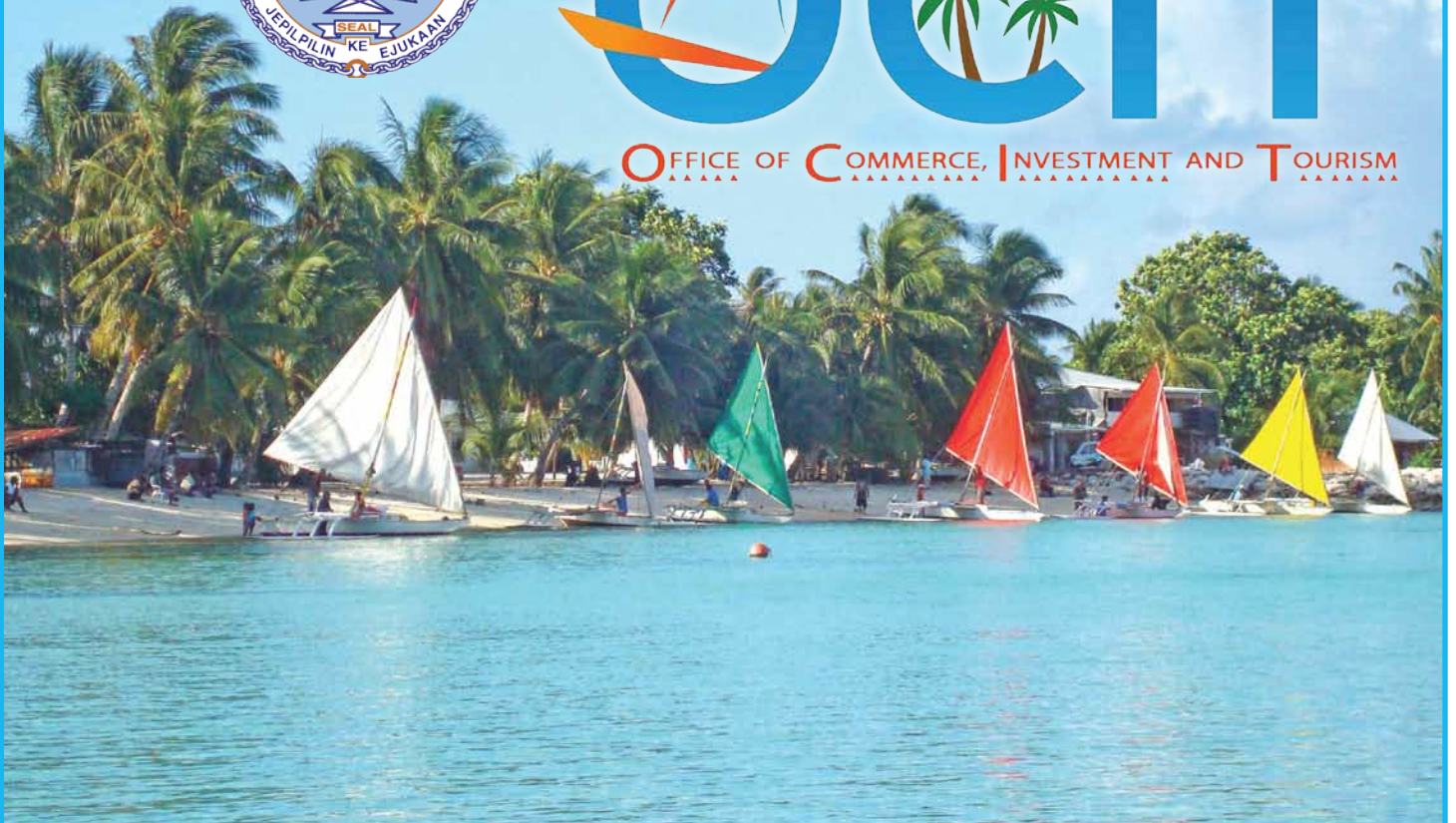




OFFICE OF COMMERCE, INVESTMENT AND TOURISM



# OFFICE OF COMMERCE, INVESTMENT AND TOURISM BUSINESS PLAN 2019 - 2021



## FOREWORD

The Office of Commerce, Investment and Tourism has committed to a realistic assessment of the situation of private sector business, growth and development in the country. The economy has struggled to develop since independence outside of the assistance from international development. Many in our community have not benefited from the fruits of economic growth and development. But there have been some private endeavors that have succeeded, in tuna transshipment, in tuna processing, diving in Bikini, the culture of pearls, the many small businesses, and more. But this has not been enough to help most of our people.

On the other hand, our economy has much unrealized potential. The Marshall Islands remains largely unknown outside of the Pacific. There are opportunities for the future. If we are to realize these opportunities then there is a need for change, a change in policy and to move the Office of Commerce, Investment and Tourism from an agency of investment to an investment promotion agency.

