

## D. Country Chapter: Marshall Islands

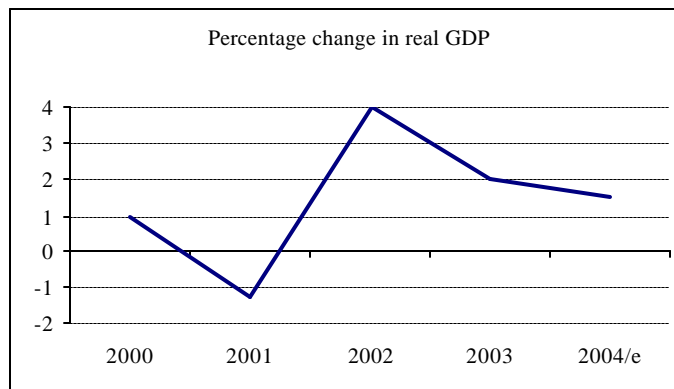
**Table 18. Country Summary**

<b>Country</b>	Republic of the Marshall Islands
<b>Prime Minister</b>	President Kessai Hesa NOTE (since January 5, 2004); the president is both the head of state and government.
<b>Head of State</b>	President Kessai Hesa NOTE (since January 5, 2004)
<b>Independence</b>	21 October 1986 (from the US-administered UN trusteeship)
<b>Government</b>	Unicameral Parliament or Nitijela (33 seats; members elected by popular vote to serve four-year terms); Cabinet selected by the president from among the members of Parliament.
<b>Land area</b>	181.3 sq km; includes the atolls of Bikini, Enewetak, Kwajalein, Majuro, Rongelap, and Utirik.
<b>Population</b>	53,000 (2004 est.). Population growth is 1% (2004 est.).
<b>Cities</b>	Capital: Majuro
<b>Districts</b>	33 municipalities; Ailinginae, Ailinglaplap, Ailuk, Arno, Aur, Bikar, Bikini, Bokak, Ebon, Enewetak, Erikub, Jabat, Jaluit, Jemo, Kili, Kwajalein, Lae, Lib, Likiep, Majuro, Maloelap, Mejit, Mili, Namorik, Namu, Rongelap, Rongrik, Toke, Ujae, Ujelang, Utirik, Wotho, Wotje.
<b>Languages</b>	English (widely spoken as a second language, both English and Marshallese are official languages), two major Marshallese dialects from the Malayo-Polynesian family, and Japanese.
<b>Natural Hazards</b>	Infrequent typhoons.
<b>Natural Resources</b>	Coconut products, marine products, deep seabed minerals.
<b>Major Products</b>	Small-scale agricultural industry is limited to copra (leading crop export), tuna processing, and handicrafts.

### 1. Economic Overview

112. The Republic of the Marshall Islands consists of a series of 29 small atolls in the northern Pacific, with the population concentrated in Majuro and Ebeye. It has the second highest aid per capita (averaging US\$1,227 over 1999-2002) of the Pacific Island countries. The Marshall Islands receives substantial assistance from the United States through the Compact of Free Association, with grants accounting for 30 percent of GDP during the Compact I (1987-2001) period. Compact II (2004-23) includes the creation of a Compact Trust Fund to replace grant funding after 2023.

113. The increase in government expenditure financed by higher external assistance contributed to the improvement in real GDP growth (averaging 3 percent in 2002-03), following a contraction in 2001 (see Figure 8). Real GDP is estimated to have grown by 1.5 percent in 2004. Inflation remains below 2 percent in 2004, reflecting the use of the U.S. dollar as the domestic currency.

**Figure 8. Growth in Marshall Islands' Real GDP during 2000-04**

114. The 2002 budget was in deficit for the first time in seven years owing to the repayment of earlier accumulated debts, and the budget remains in deficit of an estimated 3 percent of GDP in 2004. External debt consequently declined from 102 percent of GDP in 1999 to 83 percent of GDP in 2004.

115. The economy is dominated by the public sector with government expenditure averaging 70 percent of GDP over 2000-04, most of which have been financed by external grants. Agriculture and fishing together contributed an average of 13 percent of GDP over 1997-2001. Agricultural production is primarily subsistence and concentrated on small farms. Small-scale industry is restricted to copra (the leading crop export with 15 percent of total exports in 2000), tuna processing, and handicrafts. In recent years, copra production declined, due to irregular shipping schedules and the lagged effect of weak export prices. On the other hand, there has been some expansion in the operations of the tuna processing plant.

116. The tourist industry, which employs less than 10 percent of the labor force, is slowly increasing its presence in the economy and presents hope for future added income. Total visitor arrivals increased by 20 percent in 2003 from the previous year.

## 2. Outlook

117. The growth in the economy would be strengthened and sustained by the government's commitment to reform. Areas where improvement can be accelerated include the strengthening of public financial management, that is, to maintain prudence on expenditure and expanding tax revenues, managing infrastructure more efficiently, and developing a growth-stimulating environment for the private sector. Recent private sector developments such as the establishment of a tuna-loining plant, and private investments in black pearl cultivation and niche market tourism, have created employment opportunities. Thus, private investment, particularly in the fisheries and services sectors, offer good prospects for economic growth.

### **3. Key Issues Shaping the World Bank's Involvement**

118. The Marshall Islands became a World Bank member in 1992. Since that time the Bank's assistance has been limited to the involvement in a range of regional initiatives and a few specific technical assistance activities. The Marshall Islands is an IBRD-eligible country (GNI per capita of US\$2,710 in 2003).

119. With the presence of other donors, particularly the United States (under the Compact of Free Association), the Bank will be seeking to play a selective role in the Marshall Islands, focusing on policy advice to leverage donor resources and build local capacity. The Bank has held initial consultations, which will continue, with the government.

#### 4. Donor Coordination

120. Table 19 describes the nature of the assistance provided by the Marshall Islands' other development partners.

**Table 19. Activities of Other Development Partners**

<i>Development partner</i>	<i>Primary activities</i>
ADB	The Country Strategy and Program Paper 2005-2006, (Update, August 2004), supports the principal objectives of: enhanced public sector performance; increased access to basic services; enhanced environment for private sector development and job creation, and; strengthened public sector governance. ADB has active or planned lending operations in the education (US\$7.6 million ADF Credit), outer island infrastructure (US\$7.9 million ADF Credit), youth social services (US\$6.0 ADF Credit) and urban waste (US\$10.0 million, ADF Credit).
Australia	The Australian aid program (A\$415,000 in 2002-03) is concentrated in the areas of education and training, providing scholarships for study at regional universities. A Small Grants Scheme provides funding for the activities of community organizations.
European Union	The Marshall Islands became eligible for Euro 3.5 million under the 9 <sup>th</sup> EDF. Of this amount, 65% will be focused on developing cost effective and reliable renewable energy sources – an activity also receiving parallel support from the Government of France and the United Nations Department of Social Affairs. Of the remainder, 20% will be allocated to the area of human resource development and training; and 15% will be used to support civil society initiatives.
Japan	JICA assistance is focused on training and technical assistance and equates to approximately US\$2.48 million. Grant assistance from the Marshall Islands from the Ministry of Foreign Affairs equated to approximately US\$0.96 million over the period April 1, 2003 –March 31, 2004. There are no active lending operations in the Marshall Islands at present.
New Zealand	Support to the Marshall Islands is included within NZAID's program to other Micronesian states, with an allocation of NZ\$835,000 in 2003-04. The focus is on education and with limited grant funds for self-standing community development initiatives. NZAID has funded part of the University of the South Pacific's extension centre in Majuro.
United States	The original 15-year Compact of Free Association, that had accounted for an estimated 70% of GDP, was replaced by a new, amended compact in December 2003. The amended compact for the period 2004-2023, introduces a trust fund that is intended to substitute for US grant financing in 2023. Grant programs have also been restructured in an effort to enhance accountability measures with a shift away from budgetary, to sector, grants.  Sector grants will focus on education, health, environment, public sector infrastructure development and maintenance, and public sector capacity building. Oversight for medium-term expenditure plans will be provided by a Joint Economic Management and Accountability Committee in which the US has majority membership. The new 2004-2023 compact is expected to provide financial support totaling approximately US\$1,190 million.
Others	The following UN agencies have activities: IAEA, WHO, UNEP, ITC, UNESCO, FAO, UNFPA, UNICEF, UNDP