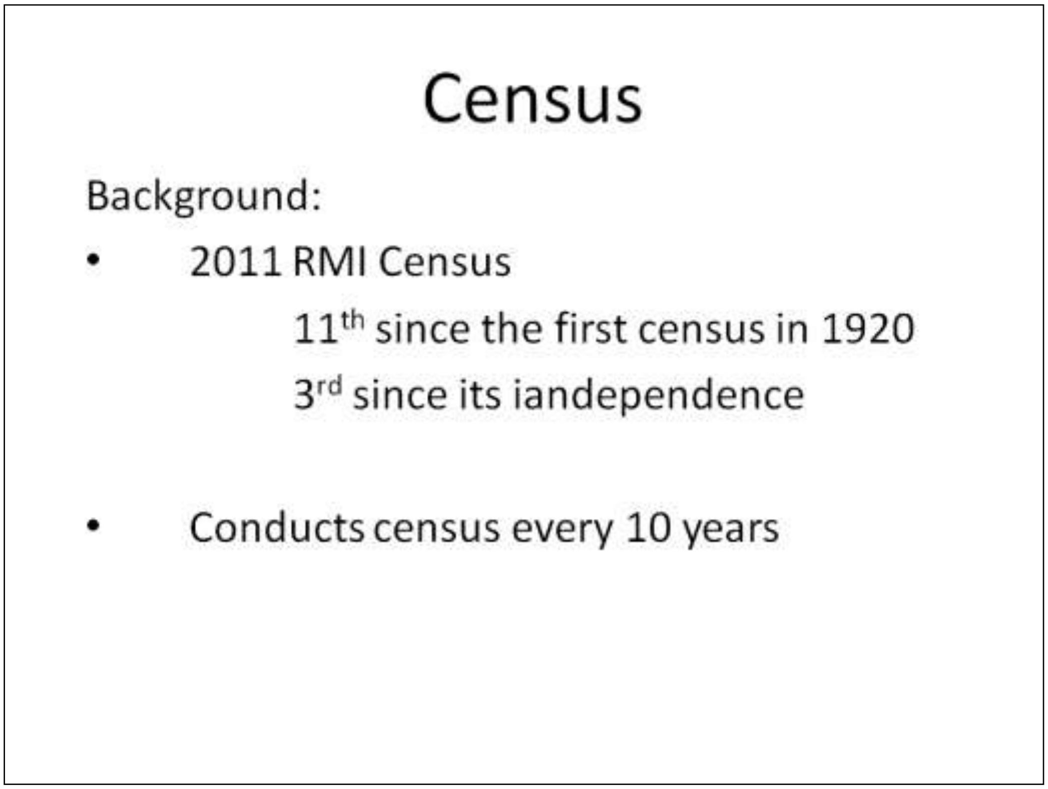
MC Co-financing Matrix

MC countries	TNC Funding USD3M	CI Funding USD3M	Tot. Match Required by each Country	GEF Funding Allocation	Internal Co-financing by Country to date	Remaining match to trigger TNC-CI funds to date
Palau	2,000,000	1,000,000	6,000,000	1,684,848	500,000	3,815,152
FSM	1,000,000	1,000,000	4,000,000	1,684,848		2,315,152
RMI	0	1,000,000	2,000,000	1,684,848	200,000	115,152
Total	3,000,000	3,000,000	12,000,000	5,054,545	700,000	6,245,455

21

6G. Upcoming Events: RMI Census & National Development Plan

Ms. Maybelline Andon-Bing, Chief of Performance Management, EPPSO



Census

- Implementation Schedule

Activity	Start	End
Questionnaire Design	January 2008	October 2010
Pilot Census	September 2010	October 2010
Pre-listing	November 2010	December 2010
Census	April 2011	May 2011
Data Processing/Tabulation	April 2011	August 2011
Dissemination	September 2011	September 2011

Census

- Topics
  - Housing
    - Household tenure
    - Structural condition of house, Source of financing
    - Water source
    - Sanitation facility
    - Energy source for cooking & lighting
    - Household assets
  - Agriculture
    - Income from Home productions
    - Crops

Census

- Topics (con't)
  - Personal
    - Basic Demographics (Relationship, Sex, DOB, POB, etc.)
    - Disability
    - Language
    - Migration
    - Education
    - Labor
    - Income
    - Smoking
    - Fertility

Census

- Project Cost

Census 2011 Expenditure Heads	Amount
Training Fees	$59,000
Pre-listing	$45,000
Stipends	$254,960
Transportation	$95,930
Per Diem	$67,570
Report Reproduction	$47,625
Census Pre Test	$59,603
Public Relations/Dissemination	$79,050
Equipment and Supplies	$50,375
Subtotal	$759,113
Contingency @ 5% of Subtotal	$37,956

Census

- Resource Outlook
  - Internal Funding
    - RMI has committed to the undertaking of this massive task by engaging its human resources, support services, domestic transportation, and enabling routine contingencies to the census team; <u>and that amounts to over $30,000 at the minimum.</u>

Census

- Resource Outlook (con't)

b.)	**<u>External Funding</u>**	**:**	**$682,983**
i.)	*Compact*	*:*	*$113,380*
ii.)	*ADB*	*:*	*$310,000*
iii.)	*UNFPA*	*:*	*$200,000*
iv.)	*Aus AID*	*:*	*$59,603*

Census

- Assistance Needs

Shortfall : **$120,000**

RMI
National Development Plan
(NDP)

NDP

- Progress
  - Cabinet approved and established a National Development Plan Work Group on May 2010.
    - Incorporate MDGS into the National Development Plan

NDP

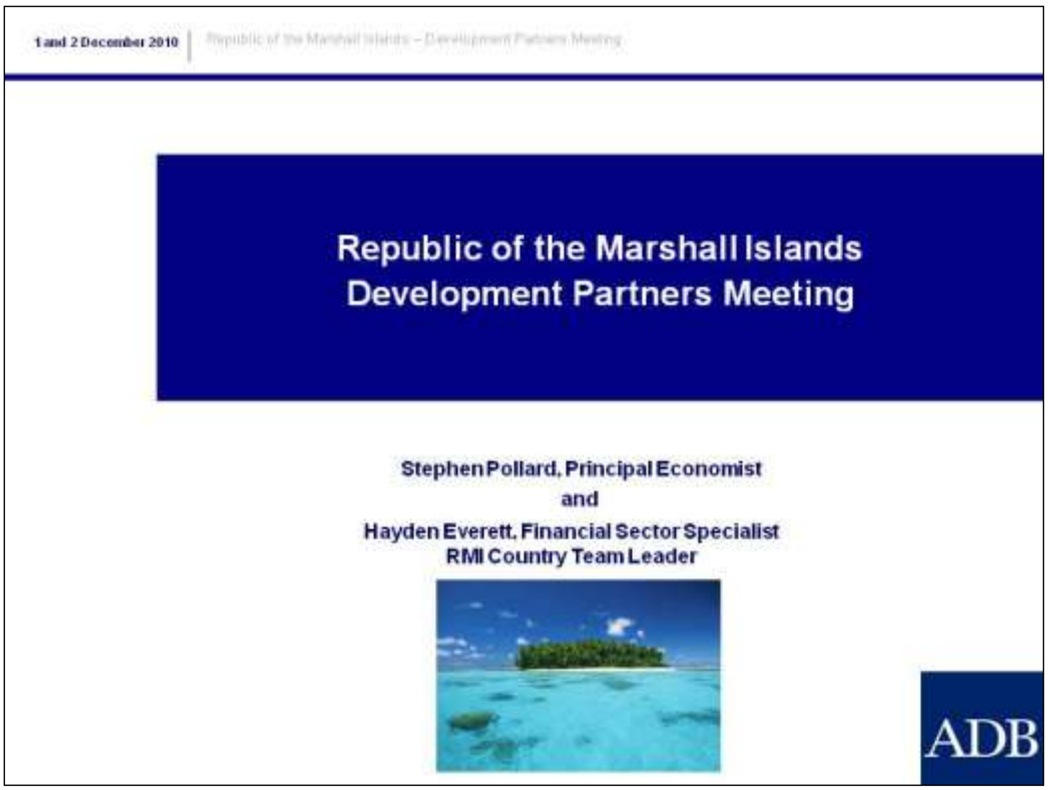
- Progress
  - A Comprehensive Draft Concept Paper on the NDP & Strategies and an Overview summary proposed to be used as one of the guidelines in formulation of the NDP

NDP

- Progress
  - Recruitment of International Consultant
  - Timeframe of formulation of NDP
    - In parallel with the National Census (early 2011)

7.A. Asian Development Bank

Mr. Stephen Pollard, Principal Economist;
Mr. Hayden Everett, Financial Sector Specialist and RMI Country Team Leader



1 and 2 December 2010 | Republic of the Marshall Islands – Development Partners Meeting

Outline

2

- Pacific Approach 2010-2014
- Country Operations Business Plan
- Our Current and Future Work Program
- Lessons
- Working Better in RMI

ADB

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Pacific Approach 2010-2014

3

Goal	Sustained and Resilient, Improved Standards of Living
Agenda	To foster connectivity, consensus, and a greater community through: 1. Inclusive and Environmentally Sustainable Growth 2. Good Governance 3. Regional Cooperation and Integration
Operational Priorities	• Transport, Information and Communication Technology • Energy • Urban Development, Water, Sanitation • Education
Drivers of Change	• Improved Private Sector Environment • Public Sector Management • Capacity Development • Climate Change Adaptation and Mitigation • Development Partnerships • Gender Mainstreaming