Over the next 3 years the Office will target the promotion of very specific, selected areas of tourism, fisheries and small business development, in a few prioritized areas where we have the capacity to succeed. The Office will continue to objectively appraise and promote domestic and foreign investment. It will also market the Marshall Islands to the rest of the world. Most importantly the Office will work with representative spokespersons from our private sector and the rest of government to continue to ease the situation for business, growth and development so that we may thereby encourage the creation of jobs, revenues and the demand for even further business activity.

## ABBREVIATIONS

ADB.....	Asian Development Bank
AG.....	Attorney General
AMI .....	Air Marshall Islands
BOMI .....	Bank of the Marshall Islands
CA.....	Competent Authority
CAP .....	Comprehensive Adjustment Program
CBA.....	Cost, Benefit Analysis
CROP .....	Committee of Regional Organisations of the Pacific
CSO.....	Community Service Obligations
EPA .....	Environmental Protection Authority
EPPSO .....	Economic Policy, Planning and Statistics Office
EU.....	European Union
EWC .....	East-West Center
FDI.....	Foreign Direct Investment
FIBL .....	Foreign Investment Business License
FY .....	Fiscal Year
GDP.....	Gross Domestic Product
IGC .....	International Growth Centre
IMF .....	International Monetary Fund
LRA .....	Land Registration Authority
MDG .....	Millennium Development Goals
MEC.....	Marshalls Energy Company
MIMA .....	Marshall Islands Mayor Association
MIMRA ....	Marshall Islands Marine Resources Authority
MISSA ....	Marshall Islands Social Security Administration
MISC .....	Marshall Islands Shipping Corporation
MIVA .....	Marshall Islands Visitor Authority
MSME .....	Micro, Small and Medium Enterprises
MWSC.....	Majuro Water & Sewer Company
NSP.....	National Strategic Plan
NTA .....	National Telecommunications Authority
OCI .....	Office of Commerce and Investment
OCIT.....	Office of Commerce, Investment and Tourism
PACER ....	Pacific Agreement for Closer Economic Relations
PICTA ....	Pacific Islands Countries Trade Agreement
PALM .....	Pacific Islands Leaders Meeting
PIFS .....	Pacific Islands Forum Secretariat
PNA.....	Parties to the Nauru Agreement
PPF.....	Pan Pacific Foods
PSDI.....	Private Sector Development Initiative
RMI .....	Republic of the Marshall Islands
SBDC.....	Small Business Development Corporation
SDG .....	Sustainable Development Goals
SEZ .....	Special Economic Zone
SOE.....	State Owned Enterprise
SPC .....	Pacific Community
SPREP.....	South Pacific Regional Environment Programme
SPTO .....	South Pacific Tourism Organisation
TRAM.....	Tax and Revenue Reform and Modernisation Commission
UNDP.....	United Nations Development Programme
USP .....	University of the South Pacific

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## Executive Summary

The Office of Commerce, Investment and Tourism's (OCIT) vision is that by 2021 it will have contributed to the self-reliance of the Republic of the Marshall Islands (RMI) by helping the private sector to grow. This vision is confronted by a situation where, up to 2018, the economy has struggled to grow consistently, hardship is increasing and overall development outcomes have been disappointing.

The past drivers of economic growth have been government expenditure (fueled in turn by the Compact and other international assistance), exploiting pelagic fisheries and the occasional developments in aquaculture and tourism. Previous governments' implicit, if not explicit policy of government driven investment in business has, overall, not worked well. Today, as in 1986 the potential of the RMI largely remains unknown and untapped.

Fisheries, tourism and also Micro, Small and Medium-sized Enterprises (MSME) have potential to drive future growth. However, a very difficult environment for business is the major constraint to investment, private sector-led growth and a better future for all Marshallese. Institutional challenges underpin this policy environment.

There is therefore a great need for government to reconsider its policies on investment and the private sector environment. OCIT and all other government missions and mandates in support of the private sector need to be reviewed, corrected and strengthened. Given best international policy and practice, the current policy supporting provision of investment concessions should also be reconsidered as well as any support to establishing Special Economic Zones.

Outside of Agenda 2020, none of the existing planning documents provide prioritized, strategic direction for the development of commerce, investment and tourism.

The overarching goal for the sectors of commerce, investment, tourism and other industries for 2019 to 2021 is to stimulate private sector economic activity that will increase employment, sustainable FDI, and otherwise boost the local economy. Given the RMI's situation in 2018 the priorities for OCIT assistance for the Business Plan period 2019 to 2021 are fivefold and can be listed in the following sequence:

1. Revise and update the RMI Investment Policy;
2. Revise the mission and mandate of OCIT and other government departments and align this with the new investment policy;
3. Continue to address and remove the prioritized constraints to business in the RMI;
4. Implement 3 year targeted development strategies for the projected private sector drivers of growth, namely tourism, fisheries and MSMEs; and
5. Continue to market the Marshall Islands for all commerce, investment and tourism, and continue to appraise proposed investments.

## A VISION FOR 2021

By 2021 the Office of Commerce, Investment and Tourism (OCIT) will have contributed to the self-reliance of the Republic of the Marshall Islands (RMI) by helping the private sector to grow.

