

Marshall Islands Chamber of Commerce

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Meeting Minutes

Friday, March 27, 2009

Marshall Islands Resort

Meeting called to order by President Hirobo Obeketang at 12:15 P.M. Approximately 50 members and guests were in attendance. The next regular meeting will be on Friday, April 17, 2009, unless changed to accommodate a special program or guest speaker schedule.

- **Minutes** – approved electronically prior to the meeting
- **Treasurer's report** – Bank of Guam balance \$3648.98
- **Guests**

- Fred Muller, RMI Minister of Resources and Development

- Jack Ading, RMI Minister of Finance

- Clyde Bishop, American Ambassador

- Jerry Nathan, Investment Promotion Officer, RMI Ministry of R&D

- Anel N. Philimon, Director of SBDC/R&D, RMI Ministry of R&D

- Iva Reimers-Roberto, Chief of Trade and Investment, RMI Ministry of R&D

- **New Members**

- Eric of Pacific Aquaculture

- Mark Stege

- **Chamber Presentation**

Chamber President Hirobo Obeketang presented a certificate of honorary lifetime membership in the Marshall Islands Chamber of Commerce to American Ambassador Clyde Bishop for his support of the business community during his tenure as US Ambassador to the Marshall Islands.

- **Free DVD Disks**

A large number of “2009 Catalog of Federal and Domestic Assistance” and “CFDA 2008 Print Edition” DVD disks were distributed to members and guests.

- **Chamber President’s opening remarks**

Welcome to the March Chamber of Commerce meeting. Today’s program will continue with the subject of private sector development. This is such an important topic at this moment in our young nation’s history that I anticipate that there will be additional monthly meetings dedicated to it. We will keep this ball rolling.

Today and after my brief opening remarks, our Vice President, Mike Slinger, will tell you what your Executive Committee has been doing since our last meeting. He will explain a new idea that we’ve developed jointly with the Ministries of Finance, R&D, Foreign Affairs, and Public Works. I’ve invited representatives of these Ministries to attend today’s meeting. I invite your open discussion of this new idea, and I hope that you will endorse it.

We are at a turning point today in the Marshall Islands. We’ve received timely and accurate information from prestigious organizations such as the World Bank and its affiliated International Monetary Fund and Asian Development Bank. All agree that it is absolutely necessary to significantly increase the size of our private sector as we move toward the scheduled end of the monetary provisions of the Amended Compact of Free Association with the United States in 2023.

Our government needs to replace lost tax revenue in the near future. This can only be done in one of two ways. Either our taxes rise or the same tax rates are applied to a larger tax base. It is the Chamber of Commerce’s official position that our government should increase the tax base and not increase tax rates. This means that the private sector has to grow.

The primary engine of private growth is new money. We need to bring more new money into the Marshall Islands. And we need to begin to do this quickly and keep doing it until and beyond 2023. Some of the money that is currently leaving the Marshall Islands needs to be repatriated. In other words, we need to bring some of it back so that it can be invested locally.

Please consider the present situation with several trust funds that are used here for important purposes such as providing monthly retirement checks or personal income for several outer islands. Each of these trust funds has lost a significant portion of its value as a result of the world’s economic downturn. For many years, so-called conventional wisdom told us that it was prudent to invest our money in foreign stock funds. And for many years this appeared to work well. Now we can’t say that. And now is the time to consider another kind of wisdom. Today we need to think about investing in the Marshall Islands. Any money that is invested locally will not be lost due to the unethical or unwise behavior of people in other countries.

We need to invest in the Marshall Islands. We need to create jobs. We need to increase the tax base so that the same rate of taxation can generate enough money for our government.

Thank you.

Now please join me in welcoming Mike Slinger ...

- **Chamber Vice President's Presentation**

The RMI Economy

- Government is the largest employer in the RMI
- RMI has one of the highest levels of unemployment in the world
- Government's budget is dependent on Tax Collections
- Cutback in Workforce @ USAKA = reduction in spending & tax revenue
- No Development loans available locally in RMI.
- No economic growth

Worldwide Recession & RMI

- Erosion of 4 Atolls trust fund = up to \$10M from the economy in annual distributions
- Loans covered by 4 Atoll distributions may fall behind in payments reducing lenders' ability to lend more
- Repatriation of Income from the RMI to the USA may increase as recession bites into Marshallese communities in the USA = further reduction in \$ in the RMI economy
- Rest of the world has stimulus packages. RMI has none.

Effect on Government

- The tax base has and continues to shrink, although more businesses are now paying taxes
- Government's purchase of goods and services is decreasing as it fights to maintain a balanced budget
- Government must come up with this revenue shortfall in tax revenue
- Increase in all taxes is the simple option
- Increase in taxes is devastating to the economy.

Chamber's Recommendation

- Chamber recommends that the government **NOT** increase tax rates
- Increase tax collections by focusing on increasing the total taxable revenue in the RMI Economy
- Ensure that all businesses are paying taxes due

Increase Total Revenue RMI

- Must bring in new capital to increase spending:
 - Investors (long term)
 - New Loan / Credit facilities (Secured Transactions Act)
 - Grants
 - Speed up bidding of projects

Grants

- RMI is eligible and entitled to many USA Grants
- We understand the Obama Stimulus package has over \$170 Million for the insular areas including the Freely Associated States.
- Japan "Cool Earth Grant Program"
- Japan soft loan
- JICA
- EU

Chamber Proposal

- NGO be established governed by the Chamber and heads of key government ministries of Foreign Affairs, R&D, Finance and Public Works
- Primary purpose to employ suitably qualified grant writers to serve both the Govt. and Private sector needs
- Allows for government direction on key areas of development, while at the same time providing a balance with private sector interests
- Services available to business community for grant writing
- Project reporting essential and key role for the NGO
- Estimated maximum budget for this NGO is \$250,000 per year with an initial staff of two professional grant writers
- Networking and commission for grant writers / PSC restricted
- Initial funding of budget: RMI Government / USA / Taiwan / Japan / EU.
- Expect the increase in the taxable revenue base will yield taxes well in excess of cost of running the Grant NGO

Public Works

- Summary of meeting with Minister Kejo Bien.
 - Current backlog of projects estimated to be in excess of \$25M, although more projects are being bid out now
 - Some of these projects require substantial engineering and highly qualified project management
 - Reduction in bid bond requirements
 - Increase in workload @ public works if Grant writers bring in the projects
- Recommended design, engineering, bid write up, project management for projects over \$800,000 be contracted out to companies such as BECA
- Smaller projects continue to be handled by PW staff, although these projects should also be contracted out if too many in number

- Reward those contractors who have met the requirements in the past with a reduced bid bond, BUT substantial bond for those that have not
 - More creative ways to secure bid bond such as collateral of a business / principals, not only insurance or LC
 - Consider splitting larger projects into phases to allow smaller companies an opportunity to bid
 - Prime contractors rewarded for subcontracting out to smaller RMI companies. Perhaps with bid preference.
- **Membership Discussion**

The government needs to cut expenses. While this is true the Chamber's Executive Committee is focusing on what can be done immediately to bring in new capital.

Tax collection enforcement is important. For example, some of the local governments owe the government significant sums of money for past due taxes. While this is true, the Chamber's Executive Committee recognizes the ongoing improvements in tax enforcement.

In this week's news, it was reported that Morgan Stanley was discovered to have numerous offshore corporations including 14 subsidiaries registered in the Marshall Islands. How much tax revenue is the RMI Government collecting from these corporations? This is giving the Marshall Islands a bad reputation.

Minister Fred Muller introduced his three associates from the Ministry of R&D that work in the Division of Trade and Investment. He told Chamber members and guests that he likes a dialog between the public and private sectors and would like to see more of it. He challenged the Chamber members to tell his Ministry more about manufacturing opportunities.

How will a new grant writing NGO be structured? What are the "nuts and bolts?" The Chamber's Executive Committee initially thinks that it should be an independent entity. However, the details haven't yet been worked out. It was thought to be important to first present the concept to the membership for acceptance and then work out the details later.

What is the Chamber's position on encouraging gambling in the Marshall Islands? For example, would it be easier to attract new capital if the Marshall Islands Resort were offered for sale with the ability to engage in gambling? The Chamber's Executive Committee does not think that gambling is consistent with societal expectations.

Why should there be a new NGO created when the Chamber itself is already an NGO? Why not let the Chamber do this directly? The Chamber's Executive Committee thinks that this is a very good idea.

If the government ends up not financing this new effort after initial funding expires, can the Chamber fund it? The Chamber's Executive Committee wants to try the government approach first but agrees that the Chamber should stand ready to take up any slack in future financing.

I think that this is a good idea especially since the government cannot pay commissions under the current Public Services Commission rules whereas a non-profit can. It would be important to make sure that the government and the new entity not vie for the same grant. The Chamber's Executive Committee notes this good suggestion.

A government and private sector partnership is a good idea. It's easier to get funding with such an arrangement. For example, the Marshall Islands Council of NGOs has government standing members that don't pay dues. The Chamber's Executive Committee agrees.

It would be a good idea to structure commissions on a sliding scale with a practical cap of say \$100,000 to \$200,000. A local presence is also required. The Chamber's Executive Committee's initial thought is to have two professional grant writers from the US that have the demonstrated capability to network with and outsource to their peers.

Are you envisioning building the capacity of local grant writers? The Chamber's Executive Committee has thought that initially it is more important to bring in new money.

Should one of the grant writers come from the EU in that this is a significant source of funding? Also, it would be better to be a grant haven than a tax haven. The Chamber's Executive Committee notes the good idea to consider an EU grant writer.

How will bringing in new grants result in new money going into the economy? For example and if a grant is secured to buy school books, all of that money will go to pay for the books. The Chamber's Executive Committee used Coop School as an example of how much of the grant money that is received ends up as local wages, purchases, utility payments, etc.

Why not issue a request for proposal (RFP) to solicit a company from elsewhere that is already set up to do this? You simply write the requirements, and interested companies that are located nearer the source of the significant money bid on the RFP to be paid from the proceeds of what they are able to collect. Also, there are people already working in government that write and manage grant reporting. Bidding companies could be allowed to interview these people and select anyone that might be qualified and interested. The Chamber's Executive Committee notes this good idea.

The Chamber's membership approved the Executive Committee's concept in principle but wants to see the final details at a later date.

- **New business**

Minister Ading noted that the Cabinet is now considering working with the Chamber of Commerce as an alternative to hiring its own grant writer. He also noted that there is a need to cut government expenses but that this requires consideration of significant social issues before employees can be furloughed. It is also important to have private sector jobs available to employ furloughed public sector workers. The government endorses

increasing the tax base and not raising taxes. There is an agreement with MALGOV, and they will begin paying their past due taxes. The government is working with other delinquent taxpayers to clear their back taxes. This is working well.

Minister Muller informed the Chamber of new projects that will come online soon. The Uliga Fish Market is the realization of a \$7/8 million dollar JICA grant. The fish plant will begin operations next month and expects to employ 600 workers. An energy renewal project with MEC to replace the Majuro and Ebeye streetlights with solar powered units will occur this year. Three schools (Aur, Mile, and Uliga) have been bid out and approved. There will be a \$6 million EU solar energy grant this year.

Iva Reimers-Roberto agreed with the concept but suggested that there would some oversight issues with an NGO handling government grants. How will it be monitored? Would there be equal access? This is also an excellent opportunity to build local professional capacity.

The United Nations sponsors what is called Partnerships for Sustainable Development and specifically hosts the Small Island Development States (SIDS Partnership). One of the benefits of becoming part of this is that the UN itself looks at what the members do when it comes to deciding itself to offer grants to such entities. The following is a good Internet URL for this program:

<http://webapps01.un.org/dsd/partnerships/public/partnerships/1894.html>

The health services that are now available to Marshallese residents at Taipei's Wong Fong hospital are excellent. A person can fly to Taipei direct from Guam and not go through the Philippines where an overnight layover is required. It costs approximately \$500 roundtrip on China Airlines and takes 4 ½ hours. It should also be noted that the Taiwanese medical community has noted that 27% of the cancers in the male age group of 20 – 40 years is caused by Betelnut that natively grows in Taipei.

There will be a Climate Change Adaptation workshop from April 14 – 17. It will be held in the ICC, and there will be two fieldtrips to Majuro lagoon atolls.

There will be a free training session today on the Marshall Islands Resort's patio from 3 – 5 PM that will teach press release writing.

The President will be attending a Business Opportunities Conference from April 6 – 8. The business community should send a representative.

Meeting adjourned at 1:30 PM.

Minutes prepared by:

Jim McLean