ADB

Country Operations Business Plan

4

- *"ADB's country strategy for the Republic of the Marshall Islands is to promote economic and social development through inclusive and environmentally sustainable growth and good governance"*

Strategic priorities:

1) enhanced private sector environment
2) improved public sector and macroeconomic management
3) human capacity development
4) environment and climate change

ADB

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Our Current and Future Work Program

5

- **Public Sector Program Loan**
- **Improved Energy Supply for Poor Households Grant**
- **Social Protection of the Vulnerable in the Pacific Grant**
- **Ongoing Regional Technical Assistance**

ADB

Public Sector Program Loan

6

- A Program Loan to support fiscal sustainability
  - Outputs:
    1) improved MT fiscal outlook
    2) recurrent expenditure restraint
    3) increased tax revenue
    4) SoE improved performance
    5) stakeholder participation

ADB

1 and 2 December 2010 | Republic of the Marshall Islands – Development Partners Meeting

Improved Energy Supply for Poor Households Grant

7

- Installation of prepayment meters
- Connection of currently unserved poor households
- Coconut oil-diesel blend used in generators

ADB

1 and 2 December 2010 | Republic of the Marshall Islands – Development Partners Meeting

Social Protection of the Vulnerable in the Pacific Grant

8

- Support to vulnerable for coconut tree replanting
- Government capacity to identify vulnerable enhanced through Census
- Regional conference

ADB

1 and 2 December 2010 | Republic of the Marshall Islands – Development Partners Meeting

Ongoing Regional Technical Assistance

9

- PFTAC
- The Pacific Regional Audit Initiative
- Strengthening Capacity to Respond to Climate Change
- Pacific Private Sector Development Initiative
- Demand-Based Technical and Vocational Education and Training Frameworks
- Others

ADB

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Lessons

10

- Growth is possible
- Business environment improving and more investment
- Public sector performance not improving, but outsourcing successful
- Broader institutional capacity not addressed
- Consensus building for change inadequate
- Insufficient follow-on
- Access – connectivity, energy, land

ADB

1 and 2 December 2010 | Republic of the Marshall Islands – Development Partners Meeting

Working Better in RMI

11

- Local coordinators to foster ownership
- Local liaison officer
- Local knowledge and expertise to design projects
- Realistic project outcomes and objectives
- Development partner consultative meetings

ADB

1 and 2 December 2010 | Republic of the Marshall Islands – Development Partners Meeting

Contacts

12

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Hayden Everett
Financial Sector Specialist
RMI Country Team Leader
heverett@adb.org

ADB

7.B. Australia

Hon. Susan Cox, Ambassador

7.C. European Union
Mr. Malcolm Ponton, Attaché, FSM, Palau, RMI

Hon. Ministers, Ambassadors, Senior Government officials, Ladies & Gentlemen, Yokwe.

First let me thank Ministers Silk and Ading for their kind invitation to attend this important conference.

Not all of you will be familiar with the EU's programme in RMI - so as way of background – allow me to touch briefly on the EU's relatively short history with the Marshall Islands.

Our partnership began in June 2000 when RMI first joined the ACP group and signed the EU-ACP Partnership Agreement - also know as the 'Cotonou Agreement'. This agreement runs for a 20-year period with the broad aim to reduce poverty among 78 ACP members through development cooperation and trade.

Like its predecessor – the Lome Agreement - the Cotonou Agreement operates on the basis of five-year funding cycles. When RMI joined we were in the ninth cycle of funding with the ACP - the 9th EDF (European Development Fund) - which more-or-less spanned the period 2002 – 2007. Some 9th EDF programmes are still running so the end date – 2007 - is a bit misleading. It really means the last date we are allowed to start new programmes.

9TH EDF NIP

Under the 9th EDF, RMI's first country programme was signed in 2003 and provided a total of EUR 4.6 million (about USD6.5m) in development assistance. At that time, the EU was new to the Marshall Islands – our development assistance package was comparatively small – and existing donors were already involved in a number of sectors - so rather than duplicate what others were doing we agreed with government to focus attention on areas that were relatively new. This resulted in a country programme focusing on Renewable Energy, Support to Non-state Actors, and Disaster Risk Reduction.

In turn, this translated into three main projects.

REP5

The first was the REP5 project EUR 3m ($4.5m) which provided 440 (424?) household solar systems to Ailinglaplap + 5 complete solar power systems to Outer Island schools. The project also assisted in preparing the draft energy policy…which was subsequently approved and adopted by government.

In some ways we should consider REP5 a pilot project. Along with FSM, Nauru, Palau and Niue it was implemented by a European company contracted to coordinate inputs from its base in Suva, Fiji. I will say something more on this later.

NSA PROGRAMME

The second project under the 9th EDF was the Non-State Actor programme. This programme was coordinated through MICNGOs and provided grants to 10 NGOs totaling EUR 500,000. Essentially a capacity building programme – the grants covered many different sectors – from conservation, to education to community development. The project has now been completed and is currently being evaluated. Lessons learned will be considered when designing similar types of projects in future.

DRR PROGRAMME

The third 9th EDF project is the Disaster Risk Reduction Programme – totaling EUR1.1m. This project, which is still ongoing, focuses on WATER. I am sure some of you may have seen the green water tanks with the blue stickers around Majuro. The project is implemented by SOPAC which has been contracted to coordinate with local authorities:

Project inputs include the provision of:

- 190 water tanks to the Outer Islands
- 450 “ “ to Ebeye and Majuro
- Water quality testing training and equipment
- Water lens work at Laura
- Water trucks
- And, repair work at the Airport water tanks

So these are the three 9th EDF ‘country’ programmes that were implemented through the ‘National Indicative Programme’.

9TH EDF REGIONAL PROGRAMME

In addition to these we funded a 9th EDF Regional Programme which covered many sectors at a total cost of €39 million. RMI derived benefit from these, including:

- Development of Sustainable Agriculture (DSAP) - SPC
- Plant Protection in the Pacific (PPP) – SPC
- Development of Tuna Fisheries (DEVFISH) – SPC/FFA
- Coastal and Oceanic Fisheries (COFISH) - SPC
- Facilitating Agricultural Commodity Trade (FACT) – SPC
- Basic Education (PRIDE) – USP
- Reducing Vulnerability – SOPAC
- Regional Economic Integration (PACREIP) – FORSEC

10TH EDF NIP

In the current programme of funding – the 10th EDF – which runs from 2008-2013 RMI's country allocation has risen from €4.6 million to €5.8 million (+26%). Again, renewable energy has been selected as the focal sector, and like the 9th EDF, the 10th EDF funds three projects:

The first programme, "North-REP", builds upon the work started under REP5 and will install more PV systems in the O/Is for Households, schools and medical centres. However, unlike REP5, which was coordinated from Suva by a European firm, using quite complex EC rules and procedures, NORTH-REP is implemented through a contract with SPC using SPC rules and procedure. We have done this before with SPC on a number of regional programmes and are confident this new arrangement will speed implementation, especially as the project will be centered in Phonpei, rather than Suva as was REP5. Additionally, a full-time technical expert has been attached to RMI to coordinate the work.

From the EU's perspective, not only is it important that the systems installed are durable and function for many years, it is equally important that proper on-going maintenance is carried out and that sustainable user-pay systems are put in place to finance eventual replacement costs. The Technical Assistance provided through North-REP will assist authorities – particular MEC - in ensuring that this is achieved.

A total of €4.5 million has been set aside for North-REP activities in RMI – the programme will run to at least 2014.

The second project under the 10th EDF is called the Technical Cooperation Facility. This project has a total budget of €800,000 and is designed to help RMI manage its cooperation programme with the EU. Based in the Ministry of Finance, the TCF aims to build government capacity in aid administration and coordination and to help RMI formulate new EDF proposals and to facilitate the introduction of new aid delivery mechanisms in the future.

The third project is an extension the current Disaster Risk Reduction programme so that additional household water catchment areas and storage can be supplied to poorer households. This extension will cost €500,000.

10TH EDF REGIONAL PROGRAMME

Like the 9th EDF, the 10th EDF Regional programme should benefit RMI in a number of sectors. In the coming years a total of €95 million will be spent on a variety of regional initiatives, including:

- Renewable Energy
- Fisheries
- Agriculture
- Trade & Regional Economic Integration
- Deep Sea Minerals
- Customs & Excise
- Tourism

- Tertiary and Vocational Education
- Non-State Actors
- PFTAC

OTHER FUNDING

Additionally, the EU offers support through other means. One of these is through what is called Intra-regional funding (also known as all-ACP funds). Here funds are set aside for projects benefitting three or more of the six ACP regions. Already there are plans afoot to support Disaster Risk Reduction and Agriculture using Intra funds.

And there are other non-EDF sources of funding for specific initiatives through what we call “budget line” funding. Budget line funding covers a variety of sectors and the size of grants can be quite substantial, however, access to funding is always through a ‘call for tenders’ which means a competitive process with other countries. Another possible source of EU funding is through the Global Climate Change Alliance – however, accessing such funding is currently limited.

