



DRAFT FOR DISCUSSION

The Economic Impacts of the End of Compact Grant Assistance in the Freely Associated States.

ADB

ASIAN DEVELOPMENT BANK

About the Team



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International Relations Expert
U.S. Ambassador (retired)



Kevin O'Keefe

Economist






Mark Sturton

Economist



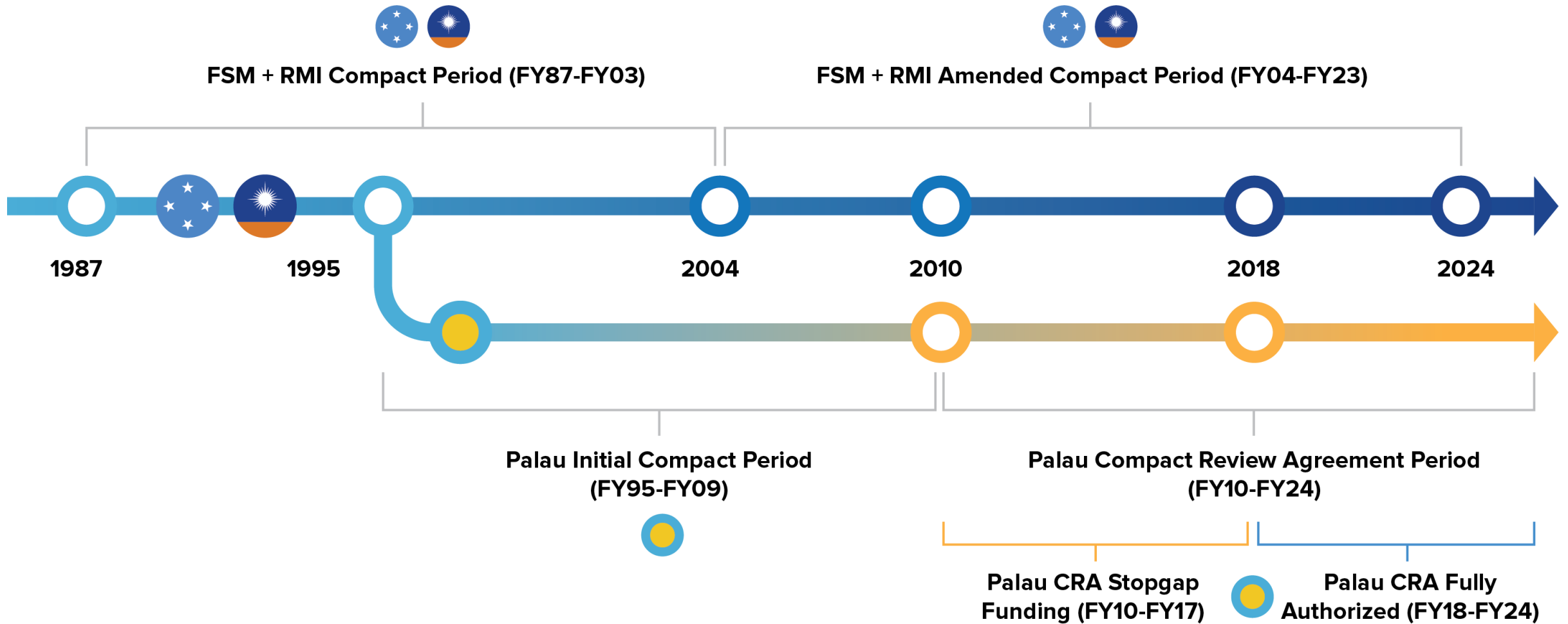
Jason Aubuchon

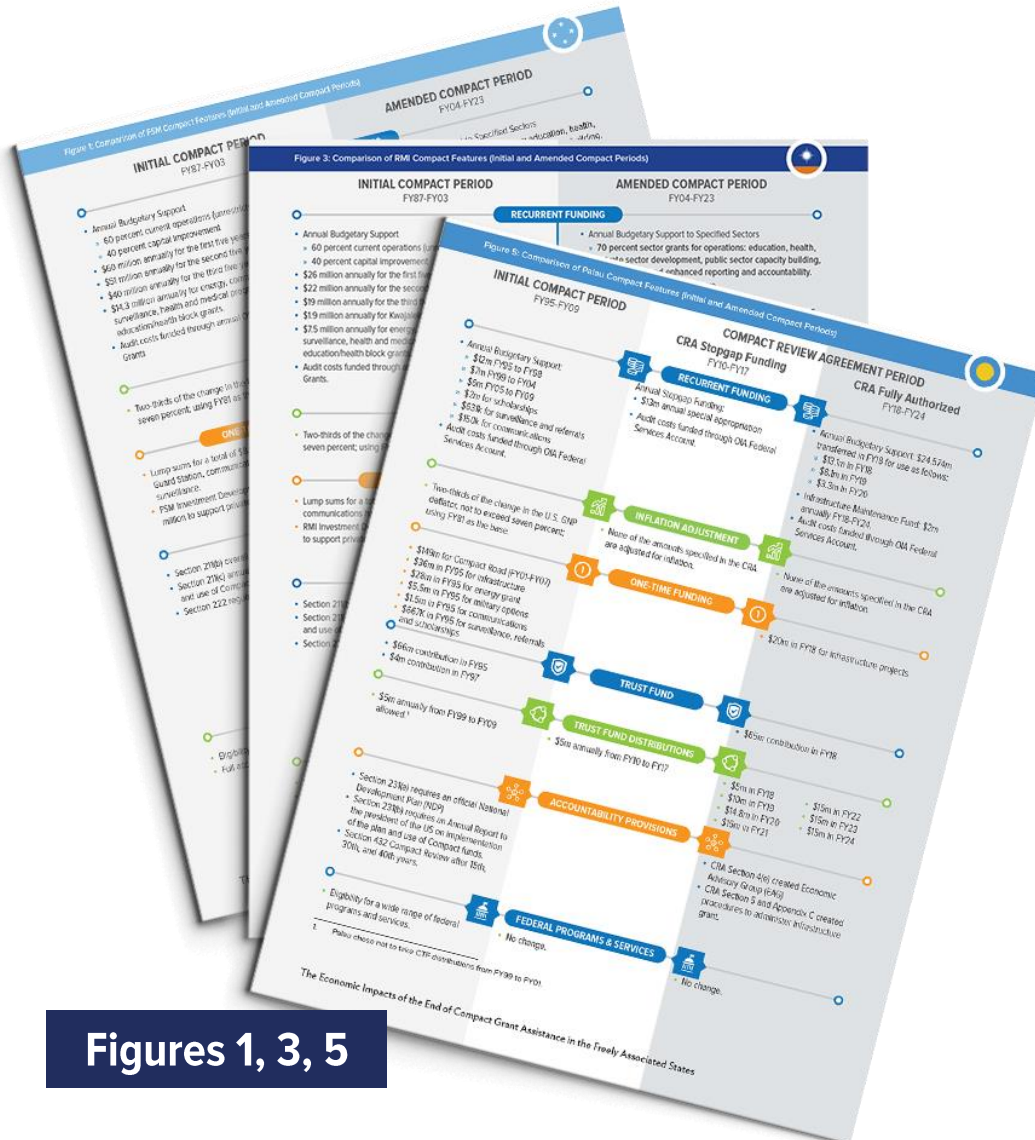
Public Administration

- Initial Consultations in DC and all three FAS
- Progress to-date...
- ... thus, the study has been reduced in focus from the original three scenarios...
 -  Thinking practically—base scenario
 - ~~•  Thinking negatively—severe scenario~~
 -  Thinking positively—extended funding scenario
- ... to just two scenarios

1. Comparison of Compact Features & Compact Timeline
2. FAS Economic Structure and Performance
3. Impact of COVID-19 and Economic Performance
4. Modeling Non-Renewal
5. Modeling Renewal
6. Summary Results & Concluding Observations...

1. FAS Compact Periods





Figures 1, 3, 5

Features by Period:

- Recurrent Funding
- One-time Funding
- Inflation Adjustment
- Trust Fund
- Accountability Provisions
- Federal Programs/Services

1. FAS Compact Timeline



Figures 2, 4, 6

Trends over entire time period:

- Compact Transfers
- Real GDP Growth

(later)

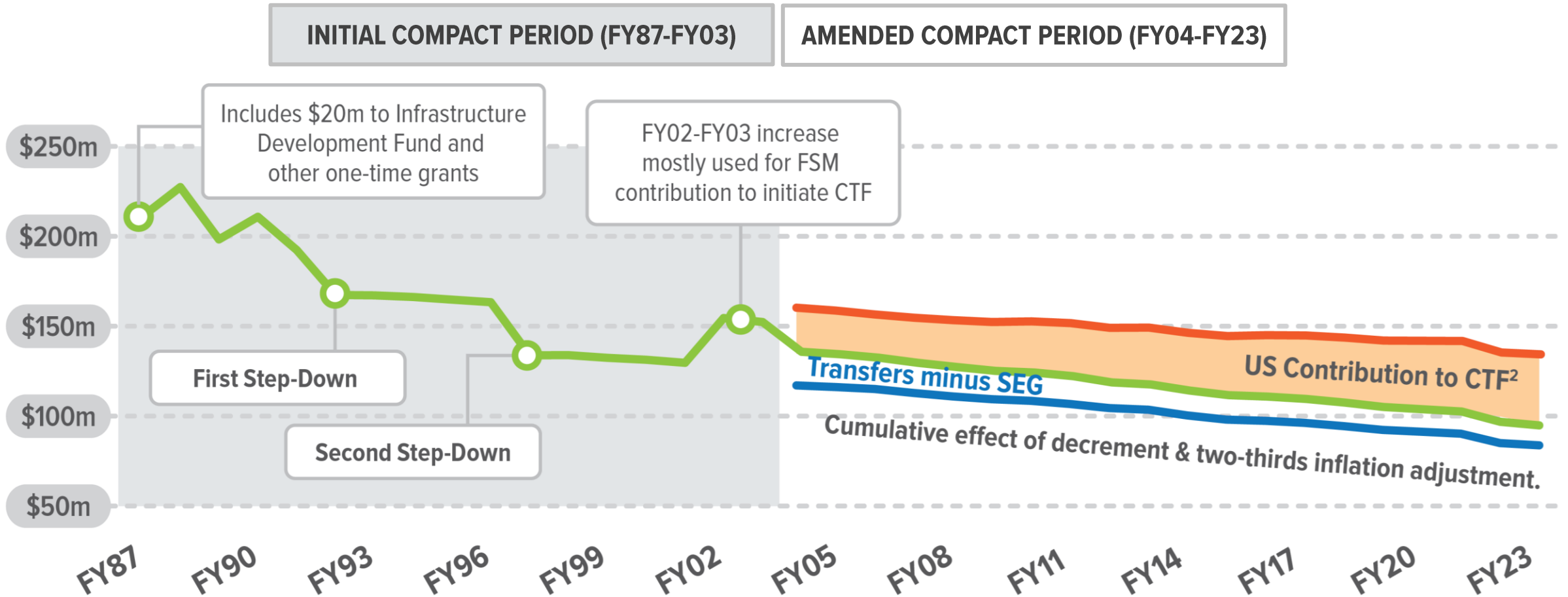
- Transfers as % of GDP
- Population/Outmigration

1. FSM Compact Timeline

» COMPACT TRANSFERS (IN FY24 PRICES)

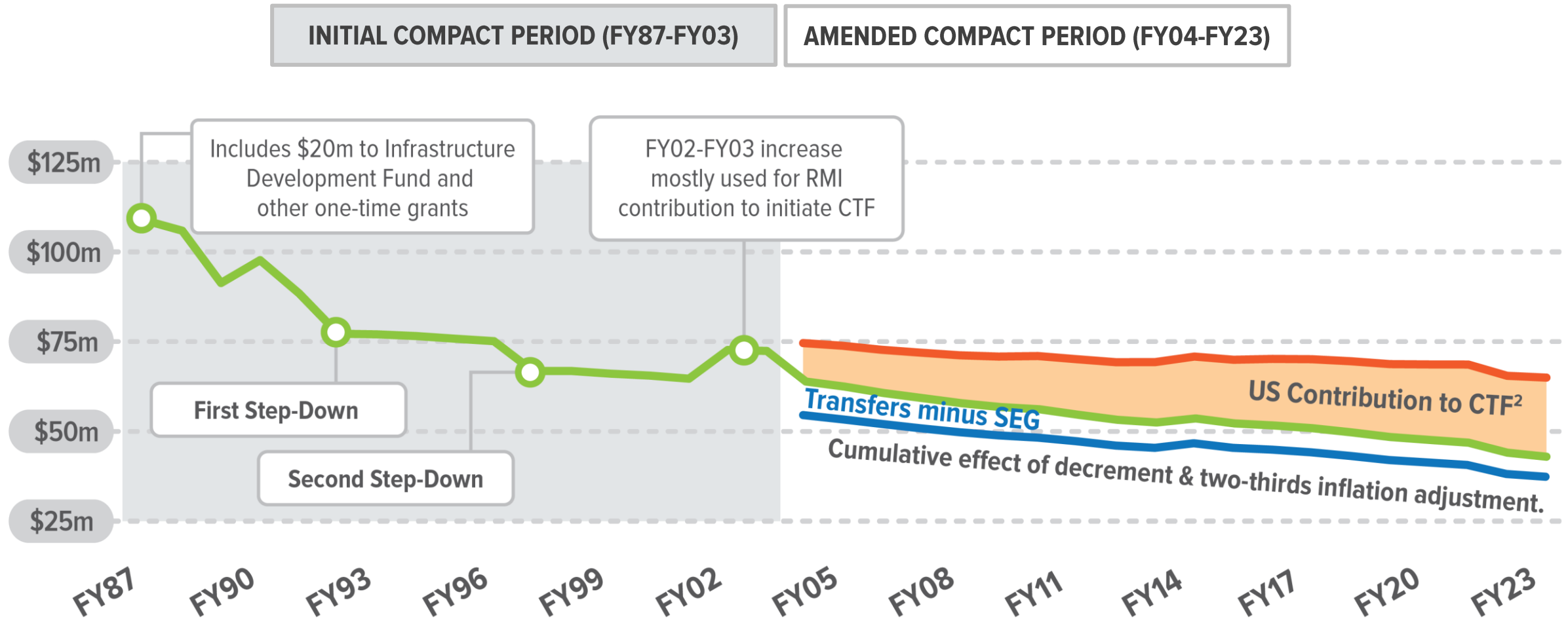


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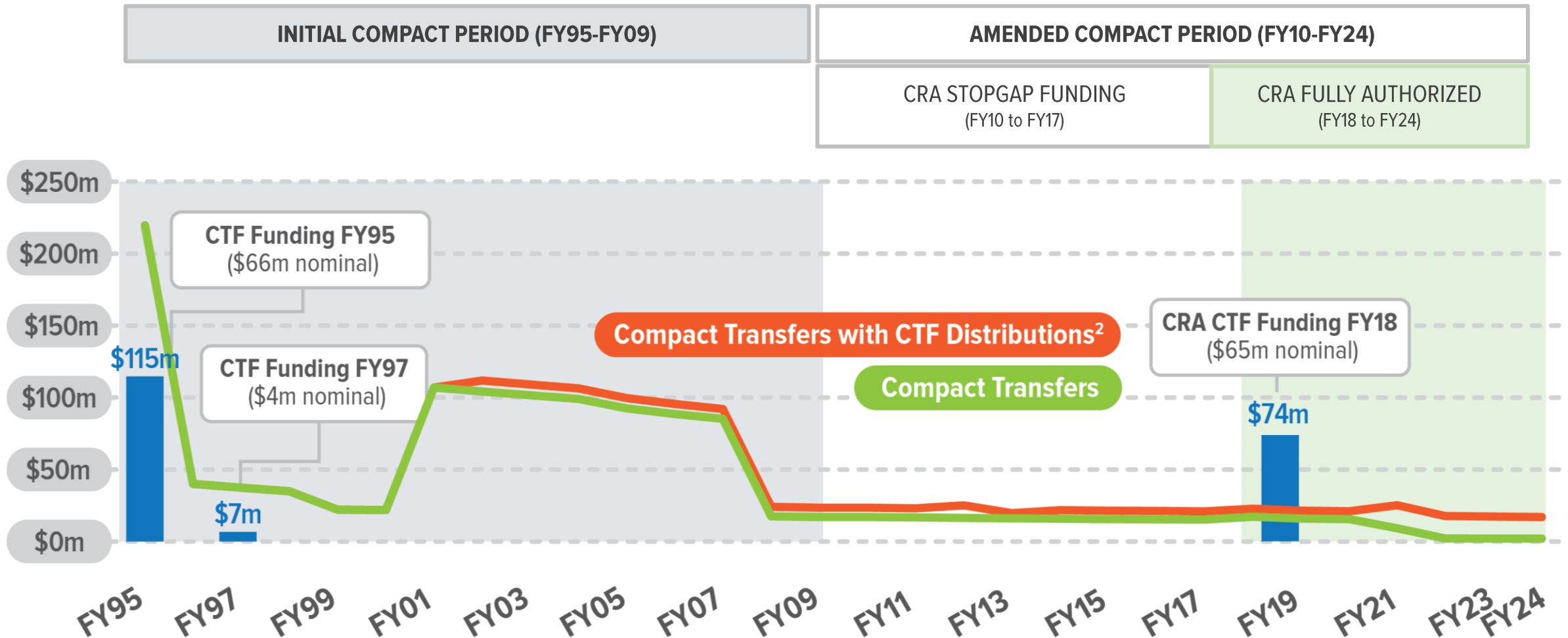
1. RMI Compact Timeline

» COMPACT TRANSFERS (IN FY24 PRICES)



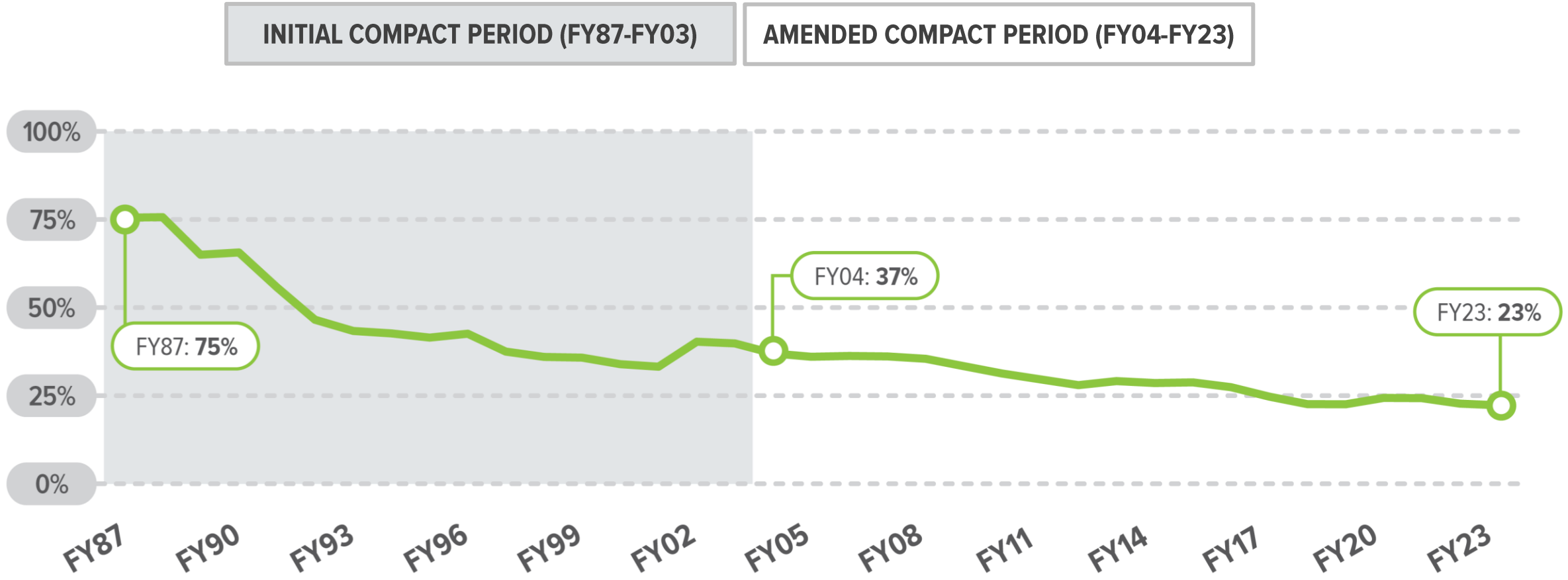
1. Palau Compact Timeline

» COMPACT TRANSFERS (IN FY24 PRICES)



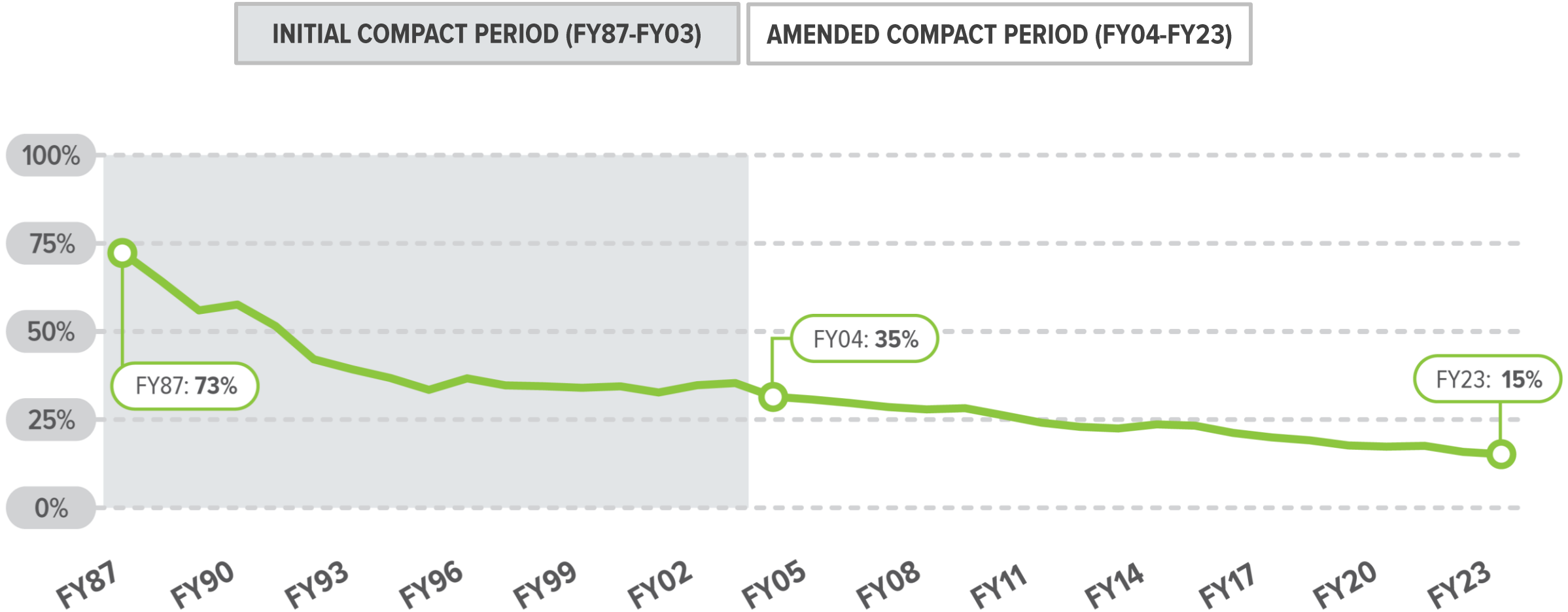
1. FSM Compact Timeline

» COMPACT TRANSFERS (AS % OF GDP)



