



Highlights of [GAO-07-513](#), a report to congressional committees

Why GAO Did This Study

In 2003, the U.S. government extended its economic assistance to the Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI) through Amended Compacts of Free Association. From 2004 to 2023, the United States will provide an estimated combined total of \$3.6 billion, with annually decreasing grants as well as annually increasing contributions to trust funds for each country. The trust funds are to be invested and provide income for the FSM and RMI after the compact grants end. A trust fund committee for each country is to establish and oversee the funds. This report examines (1) the committees' progress in establishing, investing, and reporting on the funds; (2) the sustainability of income from the trust funds; and (3) potential options to supplement or enhance the trust funds' income. GAO reviewed trust fund-related documents and legislation; interviewed U.S., FSM, RMI, and industry officials and used a simulation model to project the trust funds' income.

What GAO Recommends

GAO recommends that the trust fund committees improve administrative and decision-making processes, ensure timely reporting, and obtain a full and independent evaluation of securitization's potential benefits and risks. Interior, which chairs the committees, agreed with all of the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-513.

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

COMPACTS OF FREE ASSOCIATION

Trust Funds for Micronesia and the Marshall Islands May Not Provide Sustainable Income

What GAO Found

The FSM trust fund committee has established the fund by appointing a trustee, an auditor, an investment adviser, and money managers. As of the end of March 2007, the RMI committee had not appointed an auditor or a money manager. Investment of the funds began 22 months and 16 months, respectively, after the FSM's and RMI's initial contributions, with the funds remaining in low-interest savings accounts until their investment. Contractual delays contributed to the time taken to establish and invest the funds, as did the committees' processes for reaching consensus and obtaining administrative support; the committees have not yet taken steps to improve these processes. Although the committees are required to report annually on the trust funds, they did not publish reports for 2004 and were late in publishing the reports for 2005 and 2006. Moreover, the published reports do not assess the trust funds' potential effectiveness in helping the FSM and RMI achieve the compact goals of economic advancement and budgetary self-reliance.

The FSM and RMI trust funds may not provide sustainable income after the compact grants end. Market volatility, as well as the investment strategies chosen, may lead to a wide range of trust fund balances in 2023. There is increasing probability that in some years the trust funds will not reach the maximum disbursement level allowed—an amount equal to the inflation adjusted compact grants in 2023—or be unable to disburse any income. GAO's analysis shows low probabilities of not reaching the maximum level allowed or disbursing no income in 2024 but higher probabilities of not reaching the maximum level allowed in 2050. For instance, by 2050, with a conservative investment strategy, income from the FSM and RMI trust funds, respectively, is over 90 percent and 60 percent likely to be less than the maximum level allowed and more than 20 percent and 15 percent likely to allow for no disbursements.

The trust funds' income could be supplemented or enhanced through (1) greater tax revenue, (2) increasing remittances from growing emigration, (3) economic assistance from other sources, and, possibly, (4) securitization of the funds. However, limited development prospects constrain the countries' ability to raise tax revenues to supplement the trust fund income. In addition, FSM and RMI emigrants' inadequate education and vocational skills may limit their earning opportunities. Further, although the RMI trust fund received contributions from Taiwan, it is unclear whether the FSM trust fund will receive other contributions. Finally, although securitization—the issuing of bonds against future U.S. contributions—could increase the funds' earning potential by raising their balances, it could also lead to lower balances and reduced income. The committees have not yet obtained an independent evaluation of securitization's potential benefits and risks.