Looking ahead, toward the 11th EDF, which is due to start in 2014, the EU would like to consider the possibility of delivering its aid, at least at the country level, through Budget Support. This is a big departure from the traditional ‘project approach’ which we currently use in RMI. It would mean that rather than funding specific projects the EU would transfer funds to government treasury so that government itself would decide on the best means to utilize resources.

Currently our ‘Budget support’ comes in two basic forms (1) General Budget Support; and (2) Sector Budget Support. The choice depends on a number of factors, including the strength of existing national and/or sectoral policies, government commitment to Public Financial Management reforms, and the overall macro-economic framework of the country.

But a word of warning, Budget Support, is not a blank cheque. It comes with a number of conditions that if and when met triggers further transfers. If such conditions are not met then payments can stop. Projects on the other hand never ever seem to stop.

Staff of the Ministry of Finance have already received initial training in Budget support and will no doubt have briefed government on the pros and cons of this aid delivery mechanism. Over the next couple of years we will continue to explore with Government the budget support option. Because of our involvement in the energy sector in RMI – and the existence of a comprehensive energy policy – it may be appropriate to select that sector as a first venture into budget support.

At this point in time it is difficult to predict the size of the 11th EDF aid envelop to RMI. Much depends on performance under the 10th EDF and whether commitments made are met. But if past trends are anything to go by we could be looking at some sort of increase.

Finally, let me say the EU remains committed to supporting the development programme in the Marshall Islands. We have achieved quite a lot in the first 10 years – we hope to do much more in the future.

Thank you once again. I look forward to further discussing matters in finer detail tomorrow.

Thank you

Associated Presentation from European Union

9th EDF RMI 2002-2007

Total allocation: EUR 4.6 million

- Renewable Energy (REP5) EUR 3 million
- Non-state Actors EUR 0.5 million
- Disaster Risk Reduction EUR 1.1 million

9th EDF Regional

Total Allocation : EUR 39 million

- Development of Sustainable Agriculture (DSAP) - SPC
- Plant Protection in the Pacific (PPP) – SPC
- Development of Tuna Fisheries (DEVFISH) – SPC/FFA
- Coastal and Oceanic Fisheries (COFISH) - SPC
- Facilitating Agricultural Commodity Trade (FACT) – SPC
- Basic Education (PRIDE) – USP
- Reducing Vulnerability – SOPAC
- Regional Economic Integration (PACREIP) – FORSEC

10th EDF RMI
2008-2013

Total Allocation:	EUR 5.8 million
Renewable Energy (NORTH-REP)	EUR 4.5 m
Technical Cooperation Facility	EUR 0.8 m
Disaster Risk Reduction	EUR 0.5 m

10th EDF Regional

Total Allocation EUR 95 million

- Renewable Energy
- Fisheries
- Agriculture
- Trade & Regional Economic Integration
- Deep Sea Minerals
- Customs & Excise
- Tourism
- Tertiary and Vocational Education
- Non-State Actors
- PFTAC


Other EU funding
• Intra-ACP
• Budget line funding
• Global Climate Change Alliance

7.D. International Monetary Fund

Written Submission from Mr. Anoop Singh, Director Asia & Pacific Department

Although representatives from the International Monetary Fund were unable to attend the Republic of the Marshalls Islands Development Partner Meeting in person, the Director of the Asia & Pacific Department, Mr. Anoop Singh, submitted the following statement in his absence.

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

November 24, 2010

Hon. John M. Silk
Minister of Foreign Affairs
Republic of the Marshall Islands

Hon. Jack J. Ading
Minister of Finance
Republic of the Marshall Islands

Dear Sirs:

It is with my deep regret that we cannot send a representative from the IMF to the RMI Development Partner Meeting 2010, to which you kindly invited us. Please accept my sincere apologies for the inconvenience.

Attached is a statement from Mr. Akihiko Yoshida, our mission chief in charge of Republic of the Marshall Islands. We hope the statement will add to the fruitful discussions at the meeting.

With my personal regards,

Sincerely yours,

Anoop Singh
Director
Asia and Pacific Department

Attachment

STATEMENT FOR DEVELOPMENT PARTNER MEETING
(December 1-2, 2010)

We would like to welcome the RMI government's initiative to convene this Development Partner Meeting, and highly commend its recent efforts towards comprehensive tax reform, expenditure control, and public enterprise reform. The IMF has supported these efforts through economic surveillance and, through the Pacific Financial Technical Assistance Center (PFTAC), has provided technical assistance in the areas of tax policy and administration, financial sector regulation and supervision, and economic and financial statistics. The IMF will continue to extend its technical assistance in these areas as necessary, and looks forward to enhancing coordination with other donors through such opportunities as this meeting in order to make the assistance more efficient and relevant to the needs of the RMI government. The rest of the document summarizes our most recent economic assessment and views on policy priorities, in the hope of stimulating discussions at the meeting.

Economic conditions and outlook

The Marshall Islands' economy experienced a severe economic adjustment with two consecutive years of negative growth, due to the global downturn and high food and fuel prices. Economic output contracted by 2.1 percent in FY2009, following a 1.6 percent decline in FY2008. While rising energy and food prices depressed real incomes and demand in FY2008, weak global demand, high fuel prices, and job losses due to the downsizing in the Kwajalein U.S. military base continued to pull down GDP in FY2009.

The economy is expected to recover gradually in the near term, but medium term risks are tilted to the downside. Growth is estimated to stay subdued at 0.7 percent in FY2011, and over the medium-term, is expected to increase gradually to 1.5 percent. The reduction in Compact grants and possible further downsizing in the Kwajalein U.S. military base are likely to weigh on medium-term growth. On the upside, the planned regional collaboration on managing the fish-stock (Parties to the Nauru Agreement) and a possible extension of the Kwajalein Land Use Agreement could create additional income source.

The fiscal balance is estimated to record a small surplus (0.3 percent of GDP) in FY2010. While better tax enforcement, additional taxes from the recovery, and higher non-tax income from fishing fees helped boost revenues, tax exemptions granted for imported fuel products and financial assistance to state-owned enterprises (SOEs) limited further improvements.

Reform priorities

Achieving long-term budgetary self-reliance and sustained growth are the main challenges for the RMI. The global financial turmoil put a heavy toll on the financial performance of the Compact Trust Fund (CTF), with the net return on assets falling by a cumulative 20 percent over FY2008—FY2009. The government will need to generate sufficient income to offset expiring annual Compact grants to avoid major adjustments to the budget. Given uncertain prospects beyond FY2023, fiscal projections are based on conservative assumptions that all the Compact grants will expire. Under baseline projections, a large revenue gap—the difference between expiring grants and CTF income in FY2024—is projected at about $12 million in 2010 prices, which poses a risk to economic and fiscal stability.

Closing the revenue gap in FY2024 requires a significant, but manageable fiscal adjustment. To generate cumulative savings large enough to close the projected revenue gap in FY2024, the government would need to build up a fiscal surplus of 5.3 percent of GDP (about $9 million in 2010 prices) by FY2015, and maintain it at that level until FY2023. In this context, the authorities' intention to transfer $1.7 million savings to the CTF in FY2011 is an important first step towards closing the revenue gap, and it should be continued.

The envisaged cuts in current expenditures in the FY2011 budget are an important first step in this direction, but a more targeted approach is needed to achieve sustained reductions over the medium-term. The FY2011 budget entails a 5.5 percent across-the-board cut in current expenditures of the general fund. A more targeted approach could include rationalizing the civil service, limiting financial support to SOEs, and minimizing allowances to civil servants and public officials. The recommendations of the Comprehensive Adjustment Program (CAP) group provide valuable guidance in that direction.

While reducing current expenditures is an important step towards self sufficiency, revenue gains are essential for the needed fiscal adjustment. The Cabinet approved the recommendations of the Tax and Revenue Reform and Modernization Commission (TRAM). The government is encouraged to swiftly resolve the remaining issues on the specific design of new taxes and to undertake the required revenue administration changes in parallel, to meet the targeted implementation period of 3 years. While improved tax auditing is welcome, further efforts to identify unreported tax liabilities would be needed to complement the reform process.

There is an urgent need to reform SOEs to limit fiscal costs and to ensure reliable services. Cumulative support to SOEs through subsidies, net cash advances, and capital injections amounted to 18 percent of GDP over the FY2004-08 period. Recognizing the need to reform SOEs and reduce their fiscal strain on the budget, the Cabinet recently endorsed a set of good practice principles. Plans to implement these principles could be put in place as early as possible.

The social security system provides valuable benefits, but its long term funding is not ensured. The 2009 actuarial report identifies $180 million of unfunded liabilities (120 percent of GDP). In light of the unsustainable financial situation, we look forward to proposals of the recently formed committee tasked with designing a reform plan. Reform options could include an increase in contribution rates, revision of the benefit structure, an increase in the standard retirement age, and lengthening the minimum contribution period.

A vibrant private sector would contribute to economic and fiscal sustainability. The domestic economy currently depends heavily on income generated from the Compact through the consumption of goods and services, public wages, and construction projects. A larger self sustaining business sector independent from the Compact would provide an important

3

alternative source of income and employment. To support the private sector, the RMI needs to develop efficient infrastructure services, strengthen education and training of the workforce, improve access to secured commercial lending and step up efforts to facilitate land registration.

In closing, we would like to wish every success in the RMI government's reform efforts toward the sustainable and broad-based development in the coming years.