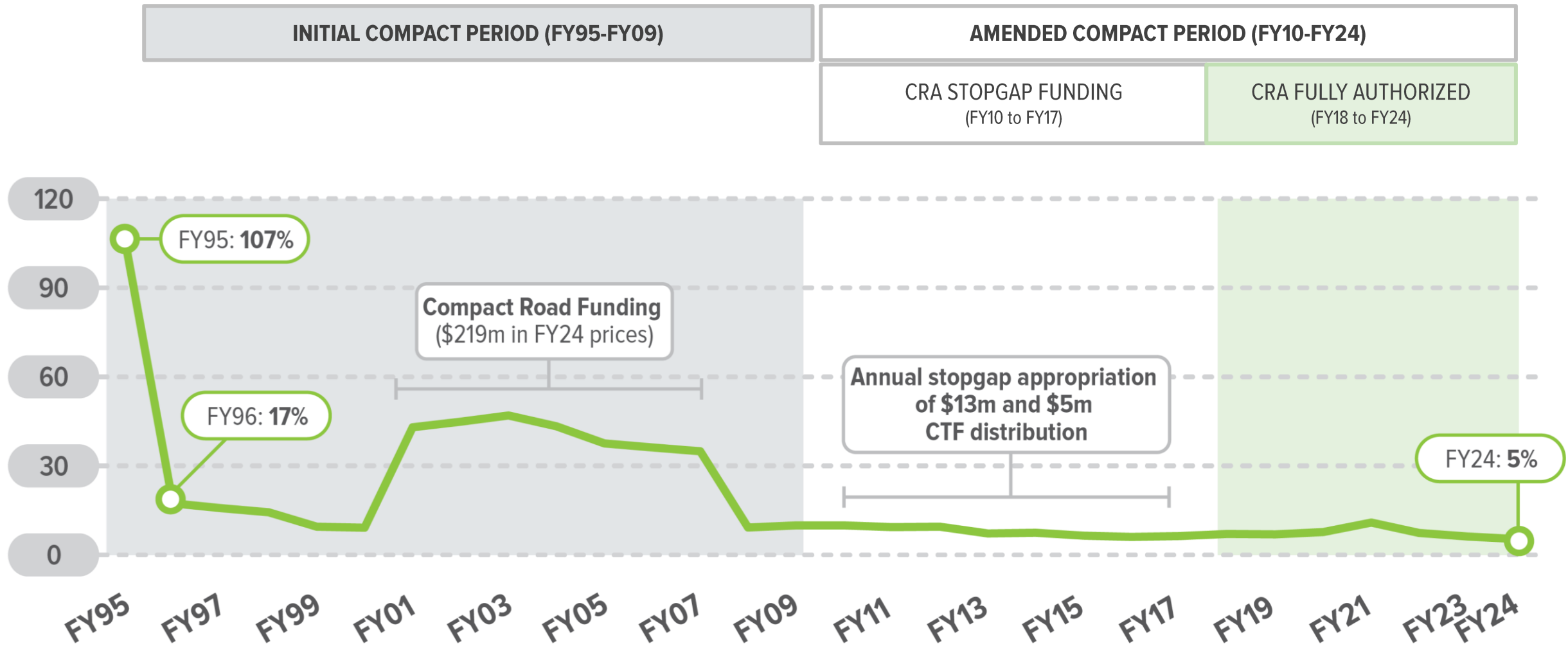
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» COMPACT TRANSFERS (AS % OF GDP)



1. Palau Compact Timeline

» COMPACT TRANSFERS (AS % OF GDP)



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PALAU

17,490
POPULATION

FSM

104,468
POPULATION

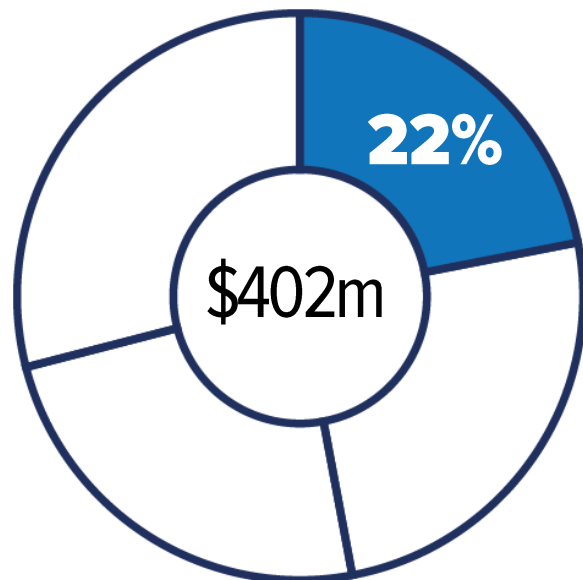
RMI

54,709
POPULATION

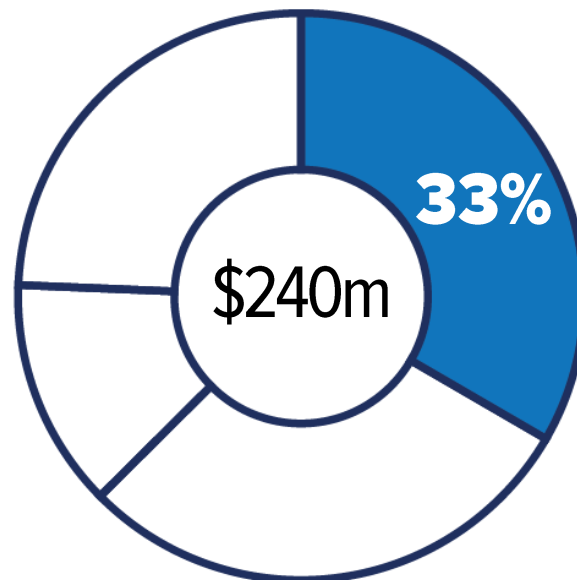
2. Economic Structure and Performance

» FAS INSTITUTIONAL STRUCTURE OF THE ECONOMY (FY17-FY19, 3-YR AVG)

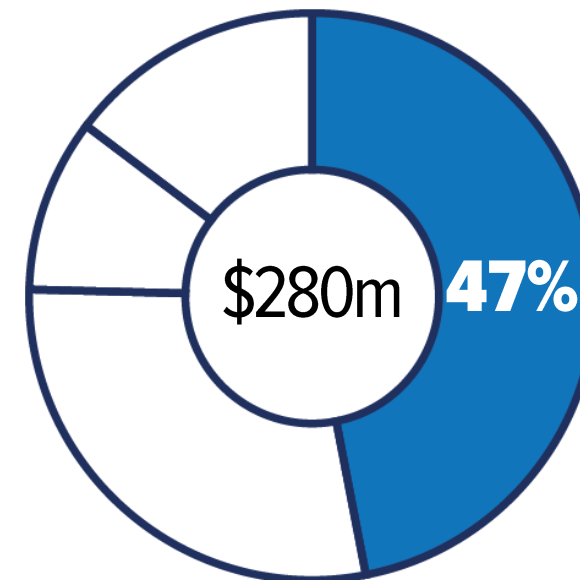
PRIVATE SECTOR



FSM Private Sector



RMI Private Sector

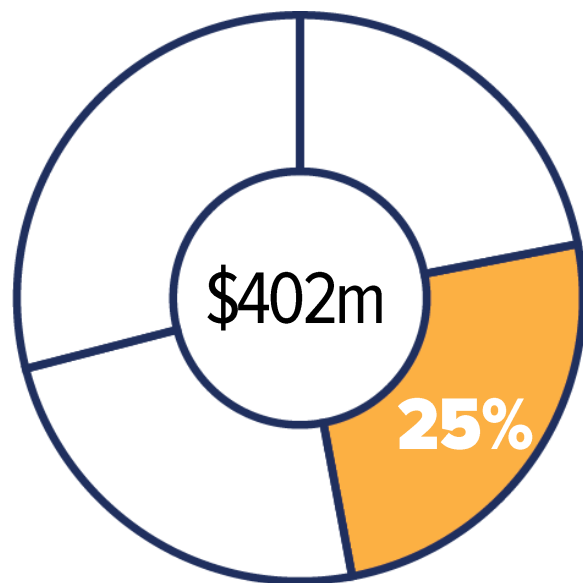


Palau Private Sector

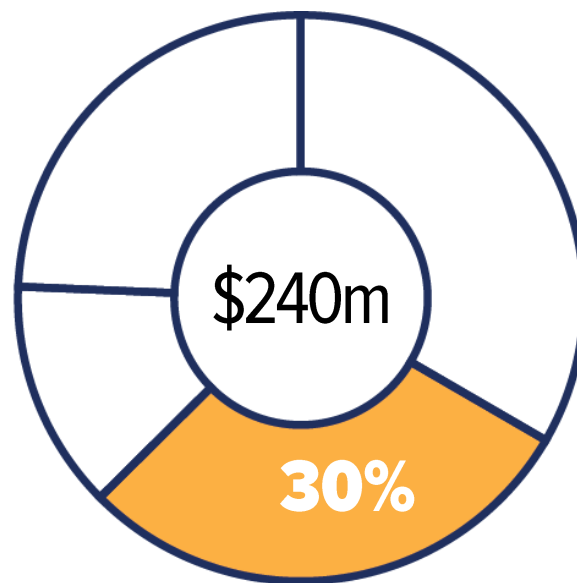
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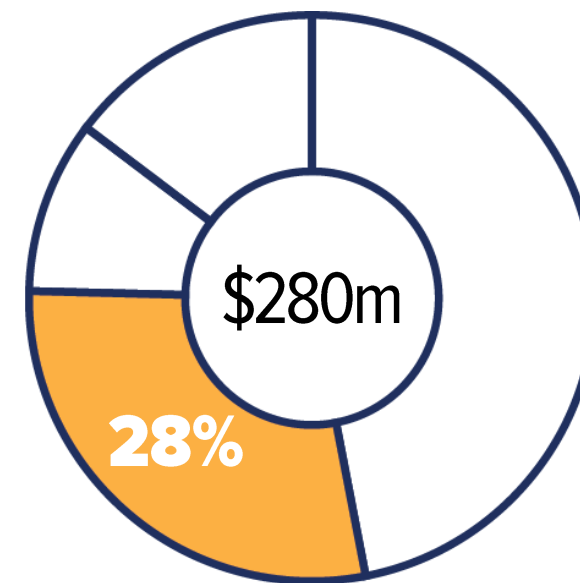
GOVERNMENT



FSM Government



RMI Government

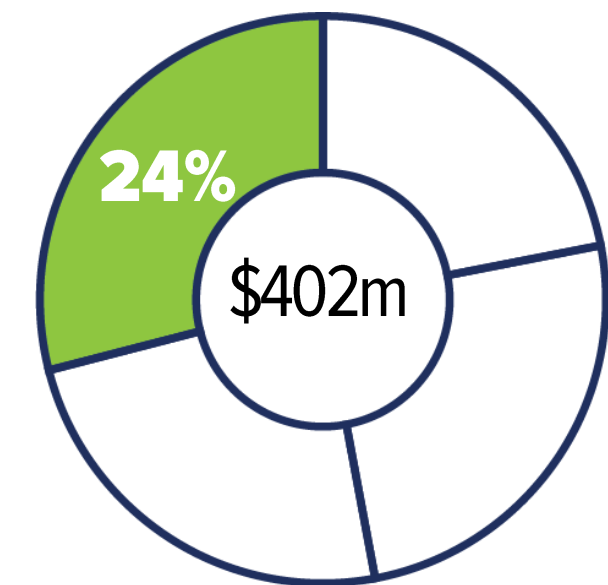


Palau Government

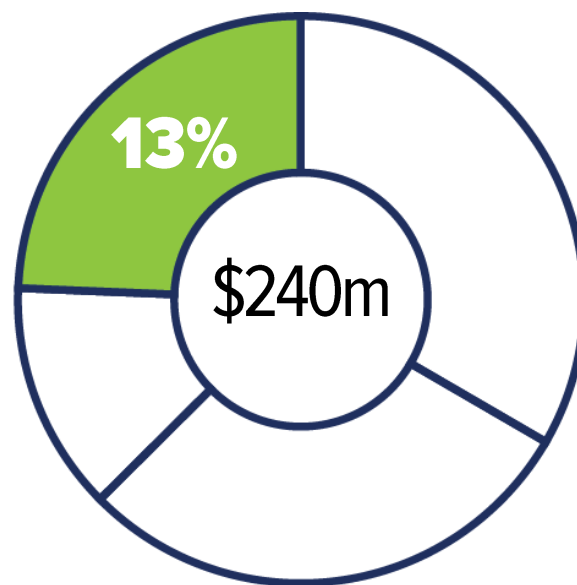
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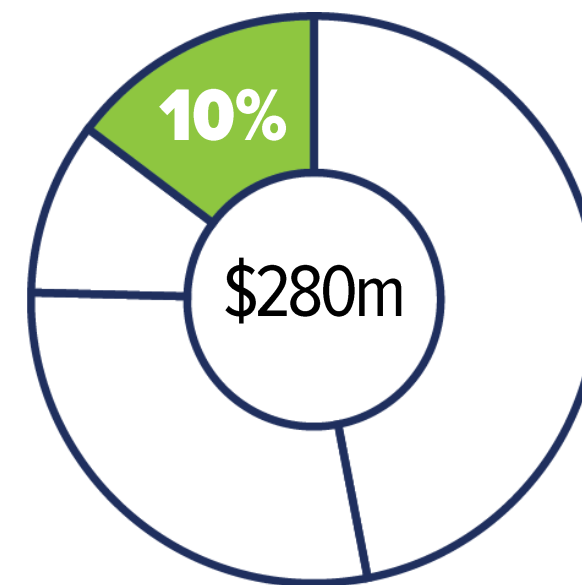
HOUSEHOLD PRODUCTION



 **FSM** Household Production



 **RMI** Household Production

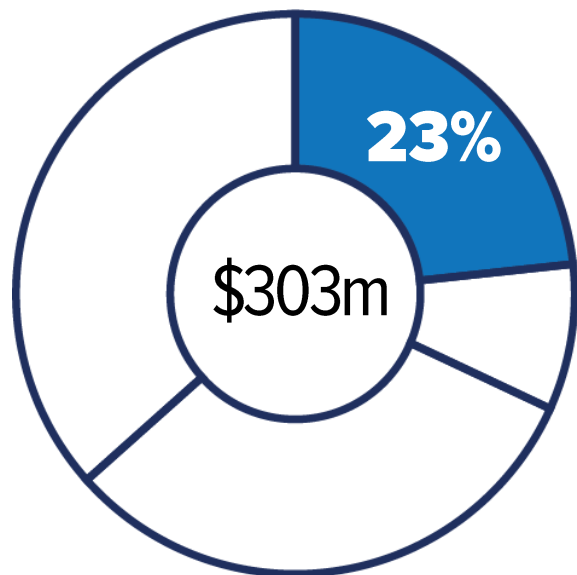


 **Palau** Household Production

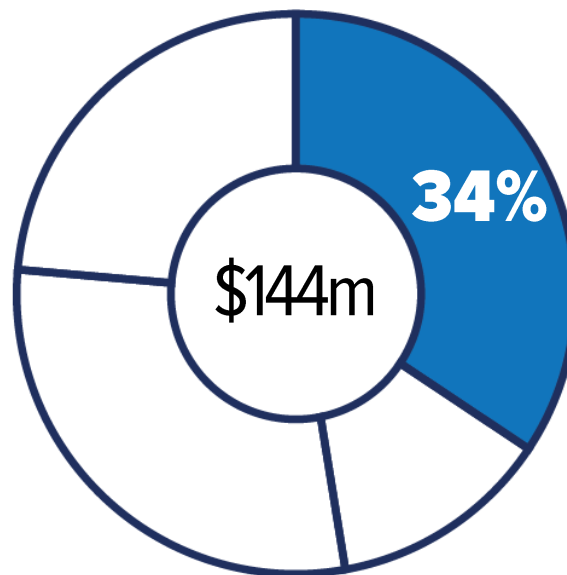
2. Economic Structure and Performance

» FAS STRUCTURE OF KEY REVENUE SOURCES (FY17-FY19, 3-YR AVG)

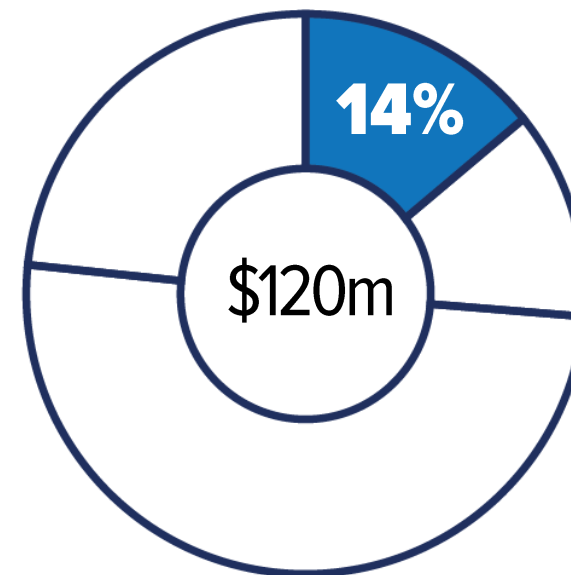
COMPACT REVENUES



FSM Compact Revenues



RMI Compact Revenues

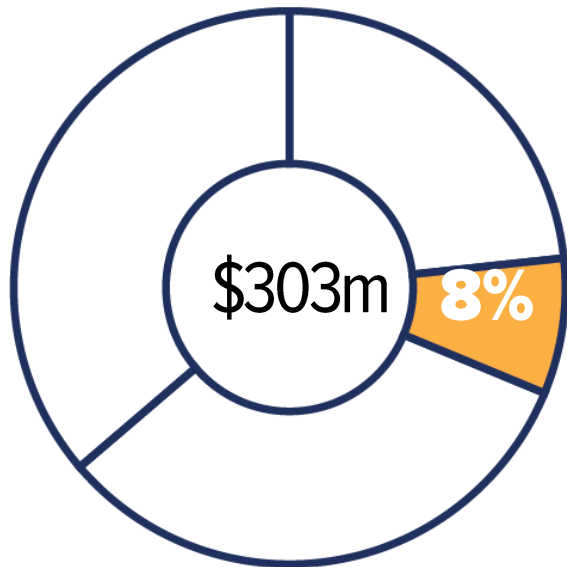


Palau Compact Revenues

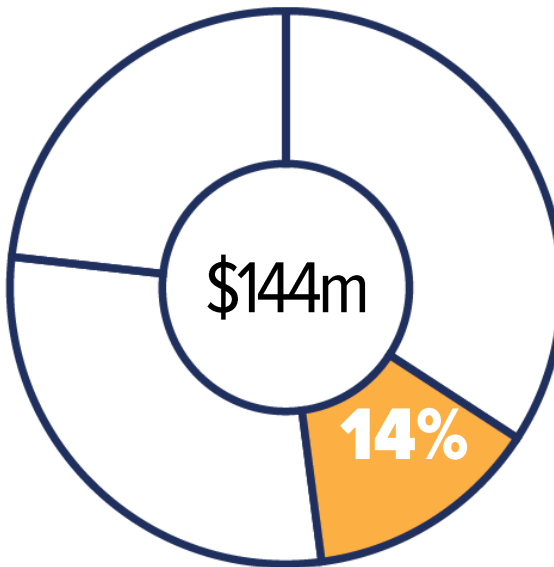
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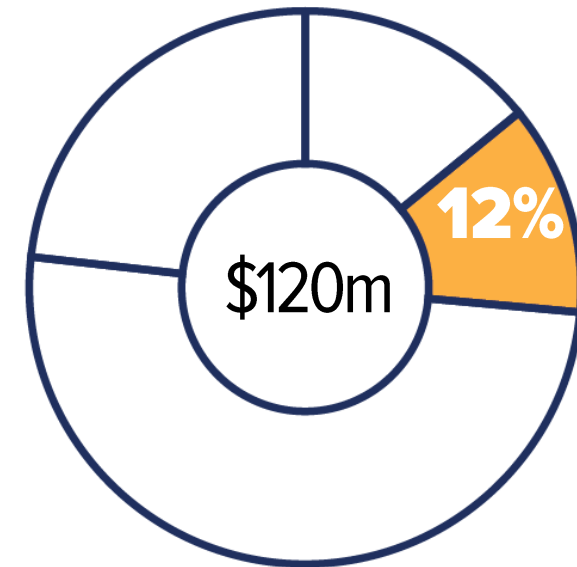
US FEDERAL PROGRAMS



 **FSM** US Federal Programs



 **RMI** US Federal Programs

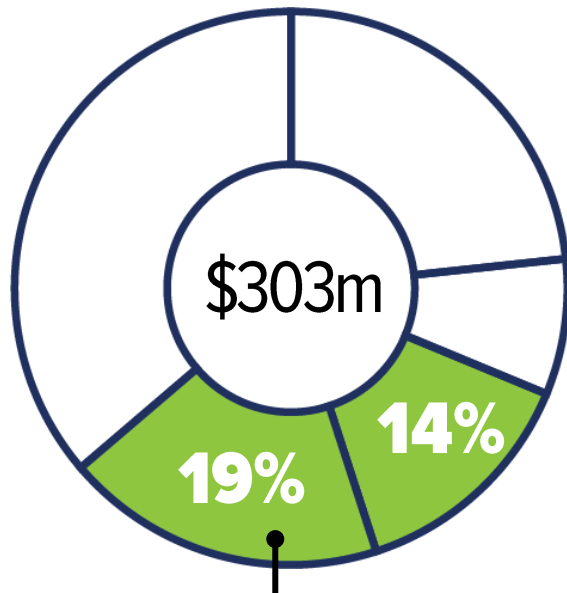


 **Palau** US Federal Programs

2. Economic Structure and Performance

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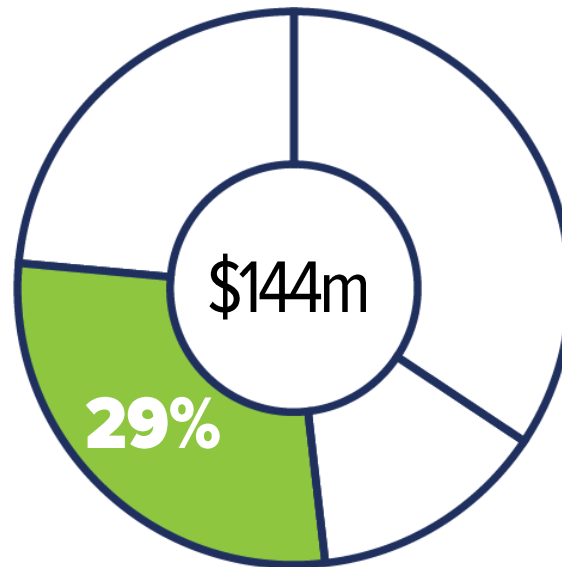
DOMESTIC TAXES



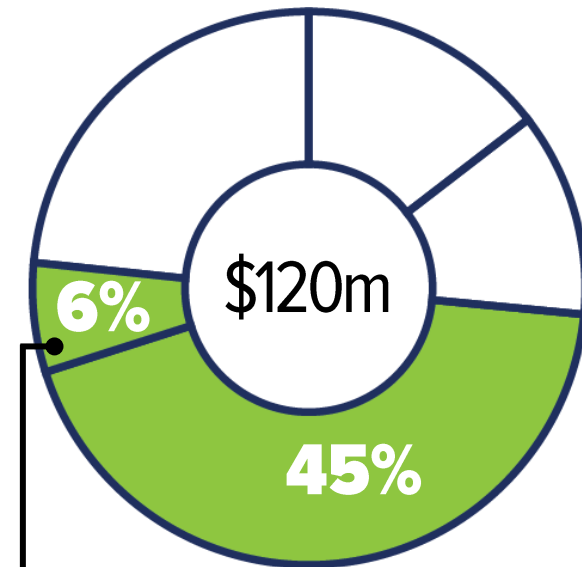
TAX DOMICILE



FSM Domestic Taxes



RMI Domestic Taxes



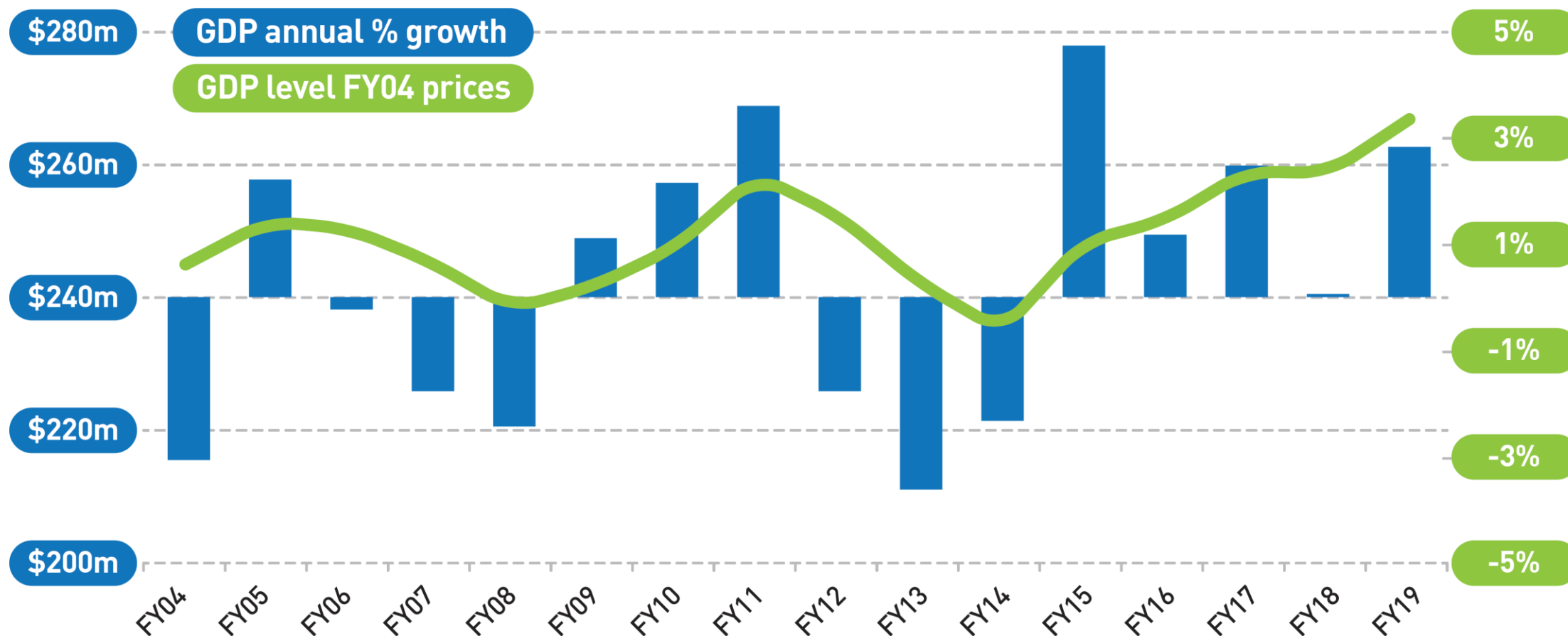
DEPARTURE TAXES



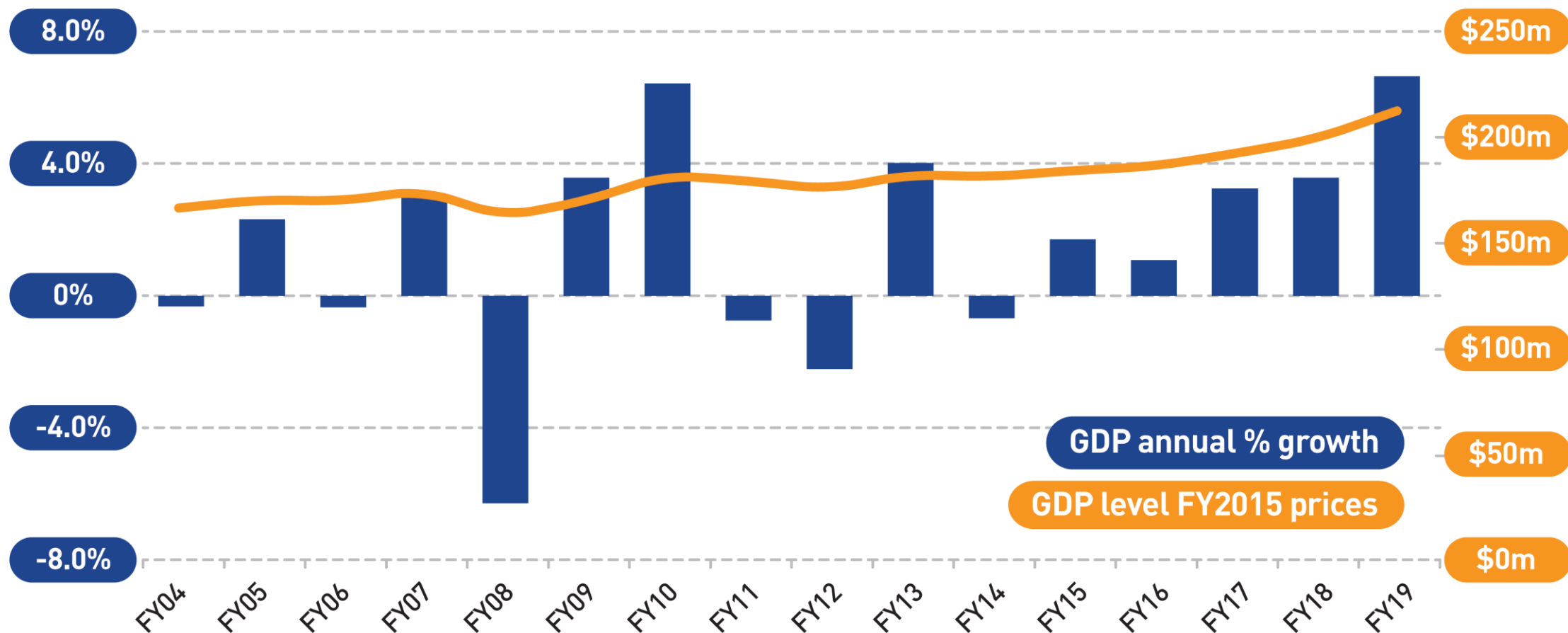
Palau Domestic Taxes



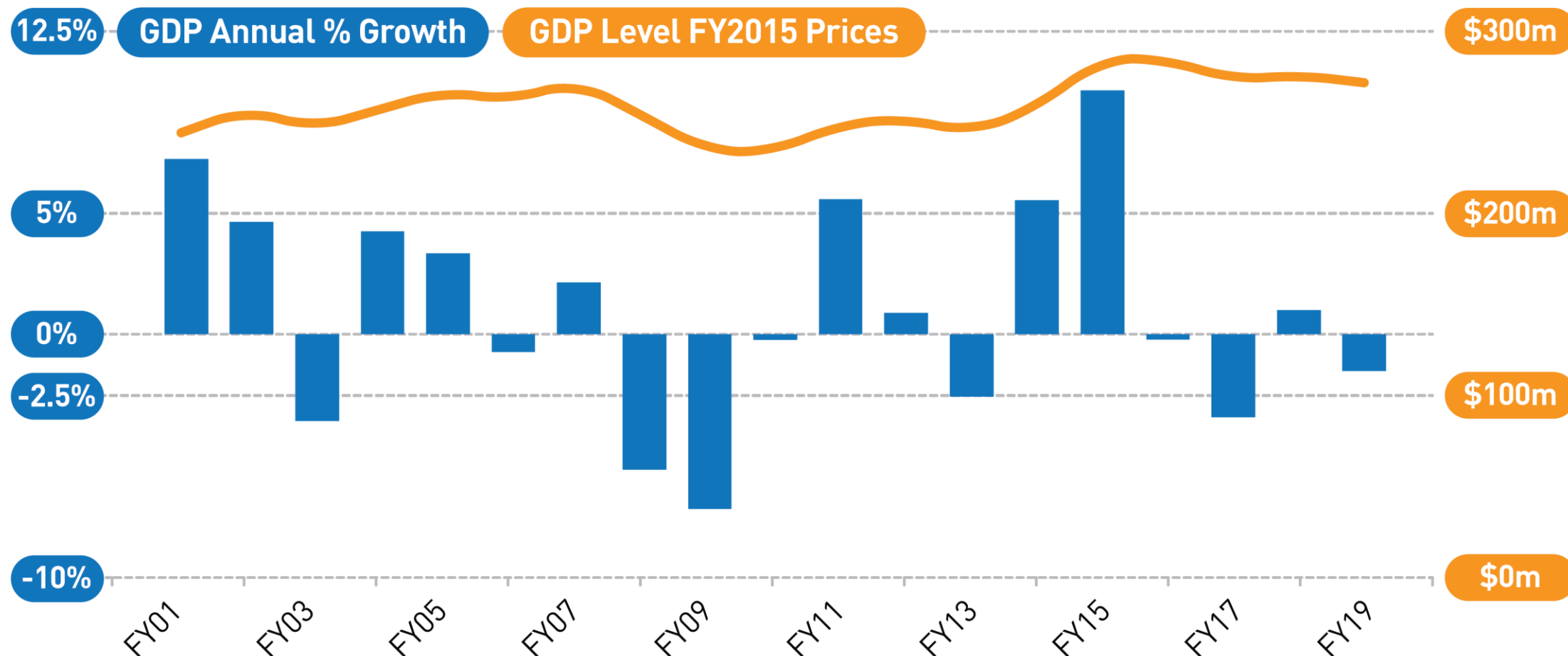
» FSM GDP LEVEL (FY04 PRICES) AND ANNUAL % GROWTH



» RMI GDP LEVEL (FY15 PRICES) AND ANNUAL % GROWTH



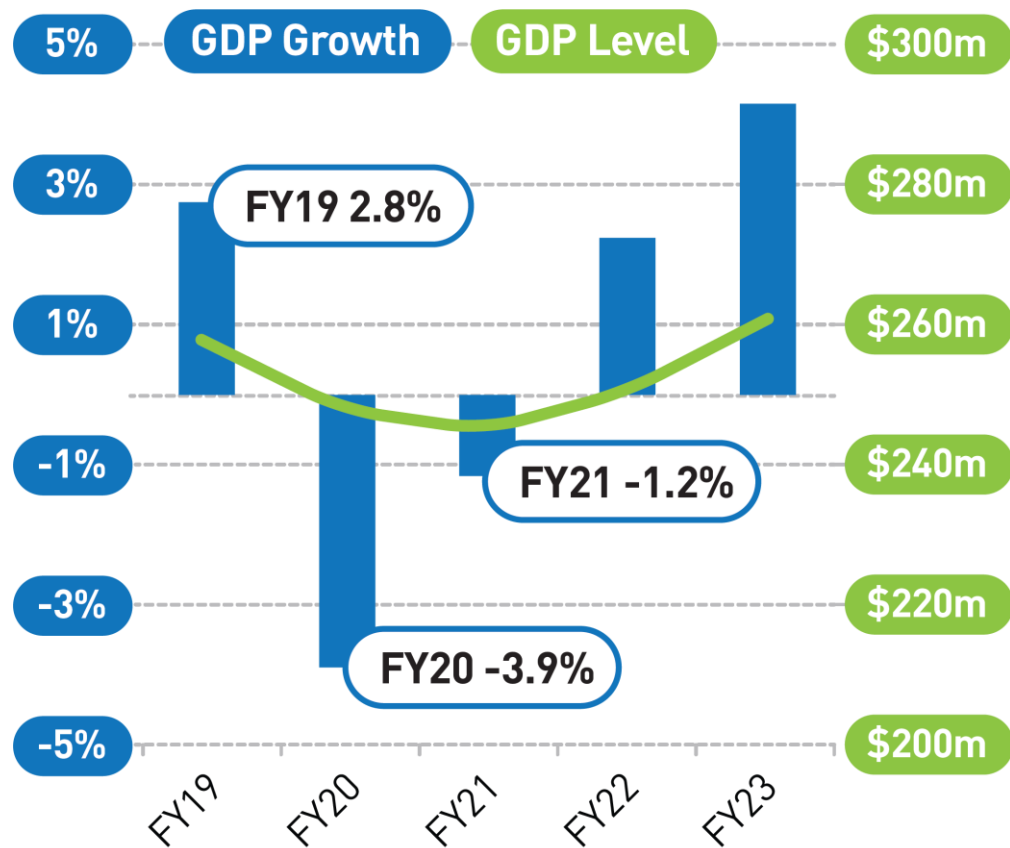
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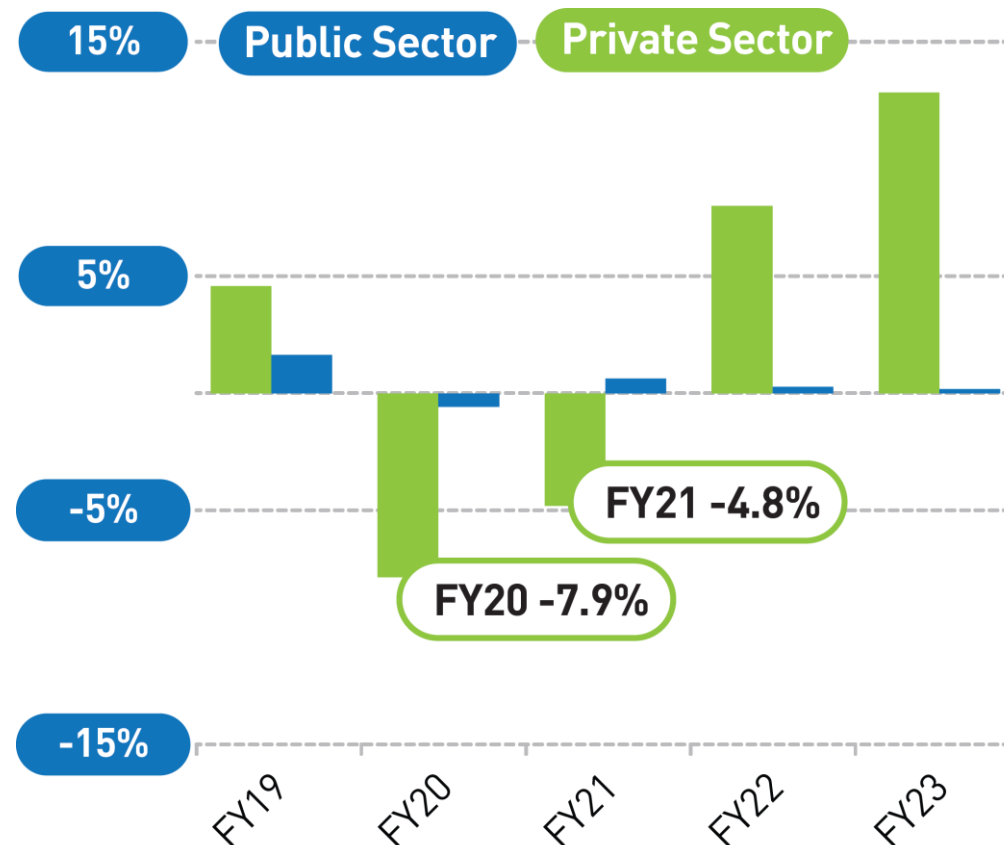
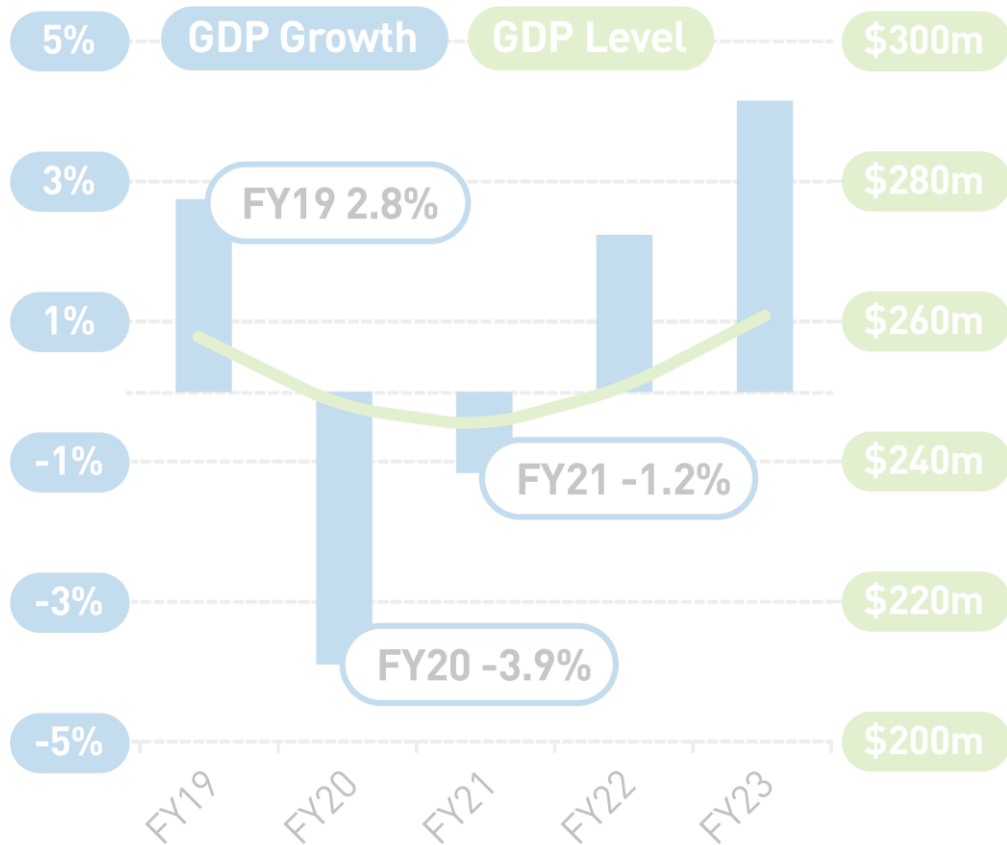
3. The Impact of COVID-19

» FSM PROJECTED GDP LEVEL AND ANNUAL % GROWTH



3. The Impact of COVID-19

» FSM PROJECTED PRIVATE AND PUBLIC SECTOR GROWTH

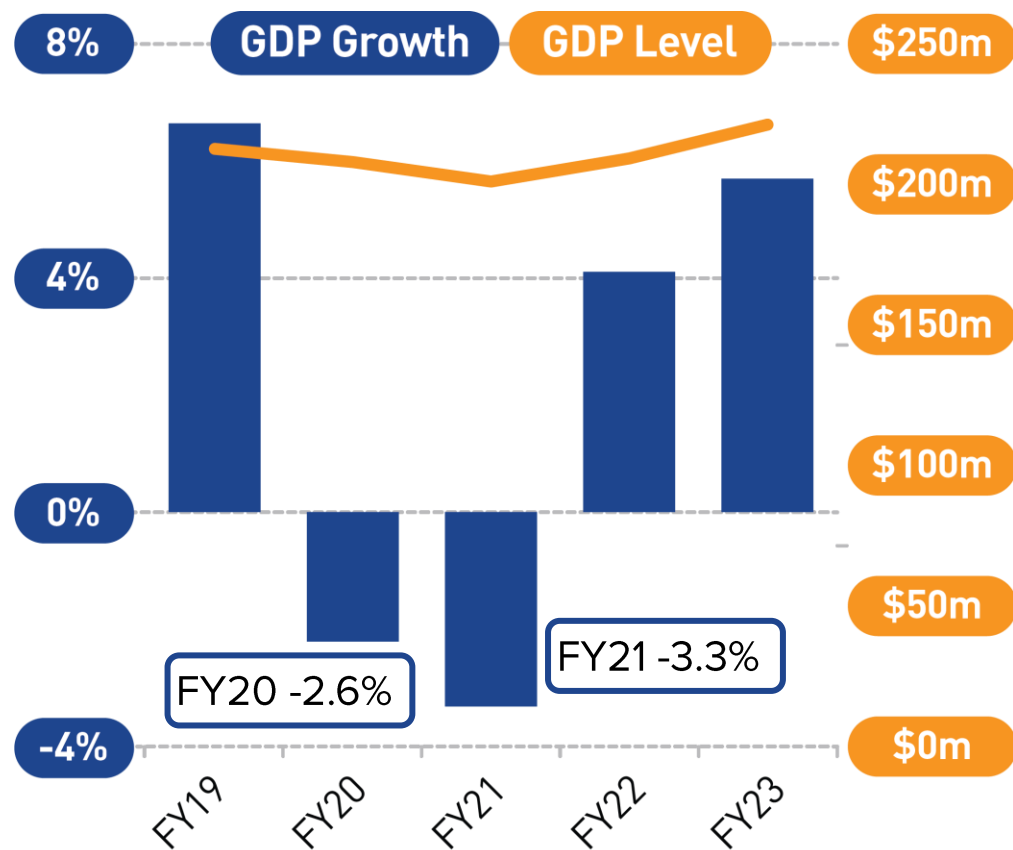


3. The Impact of COVID-19



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» RMI PROJECTED GDP LEVEL AND ANNUAL % GROWTH

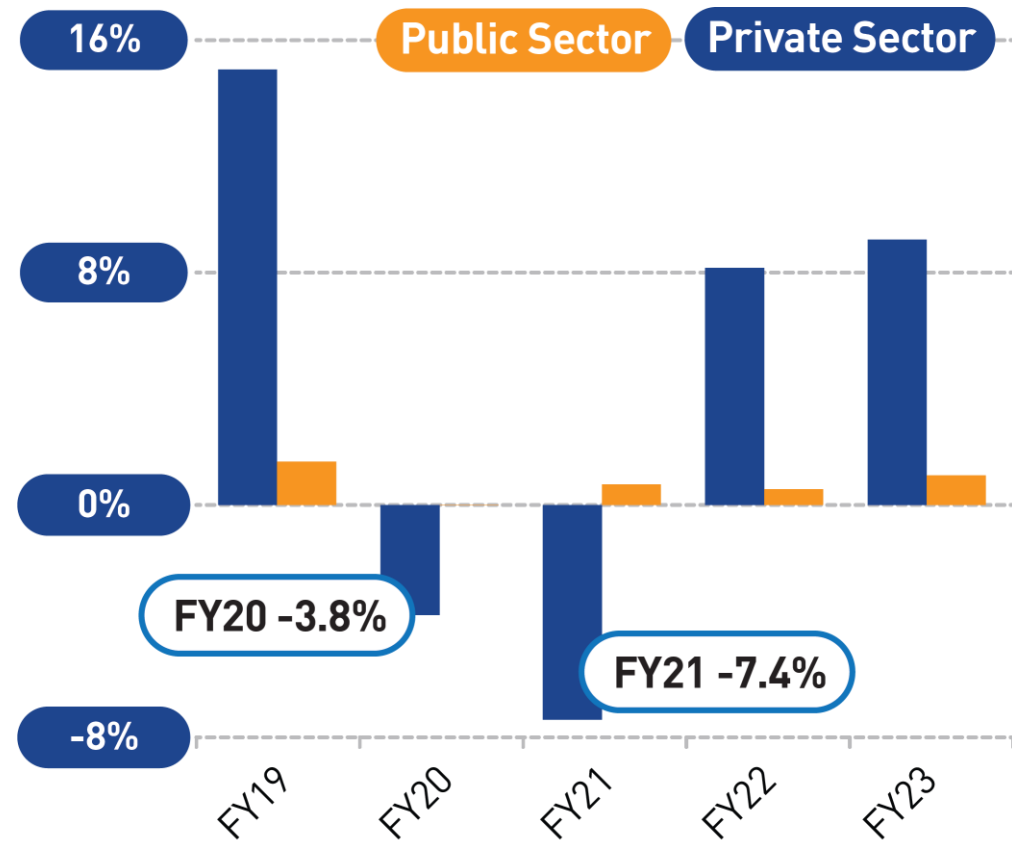
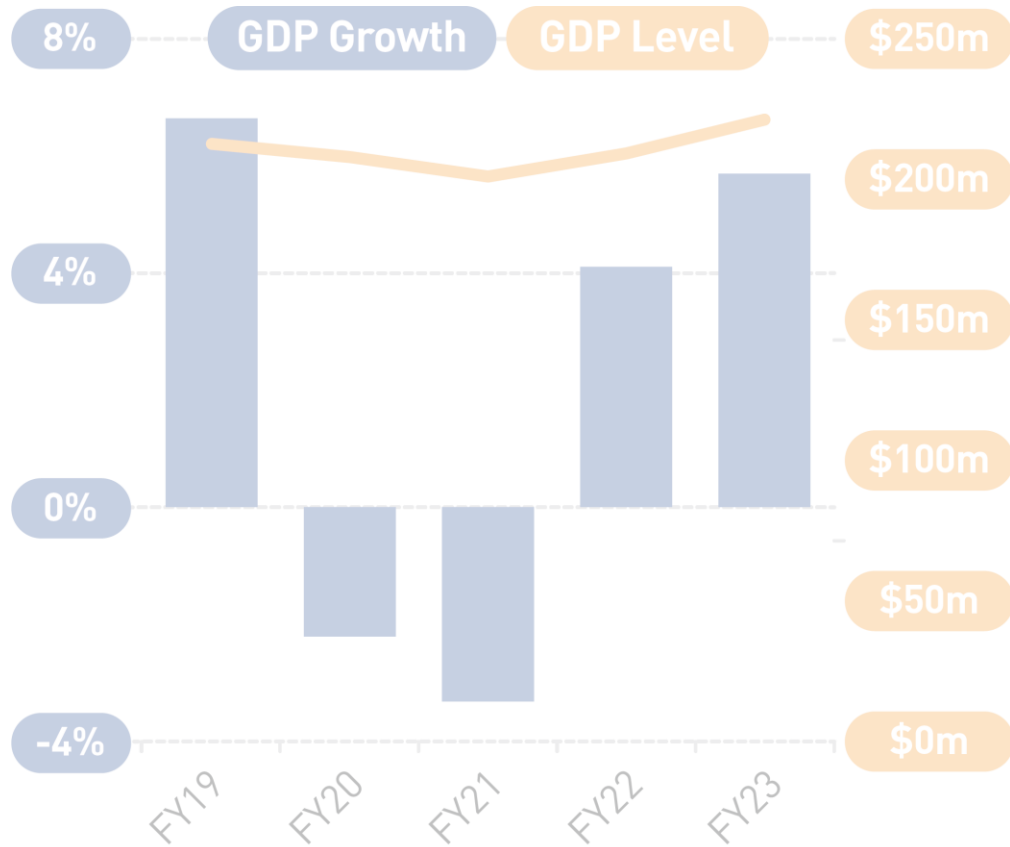


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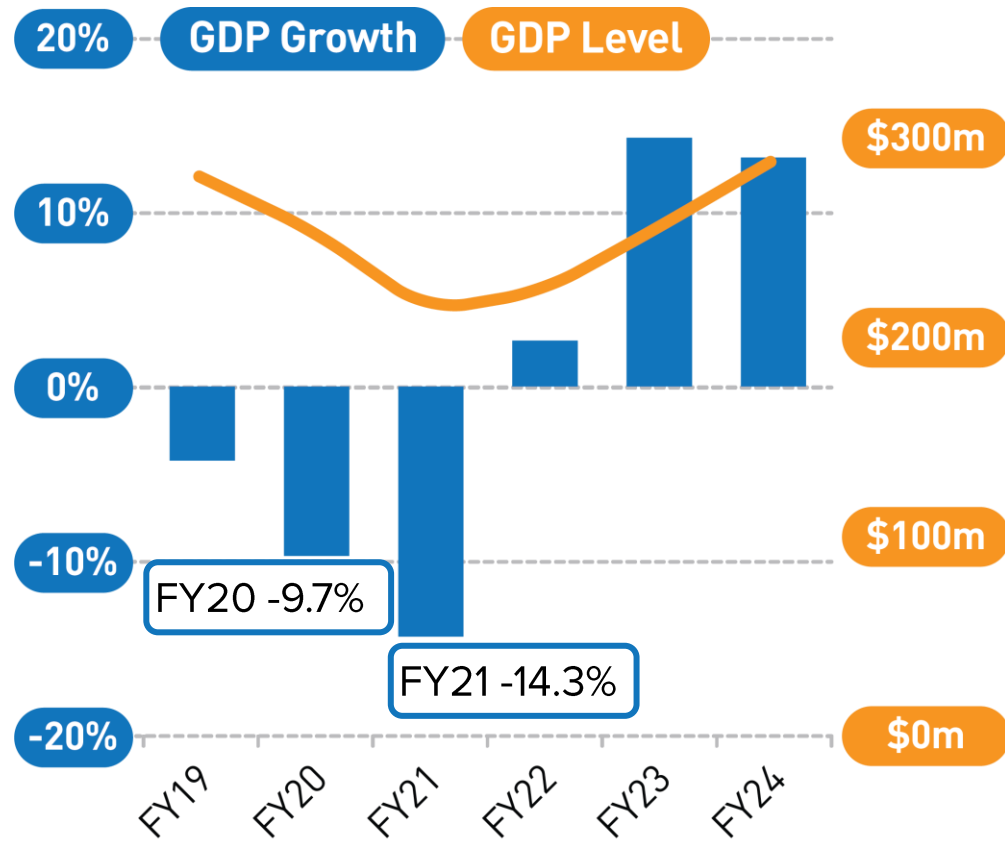
ADB

» RMI PROJECTED PRIVATE AND PUBLIC SECTOR GROWTH



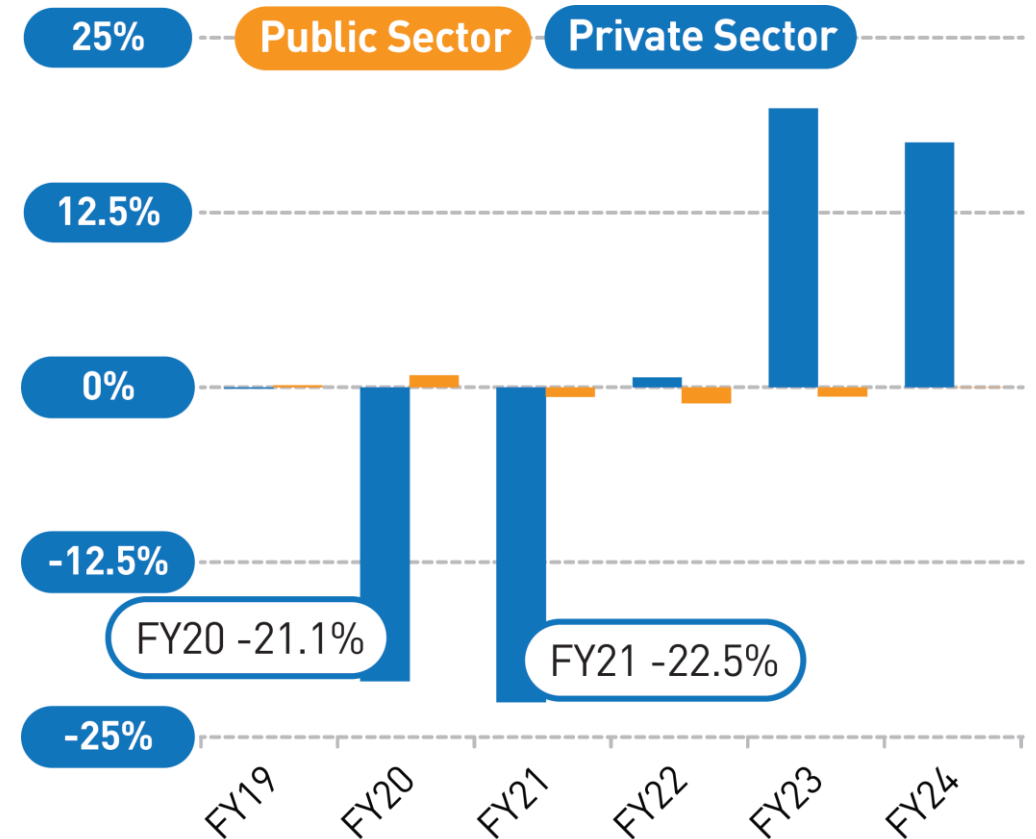
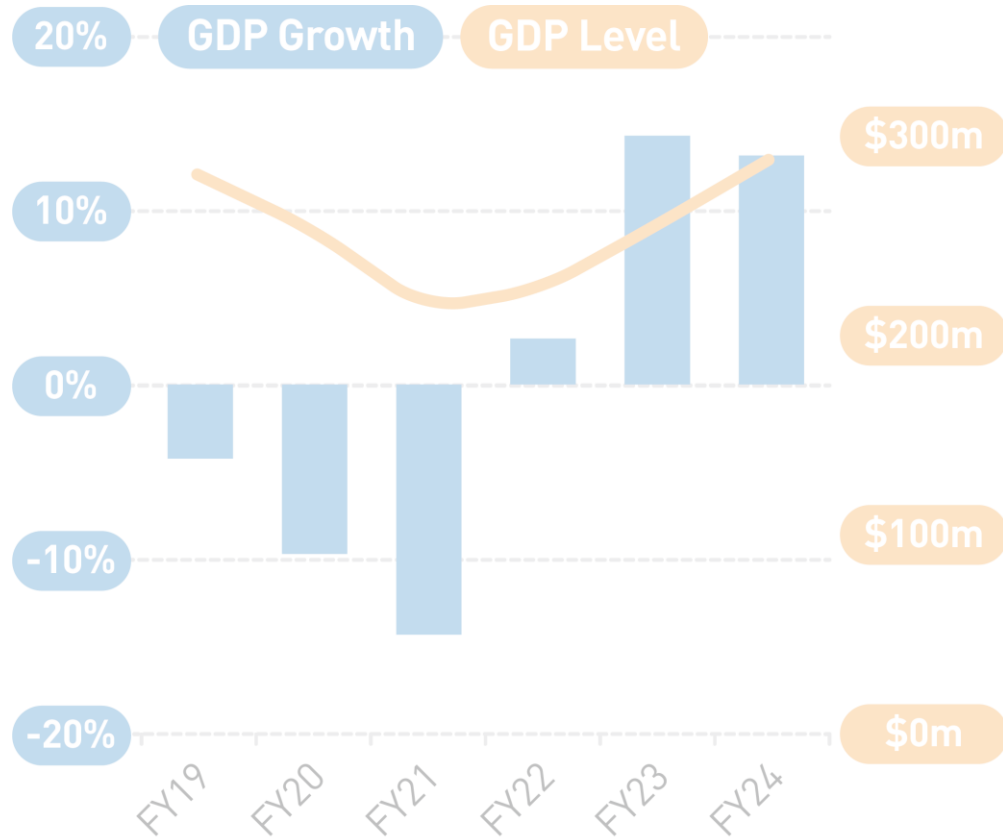
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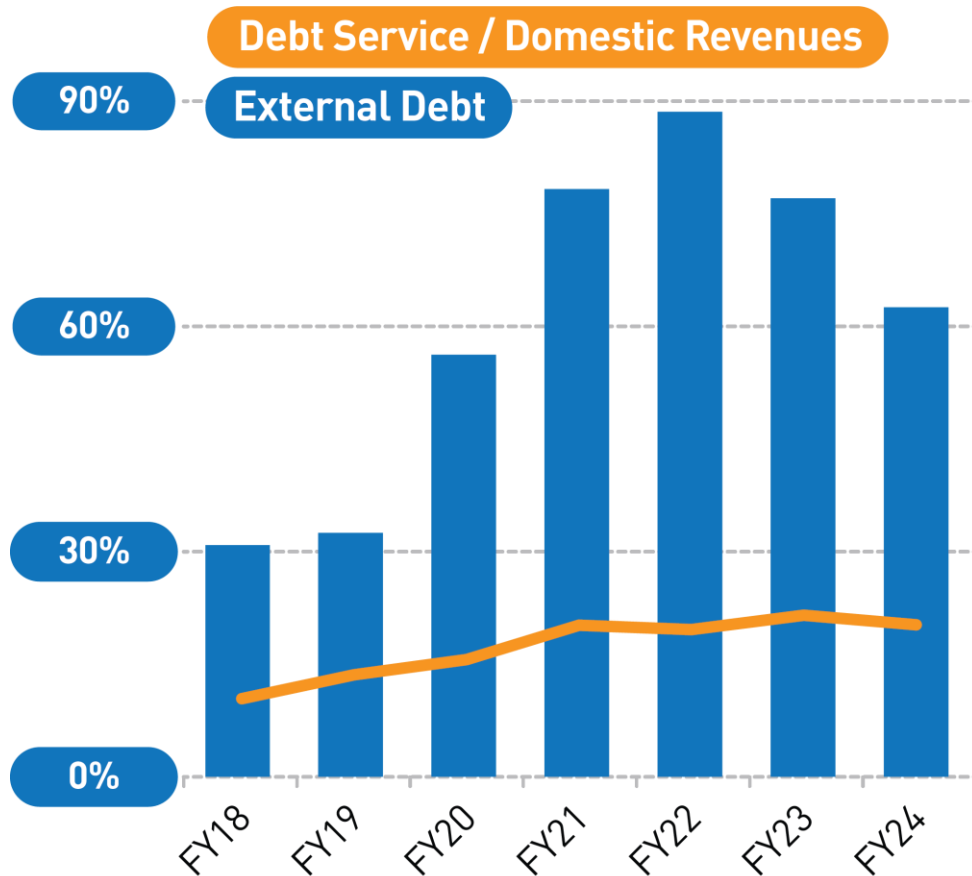
3. The Impact of COVID-19

» PALAU PROJECTED PRIVATE AND PUBLIC SECTOR GROWTH



3. The Impact of COVID-19

» PALAU EXTERNAL DEBT



- 30% Debt-to-GDP is considered a healthy, sustainable level.
- FY20-FY22 involved \$90m of COVID-related borrowing.
- Projected debt level for FY22 is deeply concerning... but unavoidable.
- As GDP recovers, debt-to-GDP will improve dramatically.

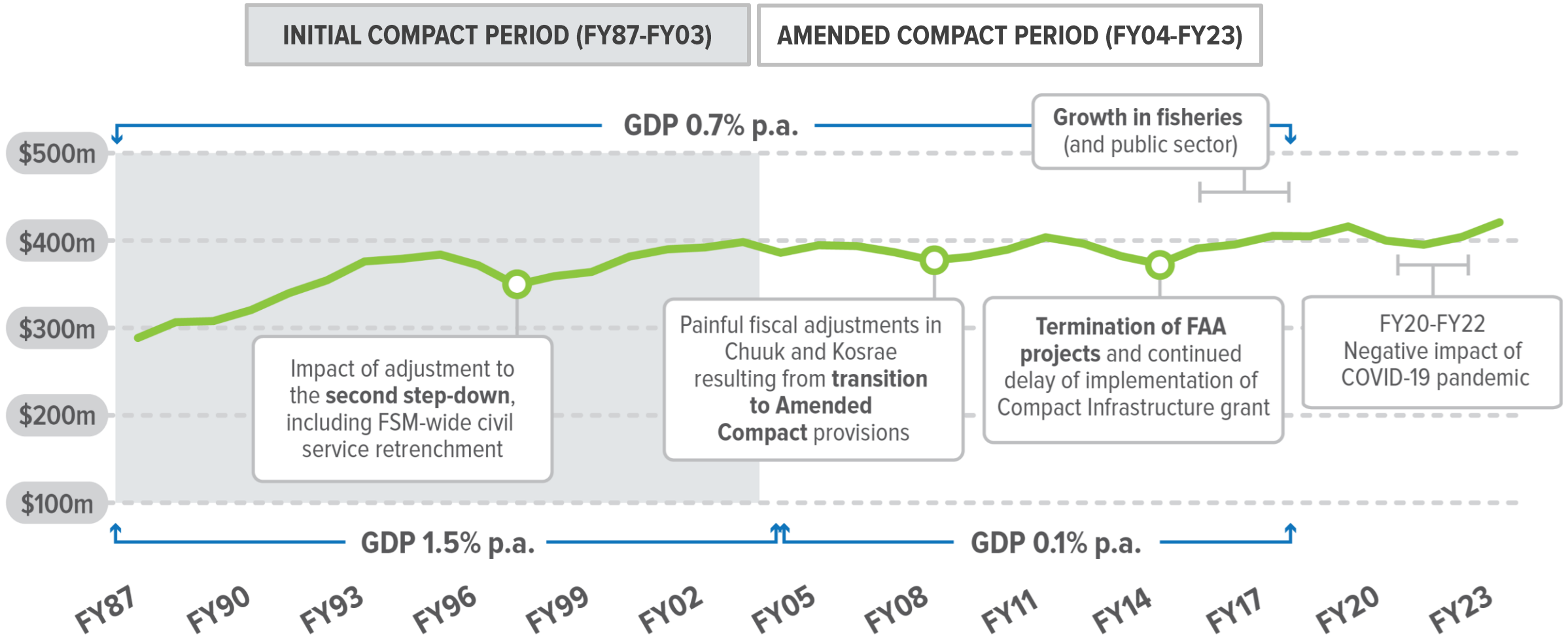
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4. FSM Compact Timeline



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» GDP GROWTH (FY23 PRICES)

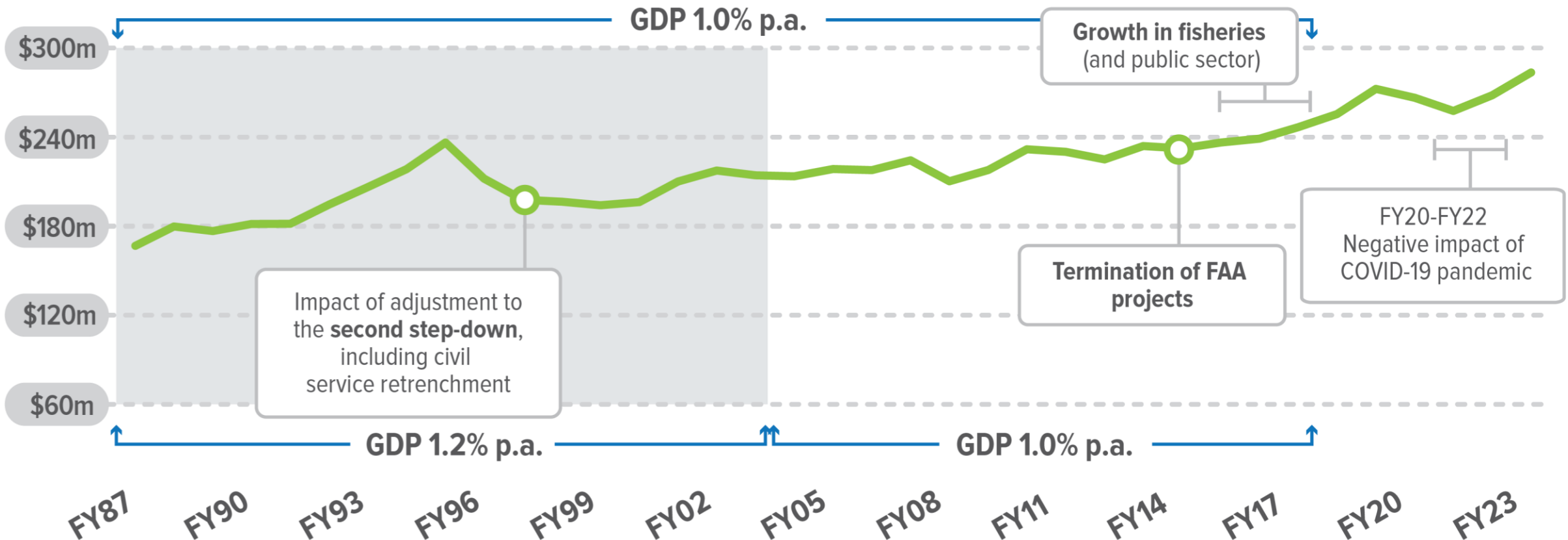


4. RMI Compact Timeline

» GDP GROWTH (FY23 PRICES)

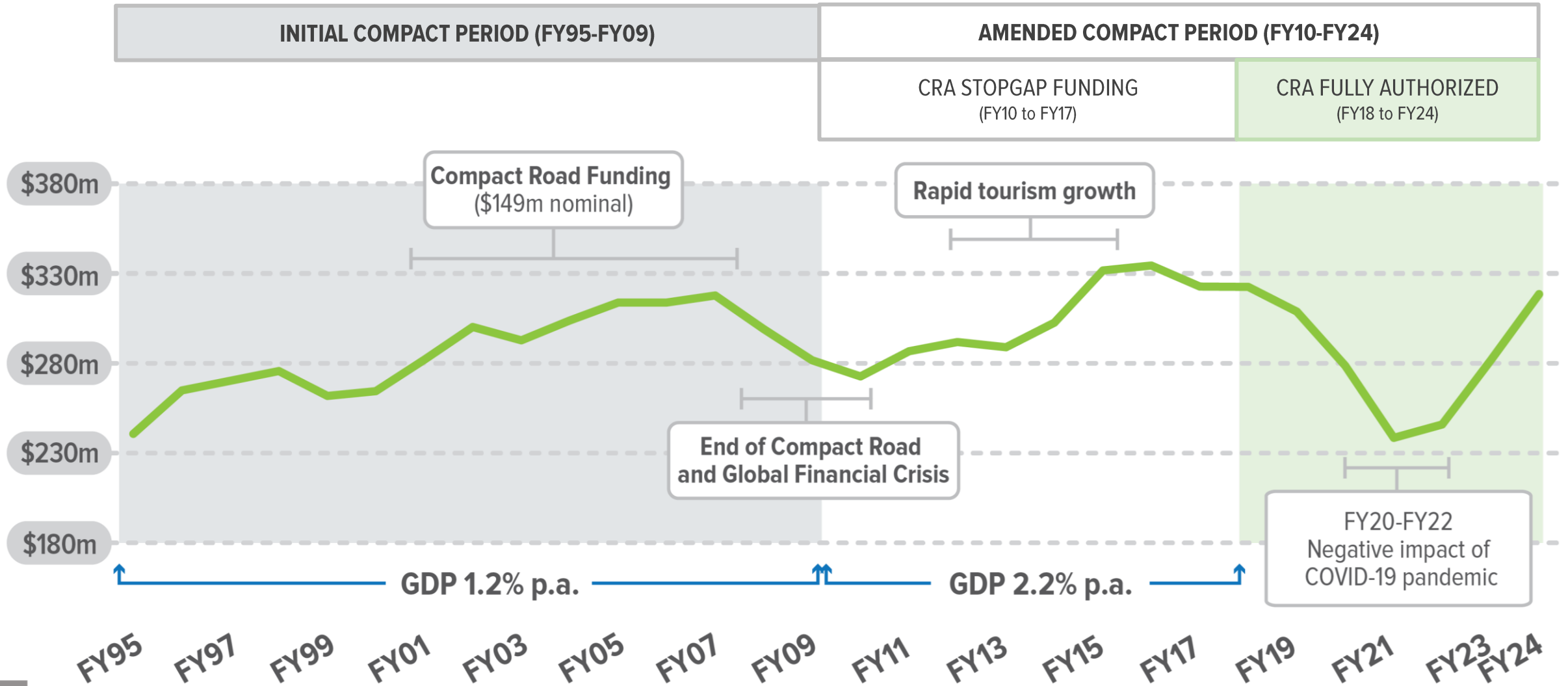
INITIAL COMPACT PERIOD (FY87-FY03)

AMENDED COMPACT PERIOD (FY04-FY23)



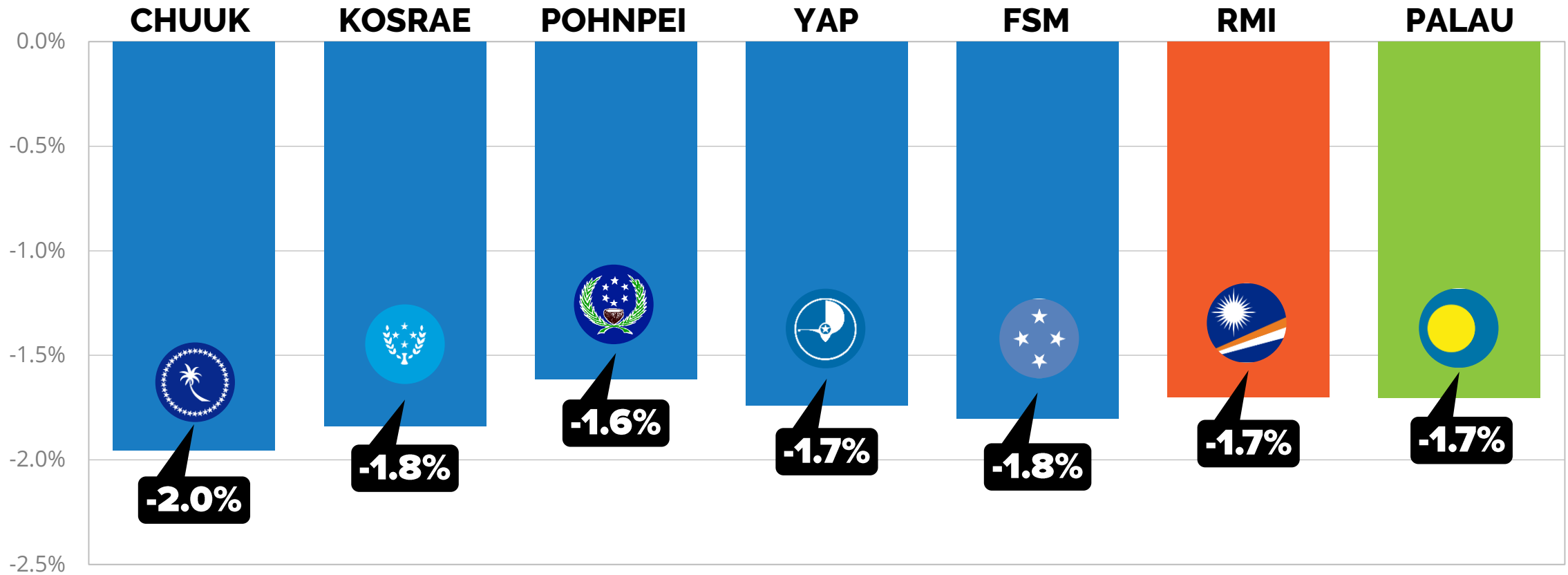
4. Palau Compact Timeline

» GDP GROWTH (FY24 PRICES)



4. FSM Compact Timeline

» NET MIGRATION THROUGHOUT THE FAS (2004-2011)



4. FSM Compact Timeline

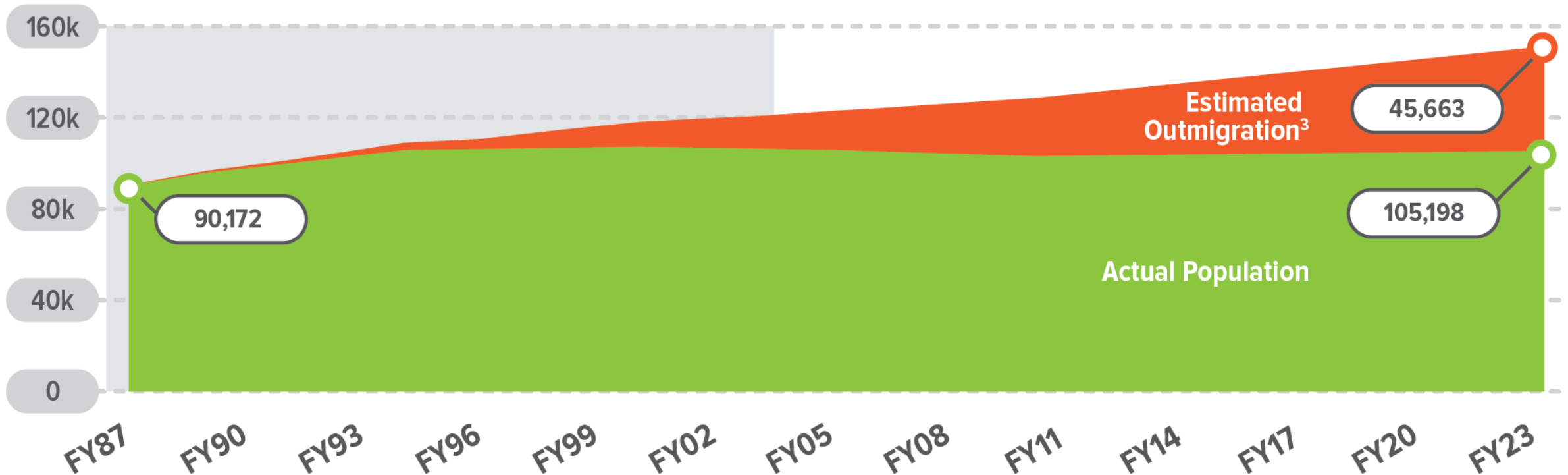
» POPULATION (ACTUAL vs OUTMIGRATION)



ADB

INITIAL COMPACT PERIOD (FY87-FY03)

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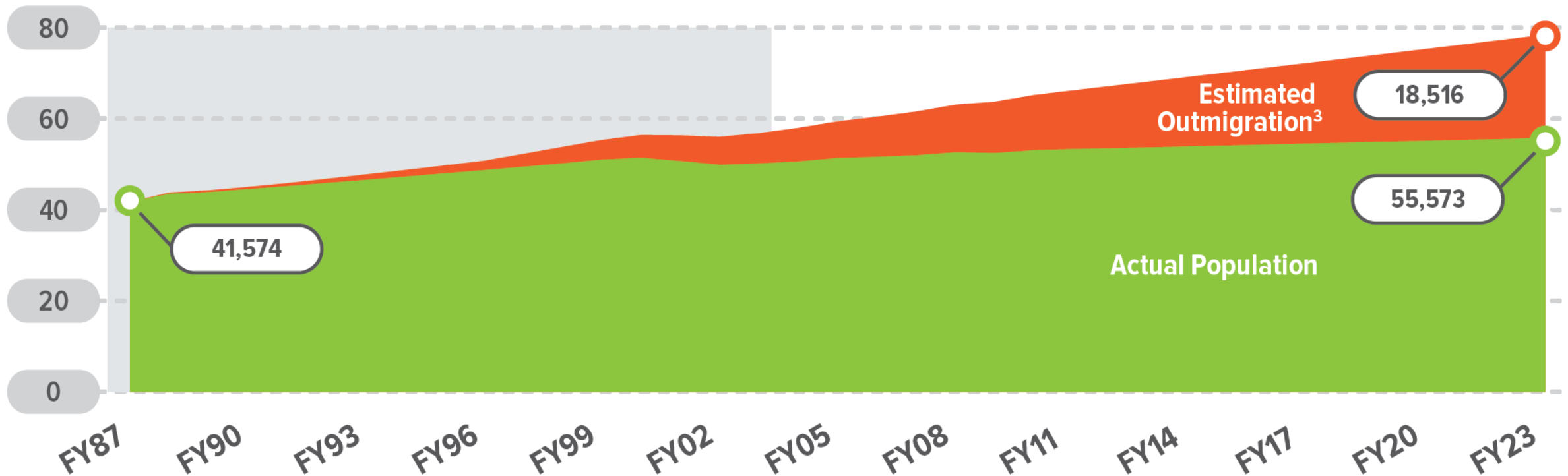


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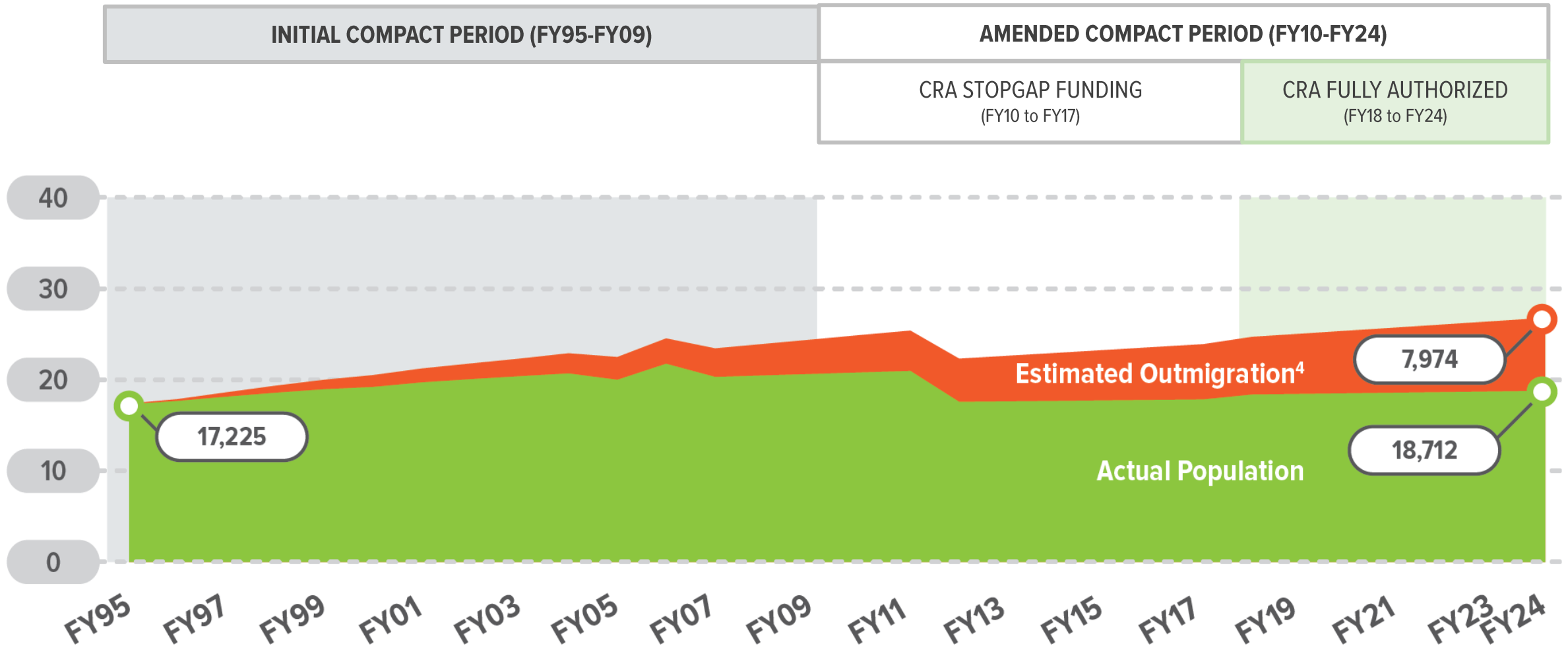
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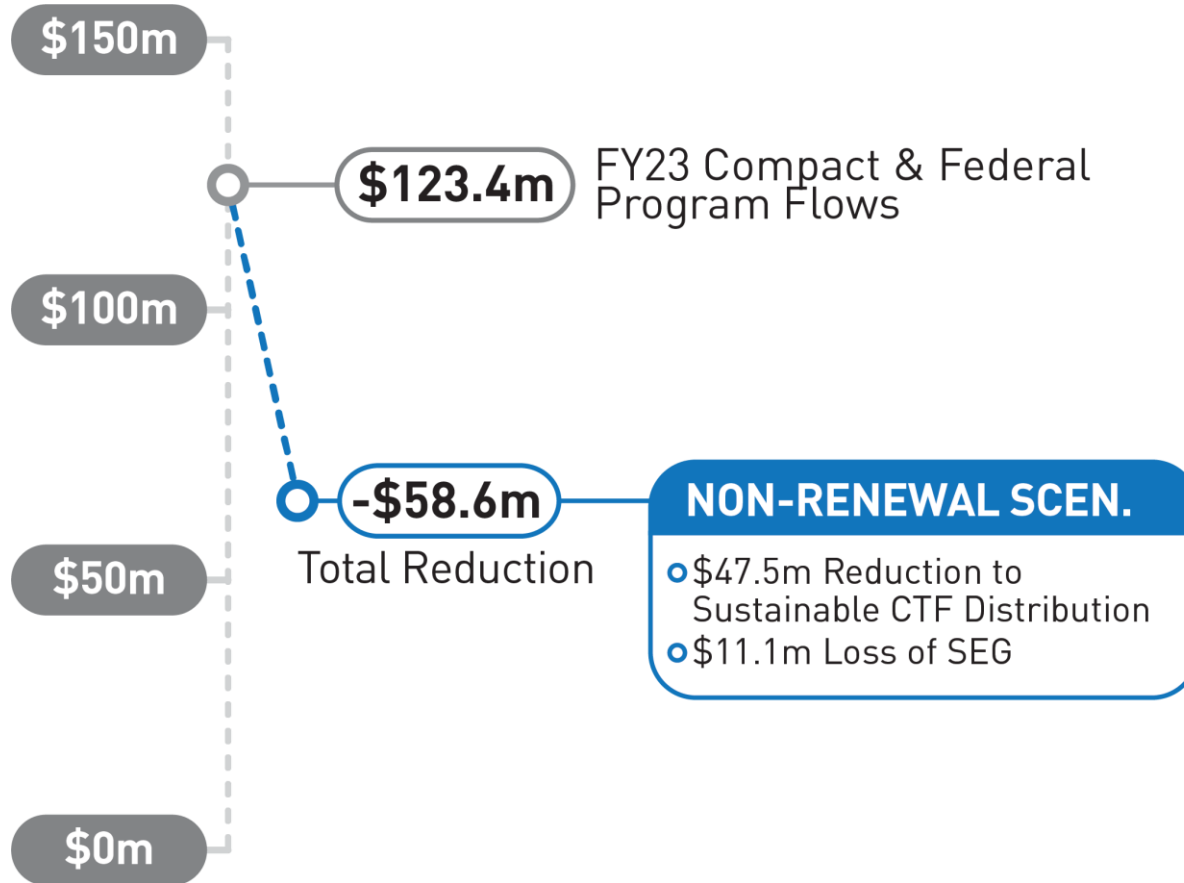
4. Palau Compact Timeline

» POPULATION (ACTUAL vs OUTMIGRATION)



4. Modeling Non-Renewal

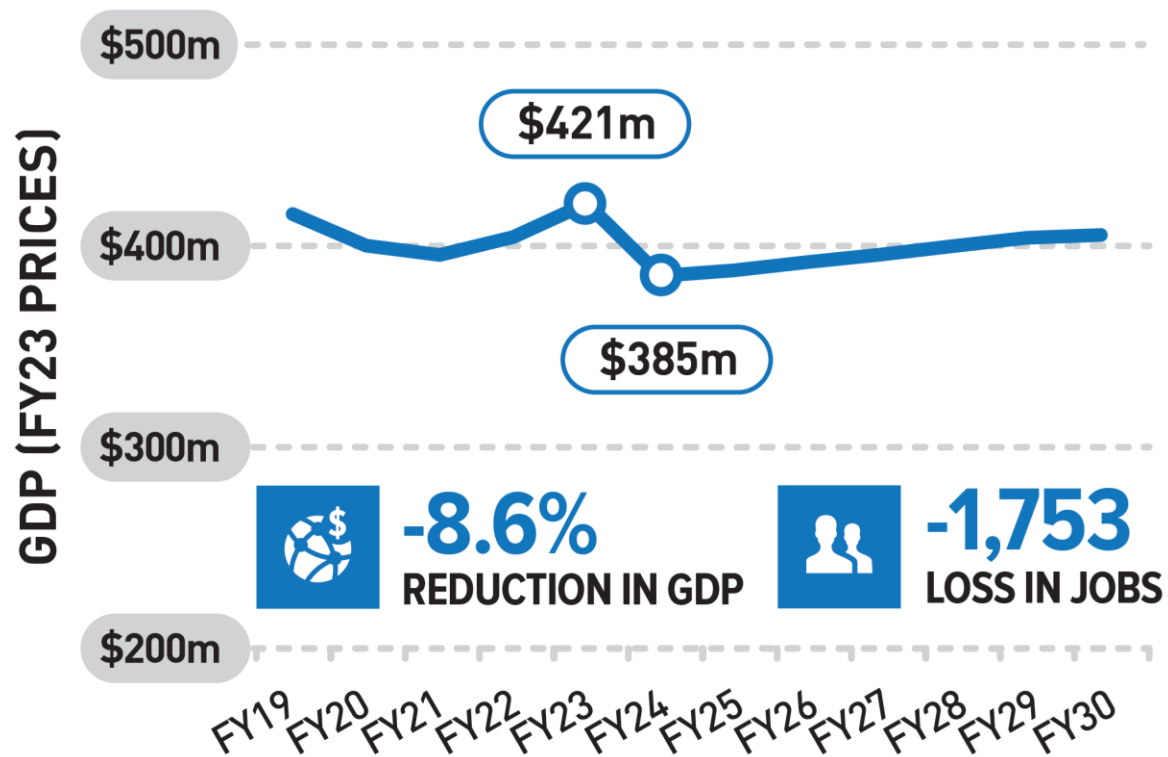
» FSM NON-RENEWAL SCENARIO



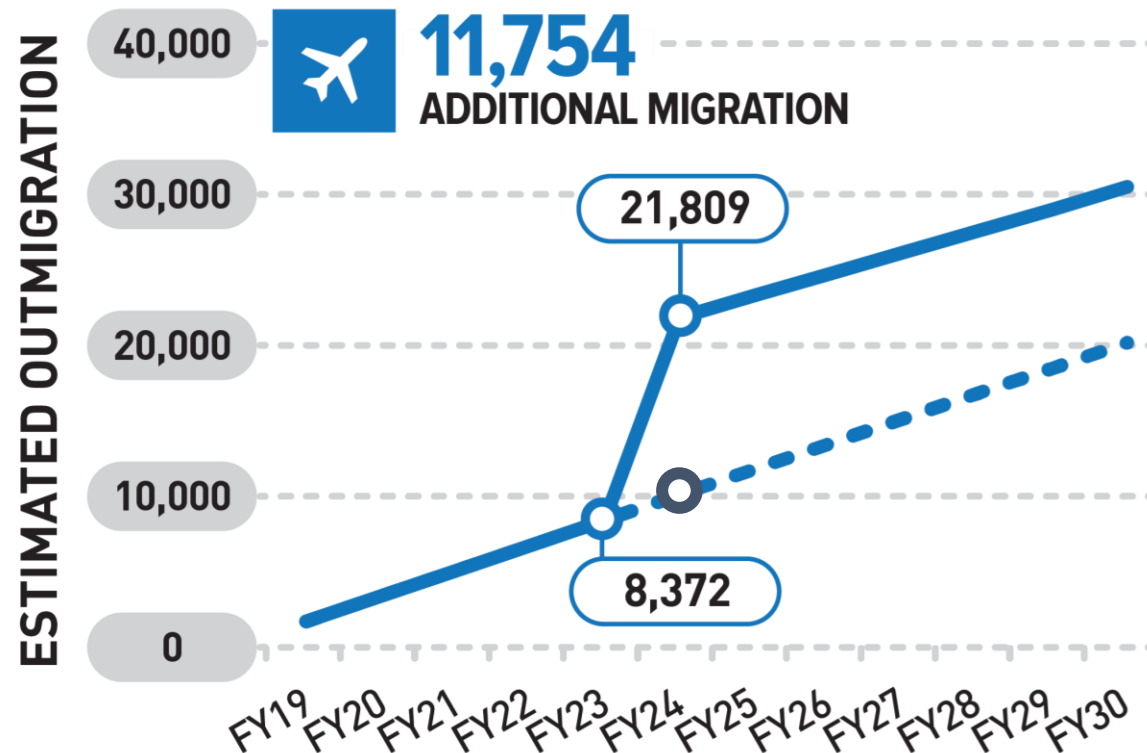
4. Modeling Non-Renewal

» IMPACT OF NON-RENEWAL SCENARIO FOR FSM

IMPACT: GROSS DOMESTIC PRODUCT + JOBS



IMPACT: OUTMIGRATION

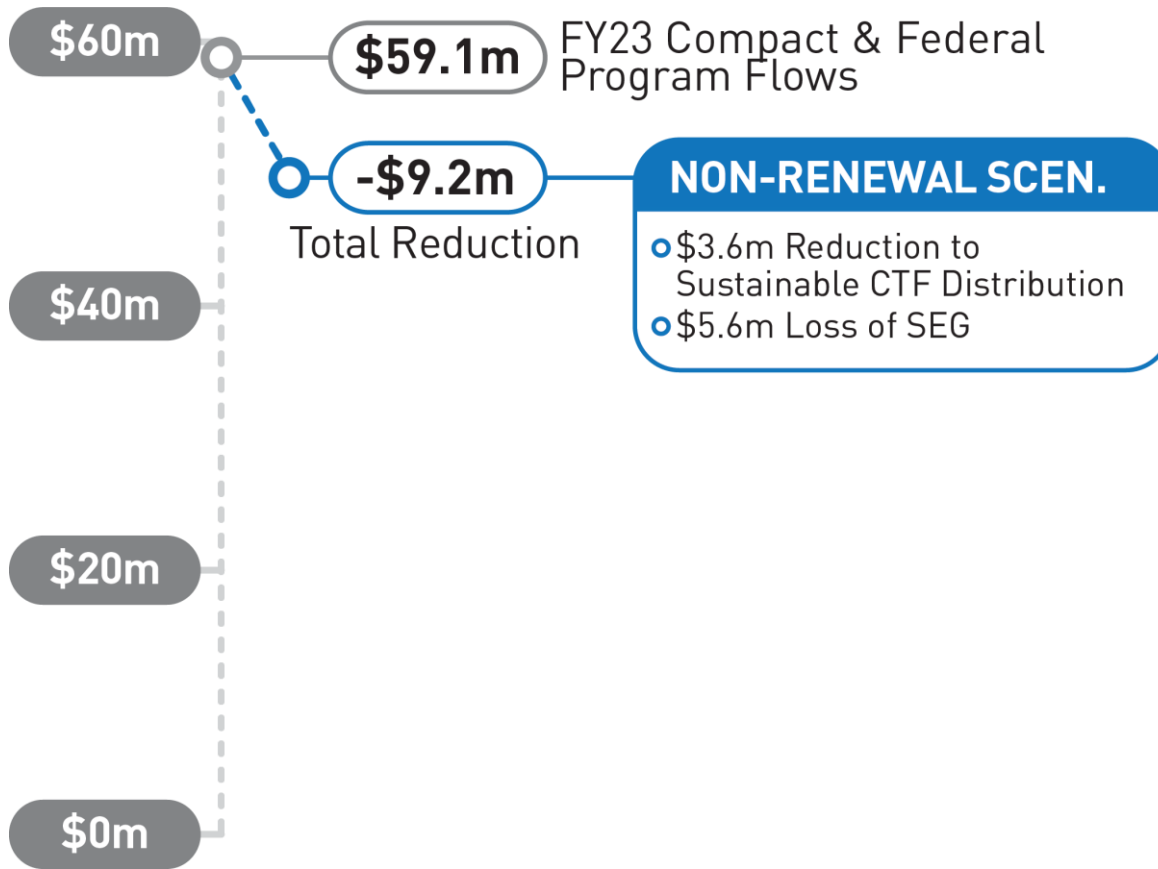


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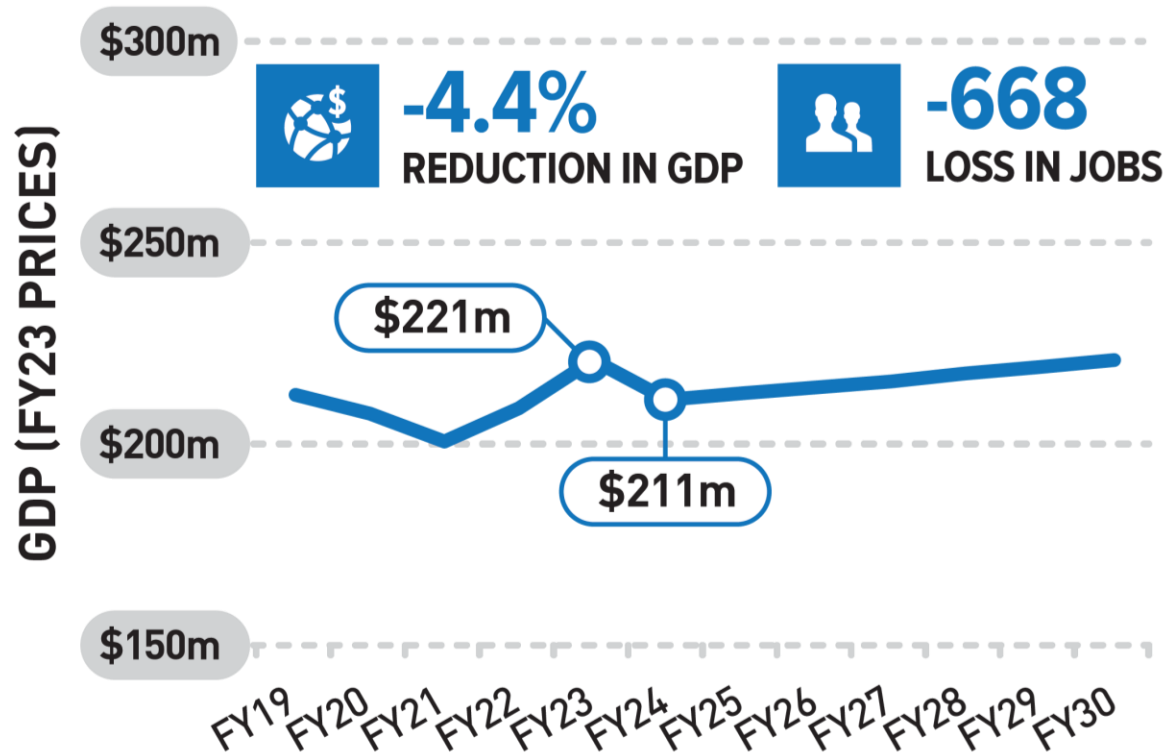
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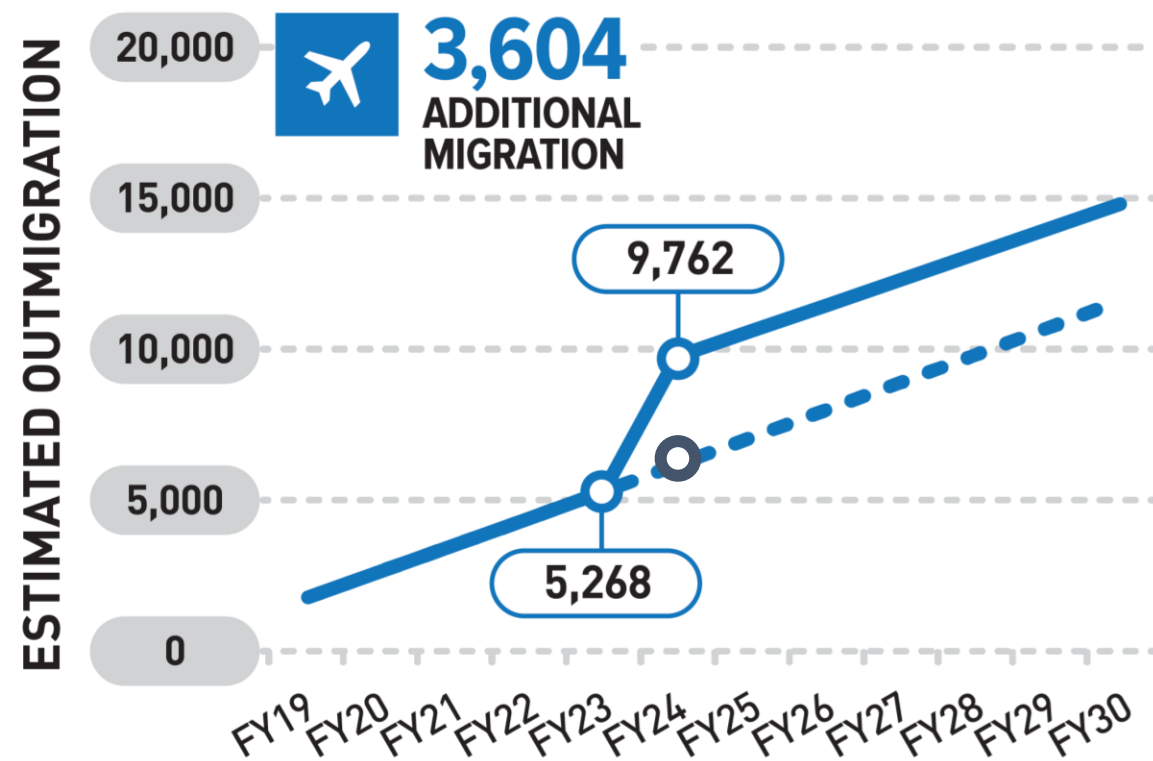
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» IMPACT OF NON-RENEWAL SCENARIO FOR RMI

IMPACT: GROSS DOMESTIC PRODUCT + JOBS

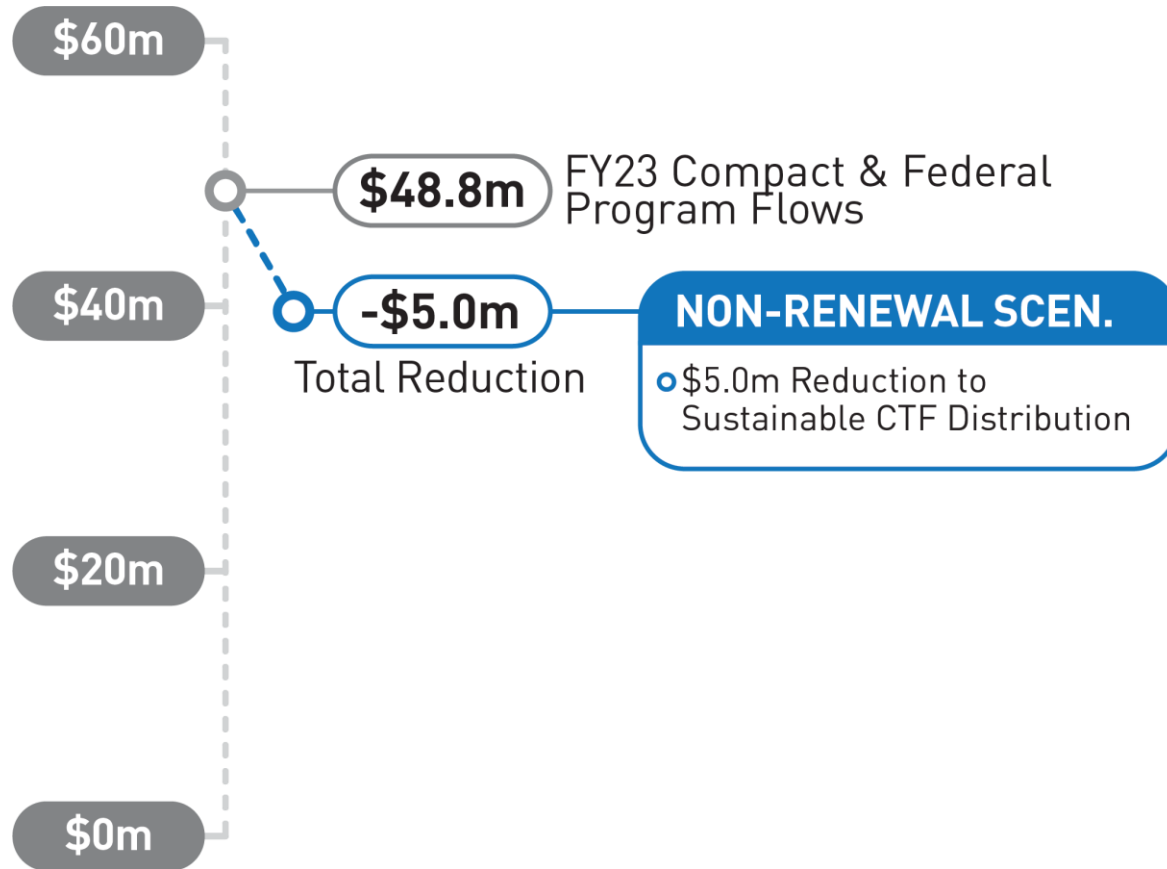


IMPACT: OUTMIGRATION



4. Modeling Non-Renewal

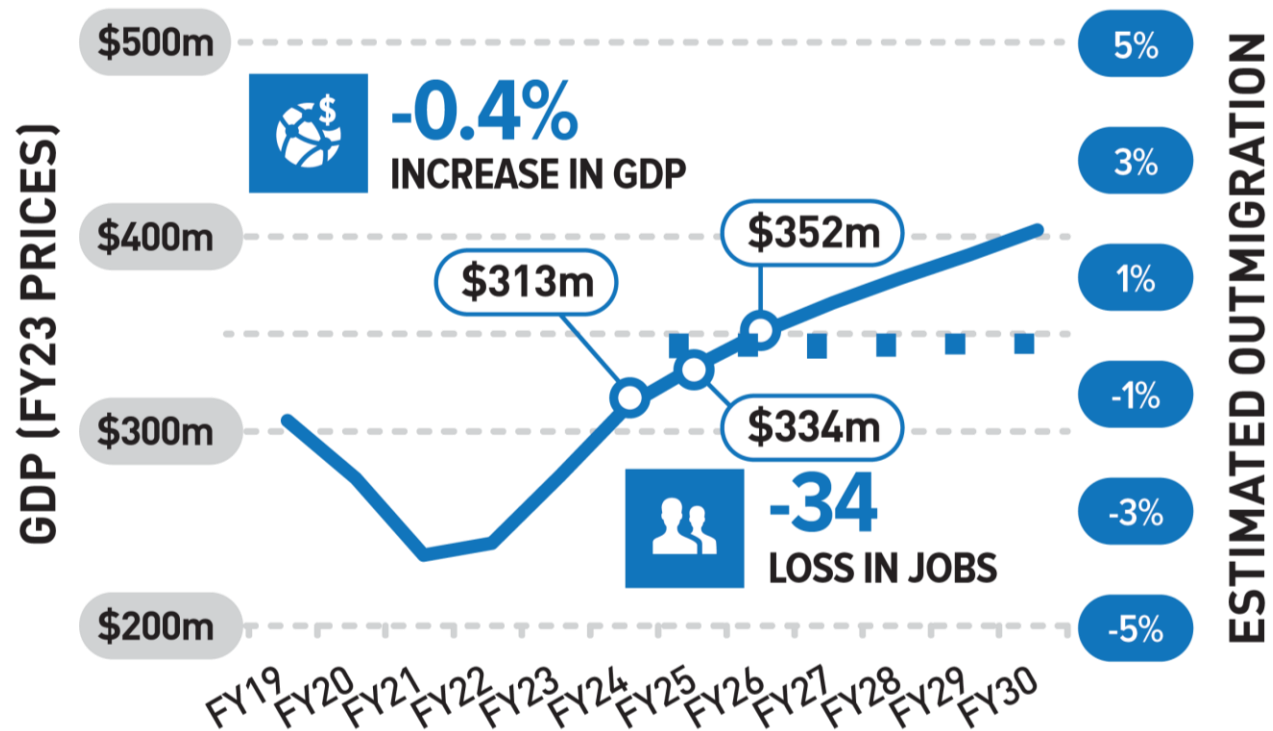
» PALAU NON-RENEWAL SCENARIO



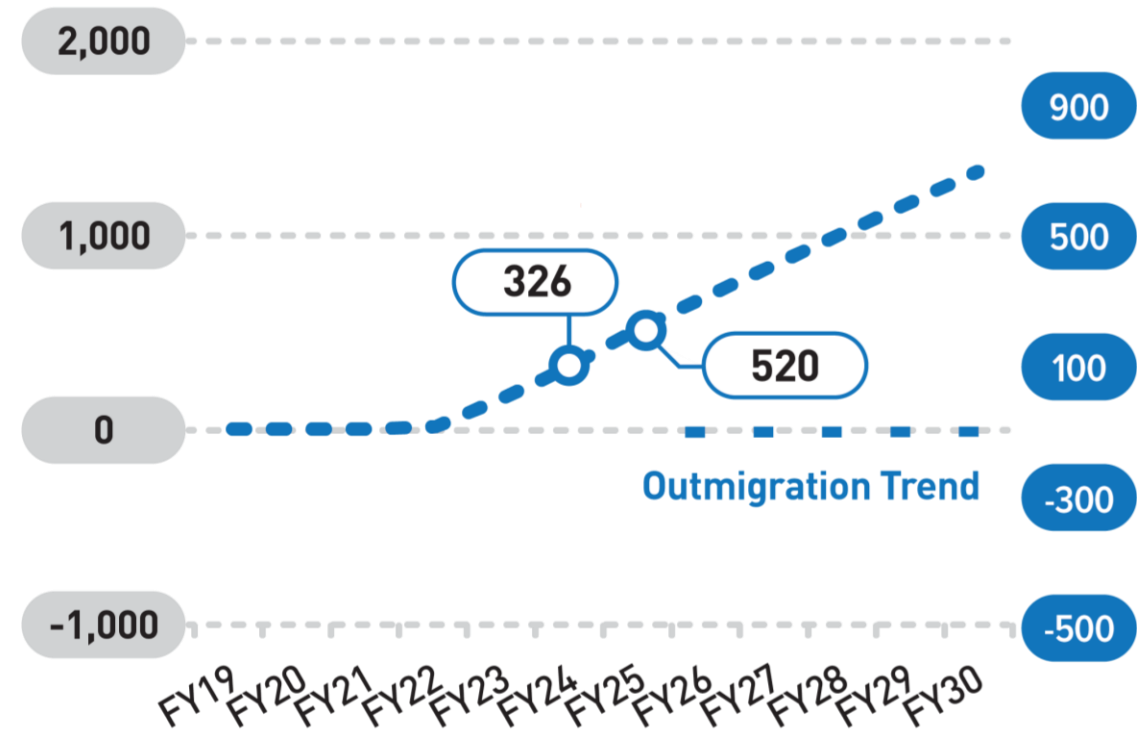
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» IMPACT OF NON-RENEWAL SCENARIO FOR PALAU

IMPACT: GROSS DOMESTIC PRODUCT + JOBS

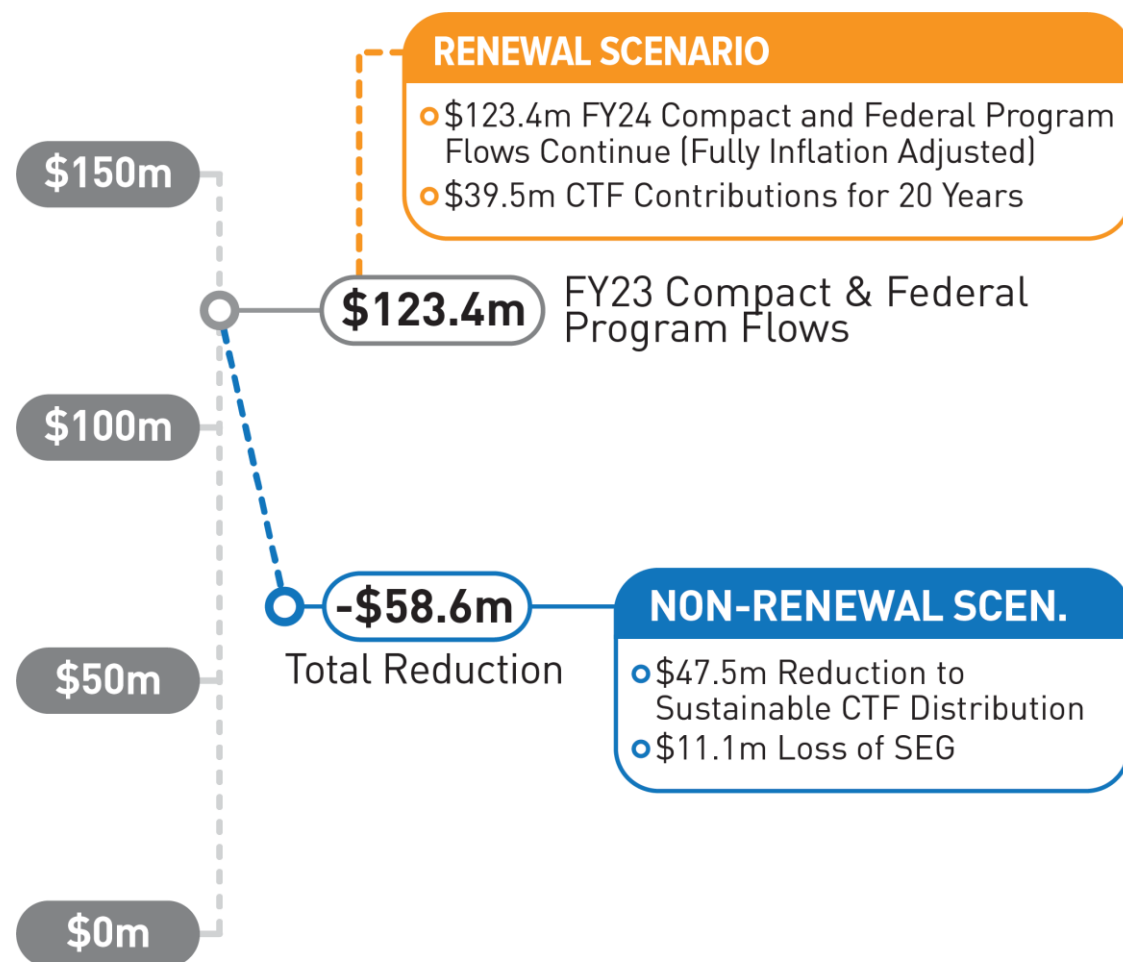


IMPACT: OUTMIGRATION



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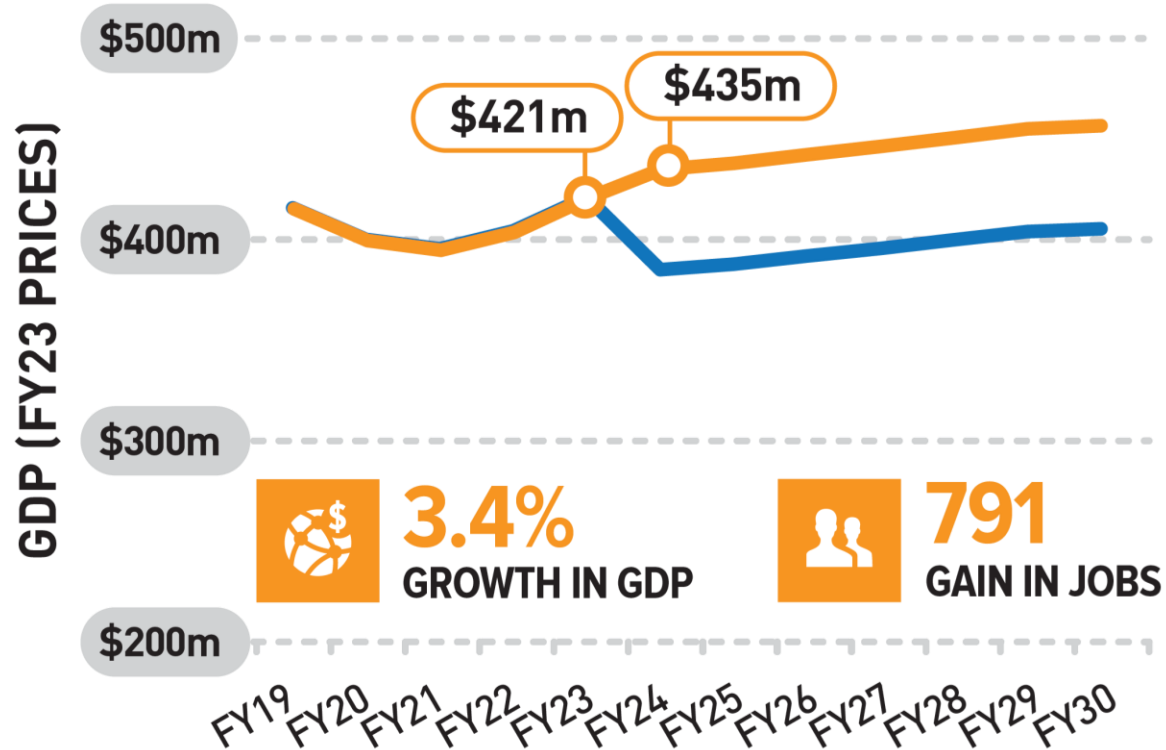
» FSM RENEWAL SCENARIO



» IMPACT OF RENEWAL SCENARIO FOR FSM

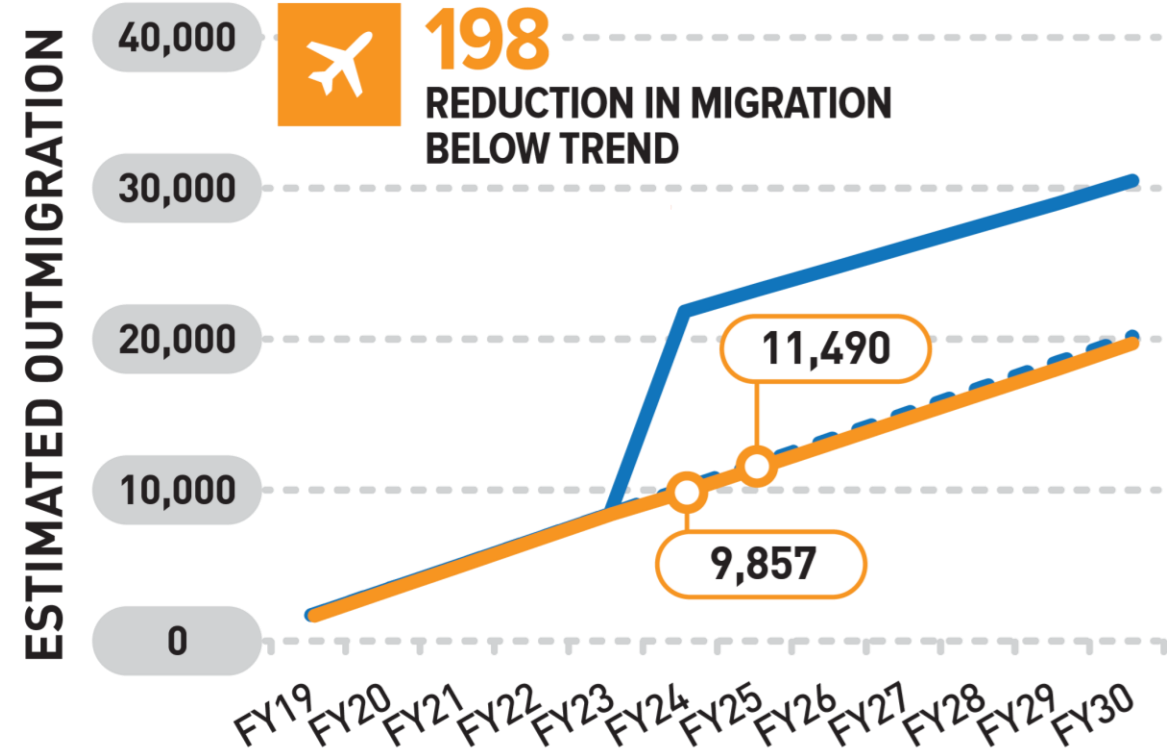
IMPACT: GROSS DOMESTIC PRODUCT + JOBS

RENEWAL NON-RENEWAL

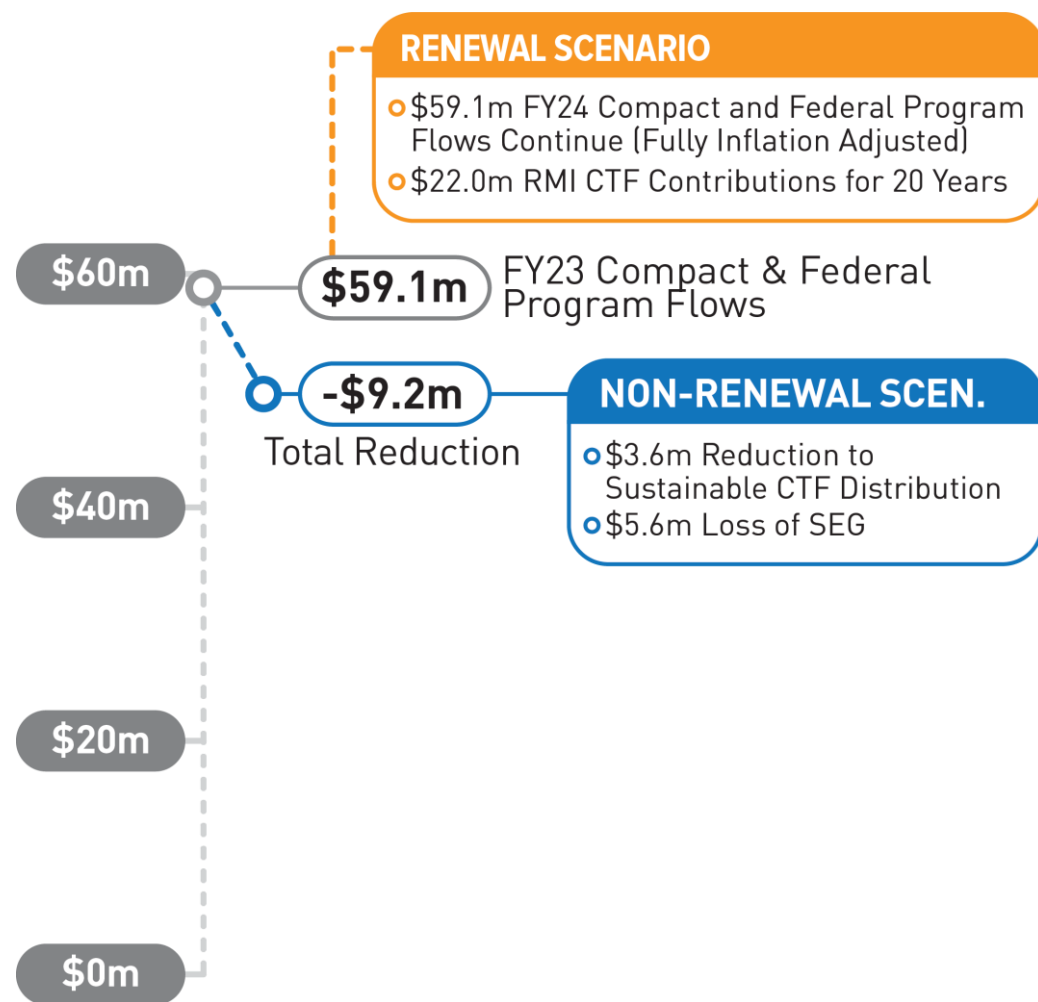


IMPACT: OUTMIGRATION

RENEWAL NON-RENEWAL



» RMI RENEWAL SCENARIO



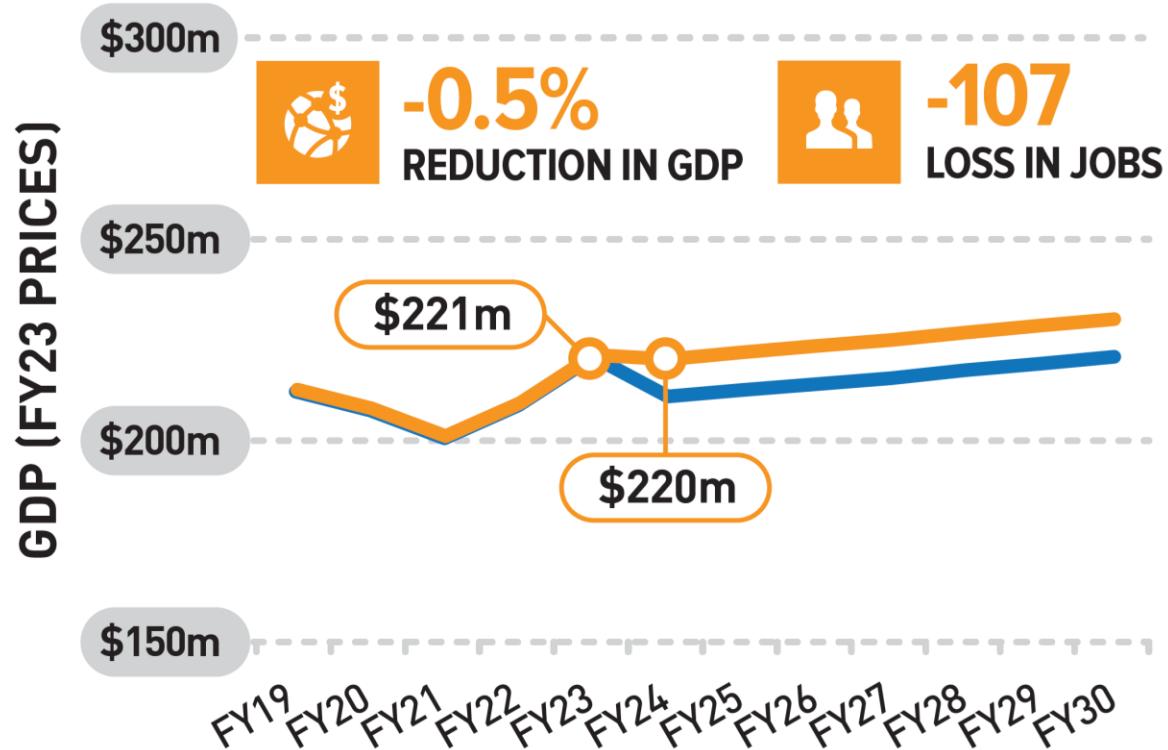
Modeling Renewal

» IMPACT OF RENEWAL SCENARIO FOR RMI

IMPACT: GROSS DOMESTIC PRODUCT + JOBS

RENEWAL

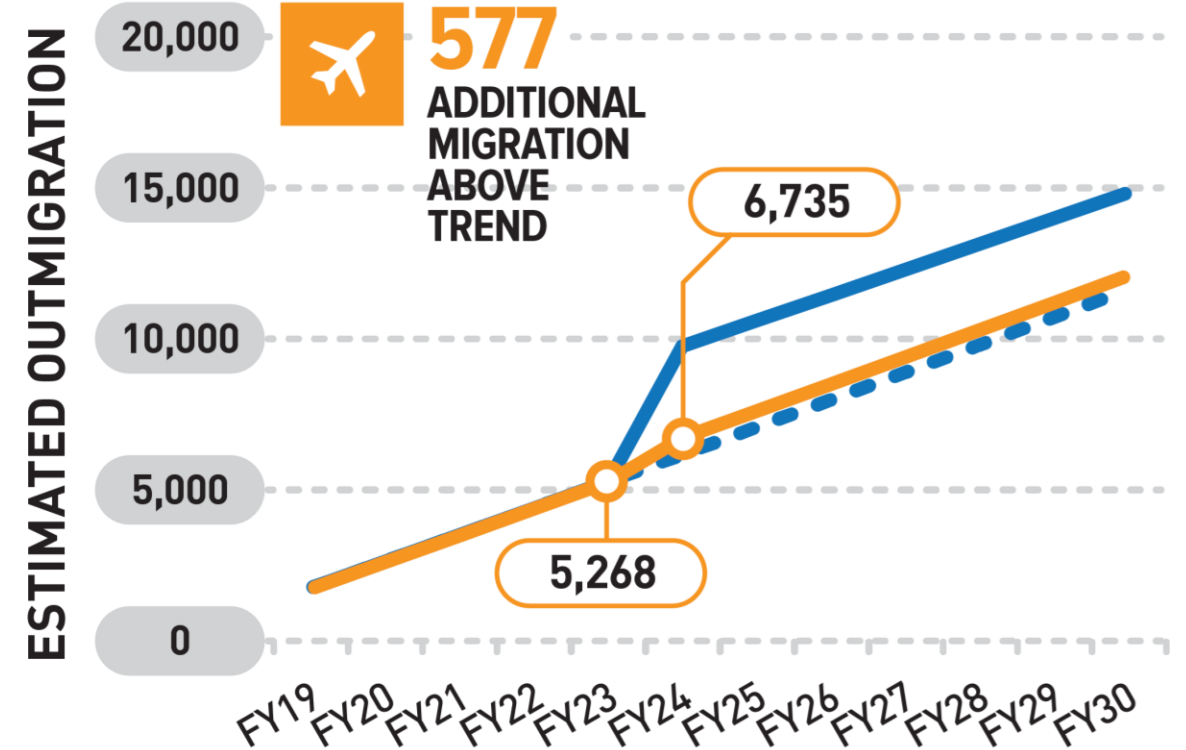
NON-RENEWAL



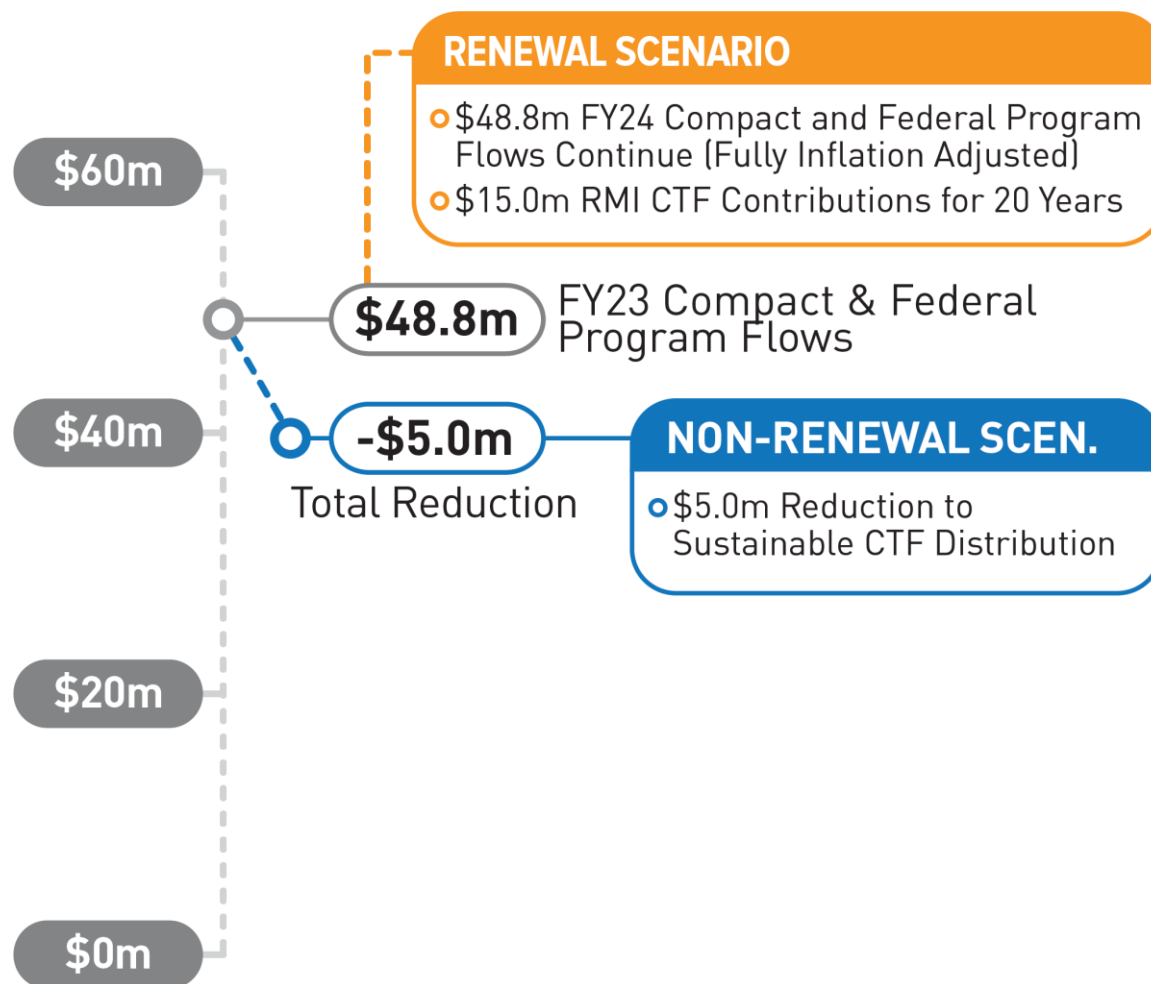
IMPACT: OUTMIGRATION

RENEWAL

NON-RENEWAL



» PALAU RENEWAL SCENARIO

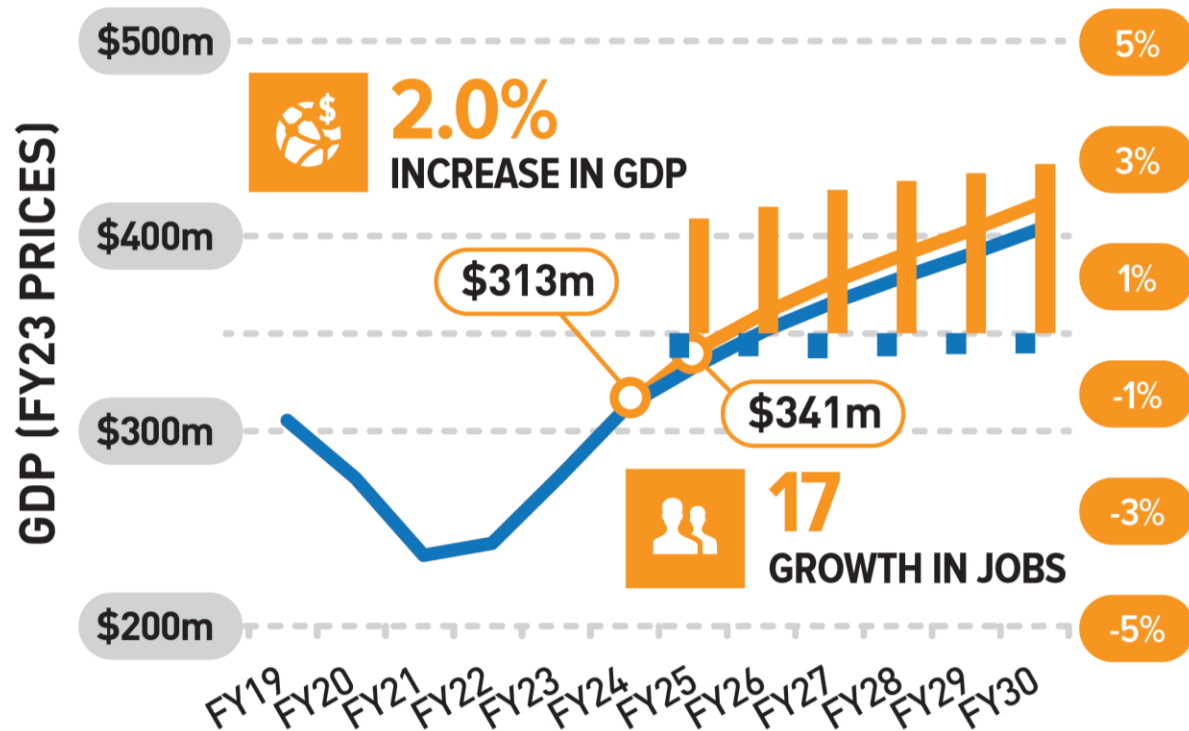


5. Modeling Renewal

» IMPACT OF RENEWAL SCENARIO FOR PALAU

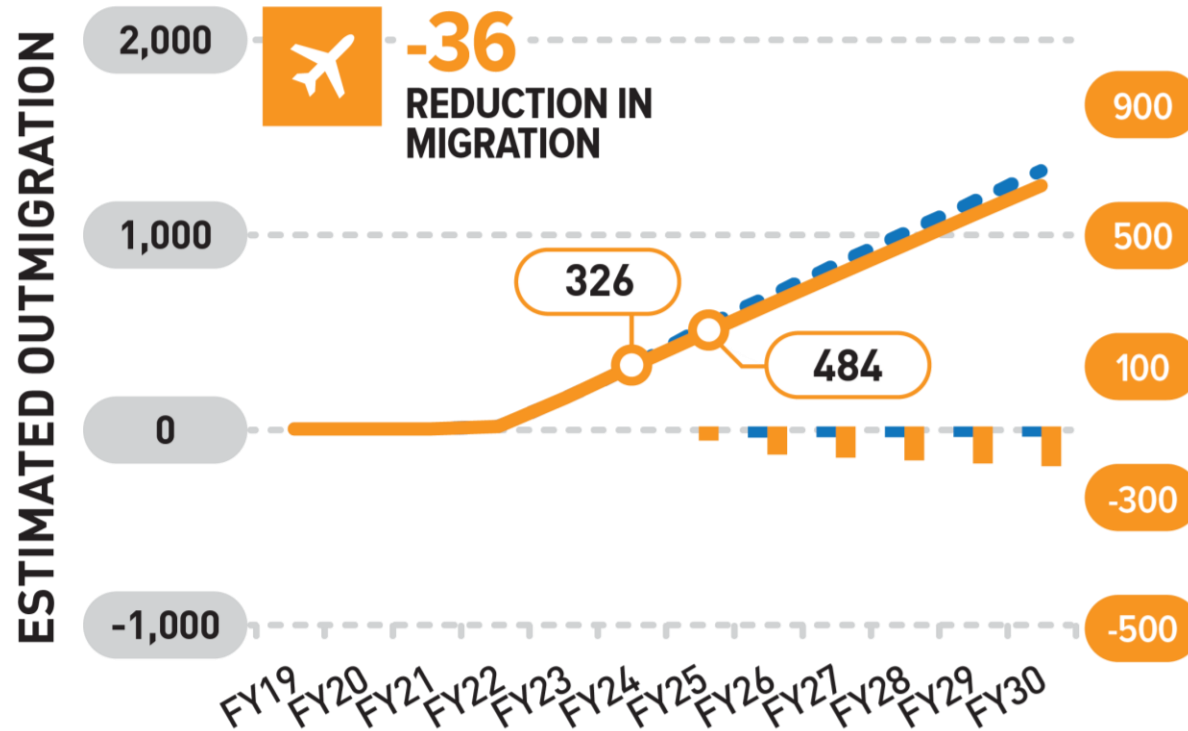
IMPACT: GROSS DOMESTIC PRODUCT + JOBS

RENEWAL NON-RENEWAL



IMPACT: OUTMIGRATION

RENEWAL NON-RENEWAL



Presentation Outline

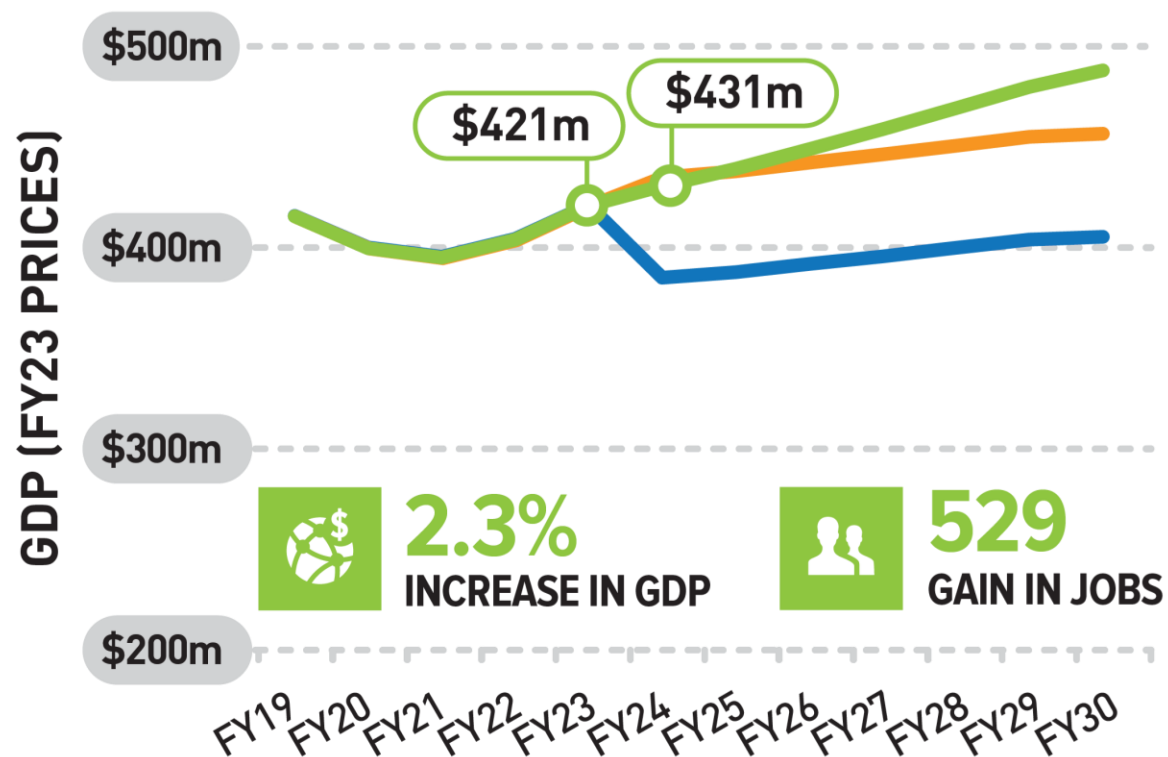
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Modeling Renewal + Better Results

» IMPACT OF RENEWAL + BETTER RESULTS SCENARIO FOR FSM

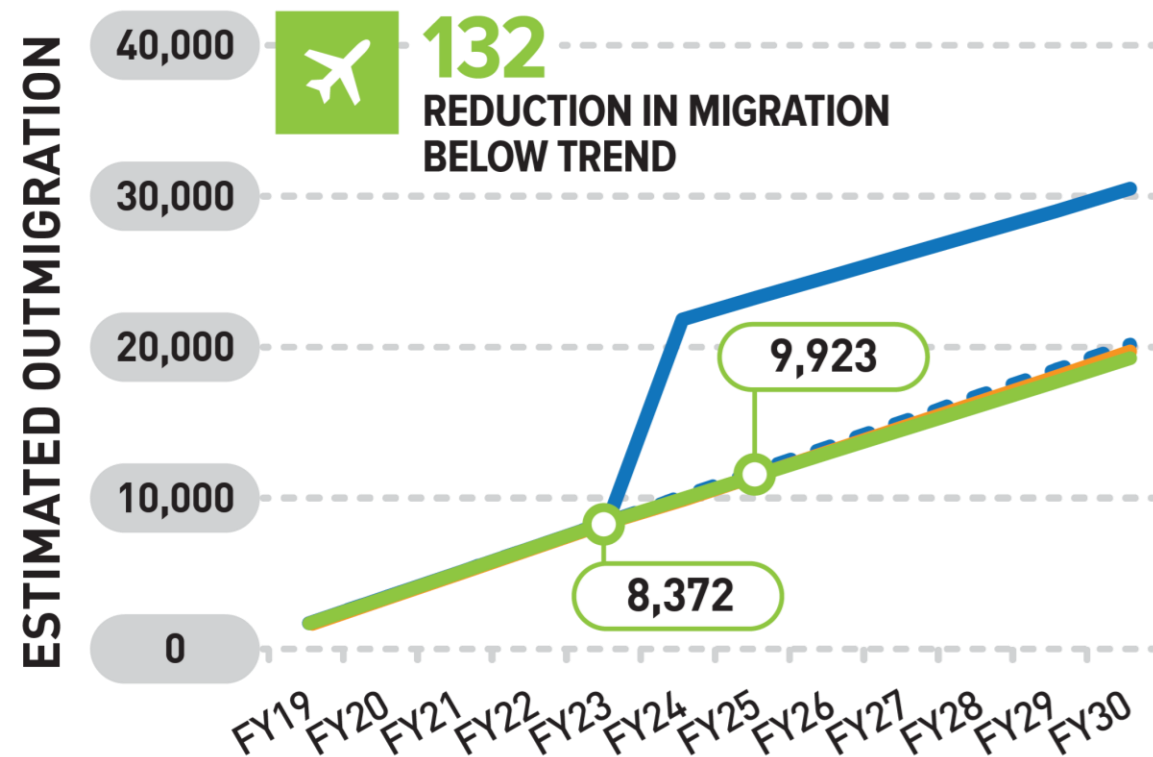
IMPACT: GROSS DOMESTIC PRODUCT + JOBS

BETTER RESULTS RENEWAL NON-RENEWAL



IMPACT: OUTMIGRATION

BETTER RESULTS RENEWAL NON-RENEWAL

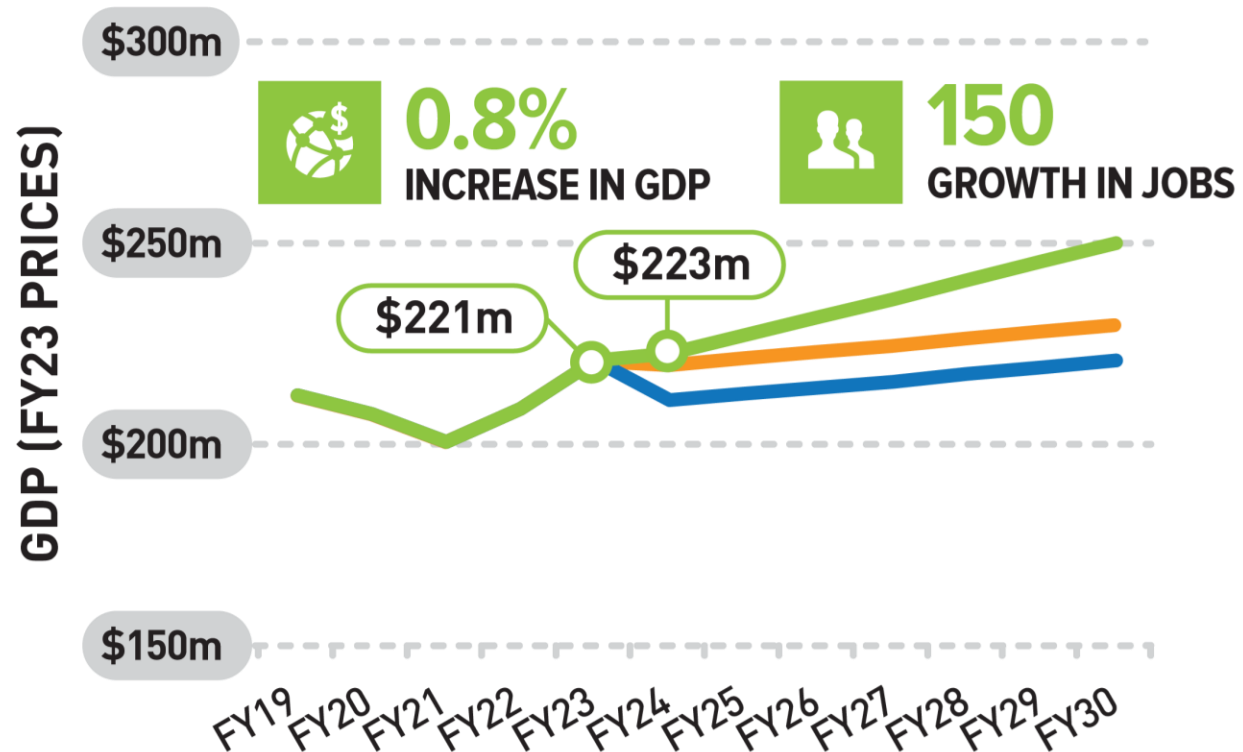


Modeling Renewal + Better Results

» IMPACT OF RENEWAL + BETTER RESULTS SCENARIO FOR RMI

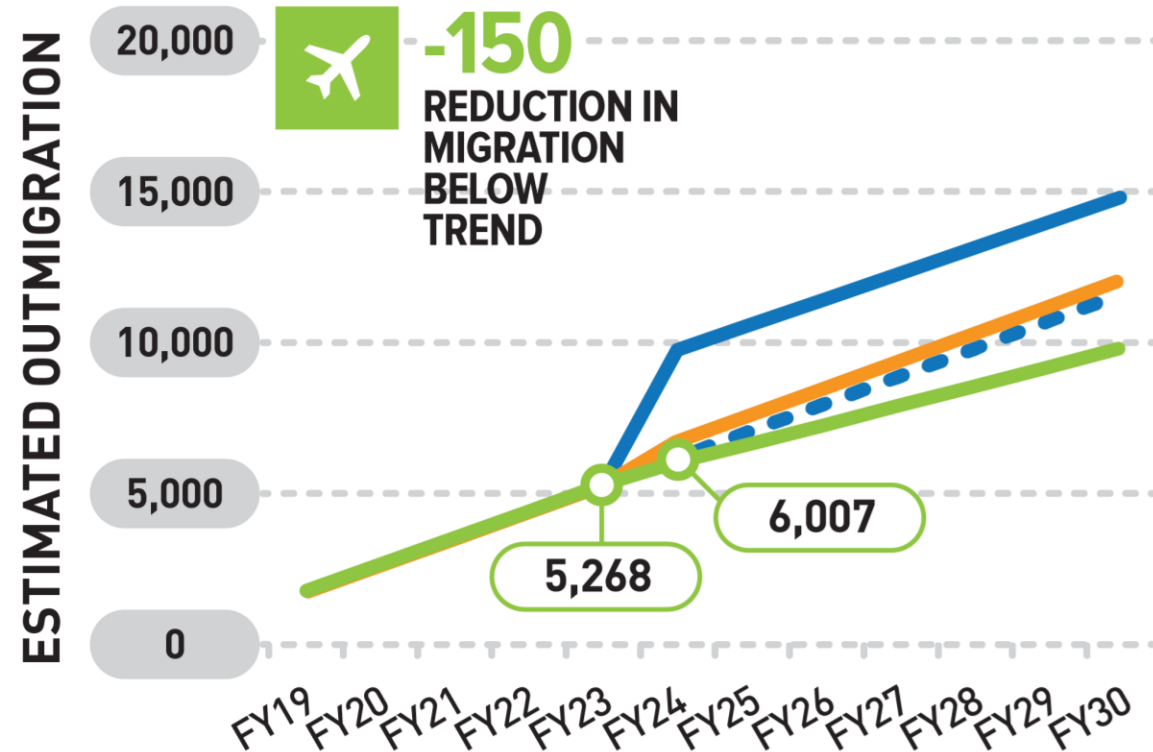
IMPACT: GROSS DOMESTIC PRODUCT + JOBS

BETTER RESULTS RENEWAL NON-RENEWAL



IMPACT: OUTMIGRATION

BETTER RESULTS RENEWAL NON-RENEWAL



Presentation Outline

1. Comparison of Compact Features & Compact
2. FAS Economic Structure and Performance
3. Impact of COVID-19 and Economic Performance
4. Modeling Non-Renewal
5. Modeling Renewal
6. **Summary Results & Concluding Observations...**

6. Summary Results and Observations

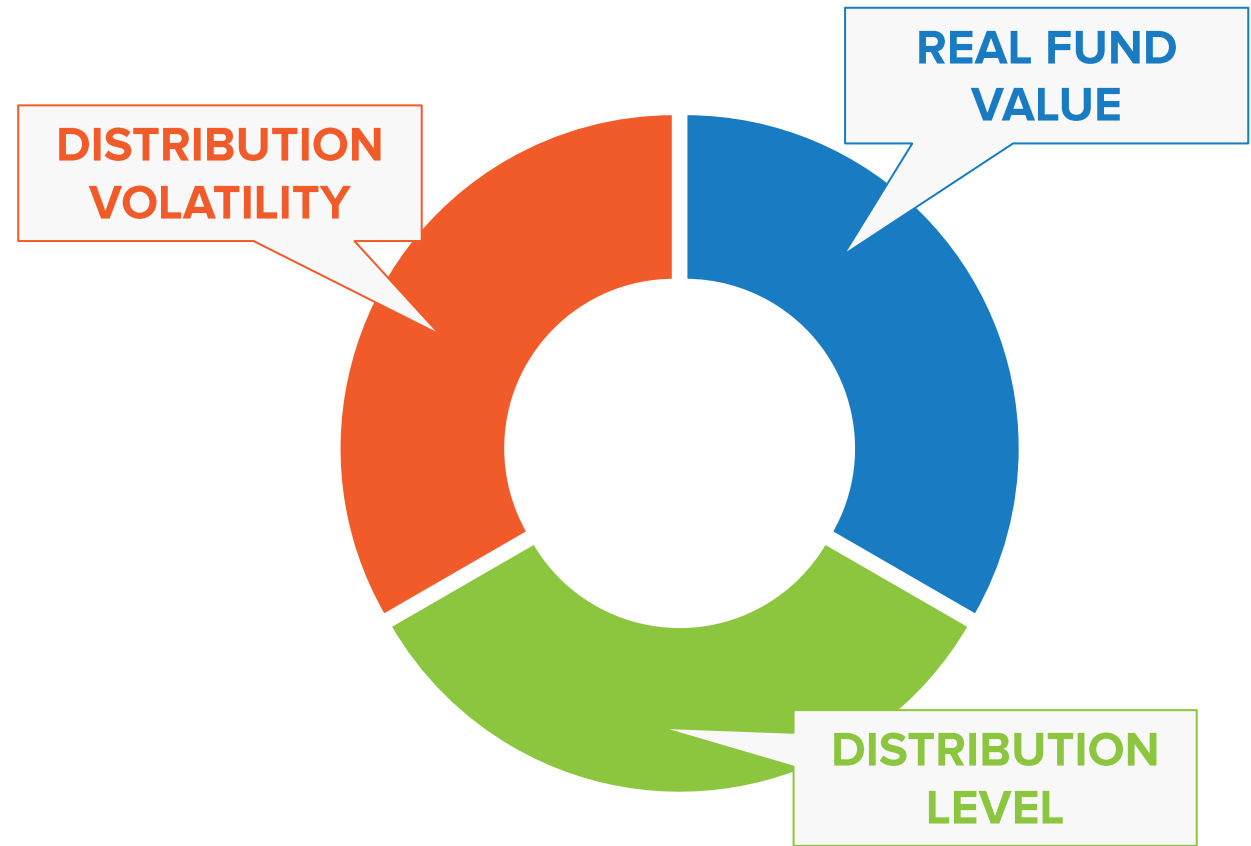
» TRUST FUND OBSERVATIONS

- Broad-based recognition that the CTF Agreements **require amendments by mutual agreement** of the original parties followed by US Congress action
- It has proven simple to **improve** upon the current “COFA Rules:”
 - Simple rules such as a fixed percentage rate of distribution **work better** but remain flawed
 - Modeling results show that more sophisticated rules **will work even better**
 - However, there are always **trade-offs** across the three principles...hence, a “scorecard” is needed to compare results

6. Summary Results and Observations

» TRUST FUND ANALYSIS SCORING METHODOLOGY

- Maintain the **real value** of the Fund *corpus*
- Provide **target level** of distributions
- **Minimize volatility** of distributions



» TRUST FUND SCORING RESULTS + COST OF RENEWAL

	FSM	RMI	PALAU
Non-Renewal COFA Rules CTF Score at the End of FY43/44	48%	90%	80%
Percent of Cases with Zero Distributions	COFA 75%	23%	23%
	SAFER 0%	0%	0%
Non-Renewal SAFER Rules CTF Score at the End of FY43/44	81%	94%	90%
Renewal Projected CTF Score at the End of FY42/44	95%	98%	97%
Total US Appropriations in FY23/24 Prices (US \$billions)	\$2.54	\$1.08	\$0.73

THANK YOU!



Time for Discussion & Questions