

REPUBLIC OF THE MARSHALL ISLANDS -
EUROPEAN COMMUNITY

COUNTRY STRATEGY PAPER

AND

NATIONAL INDICATIVE PROGRAMME

for the period 2002 – 2007

GENERAL PROVISIONS

The Republic of the Marshall Islands and the European Commission hereby agree as follows:

- 1) The Government of the Republic of the Marshall Islands (RMI), represented by (<name and title>), and the European Commission, represented by (<name and title>), hereinafter referred to as the Parties, held discussions in fromtowith a view to determining the general orientations for co-operation for the period 2002–2007.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of RMI were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000. These discussions complete the programming process in RMI.

The Country Strategy and the Indicative Programme are annexed to the present document.

- 2) As regards the indicative programmable financial resources which the Community envisages to make available to the RMI for the period 2002-2007, an amount of **€3.5 million** is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of **€1.1 million** for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- 3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The Indicative Programme under chapter 6 concerns the resources of the A-allocation. It also takes into consideration financing from which RMI benefits or could benefit under other community resources. It does not pre-empt financing decisions by the Commission.
- 4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet constitute a part of the Indicative Programme.
- 5) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the RMI, within the limits of the A- and B-allocations referred to in this document and under the condition that

sufficient resources are available in the general reserve of the Eight European Development Fund (EDF). The respective projects and programmes shall be implemented according to the rules and procedures of the Eighth European Development Fund until entry into force of the Financial Protocol for the Ninth EDF.

- 6) The European Investment Bank (EIB) may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or its own resources, in accordance with Articles 3 and 4 of the Financial Protocol of the ACP-EC Partnership Agreement (see chapter 6 for further details).
- 7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of current needs and performance.
- 8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the ACP-EC Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

Signatures

For the Government of
the Republic of the Marshall Islands

For the European Commission

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Date:

Date:

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EXECUTIVE SUMMARY

The purpose of the Country Strategy Paper is to provide, on the basis of an analysis of the political, economic and social situation of the country, a response strategy for EC support under the 9th EDF.

The Republic of the Marshall Islands (RMI) is one of the few unique atoll nations in the world. It consists of 29 atolls and 5 coral islands scattered throughout the central part of the Pacific Ocean. The total land area is 181 km². Two-thirds of the population of about 56,000 is concentrated in the two main urban areas: Majuro, the capital and business centre, and Ebeye. Unemployment is high and increasing numbers of young adults are unskilled. The GDP per capita in 2000 is estimated at €1,100. The US dollar is the legal currency.

In 1986, the RMI became an independent nation retaining a special economic, political and defence relationship with the United States of America, under an agreement known as the Compact of Free Association. Under the 15-year agreement, the USA provides economic assistance and compensatory payments for the use of RMI's territory for continuing U.S. military operations and settlement of all claims arising out of the nuclear testing programme carried out between 1946 and 1958.

With the progressive reduction of U.S. assistance, the Government has implemented a comprehensive adjustment programme since 1996 known as the Public Sector Reform Program (PSRP). It was mainly designed to reduce public expenditures to a sustainable level and to promote private sector development. The renegotiation process with the USA is currently ongoing as the economic provision of the Compact has expired.

Recent statistics show no real growth in national income per head since independence and little change in the structure of the economy. Agricultural production is relatively small. Copra and coconut constitute 90% of exports. The private sector is small and has slow growth. The country's Exclusive Economic Zone (EEZ) covers an area of more than 2 million km² and contains an abundance of fish and other valuable marine resources. The tourism industry is very small, but appears to have a useful development potential in certain niche markets.

The Government has selected the energy sector as the focal sector, absorbing 65 percent (€2.3 million) of the A-envelope of €3.5 million. The main objective is to improve the standard of living in the outer islands by providing new and renewable sources of energy. 20 percent (€0.7 million) is proposed to be allocated for support to the non-focal sector of human resource development/capacity building in the outer islands and 15 percent (€0.5 million) to the Non-State Actors for projects in the area of human resource development/capacity building. The B-envelope amounts to €1.1 million.

1. EC-COOPERATION OBJECTIVES

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development co-operation shall foster:

- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries into the world economy;
- the campaign against poverty in the developing countries.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EC Partnership Agreement, which puts main emphasis on the objective of reducing and eventually eradicating poverty. Co-operation between the Community and the RMI shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement – especially the principle of encouragement of ownership of the development strategies by the countries and populations concerned – and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership of development strategies.

2. THE NATIONAL POLICY AGENDA

The government's national policy framework and development strategies are set out in the Strategic Development Plan Framework 2003-2018 (Vision 2018). Vision 2018 sets out in very broad terms the goals and objectives over the next 15 years and how the RMI will go about achieving them. Vision 2018 is the result of the Second National Economic and Social Summit held in 2001.

The deliberations revolved around six discussion papers: RMI's Current Socio-Economic Challenges and Objectives over the next 15 Years; The Role of Government; The Role of the Private Sector; The Role of Civil Society; Human Resources Development; Sustainable Development. Following extensive debate and discussions, a number of common themes came through which included human resources development, environmental sustainability, outer island development and respect for culture and tradition.

2.1 National Development Strategy

RMI has identified ten key conditions to achieve Vision 2018:

1. A sound system of governance with political stability and commitment to Vision 2018, and a competent and honest public service;
2. High investment in education and research;
3. Foster a culture of high savings, investment and productivity;
4. Ability to take advantage of emerging global trends;
5. Effective and responsible economic and financial institutions;
6. Facilitating equitable development of the Outer Islands;
7. Strengthening the spirituality of the Marshallese people;
8. More harmonised development in the context of healthy lifestyles, and the prevailing culture and sustainable environment;
9. Fostering fundamental change in the attitudes and behaviour of all citizens, government, local governments, businesses, public corporations and NGOs, and
10. Effective "Partnership and Co-ordination" among National Government, Atoll Local Governments, NGOs, the Private Sector, Civil Society, and the Citizens.

3. ANALYSIS OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

The RMI is one of the few unique atoll nations in the world. It consists of 29 atolls and 5 coral islands scattered throughout the central part of the Pacific Ocean. The total land area is only 181 km², whereas the Exclusive Economic Zone (EEZ) covers an area of more than 2 million km² and contains an abundance of fish and other valuable marine resources. The national capital is Majuro atoll. Recent statistics show that the population is approximately 56,000 with 45 percent under 15 years of age. Two-thirds of the population reside on Majuro and Ebeye, which are the two main district centres with modern infrastructures, while the remaining one-third live in the rural "outer islands" following a subsistence lifestyle. The population growth rate has significantly reduced from the previous rate of 3.5 percent to 1.7 percent primarily due to increasing numbers

of emigrants to the United States. It is estimated that between 10 to 15 percent of the population live abroad.