## THE SITUATION IN 2018

### Outcomes, Growth Drivers and Unrealized Potential

Table 1: Key Indicators

Item	FY						
	2010	2011	2012	2013	2014	2015	2016
GDP % growth (a)	6.5	1.2	3.5	2.9	-0.8	-0.4	1.9
% GDP that is private sector growth (a)	27%	27.7%	26.9%	27.8%	27.7%	26.8%	26.3%
Total employed (a)	10,926	10,637	10,744	10,857	10,783	10,657	10,895
% employed by private sector (a)	45.05%	42.77%	42.30%	42.57%	41.81%	39.80%	39.39%
Gross Fixed Capital Formation ((constant prices of FY2004, US\$ millions) (a)	49.8	21.9	14.5	30.1	23.1	23.6	na
Foreign Investment (\$m) (b)	38.2	5.7	4.8	7.2	4.2	3.3	4.8
Holiday visitors (c)	934	1123	873	281	2,253	1,959	1,114
Business visitors (c)	2,257	2,031	1,949	3,711	1,665	2,389	2,152
Total fish license fees (\$m) (d)	3.5	7.9	7.3	10.9	16.5	24.3	24.2
Total value of fish exports (\$m) (d)	8.5	19.6	24.8	18.6	13.4	17.1	14.8
Ease of doing business overall ranking (out of 190 countries) (e)	98	102	106	101	139	140	143

n.a.: not available

Source:

- (a) RMI FY16 Economic Statistics, [www.pitiviti.org/iniatives/economics/rmi.php](http://www.pitiviti.org/iniatives/economics/rmi.php)
- (b) EPPSO Table 9b Marshall Islands: Balance of Payments, FY2004-FY2016
- (c) EPPSO Table 6f Visitors to Majuro by year and purpose: 2004-2016
- (d) EPPSO Table 9b Marshall Islands: Balance of Payments, FY2004-FY2016
- (e) World Bank <https://openknowledge.worldbank.org/handle/10986/18626>

### The economy has struggled to grow consistently

Economic growth sustains all societies and diverse sources of growth help all economies and their societies to confront global financial and economic fluctuations and crises. RMI growth has been limited and the sources of growth have been few. “Between FY1999 and FY2016, real GDP per capita expanded by an average rate of 1.6 percent in each year”<sup>1</sup>. This limited growth is primarily the result of the expansion of the public sector funded by the Compact of Free Association with the USA and other international assistance.

The private sector’s contribution to growth has remained constant since 2010. Total employment has also flat-lined. Foreign investment has been minimal. Holiday visitors have failed to grow and are now around an average of 3 per calendar day. Business visitors are more significant. On the other hand fisheries contribution to the economy has grown significantly in recent years.

### Hardship is increasing

The Government and the US Department of the Interior’s Economic Review for FY 2016<sup>1</sup> notes that while abject poverty, starvation and destitution are not yet present in the RMI, there are clear signs that

certain groups are facing increasing hardship and there are growing concerns over high unemployment, financial hardship, hunger and poor nutrition. At the last census in 2011 only about 40% of the population was assessed as being employed. Inequality is likely to be increasing and outer island populations are migrating to the urban atolls of Majuro and Kwajalein and externally to the US<sup>2</sup>. ***In summary, development outcomes have been disappointing.***

## Past drivers of growth

The past drivers of economic growth have been government expenditure (fueled in turn by the Compact and other international assistance), exploiting the pelagic fisheries and the occasional developments in aquaculture and tourism. These primary drivers of growth have, in turn, driven growth in: wholesaling and retailing; utilities; construction; agriculture; private hoteling; transport and communications; financial intermediation; and public administration. Household production and subsistence has also been an important contributor helping to sustain the outer islands.<sup>3</sup>

## Failed domestic drivers

Previous governments' implicit, if not explicit policy of government driven investment in business has, overall, not worked well. The Government and the US Department of the Interior's Economic Review for FY 2016<sup>1</sup> records total levels of subsidies and capital transfers to the SOE sector<sup>4</sup> at 10 percent of GDP with the sector making an average operating loss of \$7.4 million over the FY2014 - FY2016 period and incurring average subsidies of \$9.5 million. ***Past public investments have not driven economic and social growth.***

## Potential drivers of future growth

In contrast to the larger but generally failed, government driven and aid supported investments in business, the RMI economy has long embraced a vibrant micro, small, and medium-sized (MSME) private enterprise sector. These MSMEs are mostly in services and construction and mostly located in the main urban centers of Majuro and Ebeye. The cultivation of pearls, other aquaculture products and some small-scale manufacturing are also notable endeavors.

Today, Majuro is also home to an internationally important tuna transshipment, servicing and processing industry that holds potential for further expansion. The Government and the US Department of the Interior's Economic Review for FY 2016<sup>1</sup> comments that the industry's contribution to the economy has grown significantly during the amended Compact from \$8.5 million in constant prices at the start to \$16.2 million in FY2016. Total fish-licensing and associated fees collected by the Marshall Island Marine Resources Authority (MIMRA) have also grown, from \$1.3 million to \$31.7 million in FY2016<sup>5</sup>, much of it in the last four years due to the RMI's implementation of the Parties to the Nauru Agreement (PNA).