Table 1. Marshall Islands: Medium-term Scenario, FY2006–15 1/

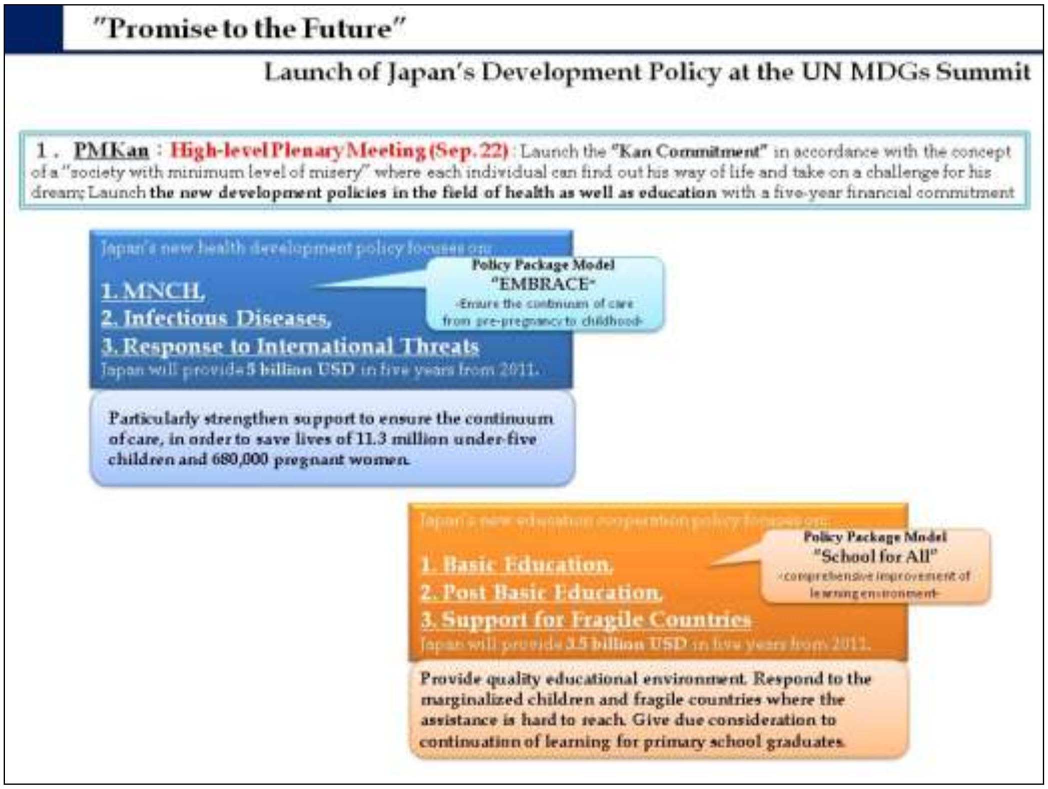
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
					Est.	Projections				
Real sector										
Real GDP (percent change)	1.6	3.5	-1.6	-2.1	0.5	0.7	1.0	1.5	1.5	1.5
Consumer prices (percent change)	5.3	2.6	14.7	0.5	1.8	2.0	2.0	2.0	2.0	2.0
Central government finance (in percent of GDP) 2/										
Revenue and grants	65.6	71.0	69.3	67.7	70.6	69.9	69.5	67.6	66.6	65.5
Total domestic revenue	25.2	25.3	25.3	24.4	24.2	25.2	25.4	25.7	25.9	26.0
Grants	40.5	45.7	44.0	43.3	46.4	44.7	44.1	41.9	40.8	39.4
Expenditure	64.3	70.8	65.6	69.5	70.3	69.3	68.4	66.3	65.2	64.0
Current 3/	54.2	53.9	53.6	58.5	56.5	55.4	54.9	54.2	53.4	52.7
Capital	10.1	16.9	12.0	10.9	13.8	13.9	13.5	12.1	11.8	11.3
Overall balance	1.3	0.2	3.7	-1.8	0.3	0.5	1.1	1.2	1.4	1.5
Memorandum item: including the new ADB loans to MEC										
Overall balance (in percent of GDP) 4/	1.3	0.2	3.7	-1.8	0.3	-4.7	1.1	-1.6	1.4	1.5
Financing: gross borrowing (in USD million)	0.1	0.1	0.0	0.0	0.0	9.5	0.0	5.0	0.0	0.0
Compact Trust Fund (in millions of US$; end of period)	63.1	85.7	75.7	90.9	113.0	134.1	157.0	182.0	209.0	238.4
Balance of payments (in millions of US$)										
Trade balance	-63.9	-69.2	-68.6	-74.9	-76.1	-75.6	-75.3	-75.4	-75.4	-75.3
Net services	-34.6	-36.8	-36.6	-49.2	-41.1	-39.2	-36.4	-36.7	-37.2	-37.5
Net income	37.7	39.7	39.5	38.5	37.3	37.7	37.4	37.6	40.8	41.6
Private and official transfers	56.4	63.8	63.7	61.7	63.2	57.8	58.6	58.6	59.6	59.7
Current account including official current transfers 5/	-4.4	-2.4	-2.0	-23.9	-16.7	-19.3	-15.7	-15.7	-12.3	-11.6
(In percent of GDP)	-3.1	-1.6	-1.3	-15.4	-10.5	-12.2	-9.7	-9.4	-7.1	-6.5
Current account excluding official transfers 5/	-54.3	-56.2	-59.2	-78.3	-72.7	-69.9	-67.0	-66.9	-64.4	-63.7
(In percent of GDP)	-37.6	-36.9	-38.3	-50.5	-45.9	-44.1	-41.2	-39.9	-37.1	-35.5
External debt (in millions of US$; end of period) 6/	99.7	99.1	94.6	106.8	104.3	111.4	108.9	111.4	108.8	106.3
(In percent of GDP)	69.0	65.1	61.2	68.9	65.8	68.4	64.9	64.1	60.5	57.1
External debt service (in millions of US$)	6.4	16.8	7.5	7.8	8.5	8.3	8.9	8.7	8.9	8.6
(In percent of exports of goods and services)	22.9	59.4	23.2	22.7	22.5	20.7	20.7	18.9	18.1	16.5

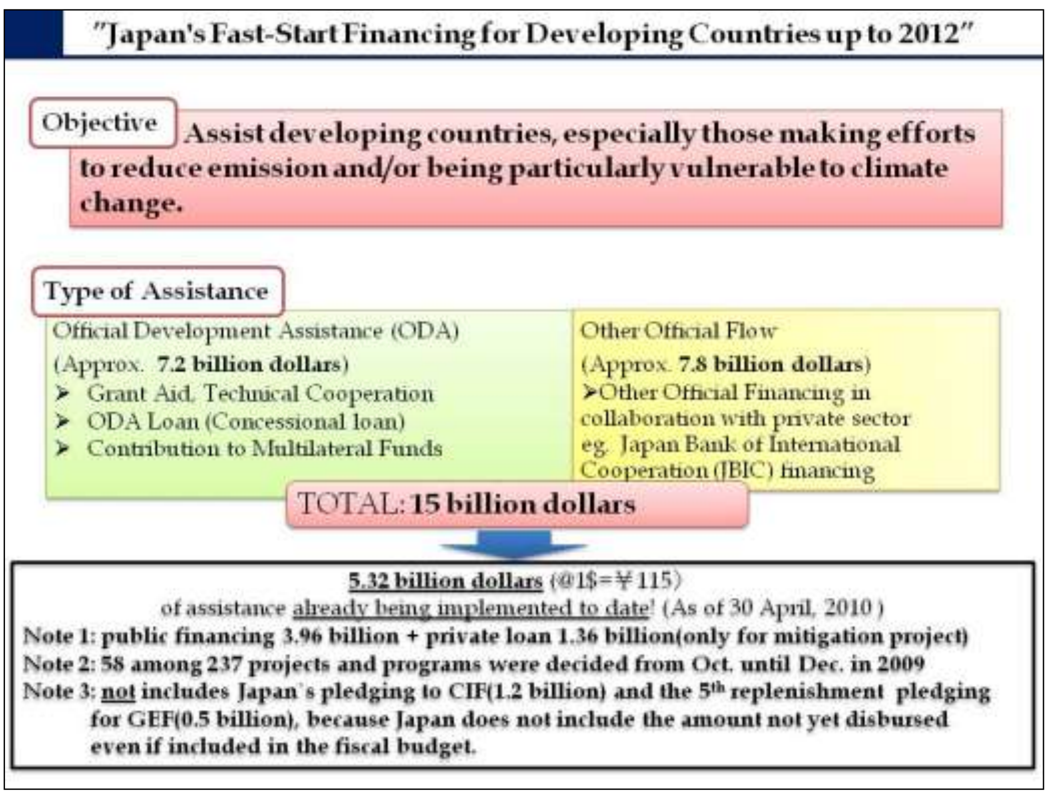
Sources: Data provided by the RMI authorities, and Fund staff estimates.

1/ Fiscal year ending September 30.
2/ The central government finance numbers do not not include the first tranche disbursement of $9.5 million in early FY2011 and a projected second tranche disbursement of the new ADB loan to the Marshalls Energy Company.
3/ In FY2008, a cash advance of US$6.75 million to Marshalls Energy Company is recorded as subsidy to public enterprises. The advance is reimbursed by offsetting government electricity payments (under expenditure on goods and services) that spread across FY2008-FY2011.
4/ The payments by the government to MEC will be recorded as subsidy to public enterprises of $8.5 million and increase of gross borrowing of $9.5 million in FY2011. The second tranche disbursement of $5 million is expected to be in FY2013.
5/ Official transfers include current transfers but exclude capital transfers and Trust Fund contributions.
6/ Government and government-guaranteed debt only.

