



**RMI Compact Negotiation Office  
RMI Compact Proposal Description and Presentation Points**

***What parts of the Compact expire and need to be negotiated and what parts are non-expiring and continue in effect?***

**Title Two**

**Economic Relations**

The primary Compact provisions which expire after fifteen years plus the two year extension period (ending September 30, 2003) are the current base grant provisions contained in Section 211 of the Compact along with the special grants contained in Section 214, (energy production); Section 215, (communications); Section 216, (surveillance and enforcement of maritime zones, health and medical programs, and scholarship funds); Section 217, (inflation adjustment), and Section 221, (U.S. Federal Programs and Services). Other Federal Programs not specifically enumerated under Section 221 may also expire and must be examined on a case by case basis.

**Title Three**

**Security and Defense Relations**

Title Three of the Compact will also expire unless it is continued by mutual agreement or amended by the parties. Among other things, Title Three includes the U.S. obligation to defend the RMI from attack; grants the U.S. power to foreclose access to or use of the Marshall Islands for military purposes by other countries; allows for the establishment of defense facilities and operating rights; and, allows Marshallese to serve in the Armed Forces of the United States. The use of Kwajalein by the U.S. does not expire. The use of Kwajalein is governed by the Military Use and Operating Rights Agreement (MUORA), and the Status of Forces Agreement (SOFA) concluded pursuant to Sections 321 and 323 of the current Title Three. The existing MUORA and SOFA will expire in 2016.

**Titles One and Four**

**Title One - Governmental Relations**

The provisions of Title One of the Compact include: Self-Government; Foreign Affairs; Communications; Immigration; Representation; Environmental Protection; and General Legal Provisions (includes Section 177). These provisions do not expire and continue in effect unless amended by mutual agreement.

**Title Four - General Provisions**

The provisions of Title Four of the Compact include: Approval and Effective Date; Conference and Dispute Resolution; Amendment; Termination; Survivability; and Definition of Terms. These provisions do not expire and continue in effect unless amended by mutual agreement.

***What has the RMI proposed to the United States under the Title Two: Economic Relations provisions of the soon-to-be 'Amended Compact'?***

## **Financial Assistance**

### **Base Grant**

The base grant of \$35 million is proposed to provide fiscal stability during the next term of the Compact. The funding will cover partial operational and capital investment costs. The funds will be allocated in the RMI-proposed Medium Term Budget and Investment Framework (described below). The \$35 million amount was determined based on past budget trends as well as estimated future financing needs. It is also proposed that the base grant be fully adjusted annually to the U.S. GDP Implicit Price Deflator instead of applying the previous 2/3's formula. To avoid dividing the financial assistance into non-indexed sectoral grants, the RMI has combined all the grant assistance areas into one base grant. The amount does not include Title Three-related payments for Kwajalein Atoll, which will be addressed below.

### **Marshall Islands Intergenerational Trust Fund (MIITF)**

The RMI established the MIITF Act in 1999. The purpose of the MIITF is to provide the revenues to the budget that will be needed to substitute for the absence of Compact funding. While the RMI and other donors will contribute to the MIITF, the RMI has proposed a U.S. contribution of \$18 million annually to build up the capital base of the fund. The U.S. contribution would be adjusted annually to the U.S. GDP Implicit Price Deflator. The earnings from the funds would not be distributed until the next period of grant assistance ends.

### **Fiscal Performance Incentive (FPI)**

The FPI was proposed by the RMI to help ensure fiscal accountability of funds from the Compact and ensure that the RMI makes its own contribution to the MIITF. The payment would be made to the RMI if the RMI makes its contribution to the MIITF. The FPI funding will be allocated for infrastructure development to ensure the base grant is used predominantly for health and education.

### **Expansion and Continuation of U.S. Programs and Services**

The RMI has proposed continued access to existing programs and services. The RMI is also seeking adjustments on several U.S. subsidiary agreements that would bring additional benefits. The RMI is also working on adding distinct programs, such as in the area of trade and investment for private sector development, and adjusting language in the Compact so that the RMI has the same eligibility as U.S. territories for federal programs and services. Both the U.S. and RMI realize that the RMI can take more advantage of U.S. programs and services.