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<sup>1</sup> Government of the Republic of the Marshall Islands and the Department of the Interior (2016) Republic of the Marshall Islands Economic Review Fiscal Year 2016.

<sup>2</sup> The Marshall Islands Journal – Friday, November 24, 2017. “Breaking down migration data” and “Outer islands depopulating”.

<sup>3</sup> A detailed analysis of current drivers of economic growth can be found in Government of the Republic of the Marshall Islands and the Department of the Interior (2016) Republic of the Marshall Islands Economic Review Fiscal Year 2016.

<sup>4</sup> Major SOEs are: Air Marshall Islands; Kwajalein Atoll Joint Utility Resources; Majuro Atoll Waste Corporation; Marshall Islands Development Bank; Majuro Water and Sewer Company; Marshalls Energy Company; Marshall Islands Port Authority; Marshall Islands Shipping Corporation; Majuro Resort; Postal Services Authority; National Telecommunication Authority; and the Tobolar Copra Processing Plant.

<sup>5</sup> This compares with the figure of \$24.2m for fish license fees in the table on key indicators. Presumably the “associated fees” account for the additional \$7.5m.



While the impact of a Majuro loining plant has been significant, the influence of purse-seine operations on the domestic economy is less significant, given that they have employed few Marshallese, the profits are returns on foreign investment, and operational costs are largely incurred offshore.

The RMI also has the potential to develop a significant tourism industry as has been proven by earlier concerted efforts to develop tourism attractions in both Bikini and Majuro. This potential is reinforced by: (i) increased global demand for tourism; (ii) the increased demand for tourism in the Pacific region; and (iii) the tourism growth experiences of Palau and some south Pacific Island Countries such as the Cook Islands, Fiji and Vanuatu. While existing and potential drivers of growth are few allowance should be made for private entrepreneurial vision and endeavor that can produce new industries and surprise public sector analysis.

The challenge for the future of the RMI is to find other primary domestic drivers of growth that will also add value to the domestic economy and to society. This growth should not only take the form of increased production and incomes but of employment and induced economic activity that would help distribute the benefits of growth to more Marshallese. ***Today, as in 1986 the potential of the RMI largely remains unknown and untapped but fisheries, tourism and also MSMEs have potential.***

## Policy

Investment is risky and, in the case of investment in the production of private goods and services, such risk should be undertaken by the private sector that does not have to consider the opportunity cost of forgone investment in public welfare. Future drivers of growth should be led by the private sector. However, the government investment policy that has underpinned economic and social outcomes to date has explicitly or implicitly embraced: (i) direct government investment in larger scale production and services; (ii) a difficult environment for private sector growth; and (iii) investment concessions including some consideration to establish Tax Free Zones or Special Economic Zones (SEZ).

As already commented, the previous governments promotion of SOEs has not worked well. Relatively large government investments in SOEs have tended to lead to inefficient and high cost services, and large losses requiring annual government subsidies that have become a drain on the government budget. The SOEs have also commonly failed in their Community Service Obligations (CSO).

Private sector development, including Foreign Direct Investment (FDI) is greatly constrained by the poor current environment for business in the country. The World Bank's *Doing Business Survey*<sup>6</sup> paints a discouraging view of the environment for private sector development. Out of 190 countries, the RMI is currently assessed as the 143rd least attractive for business. While these measurements may be flawed the overall picture is consistent over time.

The Asian Development Bank and the World Bank also annually assess RMI's countrywide policies and institutional settings, including policy and institutional support for private sector development. Again some of these measurements are subjective but the message of weak government policy in support of the private sector is consistent over time.<sup>7</sup> The constraints to private sector led investment and growth have also been subject to specialist Private Sector Assessments in 2003 and 2016.<sup>8</sup> The constraints are

<sup>6</sup> World Bank (2018) *Doing Business. Reforming to Create Jobs. Economy Profile Marshall Islands*. Washington DC.

<sup>7</sup> See: ADB (2016) *Mapping Fragile and Conflict-Affected Situations in Asia and the Pacific The ADB Experience*. Manila <https://www.adb.org/sites/default/files/publication/211636/mapping-fcas-asia-pacific.pdf>. For the RMI see pages 11 on.

<sup>8</sup> The Enterprise Research Institute (2003) *Republic of the Marshall Islands – A Private Sector Assessment Promoting Growth Through Reform*; ADB (unpublished) *The Marshall Islands A Private Sector Assessment* Manila.

deep-seated, resilient and numerous. They are summarized in Appendix 1. Promoting private investment without enhancing the potential for business leads to a poor international image for RMI business.