7.E. Japan

Yuji Okada, *Charge D'Affairs*


"Promise to the Future"
Launch of Japan's Development Policy at the UN MDGs Summit
1. PMKan : High-level Plenary Meeting (Sep. 22) : Launch the "Kan Commitment" in accordance with the concept of a "society with minimum level of misery" where each individual can find out his way of life and take on a challenge for his dream; Launch the new development policies in the field of health as well as education with a five-year financial commitment
Japan's new health development policy focuses on:
1. MNCH,
2. Infectious Diseases,
3. Response to International Threats
Japan will provide 5 billion USD in five years from 2011.
Policy Package Model
"EMBRACE"
-Ensure the continuum of care from pre-pregnancy to childhood-
Particularly strengthen support to ensure the continuum of care, in order to save lives of 11.3 million under-five children and 680,000 pregnant women.
Japan's new education cooperation policy focuses on:
1. Basic Education,
2. Post Basic Education,
3. Support for Fragile Countries
Japan will provide 3.5 billion USD in five years from 2011.
Policy Package Model
"School for All"
-comprehensive improvement of learning environment-
Provide quality educational environment. Respond to the marginalized children and fragile countries where the assistance is hard to reach. Give due consideration to continuation of learning for primary school graduates.


"Japan's Fast-Start Financing for Developing Countries up to 2012"
Objective
Assist developing countries, especially those making efforts to reduce emission and/or being particularly vulnerable to climate change.
Type of Assistance
Official Development Assistance (ODA)
(Approx. 7.2 billion dollars)
➢ Grant Aid, Technical Cooperation
➢ ODA Loan (Concessional loan)
➢ Contribution to Multilateral Funds
Other Official Flow
(Approx. 7.8 billion dollars)
➢Other Official Financing in collaboration with private sector
eg. Japan Bank of International Cooperation (JBIC) financing
TOTAL: 15 billion dollars
5.32 billion dollars (@1$=¥115)
of assistance already being implemented to date! (As of 30 April, 2010)
Note 1: public financing 3.96 billion + private loan 1.36 billion(only for mitigation project)
Note 2: 58 among 237 projects and programs were decided from Oct. until Dec. in 2009
Note 3: not includes Japan's pledging to CIF(1.2 billion) and the 5th replenishment pledging for GEF(0.5 billion), because Japan does not include the amount not yet disbursed even if included in the fiscal budget.

"Japan's Fast-Start Financing for Developing Countries up to 2012"

Areas of Assistance

Mitigation: $5.1 billion

Assisting developing countries in their efforts to reduce emissions in such areas as climate change policy formulation and promotion of renewable energy (eg. wind, geothermal, and solar energy).

Eg. Climate Change Policy Program ($326 million)
Wind Energy Project ($338 million)
Geothermal Energy Projects ($257 million)
Solar Energy Projects (30 Countries, $164 million)

Note : public financing 3.74 billion + private loan 1.36 billion

Adaptation: $225 million

Strengthening developing countries' capability to cope with natural disasters caused by climate change. Providing necessary equipment and facilities to take precaution against and to recover from damages caused by disasters.

Eg. The Programme for the Improvement of Capabilities to cope with Natural Disasters Caused by Climate Change (19 Countries, $113 million)

"Achievement Status of Japan's Assistance Pledged at PALM 5"

At the PALM Ministerial Interim Meeting

Assistance to the extent of 50 billion yen

Japan pledged to provide assistance to the extent of 50 billion yen over the next three years at PALM 5 in May 2009.

As of the end of August 2010, Japan provided assistance amounting to approximately *32.3 billion yen*

1. Grant Aid : Approx. *18.2 billion yen*
(FY2009:12.3 billion yen, FY2010(as of the end of August): 5.9 billion yen)
2. Technical Cooperation: Approx. *6.1 billion yen*
(FY2009:4.1 billion yen, FY2010(as of the end of August): 2 billion yen)
3. Pacific Environment Community (PEC) fund: Approx. *6.8 billion yen*
4. Assistance through international organizations: Approx. *1.1 billion yen*

JAPAN

Human Resource Development

◆Target: 1,500 individuals in the area of environment and climate change in 3 years from PALM5
➡ *1,094 individuals* including group training courses and regional training courses
(FY2009:823 individuals, FY2010(as of the end of August) :271 individuals)

◆Target: 2,000 individuals in the area of human security including education and health in 3 years from PALM 5
➡ *4,258 individuals* including group training courses and regional training courses
(FY2009:2,738 individuals, FY2010(as of the end of August): 1,520 individuals)

"We are islanders": People-to-people exchange (Kizuna Plan)

◆Target: Youth exchange of more than 1,000 individuals in 3 years from PALM 5
➡ *709 individuals* including the Invitation Programme of the Japanese Government, Japan Overseas Cooperation Volunteers, JICA Youth Invitation Programme etc.

"JICA (Japan International Cooperation Agency)"

1. Organization: Governmental Agency for implementing ODA (TC, GA, Loan)

2. History in RMI: 1987 First Trainee Acceptance
   1991 First JOCV Dispatching, RMI Office set up

3. Major Activity (Dec. 1, 2010):
   - TA Regional TCP PIPS II, Filaria Control II, J-PRISM II
   - Training Annually 15 Courses Total: (since 1987) 150 ex-participants
   - Volunteer 24JV, 3SV Total: (since 1991) 176JV, 17SV
   - General Grant Aid
     Majuro Fishery Center (2009.3 EN/GA, 825Mil.Y, 2011.1 Completion)
     Solar Energy Project (2009.12 EN/GA, 530Mil.Y, 2012.3 Completion)
     Domestic Shipping Service Project (2011.1 JICA Survey Mission)

4. Current Priority Area: Palm 5 (Pacific Is. Summit) + Vision 2018
   - Improvement of social Service (Education, Health)
   - Environment and Climate Change
   - Economic Growth (Industry, Infrastructure)

"Message from the JICA Marshall Islands Office"

http://www.jica.go.jp

Thank you for visiting our website. It is with a great pleasure to provide you with a background of the JICA Office in the Republic of the Marshall Islands.

Japan's Official Development Assistance (ODA) to the government of the Republic of the Marshall Islands, a country comprised of many small islands (known as "atolls"), began in 1991 with the establishment of the JICA Office. Since the opening of the JICA Office, our technical cooperation activities have closely mirrored those of the neighboring countries in the Oceania region. The areas of focus include education, health, infrastructure, industrial development and environment.

To date, our volunteer-based activities have been very well received by the people of the Marshall Islands that virtually everyone, from the government officials in the capital city of Majuro to school-aged children in the outer atolls, recognizes the word, "JOCV", which stands for Japan Overseas Cooperation Volunteers.

On a side note, the Marshallese people are extremely warm and bonding with the Japanese. A sense of closeness to the Japanese apparently exists throughout the country, as the locals approach us and openly strike a friendly conversation on a day-to-day basis. There are also vestiges of the Japanese colonial era. For example, there is a grocery store named "Momotaro" and a businessman named "Chutaro" in Majuro. Moreover, the Marshallese language includes words that closely resemble Japanese vocabulary such as "chashimi" for "sashimi", "champo" for "taking a walk", and "enman" for "good". This unique, yet accommodating environment has served us well because we feel especially welcome.

We are profoundly grateful for the government and people of the Republic of the Marshall Islands for their blessings and the exciting opportunity to build a lasting bridge between the Republic of the Marshall Islands an Japan through international cooperation.

Resident Representative
JICA Marshall Islands Office

7.F. Republic of China, Taiwan

George T. K. Li, *Ambassador*

Outline

- **New Approaches to Foreign Aid under Flexible Diplomacy of ROC (Taiwan)**
- **Taiwan's Current Foreign Aid Efforts**
- **Current & On-going Development Assistance in the Marshall Islands**
- **Areas for Further Cooperation**

New Approaches to Foreign Aid under Flexible Diplomacy of ROC (Taiwan)

- A complete framework for international cooperation in line with the MDGs
- Readjusted the aid model to fit with OECD Paris Declaration on Effectiveness

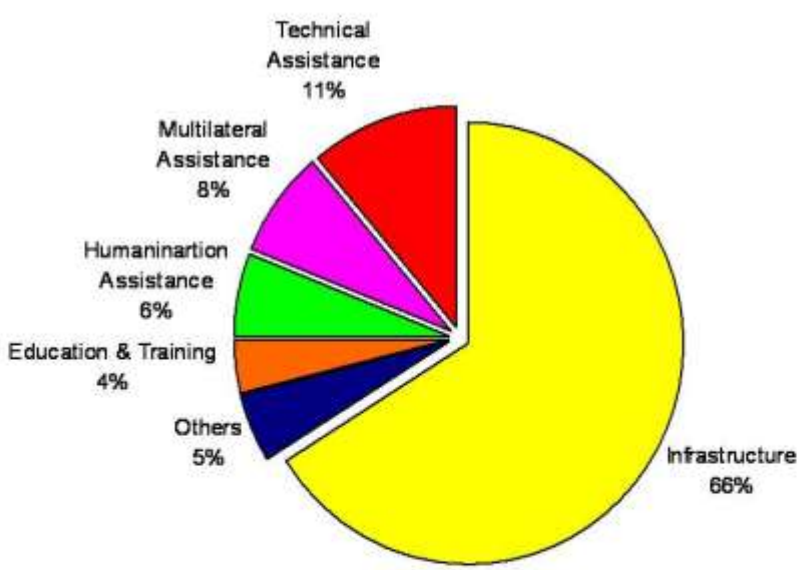
- **Goals of Aid Provision**
  - **Promoting friendly relations with diplomatic allies**
  - **Fulfilling Taiwan's responsibility as a member of the international community**
  - **Safeguarding human security**
  - **Developing humanitarianism**