More on the history of the Marshall Islands is provided in Annex 2.

3.1 Political Situation

In 1986, the RMI became an independent nation and established a bilateral agreement with the USA, known as the Compact of Free Association, which outlines the economic and political ties between the two countries. A major agreement of the Compact grants the U.S. exclusive military access to Kwajalein atoll for the U.S. Army strategic missile test range. It also provides for settlement of all claims for nuclear injury compensation following the nuclear testing programme, which the U.S. conducted from 1946 to 1958. By treaty, the national currency is the US dollar.

An overview of the Compact Agreement is provided in Annex 3.

The RMI has maintained a stable and democratic government since independence. The principal aims of the Compact – political sovereignty and exclusive military access by the U.S. – have been achieved, but the economic and social outcomes for the Marshall Islands differ significantly from RMI expectations. The country continues to strive for a self-sustaining economy in view of the natural constraints imposed by its small size, its remote location from major international markets, occasional natural disasters, and limited land resources, notwithstanding the challenge in balancing the effort to preserve its culture, to adapt to modern society and to promote a free market economy.

The Marshall Islands Constitution provides for a parliamentary system with legislative, executive, and judiciary branches. Legislative power is vested in the *Nitijela* (parliament), with thirty-three senators, elected every four years and representing 24 atoll/island districts. Larger districts are assigned additional senate seats. The Executive comprises the President and the Cabinet. The President, elected by majority vote from the membership of the *Nitijela*, appoints the ministers who are also member of the *Nitijela*, forming the Cabinet. There is a traditional council of chiefs known as the Council of *Iroij* that acts mainly as an advisory body on wide matters pertaining to customary practices.

There are also twenty-four local governments overseeing local affairs and ordinances, most of them relying on the national government for support and assistance.

The judiciary consists of the Supreme Court, the High Court and the Traditional Court.

3.2 Economic Situation

The principal feature of the small RMI economy is the predominance of a semi-subsistence sector, still based primarily on copra production, alongside a limited, modern service-oriented sector which is mainly sustained by the expenditures of the government and the U.S. military base on Kwajalein. During the long period in which the Marshall Islands, as part of the Trust Territories of the Pacific Islands – TTPI, were administered by the USA on behalf of the UN, economic development was not assigned a high priority and local productive capacity has remained relatively undeveloped. The economy is driven by the public sector that receives funding through the Compact agreement. U.S Compact assistance is the mainstay of the RMI economy. It contributed an estimated 50% of GDP over the past 16 years.

The private sector is small and has slow growth for a number of reasons, including limited investment opportunities, small domestic markets and high risk and capital costs. The sector deals mostly with trade and small manufacturing which, together with services, are the major components of cash flow. In addition, the economy has a serious trade imbalance. Even with modest increase of exports, the level of imports has not significantly decreased, which still represents a high percentage of GDP. This heavy dependence on imports has made the RMI vulnerable to external events, in particular to fluctuations in world market commodity prices.

Recent statistics indicate no real growth in national income per head since independence and little change in the structure of the economy. Contained inflation was due to cheaper imports arising from the strengthening of the US dollar and sluggish demand, the combination of which more than offset the impact of the sharp rise in fuel prices. Expenditure on imports from the U.S. exceeds the annual value of Compact revenues. The labour force is growing much faster than the number of jobs being created and unemployment, which is currently as high as 30 percent, is increasing. The overall GDP (at 1991 prices) increased by about 17 percent over the last 15 years. This was, however, not enough to counterbalance the growth rate of the population, which increased by 34 percent over this period. As a result, there was a drop in per capita income of almost 12 percent. Most of this decline was experienced between 1994 and 1997 as debt liabilities absorbed much of the government budget that led to the reduction of the public sector. Government reduced its services in the areas identified as most suitable for the private sector to fulfil and absorb. However, the economy contracted by nearly one-fifth shortly afterwards as Compact funding was reduced. In addition, unemployment rates increased from 13 percent in 1987 to 30 percent in 1999 as more people entered the economy.

<u>Economic Indicators</u>	<u>1987</u>	<u>1999</u>
Real GDP per capita	€ 1,500	€1,200
Unemployment	13%	30%
Average annual inflation	4.2	1.8
Average salary real	€3,800	€2,800
Total exports (\$'000)	€ 2.10	€ 7.70
Total imports (\$'000)	€33.80	€68.90

The Government recognises the challenges and has been focusing on economic reform, greater accountability and improved performance. There are efforts to improve domestic capacity to administer Government more efficiently and promote private sector growth by further streamlining the requirements for new business, particularly foreign investors. In addition Government continued to: 1) retain expenditure levels 25 percent lower than 1995 expenditure levels, 2) decrease subsidies on a number of government entities and allow for privatisation process, 3) maintain the government hiring and wage freeze policy, and 4) concerted more efforts to collect unpaid taxes.

In terms of long-term fiscal policy, RMI has recently established the Marshall Islands Intergenerational Trust Fund (MIITF), with an initial deposit of US\$18 million, to set aside maximum savings so as to generate uncommitted future income. As the Compact re-negotiations with the U.S. continue, the RMI anticipates that part of the future Compact transfers (and potentially other external contributions) will be saved and

invested in the Intergenerational Trust Fund to create post-Compact income and enhance self-reliance.

The Government has been attempting structural adjustment to stimulate economic development and contain budgetary deficits for over half a decade. The Government requested the Asian Development Bank (ADB) support for public sector reforms as far back as 1994. This resulted in a Public Sector Reform Programme (PSRP) loan in 1997. Overall, RMI's performance under the PSRP has been positive and include improving the policy environment for the private sector, strengthening the financial sector for growth and achieving an economy which is less dependent on external aid flows. Recent actions taken include anti-corruption and good governance measures.

For the time being the RMI is still on the list of the OECD's Committee on Fiscal Affairs as regards harmful tax, but the country is moving to bring its financial system into line with international "best practice" for small financial centres.

