

Marshall Islands Chamber of Commerce

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Meeting Minutes

Friday, May 29, 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, June 26, 2009, unless changed to accommodate a special program or guest speaker's schedule.

- **Minutes** – approved electronically prior to the meeting

- **Guests**

- Doug Morris, US Deputy Chief of Mission

- Lawrence J. Kimmel, Ph.D., Political and Economic Officer, US Embassy

- Alan Barklay, CMI

- **Chamber President's opening remarks**

Welcome to the May Chamber of Commerce meeting. Today's program will be conducted by our Vice President Mike Slinger. He and the other members of the newly formed Adjustment Advisory Group will inform us of their mission and efforts to date. There will also be a brief question and answer period following this presentation.

In the past we've hosted the Tax Reform and Modernization Commission. This is a separate group of private and public sector representatives with a separate mission to creatively focus on the so-called revenue side of things. This Commission was formed last year with a mandate to review existing and prospective tax policies with the goal of revising the tax regime of the Marshall Islands.

The recently formed Adjustment Advisory Group that will speak with us today is focusing on the administrative side of things – how tax money is spent by the government. This group is comprised of a different set of private and public sector representatives.

Before any meaningful changes can be made that will positively affect the financial affairs of our government our elected leaders will need good input from both of these groups. Money cannot be spent unless it is raised with taxation. This is the revenue side of the equation. The amount of taxes that will have to be collected is determined by how

government spends its money. This is the administrative side of the equation. Our Chamber members have clearly spoken to indicate that it would not be appropriate to only look at the revenue side of things without also reforming how tax money is used.

We've given our input to the Tax Reform and Modernization Commission. Today we will have our first chance to provide input into a determination of how tax money is spent.

The Marshall Islands Chamber of Commerce firmly believes that it is imperative that four things happen.

1. Modernize and reform business taxation to spur private sector development.
2. Trim the waste and low productivity in government to bring the public sector annual cost down to a sustainable level.
3. Prioritize private sector development at the national policy making level.
4. Contribute more each year to the so-called Intergenerational Trust Fund to provide the funds needed to replace present Amended Compact funding after 2023 when this funding is scheduled to expire.

Please join me in welcoming Mike Slinger and the other members of the Adjustment Advisory Group.

- **Cabinet Advisory Group for Comprehensive Adjustment Program presentation**

RMI COMPREHENSIVE ADJUSTMENT PROGRAM CABINET ADVISORY GROUP

In early 2008, discussions with several Cabinet ministers and Chief Secretary led to the idea of developing some type of reform or adjustment program

- The 2008 fuel/fiscal/food crises highlighted the need for reform
- Minister of Finance took the lead and supported the initiative to form an advisory group
- This led to discussions with economist Kevin O'Keefe and Jason Aubuchan of USDA Pacific Islands Training Initiative who showed that Korsae and Chuuk had gone through similar problems and had developed and implemented fiscal adjustment programs
- Cabinet Advisory Group for an "RMI Comprehensive Adjustment Program" formed in April 2009

(a) To deliver to Cabinet a broad and well-specified framework for comprehensive fiscal and economic adjustment so that the Government will be sufficiently informed and enabled to determine the appropriate size, specific elements, phasing of elements, and

timing of any fiscal and economic adjustment program that Government may implement on its own or in beneficial coordination with donor partners; and

(b) On approval of the Cabinet of an internally conceived and designed program, to undertake public consultations, support donor partner mobilization and coordination efforts, and advance the process of implementing the Republic's *Comprehensive Adjustment Program*.

- *Ben Chutaro, Chairman*
- *Ben Graham, Vice-Chairman*
- *Jack Niedenthal*
- *Mike Slinger*
- *Marie Maddison*
- *Dr. Hilda Hiene*
- *Alson Kelen*
- *Jefferson Barton, Secretary of Finance*
- *Tion, Nabau, Attorney General*
- *Carl Hacker, Director of EPPSO*
- *Tommy Kijiner, Jr., Secretary of R&D*
- *Divine Waiti, Legislative Counsel*
- *Kino Kabua, Secretary of Foreign Affairs*
- *Kevin O'Keefe, Economist*

For several years, it has become increasingly apparent that the RMI's own financial and fiscal stability has become a serious concern while broader measures of the RMI's economic health and social well-being have stagnated. Of utmost concern are the now readily apparent indicators that the RMI's ability to respond to external shocks has deteriorated. The indicators that the Government may need to seriously consider a determined program of policy measures to adjust to current fiscal and economic realities include:

A deteriorating fiscal position—characterized by stagnant revenues, declining Compact flows due to the decrement, unsustainable growth in expenditures, and growth in subsidies and transfers especially to struggling public enterprises.

Increasing difficulty in responding to external shocks—characterized by a near total depletion of accessible financial reserves, limited creditworthiness of the Government in the credit markets, growing pressure on the General Fund causing some aging of payments and delays in procurement and/or project implementation, changes in expenditure patterns and usage of untied aid away from investment in favor of operating expenditures and transfers (advances) to public enterprises, and the emergence of *ad hoc* austerity measures in times of emergency.

Further *ad hoc* efforts to seek relief or secure concessions from donor partners—characterized by approaches to nearly all of the Republic's donor partners for specific support, concessions or flexibility without being presented in the context of a comprehensive and coordinated program of action.

Inability to service all current debt commitments—characterized by an already tight cashflow situation facing the government due to revenue shortfalls in the General Fund while the government’s expenditure structure has not changed to align with the current economic realities of the day. For example, up to 50 percent of total annual government cost under the General Fund, is just payroll followed by the government’s contractual obligations, or the other mandatory spending category which represents up to 35 to 40 percent of the total cost, so almost 85 to 90 percent of the total annual government cost are expenditures that are mandatory, coupled with the financial difficulty caused by the ongoing global economic calamity that has affected the country, the government’s ability to service its debts, has come under increasing pressure leading the government to keep falling behind in its payments towards its loans with the Asian Development Bank.

General Fund As of May 20, 2009, we have spent \$21.4 million, but collected only \$19.6 million a deficit of \$1.8 million.

- Tax revenues & Other Licenses Variance

- Income taxes - Expatriates - 21%

- Income taxes - Marshallese - 7%

- Gross Revenue Tax - 10%

- Hotel Room Tax - 11%

- Immovable Tax 7%

- Import taxes - 17

- Import taxes (sin tax) - 32%

- Fees & Licenses - 53%

- FY2008, there was a \$4.5 million deficit all funds (GF, Compact, ROC)

- We are likely to have a deficit for FY 2009 if these trends continue.

As of May 2009, total civil service employees was 2,339.

- In 2000, total civil service employees was under 1,500.

- This represents a 58% increase in civil service staff

- The annual wage bill in FY08 was \$34.6, while in 1999 it was about \$17 million.

- In less in a decade, we more than doubled the wage bill.

- Despite budget difficulties, wages increased by \$1.1 million from FY07 to FY08 in the General Fund.

- This does not include wages in statutory authorities (MIVA, EPA, OEPPC, MIMRA) and state owned enterprises (MEC, MWSC, MAWC, AMI, Tobolar, Shipping Corp. Ports Authority)

- The Ministry of Education and Hospital has the most staff of all ministries.

- Nearly 90% of Ministry of Education personnel is funded by Compact. Nearly half are teachers.

- Ministry of Health, also receive majority of its funding from Compact. Nearly 2/3 of the MOH staff work at Majuro and Ebeye Hospitals and OI dispensaries.

We want your Input

Komol Tata & Iakwe

- **Questions and answers**

Q. What are you going to reform?

A. We are reviewing past studies. Also one possibility is to reduce the workweek.

Q. Are you looking at only wages or will you also look at benefits such as free landowner electricity?

A. Entitlements, allowances ... everything is "on the table."

Q. If you want to increase public sector productivity, why not eliminate games on public computers?

Q. Allotments represent a difficulty with lowering salary. These can comprise up to 75% of salaries.

A. One thing that we've thought of is to ask banks to extend the term of affected loans to reduce the bi-weekly payment.

Q. There are vacant positions represented in the budget. Cars could be sold. Travel could be curtailed.

A. These issues would normally be addressed by the Public Service Commission.

Q. When was the last study done?

A. In the late 1990's. In the early 1990's there was a civil service reform study.

Q. Are you looking at strategic long term solutions in addition to short term tactics?

A. Our primary focus is on the short term needs of the fiscal year 2010 budget.

Q. Are you looking at the results of the installed performance based budget?

A. Only ½ of the Ministries have fully deployed this. The others should comply in a year. Political will is the difference. We will develop a menu of choices and present that to the government. They will then select what they want. The structure of government would be a long term strategic issue. We will also enjoy periodic technical assistance from ADB experts.

Q. Are you optimistic?

A. There is some room for optimism based on what has actually happened in other places in the Pacific in this regard.

Q. Are there any other ways to get money for CMI other than the beer tax that is depressing sales and resulting in lowered tax revenue collection? The same is happening with soft drinks.

A. This is an issue for the Tax Reform Commission many members of which are here today.

Q. Will you publish this presentation?

A. Our mandate is to conduct a public outreach program with this material.

Q. Salaries and wages should be the first thing to look at.

Q. You should strengthen the Ministry of Finance. The Secretary of Finance and not the Minister has the Constitutional mandate to control expenditures. For example and if legislated revenue doesn't happen then it is up to the Secretary of Finance to not obligate that missing revenue regardless of who wants it.

A. We understand that there was a past practice of inviting the Secretary of Finance and the AG to Cabinet meetings because of this Constitutional provision.

Q. State owned enterprises are managed by Boards that don't appear to value sufficient transparency leading to a suspicion that these entities experience significant waste. You should look at this.

Q. Revenue and expense cannot be separated. There are ways to obtain more foreign investment. What are the barriers to doing this?

Q. Some high paid people in government are getting paid but not at work to attend to their personal business.

A. This is covered by the Ethics in Government Act. Performance based budgeting on activities would also control this.

Q. When will we see your draft report?

A. This summer.

- **New business**

From July 13 - 17, 2009, the Micronesian CEO Summit will be held in Majuro. An estimated 40 people will visit Majuro for this event. The last time that this event was held here was in 1994. MIVA, Public Works, MALGOV, and the Majuro Atoll Solid Waste Company will work together to cleanup Majuro. Businesses are being informed in writing to clean up their areas. Junk cars will be removed. Fines may be levied.

Approximately 98% of the most complete solar eclipse in a century will be visible in Majuro on July 21st. We can expect visitors for this event.

Some areas of Majuro from Small Island to Uliga have not received any MWSC pumped fresh water in two months apparently due to water pressure problems. This is a Public Health issue.

The mammogram machine is now working at the hospital. Pending the receipt of an additional film processing unit, this machine will operate each Thursday.

Meeting adjourned at 1:15 PM.

Minutes prepared by:

Jim McLean