Although the government generally encourages foreign investment, the Foreign Investment Business License (Amendment) Act established a Natural Reserved List, which restricts foreign investment in certain small-scale retail and service businesses. However, this law is reportedly not consistently enforced, and foreign investors may enter partnership agreements with local Marshallese businesses.<sup>9</sup>

The RMI Cabinet can approve tailor-made investment incentives including tax and duty exemptions.<sup>10</sup> Investors who invest a minimum of \$1 million or provide employment and wages in excess of \$150,000 annually to Marshallese citizens are exempt from paying gross revenue tax and import duties for a five-year period in certain sectors including offshore or deep-sea fishing. This focus on Cabinet decision-making together with a possible lack of transparency and consistency across all sectors would contravene best international practice.

In an international review of investment incentives the International Growth Centre (IGC) reports that: “In most instances ..., the efficacy of these measures (investment incentives) are overestimated while the costs remain hidden.”<sup>11</sup> The IGC also report that “overbidding” is common when countries compete for FDI.<sup>12</sup> An IMF paper on tax concessions in the Caribbean reports that the costs of concessions have been very large, while the benefits appear to be marginal at best. The report also comments that total foreign direct investment did not appear to depend on these concessions.<sup>13</sup> Caution should also be exercised with respect to government investment in SEZs or Tax Free Zones.<sup>14</sup>

## Institutional

Possibly the greatest challenges to private sector led growth are institutional issues that underpin policy. These include:

- The community’s lack of experience of a competitive private economy.
- The governments’ 32-year engagement in private enterprise and its monopolization of some sectors.
- A lack of understanding in government of the role and contribution of private enterprise to the economy.
- Non-representative Chambers of Commerce.
- As a consequence, there is a lack of leadership in both government and business for private sector led growth.
- Also as a consequence, the capacities for business, financial, economic and development policy analysis, formulation and planning need strengthening throughout government.

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<sup>9</sup> US Department of State (2012).

<sup>10</sup> Price Waterhouse. 1994. Review of the Foreign Investment Climate in South Pacific Forum Countries. South Pacific Forum.

<sup>11</sup> Kirsta Tuomi (2012) International Growth Centre Review of Investment Incentives. Funded by UKAID. <https://www.theigc.org/wp-content/uploads/2014/09/Tuomi-2012-Working-Paper.pdf> The paper concludes with 18 most helpful suggested guidelines for incentives policy.

<sup>12</sup> This is the case with the tourism industry in the Caribbean where tourism-receiving countries have tended to offer too many concessions to prospective investors. This has led to loss of public revenues, some non-viable investments and to too many a “footloose”, short-term interest selling development ideas as opposed to actual long-term operations..

<sup>13</sup> Jingquing Chai and Rishi Goyal (2008) Tax Concessions and Foreign Direct Investment in the Eastern Caribbean Currency Union. IMF Working Paper WP/08/257.

<sup>14</sup> According to the Economist Magazine of April 4 2015: “SEZs—enclaves in which exporters and other investors receive tax, tariff and regulatory incentives—create distortions within economies. Other costs include required infrastructure investment and forgone tax revenues. The hope is that these are outweighed by the boost to jobs and trade. In reality, many SEZs fail. “... they require patience and planning, and they are always inferior to nationwide

These institutional issues underpin all constraints to business and are some of the greatest challenges for the current government to overcome.

***In summary, there is an important need for government to reconsider its policies and institutional settings in support of the private sector environment including investment concessions in the interest of contributing to the future self-reliance of the Marshall Islands.***

## Mission and Mandates

OCIT's mission is to be a driving force in economic growth through investment facilitation, promotion of the RMI and RMI products and services, including tourism attractions. Among other activities, the current Office of Commerce and Investment Act 2013 empowers the office, (619, (2), page 9) to:

- “(e) make or guarantee loans to assist the acquisition, construction, development, administration or extension of any enterprise;
- (f) acquire property, or any interest in or related to property, and own, hold, improve or develop, conserve or rehabilitate any property, or prepare any property for development, conservation or rehabilitation;
- (g) form, or assist or participate in forming companies, corporations and joint ventures for the purpose of carrying on business enterprises;
- (h) borrow money and accept advances, contributions and other assistance, in accordance with Section 623 of this Chapter;
- (i) authorize expenditures and investment of funds;”<sup>15</sup>

OCIT has inherited the functions of the old Marshall Islands Development Authority that, in common with the history of many other Pacific Island Countries is a vestige of earlier failed development policy. Such policy harms the mission and mandate to facilitate and promote private sector growth. This old policy supporting direct investment has long, rightly been a source of concern to the business community of the RMI.

OCIT's mission and mandate can only be effective if it conforms with and is supported by the missions and mandates of the rest of the RMI Government as well as the private sector. Almost all other government ministries, departments and offices have some responsibility for facilitating private sector growth (See Appendix 2). It is also of concern that the chambers of commerce in both the main urban areas of Majuro and Ebeye are not representative of their business communities. ***In summary, all institutional missions and mandates need to be reviewed and strengthened and aligned with policy that supports private sector led growth.***

## Planning Directions

Outside of Agenda 2020<sup>16</sup>, the existing planning documents tend not to provide prioritized, strategic direction for the development of commerce, investment and tourism. This applies to the OCI Business Plan for 2015 to 2018<sup>17</sup>; the relevant sector plans, including all previous tourism plans<sup>18</sup> and current

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reforms that cut trade barriers and boost competitiveness.” Fiji's Tax Free Zones and Tax Free Factory scheme that were introduced in 1988 have not produced intended development results and the scheme is currently under review. See: <https://en.portal.santandertrade.com/establish-overseas/fiji-islands/investing-3>.