3.2.1. Economic growth sectors

The traded goods sector of commercial agriculture, local handicrafts, black pearls and niche tourism contribute minimum input, but continue to gain steady growth.

Agricultural production is relatively small but important to the livelihood of people and the economy. It comprises food crops including small livestock and one cash crop, copra, which is processed into coconut oil and other products. Copra remains the most important – almost the only – source of earned income for people in the rural areas. The copra price subsidy is an important way of redistributing income to rural households. Land for agricultural production is limited.

The fisheries sector comprises two sub-sectors, coastal and oceanic fisheries. Coastal resources are harvested by households for their own consumption and sale to the urban areas. There is potential for commercially viable (black) pearl farming. With an Exclusive Economic Zone of more than 2 million km², RMI has an abundance of fish and other marine resources. The fishery resources are exploited through licensing of vessels from distant water fishing nations to fish in RMI's EEZ. RMI has a Multilateral Fishery Treaty with the USA and bilateral fisheries agreements with Japan, Korea and Taiwan. In 1997 the National Fisheries Policy was approved in order to improve the economic benefits from the fisheries sector, promote responsible private sector-led fishery development and strengthen the institutional capacity to facilitate development and management of fishery resources, within sustainable limits. Part of these efforts resulted in the recent establishment of a private tuna loining plant in Majuro with a processing capacity of 50 tons per day and employing some 350 people, of which 80 percent are women.

In the past five years RMI has received about \$16.4 million from licences and transshipment fees, with annual receipts between \$2 to \$5 million. This represents a significant contribution to the government's General Fund. Apart from the multi- and bilateral fisheries agreements, an important strategy of RMI is to make Majuro an attractive port for transshipment, not only to derive additional revenues from transshipment fees, but also to inject spending into the local economy.

Tourism at present is very small, but appears to have a useful development potential in certain niche markets. Tourism infrastructure, hotels and restaurants are located mostly

in Majuro with some small facilities on the outer islands. Development aims at niche markets in Japan and the USA for outer island/atoll cultural experience, diving and fishing. In the longer term, the plan is to shift to the development of self-contained, private island resorts.

3.3. Social situation

The external support provided to the RMI has produced a relatively high standard of living, especially in the urban centres. Income per capita has been above the regional average, with most health indicators comparable to the average for other Pacific Island countries. There has been a significant improvement in the health status in RMI. Infant and child death rates have been considerably reduced in the last decade. Life expectancy has also increased. Apart from radiation-related health problems caused by the nuclear testing, much ill health in RMI is lifestyle- and nutrition-related.

The RMI has a young population with a median age of 18 years old. Unemployment rates are highest among the youth, in the age group between 15-19 and the job market is limited. The working-age population is under-employed, especially the women, who make up 30% of the labour force.

HEALTH INDICATORS

Indicator	1988	1999
Life Expectancy: Females	62.57	69.35
Males	59.61	65.72
Crude Death Rate (per '000)	8.9	4.9
Crude Birth Rate (per '000)	49.2	41.8
Total Fertility Rate	7.23	5.71
Infant Mortality Rate (per '000)	63	37
Mortality under 5 years (per '000)	93	48

Source: RMI Office of Planning and Statistics

3.3.1. Health and Education

Delivery of education and health services is greatly complicated by the vast dispersion of the islands. Within atolls the problem is further compounded by small settlements being spread out among several islands. Higher costs and more staff are needed to deliver a satisfactory level of service.

Health services are concentrated in the two urban areas. Curative health services at Majuro and Ebeye absorb the major part of health finances, reducing resources available for in-country primary and preventive health care. Demand for overseas referrals is putting an unsustainable load on the health care budget. Better domestic facilities could replace most referrals at much lower recurrent cost. Public health facilities need upgrading and maintenance. RMI depends heavily on expatriate health workers to staff government hospitals, and professional cadre management is problematic. Health sector expenditure comes largely from US funding as well as the health insurance fund. Many people could directly contribute more towards the cost of health services in general, and to the curative services they use in particular.

The current 15-year Strategic Plan for 2001-2015 targets primary health services and greater self-care, but present costs are skewed toward curative services by heavy dependence on costly overseas referrals.

The poor performance of the education system in RMI is a matter of serious concern. Teacher qualifications, school attendance and student motivation, and materials supply are all unsatisfactory. Facilities are concentrated in the two urban centres. The key factors in raising the quality of education are the availability of qualified teachers - presently nearly half of the teachers in RMI have only a high school diploma - and of relevant instructional materials and other resources, as well as the effectiveness of management at school and classroom levels and the standard of school facilities. Many school buildings require major repairs and maintenance as well as upgrading of facilities including new buildings.

The major source of external funding for education is Compact and US federal grants, which are largely tied to specific activities and therefore do not provide flexibility for reallocation to other priority areas such as educational instruction materials. Better coordination of the sources of funding and greater flexibility in Compact-derived sources is required to ensure the available funds are allocated to meet educational priorities. The Ministry's current Strategic Plan targets greater community responsibility for schools, more diversified funding, teacher training/career development and enforcement of educational standards. Better coordination of resources and institutions engaged in tertiary education and skills training is essential.

POPULATION AND SOCIAL INDICATORS 2002

POPULATION INDICATORS	2002
Total population	56,000
Annual population growth rate (% change)	1.5%
SOCIAL INDICATORS	
Primary school enrolment (% of school age)	84.1
Secondary school enrolment (% of school age)	69.5
Population with access to safe water (%)	82.0
Population with access to sanitation (%)	73.4
Human Poverty Index	0.563

Source: RMI Office of Planning and Statistics

3.3.2. Gender

RMI is based on matrilineal society. Males derive their traditional status and land rights accordingly from the mother's side. As such women are highly respected in many aspects. They play an influential role in the communities, particularly on the outer islands. Female students are almost equally represented, accounting for nearly 50 percent, but in the labour market women participation is only 30 percent, partly because women are traditionally expected to perform family and household duties. In recent years, however, more women are becoming involved in the labour force and public service, due to an increase in education and expertise in many fields.

3.4 Environment and Resource management

Growing population and limited land have contributed to growing environmental problems. Proper waste management, coastal monitoring and sewage disposal require particular attention, especially in the two urban centres. RMI is vulnerable to climate change in the form of increasing incidence of extreme weather conditions and rising sea level, threatening dwellings, infrastructure and fresh water reserves and RMI is putting considerable efforts in lobbying with the international community for preventive measures and actions.

The Environmental Protection Agency (EPA) was established to monitor and administer environmental issues. One of the national development goals identified by the National Commission on Sustainable Development concerns environmental sustainability. For the RMI it is critically important to restore integrity to the damaged natural environment, and to develop effective responses to new threats and changing circumstances, particularly climate change.

3.4.1 Energy

The RMI is almost totally reliant on imported fossil fuels to generate energy. Importation of oil has increased because of a steady growth in population over the past several years, placing an increasing strain on the economy. Electric power is generated in the main urban centres of Majuro and Ebeye and on a number of outer islands. The Marshalls Energy Company (MEC) provides the diesel-generated electricity service. On Majuro alone, MEC spent an estimated US\$5 million on operating costs per year. Other outer island groups are supplied either by diesel generators or from solar photovoltaic power. The supply of conventional energy to rural areas by urban-based energy utilities is generally uneconomic. To the people in the rural areas, increased energy supply is often their only hope for improving their standard of living. There is an abundant supply of energy sources in the rural areas.

In 1994, the Government adopted an outer island energy policy and plan to carry out rural electrification using solar energy. Under this plan about 428 photovoltaic lighting systems have been installed on which 65 percent are for households. Other installations of PV system in rural areas were for fish bases, radiotelephones and schools.

The energy division of the Ministry of Resources and Development overviews all renewable energy projects in RMI and is setting a central strategy framework known as ADMIRE (“Acting for the Development of the Marshall Islands on Renewable Energy”), which is designed to ensure sustainable operation and development of the renewable energy sector. Some of the technological means adopted or being considered are photovoltaic systems, wind power generation, bio-fuel (copra oil), and solar water heaters.

SOPAC (the South Pacific Applied Geoscience Commission) has assisted the RMI in the identification of renewable energy sources to reduce the dependence on imported fossil fuels and is reviewing RMI’s solar electrification programme on how to improve its sustainability. Assistance was also provided for the development of rural electrification and appropriate energy supply policies. SOPAC has identified the need to assist RMI in: (i) encouraging the use of low-emission technologies and native energy sources; (ii) providing reliable energy services based on the least-cost strategy and technically proven technologies; (iii) guaranteeing full cost recovery from customers for the provision of energy.

In recognising the crosscutting benefits of the renewable energy sector, the RMI recently allocated US\$1 million to provide solar energy to households in the outer islands. Pilot projects for households, with funding assistance from Australia and France, are currently being implemented. A project to provide solar energy to some of the health centres in the outer islands, supported by the Department for Social Affairs of the United Nations, is nearly complete. The energy division is actively involved with all the stakeholders to ensure proper and effective implementation. These pilot projects are being carefully evaluated and assessed to form a viable system for a later project at a larger scale. Good co-ordination, cohesive policy and maintenance strategy are integral parts of such assessment.

3.5 Medium term challenges

A key challenge facing the government is to adjust to the progressive reduction of US Compact assistance. Most economic activity in the RMI is services-based, and massively dependent on the expenditure of money received from the US under the Compact (as grants, lease payments and injury compensation). RMI has difficulty attracting foreign direct investment. In addition to the problems of the economy's remoteness and small size, wages in RMI are high by regional and developing country standards, making it difficult for enterprises to compete internationally. Retention of the US dollar as RMI's domestic currency simplifies economic management, but the strength of the currency further handicaps RMI's international competitiveness.

Another major challenge is to distribute benefits more equitably and improve the living standards in the outer islands. The distribution of income and access to services, and the burden of social and economic cost, has to be made more equitable, both between classes of society and between atolls. Over the years the main urban centres of Majuro and Ebeye have experienced growing numbers of people moving in from the outer islands to seek employment, adding more social and economic burden to already crowded schools, hospitals, and bare social supports as provided. These urban centres, with two-thirds of the total population, contain large numbers of unemployed and otherwise disadvantaged people, and there are islands of relative poverty in rural atolls. Access to services and infrastructure in the rural atolls is poor. Reliable shipping services, electric power, telecommunications, banking and postal services are all lacking in the rural areas, in striking contrast to RMI's relatively high level of money income per head.

The need to pursue sustainable development beyond environmental concerns has been addressed by the recent establishment of the broad-based, interdisciplinary National Commission on Sustainable Development, which is preparing proposals for a plan of action to address a range of sustainability issues on a national scale.

4. OVERVIEW OF PAST AND ON-GOING COOPERATION

4.1. EC Cooperation

The RMI is a new ACP Member State in the Pacific and has no record of past co-operation with the European Union.

4.2. Bilateral assistance

The United States of America is the most important donor to the RMI. Compact funds support most of the national government services and operations. The Compact fund amounts to \$30 million annually. A May 2000 report to Congress by the USA Accounting Office – the first such report in thirteen years of Compact disbursements - criticises the American side for failing to monitor the use of Compact funds and observes that there is little to show for the Compact transfers in terms of RMI's economic growth. Apart from the Compact, the U.S. also provides federal grants on a project basis, through various U.S. departments. RMI is currently involved in Compact renegotiations for a new long-term economic package for the next 20 years. An overview of the Compact of Free Association is provided in Annex 3.

The Republic of China (Taiwan) provides substantial assistance in the area of sea transportation and outer island infrastructure development. A major renovation project for the public schools on Majuro is nearly complete.

Japan provides technical and grant assistance of around \$2 million annually, primarily for infrastructure. Recently, all roads were rehabilitated in Majuro and a fishery base facility on Jaluit Atoll was established.

Australia provides support for alternative energy in the outer islands, for social and small grass-root projects along with scholarship awards. The projects aim to enhance the well-being of the community, particularly in the area of small production and farming.

4.3 Multilateral Assistance

Since joining the Asian Development Bank (ADB) in 1990, the RMI has received 11 loans totalling \$71.13 million and technical assistance grants totalling \$14,53 million. The main objective of ADB's operational strategy is to help the government achieve a sustainable and self-reliant economy. ADB assistance is aimed at economic and financial reforms, improving fiscal management capability and supporting essential services such as education, health, and water supply. The ADB has recently signed a Poverty Partnership with RMI. Under this agreement, the Bank and the Government of RMI will jointly prepare a National Poverty Reduction Strategy.

Multilateral donor agencies like those of the United Nations system, primarily UNDP and UNICEF, offer grants mainly in the form of technical assistance and social pilot projects.

