

The Economic Impact of Freely Associated State Compact Renewal



About the Team



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Economist



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Economist






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Public Administration



- Initial Consultations in DC and all three FAS in 2019
- Study produced one round of reports covering the original three scenarios...
 - Thinking practically—base scenario
 - Thinking negatively—severe scenario
 - Thinking positively—extended funding scenario



- Second round of reports at country level completed in 2022 to reflect impact of COVID-19 pandemic;
- And, more importantly, to reflect the emerging progress of US negotiations with each FAS...
- ... thus the final round of reports narrowed the focus to just two scenarios:
 -  Thinking practically—base scenario
 - ~~•  Thinking negatively—severe scenario~~
 -  Thinking positively—Compact Renewal scenario



- And now we are in Washington, DC, a few days before the end of FY2023
- Yet, we still have two scenarios to consider:
 - 📈 With timely U.S. Congressional authorization & appropriation
 - 📉 With delay of U.S. Congressional action

PALAU



17,614
POPULATION

FSM



104,468
POPULATION

???

RMI



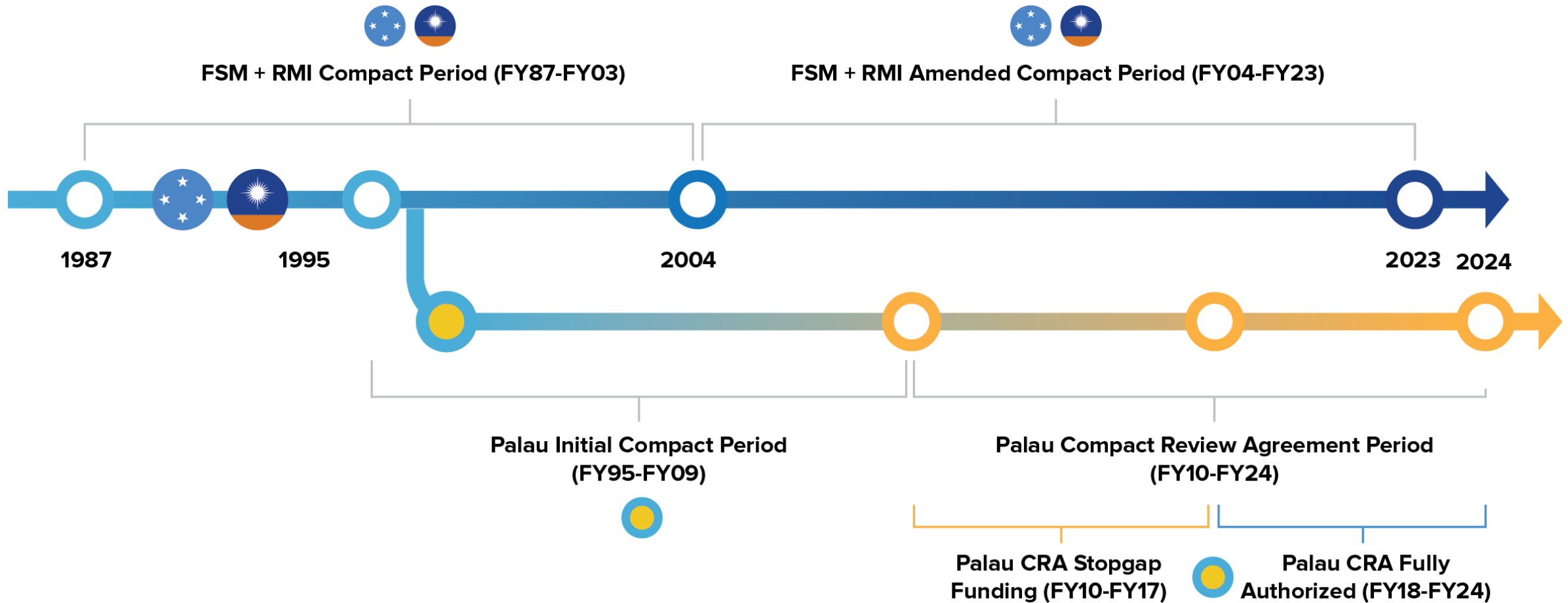
54,709
POPULATION

42,418



1. Compact Periods & Performance
2. Comparative FAS Economic Structures
3. Topline Features of Compact Renewal Agreements
4. A New and Happy Challenge: Upward Fiscal Adjustment
5. A Lingering Risk: Delay in U.S. Congressional Action
6. Concluding Observations...