<sup>15</sup> Republic of the Marshall Islands Office of Commerce and Investment Act 2013 Title 10 – Planning and Economic Development Chapter 6 – Office of Commerce and Investment Act. Majuro.

<sup>16</sup> Republic of the Marshall Islands (2017) RMI Agenda 2020: A Framework for Progress. Majuro.

<sup>17</sup> Republic of the Marshall Islands Office of Commerce and Investment (2014) Strategic Business Plan 2015-2017.

<sup>18</sup> Marshall Islands Visitors Authority (2009) FY2009 Work Plan and Budget. Majuro. South Pacific Tourism Organisation (2014) National Tourism Development Strategy The Republic of the Marshall Islands 2015-2019. Majuro.

fisheries plans<sup>19</sup>; and the National Strategic Plan (NSP)<sup>20</sup>.

Existing sector plans, including the current OCI Business Plan tend to seek to capture every opportunity for development regardless of their potential and regardless of the existing capacities to pursue these opportunities, including existing products and services. Where everything is listed as a priority, nothing is actually a priority. In addition, the marketing of non-existent products is ineffective. This is primarily the result of a lack of an objective, realistic assessment of the current situation; that is, the “Outcomes, Growth Drivers and Unrealized Potential” described above.

The 2015-2018 OCI Business Plan contains many unrealistic and now unrealized goals, proposed investment and export initiatives, and corporate key performance indicators that have been subsequently abandoned by OCIT.

Both the current NSP and Agenda 2020 call for private sector led economic growth. In the NSP this takes the form of sustainable economic development. In Agenda 2020 this takes the form of the first two of the 10 major challenges; that is, growing the economy, employment and private sector and preparing for the post-2023 Compact transition. Both the NSP and Agenda 2020 are “high-level” planning documents that need to be elaborated with strategic policy and targeted investment directions in each relevant sector. This is most especially required for the sectors of fisheries and tourism that should drive the future economic growth of the country. This will require some careful, detailed cost, benefit assessments as well as continued objective, executive level investment appraisal as private investments are proposed for government approval.

## SECTOR GOAL AND OCIT OUTPUTS

The overarching goal for commerce, investment, tourism and other industries for 2019 to 2021 is to stimulate private sector economic activity that will increase employment, sustainable FDI, boost the local economy and especially enhance tourism and fisheries development.

This goal breaks down the national vision of helping the private sector to grow. The sector goal focuses on promoting the local distribution of the benefits of growth through increased local employment, increased local business activity, government revenue generation and other, continued domestic economic gain resulting from long-term FDI and domestic investment in the economy.

Given the RMI’s situation in 2018 the priorities for OCIT assistance to the sectors for the Business Plan period 2019 to 2021 are fivefold and can be listed in the following sequence:

1. Revise and update the RMI Investment Policy<sup>21</sup>;
2. Revise the mission and mandate of OCIT and, as relevant, revise the missions and mandates other government departments and align these with the new investment policy;
3. Continue to address and remove the constraints to business in the RMI;
4. Implement 3 year targeted development strategies for the projected private sector drivers of growth, namely tourism, fisheries, and MSMEs; and
5. Continue to market the Marshall Islands for all commerce, investment and tourism and continue to appraise proposed investments.

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<sup>19</sup> Food and Agriculture Organisation of the United Nations (2005) Fishery Policy in the Marshall Islands. Rome Also see: Gillett, Preston and Associates Inc. (2015) A Forward-Looking Study of Development Opportunities in FFA Member Countries in the Tuna Industry. Suva and FFA and SPC (Undated). Future of Fisheries A Regional Roadmap for Sustainable Pacific Fisheries. Honiara and Noumea.

<sup>20</sup> Republic of the Marshall Islands (2014) National Strategic Plan 2015-2017. Majuro.

<sup>21</sup> Republic of the Marshall Islands National Investment Policy Statement 2004/2005.

## Outputs 1 and 2

- ***New investment policy approved by end FY 19 and new OCIT legislation by FY 19 and other relevant legislation aligned by end FY 21***



Source: <https://nation.com.pk/16-Feb-2013/five-year-investment-policy-finalised>

The revision of the RMI Investment Policy will position OCIT as an investment promotion and facilitation agency and not an investment agency per se. It will remove references to the direct engagement of government in private sector activities, including the direct investment of public funds in businesses. This revision will incorporate best international practices for Investment Promotion Agencies, and proven best international policy in support of the provision of investment concessions or incentives. The revised policy will prioritize private sector led growth, endorse ongoing efforts to improve the business environment and declare the government's format for appraisal of investments in the public interest.

