NITIJELA OF THE REPUBLIC OF THE MARSHALL ISLANDS
44TH CONSTITUTION REGULAR SESSION, 2023

Republic of the Marshall Islands
Jepilpilin Ke Ejukaan

APPROPRIATION (FINANCIAL YEAR 2024) ACT, 2023

Index

Section		Page
§101.	Short title	3
§102.	Statement of National Objective.	4
§103.	Interpretation	4
§104.	Appropriations from the Marshall Islands General Fund.	4
§105.	Appropriations from the Special Revenue Funds.	4
§106.	Compact Funds.	5
§107.	Appropriation of U.S. Federal Grants and other Foreign Grants.	5
§108.	Funding of the Office of the Auditor General	6
§109.	Contingencies Fund.	6
§110.	Unanticipated Income	7
§111.	Notification to the Cabinet by the Minister	7
§112.	Lapsing of Certain Appropriations.	7
§113.	Delegation of Authority to Approve.	8
§114.	Reprogramming of Funds.	8
§115.	General	8
§116.	Special Revenue Fund	9
§117.	Compact Trust Fund Distributions.	10
§118.	Effective Date.	10
SCHEDULE		**11**
FISCAL YEAR 2024 BUDGET SCHEDULE		11

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APPROPRIATION (FINANCIAL YEAR 2024) ACT, 2023

AN ACT to:

(a) authorize, in accordance with Article VIII of the Constitution, the issuance from the Marshall Islands General Fund, including funds provided under the Compact of Free Association (as amended), the Marshall Islands Trust Fund and, other funds, a total sum of **$418,074,446** to meet the expenditures of the Government for the Financial Year 2024; and

(b) Appropriate sums to program areas; and

(c) To provide for:

(i) A Contingencies Fund in accordance with Section 9 of Article VIII of the Constitution;

(ii) Contingent appropriation of amounts that may be received in the future;

(iii) The delegation of authority to approve expenditures under Section 5 of Article VIII of the Constitution;

(iv) Controls on the reprogramming and transfer of funds within and between program areas; and

(v) Control on specific expenditures.

BE IT ENACTED BY THE NITIJELA OF THE REPUBLIC OF THE MARSHALL ISLANDS

§101. Short title.

This Act may be cited as the Appropriation (Financial Year 2024) Act, 2023.

§102. Statement of National Objective.

(1) It is the intention of the Government of the Republic of the Marshall Islands to enact and implement a national budget for the whole of the Financial Year 2024 as provided in the attached Fiscal Year 2024 Budget Schedule and the Economic Policy Statement attached as **Appendix A**

§103. Interpretation.

In this Act:

(1) "program area" means program areas set out in Schedules 1 to Schedule 9 as indicated by the headings in those schedules.

(2) "unanticipated income" means any money, not being loan money, that:

(a) becomes available for expenditures from a source at a time when the Nitijela is not meeting pursuant to Article VIII, Section 7 of the Constitution; and

(b) has not been specifically included in the budget estimates for the Financial Year, which the Cabinet is satisfied should, in the interests of the Republic of the Marshall Islands, be expended, pursuant to Article VIII, Section 7 of the Constitution, before the expenditures could reasonably be authorized by an Appropriation Act or a Supplementary Appropriation Act.

§104. Appropriations from the Marshall Islands General Fund.

The sum of **$88,706,870** is hereby appropriated and may be withdrawn from the Marshall Islands General Fund and expended pursuant to Article VIII of the Constitution for program areas as set out in Schedule 1 – inclusive of the amount that may be spent or payable under the continuing appropriation.

§105. Appropriations from the Special Revenue Funds.

The sum of **$12,268,961** is hereby appropriated, and may be withdrawn from the Special Revenue Funds as set out in Schedule 3 subject to Section 116 of this Act.

§106. Compact Funds.

(1) Total Appropriations.

All Funds provided under the Compact of Free Association (As amended) in the amount **$77,347,748** shall be credited to the General Fund and shall be appropriated in accordance with the relevant provisions set out under Schedule 2 of this Act. The total is subject to changes in the course of concluding Amended Compact Agreement.

(2) Restrictions on Reprogramming of Compact Funds.

Fund received under the Compact of Free Association, as amended shall not be transferred to any other activity, or reprogrammed or expended for any purpose during the Financial Year other than the permissible uses of those funds as provided for in the Compact of Free Association (As Amended) and its Subsidiary Agreements.

(3) Compact Funds shall not lapse.

All moneys received under the Compact of Free Association, as Amended and appropriated herein shall not lapse at the end of the Financial Year. However, any unspent funds thereof shall be returned to US Department of Interior and shall be re-granted in the subsequent year.

(4) Unaudited entities and organizations.

Notwithstanding the provisions of any other law or agreement, any entity or organization receiving funds under the Compact of Free Association as Amended, shall not receive such funding if the Auditor General or its contractors have determined that the books, accounts and financial records of any such entity or organization have not been auditable for the past three preceding fiscal years until such time as the Auditor General or its contractor determine that such entity or organization has taken necessary corrective action to render such books, accounts and financial records in an auditable condition to permit a financial audit to proceed.

§107. Appropriation of U.S. Federal Grants and other Foreign Grants.

(1) The sum of **$239,750,867** being the total amount of special U.S. Federal Grants, capital grants from the Republic of China (Taiwan), World Health Organization (WHO), Asian Development Bank (ADB), Global Fund, University of Hawaii, European Union Grants (EU), World Bank (WB), SPREP Grant, GCF, UNFCCC 3rd NC & FBUR,

UNCCD, SPC-SUPA, MOHHS - (PHSIS) are appropriated and may be withdrawn from the Marshall Islands General Fund pursuant to Article VIII of the Constitution, for program areas in accordance with Schedules 4 and 5, during the Financial Year.

(2) The amounts set out in Schedules 4 and 5 are not available for expenditure as reprogrammed expenditure under Article VIII Section 7 of the Constitution, except as authorized by or under the agreements with the donor nation and/or institution.

(3) The appropriation made by Subsection (1) shall not lapse at the end of the Financial Year, but shall continue until either the grant expires or the funds are expended, whichever occurs first.

§108. Funding of the Office of the Auditor General.

(1) The Secretary of Finance shall withhold and deposit in the special account in the Marshalls Islands General Fund, zero point eight percent (0.8%) of all amounts appropriated in Schedules 1,2 3,4 and 5, and the sum so withheld and deposited may be withdrawn and expended by the Auditor General in accordance with the budget approved for his/her office by the Cabinet, for the operations and activities of his/her office, provided, that such withdrawal and expenditure by the Auditor General shall be made in consultation with the Secretary of Finance.

(2) The zero-point eight percent (0.8%) of funds to be withheld and deposited under Subsection 1 shall apply only to the General Fund in Schedule 1, Schedule 3 and Republic of China (Taiwan) capital grants as appropriated in Schedule 5.Provided however, any funds under Schedule 1, Schedule 3 and Schedule 5 which are not subject to the zero point eight (0.8 %) shall be identified by the Secretary of Finance with the of the Ministry of Finance pursuant to the Financial Management Act.

§109. Contingencies Fund.

(1) In accordance with Article VIII, Section 9(1) of the Constitution, not less than $200,000 not more than $1,000,000 is authorized to be advanced against the General Fund for purposes of the Contingencies Fund.

(2) Where, during the Financial Year, an amount of unanticipated income is received by the Government for the purpose of an urgent and unforeseen need, the amount prescribed in Subsection (1) for the Contingencies Fund is increased by the amount of that unanticipated income, to meet such need.

§110. Unanticipated Income.

Where, during the Financial Year, an amount of unanticipated income is received by the Government for a specified program area, other than as set out in Section 109 (2), that amount is appropriated for the corresponding program area in the Schedules as the case may be, and the amount of the appropriation for that program area is increased accordingly.

§111. Notification to the Cabinet by the Minister.

When any money is received under Section 110 herein above, the Minister of Finance shall notify the Cabinet of the receipt of such money, and such money shall not be expended without the approval of the Cabinet.

§112. Lapsing of Certain Appropriations.

(1) Except for the amounts appropriated under Schedule 6, Schedule 7, Schedule 8, and Schedule 9, the amounts appropriated under Schedule 1 except for Referendum (Constitutional Convention) special appropriations, Schedule 2, Schedule 3, Schedule 4 and Schedule 5 shall lapse at the end of the financial year to which this Act applies.

(2) Any increase in the amount prescribed for the Contingencies Fund provided for by Section 109 (2) and any increase in the amount of an appropriation to a program area affected by Section 110 lapses:

(a) at the end of a financial year for which this Appropriation Act applies or a Supplementary Appropriation Act is enacted after the date referred to in Section 117 of this Act; or

(b) on the adoption of a Resolution to that effect by the Nitijela, whichever occurs first.

§113. Delegation of Authority to Approve.

(1) For the purposes of Article VIII, Section 5 (1) of the Constitution, the authority to approve expenditure in a program area in accordance with Schedules 1 to 5 is hereby delegated to:

(a) The member of the Cabinet primarily responsible for that program area and;

(b) If the responsible member of the Cabinet so directs by instrument in writing, and subject to any limitations imposed by the instrument and to general control by the member, an appropriate person, authority, or agency;

(c) The Chief Justice of the High Court pursuant to the Judiciary Fund in accordance with the provisions of 27 MIRC Chapter 1; or

(d) The Minister of Finance in particular to appropriations made under Special Appropriations in Schedule 1 and the Republic of China (Taiwan) Capital Projects in Schedule 5 of this Act.

(2) Any expenditure in Schedule 1, 2, 3, 4 and 5, shall require the approval of the Cabinet in accordance with Article VIII, Section 5(1) of the Constitution.

§114. Reprogramming of Funds.

Before any reprogramming of expenditure between program areas is approved under Article VIII, Section 7 (1) of the Constitution, the Cabinet shall approve such reprogramming.

§115. General.

(1) In the event the actual receipts into the Marshall Islands General Fund fall short of the total amount appropriated in Schedules 6, 7 and 8, the Cabinet pursuant to Article VIII, Section 7 of the Constitution, may make the necessary adjustments to Schedules 1, 2, 3, 4 and 5 to accommodate the shortfall.

(2) All contracts awarded by the Government and associated agencies must comply with the provisions of the Republic of the Marshall Islands Procurement Code. Funds will only be released by the Ministry of Finance upon proof of compliance with the code.

(3) Gross Revenue Tax of 3% on all Government contracts will be withheld by the Ministry of Finance at the time of payment, and credited against the contractor's liability to pay gross revenue tax for the period of the payment. The contractor is still required to file a tax for return for the period.

(4) All Government Ministries, statutory corporations and agencies must have been audited and have complied with all the audit recommendations prior to receiving any quarterly allocation. Any Government Ministries, statutory corporations and agencies unable to comply with all the audit requirements must provide an expense report before release of any funds.

(5) No funds appropriated under this Act shall be released to any Local Government, statutory corporation or agency whose financial records have not been audited for the past two preceding fiscal years, until such Local Government, statutory corporation or agency has taken the necessary steps to render such records auditable, or provides a full and complete report of its expenses to Cabinet.

(6) Any Government Ministry, statutory corporation and or agency that receive funds appropriated under this Act or any other Act, or subsidies or any other government funds shall enter into a Memorandum of Agreement with the Government in accordance with Regulations and guidelines established by the Secretary of Finance pursuant to the Financial Management Act.

(7) Ministry of Finance shall act as a receivership in an event that Government Ministry, statutory corporation and or agency that receive funds appropriated under this Act, or any other Act, or subsidies or any other government funds, unable to comply with all the audit requirements.

(8) Subsidies received by any State-owned Enterprise shall not be expended during the financial year for any other purposes other than the permissible uses of those funds as provided for in the Act establishing that State-owned Enterprise or any other Act.

§116. Special Revenue Fund.

Any money in excess of an appropriation made in Schedule 3 (Special Revenue Funds) may be expended during the Financial Year only in accordance with terms of the Act establishing such Special Revenue Fund.

§117. Compact Trust Fund Distributions.

A total of **$28,966,596,** is disbursed from the Marshall Islands Trust Fund, from the B Account (supplemented from the C) for the Fiscal Year 2024, an amount equal to the Annual Grant Assistance in Fiscal Year 2023, plus the full Inflation.

§118. Effective Date.

This act shall take effect on the date of certification in accordance with Article IV, Section 21 of the Constitution and the Rules of Procedures of the Nitijela.

CERTIFICATE

I hereby certify:

1. That Nitijela Bill No: **120ND1** was passed by the Nitijela of the Republic of the Marshall Islands on the **25th** day of **September** 2023; and

2. That I am satisfied that Nitijela Bill No: **120ND1** was passed in accordance with the relevant provisions of the Constitution of the Republic of the Marshall Islands and the Rules of Procedures of the Nitijela.

I hereby place my signature before the Clerk this **25th** day of **September** 2023.

Attest:

Hon. Kenneth A. Kedi
Speaker
Nitijela of the Marshall Islands

Carl Alik
Assistant Clerk
Nitijela of the Marshall Islands

SCHEDULE

FISCAL YEAR 2024 BUDGET SCHEDULE

SCHEDULE 1 - GEN FUND EXPENDITURES	
PRESIDENT AND CABINET	**2,220,967**
Office of the President	664,946
President and Ministers	690,460
Cabinet Operations	275,842
National and International Hosted Conference	132,432
Sustainable Development Goals (SDGs)	82,770
Marshall Islands Council of Non Government Organizations	82,770
National Nuclear Commission	291,747
MINISTRY OF ENVIRONMENT	**824,027**
Climate Change Directorate (CCD)	299,446
Climate Change Directorate (CCD - Ebeye)	32,482
Environmental Protection Authority (EPA)	171,407
National Energy Office	320,692
CHIEF SECRETARY	**744,225**
Administration	448,834
Deputy Chief Secretary - Ebeye	117,375
Red Cross	114,223
CSO Overhead - WSO	63,793
ECONOMIC POLICY, PLANNING & STATISTICS (EPPSO)	**404,210**
Economic Policy, Planning & Statistics Office (EPPSO)	404,210
COUNCIL OF IROIJ	**549,462**
Administration	180,533
Council of Iroij Members	368,929
NITIJELA	**2,402,774**
Nitijela Operations	684,310
General Membership	1,254,073

Speaker's Contingency	104,160
Committee Expense	66,768
Legislative Counselor	138,514
Senator's Office Allowance and Communication	154,949
AUDITOR GENERAL	**569,233**
Office of the Auditor General	69,233
Single Audit Matching	500,000
MINISTRY OF FOREIGN AFFAIRS & TRADE	**5,437,502**
Administration	799,592
Office of Compact Implementation	61,250
Washington D.C. Embassy	755,291
Honolulu Consulate	290,382
Arkansas Consulate	296,805
RMI-USAKA Office	111,328
Permanent Embassy (Japan)	601,139
Taiwan, ROC Embassy	434,765
Suva, Fiji Embassy	527,523
Seoul, ROK Embassy	528,188
New York, United Nations Mission	593,975
Geneva, United Nations Office	437,264
PUBLIC SERVICE COMMISSION	**623,524**
Public Service Commission	172,632
Administration	450,892
JUDICIARY	**1,186,253**
General Courts	940,558
Traditional Rights Court	143,735
Community Court	101,153
Judicial Service Commission	807
MINISTRY OF HEALTH & HUMAN SERVICES	**5,337,265**
Health Administration	1,568,918
Health Planning and Statistics	167,695
Majuro Hospital Medical Services	2,211,344
Kwajalein Atoll Hospital Services	561,362

Primary Health Medical Services	577,539
Neighboring Islands Health Services	211,187
Behavioral Health Services	39,220
Wound Care Project	-
Health Assistant Training Program	-
MOH Information System	-
MINISTRY OF EDUCATION, SPORTS & TRAINING	**15,513,240**
National Board of Education	17,273
College of the Marshall Islands	1,547,531
Customary Law & Language Commission	172,878
CMI Endowment Fund	82,770
CMI Distance Learning	206,925
Scholarship Board	1,017,689
National Training Council	87,043
RMI/USP Joint Project	600,000
Aid to Private Schools	795,000
Administration & Human Resources	929,594
Leadership & Management	721,091
Policy, Planning & Standards	240,609
Elementary Education & Support Services	612,740
Secondary Education & Support Services	527,637
Contracted Teachers	4,085,169
Property & Maintenance	579,098
Neighboring Islands School District	137,573
Budget & Finance	332,975
Majuro, Ebeye & Neighboring Islands School Feeding Program	2,313,796
Teachers Standard & License Board	15,315
Sports & Recreation	158,034
Bilingual Program	232,500
CMI Youth Service Corps	-
Micronesian Center for Sustainable Transport (MCST)	100,000
MINISTRY OF TRANSPORTATION, COMMUNICATION & IT	**695,735**
Administration	409,227
Directorate of Civil Aviation	286,508

MINISTRY OF NATURAL RESOURCES & COMMERCE	**1,853,446**
Administration	379,908
Argo-Forestry	357,178
Quarantine Office	203,961
Trade & Investment	199,464
Office of Commerce, Investment & Tourism	630,165
1 Island 1 Product	82,770
MINISTRY OF CULTURE & INTERNAL AFFAIRS	**3,311,774**
Administration	441,884
Local Government Affairs	123,263
Local Government Fund	611,233
Grant in Aid	241,935
Child Rights Office	75,380
Youth Services Bureau	41,673
Gender and Development	49,547
Electoral Administration	88,025
V7AB Radio Division	230,314
Central Adoption Administration	43,972
Ebeye Office	125,919
Community Development Office	45,023
Alele Museum	166,183
Disability Office	34,450
Neighboring Islands Economic Development Fund	300,000
Registrar's Office	46,937
Senior Citizens Office	22,450
Human Rights Committee	82,432
Local Government Mayors	541,154
MINISTRY OF JUSTICE	**6,101,379**
Public Defender - Majuro	243,743
Public Safety - Majuro	1,871,818
Public Safety - Ebeye	598,196
Sea Patrol	1,194,729
Search and Rescue	72,800
Parole Board	9,932
Attorney General Office	1,441,985

Immigration - Majuro	235,002
Immigration - Ebeye	76,493
Labor Division - Majuro	108,402
Labor Divison - Ebeye	17,796
Land Registration Authority	105,483
Micronesian Legal Services	125,000
MINISTRY OF WORKS, INFRASTRUCTURE & UTILITIES	**2,371,284**
Administration	476,153
Carpentry Department	201,326
Electrical & Plumping	171,907
Landing Craft Operation	231,527
Roads & Ground	301,854
Equipment Repair & Maintenance	399,285
Project Management Unit	144,975
Land & Survey	104,973
Ebeye Public Works Support (Kalgov)	339,284
MINISTRY OF FINANCE, BANKING & POSTAL SERVICES	**3,082,177**
Secretary's Office	416,669
Accounting & Administration	660,109
Revenue Division Majuro	263,332
Custom Division	264,038
Treasury Division	93,131
Budget & Procurement	273,895
Procurement & Supply Division	282,593
Finance Office - Ebeye	231,284
Revenue/Custom Office - Ebeye	151,633
Division of International Development Assistance	214,341
HR & Internal Audit Unit	129,530
SOE Monitoring Unit	101,622
POSTAL SERVICES	**198,648**
Postal Services	198,648
BANKING COMMISSION	**513,936**

Administration	513,936
STATE-OWNED ENTERPRISES	**9,756,300**
Majuro Atoll Waste Company (MAWC)	702,375
Airlines of the Marshall Islands (AMI)	700,000
Marshall Islands Resorts	300,000
Marshall Islands Shipping Corporation	1,600,000
Marshall Islands Shipping Maintenance Fund	500,000
Tobolar Copra Processing Auhtority	5,603,925
Majuro Water and Sewage Company (MWSC)	350,000
SPECIAL APPROPRIATIONS	**25,009,509**
Majuro Landowner Electricity	3,820,000
Land and Building Leases	1,842,050
International Subscriptions/Membership Fees	530,000
ADB Loan Payment	3,860,000
MIDB Loan Payment	1,500,000
Commitment & Bank Obligation	150,000
Centralized Utility Bills - Majuro	1,125,000
Centralized Utility Bills - Ebeye	50,000
Lease Housing	120,000
Prior Year Liability and Projects	533,218
Contingency Fund	200,000
Marshall Islands Social Security Administration (subsidy)	1,200,000
Kwajalein Atoll Development Fund	85,600
Employee Pension Fund (Govt Share)	200,000
Kwajalein Solid Waste	238,339
Immovable Tax Share	735,000
Compact Negotiation	400,000
Copra Stabilization Fund	500,000
Non-State Actor Support Fund	250,000
GCF Water Project Matching Fund	1,247,432
Constitution Day	80,000
General Election	500,000
Kwaj Imprest Fund (Revolving)	75,000
Community Development Fund	500,000
Ebeye Repair & Maintenance (KALGOVT)	200,000
VCO Project	240,000

Permanent Mission (Japan)	3,000,000
Council of Iroij Revolving Fund	25,000
Senior Citizen Covid Support	325,000
Nitijela Gratuity	150,000
Post Constituttional Convention	557,870
Energy Support (Wojte & Jaluit)	520,000
Worker's Compensaton Act (RMI Government Self Insurance Fund)	250,000
TOTAL GENERAL EXPENSES	**88,706,870**
SCHEDULE 2 - COMPACT FUND EXPENDITURES	
AUDITOR GENERAL	**500,000**
Single Audit	500,000
HEALTH	**8,530,797**
Utilities	1,006,618
Lease Housing	229,788
Waste Incinerator	62,928
Majuro Health Care Services	3,572,177
Primary Health Care Services	769,548
Neighboring Islands Health Dispensaries	1,006,798
Leprosy Program	205,021
One Stop Shop NCD	95,901
Dental Program	431,767
Kwajalein Atoll Health Administration	50,245
Ebeye Preventive Services	133,273
Kwajalein Atoll Health Care Services	789,013
Behaviorial Health Services	177,720
ENVIRONMENTAL SECTOR	**279,640**
Kwajalein Environmental Impact Assessment	279,640
EDUCATION	**10,317,619**
College of the Marshall Islands (Compact Designated)	987,003
Scholarship Board	592,202
PSS Administration & Human Resources	127,266
PSS Budget & Finance	89,000
MOE Policy, Planning & Research	69,000

MOE Curriculum & Assessment	9,402
Elementary Education & Support Services	284,340
Majuro Middle School	362,668
Elementary Education - UES	173,812
Elementary Education - RES	331,068
Elementary Education - DES	407,131
Elementary Education - APES	146,978
Elementary Education - WES	124,551
Elementary Education - LES	146,949
Elementary Educaiton - RRES	190,041
Elementary Education - LIES	106,688
Elementary Education - EES	43,470
Elementary Education - EEPS	475,239
Elementary Education Northern School District	302,911
Elementary Education Southern School District	427,082
Elementary Education Eastern School District	232,442
Elementary Education Western School District	93,024
Elementary Education Central School District	251,348
Secondary Education & Support Services	27,280
Secondary Education - MIHS	1,663,883
Secondary Education - LHS	542,197
Secondary Education - JHS	742,029
Secondary Education - NIHS	698,873
Secondary Education - KAHS	580,197
MOE Property & Maintenance	89,545
EBEYE SPECIAL NEEDS - HEALTH	**2,369,620**
Ebeye Hospital	2,369,620
EBEYE SPECIAL NEEDS - EDUCATION	**2,845,850**
Elementary & Secondary Schools	2,520,850
Kwajalein Scholarship	200,000
Adult Education - CMI	125,000
SUPPLEMENTAL EDUCATION GRANT (SEG)	**8,146,512**
National Training Council	603,750
Industrial Art & Life Skills Program	463,202
School Enrichment Program	212,601

Elementary School Equip, Supplies & Materials	420,000
Secondary Schools Equip, Supplies & Materials	138,000
School Accredition	228,598
High School Practicum Program	30,000
Secondary Textbooks	125,000
Music/Art Program	35,000
Student Exchange Program	7,900
School Debate Program	42,084
Majolizing the Curriculum (Pre-Ninth)	207,157
Adult Education & Literacy (CMI)	388,325
Closeup Program	51,000
Instructional Technology Support	492,522
Instructional Service Center	137,028
Professional Development	765,331
MOE Contractuals	1,274,115
Elementary Textbooks	20,000
Kindergarden Program	2,062,573
School Learning Garden	35,000
MOE Data Improvement Project	407,326
TOTAL COMPACT SECTOR GRANTS	**32,990,038**
COMPACT CAPITAL FUNDS	**9,618,180**
Jaluit HS New Cafeteria (Supplement)	1,018,354
College of the Marshall Islands Preventive Maintenance	500,000
PSS Schools Preventive Maintenance	2,000,000
PSS Schools & MOHHS Health Center Repair (IMF Matching)	1,032,260
Majuro & Ebeye Hospital Maintenance	440,000
MPW Project Management Unit	557,566
Laura ES/HS School (Supplement)	400,000
Neighboring Island Schools	1,370,000
Ebeye Hospital Complete Plumbing & Toilet Repair	800,000
Santo Power Station - Power Cable	1,000,000
Ebeye Morgue	500,000
EBEYE SPECIAL NEEDS - CAPITAL	**1,915,350**
Ebeye Master Landlease	405,000

Ebeye Road Asphalt & Drainage Improvement	324,360
Ebeye Sea Wall Phase 5	300,000
Eniburr Dock Access Repair	336,000
Community Center Enebuoj	549,990
OTHER COMPACT DESIGNATED	**30,167,600**
Kwajalein Landowners	25,167,600
Compact Trust Fund	5,000,000
KWAJALEIN IMPACT FUND	**2,656,580**
Ebeye Project Management Unit (PMU)	500,000
Mid-Corridor Utilities Support	275,000
Power Generation Support & Maintenance	663,930
Kwajalein Housing Program	800,000
Road and Drainage Maintenance Support	252,650
LCM Operation Support	150,000
KIO Club Water Filter Support	15,000
TOTAL COMPACT EXPENDITURES	**77,347,748**
SCHEDULE 3 - SPECIAL REVENUE EXPENDITURES	
Health Care Fund	8,713,688
Environmenal Protection Authority	393,000
Ministry of Internal Affairs Fund	50,000
Ministry of Justice Fund	1,278,094
National Training Council Fund	560,000
Sea Patrol Fund	10,000
Labor Special Revenue Fund	149,250
MONRC Agirculture Revolving Fund	28,084
Public Works Fund	52,119
Majuro Atoll Waste Company	896,154
Banking Commission	138,572
TOTAL SPECIAL REVENUE EXPENDITURES	**12,268,961**
SCHEDULE 4 - US FEDERAL GRANTS	
MINISTRY OF HEALTH & HUMAN SERVICES	**8,581,949**
Bureau of Primary Health Care (PHC)	4,554,215

Bureau of Preparedness (OHPPPE)	1,029,402
Kwajalein Atoll Health Care Services (KAHCS)	1,122,035
177 Health Care Program	1,876,297
MINISTRY OF TRANSPORTATION, COMMUNICATIONS, & IT	**25,000,000**
USDA Rural Development - RUS Telecommunications Program	25,000,000
MINISTRY OF EDUCATION, SPORTS & TRAINING	**10,914,754**
Special Education Program	1,682,329
PD Grant	249,996
CMI Federal Grants	8,982,429
MINISTRY OF NATURAL RESOURCES & COMMERCE	**450,000**
Argo-Forestry Program	450,000
MINISTRY OF FINANCE, BANKING & POSTAL SERVICES	**574,000**
177 Four Atoll Feeding Program	574,000
CHIEF SECRETARY OFFICE	**745,800**
Weather Station Office	695,800
Emergency Management	50,000
MINISTRY OF CULTURE & INTERNAL AFFAIRS	**756,097**
Historic Preservation Office	260,500
Aur Atoll Local Government - Community Solar Energy Enhancement	150,000
Ailinglaplap Atoll Local Government - Water Catchment Project	137,820
Ebon Atoll Local Government - Teacher Housing Project	111,777
Wotho Atoll Local Government - Solar Project	96,000
ENVIRONMENTAL PROTECTION AUTHORITY	**82,363**
Water Quality Monitoring Laboratory Program	82,363
TOTAL US FEDERAL GRANTS EXPENDITURES	**47,104,963**

	47,104,963
SCHEDULE 5 - OTHER DEVELOPMENT ASSISTANCE EXPENDITURES	
ASIAN DEVELOPMENT BANK (ADB) GRANTS	**86,500,000**
Urban Services Improvement Projects	52,500,000
Marshall Islands Electrification Project	22,000,000
Public Financial Management Project (Additional Financing)	2,000,000
Energy Security Project	10,000,000
EUROPEAN DEVELOPMENT FUND	-
EDF 11 Energy Office	-
Marshall Energy Company (EDF 11 Support Reform Energy Sector)	-
KAJUR (EDF 11 Support Reform Energy Sector)	-
EDF 11 Support Reform Energy Sector	-
WORLD BANK GRANTS	**97,288,000**
Pacific Resilience Project (PREP2)	41,000,000
Sustainable Energy Development Project (SEDEP)	18,000,000
Marshall Islands Maritime Investment Project (MIMIP)	14,000,000
Early Childhood Development Project (ECD)	9,000,000
Project for Activity Performance in Financial Management	2,000,000
Digital RMI	7,500,000
Education & Skills	1,600,000
Covid 19 - CSO	88,000
Urban Resilience	4,100,000
OTHER GRANTS	**344,404**
Ministry of Health & Human Services (Global Fund)	114,953
Ministry of Health & Human Services (WHO)	125,570
Ministry of Health & Human Services (UH Grant)	35,068
Ministry of Health & Human (PHSIS)	68,813
CLIMATE CHANGE GRANTS	**513,500**
GCF - Readiness	261,000
UNFCCC 3rd NC & FBUR	152,500

UNCCD	100,000
ROC CAPITAL PROJECTS	**8,000,000**
MINISTRY OF CULTURES & INTERNAL AFFAIRS	**1,200,000**
Neighboring Islands Economic Development Fund	1,200,000
MINISTRY OF WORKS, INFRASTRUCTURES & UTILITIES	**3,505,880**
Sea Wall	808,880
Kwajalein Atoll Community Development ProjectS (KALGOVT)	500,000
Majuro Atoll Community Development Projects (MALGOVT)	600,000
Neighboring Islands Airports, Runway & Road Improvements	500,000
Nitijela Maintenance & ICC	50,000
LCU Public Works	250,000
Majuro Road Preventive Maintenance	200,000
Washington DC Embassy (Supplement)	97,000
Public Works Capital Projects	400,000
MWIU Warehouse Extension	100,000
MINISTRY OF NATURAL RESOURCES & COMMERCE	**2,203,665**
Tobolar Copra Processing Company	1,853,665
Laura Farm & NRC Agriculture Plant	350,000
MINISTRY OF FINANCE, BANKING & POSTAL SERVICES	**740,455**
Community Development Fund	500,000
Infrastructure Matching Fund	240,455
MINISTRY OF HEALTH & HUMAN SERVICES	**350,000**
Health Information System	150,000
RMI Medical & Services Upgrade Project	200,000
TOTAL OTHER DEVELOPMENT ASSISTANCE	**192,645,904**

TOTAL ALL EXPENDITURES	**418,074,446**
ALL REVENUE APPROPRIATIONS	
SCHEDULE 6 - GENERAL FUND REVENUES	
GENERAL FUND TOTAL REVENUES	**88,706,870**
GENERAL FUND TAX ITEMS	**38,428,870**
Marshallese Income Tax	12,000,000
Expat Income Tax	6,000,000
Gross Revenue Tax	7,800,000
Non-Resident Business Tax	700,000
Secured Transactions	
Hotel/Resort Tax	140,000
Import Tax	8,134,000
Import Tax - CMI	1,595,000
Fuel Tax	565,000
Immovable Property Tax	695,000
Penalty & Interest	100,000
Tax Audit Adjustments	100,000
MIDAO Proceeds	599,870
GENERAL FUND NON-TAX ITEMS	**50,278,000**
MIMRA Contribution	32,160,000
Interest Income	100,000
Ship Registry	12,000,000
ROC Contribution	4,600,000
Other Sales & Charges Services	218,000
Other Revenues:	1,200,000
*Trust Fund D Account	800,000
*Excess Special Revenue	400,000
SCHEDULE 7 - SPECIAL REVENUE FUND	
SPECIAL REVENUE TOTAL	**12,268,961**
Health Care Fund	8,713,688
Environment Protection Authority	393,000
Ministry of Internal Affairs Fund	50,000
Ministry of Justice Fund	1,278,094
National Training Council Fund	560,000

Sea Patrol Fund	10,000
Labor Special Revenue Fund	149,250
MONRC - Agriculture Revolving Fund	28,084
Public Works Fund	52,119
MAWC	896,154
Banking Commission	138,572
SCHEDULE 8 - COMPACT REVENUE FUND	
COMPACT REVENUE FUND TOTAL	**77,347,748**
Compact Base Grants	18,848,416
Compact Base Grants - Ebeye Special Needs	7,130,820
Compact Special Education Grant (SEG)	8,146,512
Compact Single Audit	500,000
Compact Capital Fund	9,618,180
Kwajalein Environmental Impact Assessment	279,640
Kwajalein Impact Fund (KIF)	2,656,580
Kwajalein Landowners	25,167,600
Trust Fund	5,000,000
SCHEDULE 9 - OTHER DEVELOPMENT ASSISTANCE REVENUES	
OTHER DEVELOPMENT ASSISTANCE REVENUES	**239,750,867**
US Federal Grants	47,104,963
ROC (Taiwan) Capital Grants	8,000,000
World Health Organization (MOHHS)	125,570
Asian Development Bank (ADB)	86,500,000
Global Funds	114,953
UH Grant	35,068
World Bank	97,288,000
Readiness (GCF)	261,000
UNFCCC 3rd NC & FBUR	152,500
UNCCD	100,000
MOHHS - (PHSIS)	68,813
TOTAL ALL REVENUES	**418,074,446**

REPUBLIC OF THE MARSHALL ISLANDS

ECONOMIC POLICY STATEMENT

SEPTEMBER 2023

A. Introduction and Purpose

We seek a resilient, prosperous, and inclusive economy. We have a clear vision for the Republic of the Marshall Islands (RMI) to have a resilient, prosperous, and inclusive economy and nation. Achieving this will require building our human and financial capital, leveraging and conserving our natural and cultural capital, and creating opportunities for all Marshallese.

We now approach a critical juncture in our history. After four decades of Constitutional self-government and nearly four decades of free-association with the United States under the Compact of Free Association, we face uncertainties in our economic, security, and environmental outlooks. The COVID-19 pandemic had negative impacts on the economy, however we implemented a successful strategy to navigate through the emergency. We see an improving economic climate as we put the lockdown behind us. We continue to negotiate with the United States regarding a new Compact of Free Association commitment, including the nuclear legacy issues. The ongoing negotiations add to the current climate of economic uncertainty. Additionally, climate change and the impact of more intense natural disasters pose an existential threat and risks our livelihood.

We must continue to set clear strategic directions for economic and development progress. This Economic Policy Statement provides direction for the Government to pursue economic policy objectives in accordance with the principles of responsible fiscal management as outlined in the Fiscal Responsibility and Debt Management Act, and the policy objectives detailed in the National Strategic Plan. These principles are reconfirmed in our ongoing commitment to implementing the ongoing Pubic Financial Management Reforms

This Economic Policy Statement complements the direction of our National Strategic Plan (NSP) 2030, and provides strategic guidance on key areas of macroeconomic and sectoral policy, budgetary considerations, and associated reforms.

Our collective and decisive leadership is critical. With our collective responsibility and leadership to implement the key provisions of this Economic Policy Statement, we aim to achieve

a sound foundation to manage the possible Compact transition in 2024 and accelerate the implementation of our development priorities outlined in the NSP 2030.

B. Background

An enabling legislative framework for presenting the Economic Policy Statement was approved in June 2021. The RMI approved the Fiscal Responsibility and Debt Management Act with the objective to strengthen fiscal governance.

The Act provides for the annual presentation of an Economic Policy Statement to Nitijela by the Minister of Finance. The Statement is aimed to cover the following overarching objectives:

i. Reducing total debt to levels that will provide a buffer against factors that may impact adversely on the level of total debt in the future;
ii. Maintaining debt levels by ensuring that, on average, total operating expenses do not exceed total operating revenues;
iii. Achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future; and
iv. Managing the fiscal risks facing the Government.[1]

C. Development and Socio-economic Setting

Our geography presents challenges for development. Our nation will forever remain small and isolated, making transport and trade with major markets costly. However, our geography also presents niche opportunities for development.

We remain heavily reliant on external resources. Reflecting our isolation, smallness, and narrow resource base, our economy remains highly dependent on international support, mostly in the form of grants, which has been equivalent to 35 percent of GDP over the past decade. The FY2024 budget includes approximately 75 percent of funding from external sources including Compact Grants, US Federal Grants and Other Development Assistance (ODA). This increase in funding is primarily due to an increase in ODA funding included in the new USDA Rural Development (RUS) Telecommunications Program and the increase in grant funding for the Pacific Resilience Project (PREP 2)

Hardship in various forms and rural-urban disparities continue to exist. This is the case in both our urban centres and neighboring islands, and there continues to be a clear trend of urban migration, with Majuro and Kwajalein atolls now home to three-fourths of our population. This urban migration is reflected in the most recent census (2021). The economies of our outer island communities have not fundamentally changed over the past century relying on subsistence farming, fishing, copra and handicrafts.

Our urban economies remain non-diversified. Our urban economies in Majuro and Kwajalein continue to rely heavily on government employment and spending and the Kwajalein missile base for employment and income. These economies remain dominated by the wholesale and retail trade, construction, banking and insurance, and commercial fisheries operations.

Our human capital remains underdeveloped. At the heart of our development is human development, and at the heart of human development is early childhood and maternal health,

[1] Fiscal Responsibility and Debt Management Act 2021

nutrition, and care. While our broad human development indicators such as infant and child survival rates and educational attainment have steadily improved since independence, our overall progress in building our human and cognitive capital remains unsatisfactory. We must redouble our efforts to ensure that every child born in the RMI is provided the proper health, nutrition, and care especially in the first 1,000 days of life. We continue to implement the World Bank funded Early Childhood Development Project. This and other programs are designed to address the skill gaps and technical capacity challenges in a holistic approach.

D. Fiscal Setting and Impact of COVID-19

We endured the pandemic well regarding the health of our citizens. We implemented stringent lockdowns and border closures to give time for the vaccine roll out, however this resulted in an economic contraction during that time.

To address the economic hardship due to lockdowns, we rolled out the Coronavirus Preparedness and Response Plan. This plan was financed through approximately $78 million in grants from our development partners (largely the Asian Development Bank and the United States. These funds were used to primarily provide social protection and unemployment assistance.

There was a contraction in real GDP in FY22. The post-pandemic recovery in domestic demand remains intact while inflation increased. After declining in FY20, real GDP remained largely flat in FY21. In FY22, it declined by 4.5 percent, reflecting a 40 percent decline in the fisheries sector. Excluding the fisheries sector, real GDP expanded by 4.2 percent in FY22, buoyed by a recovery in domestic demand. This was partially offset by the temporary lockdowns in August 2022 and supply chain disruptions. [2]

Public/Private Sector Impact

The overall economic impact of COVID-19 is now estimated to have been far less than originally projected. The overall impact of COVID-19 on the economy was a 1.6 percent decline in GDP over the three years (2020-2022).[3] The economy declined in both FY2020 (1.8 percent) and FY2022 (0.9 percent). In FY2021 the economy grew by 1.1 (percent). As such, the overall economic impact for the three-year period (2020-2022) was negative 1.6 percent.

While the impact of COVID-19 on the overall economy was more conservative than projected, the impact was unevenly distributed between the private and public sectors. There was a large reduction in the private sector balanced by growth in fisheries and the public sector. The impact of COVID-19 on the main sectors of the economy has been quite different. While the public sector, supported by the donor community, grew during FY2019-FY2022, the brunt of the negative impact was felt in the private sector. While the overall impact of the pandemic of a loss of 1.6 percent of GDP may appear "conservative," when the structure of the economy is taken into full account it is clear that the economic impact was highly uneven. During the crisis, the public sector supported economic activity, and commercial fishing made a strong contribution, but the impact on the private sector was significant.[4]

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[2] IMF RMI Staff Report August 2023

[3] FY2022 Economic Outlook US Graduate School

[4] FY2022 Economic Outlook US Graduate School

Public/Private Sector Employment

There was an uneven impact regarding the public sector and private sector employment. A loss of 155 jobs or decline of 1.4 percent of the work force was estimated during FY19-FY22. This loss in jobs should be understood as a reduction in full-time-equivalent (FTE) positions rather than specific loss in employed persons. Firms were likely to institute reduced hours for employees before terminating their jobs.

The distribution of the reduction has been uneven. In the commercial fisheries sector 281 jobs were lost primarily at the loining plant. Support from the US CARES unemployment benefits provided an unusual incentive. The company was able cut back on its loining operations and thus reduce costs. At the same time the beneficiaries, the plant workers were able to increase their income through higher unemployment compensation available under the CARES Act.

In the non-fisheries private sector, a loss of 201 jobs was recorded, with the major sectors impacted being construction, a loss of 26 jobs, wholesaling and retailing 85 jobs, and the hotel sector 68 jobs. Offsetting this decline, the recent trend of a growing public sector helped compensate for the private sector loss with the creation of 370 jobs in public administration.[5]

E. Economy

Inflation

Inflation picked up in the latter half of FY2022 due to higher food and fuel prices and supply chain disruptions, reaching 7.9 percent by March 2023[6]. Inflation is expected to moderate to 3 percent by the end of FY23 as the decline in global fuel prices alleviates price pressures.[7]

Growth is expected to strengthen to 3 percent in FY2023 as inflation moderates. The economy is projected to gain momentum on the back of improvements in copra production, fishing revenues and trans-shipment activities. While the westward migration of tuna is expected to continue in FY2023, there has been an increase in port activities and trans-shipments, suggesting conditions are gradually improving. The construction sector is boosted by the revival of donor-financed projects and investment for the Micronesian Games scheduled in 2024.[8]

External Position

The external position does not look to improve in the medium term. The current account surplus is projected to narrow to 4.1 percent as COVID-related assistance expires in FY23. While exports are expected to improve by around 17.1 percent, largely due to recovery in fish production, this is expected to be countered by increasing imports, reflecting the ongoing recovery in domestic demand and the revival of infrastructure projects. As a result of these factors and the upcoming decline in COVID-related grants, the current account surplus narrowed from 22.6 percent of GDP in FY2021 to 8.2 percent in FY2022. The possible continued underperformance of fisheries exports and higher import volumes are expected to offset lower import prices, causing the current account surplus to decline further to 5.1 percent of GDP in FY2023.[9]

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[5] RMI FY22 Economic Brief, US Graduate School,
[6] IMF RMI Staff Report August 2023
[7] IBID
[8] IBID
[9] IMF RMI Staff Report August 2023

Debt

External debt has fallen from 71 percent to 22 percent of GDP (FY04-FY21). Debt service as a ratio of payments to general fund revenues has also fallen significantly from over 20 percent in FY08 to just 7 percent in FY21[10].

The RMI continues to be designated as "grant only" status. As a result of the IMF/World Bank's Debt Sustainability Analysis (DSA) indicating the RMI as being at high risk of debt distress, the RMI has been designated as a "grant only" recipient, making the RMI not eligible for loan financing from multilateral donors. External debt has fallen sharply (FY04-FY21) to sustainable levels as a result of being accorded "grant only" status. This status is accorded on the provision that the RMI does not incur debt from third parties at non-concessional rates. [11]

The DSA provision and analysis has levied a useful brake on any re-emergence of the past debt financing trends. However, as the Compact renewal terms become known, a reassessment of the major assumptions of the DSA may occur, resulting in a possible changed designation for the RMI regarding loan eligibility status. The current proposal to implement a well-specified Fiscal Responsibility and Debt Management Act (FRDMA), reflecting the needs of the RMI, is thus viewed as essential at this juncture.[12]

The Budget

The FY23 fiscal outcome is expected to be largely in line with the Budget. In FY22, despite falling taxes and receding COVID-related grants, RMI recorded a fiscal surplus of 0.7 percent of GDP due to a contraction in expenditure of 4.5 percent of GDP as spending on goods and services, and investments fell.

With the expected economic rebound in FY23, tax collection should recover while fishing licenses and trans-shipment revenues are projected to improve. Despite pressures on spending owing to still-high fuel prices and subsidies to support state-owned enterprises (SOEs), overall expenditure is expected to keep pace with revenues to ensure broad adherence to the balanced budget rule under the FRDMA.[13]

Fiscal ceiling within a medium-term macroeconomic framework is critical. As per the FDRMA, the key assumptions regarding debt levels, ratio of operating expenses and revenues, net worth, risk management and compliance were considered when preparing the annual budget and medium-term budget and investment framework beginning in FY23 and moving forward with each fiscal year.

F. COVID-19 Mitigation Effort

COVID-19 Response and Preparedness Plan A framework for COVID-19 mitigation was designed In June 2020 and initially included $42 million for Coronavirus (COVID-19) Preparedness and Response and was later extended several times for a total of USD $63.3 million

[10] 2022 Economic Brief US Graduate School
[11] 2022 Economic Brief US Graduate School
[12] 2022 Economic Brief US Graduate School
[13] IMF Article IV Concluding Statement May 2023

by February 2022[14]. The estimated final total amount is US $78 million[15] in grant assistance and an additional contribution of $2.9 million from the RMI General Fund.

Areas that funds were focused on included (i) health mitigation programs, (ii) household mitigation programs, (CARES support and ADB funded hot lunch program, (iii) support to outer island governments, (iv) private sector business support, (v) education support through CMI, (Federal Program), and (v) general budget support.[16]

Mitigation programs had large beneficial impacts on household incomes. Without the various mitigation programs and CARES unemployment benefits, household incomes were projected to have fallen by 4.9 percent in FY21. With mitigation, however, average household incomes were projected to attain a level 8.7 percent higher than the projected level had no action had been taken. In fact, the impact of the various mitigation programs has pushed household incomes above their trend level. However, the end of mitigation programs will lead to a projected 2.2 percent reduction of household incomes in FY22.[17]

G. Managing Risks

a. Climate Change and Disaster Risk

RMI is a climate-vulnerable nation. Our National Adaptation Plan (NAP) is in the process of being finalized with a focus on highlighting cost estimates and financing strategies.

This NAP is coordinated with the Tile Til Eo 2050 Climate Strategy (launched in 2018), which envisions net-zero emissions and 100% renewable energy use by 2050, and commits to developing a national action plan for climate change adaptation and resilience. As per the timeline for development of the NAP, it is scheduled to be finalized in late 2023.

Significant financial support is needed to implement climate resilience projects[18] Substantial international climate finance will be required to meet our large climate change adaptation costs. The WB projects that by the 2040s, adaptation costs for coastal protection could be in the range of 4-13 percent of GDP, depending on the climate change scenarios, while the cost of protecting infrastructure is projected at 3.7 percent of GDP.[19]

Stronger Public Financial Management (PFM) is a necessary precondition for enhancing our ability to access international climate-related assistance (such as the Green Climate Fund) considering the limited room from domestic revenue sources. As part of PFM reforms, we continue to focus on improving internal coordination and integrating climate related projects into the fiscal framework through the National Strategic Plan (NSP), the Development Assistance Plan and related sector planning.

Internal coordination and integration of climate change projects and financing to fiscal framework need to be clearly established. Preparation of long-term financing strategy will help prioritize and target funding applications in a strategic and coordinated way. Additionally, we look

[14] RMI FY22 Economic Brief, US Graduate School, November 2022
[15] MOF August 31 2023
[16] RMI FY22 Economic Brief, US Graduate School, November 2022
[17] IBID
[18] IMF Staff Report for the 2021 Article IV Consultation August 2022
[19] IMF Staff Report for the 2021 Article IV Consultation August 2022

to access financing for disaster management via new sources such as the World Bank's Catastrophe Differed Drawdown Option, and the Asian Development Bank's Contingency Disaster Fund and insurance markets.

b. Fiscal Risks SOE and Contingent Liabilities

SOE reform includes a focus on the development of Community Service Obligations (CSOs). CSO's are designed to replace existing subsidies with contractual CSOs for the delivery of quantifiable services. All SOEs depend on government support. Subsidies to the RMI's SOEs totalled $13.2 million[20] in FY2019, and then reduced slightly in FY2020 to $12.9 million.[21] Subsidies for FY2021 and FY2022 again decreased slightly totalling $12.1 million in FY2021 and $10.8 million in FY2022. In FY2023 the subsidies continued to decrease totalling $8.7 million.[22] In FY2024 subsidies are scheduled to increase slightly from FY2023 totalling $9.7 million.

We must improve the financial viability of SOEs. Actions include:

- **Rationalizing subsidies to SOEs** by reviewing the efficiency and effectiveness of the copra subsidies (including via the CSOs and considering social protection through fiscal transfers);
- **Ongoing implementation of the SOE Act** and further strengthening SOEs' commercial mandate; and
- **Continue to enforce** SOE business planning and reporting submission requirements.

Furthermore, the SOE Monitoring Unit (SOEMU) created in 2018 continues to drive the reform program with a focus on critical issues including:

- Improving the quality of SOE planning (and reporting);
- Review of SOE Balance Sheets;
- Work with SOEs on diagnostic analysis of their capacity in asset management, financial management and non-commercial activity; and
- Work to develop a Shared Services hub with a need for some SOEs to access financial management services at a high standard for board meeting reports, half-year reports and financial statements for audit.

Marshall Islands Social Security Administration (MISSA)

Contingent liabilities could also arise from the Marshall Islands Social Security Administration. Recent financial data indicates MISSA contributions now exceed benefits. The impact of reforms and cash transfers appears to have been significantly greater than originally projected. In the FY2020 audit and FY2021 preliminary financials, MISSA indicates that contributions now exceed benefits by an average of $3 million. This will allow the fund to accumulate from both the excess contributions and annual earnings on investments.[23]

Projections indicate MISSA's financial position remains fragile and careful monitoring is needed. It is estimated that contributions will exceed benefits for some years but with a narrowing of the balance as benefit growth exceeds that of contributions. However, the benefit projections are

[20] 5.5% of GDP current price
[21] 5.3% of GDP current price
[22] SOE Monitoring Unit and EPPSO
[23] RMI FY22 Economic Brief, US Graduate School, November 2022

based on earlier actuarial studies. There remains a need for a reevaluation and careful monitoring of the system.[24]

F. Compact Grants and Trust Fund

The possible expiry of Compact economic assistance requires prudent preparation and fiscal management. Rather than predictable and stable Compact sector grants, RMI possibly will be reliant on less predictable annual drawdowns from the Compact Trust Fund. With support from our international partners, and our own increasing contributions, the Trust Fund will go some way in substituting for the existing grants, but the actual fund availability will be dependent on market returns, which can be subject to volatility.

a. Compact Grants

A gradual fiscal consolidation would be necessary to address the possible expiration of US grants, to reduce fiscal risks of a fiscal cliff and protect long-term income. Annual sector grants, infrastructure, and disaster assistance expire beginning in FY24 except for those dedicated to Kwajalein and the Supplemental Education Grant (SEG). The SEG funds would expire at the beginning of FY25. At the time of writing of the Economic Policy Statement, considerable budget uncertainty exists due to the ongoing Compact negotiations having yet to be concluded. In particular, the replacement of expiring sector grants is not yet determined as negotiations continue between the RMI and the US.

The conclusion of the negotiations, resulting in a new Compact agreement, would release a significant amount of additional funding into the RMI budget process on an annual basis. The Trust Fund would then be bolstered by additional contributions, and would not be needed to replace the existing sector grant funding.

If negotiations are not concluded in a timely manner this could impact the RMI budget process including the funding from expired sector grants. In this scenario, the Trust Fund might be relied upon to fill the gap created due to expired sector grant funding. Additionally, there would considerable uncertainty over the continuation of many other special and Federal programs and services the RMI receives from the United States. There are other U.S. Federal programs such as Postal Services, FDIC, NOAA, Pell grants, FAA, and health and education grants which are subject to Congressional authorization. Funding for these programs, if the negotiations are not concluded in a timely manner, is not yet determined.

b. Trust Fund

The ongoing negotiations, leave the Trust Fund to fill the gap. Without a new agreement there could be budget gaps since there is no guarantee that the Trust Fund can do so sustainably. The SEG would cease from FY25 and programs/services would remain unaffected for FY24. Both the IMF and the ADB provided insights into an RMI post-compact economic scenario (based on FY23). The two scenarios are summarized in **Text Box 1** and **Text Box 2** below.

[24] RMI FY22 Economic Brief, US Graduate School, November 2022

Text Box 1: ADB Base Adjustment Scenario

This assumes the RMI moves to a regime outlined in the Compact law. This regime has two key features. First, the RMI would transition from sector grants funded by US appropriations to annual distributions drawn down from the Compact Trust Fund. The initial level of annual distributions would be based on what the RMI deemed as sustainable (with a high degree of confidence) and would thereafter be adjusted in real terms. The second key feature of the Base Adjustment Scenario is the assumption that SEG funding would cease.

This potential reduction in transfers to support government operations and capital investments is specified as USD 5.2 million annually, which equates to 1.9 percent of projected FY23 GDP. An additional decline in transfers will occur through the loss of the SEG. There was no provision for the Trust Fund to serve as a source to replace this loss of annual transfers. The potential reduction in support to the RMI's education programs, USD 5.1 million annually starting in FY24, or a further loss of 1.9 percent of projected FY23 GDP.

Text Box 2: IMF Scenario

The Government of Marshall Islands is expected to lose about more than half of its grants if the Compact is not renewed. Fishing license fees are volatile and tax revenue are expected to be stagnant. Disbursement from the Compact Trust Fund (about 10 percent of GDP per year in the medium- term) will not fully compensate this revenue losses. From FY2024, RMI's recurrent spending will rely heavily on volatile fishing revenue and stagnant tax collection. Therefore, a gradual fiscal consolidation that relies heavily on expenditure rationalization is needed to build buffers and protect the real value of the Compact Trust Fund.

RMI can consider two options: (i) a cumulative fiscal adjustment of 6.4 percentage points of GDP over 5 years; (ii) an adjustment of 9.4 percentage points of GDP over 10 years. Both adjustments target a fiscal surplus of 2.5 percent of GDP in the medium-term to mitigate the risks of fiscal cliff, preserve the real value of the Compact Trust Fund and increase the Compact Trust Fund net assets per capita.

The adjustment over 10-year would be more gradual and possibly easier to absorb. It would, however, result in a relatively lower value of the Compact Trust Fund compared to the 5-year adjustment. The fiscal adjustment combined with continued grant-financing by donors will also allow to contain the risk of debt distress and restore sustainability.

Given on-going renegotiating of the Compact of Free Association and the economic fallout from the COVID-19 pandemic, the 10-year adjustment would be preferable to avoid a too steep fiscal adjustment. Even if the Compact is renewed, some adjustment will likely still be needed to preserve the real value of the Trust Fund for future generations and reduce the dependency on external grants.

G. Medium-Term Fiscal Strategy

Government is committed to consolidating the budget as mandated by the Constitution and the Financial Management Act. The current budget is framed around the principles of

transparency, good governance, and accountability. All line ministries and agencies are bound to this commitment in the framing of the FY24 budget.[25]

Fiscal consolidation is needed as recovery from the pandemic progresses, to secure medium to long-term financing needs, with possible reduction of US Compact grants. Our fiscal position is projected to deteriorate sharply from FY24 onward without adjustment measures. RMI's recurrent spending is mainly financed by fishing revenues and budget grants, with project grants used for development financing. If the Compact grants set to expire in FY24 (about 13.4 percent of GDP) are not renewed, disbursements from the Compact Trust Fund (about 10% of GDP in FY24) are not expected to fully compensate this revenue losses as described earlier.[26]

To enable fiscal consolidation, a three- pronged strategy will be considered:

i. Expenditure rationalization;
ii. Revenue mobilization; and
iii. Public financial management.

a) Expenditure Rationalization

Review of spending on goods and services, as well as, SOE subsidies is critical. Areas of focus include:

i. Rationalize current spending, particularly on goods and services, while preserving spending on health and education;
ii. Continue with ministerial budgetary ceilings;
iii. Undertake a public expenditure review to identify unproductive spending;
iv. Speed up the reforms of state-owned enterprises as per SOE Reform Roadmap, including examining the feasibility of more direct conditional cash transfers to reach copra producers over the medium-term; and
v. Continue to reform the social security system to further contain government transfers.

b) Revenue Mobilization

Improvement to revenue administration and tax reform is essential. Areas of focus include:

i. Enacting tax reform legislation, to enable broad based revenue streams and improve collection efficiency;
ii. Reforming the taxation of offshore shipping and corporate registries to support public finance;
iii. Continue improving the revenue administration, including through further use of tax and customs information systems;
iv. Maximize fishing revenues by working with our PNA partners to ensure realization of maximum effectiveness of the Parties to the Nauru Agreement Treaty; and
v. Maximize the value of transhipments through the Port of Majuro and continue to review and revise fees, and other charges for various commercial services.

[25] RMI Budget Circular 2023
[26] IBID

c) Public Financial Management

Ongoing strengthening of public financial management systems is necessary. In addition to implementing the Fiscal Responsibility and Debt Management Act, key measures include:

i. Continue implementation of the PFM Roadmap and PFM reforms with assistance from our development partners;
ii. Improved accounting for fiscal risks;
iii. Continue strengthening fiscal projections and budget presentation and transparency to help guide policy goals; and
iv. Roll out the new Financial Management Information System (FMIS) to improve accountability, management and reporting.

A considered approach will be adopted to quantify medium-term fiscal targets. *Annex 1* includes a table of selected economic indicators, prepared by IMF using data from RMI government sources. We will focus on these indicators moving forward with the development of macroeconomic targets that we can aim to meet as we continue to implement the three-pronged fiscal strategy as described. This work will include discussion and agreement on targets for these macroeconomic indicators including our debt ratio (as a percentage of GDP), amount of domestic revenues including fishing and other non-tax revenues, and our overall balance of payments. Government will review these indicators and projections (and the regional indicators included in *Annex 2*) so that realistic targets are agreed to as a guide to implementing our medium-term fiscal strategy. The development of targets was delayed due to the previous focus on the COVID mitigation effort; however, the Ministry of Finance will provide leadership during this coming fiscal year so that government will develop these targets and projects following further consultation and assessment.

H. Enabling Policy Initiatives and Reforms

Complementary policy initiatives and reforms are required to sustain our fiscal consolidation effort. As a forward-looking Government, we recognize that supporting reforms which improve the efficiency of institutional operations and strengthen the effectiveness of service delivery are necessary to realize overall gains from complementary fiscal and sectoral strategies.

a. Civil Service Reforms

Human resource development is a crosscutting enabler of reform. Implementation of the Human Resource Management Information System (HRMIS) is ongoing allowing user access and automated processing of paperwork, including module to process personnel actions. Further efforts continue regarding improve human resource records, and automate processes is aimed to enable efficiency gains and allow for better harmonisation of interoperable functions such as payroll and personnel actions.

We continue to focus our efforts on improving performance management by ensuring that Ministries and agencies submit complete performance evaluations. The evaluations are required under PSC regulations. An amendment to the PSC Act also resulted in placing the Permanent Secretaries of the line ministries, Deputy and Assistant Secretaries; and Agency Directors, and the equivalent on four-year performance-based employment contract schemes. This shifts the focus of performance to a more outcome-oriented focus and aligns with our goals to improve

government efficiency and effectiveness by the improved alignment of planning, budgeting and public financial management.

b. Development Cooperation

Development cooperation with a range of local, bilateral, multilateral, civil society and philanthropic partners is essential to supplement government resources. The final Development Assistance Policy (DAP), which addresses the management of all development assistance to the RMI including climate finance, grants in-kind, and South-South and technical cooperation is currently waiting government final review and approval by the Minister of Finance, Banking and Postal Services.[27]

The DAP will allow for coordination of government's approach to development cooperation and allow for more targeted support in priority areas. The DAP aims to improve mutual accountability and coordination between government agencies to increase the predictability, and effectiveness, of development assistance flows.

c. Investment and Private Sector Development

A better business climate is critical for private sector development. A healthy, self-reliant economy can be sustained through a flourishing private sector. We recognize the need for a vibrant private sector for creating jobs, raising the choices of products and services available at more affordable prices, and generating revenues which could be used for delivery of public services.

The World Bank "Ease of Doing Business Survey" (DBS) provides a useful broad indicator and yardstick on the attractiveness of the business environment. From the 2020 DBS survey out of 190 countries the RMI ranked 153 (81 percent down the list), indicating that there was much room for improvement.[28]

The Office of Commerce Investment and Tourism (OCIT) has recently launched an updated National Investment Policy Statement (NIPS). Highlights of the NIPS include: 1) Clear Investment Guidelines (a definitive roadmap for investors); 2) Sustainable Development Initiatives (emphasizing environmentally conscious investments); 3) Collaboration and Partnership (fostering fruitful partnerships between the public and private sectors); 4) Investor Protection (safeguarding the rights of investors); and 5) Incentive Program (Cabinet authority to grant incentives aimed at stimulating economic growth and job creation).

Of primary concern moving forward will be in the areas of registering property and protecting investors as well as access to utilities (electricity). Regulatory reforms in these areas are needed, as well as those of starting a business, access to credit, doing business with government and taxes as we continue to look to improve our business environment. Various reforms are planned to build momentum on ease of doing business, including streamlining the Foreign Investment Business License application process as part of the National Investment Policy Statement.

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[27] DIDA August 2023

[28] *The World Bank's ease-of-doing-business survey has now been discontinued because an independent investigation found that senior World Bank officials had improperly influenced the results.*

Additionally, the Office of Commerce Investment and Tourism (OCIT) will implement strategies for private sector development in tourism, fisheries and micro, small and medium sizes enterprises. In particular, the OCIT plans to update and revise the Tourism Development Plan (2020-2024) to better align with the NIPS and the new travel scenarios resulting from the COVID-19 pandemic.

d. Financial Sector Development

A safe and stable financial system is crucial for a robust economy. We remain committed to promoting efficient and inclusive financial services to allow our people to take advantage of opportunities and manage their finances. We recognize that access to finance is necessary for the development of micro, small and medium enterprises. To support this, we will continue to review and strengthen the role of the Marshall Islands Development Bank to enable better access and higher levels of financing for all qualified enterprises.

Establishment of a Monetary Authority (MA) is being explored. The MA will be designed with the specific needs and characteristics of the RMI in mind, including critical offices to strengthen financial development with a focus on inclusion and safeguarding financial stability. The role of the MA includes strengthening oversight of the financial system, and developing a domestic interbank payments and clearance system.

Global connectivity of our financial systems is a pre-requisite for economic growth. This facilitates efficient personal, investment and trade transactions. Several challenges remain to achieve deeper integration of our banking systems with those in overseas countries of importance to the Marshall Islands. We continue to face the significant challenge of maintaining our local correspondent banking relations with international banks, and as a result access to the international financial system. We will continue to address this challenge. A second challenge is money laundering and financing of terrorism risks which necessitate the strengthening of our supervisory and regulatory oversight systems. Therefore, we will require all financial institutions including those currently unregulated in the Marshall Islands to be appropriately legislated, regulated and supervised. To support this, we continue to strengthen relevant legislation and the regulatory authority's capacity to effectively deliver on its mandates.

I. Closing and Moving Forward

Clear direction and dedicated leadership. This Economic Policy Statement sets out the framework for Government, development partners and Marshallese stakeholders to support growth and development of our economy. The Economic Policy Statement complements key documents, including our National Strategic Plan and the FY24 budget. This Economic Policy Statement captures the strategic direction of our fiscal and reform strategy to achieve our collective development ambition.

With decisive leadership and collective effort, we will continue to move together to achieve our overall development objectives. We will continue to review this Economic Policy Statement, and report transparently as provided in the Fiscal Responsibility and Debt Management Act.

With your support for the direction provided in this Economic Policy Statement, we can work to deliver improved economic and development outcomes for all Marshallese.

Annex 1. Republic of Marshall Islands: Selected Economic Indicators, FY 2019 – 2026

Table. Republic of the Marshall Islands—Selected Economic and Financial Indicators, FY2019—FY2028[1]

Nominal GDP: US$261 million (FY 2022)			GDP per capita: US$ 6,294 (FY 2022)							
Population: 42,418 (FY 2021)			Quota: SDR 4.90 million							
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY2026	FY2027	FY2028
			Prel.				Proj.			
Real sector										
Real GDP (percent change)	10.3	-2.9	1.0	-4.5	3.0	2.0	1.8	1.5	1.5	1.5
Consumer prices (percent change, average)	-0.1	-0.7	2.2	3.2	3.0	2.6	2.0	2.0	2.0	2.0
Consumer prices (percent change, end of period)	0.3	-0.3	1.7	4.4	3.0	2.5	2.0	2.0	2.0	2.0
Central government finances (in percent of GDP)										
Revenue and grants	64.0	70.7	70.4	66.4	65.2	64.9	60.4	58.7	55.5	54.2
Total domestic revenue	33.0	31.7	28.7	31.3	30.9	42.0	41.2	41.3	41.3	41.4
Grants	31.0	39.0	41.7	35.0	34.3	22.9	19.2	17.4	14.2	12.8
Expenditure	65.8	68.2	70.2	65.7	65.1	64.0	60.9	58.9	56.8	56.0
Expense	63.2	62.2	63.3	59.4	54.4	53.6	52.4	51.9	51.7	51.0
Net acquisition of nonfinancial assets	2.6	5.9	6.8	6.3	10.6	10.4	8.6	7.0	5.1	5.0
Net lending/borrowing	-1.8	2.5	0.2	0.7	0.1	0.9	-0.5	-0.2	-1.3	-1.8
Compact Trust Fund (in millions of US$; end of period)	434.7	514.4	668.9	567.6	621.1	620.9	622.5	623.7	624.3	624.4
Balance of payments (in percent of GDP)										
Current account balance	-31.3	15.0	22.6	8.2	5.1	3.5	1.6	-0.3	-2.6	-4.2
Goods and services balance	-79.3	-37.2	-24.9	-33.1	-31.4	-33.8	-34.0	-35.8	-37.1	-38.3
Primary income	21.4	18.9	9.7	11.1	12.2	23.5	22.3	22.1	21.9	21.7
Of which: fishing license fee	10.4	8.6	7.1	6.7	7.6	7.7	7.7	7.6	7.6	7.6
Secondary income	26.6	33.3	37.7	30.2	24.2	13.7	13.2	13.4	12.6	12.3
Of which: compact current grants	16.0	14.8	12.7	12.2	12.7	3.5	3.4	3.4	3.3	3.3
Of which: other budget and off-budget grants	10.4	18.2	24.7	18.4	11.1	10.0	9.6	9.9	9.2	9.1
Current account excluding current grants	-16.4	-24.2	-20.2	0.0	-2.0	-4.0	-6.3	-3.7	-5.9	-7.5
External PPG debt (in millions of US$; end of period)[2]	67.5	61.2	55.6	62.2	65.9	74.5	85.6	97.5	110.7	129.1
External PPG debt (Percent of GDP; end of period)[2]	29.1	25.4	21.6	23.8	23.8	25.7	28.5	31.3	34.4	38.7
Memorandum item:										
Nominal GDP (in millions of US$)	231.9	240.6	257.5	261.2	276.8	289.6	300.6	311.1	322.0	333.3

Sources: RMI authorities; and IMF staff estimates and projections.

[1]Fiscal year ending September 30.

[2]Assumption is that RMI will receive its MDBs financial assistance in a mix of grants and loans.

Annex 2. Selected Regional Economic Indicators*

	Latest Pacific Economic Updates								
	GDP Growth (%, p.a.)			Inflation (%, annual avg.)			Fiscal Balance (% of GDP)		
	2022e	2023p	2024p	2022e	2023p	2024p	2022e	2023p	2024p
Cook Islands	10.5	11.2	9.1	4.2	7.7	2.3	(8.8)	(9.2)	(1.0)
FSM	2.0	4.1	0.5	5.0	3.6	0.4	4.4	5.4	7.4
Fiji	15.9	6.3	3.0	4.3	4.2	3.5	(11.9)	(6.2)	(4.8)
Kiribati	1.8	2.3	2.8	5.0	3.7	3.0	(2.8)	1.4	2.1
Marshall Islands	(0.9)	1.5	2.0	3.3	3.7	3.5	(2.6)	(2.9)	(2.9)
Nauru	1.2	1.8	2.2	2.3	2.5	1.9	25.5	5.4	5.1
Niue	...	...	...	...	...	...	(16.4)	(26.3)	0.0
Palau	(1.0)	3.8	6.5	10.2	8.0	5.0	(9.0)	(9.5)	(10.2)
PNG	3.2	2.4	2.6	5.3	5.0	5.0	5.4	(4.4)	(3.3)
Samoa	(5.3)	4.8	2.5	8.8	11.7	2.0	6.4	4.9	(3.5)
Solomon Islands	(4.2)	3.0	2.5	5.5	4.5	3.7	(2.9)	(8.5)	(7.3)
Tonga	(2.2)	2.5	3.2	8.5	9.4	1.5	(0.9)	0.4	1.9
Tuvalu	1.5	2.5	2.0	2.5	3.3	2.8	(2.5)	(9.2)	(11.9)
Vanuatu	2.0	1.0	4.2	4.8	4.0	3.0	(6.5)	(7.0)	(2.0)

Sources: ADB. 2023. *Asian Development Outlook July 2023.* Manila; and statistical releases of the subregion's central banks, finance ministries and treasuries, and statistical bureaus. (*Pacific Economic Monitor ADB August 2023)

- = data not available
avg. = average
e = estimate
FSM = Federated States of Micronesia
DP = gross domestic product
p = projection
p.a. = per annum
PNG = Papua New Guinea.