

**STATEMENT  
OF  
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**BEFORE THE  
HOUSE FOREIGN AFFAIRS SUBCOMMITTEE ON ASIA, THE PACIFIC, AND  
THE GLOBAL ENVIRONMENT**

**REGARDING  
U.S. RELATIONSHIP WITH THE MARSHALL ISLANDS**

**May 20, 2010**

Mr. Chairman and members of the Subcommittee, thank you for the opportunity today to discuss the United States' relationship with the Republic of the Marshall Islands (RMI).

The United States and the RMI entered into a Compact of Free Association in 1986. In 2003, the U.S. Government approved an amended Compact with the RMI, providing a total of \$1.5 billion in mandatory assistance from 2004 through 2023. The amended Compact's 20 years of grant assistance is intended to assist the RMI government in promoting the economic advancement and self-reliance of its people. Under the amended Compact, U.S. grant funding generally decreases annually, paired with increasing contributions to a trust fund established for the RMI; earnings from the trust fund are intended to provide a source of revenue for the government of the RMI when the grants expire in 2023. In addition, the annual grant funding is partially adjusted for inflation. The amended Compact requires the RMI to target funding to six development sectors-- education, health, the environment, public-sector capacity building, private-sector development, and infrastructure -- with priority given to education, health and infrastructure. The amended Compact also provides for a Supplemental Education Grant, which takes the place of certain domestic grants previously made by the Department of Education, the Department of Health and Human Services, and the Department of Labor.

The Office of Insular Affairs is responsible for administering and monitoring these grants. The amended Compact's subsidiary agreement on fiscal procedures requires the RMI government to monitor the day-to-day operations of sector grants and activities, submit periodic performance reports and financial statements, and ensure compliance with annual financial audits. In addition, the Compact and its subsidiary agreement on fiscal procedures require the U.S.-RMI Joint Economic Management and Financial Accountability Committee (JEMFAC) to (1) meet at least once annually to evaluate the progress of the RMI in achieving the objectives specified in the development plans; (2) approve grant allocations; (3) review required annual reports; (4) identify problems; and (5) recommend ways to increase the effectiveness of Compact grant assistance. The RMI is also required to conduct annual audits, in compliance with the Single Audit Act, that ensure independent review of its financial position.

Since implementation of the amended Compact in fiscal year 2004, the RMI has focused its Compact resources on the three highest priorities: education, health and infrastructure.

Since fiscal year 2004, the RMI has dedicated 38% of Compact funds to education and 23% to its health care system. The RMI has chosen to use only limited amounts of Compact funds for the environment, public-sector capacity building, and private-sector development sectors. This allocation reflects the priorities of the RMI government and of the amended Compact. JEMFAC has concurred with the RMI decisions. The allocations may change in any future year, although allocations to the infrastructure sector must be at least 30% of annual Compact assistance, with education and health being given priority for infrastructure spending.

Funding priorities are determined each year by the government of the RMI and presented to JEMFAC for concurrence. JEMFAC meets annually to discuss funding priorities and the progress of the RMI. JEMFAC has concurred with allocations proposed by the government of the RMI with regard to approximately 99% of the funds that have been made available since fiscal year 2004.

### **Public Sector Infrastructure**

The Public Sector Infrastructure sector grant is the most visible component of Compact of Free Association financial assistance. The importance of public infrastructure was noted by the Congress, which mandated in P.L. 108-188 that at least 30% of annual Compact funding be dedicated to infrastructure projects.

JEMFAC has allocated approximately \$77 million for the Public Sector Infrastructure for the RMI from fiscal years 2004 through 2009. Use of Public Sector Infrastructure Grant funds by the RMI has been well planned, professionally managed, and targeted on the priority sectors of health and education.

Compact-funded infrastructure projects have provided new classrooms for Marshallese children in Majuro and in some of the outer islands since 2004. The result of the RMI's efforts is that about 200 classrooms at 40 public schools have been newly constructed or repaired using Compact infrastructure funds, significantly improving the learning environment of many students in the Marshall Islands. With an annual average of 13,000 students attending 82 public schools, about 60% of all students are now enjoying new facilities including new classrooms, school furniture, administration buildings, improved cafeterias, comfortable dormitories, standard recreational facilities, working toilet facilities, better libraries, and upgraded science and computer labs. Compact-funded education capital improvement projects completed to date provide Marshallese children with better access to education than ever before. These improved learning facilities are part of our joint effort with the RMI to improve the quality of education for all Marshallese students.

The College of the Marshall Islands (CMI) embarked upon a Facilities Master Plan for the College in fiscal year 2007. During fiscal year 2007, CMI received a five-year funding commitment from the government of the RMI in order to implement its Facilities Master Plan. The government of the RMI and JEMFAC agreed to provide \$5 million annually over a five-year period, a total of \$25 million, from the Compact Infrastructure Grant to support the CMI Facilities Master Plan. This plan is currently in the fourth year of this five-year funding arrangement. As of March 2010 almost \$16.7 million has been expended for infrastructure projects at the CMI.

## **Education**

The Ministry of Education is the single largest recipient of both Compact and federal program funds. Despite the significant amount of resources provided for support of the education sector, performance results have been poor. Compact support for elementary and secondary education needs to comply with the Compact goal: “Emphasis should be placed on advancing a quality basic education system.” Further, the Office of Insular Affairs recommends that, for purposes of Compact support, “basic education” should be understood as kindergarten through twelfth grade standards-based instruction in four core academic areas; language arts (English and vernacular), math, science, and social studies with integrated, locally relevant career and technical education.

Application of this clear definition could provide needed parameters for the use of these funds, curtailing the expectation of the government of the RMI that Compact funding will take care of all the educational services it would like to provide. For example, the RMI should be encouraged to explore other funding resources to address food, transportation, art, music, and physical education.

In its annual budget call, the government of the RMI establishes budget caps that provide for no growth in government spending. As a result, very similar Education Portfolio budgets are presented to the RMI government year after year. For the most part, the Education Sector funds cover salaries and operations. Kindergarten, curriculum development and assessment, vocational and career training, and teacher training are handled primarily through the Supplemental Education Grant (SEG). As stated above, the demand for educational services is increasing. At the time the Compacts were amended, the RMI mandated instruction from ages 6 – 14 years. However, the government of the RMI now mandates universal kindergarten through grade 12 instruction. The unrealistic strategy for funding education that has evolved is one of an increasing demand for services in the face of limited and decreasing resources.

Further affecting the sustainability of education systems are politically popular efforts to implement school meal programs and provide transportation to and from school. These ancillary services are not being supported through local funds, although they have been initiated through local legislation. Food and ground transportation are increasingly expensive and, if continued with Compact funding, these ancillary services will take increasing amounts of money away from basic classroom teaching.

## **Health**

There is also an increased demand for government-provided health services.

The need to realign services and programs to strengthen preventive and primary care and shift emphasis away from secondary and tertiary care has long been recognized by the RMI Ministry of Health leaders, but this realignment has presented a dilemma that has yet to be resolved by the government as a whole: due to high incidence of chronic disease, notably diabetes, the RMI's population requires a higher level of sick care than a typical patient population. To meet the need for sick care, the RMI consciously chose to upgrade its secondary care facilities in Majuro and Ebeye. To be useful, these upgrades would have to be accompanied by improvements in the quality and breadth of hospital services, in order to decrease the need to send people off island for conditions that could be diagnosed and treated on-island. This, in turn, has increased the demand for financial resources for acute care.

As the Amended Compact moves into its seventh year and beyond, annual decrements or decreases in funding mean that funds available to the health sector will diminish. There is no assurance that government revenues or program income will be sufficient to fill the gap. Belt tightening is almost inevitable and budgetary practices, however improved, cannot stand without closer scrutiny. Continuous strategic planning must become an indispensable part of the Health Ministry's overall operation, and indeed for the Government as a whole, to ensure the solvency of the health system.

## **Trust Fund**

An important element of U.S. financial assistance under the Compact is the trust fund established to contribute a source of revenue to the government of the RMI when annual sector grants cease after 2023. The funds are to be used for the same purposes as the annual sector grants were.

As of March 31, 2010, the market value of total assets of the Trust Fund for the People of the Republic of the Marshall Islands was \$108 million. The Trust Fund sustained losses, primarily in 2008, like all institutional investment funds. Since then, most of the losses have been recovered. For the one-year period ending on March 31, 2010, the return was 36 percent. The assets continue to grow with annual contributions by the United States under the Compact, as well as by a subsequent contributor.

The assets are currently invested primarily in exchange traded funds, approximately 35 percent in fixed income funds, 40 percent in U.S. equities, 20 percent in international equities and 5 percent in real estate.

## **Mounting Fiscal Pressures**

Recent fiscal performance indicates a very tight fiscal position for the RMI as a whole. Some of the issues include:

- The Government payroll has approximately doubled since fiscal year 2000.
- There has been a difficulty in meeting the General Fund payroll, Marshall Islands' Social Security contributions, and public service system employee allotments;
- The performance of State-Owned Enterprises (SOE) and the continuing need to find a source of funds to ease the SOE's cash flow is lacking;
- There is a growing level of subsidies and capital transfers to the SOE sector;
- There is a difficulty in servicing debt payments;
- There is an increase in the use of capital project funds for advances to the SOE sector and General Fund purposes.

## **RMI Fiscal Reform Efforts**

A need for a strong fiscal position is reinforced by the programmed declines in Compact grants.

In order to address these constraints, the RMI has created two committees and commissions to propose public sector reform implementation steps. These efforts are important steps in the right direction.

A Comprehensive Adjustment Program (CAP) report was issued by one of the above-referenced committees to the RMI Cabinet in September of 2009. The CAP was prepared by Marshallese for Marshallese. The authors of the CAP addressed the issue of government-wide expenditures and made a clear case that the measures being recommended were absolutely critical to ensure the financial sustainability of the RMI.

As a recent Asian Development Bank-financed study on public sector enterprise reform by Ben Graham points out, successful reform programs need to be driven from within the RMI, not imposed from outside. The study further states that the "RMI's public sector enterprise sector poses increasing systematic risk on the fiscal system and the economy, and this alone warrants reform. On top of this, the fiscal system and the economy are already under major stress on their own and will continue to face severe challenges moving forward."

The Office of Insular Affairs is fully prepared, as appropriate and upon request by the government of the RMI, to provide support to restructuring efforts identified as critical in developing a medium to long term sustainable fiscal position. In the same vein, OIA is not prepared to support Compact funding proposals that may be contrary to reform efforts.

## THE ROLE OF THE OFFICE OF INSULAR AFFAIRS IN MATTERS RELATED TO NUCLEAR-AFFECTED LOCATIONS IN THE MARSHALL ISLANDS

### Rongelap

The Office of Insular Affairs (OIA) carries out a congressionally mandated role in exercising as necessary a right of veto over the use by Rongelap Atoll Local Government (RALGov) of its resettlement trust fund. OIA will soon instruct RALGov to use its resettlement trust fund for activities at Rongelap Island only. In recent years OIA has agreed to RALGov's use of some of its resettlement funding to assist those members of the Rongelap community who lived elsewhere. The use of a limited amount of funding from the Rongelap Resettlement Trust Fund to assist the dislocated population during the resettlement project phase of the resettlement program was justified and consistent with the terms of the 1992 and 1996 resettlement agreements. However, the use of that trust fund to support individuals or groups located away from Rongelap Island who left of their own volition and continue to choose to remain away, now that Rongelap Island is to be resettled, is inconsistent with (a) the terms of the Resettlement Trust Fund and the resettlement agreements and (b) the prudential management of achieving the Resettlement Trust Fund's primary goals.

More than six years ago, the late Senator Jeton Anjain of Rongelap selected a team of scientists to evaluate whether Rongelap could be resettled. Although recommending that at least some of the food consumed on Rongelap be imported and limited additional potassium treatments of the island's soil, this group of scientists presented conclusions to the Mayor of Rongelap and RALGov Council in Honolulu that it would be safe to return to Rongelap.

Moreover, in public meetings, Cooper Brown, Esq., one of the late Senator Anjain's closest advisors, stated that RALGov had secured more funding for resettlement than he or the late Senator Anjain could have expected. Mr. Brown reported that the late Senator Anjain's greatest fear was that the people of Rongelap would stay away too long and remain on Mejjatto Island instead of going home when environmental conditions made resettlement on Rongelap feasible. Therefore, meeting in Majuro this past March 30<sup>th</sup>, the Mayor and RALGov Council members adopted resolutions committing themselves to the following:

- (1) moving from Mejjatto Island by October 1, 2011
- (2) using approximately \$7,000,000 to resettle Rongelap Island and
- (3) leaving \$10,000,000 in the Trust Fund's *corpus* to maintain RALGov operations at Rongelap Island after October 1, 2011

The late Senator Anjain asked the Congress to provide funds for resettlement but to allow the people of Rongelap and RALGov to manage the resettlement process under terms agreed to in a trust agreement and a resettlement program agreement. The U.S. Government has fulfilled its mutually-agreed-to Compact obligations, and the Rongelap community has made the decision to return.

Every individual within the Rongelap community will have to decide whether to go back home. Once all those who choose to go home have done so, the Resettlement Trust Fund can be used to carry out resettlement and to ensure that resettlement succeeds. If Rongelap Island is not resettled, or if only a small part of the Rongelap community returns to Rongelap Island, after the returned community no longer needs the Trust Fund, its unused portion will be returned to the U.S. Treasury.

### **Enewetak**

OIA for over 30 years has been participating in a congressionally mandated food and agriculture program under which the people of Enewetak receive supplemental foods, replant vegetation and obtain training in agricultural maintenance. However, there remains an outstanding issue between the Enewetak local government and the United States: Runit Island.

The partial clean-up of Enewetak Atoll in the late 1970's resulted in the creation of an above-ground nuclear waste storage site, capped by a dome, at Runit Island. Inside the dome are over 110,000 cubic yards of radioactive material scraped from other parts of Enewetak Atoll. This material is the residue of the U.S. nuclear weapons testing program conducted in the atoll at various times between June 1946 and August 1958.

The United States and RMI settled all claims, past, present and future, of the government and citizens of the Marshall Islands which are based upon, arise out of or are in any way related to the U.S. nuclear weapons testing program. In particular, Article VII of the agreement subsidiary to section 177 of the 1986 Compact of Free Association relieved the United States of all responsibility for controlling "the utilization of areas in the Marshall Islands affected by the Nuclear Testing Program" and placed that responsibility solely with the RMI Government. Nevertheless, Runit Dome has remained for many years a point of friction in the otherwise mutually agreeable, bilateral relationship between Enewetak officials and the United States. Enewetak officials continue to request that a Federal agency maintain surveillance of the radiological conditions on Runit Island, including:

- the safety of land, water and marine life
- the radiological condition of the northern part of the island and
- the structural integrity of the dome

Upon request, Department of Energy staff have from time to time performed limited environmental sampling at Runit Island around Runit Dome. However, the Congress has never assigned the Department of Energy or any other Federal agency or department the responsibility to maintain surveillance of the radiological conditions on Runit Island. Furthermore, the RMI Government, which in 1986 assumed control of and responsibility for all of the territory of the Marshall Islands, determined that Runit Island should remain permanently off-limits for human habitation.

For many years the U.S. Department of Energy has conducted environmental assessments at Bikini, Enewetak, Rongelap and Utrik Atolls and has provided the results of its studies to the RMI Government and the local atoll governments. With their advisors, the atoll governments set all environmental standards and conduct all remedial actions. The Department of Energy takes environmental measurements before and after remedial actions to see if the actions have achieved their goals. In addition, the Department of Energy offers suggestions for remedial actions at the request of the Marshall Islands Government.

### Changed Circumstances

In January 2005 the Department of State transmitted to the Congress the Executive Branch's evaluation of the RMI's *changed circumstances* request under Article IX of the agreement subsidiary to Section 177 of the 1986 Compact of Free Association. The RMI Government's submission included, among other things, a request for an enhanced primary, secondary and tertiary health care system to serve all Marshall Islanders for fifty years. The Executive Branch concluded that there was no legal basis for considering additional payments and determined that there was no basis in the Section 177 subsidiary agreement to consider additional claims.

The evaluation included the results of a comprehensive and methodical review of several successive scientific studies of the impact of the U.S. government's nuclear weapons testing program in the northern Marshall Islands. This evaluation highlighted that previous studies had adequately answered questions about the impact of the testing program as those questions related to additional claims for damages resulting from the weapons testing program.

The peoples of Bikini and Enewetak atolls filed suits alleging that the denial of *changed circumstances* by the U.S. government was a breach of its fiduciary duty to provide just compensation to the peoples of Bikini and Enewetak. The Rongelap Atoll Local Government declined to join Bikini and Enewetak. The Bikini and Enewetak cases were dismissed by the U.S. Court of Federal Claims, and this dismissal was affirmed by the U.S. Court of Appeals. On April 5, 2010, the Supreme Court denied a petition for a writ of *certiorari*, without providing a reason.

Despite issues of concern that arise for both the Government of the Marshall Islands and the Government of the United States, we anticipate a continuation of relatively good relations between the two nations.