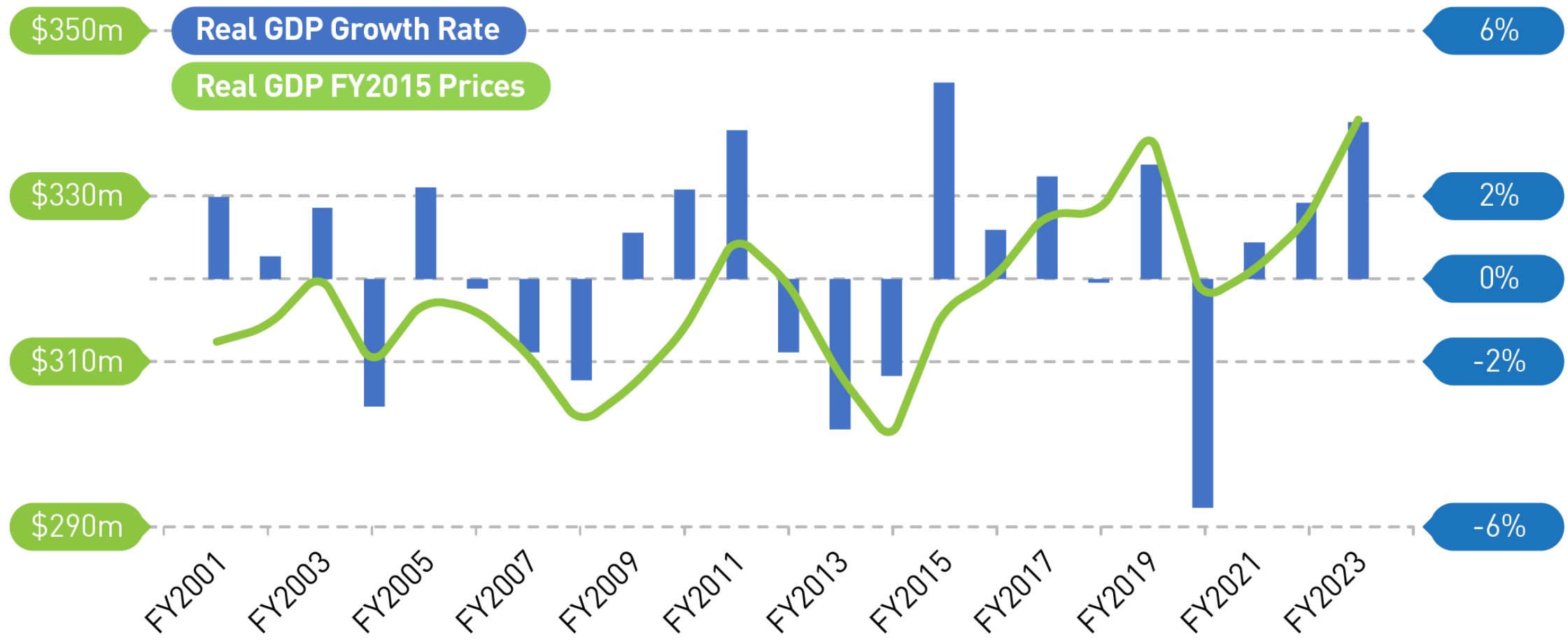
FAS Compact Periods & Performance





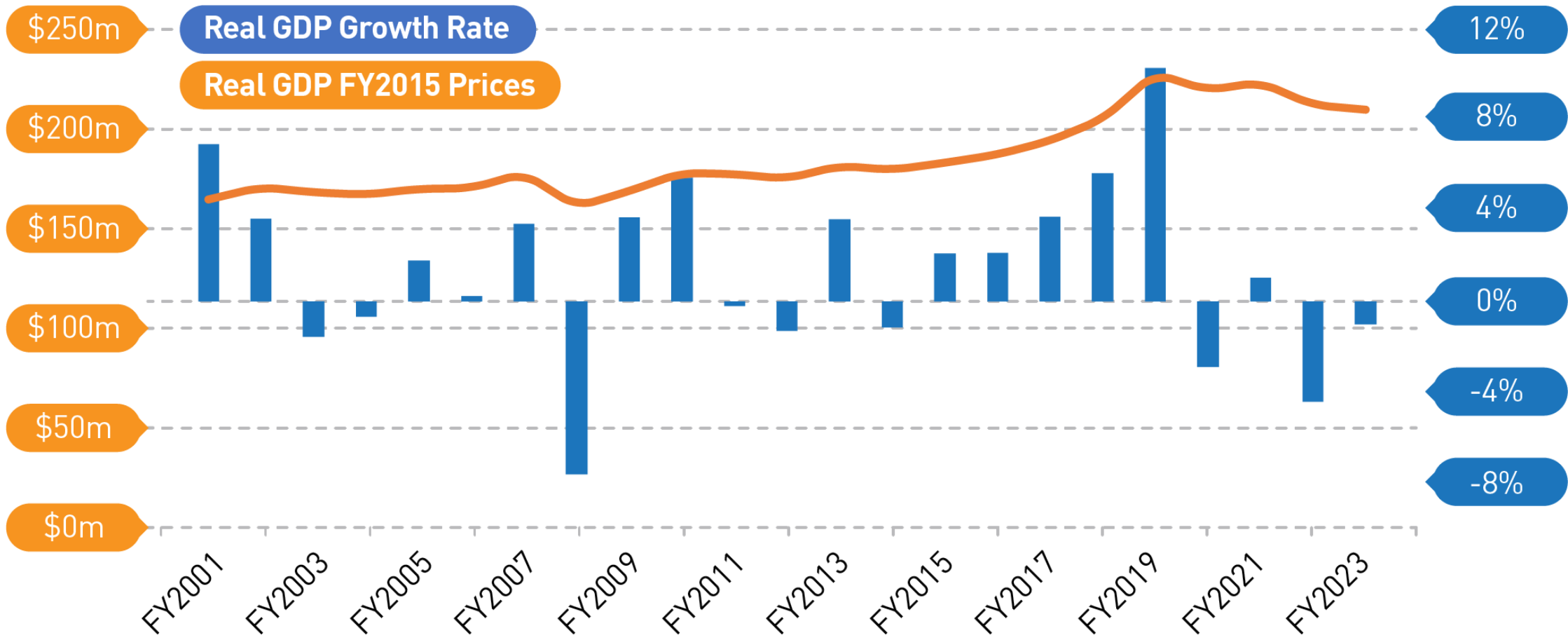


1. FAS Compact Periods & Performance

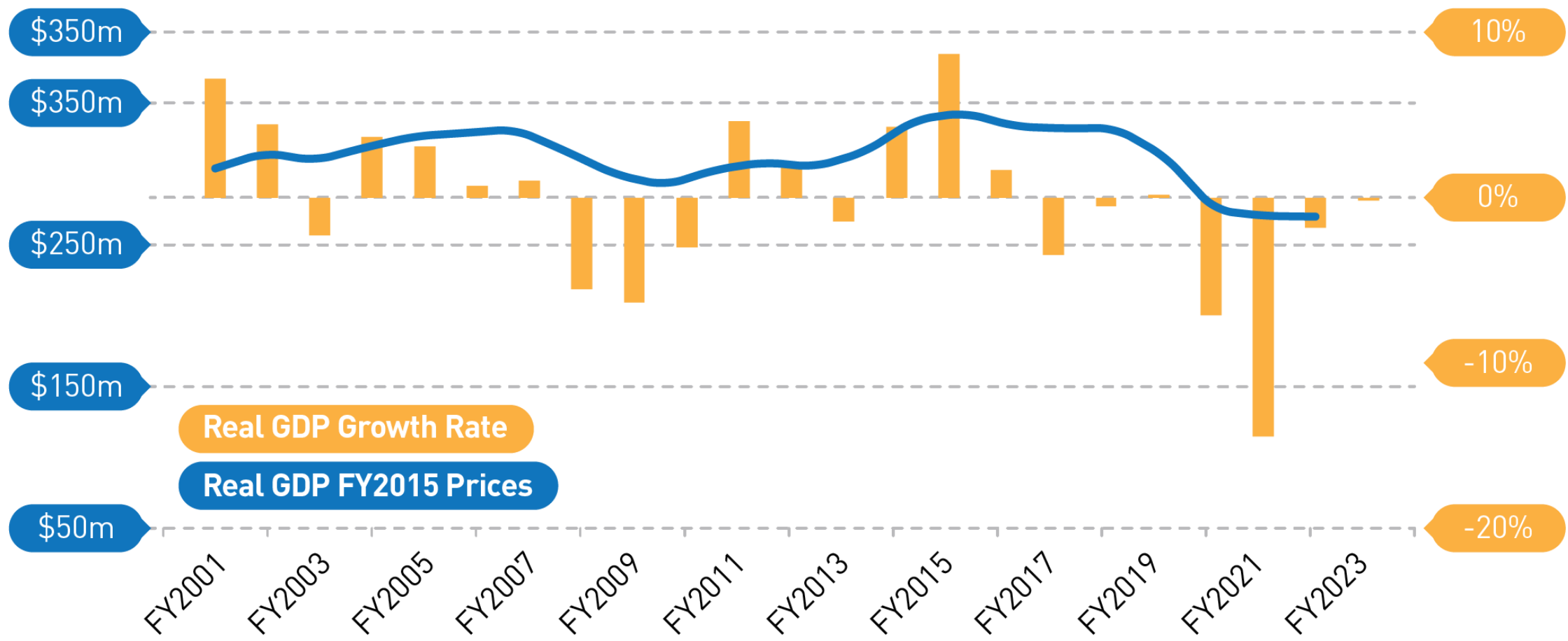




1. FAS Compact Periods & Performance



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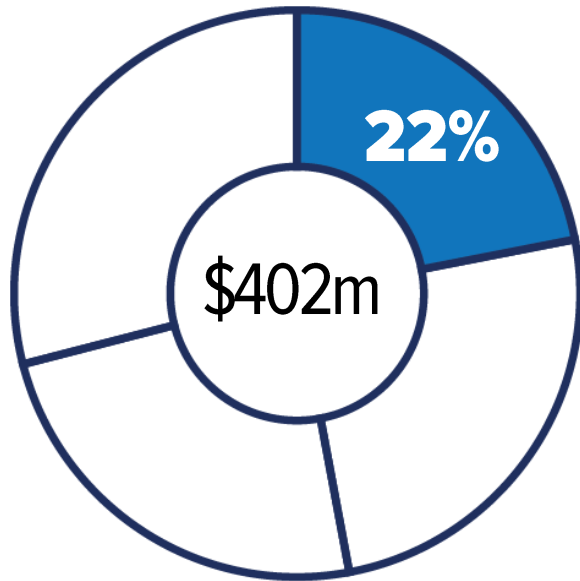


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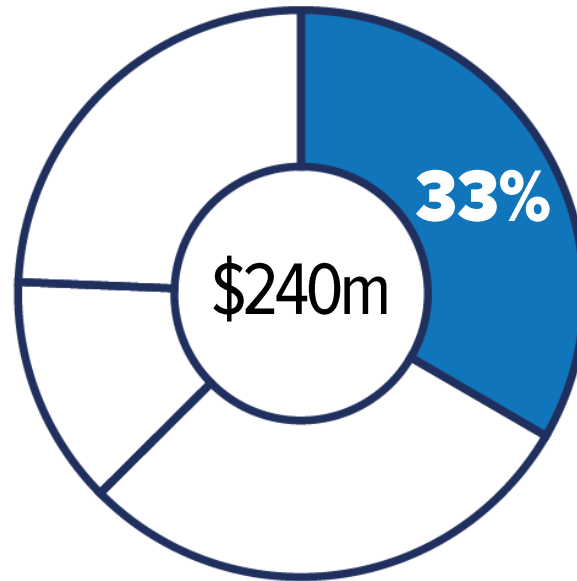


» INSTITUTIONAL STRUCTURE OF THE ECONOMY (FY17-FY19, 3-YR AVG)

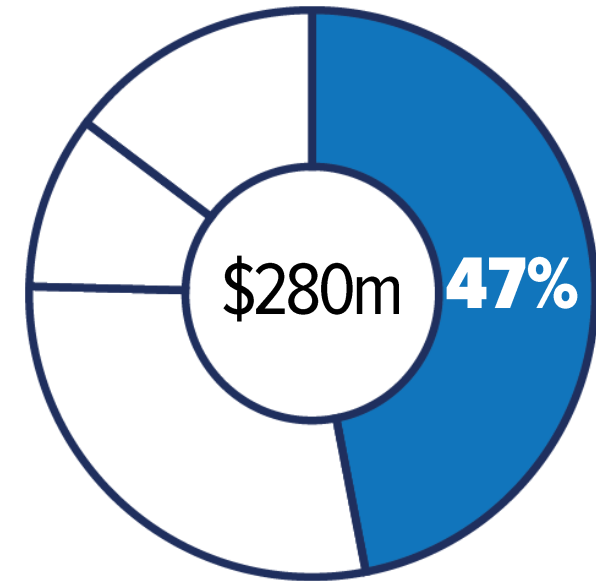
PRIVATE SECTOR as % of GDP



FSM Private Sector



RMI Private Sector

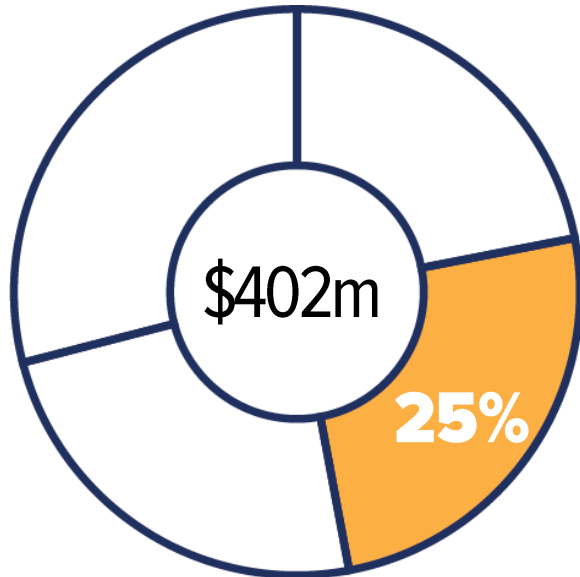


Palau Private Sector

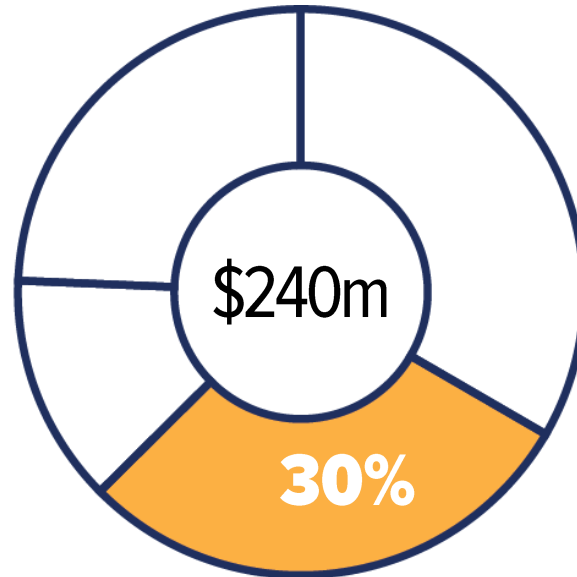


» INSTITUTIONAL STRUCTURE OF THE ECONOMY (FY17-FY19, 3-YR AVG)