New Approaches to Foreign Aid under Flexible Diplomacy

- Progressive Partnership
  - Establishment of cooperation models that meet professional standards and are effective to ensure the co-prosperity of Taiwan and its partners
  - Diversifying partnerships while following global trends
    - Strengthening coordination between donors
    - Enhancing cooperation with NGOs
    - Combining the strengths of the private sectors

- **Sustainable Development**
  - Eradicating extreme poverty and hunger
  - Strengthening human resources development
  - Combating infectious diseases
  - Promoting environmental sustainability
  - Developing global partnership for development

Taiwan's Current Foreign Aid Efforts



Taiwan's Current Foreign Aid Efforts

- Bilateral ODA
  - Assistance with basic infrastructure
  - Technical Assistance
  - Humanitarian Assistance
  - Education & Training

Taiwan's Current Foreign Aid Efforts

- Multilateral Assistance
  - Donations to international organizations
  - Funds earmarked for international cooperation
  - Joint investment & financing through international organizations

Current & On-going Development Assistance in the Marshall Islands

- Technical Assistance in Agriculture
- Medical & Health Care
- Vocational Training
- Solar energy
- Capital & Development Projects

Technical Assistance in Agriculture

Taiwan ICDF Operations in the Marshall Islands – ROC (Taiwan) Technical Mission in Laura Farm

- **Horticultural Crop Development Project**
- **Livestock Project**
- **Aquaculture Pilot Project**

Major Development Projects of ROC (Taiwan) Technical Mission

Horticulture Crop Development	Livestock	Aquaculture
Vegetables	Pigs	Rabbit
Fruit Trees	Chicken	Grouper
Flowers		Note: will be transferred at the end of the year.

- Agricultural training classes for residents from outer islands
- Agricultural Promotion in outer islands, including Arno, Jaluit, Wotje, Kili
- ICDF Workshop on Agricultural Marketing and Rural Development
- Taiwan Micro Credit Loans

Medical & Health Care Cooperation

- Taiwan Health Center
- Dialysis Center at Majuro Hospital
- Mobile Medical Missions

Taiwan Health Center

- Taiwan Health Center, in collaboration with the RMI Ministry of Health carries out the following objectives:
- —Promote public health through the execution of public health programs in the RMI on the prevention of Diabetes Mellitus and its related complications, including community screening, health education and case management;
- —Train medical personnel, specially targeting the needs of the RMI through the provision of short term professional training courses and mid-to-long term professional training programs; and
- —Coordinate with relevant counterparts in the RMI, through the RMI Ministry of Health and Embassy of the Republic of China (Taiwan), for the facilitation of medical exchanges and programs between the ROC & the RMI.

Dialysis Center at Majuro Hospital

Taiwan ICDF dispatches Mobile Medical Mission twice a year to conduct medical services at Majuro Hospital and Ebeye Hospital in the RMI

ROC-RMI Vocational Training Project

Jitok Kapeel (Learning by doing)

- Targets: to train 120 Skillful workers in Automotive Mechanics and Plumbing/Electricity
- Implementation: 3 cycles (July 2010~December 2011)
- Jointly managed by NTC, Public Works, CMI

Solar Energy

- Donation of 6,010 sets of Portable Solar/LED Lights (Mini Solar Light Bar)
- Targeted recipients: School children in outer islands

FY 2010 Annual Grant: Capital & Development Projects

- Disaster Matching
- RMI-USP
- MIVA (Marshall Islands Visitors Authority)
- Micronesian Legal Service
- National Energy Support Account

FY 2010 Annual Grant: Capital & Development Projects

- Outer Islands Development Projects
- Outer Islands Runway Renovation
- MIDB Rural Development Program
- Infrastructure Capital Maintenance Fund
- Marshall Shipping Corporation Ship Repairs
- RMI Overseas (Missions) Renovation

FY 2010 Annual Grant: Capital & Development Projects

- Education Cultural Center (ECC) Renovation
- Ebeye Court House
- Alele Museum Building Renovations
- Capital Complex Retrofitting
- International Convention Center (ICC) Maintenance
- Attorney General Office Storage

FY 2010 Annual Grant: Capital & Development Projects

- Air Marshall Islands (AMI) aircraft maintenance

Areas for further cooperation

- Solar Energy
- Medical & Health Care
- Vocational Training & Human Resources Development
- Agriculture
- Fisheries
- Cultural cooperation

7.G. Secretariat of the Pacific Community

Dr. Jimmie Rodgers, Director-General

7.H. United Nations Agencies

Boris Pavlin, MD, MPH, Country Liaison Officer, WHO

Hon. President and Irojlaplap Jurelang Zedkeia, Honorable Minister of Foreign Affairs- Mr. John M Silk, and Honorable Minister of Finance -Mr. Jack J Ading, Honorable Cabinet Ministers/Nitijela, Chief Secretary, Mr. Casten Nemra, Heads of Government Ministries and Agencies, Diplomatic Corps, Development Partners, Business Community, Ladies and Gentlemen,

My name is Dr. Boris Pavlin. I am the World Health Organization Country Liaison Officer for Northern Micronesia, in other words the head of the WHO country office that covers RMI. I am here with my colleague, Mr. Terry Keju, the Country Development Manager for the United Nations Joint Presence here in Majuro. The UN Resident Representative/Resident Coordinator, Mr. Knut Osby, United Nations Multi Country Office, Suva Fiji, has asked us to speak on behalf of UN in the Pacific in this important meeting. We are very pleased and honored to be here to provide a brief summary of UN current and on-going development assistance, priorities and planned development assistance for RMI in the next few years to come.

We would like to take this opportunity to thank the RMI Government for inviting us to join in this important meeting and commend the RMI Government's initiative to convene this Development Partner Meeting, as a way forward in coordinating various activities of UN agencies and to ensure that strategic directions are aligned with national and regional priorities, policies and plans between all different sectors.

As we are aware, the Republic of the Marshall Islands continues to experience huge external impacts on its special ecological, demographic, social and political systems, which challenge the national development planning capacities of this young independent state.

The United Nations Development Assistance Framework (UNDAF) provides strategic support to four broad outcome areas: equitable economic growth, good governance, equitable social services and sustainable environmental management. The UNDAF provides the common framework for cooperation among UN and national partners. UN's multilateral partnership complements the Compact of Free Association and its multi-sectoral approach ensures cross-cutting attention to gender, culture and community.

In consultation with the RMI Government, the United Nations Population Fund (UNFPA), United Nations Development Programme (UNDP) and United Nations Childrens Fund (UNICEF) have agreed to work together in a Joint Programme to assist the country in MDG interventions as well as other areas of need as determined by RMI government.

The proposed development assistance for RMI is the conceptual framework of UN Joint Programme in RMI. The “UN Joint Programme for Resourceful Livelihoods in the Marshall Islands” builds on the UN reform momentum that was achieved by the establishment of a Joint Presence Initiative with the office in Majuro in September 2008. The Joint Programme retains the four broad UNDAF outcome areas as its own programme goals in order to allow for a pioneering of the ‘4 Ones’ in the Marshall Islands, i.e. One Office, One Budget, One Programme and One Leader.

A good example of how this conceptual framework process works is just like the Reimmanlok Plans-National Conservation Plan whereby partnership is envisaged through the “Joint Programme”. It will bring together those partners in government and civil society that are critical at instilling community ownership that turns good governance, social development and environmental management initiatives into sustainable long-term resource management practices. This approach allows most of the UN agencies to integrate its activities such as good governance practices, vaccination, disease prevention, water and sanitation, gender sensitivity, management of public goods, family planning, etc. in one common conceptual framework of integrated household resources management, a framework that is expected to facilitate community consultation and ownership.

The Joint Programme in RMI includes a broad portfolio of development work, including renewable energy, land management, child protection, health, and assistance to data management, and MDG monitoring. The Joint Programme also guides the assistance provided by the 3 agencies to enable the country to monitor all MDGs.

However, today we want to focus on the role of health in the development process. One of the key roles of the Joint Programme is to provide support to the achievement of MDG 4 and 5, which look at newborn and maternal health. The RMI Ministry of Health has also indicated the need to have a greater focus on MDG 4&5.

UNFPA and UNICEF currently work in these areas in close partnership with the Ministry of Health and relevant non-governmental stakeholders. The RMI UNFPA programme encompasses support for improved sexual and reproductive health, including family planning, maternal health and adolescent health and development. Besides health, RMI UNFPA programmes contribute to mainstreaming population and development issues in national development plans and policies, building capacity in statistics and data collection through the census and health information system, and gender equity and the elimination of violence against women. UNICEF work closely with RMI in areas related to child health, improved immunization and neonatal health as well as child protection. UNDP works closely with RMI in areas related to MDG monitoring, renewable energy and good governance.

Ladies and gentlemen, as the Millenium Development Goals attest to, you cannot have development without health. So now that I’ve spent some time talking about what UNFPA, UNICEF and UNDP are doing in RMI, let me spend a few minutes discussing the role of the World Health Organization here.

The World Health Organization opened the new Country Liaison Office for Northern Micronesia, in Palikir, Pohnpei, on August 10 of this year. This new WHO Office is the first one ever established by the organization to cover the North Pacific region; it is also the first new Country Liaison Office created by the WHO in 30 years. My office oversees all of the partnership between WHO and the Marshall Islands, as well as Palau and FSM. It is basically a “one-stop shop” for coordinating all of the technical collaboration that WHO provides to RMI.

WHO is not a donor agency. It is a technical agency that brings together expertise in every area of health under one roof.

We are also not a standalone agency – we are the secretariat of the health leaders of our member states. Our priorities are your priorities. The WHO has worked and will continue to work with the various ministries within the government of RMI on such health issues as strengthening primary health care; fighting obesity, diabetes, heart disease; mitigating the health effects of climate change, decreasing sexually transmitted infections; improving tobacco control; and detecting and responding to outbreaks of infectious diseases. My office will also coordinate training for health professionals through WHO fellowships, in order to develop and strengthen the capabilities of indigenous personnel. Finally, the World Health Organization, with its expertise in health planning and health system strengthening, is an active partner in helping countries in the strategic development of their national health plans, and looks forward to being a trusted broker in this process in RMI.

To share with you just a few of the specific activities with RMI that have been done this year or will be done next year: Investigating the MDR-TB outbreak in Majuro and Ebeye, in collaboration with CDC; Providing TB drugs; Creating a surveillance system for detecting outbreaks; Installing a PCR laboratory in Majuro Hospital; Supporting a mosquito survey to identify risks for mosquito-borne diseases like dengue; Providing equipment for diabetes and hypertension screening; Supporting the Healthy Schools initiative; Supporting the implementation of Tobacco Free Premises; Mental health activities, including a mental health staff development plan and a draft mental health policy and plan; a climate change workshop; a food safety workshop; Supporting the Pacific Open Learning Health Net – distance learning center; Providing fellowships to train the following new health workers: a midwife, a laboratory technician, two nurses, a dental therapist, two medical records staff, a radiology technician, and 28 health assistants; Conducting a mission to help RMI develop a leprosy elimination strategy, which brought together experts from WHO, the US CDC, the US National Hansen’s Disease Program, and the Pacific Leprosy Foundation; and Conducting a drinking water safety training mission, which brought together the Majuro Water and Sewerage Company, Marshalls Energy Company, RMI EPA, the MOH, EPPSO, CMI, Woman United Together Marshall Islands, and local government.

I draw your attention to these last two activities to illustrate an important point. Health, like all areas of development, is not something that can be achieved by any one agency or through any one ministry. So, in closing, we thank you once again for bringing us all together, and on behalf of the entire UN family, would like to wish every success in the RMI Government’s efforts toward building sustainable and broad based development in the coming years. We look forward to working with you.

7.I. United States of America

Hon. Martha Campbell, Ambassador

7.J. World Bank
Robert Jauncey, Senior Country Officer

Thank you. I am very pleased to visit RMI, to represent the World Bank at this donor partner meeting, which is a very useful mechanism to bring government and partners together in a coordinated way.

The World Bank recognizes the particular vulnerability and volatility that small island states confront as a result of their remoteness from markets and narrow economic base. Small states were some of the hardest hit countries in the world from the food and fuel price spikes of 2008 and, more recently, from the current global slowdown. The impact of these external shocks has been evident in the RMI economy contracting over the past couple of years.

Beyond economic volatility, climate change poses a longer-term but potentially existential threat to small island states. As we heard this morning, the adaptation agenda is urgent and must proceed now even while the international community is still seeking agreement on global targets for emissions reductions.

The World Bank welcomes the Government's presentation of reform priorities under the Comprehensive Adjustment Program (CAP), including both sensible measures to ensure the better focus of public expenditure and – just as critically – the structural reform agenda to improve the operation of state owned enterprises.

Economic reform is a necessary, although not always sufficient condition for growth in small island states such as RMI. Many small island states will need to continue to rely on external assistance and opportunities from migration to larger markets. But experience across the Pacific and more broadly has shown that those states that have implemented reform programs have done better than those which haven't.

As well as the reform program outlined this morning, I would also note that regional proposals to better manage the pelagic fisheries resource – perhaps RMI's key natural resource – will be vital. This includes proposals by the PNA to increase returns to island countries and ensure the sustainable management of the resource, including through reducing vessel days, closure of high seas pockets, and better vessel monitoring.

Reflecting continuing vulnerability and volatility, the World Bank Group is committed to scaling up the support we can provide to the Pacific island countries generally and RMI in particular. Across the Pacific, for instance, we expect to commit $200 million in new funds this fiscal year, compared to an average of about $30 million a year over the past decade. We are able to do so through the generous support of our shareholders, including many represented around the table today.

World Bank management will very shortly be providing our executive board with a proposal to make concessional International Development Resources (IDA) resources available to RMI for the first time. I anticipate that the World Bank will be able to provide a base allocation of $10 million in financing over the next 3 years. This is likely to be on 100% grant terms.

As a start, the World Bank Group anticipates responding to Government requests for assistance in 3 key areas: telecoms, energy, and climate change adaptation. These are areas where we have been engaged elsewhere in the Pacific, and have experience that we can potentially apply in the specific circumstances of RMI.

The telecoms revolution across the Pacific has provided a visible demonstration of the benefits of reform. Since 2007, Fiji, PNG, Samoa, Tonga, Vanuatu, and most recently Solomon Islands, have opened their telecoms markets to competition. This has reduced costs to consumers and dramatically improved services. In several countries, we have seen mobile phone usage rates increase tenfold: from 6% to over 60% of the population.

I'm pleased that the World Bank is responding positively to requests from the Government of RMI to provide advice on options for reforms. Staff will be visiting again in January, and I look forward to a workshop to outline options in the first half of 2011. If needed, we can provide grant funds to the Government to support reform. In addition, should the Government decide to open the market to new private sector entrants, the Bank's private sector arm, IFC, would be able to offer commercial financing – as they have done elsewhere in the region – to encourage new private investment in the sector in RMI.

Energy sector reform will be vital to RMI, as we heard this morning. The World Bank welcomes the energy sector reform program being undertaken by RMI. Given RMI's exposure to volatile fuel prices, a critical element will be to introduce new, non-oil based, generation capacity, both on grid and off. Improved energy efficiency and improved financial management of the energy company will also be critical. At the same time, RMI is likely to have to rely primarily on diesel generation to meet the bulk of its energy needs for some time to come. Given this, we are responding to requests from the Government to consider better oil supply chain management in order to better manage price volatility. Again, we have scope to provide grant financing to the Government if needed to support infrastructure – such as storage facilities – that may be required as part of a more comprehensive reform program.

Across the Pacific, the World Bank will be scaling up support for climate change adaptation. We potentially have additional grant financing that could be made available for RMI for such work. I expect that we will be able to bring climate change adaptation and disaster risk reduction experts to Majuro early next year to discuss RMI's specific priorities.

Finally, I would emphasize that while the World Bank is looking to scale up assistance to RMI, we recognize that we are only one – and the latest one! – of several partners. The Bank is committed to cooperating with other partners and the government to ensure that our support is coordinated closely.

This was highlighted by Pacific leaders at the Cairns Forum last year, and the Bank is committed to this coordination agenda.

Thank you.

8. Notes from Open Dialogue

The open dialogue was facilitated by Stephen Pollard of the Asian Development Bank.

ADB: In our presentation the importance to development of contributions from civil society and NGO's was emphasized. Does government have a policy of supporting NGOs or outsourcing portions of work?

RMI: We don't have a specific policy in place, but we agree that this is something that should be considered, especially if it might (a) save us money or (b) deliver effective services.

Although the government hasn't discussed any such policies explicitly, the government does provide subsidies to private schools, and some of the services that government was supposed to provide, such as the Substance Abuse Prevention and Treatment Program, has been outsourced to NGOs.

ADB: This is something we remain interested in, and would continue to look to work with the RMI government in search of further opportunities.

US: I'd like to ask if there's any reaction from the RMI that the Office of Compact Implementation serve as a model to help coordinate aid efforts?

RMI: [Yumiko] On the issue of climate change we're working to develop policy to coordinate issues. The policy will be coordinated out of the existing mechanisms already established by the Nitijela, and run by the committee that Cabinet has appointed. This is a coordinated effort.

Within the Ministry of Finance we do have an Office of International Donor Assistance, which includes EU, Taiwan-ROC funding, and other funding coordination. There are different staff members tasked with coordinating each of the various grants from international donors.

WB: Minister Ading, you mention the government's interest in contributions to the Trust Fund. I'd be interested in how potential contributions to the trust fund might work; whether there's a policy dialogue, how the contributions work, and from the major donors, whether they would welcome further participation in this instrument.

RMI: On page 285 of the Briefing Book, there's a significant write up on the Trust Fund for your review. It was established in 2004, and consists of two accounts, (A) and (D) accounts. The US and RMI contribute to the (A) account, while ROC-Taiwan are the primary contributors to the (D) account.

The RMI generally welcomes contributors to the trust fund. The current investment strategy has been in place for some time. However, just to show you how serious we are about the Trust Fund, we have committed to contribute $1.5 million of our own funds this year. This is a significant amount of money when compared to our budget for this year. This has come through internal sacrifice, and is intended to show our partners how committed we are to making this Trust Fund work.

WB: Providing the RMI with Trust Fund support is something the World Bank would be willing to consider.

US: I'd also like to mention that I raised the possibility of Trust Fund contributions with fellow members of the diplomatic corps when we met together yesterday.

ADB: With regard to SOE reform, and efforts to sort financial performance and operations to get those issues on track, it seems clear that reform is necessary. We understand that things are headed in the right direction with MEC, but with regard to the other SOEs, what types of political commitments to reform are currently in place?

RMI: [Ben Graham] The Minister of Finance has spoken at length about the challenges that the SOEs present. The Cabinet has identified several of the "Good Principles" that need to be applied to these SOEs, and we have begun talking with the next SOEs. It's clear that this will need Cabinet level support and pressure if reform is going to happen—both in terms of financial reforms and the overall acceptance of the need for reforms.

ADB: ADB and others have technical assistance to support these reforms, but can only go so far without the political wil.

RMI: Ben gave a technical answer, but the political answer comes from us. The Cabinet and government sees these reforms as necessary, and designed to achieve a clear purpose—to work on streamlining and reigning in government expenditures—especially support to SOEs. Our work on the CAP and other reforms demonstrate the government's commitment. We are concerned that implementing these reforms all at once will affect too many people. We feel we need to explain to the public why these reforms are necessary, and implement them in a way that won't negatively affect the services that government provides. This is a gradual process that may take years, but as we tried to say earlier, we need to take the first step in order to proceed to the next step.

[MEC] One of the most painful decisions for Cabinet to make was to revise the tariff template for MEC. In our experience, government delivered on their promises. Our SOEs have a part to play in these reforms. In the instance of MEC we had an inefficient operation and needed to recover portions of cost that shouldn't be passed on to the public.

[Ben Graham] I was involved in the MEC reforms last year, and one of the things that allowed us to make changes was to show all 250 employees how poorly the company is performing financially. This was an important component of the reform, to align expectations so that within the organization people knew how necessary the reforms were. In many instances this is just as important as the technical assistance.

SPC: I can offer an observation from the regional theater with regard to coordination and parallel priorities. This has been a year of roadmaps and regional frameworks at the regional level—including endorsements for energy, food security, ICT policy frameworks that are endorsed at the regional level but then duplicated at the national level. If you have an energy policy and a climate change policy, in a sense you have two separate policies that interact with each other. Offices of International Donor Assistance can be a good start in coordination. But the other point is that where there are cross-cutting policies, the tendency is for each policy to have its own coordinating committee as opposed to an overarching mechanism, including, possibly, at the regional level. One of the recent changes at SPC has been to change the way we hold meetings. Traditionally, we managed 20 sectors with one meeting per year per sector, which meant our whole lives were spent holding meetings. What we proposed to our governing bodies is to hold a joint meeting that covers multiple sectors—combining health, education, and youth, for example. Often times dealing with cross-cutting issues that cut across ministries can provide breakthroughs. For example, our Natural Resources committee groups agriculture, fisheries and environment—where planning is important . Another committee is Economic Development, which includes ministries of telecommunications, infrastructure, energy and planning. So I'd like to commend this approach for your own planning at the national level, as it has given us the opportunity to develop a monitoring framework that works for us.

ADB: I see this as a very important point. So much time gets spent on program coordination without policy coordination—and that message should go not only to governments but also to all of us as development partners.

AUS: Following up on that theme with Vision 2018 as a Statement of Intent, I noted that Maybelline mentioned the design for a Strategic Development Plan, which Australia would welcome, but then where does the Climate Change Roadmap, and other Roadmaps, fit in, and how will you bring together the SDP with holistic coordination?

RMI: [Yumiko] The climate change policy is the framework that will become the main document, after Cabinet endorsement, on climate change. At the same time we also have sector plans, ongoing existing work that needs to be conducted in the absence of a formal policy. So the Energy Policy and Climate Change Policy are not two different policies, when we developed these policies we reviewed what was already in place, and everything is compliant with the Climate Change Policy Framework.

Vision 2018 is the RMI Policy Framework—not government, but RMI. These are the framework priorities of the Marshallese people. All of these policies and frameworks stem from Vision 2018.

Japan: With regard to the government expenditure cut or climate change, of course everything is important, but the most important thing since we can't do everything at once, is for the government to provide prioritization. I mention this because we recently received a request from the RMI government to extend assistance to higher education. My concern is that higher education doesn't seem like a high-priority area. So has the government prioritized what needs to be done at this moment? Collect more revenues? Cope with climate change? What must be done in the next few years?

Also, in the document that was delivered there was discussion of the introduction of a VAT, so I'd like to ask for additional information on this?

Finally, the Ministry of Public Works should be merged with the Ministry of R&D. The Ministry of Agriculture and Fisheries should be separated.

RMI: Our priority has been, and will remain, education and health. But this doesn't mean that we disregard other important issues. We try to channel as much of our resources as possible toward education and health, but we also need to look at the bigger picture, and note that we can't finance health and education at the expense of our economy while the Compact decrement continues to be an annual and ongoing reality. We also need to look at the bigger picture of how we can move this country from its current economic state to begin generating economic activity in the country itself. The idea is to conduct tax reforms and implement the CAP report through appropriate participation—to allow the private sector, which has contributed to these various commissions, to develop and attract foreign investment.

As an example, the PPF loining plant here has invested about $10 million into our economy and is employing over 400 people at the moment. We have included provisions in our tax law to waive their GRT to try to stimulate this kind of investment. In turn, they are going to continue their investment, including possibly getting into the canning business.

With changes in our tax system there are great challenges that take political will. If I understand correctly, one of the South Pacific countries didn't have income tax and was trying to introduce an income tax for the first time since it was politically unpopular. As long as people are educated about why you're doing the things you're doing, people will understand.

[Carlos] The income tax has been part of our tax system, and what we're proposing are minor changes to relieve the poor income portion of the population of their tax burden. Also, we'll be taxing at a higher percentage those that make more money. The issue of the VAT has been contentious among commission members. We're still considering this actively and considering also a National Sales Tax which would combine a sales tax and import tax.

ADB: I'd like to ask of SPC, in particular Fiji, how many years it took to introduce the VAT?

SPC: The tax reform introduced in the early 90's required a series of reforms, which were introduced with other measures concurrently and created a cumbersome and difficult-to-collect tax system.

So we tried to broaden our tax base to introduce income tax reform and the VAT. We managed to collect more revenue in the earlier years through the VAT than we had in the previous years, at a time when income tax was sixty cents to the dollar. The benefit from the Fiji government experience is a larger tax net, with a single rate, gets levied at the consumption level—and therefore directed towards the consumers. It took us about two years to reform the tax base.

To share some experiences from our regional office in Fiji, the VAT has increased from 12.5% to 15% in January of next year. The “tax free” bracket has increased from $12,000 to $16,000. The recommendations to increase came from the IMF. By registering bank accounts, the collections have increased.

RMI: In terms of establishing priorities, we understand that this is quite difficult, but we have to start somewhere. This meeting today is very important and I appreciate the questions that have been posed—many of them good questions, and many of them tough questions that will require further thinking and exploration. Education and health have been our priority and we try to work around these two priorities, given the fact that our constitution also requires the government to commit ourselves to the health and education of the people of RMI. While in Geneva we were asked why we can’t set up a Human Rights Office as a requirement under the Human Rights Convention that we signed. Our simple answer is that we are willing to set such an office up, but it means committing financial resources that we just don’t have in order to do this. We need help—both technical and financial.

EU: In relation to climate change, money was pledged from donors that hasn’t arrived yet. At EU we’re aware of sizable sums of money coming to the Pacific for climate change issues—although we don’t know when and how much. The Marshalls has an absorption capacity constraint. I’m wondering whether these resources might be put into a trust fund, or whether a new trust fund might be established to deal with this?

RMI: Cabinet recently approved the Climate Change Road Map which will help us to apply for these various funding sources. I would hope that one of the priorities of the grant writing office includes climate change fund applications. I think the Road Map was the hold up, and now that it’s approved we hope to start applying for these funds—either through our New York office or from here in Majuro.

In addition, we have been working out of our office in the United Nations to find ways to access these funds, including working with the Netherlands to establish a website that might fast-track access to these funds. We recently had a workshop here in which we brought in people from the New York office to develop this Road Map in an effort to fast-track these funds.

There’s mention of all these issues in the Briefing Book, but it’s clear that the government requires assistance in all of these matters.

[Carlos] We were looking for a National Development Plan in which we could actually budget for areas of priority needs. This might be a way to help prioritize needs.

ROC: I can see the government has policy, but we know that we need competent people to implement policy to reach targets. As a donor country we'd like to see more done on capacity building and human resources.

RMI: We agree that we need capacity building, and this is a big part of the reason why we're here. We need better capacity, but we also need your help.

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