5. THE RESPONSE STRATEGY

5.1 Objectives for future co-operation

The response strategy takes into consideration the basic principles of EC's Development Policy, as well as the results of the preceding analysis of the political, economic and social situation in the RMI, the longer-term development goals, the government's own priorities and the management capacity and staff resources of the EC Delegation in Fiji. Past experience of other donors activities are also included in the strategy. The future

co-operation between RMI and the EC in the context of the Cotonou Agreement has been designed to contribute in particular:

- to ensure that EC funded projects have a positive impact on living conditions of all beneficiaries, in particular the people in the outer islands, without a distinction according to social, ethnic, political, religious or gender criteria;
- to ensure that the operations can be sustained in order to guarantee a long-lasting flow of benefits to the target groups and to the country as a whole;
- to ensure that the projects and programmes funded under the present Agreement are in areas where the EC is perceived to have a comparative advantage, compared to other donor organisations, and where it is possible to operate in close partnership with established and reputable regional agencies that have already established networks in RMI.

5.2 Areas of future co-operation

The Government recognises the need to spread the benefits of growth more widely and equitably across the country and to improve the living conditions in the outer islands. Addressing the basic energy needs of the outer islands through a sustainable, environmentally sound and secure energy supply can supplement the long-term energy needs of the country and further reduce the dependence on imported fossil fuels. To redress the imbalance and achieve a more equitable distribution of resources to the outer islands, the Government has selected the **energy sector**, and in particular **new and renewable energy sources** as the focal sector in support of outer island development. This objective is also coherent with the Country Support Strategies of most of the other Pacific Island countries, which also feature outer island development as focal sector. The European Commission has already successfully implemented rural energy programmes in the neighbouring Micronesian country of Kiribati.

The focal sector will address a number of crucial development concerns.

First, it will improve the living conditions in the outer islands. Schools and clinics will be among the first beneficiaries of energy supply to these areas, thus allowing for the use of equipment such as computers (access to information of both educational and health issues), photocopiers (for the reproduction of education material) and electric health instruments. The availability of energy in the outer islands will also contribute to enhance private sector activities such as tourism and handicraft production and the creation of jobs in those communities, where economic activity is otherwise minimal or non-existent. Without energy it is impossible to offer adequate tourism accommodation. RMI's vulnerable environment cannot cope with mass tourism. Its tourism niche market lies in eco-tourism and community-based tourism. Energy generation through renewable sources fits into that strategy. This also applies to handicraft production. As energy is needed for the production and sale of products, this must be integrated in the eco-tourism vocation of the islands, whereas volumes of sales are directly related to occupancy rates.

Second, energy generation through renewable sources contributes to environment protection and preventive health. People in the outer islands rely mainly on wood fuel and batteries for their energy needs, both of which constitute a serious environmental impact. Woodcutting leads to fast depletion of already scarce vegetation and, especially because mangroves are often cut for wood fuel, the coast becomes more vulnerable to

erosion. The use of batteries leads to pollution, because they are not disposed off in due form thereby constituting a serious health hazard.

Third, energy generation through renewable sources contributes to diversifying the resource base of the economy and to strengthening the balance of payment position. The price of fuel in small and distant countries like RMI is among the highest in the world, due to the size of the market, transportation costs and weak negotiation capacity of the national administration when faced with multinational oil companies. Gradual substitution of fossil energy by indigenous renewable sources should contribute to decrease the country's import bill.

The following specific objectives will be pursued within this sector:

- improving services and the living standard in the outer islands;
- enhancing the productive sectors of the outer islands while preserving the fragile environment of the islands;
- reducing dependency on imported fossil fuels;
- capacity building and institutional strengthening in the management of RMI's indigenous energy resources.

The Government proposes to allocate 65 percent of the A-envelope or €2.3 million for the development of the energy sector.

In addition, there is a clear need for support to the outer island public schools where the lack of appropriate school furniture and acute shortages of textbooks, school supplies, other instructional materials and modern teaching equipment are affecting the quality of education. Many schools require major repairs and regular maintenance. They suffer from inadequate water and sanitation facilities, which can create health problems, and from inadequate supporting infrastructure such as electricity and lighting, which adversely affects the quality of education. Classrooms are often very dark and the installation of devices to improve lighting in the classrooms is essential. Alternate lighting systems such as solar domes and skylights will be used which require less maintenance than typical solar lighting systems.

According to a recent assessment by the Ministry of Education, 89 percent of the public school buildings are at least 20 years old with 64 percent of facilities either rated as poor or fair.

The Government proposes to make 20 percent of the A-envelope or €0.7 million available for support to the outer island public schools in the form of **human resource development/capacity building**.

Involvement of Non-State Actors

Private schools play a significant role in expanding education in the Marshall Islands, but suffer even more from shortages of textbooks and poor facilities. Although the Ministry of Education provides modest support to the private schools to address these issues, this is still inadequate. NGOs are also involved in informal education.

The Government recognises the crucial role of these private learning institutions and NGOs and proposes to further supplement the existing "Aid to Private Schools" programme and assist the other Non State Actors by allocating 15 percent of the A-envelope or approximately €0.5 million to the NSAs. This funding could be earmarked

for learning materials, equipment, school repairs and other related capacity initiatives for both formal and non-formal learning institutions, particularly as regards youth and women development.

5.3 Coherence and Complementarity

Coherence between development co-operation policy and other EC policies (trade, fisheries, agriculture, environment) relevant for RMI will be assessed on a continuing basis. Coherence with cross-cutting issues referring to gender mainstreaming, environmental considerations and principles of good governance will be observed in all future projects.

NIP resources may be used to complement RIP resources, budget lines and trade-specific operations, in support of RMI's efforts to prepare for the establishment of a coherent trade policy framework, with emphasis on preparing for the EPA, and assistance for capacity-building for carrying out negotiations in a regional and multilateral context and in implementing the accompanying trade policy and structural reforms.

Fisheries matters will be addressed by means of the RIP with its support to the Forum Fisheries Agency and the Secretariat of the Pacific Community. The EC intends to develop a network of bilateral fishing agreements with certain Pacific states, in the line approved by the Council and with regard to the interests shown by EU Member States. This line of action would be taken in conformity with the fishery management decisions by regional fishery organisations covering the Pacific Ocean.

The 9th EDF Regional Co-operation Strategy has re-enforced the importance of regional Human Resource Development. Efficient co-ordination between regionally and nationally funded EDF operations in this sector is essential and will be followed up closely by the Pacific Forum Secretariat and other regional organisations.

The programme is complementary to RMI's own efforts to improve the living conditions in the outer islands and redress the imbalance between urban and outer island development by spreading the benefits of growth more evenly across the country as well as to observe the sustainable use of the natural environment.

It is co-ordinated with and complements the support for outer island development of other donors, in particular France and Australia (alternative energy programmes), the USA (education) and the ADB (social services).

6. 9th EDF INDICATIVE PROGRAMME

6.1. Introduction

Within the framework of the present Country Strategy Paper (see part A) and according to the provisions of Article 4, Annex IV of the Cotonou Agreement, the Parties have agreed on the main priorities for their co-operation and on the sectors on which Community support will be concentrated. A detailed Indicative Programme, including a set of tables on commitment and disbursement forecasts, as well as a preliminary chronogramme of the different activities envisaged under the Programme within the project cycle, is presented hereunder.

The repartition of funds between the focal sector, macro-economic support and other programmes or instruments can be modified in the context of operational performance or ad hoc reviews.

6.2 Financial Instruments

The implementation of the co-operation strategy of the EC with the RMI will be financed through different instruments with the following indicative amounts:

- a) **9th EDF A-allocation (€ 3.5 million)** will cover long-term development operations within the framework of the Support Strategy;
- b) **9th EDF B-allocation (€ 1.1 million)** will be mobilised to provide additional support when this becomes necessary as a result of unforeseen needs such as emergency assistance.

Apart from the above-mentioned financial instruments, of which the A-envelope is the main programmable basis for the Indicative Programme, the 9th EDF also includes the “Investment Facility” as a financing instrument managed by the European Investment Bank. The Investment Facility does not form part of the Indicative Programme.

Specific actions could be financed via different EC budget lines administered by the Commission, especially in the areas of decentralised co-operation and NGO co-financing, human rights and democracy. Budget line funding is subject to specific rules and regulations and depends on the availability of funds.

RMI will also benefit from the Regional Indicative Programme of the 9th EDF and from trade specific operations, according to needs and availability of funds. More details will be discussed in the framework of the 9th EDF regional programming for the Pacific Island States.

6.3 Areas of concentration

Within the general framework of the present Country Strategy Paper, the Parties have agreed on the main priorities for their co-operation (see previous chapter) and the sectors on which the support of the Community will be concentrated. It is based on the resources of the A-allocation.

Amounts mentioned in this chapter indicate the global repartition of funds within the focal sector. This repartition can be modified in the context of operational, performance or ad-hoc reviews.

The A-envelope shall be allocated as follows:

- New and renewable sources of energy for outer island development will absorb **65%** of the allocation, i.e. **€2.3 million**.
- Enhancement of Human resource development/capacity building on the outer islands will absorb **20%** of the allocation, i.e. **€0.7 million**.
- For activities implemented by Non-State Actors in the area of human resources development/capacity building, **15%** of the allocation, i.e. **€0.5 million** will be earmarked.

6.4 Macroeconomic Support

The Indicative Programme does not foresee macroeconomic support. However, in the light of current needs, it may be decided to reallocate funds from other headings in the Indicative Programme to this type of support. Such a decision may be taken through a specific agreement between the Chief Authorising Officer and the National Authorising Officer or in the context of an operational; performance or ad hoc review.

6.5. Intervention logic and timetables

Details of the intervention framework, an activity chronogramme and tentative forecasts of commitments and disbursements over the next years are presented hereunder.

6.6 Intervention Framework Focal Sectors :

Narration	Indicators	Means of Verifications	Assumptions
<p>Goal A: Providing cost effective and reliable renewable energy source(s) to enhance development & social activities in the outer islands.</p> <p>Goal B: Improve educational facilities and other human resource development components in the outer islands.</p>	<ul style="list-style-type: none"> • Less dependence on fossil fuels • Less dependence on forested woods for cooking • Strengthened local capacity to manage solar projects • Improved educational facilities in the outer islands. 	<ul style="list-style-type: none"> • Office of Statistic reports • Fuel usage reports • Outer island development reports • Energy division reports • Ministry of Education reports 	<ul style="list-style-type: none"> • Both RMI government and the EU approves the energy sector and non-focal sector of HRD.
Output for A and B			
<p>Goal A: Improved living standards in the outer islands.</p> <p>Goal B: Improved educational facilities and services in the outer islands.</p>	<ul style="list-style-type: none"> • 80% of outer islands households are provided with solar equipments. • Number of students passing from outer islands schools to enter higher level of education 	<ul style="list-style-type: none"> • Energy division reports • Ministry of Education reports 	<ul style="list-style-type: none"> • Primary education remains to be mandatory.
Activities			
<p>Install solar energy in outer islands households, schools and other public facilities to power lights, computers, radio, video and other modern equipments</p>	<ul style="list-style-type: none"> • Number of professionally-installed and sustainable-managed solar systems • Number of modern equipments used 	<ul style="list-style-type: none"> • Energy division reports • Office of Statistic reports 	<ul style="list-style-type: none"> • RMI government and EU agree for regional organization to continue to assist RMI within the framework of the ADMIRE.

6.7 CHRONOGRAMME OF ACTIVITIES

Title	2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Focal sector: New & renewable energy	Project identification and programming		Financing Proposal	Financing Agreement	Tenders and mobilisation		Implementation	
a. Non-focal sector: Human resource development (HRD) b. Non-state Actors: Human resource development	Project identification and programming			Financing Programme	Financing Agreement	Implementation		

6.8 INDICATIVE TIMETABLE FOR COMMITMENTS AND DISBURSEMENTS

Title	Amount	2002		2003		2004		2005		2006	
		S1	S2	S1	S2	S1	S2	S1	S2	S1	S2
Focal sector: New & renewable energy	Commitment				€2,300,000						
	Disbursement					€450,000	€400,000	€400,000	€400,000	€400,000	€250,000
Non-focal sector: HRD for NSA (outer islands) & NSA initiatives	Commitment				€1,200,00						
	Disbursement					€250,000	€250,000	€250,000	€250,000	€200,000	
Total Commit.					€3,500,000						
Total Disburs.						€700,000	€650,000	€650,000	€650,000	€600,000	€250,000

ANNEX 1: Country Donor Matrix

Country Matrix	Economic Development	Social Development	Productivity Sector Activity	Thematic Cross Cutting Issues
Non State Actors		Youth to Youth in Health Clinic		
France		Solar Project on Mejit Island		
United Nations		Solar power for the outer islands health centres		UNV for Office of Planning and Statistics
Japan	Ejit Island Dock		Jaluit fishery facility	
Taiwan	Secondary Road Paving Outer Island Transportation Infrastructure Outer Island Development Fund Majuro Airport Hanger Heavy Equipment Budget Support Renovation and construction of various government buildings Equipment upgrade Tobolar copra processing plant Wotje Island Power Plant	School Maintenance and facility Improvements at the district centres	Agriculture training facility in Majuro Agriculture Projects on Majuro, Jaluit, & Wotje atolls	

AusAID		Small Grants for education/outer island projects College Scholarships Education Statistics TA Solar project on Namdrik Atoll		Immigration system improvements/TA
Canada		Small Grant Program - Library Improvements		
United States	Small Business Development	Grant Scholarships Head Start Programs Bilingual Education Grant Special Education Grant Adult/Continuing Education Rural Housing Grants/Loans Vocational Education Grant Special supplement health programs Historic Preservation	Workforce Investment Grant Agriculture Research Grant	Ebeye Infrastructure Grant Disaster Preparedness Grant
ADB	Fisheries Revolving Loan Fund Outer Island Infrastructures Loan Financial Management Program Loan	Vocational/Technical Education Loan		Ebeye Infrastructure Loan

ANNEX 2

General History of the Marshall Islands

Accordingly the first Marshallese came to these islands about two thousand years ago, voyaging in canoes from origins in South–East Asia. Archaeological studies point to early settlement in the northern atolls of the Marshall Islands. The way of life and social structure gradually developed to fit the sparse and isolated environment. Marshallese have always been noted for their navigational skills by observing the position of the stars, moon, sun, and the patterns of the winds or the waves.

The first European to sight the islands was Alonso de Salazar of Spain in 1525. The Marshall Islands, however, were off from the main trading routes and consequently received little attention from the early European explorers. The islands later received a visit in 1788 from an English captain named John Marshall who later claimed his name to the islands. The first Protestant missionaries arrived on Ebon in 1857. Shortly a major portion of the population was converted to Christianity. Then Germany formally annexed the islands in 1885. But in the early 1900's several storms and epidemics hit the Marshall Islands, killing many hundreds of people. A census in 1908 recorded just over 9,000 people, only about two–third of the estimated population thirty years earlier. Cash, by this time, was widely an accepted and useful part of life.

Japan occupied the islands in September 1914 as mandated by the League of Nations. The Japanese had both strategic and commercial interests. The Marshall Islands were to be Japan's strategic south–eastern perimeter, and a source of marine products for its own market. When the Pacific war broke-out, series of fierce air, land and sea battles took place in the Marshall Islands as still evident today by many war relics.

The islands became part of the United Nations Trust Territories of the Pacific Islands (TTPI), to be administered by the United States. The U.S. immediately began its nuclear testing program starting in 1946 till 1958, testing sixty-seven nuclear bombs on a number of atolls, namely Bikini and Enewetak. During the 1950's, the tension grew between the military/strategic objectives of the U.S. and its responsibilities as mandated under the U.N. Trusteeship to implement social and educational programs for the people. Consequently the testing program ended

The people began the slow process of attaining self-governance during most of the 1970's. Finally a national referendum was held and the Marshall Islands became a republic in May 1979, ending over century of colonization and foreign rule. The interests of the RMI to secure financial foundations coincided with the interest of the U.S. government to maintain access to its existing missile test facilities in addition to the nuclear related compensation. An agreement came into full effect on October 1986 when the U.N Trusteeship was effectively terminated.

ANNEX 3

The Compact of Free Association

The Compact of Free Association became effective in October 1986. It recognizes the self-governing of the Marshallese people and outlines the unique relation between the Republic of the Marshall Islands and the United States of America, particularly on the area of immigration, economic assistance and security purposes. The preamble highlights fundamental rights, freedoms, trusteeship, and self-determination. It is a 15-year agreement revolving primarily on the following:

1. Sound diplomatic relationship
2. Economic assistance package
3. Compensation for (a) access rights to the RMI's EEZ, (b) land lease for the U.S. military base on Kwajalein, and (b) loss and injury inflicted from the U.S. nuclear testing program.

The Compact fund amounts to US\$30 million annually. Upon receiving the fund, the RMI disburses the land lease payments directly to the Kwajalein Atoll landowners (\$8m) in addition to capital project improvements (\$4m) to the Ebeye community. Nuclear compensation is arranged under a separate subsidiary agreement that provides annual compensation directly to the victims. The government receives funding through the Compact economic provisions, as specified under the agreement to be annually allocated to particular areas in health (\$1.5m), education (\$1.8m), and communication (\$0.3m). The greatest portion of the Compact fund is directed to the general operation of the government, much of which had been invested in infrastructure development.

The infrastructure, among other capital projects, includes the establishment of the following institutions now operating as private institutions; the Marshalls Energy Company, the National Telecommunication Authority, Majuro Water and Sewer Company, and the Air Marshall Islands for domestic air services. The effort is now aimed towards building a national trust fund. With the paid off bonds, the government has directed the free capital funds into capital reserves. Within the last two years period, the government has already allocated nearly \$20 million for the trust fund and will continue to contribute on an annual basis.

The Compact also entitles the Marshall Islands as an eligible recipient to certain U.S. federal programmes. This amounts to \$8 million annually to various projects proposed on an annual basis. These programmes are mostly targeting social issues, but most of them have ceased or will soon no longer be available.

The RMI and U.S. are presently reviewing the economic provisions to outline the package for the next 20 years. Negotiations continue to proceed and it is expected that an agreement may be reached later in 2002.

ANNEX 4: GOVERNMENT EXPENDITURES 1996 – 2001
(In millions of U.S. dollars)

	<u>95/96</u>	<u>96/97</u>	<u>97/98</u>	<u>98/99</u>	<u>99/00</u>	<u>00/01</u>
Government	4.1	4.3	4.2	4.4	3.4	3.4
President and Cabinet	1.8	1.9	1.8	1.9	1.1	1.0
Advisory Council of High Chiefs (Iroij)	0.3	0.4	0.3	0.4	0.4	0.4
Legislature (Nitijela)	1.2	1.2	1.3	1.4	1.1	1.2
Commissions, agencies, and offices	0.8	0.8	0.8	0.7	0.8	0.8
Ministries	35.9	33.3	36.7	31.4	35.0	34.1
Health and Environment	6.4	6.8	6.1	6.2	7.3	5.9
Education	11.1	12.2	12.1	11.3	11.6	11.5
Transportation and Communications	2.0	1.2	0.7	0.8	0.3	0.5
Interior and Social Welfare	0.9	1.0	1.2	1.2	1.0	1.4
Public Works	1.6	1.0	0.0	0.0	1.4	1.1
Social Services	2.0	0.1	0.0	0.0	0.0	0.0
Resources and Development	0.8	1.6	1.7	3.1	2.5	2.6
Foreign Affairs	5.2	2.2	1.9	2.2	1.9	1.9
Finance	2.1	1.9	1.6	1.9	1.6	1.1
Justice	1.4	1.3	1.2	1.9	1.7	1.8
Other	2.4	4.1	10.3	2.8	5.6	6.3
Interest payments	7.5	6.8	5.4	4.3	1.9	0.9
Subsidies and transfers to public enterprises	2.6	2.1	2.6	1.4	1.5	1.5
Miscellaneous	3.7	6.5	2.9	6.9	8.2	4.9
TOTAL:	53.8	52.9	51.8	48.4	50.1	44.8

*Fiscal year begins October 1st

ANNEX 5: FINANCE FIGURES

	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>94/95</u>	<u>95/96</u>	<u>96/97</u>	<u>97/98</u>	<u>98/99</u>	<u>99/00</u>	<u>00/01</u>
Revenue and grants	67.3	71.7	71.0	77.7	78.1	68.8	71.5	65.5	62.1	69.5
Total domestic revenue	24.5	28.1	28.0	34.9	36.0	27.8	24.7	26.7	22.5	24.6
Non-tax revenue	7.9	8.9	9.6	15.4	16.6	9.2	6.0	9.8	6.5	7.7
Compact related fund	42.8	43.6	43.0	42.8	42.1	41.0	46.8	38.8	39.6	44.8
Programs	32.5	32.0	33.7	36.4	34.6	30.4	30.9	30.9	30.9	30.9
Other	10.3	11.6	9.2	6.4	7.5	10.6	15.9	7.9	8.7	13.9
Total Expenditure	82.7	84.8	83.3	100.1	60.1	60.4	56.6	55.3	57.1	54.5
Current expenditure	63.7	66.7	59.4	57.1	53.8	52.9	51.8	48.4	50.1	44.8
Wages and salaries	18.8	19.4	21.0	21.9	21.4	18.8	18.0	17.0	17.3	17.8
Goods and services	22.4	26.3	21.1	18.0	17.5	17.8	21.6	18.8	19.0	19.6
Interest	9.6	10.2	6.6	7.5	7.5	6.8	5.4	4.3	1.9	0.9
Subsidies to public enterprises	12.9	10.8	10.7	6.0	2.6	2.1	2.6	1.4	1.5	1.5
Other subsidies and transfers	0.0	0.0	0.0	3.7	4.7	5.4	3.6	6.1	10.3	4.9
RIF payments	0.0	0.0	0.0	0.0		2.1	0.6	0.8	0.1	0.1
Capital expenditure & net lending	19.0	18.1	23.9	43.0	6.4	7.5	4.8	6.9	7.0	9.7
Current balance	-39.2	-12.6	-12.9	-2.7	-3.7	-7.1	-4.2	-5.9	-11.8	-3.6
Overall balance	-15.4	-13.1	-12.3	-22.4	17.9	8.4	14.9	10.2	5.0	15.0
Financing	23.9	13.1	12.5	22.4	-17.9	-8.4	-14.9	-10.2	-6.3	-17.5
Net borrowing	6.4	11.6	15.6	-12.2	-12.4	-7.3	-11.0	-27.0	-11.6	-16.0
Gross borrowing	23.0	100.9	30.0	4.1	4.1	10.7	7.9	15.3	7.1	9.0
Repayments	-16.6	-89.3	-14.4	-16.2	-16.5	-17.9	-19.0	-42.3	-18.7	-25.0
Asset sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	2.5
Use of gov't financial assets	17.5	1.5	-3.1	34.6	-5.6	-1.1	-3.8	16.8	5.3	-1.6

ANNEX 6

ESTIMATES OF GROSS DOMESTIC PRODUCT BY INDUSTRY GROUP - 1997-2000 (in thousand US dollars)

	1997	%	1998	%	1999	%	2000	%
INDUSTRY GROUP	12,963.2	14.1	11,403.8	11.9	11,979.8	12.1	13,208.1	13.3
Agriculture, Forestry, and Fishing	322.2	0.3	281.3	0.3	189.5	0.3	284.3	0.3
Mining and Quarrying	1,561.0	1.7	1,491.4	1.6	1,670.5	1.7	1,734.1	1.8
Manufacturing	2,808.0	3.0	2,015.1	2.1	2,245.4	2.3	3,092.5	3.1
Electricity, Gas, and Water	6,294.5	6.8	10,622.4	11.1	10,648.5	10.9	10,775.3	10.9
Construction	11,672.1	12.7	12,668.1	13.2	12,766.7	13.1	12,623.7	12.8
Wholesale and Retail Trade	4,535.3	4.9	4,387.0	4.6	4,456.1	4.6	4,458.4	4.5
Restaurants and Hotel	7,183.0	7.8	5,058.2	5.3	5,515.7	5.7	5,215.2	5.3
Transportation, Storage, and Communication	14,265.5	15.5	15,271.1	16.0	15,940.2	15.9	15,688.4	15.9
Community, Social, and Personal Service	28,832.0	31.3	30,985.3	32.4	31,236.7	32.1	30,902.6	31.2
TOTAL	90,436.8	98.1	94,183.7	98.5	96,117.1	98.7	98,081.4	99.1
LESS imputed bank service charge	4,905.2	5.1	5,714.5	6.0	5,809.4	6.0	6,160.0	6.2
PLUS import duties	6,652.3	7.2	7,190.1	7.5	7,017.3	7.2	739.1	7.1
GDP in current prices	92,184		95,659		97,325		98,961	
Estimated mid-year population	49,600		50,344		50,840		52,671	
GDP per capita in current US \$	1,221		1,238		1,210		1,169	

Source: RMI Office of Planning & Statistics