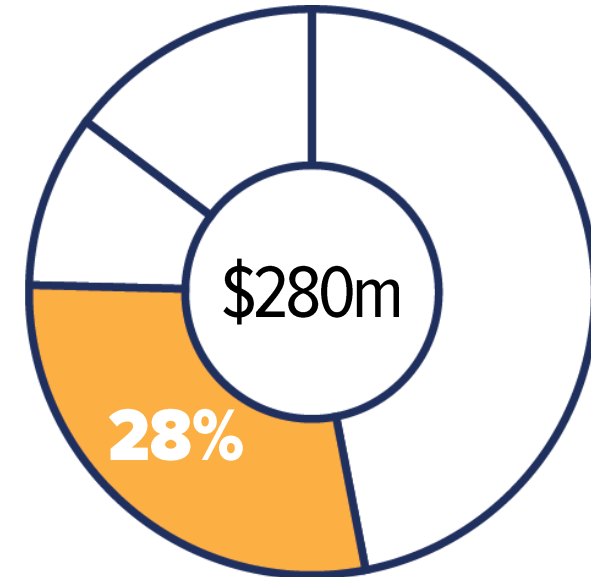
GOVERNMENT as % of GDP



FSM Government



RMI Government

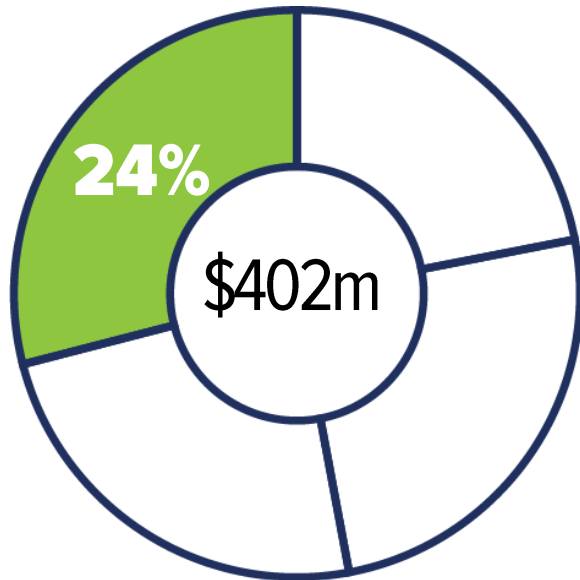


Palau Government

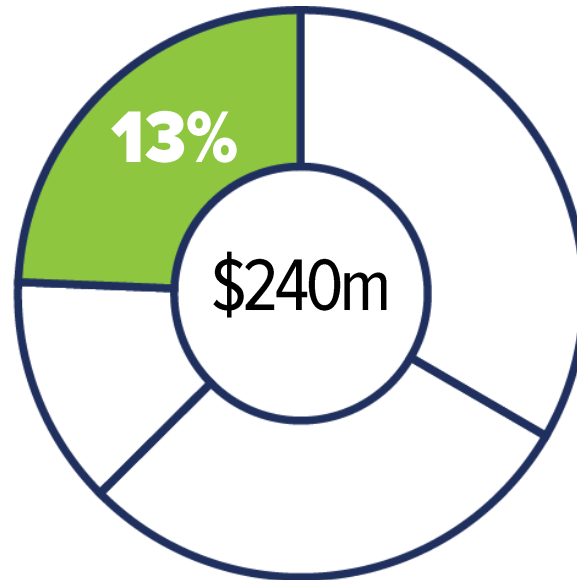


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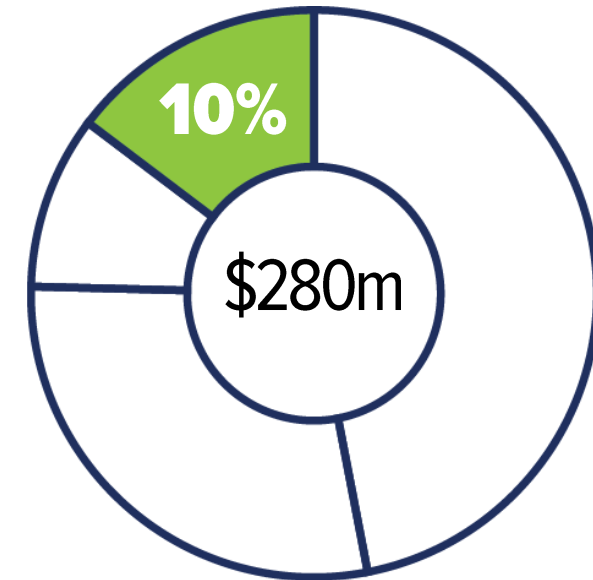
HOUSEHOLD PRODUCTION as % of GDP



FSM Household Production



RMI Household Production

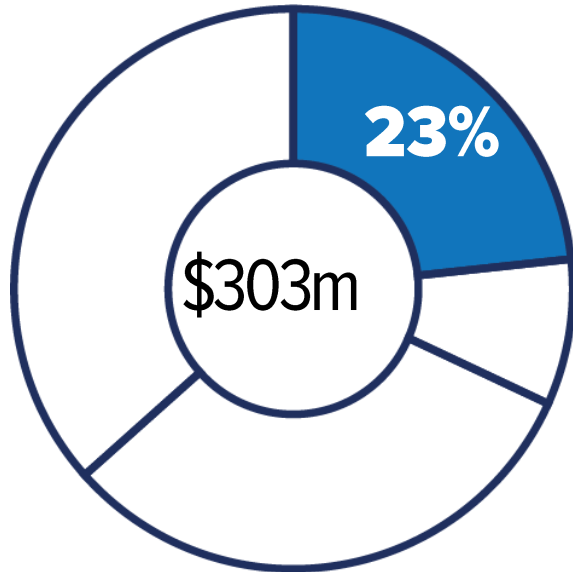


Palau Household Production

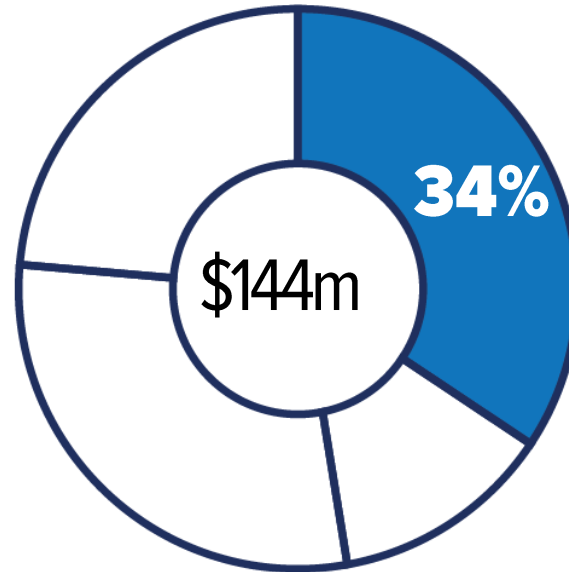


» FAS STRUCTURE OF KEY REVENUE SOURCES (FY17-FY19, 3-YR AVG)

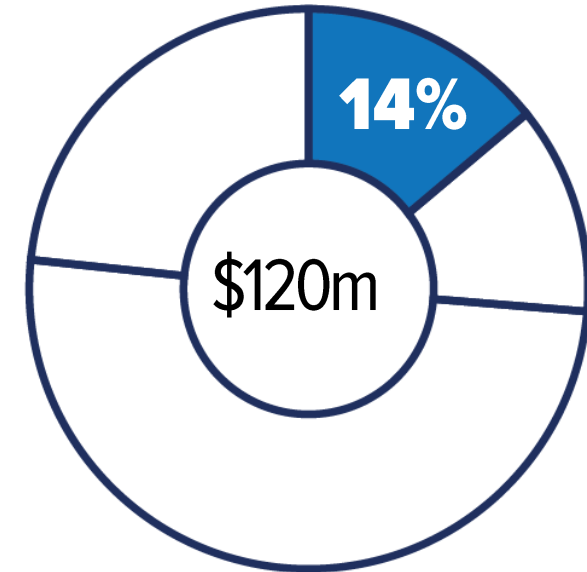
COMPACT REVENUES as % of REVENUES



FSM Compact Revenues



RMI Compact Revenues

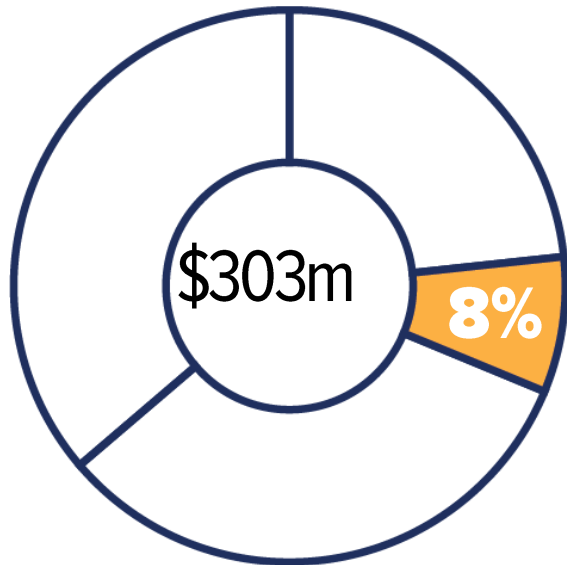


Palau Compact Revenues

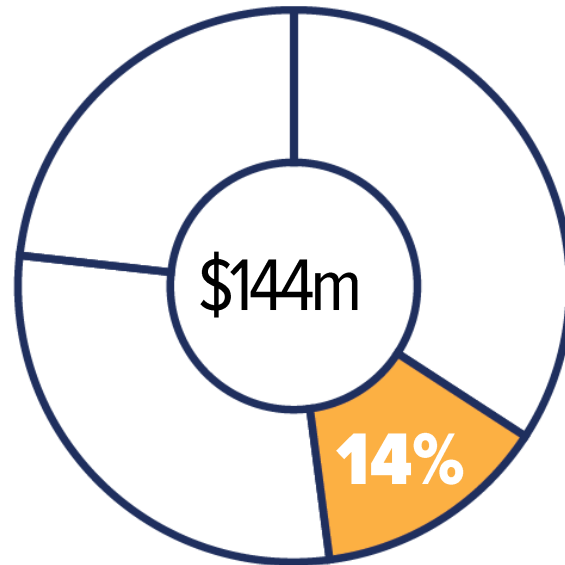


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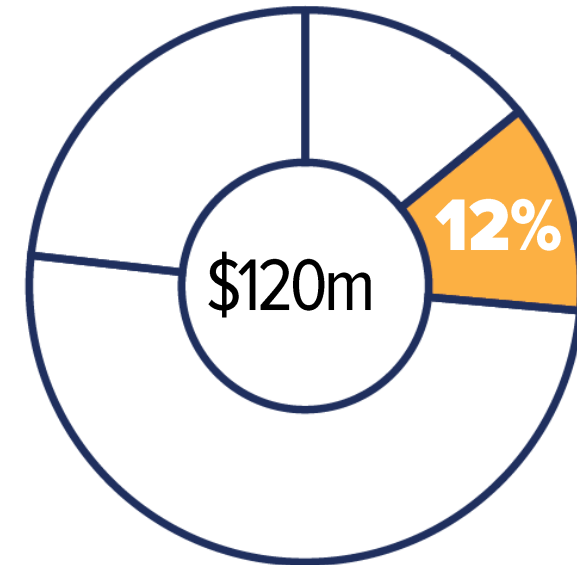
US FEDERAL PROGRAMS as % of REVENUES



 **FSM** US Federal Programs



 **RMI** US Federal Programs

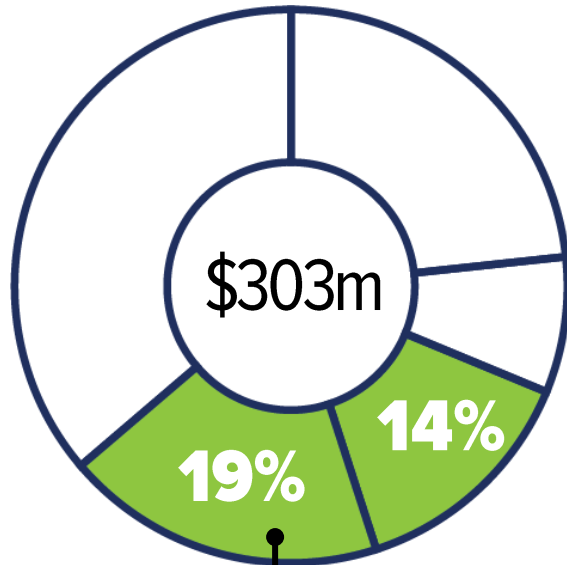


 **Palau** US Federal Programs



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

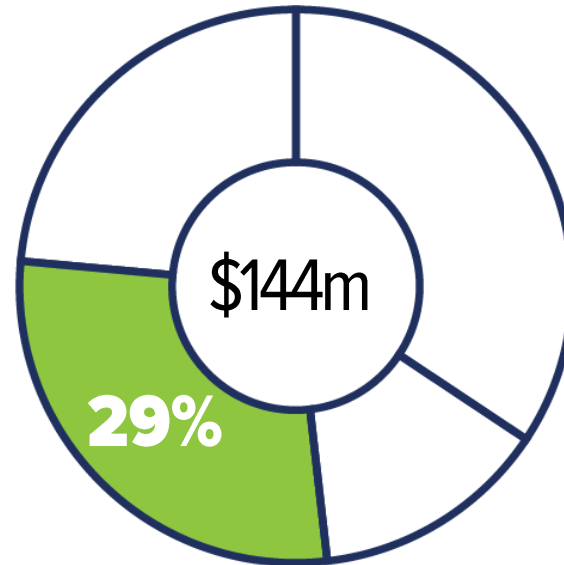
DOMESTIC TAXES as % of REVENUES



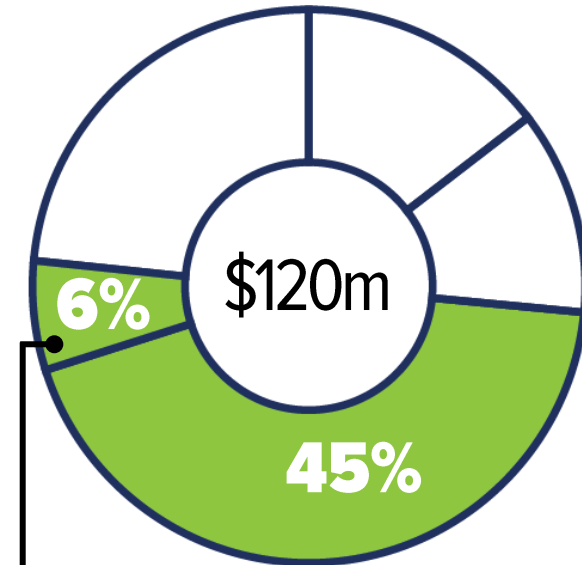
TAX DOMICILE



FSM Domestic Taxes



RMI Domestic Taxes



DEPARTURE TAXES



Palau Domestic Taxes



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3. CRA 2023: FSM [\$3.3 B]



- Designed to start seamlessly at end of the 2nd Compact period
- Annual grants at **\$140 million** per year in defined sectors
- No annual adjustment, negotiations resulted in replacing 2%...
- ... with **\$500 million** contribution to the Compact Trust Fund (\$250 million in each of FY2024 & FY2025)

3. CRA 2023: FSM, cont'd



- Treatment of the Compact Trust Fund as a **“Re-Purposed Fund”**
- Amended Fiscal Procedures
- Amended Compact Trust Fund Agreement
- Ongoing Federal Programs & Services

3. CRA 2023: RMI [\$2.3 B]



- Designed to start seamlessly at end of the 2nd Compact period
- Annual grants at **\$50 million** per year for 20 years in defined sectors with 2% annual adjustment
- Health special grant at **\$8 million** per year for 20 years with no annual adjustment (and requiring RMI match)

3. CRA 2023: RMI, cont'd



- One-time grants of **\$239 million** in FY2024:

Strategic Health Dialogue	\$20 million
Climate Change Tech. Assistance	\$20 million
Environmental Studies	\$20 million
Environmental Programs	\$10 million
Transparency	\$10 million
Museum	\$5 million
Kwajalein Atoll Master Plan	\$132 million
Suppl. Education Grant catch-up	\$22 million

3. CRA 2023: RMI, cont'd



- ... with **\$700 million** contribution to the Compact Trust Fund (\$200 million in each of FY2024-2026 & \$100 million in FY2027)
- Treatment of the Compact Trust Fund as a **“Re-Purposed Fund”**
- Amended Fiscal Procedures
- Amended Compact Trust Fund Agreement
- Ongoing Federal Programs & Services

3. CRA 2023: Palau [\$889 M]



- Designed to start one year before the 2nd Compact period ends
- Annual grants at **\$30 million** per year for 20 years in defined sectors/uses with 2% annual adjustment
- Fiscal consolidation (debt repayment) of **\$10 million** annually for 6 years (FY2024-2029) with no annual adjustment
- ... with **\$100 million** contribution to the Compact Trust Fund (\$50 million in each of FY2024 & FY2025)



- Treatment of the Compact Trust Fund as a **“Re-Purposed Fund”**
- Amended Fiscal Procedures
- Amended Compact Trust Fund Agreement
- Ongoing Federal Programs & Services

Presentation Outline

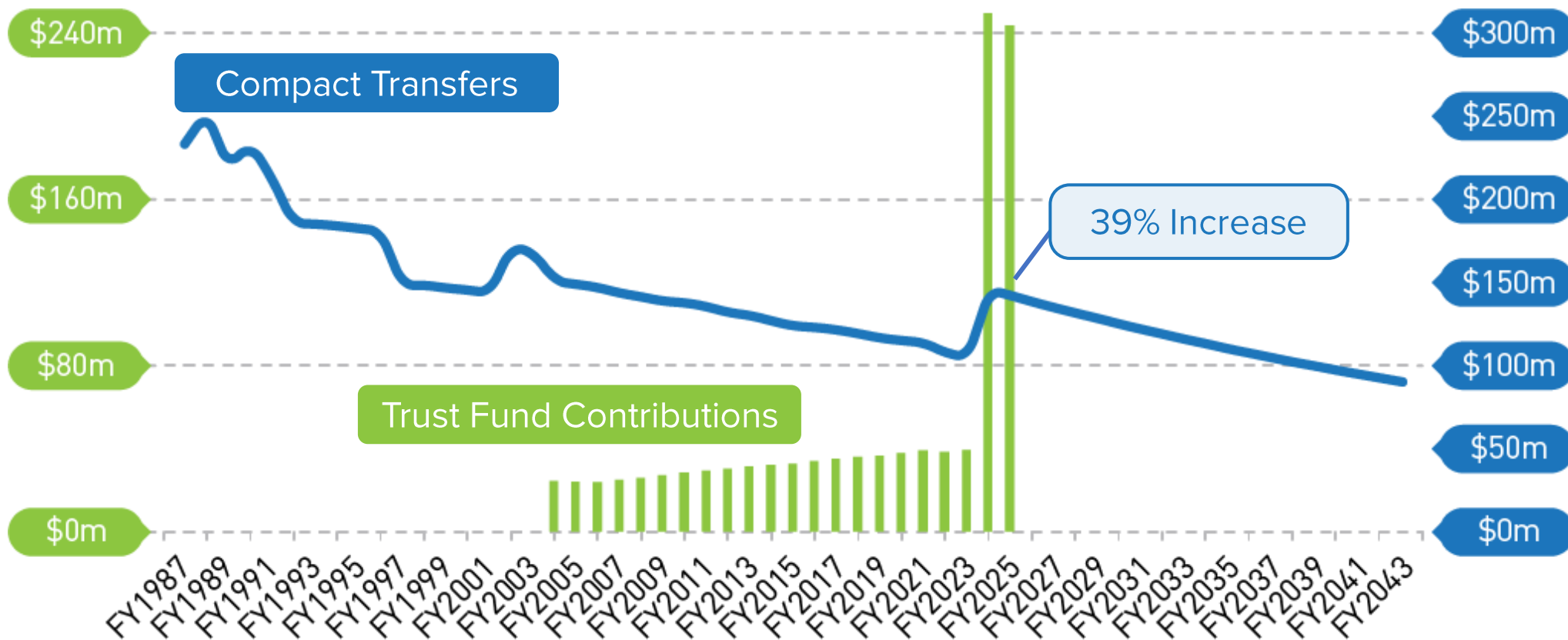


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Upward Fiscal Adjustment: FSM



» Assuming no Use of the Re-Purposed Compact Trust Fund & No Use of the \$500m Contribution

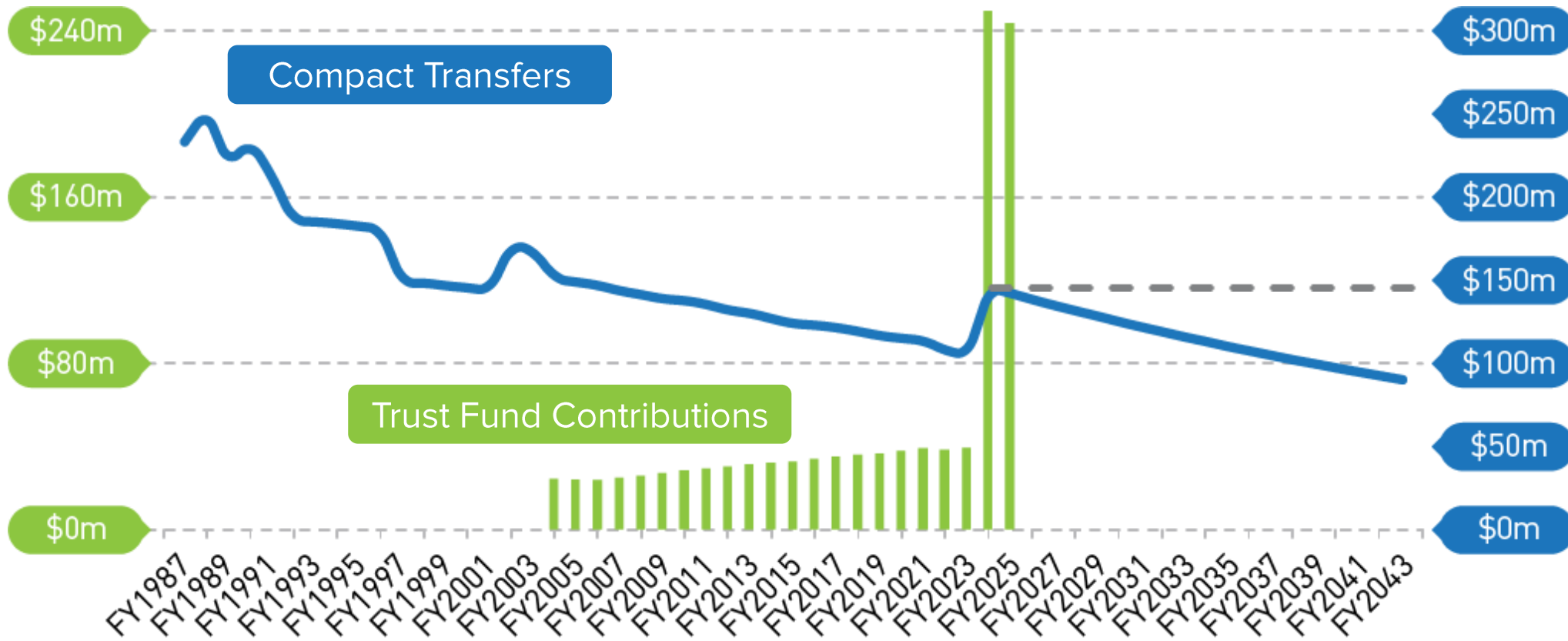


Upward Fiscal Adjustment: FSM



» Assuming Use of the \$500m Fund Addition for Inflation Adjustment

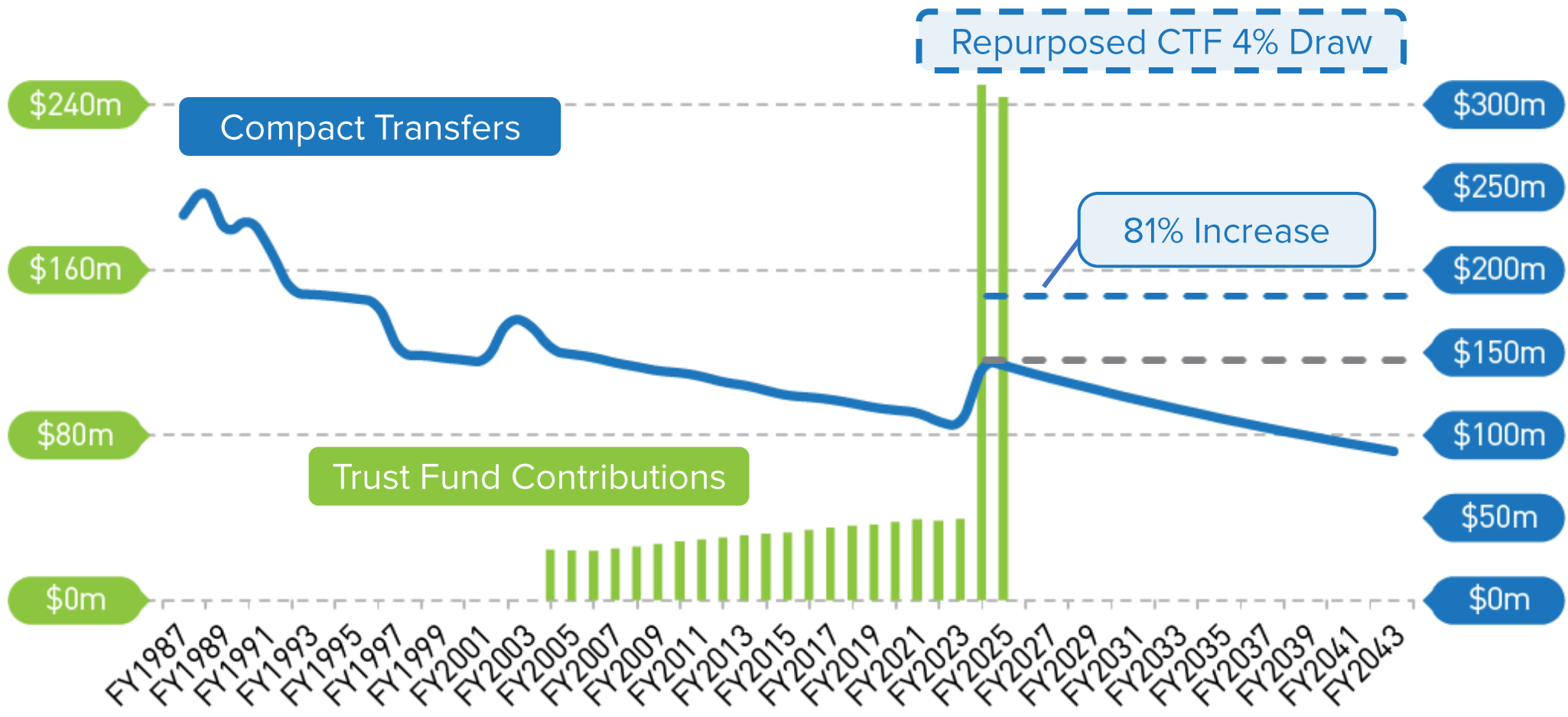
Inflation adjustment from \$500m CTF



Upward Fiscal Adjustment: FSM



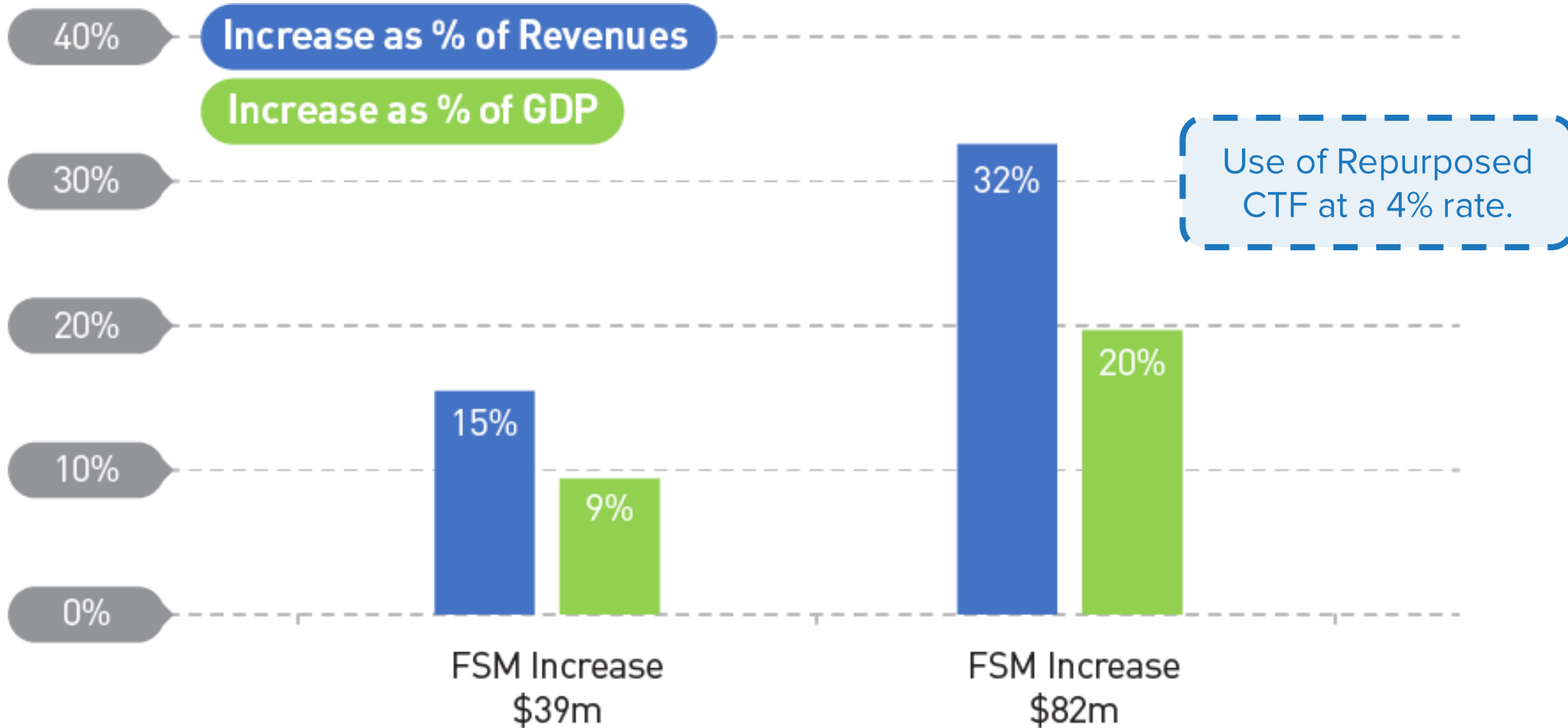
» Assuming Use of the Re-Purposed CTF & Use of the \$500m CTF Addition for Inflation Adjustment