As a direct consequence of output 1, it will therefore be necessary to review the missions and mandates and legislation of both OCIT and other government agencies that serve the private sector. The latter should be undertaken together with the other agencies (Appendix 2). While output 1 can commence almost immediately, output 2 will likely require careful revision over the entire Plan period.

## Outputs 3

- ***Complete the Harmonized System by end FY 19***
- ***Finalize Customs Software Project by end FY 19***
- ***RMI land-leasing system identified by end FY 21***



Output 3, to continue to address and remove the constraints to business in the RMI, is one of the greatest development challenges confronting the nation; that is, alongside the issues of improved public sector performance and improved governance.

The OCIT task force that has been addressing constraints to business will continue to meet on a regular basis to continue its work throughout the new business plan period.

The recent inclusion of representation from the business community has strengthened the task force and the Chief Secretary or his representative will also chair the task force in future. The domestic private sector has reviewed the listed constraints and prioritized them (Appendix 3). This prioritization will be adjusted to include: (i) the particular needs of new FDI that are likely to be access to land and labor and concerns over the uncertain policy environment;<sup>22</sup> and (ii) the ease of constraint alleviation. It may be easier to achieve some positive momentum by focusing initially on the alleviation of one or two lesser constraints. The task force will agree and subsequently revise the final work programs for 2019 to 2021 and well beyond.

The need to strengthen public-private sector dialogue is one of the listed constraints to business. The Chambers of Commerce need to be more fully representative of all business interests in the country so

<sup>22</sup> As the government has already noted the existing Kwajalein land leasing arrangement might be replicable elsewhere in the RMI and allow for contingent land leasing of outer island parcels of land to enable investment, for example in tourism. This will be subject to specialist technical review and advice. Better management of the difficult thin labor market of the RMI will also be the subject of specialist technical review and advice.

that they may justly voice the concerns of the private sector. The task force will continue to work with the private sector to find ways to strengthen this representation.<sup>23</sup>

## Outputs 4

- **New RMI conference and other tourism packages operational by end FY 19**
- **Commercial Tuna industry socio-economic appraisal by end FY 19**
- **Twenty new MSMEs assisted each year with formation and funding**
- **Re-establish partnership with Guam SBDC by end FY 19**

As the primary, private sector drivers of economic growth, fisheries, tourism and MSMEs have been selected for special attention during the Plan period. This does not mean that other areas of investment will be ignored. However, in drafting this plan OCIT has worked with relevant stakeholders in each of these sectors to prepare a more targeted, prioritized strategy for their development over the next 3 years that better conforms with each industry’s status and with existing capacities to manage further development.



**In the case of tourism**, 3 specific products and markets have been identified for priority government support over the next 3 years. These are: (i) further development of the existing Majuro conference industry which is the current, main source of tourism; (ii) to protect, and where possible replicate and otherwise expand outer island dive tourism; and (iii) to trial outer island “picnic flights”. The tourism products and markets have been well proven for the first two businesses and, with additional private investment and government support, can be readily expanded, and further

promoted and marketed in the interest of adding more value to the economy.<sup>24</sup> The third area of business, the exploratory “picnic flights” are about to be launched by government and are viewed as a further entry point to open the great potential of the outer islands to tourism. This reorientation of government support for tourism can commence immediately.



Again, this prior, targeted focus does not preclude government support to other tourism investments should they arise. If a serious foreign



investor can bring both resort development and air access to the RMI then the proposal should receive serious attention. The government will also continue its efforts to establish new air service agreements and to resolve the

need for private investors to access land for resort developments, possibly through contingent land leasing<sup>21</sup>.

<sup>23</sup> The Vanuatu Chambers of Commerce are part funded by business license fees. This compels membership and provides for a permanent secretariat that is independent of government and that is paid to represent the interests of business: <http://www.vcci.com.vu>. The Palau Chamber of Commerce has a close association with government with the President of the Chamber and Minister of Finance co-chairing an Economic Advisory Group and co-managing annual conferences on development progress.

<sup>24</sup> The effective development of outer island tourism, whether dive, surfing or whatever form of other tourism, will most likely, at least initially, require a full FDI package of private investment that incorporates product (accommodation), and access (air), and market and all associated services.

**In the case of fisheries**, private enterprise is increasingly taking advantage of the commercial opportunities of tuna fishing, transshipment, processing and fleet servicing. While the sector does not have a current fisheries management plan or strategy, MIMRA has been actively testing areas of commercial development in the form of joint ventures and gathering information on the operations of foreign fleets. MIMRA now has much proprietary, in-house knowledge of the technical parameters and financial costs and benefits for further commercial investment. For the sake of the future of the country this knowledge and these parameters need to be assessed in RMI socio-economic terms.



A financial and socio-economic cost, benefit analysis of the potential contribution of the Marshall Islands commercial tuna industry is timely. The government is already committed to operationalizing the Competent Authority that will secure tuna product access to the EU. A detailed socio-economic cost, benefit analysis of the industry now would help the central government determine what private enterprise to promote and what public investment (such as infrastructure, utilities, skills training, health and other facilities), legislation and regulation can best complement the industry's further development. The

socio-economic appraisal should commence as soon as the detailed terms of reference are finalized and an independent fisheries economist can be hired to help with the work.

**In the case of MSMEs**, MSMEs are and will remain a mainstay of the private sector. Continuing the promotion of MSMEs will help the community further experience private enterprise. OCIT intends to re-establish a partnership with the Guam Small Business Development Center (SBDC). Meanwhile, targeted assistance will focus on business formation, initial financing and cash flow management within the social pressures of small island communities. OCIT does not presently have the manpower and other resources to provide comprehensive business training.



## Outputs 5

- **RMI Promotion Package under implementation by end FY 19**
- **Traffic Light Investment Appraisal operational by FY 19**

The RMI remains largely unknown to the rest of the world and FDI largely remains unknown to the RMI. A



priority for OCIT is to continue to market the Marshall Islands for potential commerce, investment and tourism, most especially in the targeted areas of growth (Output 4, fisheries, tourism and MSMEs), and to continue to appraise proposed investments, including undertaking essential due diligence.

Outside of a few priority assessments (e.g. commercial tuna fisheries development) the government cannot be expected to assess FDI through detailed cost, benefit analysis (CBA). Almost no PIC government does this.

None have the capacity to regularly provide such assessments. However, some assessment of the potential impact of all proposed investments on the economy, society, environment and current development priorities of the country needs to be made to help Cabinet take informed decisions. A simple, more appropriate, “traffic light” method of CBA is appended (Appendix 4).

### Other demands

There are other areas of work that OCIT should not be doing. These include ad hoc product specific research, extension and development, and market analysis for investments such as in hydroponics, fish canning, developing virgin coconut oil, examining the feasibility of a crafts market and the search for other investable projects. This work should be left to the private sector with the support of the relevant technical ministry.



As with all government departments, OCIT will have to time manage the demands of other governments and bureaucracies together with the priorities of the RMI in implementing this business plan. The former includes the demands of donors, regional organizations and other entities that call for OCIT attention to and attendance at their commerce, investment, tourism, and trade events.

### Required Organizational and Institutional Change

Implementing the new Plan will require some organizational change. This will include the following:

1. A private sector organization(s) is/are created that is representative of all the private business interests of the RMI.
2. All government departments support private sector led growth.
3. All SOEs allow private sector competition. This currently most especially applies to AMI, NTA, the Shipping Corporation and Tobolar.
4. Government regulatory capacity is developed to promote competition and prevent private monopolies being created.
5. The Competent Authority is moved to MIMRA.
6. MIVA is closed and all equipment and materials are moved to OCIT.



## OCIT WORK PROGRAMS, IMPLEMENTING ACTIONS AND BUDGET FOR 2019 to 2021

### Output 1: New Investment Policy Approved by end of FY19

Implementing Actions

1. Review relevance of current investment policy.
2. Address investment policy goal and objectives, issues and options.
3. Summarize RMI experience.
4. Review and summarize best international practices w.r.t. the operations of Investment Promotion Agencies.
5. Review and summarize best international practice w.r.t. investment incentives.
6. Recommend best policy and practices.
7. Compile risks and assumptions associated with best policy and practices.
8. Assess policy impact in terms of anticipated benefits and costs.
9. List roles and responsibilities w.r.t. implementing the new policy.
10. Draft and submit new investment policy paper for approval of management, Board and Cabinet.
11. Submit policy for public dissemination once approved.

Responsibility for Activities/Coordination

1. OCIT

**Overarching Development Plans**

SDG 8.3.

Agenda 2020 Major Challenge 1 & 2, Priority Action 1b)

Relevant NSP Themes and Sectors:

- Empowering people and communities to reduce the incidence of access related poverty
- Ensuring broad-based growth and food security
- Ensuring outer islands populations receive access to all necessary services
- Building a sound infrastructure
- Sustainable Economic Development
- Infrastructure Development
- Good governance

### Output 2: New OCIT Legislation by end FY 19 and Other Relevant Legislation by end FY 21

Implementing Actions

1. Review relevance of current OCIT legislation to new investment policy and otherwise to new OCIT business plan.
2. Review relevance of all other government legislation as it pertains to the new investment policy and to the new OCIT business plan.
3. OCIT and relevant government departments to produce recommended edits to all relevant legislation.
4. Suggested edits to be submitted as relevant to heads of other government departments for their review and approval.
5. Legal drafts person hired to draft revised, new legislation and submit to AG's Office for review and approval.
6. Draft and submit new legislation for approval of management, Board, Cabinet and the Nitijela.
7. Submit legislation for public dissemination once approved.

Responsibility for Activities/Coordination

1. OCIT
2. Other government agencies
3. Legal drafts person

Overarching Development Plans

SDG 8.3.

Agenda 2020 Major Challenge 1 & 2, Priority Action 1b)

Relevant NSP Themes and Sectors:

- Empowering people and communities to reduce the incidence of access related poverty
- Ensuring broad-based growth and food security
- Ensuring outer islands populations receive access to all necessary services
- