

GAO Highlights

Highlights of [GAO-18-415](#), a report to the Chairman, Committee on Energy and Natural Resources, U.S. Senate

Why GAO Did This Study

In 2003, the United States approved amended compacts of free association with the FSM and RMI, providing a total of \$3.6 billion in economic assistance in fiscal years 2004 through 2023 and access to several U.S. programs and services. Compact grant funding, overseen by the Department of the Interior, generally decreases annually. However, the amount of the annual decrease in grants is added to the annual U.S. contributions to the compact trust funds, managed by joint U.S.-FSM and U.S.-RMI trust fund committees. Trust fund earnings are intended to provide a source of income after compact grants end in 2023, but GAO and others have previously found that the trust funds may not provide sustainable income.

GAO was asked to examine preparations for the transition in 2023. This report examines (1) the use and role of U.S. funds and programs in FSM and RMI budgets, (2) projected trust fund disbursements and potential strategies to address risks to those disbursements, and (3) FSM and RMI plans to prepare for grant decreases and the transition to trust fund income. GAO reviewed compact agreements, audit reports, and U.S. law; modeled trust fund performance under existing conditions and using potential strategies; and reviewed FSM and RMI plans. GAO visited each country and interviewed FSM, RMI, and U.S. officials.

What GAO Recommends

GAO recommends that Interior work with the compact trust fund committees to develop distribution policies and fiscal procedures for the funds and to address disbursement timing. Interior concurred with the recommendations.

View [GAO-18-415](#). For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

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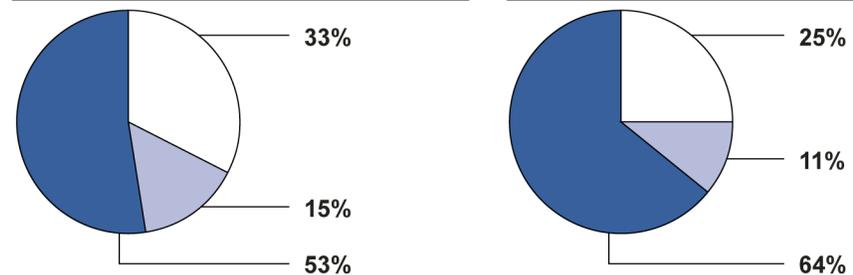
COMPACTS OF FREE ASSOCIATION

Actions Needed to Prepare for the Transition of Micronesia and the Marshall Islands to Trust Fund Income

What GAO Found

The Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) continue to rely on U.S. grants and programs, including several that are scheduled to end in 2023. U.S. compact sector and supplemental education grants, both scheduled to end in 2023, support a third of the FSM's and a quarter of the RMI's expenditures. Agreements providing U.S. aviation, disaster relief, postal, weather, and other programs and services are scheduled to end in 2024, but some agencies may provide programs and services similar to those in the agreements under other authorities. FSM and RMI eligibility for some other U.S. grants and programs is expected to continue after 2023.

FSM and RMI Total Expenditures of Government Revenues, Fiscal Year 2016
Federated States of Micronesia (FSM) Republic of the Marshall Islands (RMI)



Numbers may not add to 100 due to rounding.

- Compact and supplemental education grants ending in 2023
- Other U.S. grants
- Domestic sources and assistance from other countries

Sources: GAO analysis of P.L. 108-188, the RMI Military Use and Operating Rights Agreement (MUORA); and FSM and RMI single audit reports. | GAO-18-415

Disbursements from the compact trust funds face risks that the trust fund committees have not addressed. GAO found that the trust funds are increasingly likely to provide no annual disbursements in some years and to not sustain their value. Potential strategies such as reduced trust fund disbursements or additional contributions from the countries or other sources could help address these risks. Changing the trust fund disbursement policies could also address these risks but may require revising the trust fund agreements with each country. However, the trust fund committees have not prepared distribution policies, required by the agreements, which could assist the countries in planning for the 2023 transition to trust fund income. The committees also have not prepared the required fiscal procedures for oversight of the disbursements or addressed differences between the timing of their annual determination of the disbursement amounts and the FSM's and RMI's annual budget cycles.

The FSM and RMI did not implement planned budget reductions to address decreasing compact grants owing to increased revenues from other sources that offset the grant decreases. Current FSM and RMI infrastructure plans address the 2023 transition, while health and education plans focus on strategic goals. Both countries have established new compact planning committees to identify future challenges and develop plans for the 2023 transition to trust fund income.