Upward Fiscal Adjustment: FSM



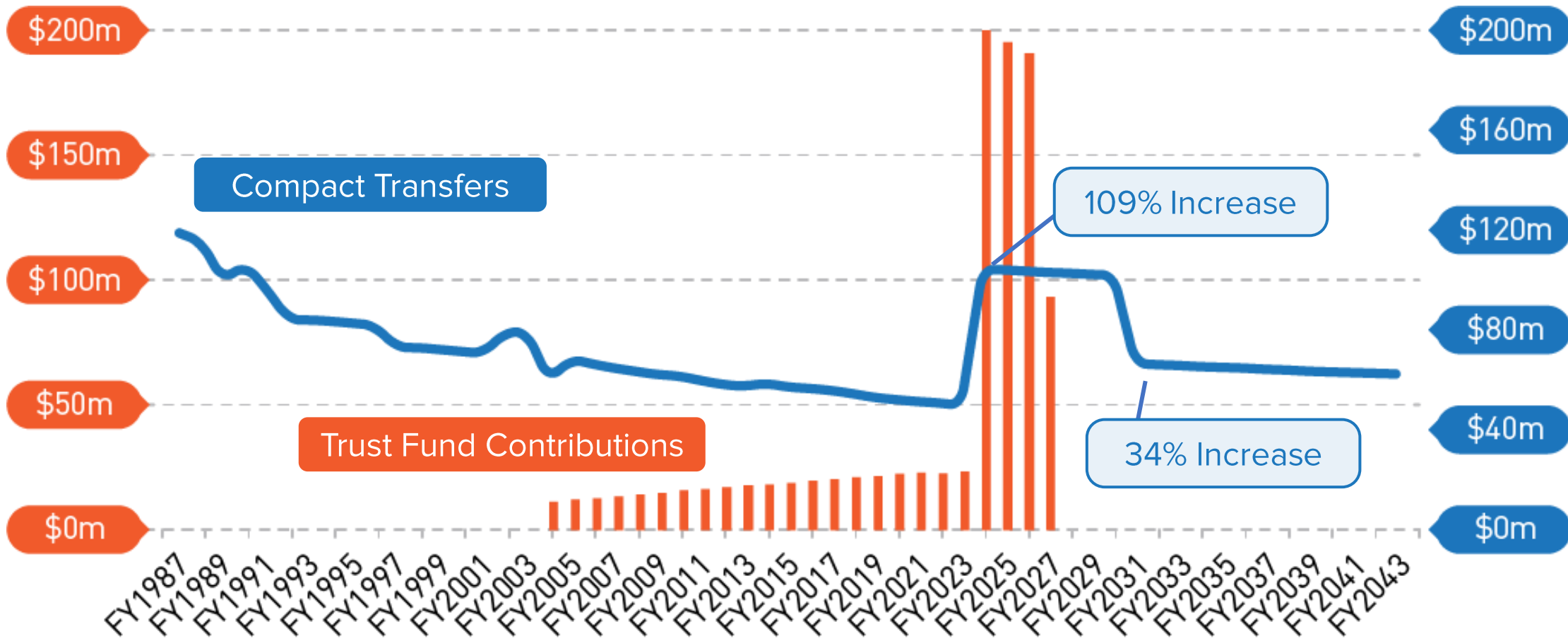
» Increase from FY23 to FY24





4. Upward Fiscal Adjustment: RMI

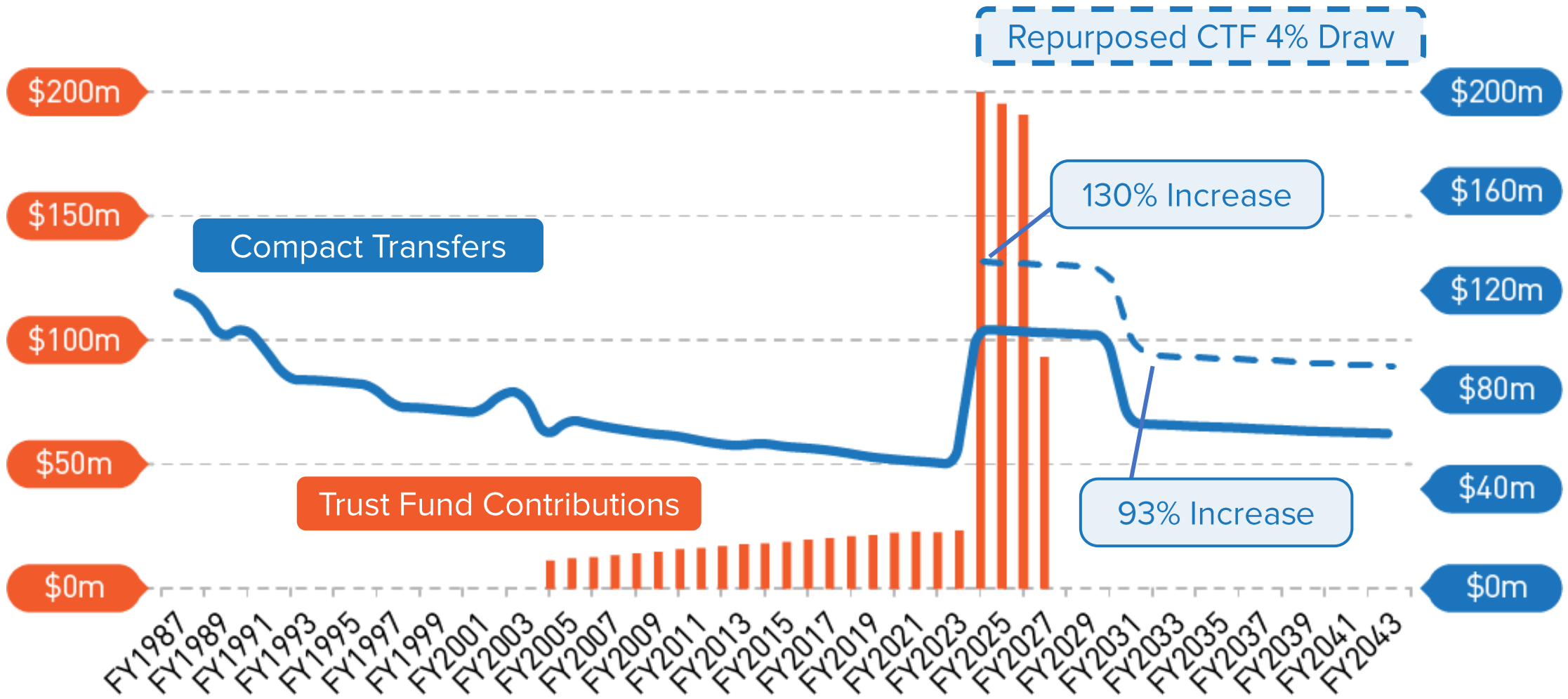
» Assuming no GovRMI Use of the Re-Purposed Trust Fund or Special Use Fund





4. Upward Fiscal Adjustment: RMI

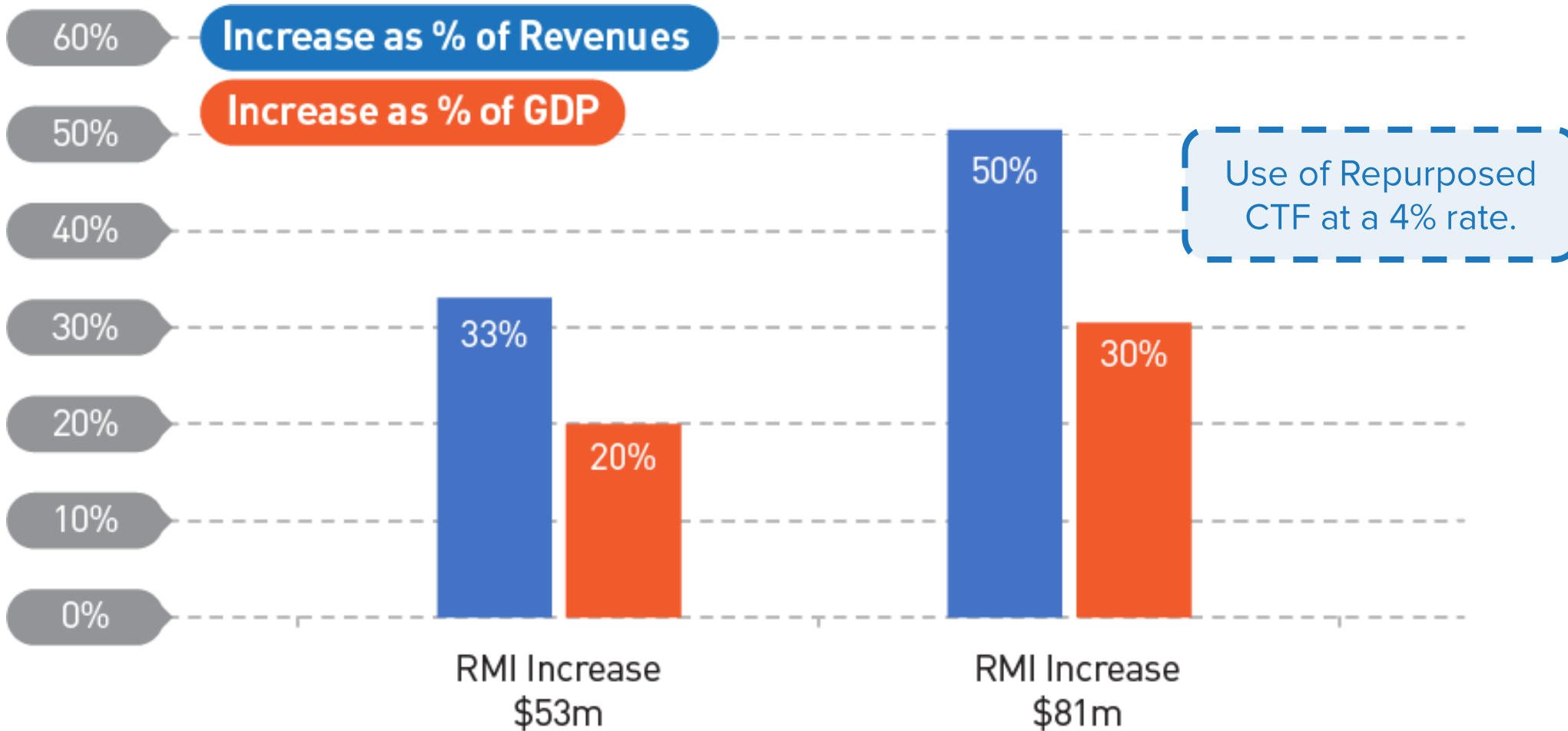
» Assuming GovRMI Uses the Re-Purposed Trust Fund





4. Upward Fiscal Adjustment: RMI

» Increase from FY23 to FY24

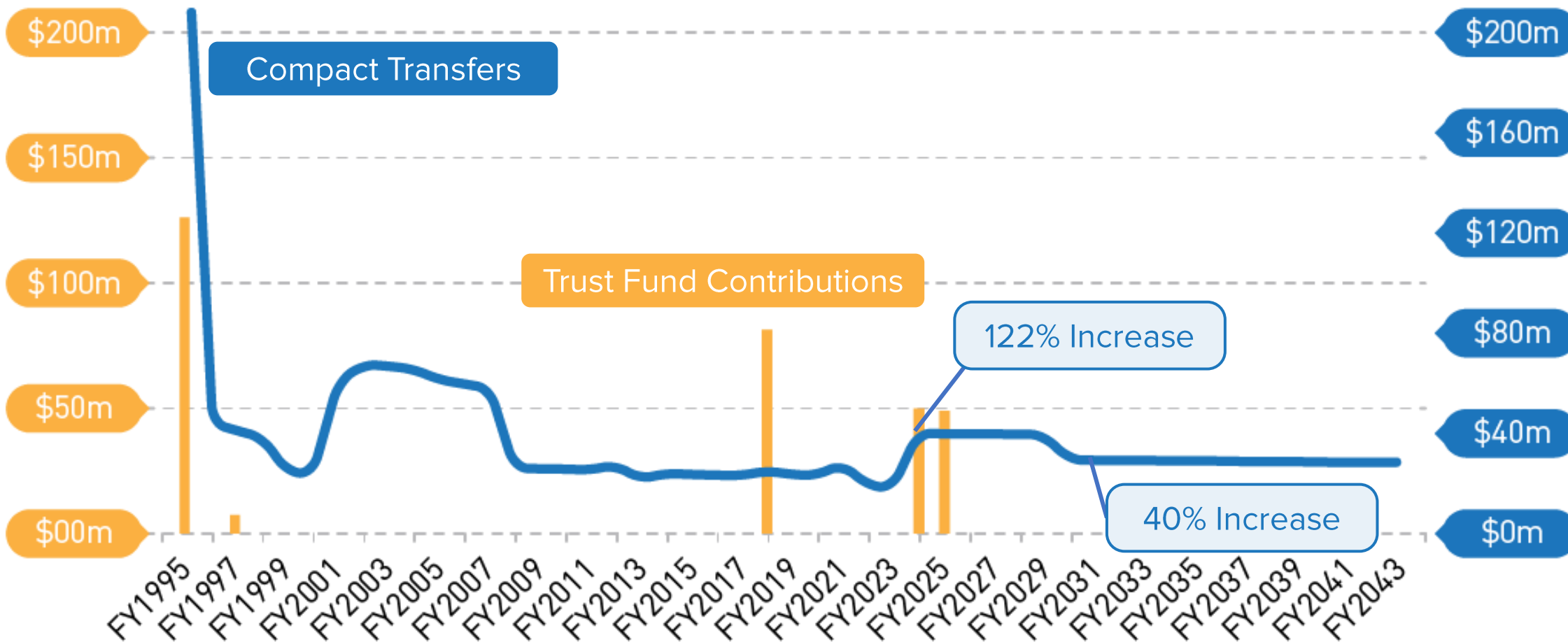


4.

Upward Fiscal Adjustment: Palau



» Assuming no use of the Re-Purposed Trust Fund

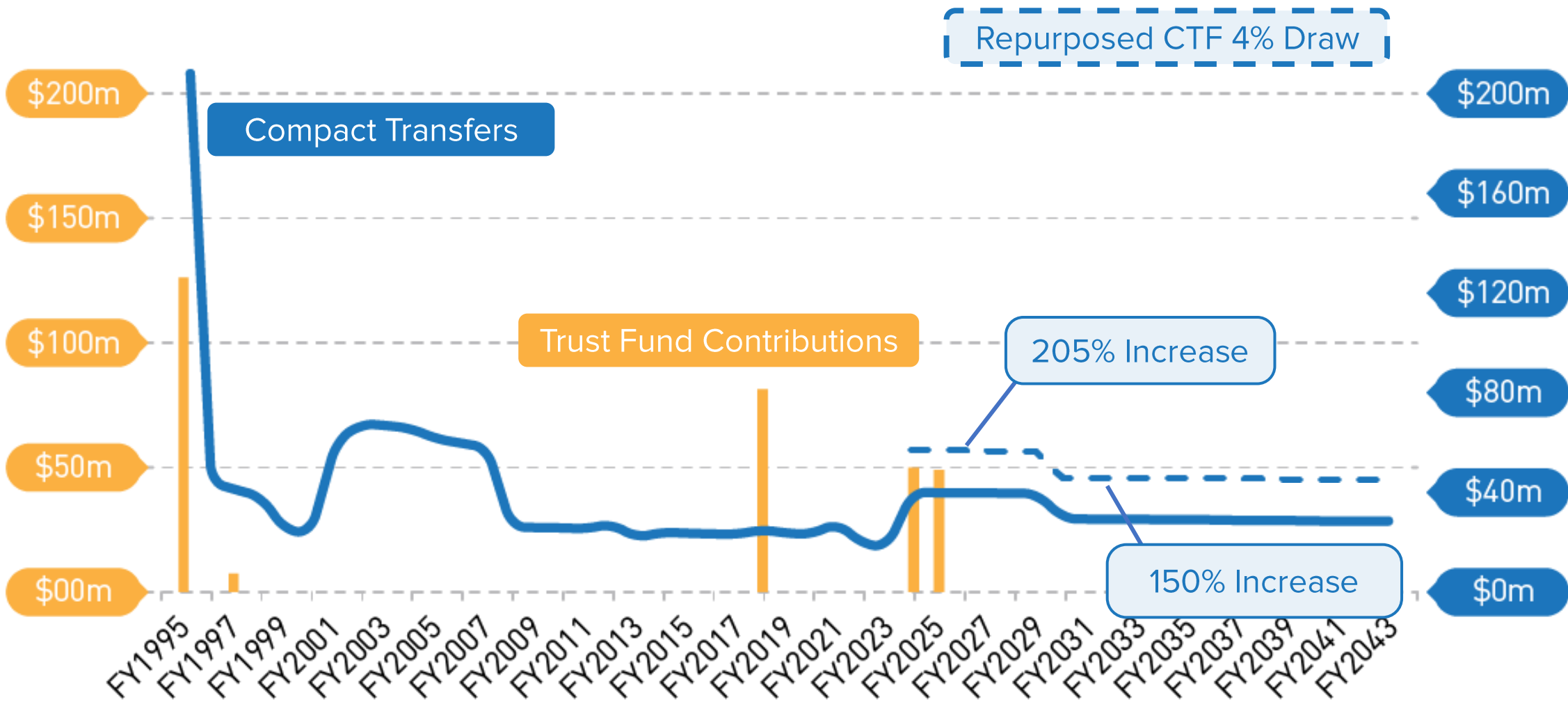


4.

Upward Fiscal Adjustment: Palau



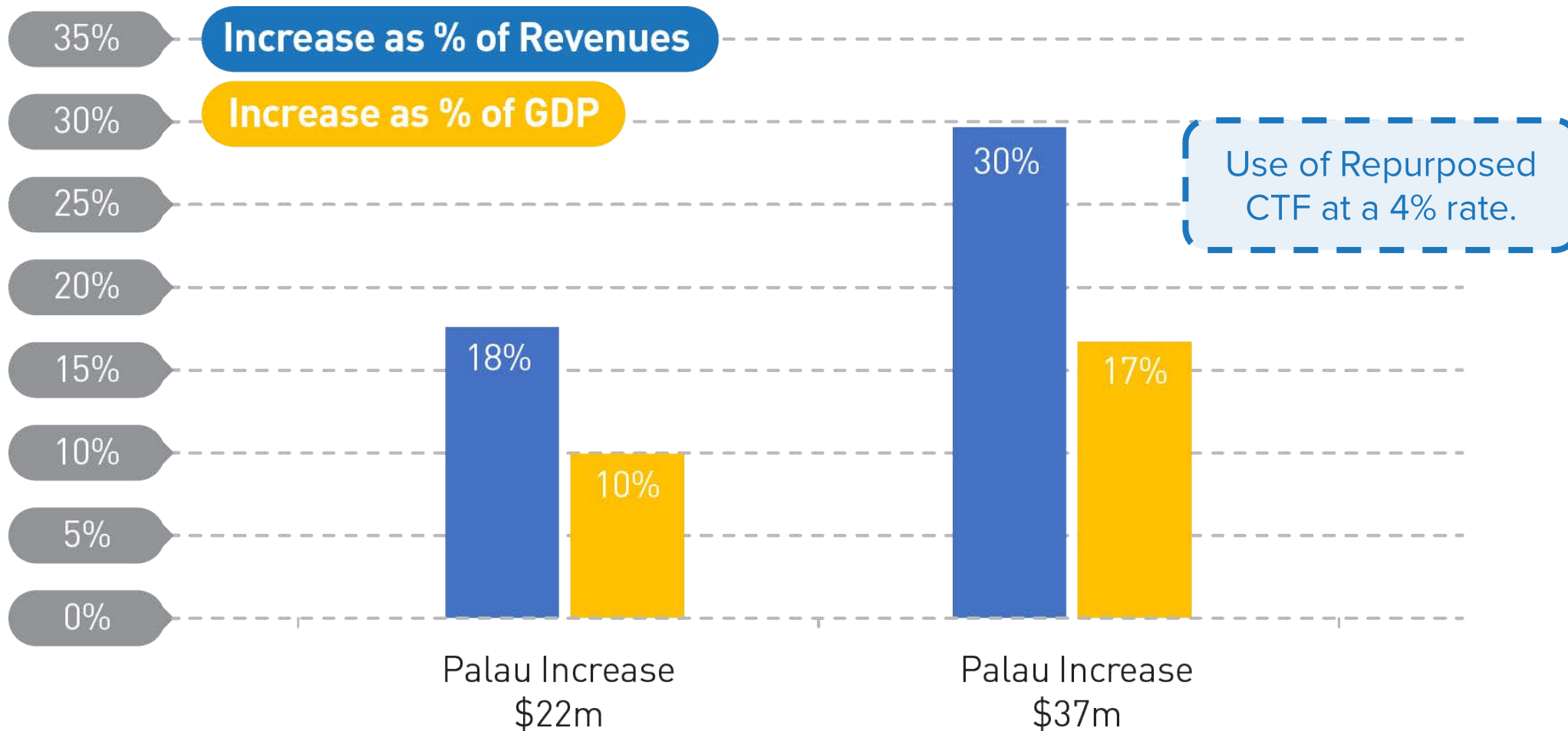
» Assuming Use of the Re-Purposed Trust Fund



Upward Fiscal Adjustment: Palau



» Increase from FY23 to FY24



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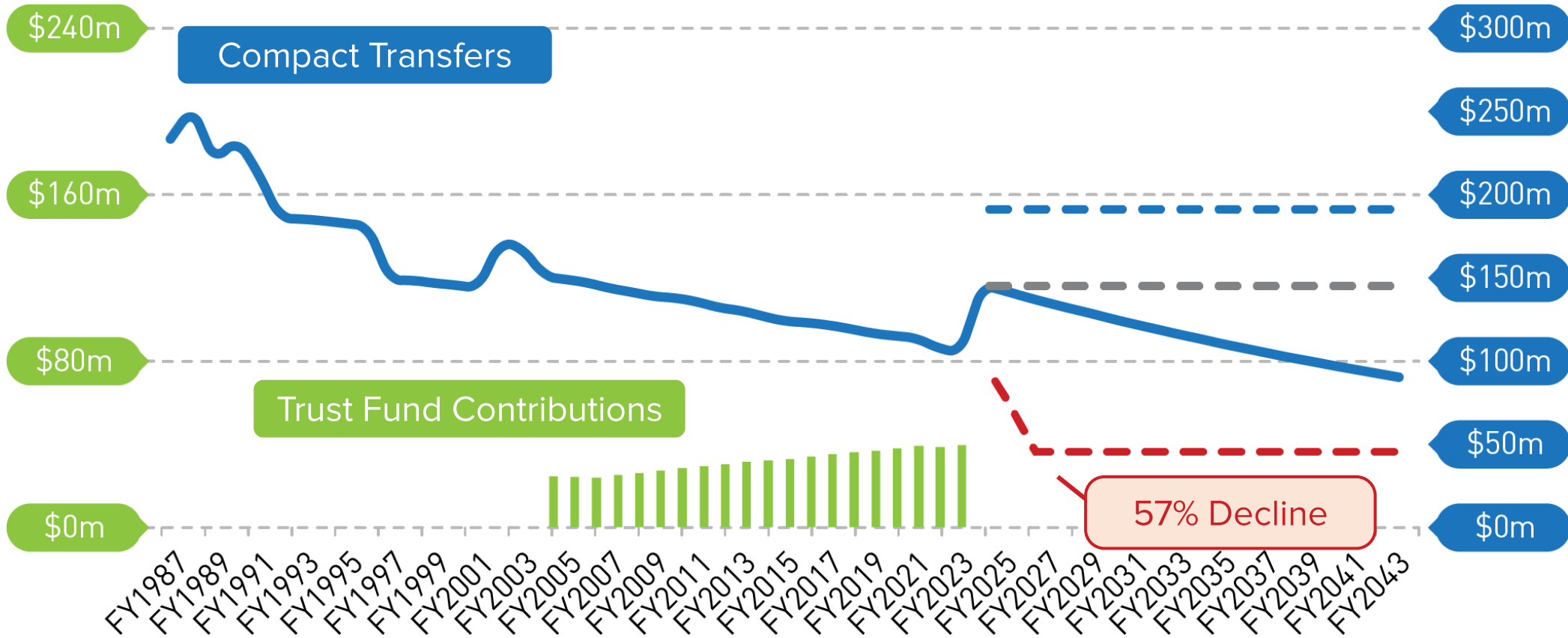


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5. Delay in U.S. Congressional Action

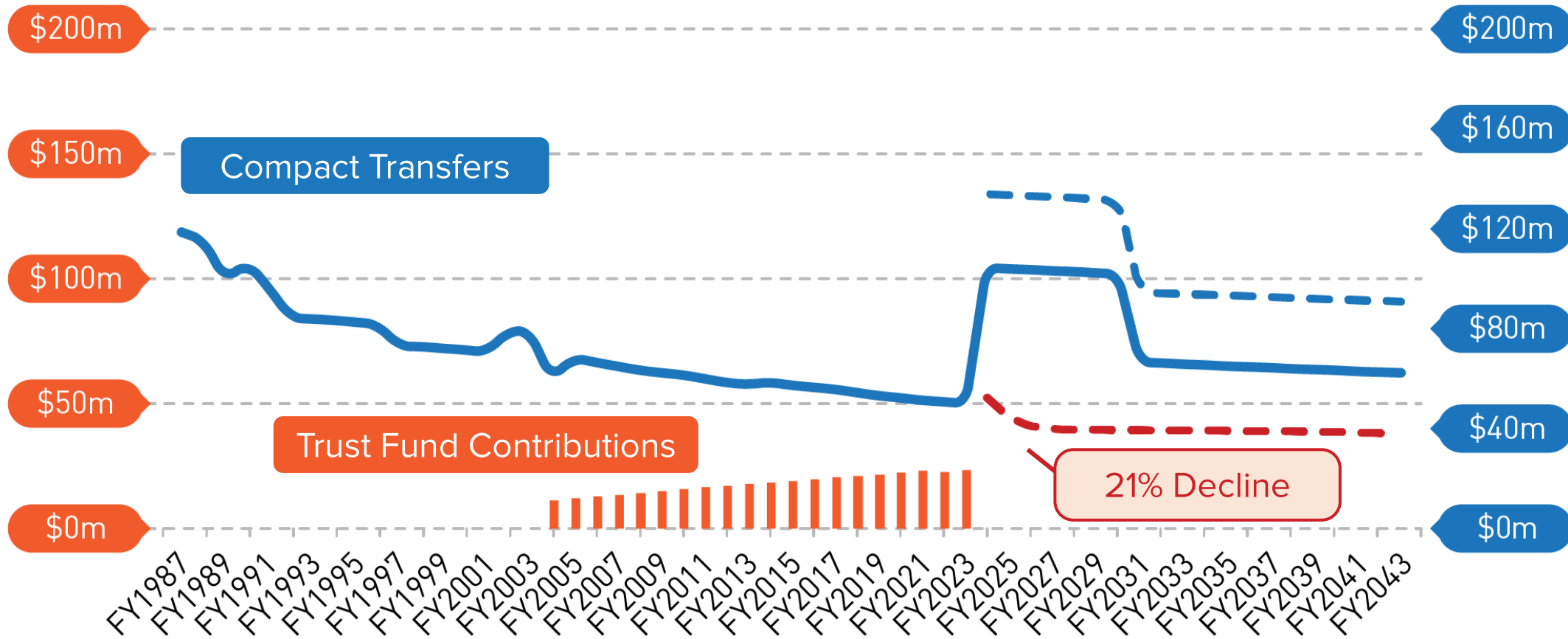
» Declining Resource Transfers without Renewal





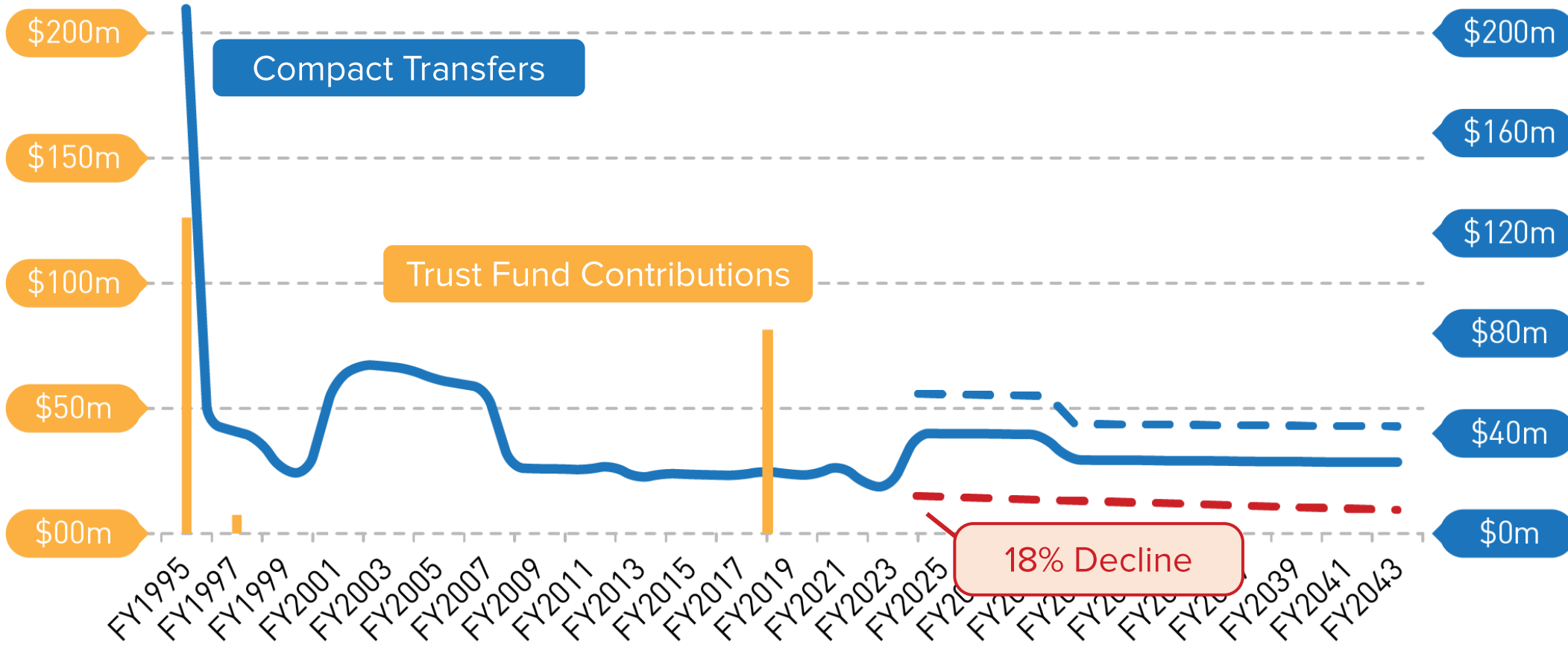
5. Delay in U.S. Congressional Action

» Declining Resource Transfers without Renewal



5. Delay in U.S. Congressional Action

» Declining Resource Transfers without Renewal



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6. Concluding Observations



- Each FAS Compact Renewal is **different across many dimensions**—indicating the U.S. did not apply a one-size-fits-all approach.
- Oversight approach is **modified**—with sufficient differences to require time to determine costs, efficacy, and impact.
- Fiscal **expansion** vs. Fiscal **compression** & the need for each FAS to focus on its own policy framework
- Extraordinary **near-term implications** for donor partner engagement—capacity supplementation and policy guidance

THANK YOU!



Time for Discussion & Questions