### **Continuation of the Section 177 Health Care Program**

The current Compact provides \$2 million annually for health care related to consequences of the U.S. Nuclear Testing Program. No inflation adjustment was provided under the Compact. Given the substantial increase of health care costs in the United States and other provider locations, the RMI has proposed that it be compensated for the increased secondary and tertiary care costs over the last 15 years. The RMI estimates the loss at about \$23 million when applying the U.S. Department of Labor's Medical Care Consumer Price Index for Hawaii. The RMI intends to use the funds as seed money for a self-insurance program to cover medical stop/loss or catastrophic cases. The RMI is also seeking the continuation of the \$2 million annual payment, adjusted annually to the Hawaii Medical Care Index, during the next term of the Compact. The new baseline for the 177 Health Care Program will be pegged at \$4.5 million annually.

### **Kwajalein Extension and Special Needs**

Under Title Two, the RMI has requested funding of a proposal for the community-oriented infrastructure development and maintenance needs of Ebeye and surrounding communities.

The funds, in addition to RMI-provided funds, would be used for investments in infrastructure and operational costs for health, education, utilities, water supply and sanitation, public works, causeway completion and maintenance, and new housing development. The amounts are: \$11.8 million annually for the first 3 years; \$10 million annually for the next 2 years; and \$2.7 million annually for the remaining 10 years. The average annual amount is about \$5.5 million, which will be adjusted for inflation.

Under Title Three of the Compact, the RMI is seeking extension of the Title Three Provisions on Security and Defense Relations beyond the next term of the Compact. In this context, the RMI advised the U.S. of the need to discuss the future use of Kwajalein at this time. The RMI has also proposed the establishment of a Kwajalein Trust Fund to which the United States would advance land-use related funds and current Section 213 Kwajalein impact funds into the trust fund. The aim of the trust fund is to generate continuous funding for Kwajalein landowners if and when U.S. military use ends.

In summary, the RMI has currently proposed a Title Two financial assistance package consisting of:

- Base grant of \$35 million annually
- U.S. contribution to the Marshall Islands Intergenerational Trust Fund of \$18 million annually
- Fiscal Performance Incentive of \$5 million annually
- Specials needs of Ebeye and outlying Kwajalein communities in the amount of \$5.5 million annually
- Continuation of the Section 177 Health Care Program starting at \$4.5 million annually with an inflation adjustment pegged to the Honolulu Medical Care Index

The total financial assistance being requested is \$68 million. Because the RMI considers the MOURA-specified funds for the use of Kwajalein as rent payments, these are not included in the Title Two grant assistance total. In accordance with the Land Use Agreement (LUA) between the RMI and the Kwajalein landowners, the current payments for Kwajalein stand at \$11.7 million for land use payments (\$7.1 million + inflation adjustment) and a fixed \$1.9 million, which now goes to KADA.

### **Monitoring and Accountability**

Both the RMI and the United States understand the need for improved monitoring and accountability of Compact-provided funding and U.S. programs and services. The U.S. General Accounting Office (GAO) and the RMI's own internal audits show some of the shortfalls on the part of the RMI as well as the United States government.

In response, the RMI has taken the initiative to design a monitoring and accountability framework to ensure targeting financing to priority areas and measure the effectiveness of public investments. The framework consists of:

- Medium Term Budget and Investment Framework (MTBIF) - a 5 year rolling budget framework that will measure budget performance and allocate funds for current and future spending.
- Performance Scorecard - A range of indicators that are measured annually to see if public investments are contributing to different sectors such as health, education, infrastructure and private sector development
- RMI-U.S. Joint Economic Review Board - The Board will review the MTBIF, use of U.S. programs and services, and the Performance Scorecard.

- U.S. On-Site Representation for Compact Matters - The RMI has proposed that two U.S. personnel be provided at the U.S. Embassy with responsibility for: 1) dealing with matters relating to Compact funding and disbursements; and 2) liaison on accessing U.S. programs and services.

***What is the difference with the current Compact and the RMI proposal?***

The economic assistance of the RMI's Compact proposal is aimed at two objectives: 1) maintaining budget stability and allowing for additional investments in such critical areas as education, health and infrastructure; and 2) providing a mechanism for the RMI to achieve budgetary self-reliance after the next term of the Compact.

The Government is also seeking to achieve a level of funding fairness with the United States. A comparison of RMI Compact funding over the last 15 years with that of the Federated States of Micronesia shows extreme discrepancies in Title Two amounts. When 177 nuclear-related payments are subtracted along with Kwajalein land-related, military use and impact payments, the grant assistance to the RMI is substantially reduced. In comparison of Title Two payments to the FSM, the RMI has been receiving 25-30 percent less, on a per capita basis, than the FSM. The following table of the last two years of the Compact funding as well as the two-year transition period illustrates this point. Additionally, the RMI has been much more aggressive than other Freely Associated States and U.S. territories in advancing public sector reform so the new funding requests are based on realistic needs.

**Table 1: RMI/FSM Compact Comparison: [In thousands US\$]**

<b>Republic of Marshall Islands (RMI)</b>		<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
S.211	Capital and Current	19,100	19,100	22,433	22,433
S.217	Inflation	11,556	11,984	14,136	14,632
S.213	Kwajalein Impact	1,900	1,900	1,900	1,900
S.214	Energy Production	2,000	2,000	1,867	1,867
S.215	Communications O&M	300	300	300	300
S.215	Communications Hardware	-	-	200	200
S.111	Tax & Trade Compensation	-	-	-	-
S.216	Maritime Surv./Med. Ref./Scholarships	1,700	1,700	1,744	1,744
S.221	Health & Ed. Block Grant	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
	<b>Total RMI</b>	<b>39,556</b>	<b>39,984</b>	<b>45,580</b>	<b>46,076</b>
	Population	52.6	54.5	56.6	58.8
	Per Capita Distribution	752	734	805	784
<b>RMI Compact Receipts Subtracting Military Use Payments</b>					
S.211	Kwajalein Land Use Payments*	7,100	7,100	7,100	7,100
S.217	Kwajalein Related Inflation	4,287	4,446	4,509	4,668
S.213	Kwajalein Impact	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>
	<b>Total for Kwaj Land Payments</b>	<b>13,287</b>	<b>13,446</b>	<b>13,509</b>	<b>13,668</b>
	<b>Total to RMI (less Kwaj related payments)</b>	<b>26,269</b>	<b>26,538</b>	<b>32,071</b>	<b>32,408</b>
	Population	52.6	54.5	56.6	58.8
	Per Capita Distribution	499	487	567	551

Notes: \*The first 15-year term of the LUA specified that the Sec. 211 allocation of \$7.1 million be divided as \$4.26 million for land use payments and \$2.84 million for KADA; the Sec. 217 inflation was divided 60/40 also. The Sec. 213 fixed payment of \$1.9 million was allocated for land use payment.

<b>Federated States of Micronesia (FSM)</b>		<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
S.211	Capital and Current	40,000	40,000	50,333	50,333
S.217	Inflation	24,084	24,976	31,388	32,490
S.214	Energy Production	3,000	3,000	2,800	2,800
S.215	Communications O&M	600	600	600	600
S.215	Communications Hardware	-	-	400	400
S.213	Yap Impact	-	-	11	11
S.111	Tax & Trade Compensation	-	-	-	-
S.216	Maritime Surv./Med. Ref./Scholarships	3,669	3,669	3,713	3,713
S.212	Civic Action Teams	1,000	1,000	934	934
	Other Construction	-	-	-	-
S.221	Health & Ed. Block Grant	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>
	Total FSM	79,353	80,245	97,179	98,281
	Population	118.5	120.9	123.2	125.7
	Per Capita Distribution	670	664	789	782
<b>RMI Imbalance Compared to FSM</b>					
RMI	Per Capita Distribution	499	487	567	551
FSM	Per Capita Distribution	670	664	789	782
	RMI/FSM Difference	(170)	(177)	(222)	(231)
	<b>Percent Difference</b>	<b>-25%</b>	<b>-27%</b>	<b>-28%</b>	<b>-30%</b>

Notes: 1) Compact finance numbers from U.S. Department of the Interior; 2) Population numbers from Asian Development Bank documents; 3) Per capita distributions calculated by RMI Compact Negotiation Office.