



Highlights of [GAO-06-590](#), a report to congressional committees

COMPACTS OF FREE ASSOCIATION

Development Prospects Remain Limited for Micronesia and Marshall Islands

Why GAO Did This Study

In 1987, the United States began providing economic aid to the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) through a Compact of Free Association. In 2004, through amended compacts with the FSM and the RMI, the United States committed to provide more than \$3.5 billion until 2023. Joint U.S.-FSM and U.S.-RMI compact management committees are required, among other things, to monitor progress toward specified development goals and address implementation of policy reforms to stimulate investment. The legislation implementing the amended compacts (P.L. 108-188) requires that GAO periodically report on political, social, and economic conditions in the FSM and the RMI. In compliance with this requirement, GAO examined each country's (1) political and social environment, (2) economic environment, and (3) status of economic policy reforms.

What GAO Recommends

GAO recommends that the Secretary of the Interior direct the Deputy Assistant Secretary for Insular Affairs, as Chairman of the compact management committees, to ensure they meet requirements to address the lack of FSM and RMI progress in implementing reforms to increase investment and tax income. Interior, Health and Human Services, the FSM and the RMI generally agreed with the recommendation and the need to find development opportunities.

www.gao.gov/cgi-bin/getrpt?GAO-06-590.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David B. Gootnick at (202) 512-3149 or gootnickd@gao.gov.

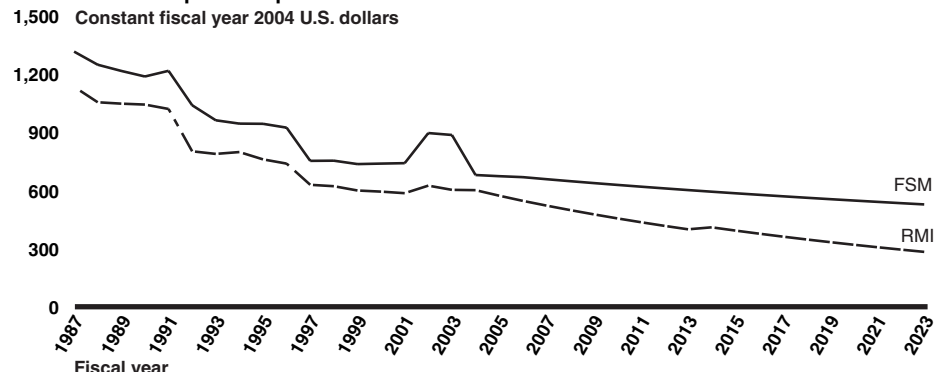
What GAO Found

FSM and RMI political and social conditions challenge, respectively, effective compact grant implementation and health and education progress. Regarding political conditions, for example, the FSM states and national government have been unable to agree on implementation of the compact infrastructure grant, while the RMI government has had difficulty securing agreement from land owners regarding its use of leased land for compact-related projects. Social challenges in both countries include persistent health and education problems despite substantial expenditures. For instance, the FSM and the RMI have low immunization rates relative to other countries with similar income levels.

The FSM and the RMI economies show limited potential for achieving long-term development objectives. Both economies depend on public sector expenditures—funded largely by external assistance—and government budgets have growing wage expenditures, heightening the negative fiscal impacts they will face as compact grants decline (see figure). As a result, long-term economic growth must come from the private sector and increased income sent home from FSM and RMI emigrants (“remittances”). However, poor business environments hamper private industry in both countries, and FSM and RMI emigrants’ lack of marketable skills hinders increasing revenue from remittances. Compact management committees have not discussed the countries’ progress toward budgetary self-reliance and long-term economic advancement at their annual meetings.

FSM and RMI progress in key policy reforms has been slow. Country officials reported passing some new mortgage and bankruptcy laws, but other needed reforms have not been implemented. For example, according to economic experts, tax systems remain inequitable and inefficient and foreign investment regulations remain confusing and relatively burdensome. FSM and RMI development plans include reform objectives in each of these areas; however, compact management committees have not addressed the nations’ slow progress in implementing reforms.

Estimated Per Capita Compact Grant Assistance for Fiscal Years 1987-2023



Source: GAO analysis of amended compacts and U.S. Census population projections.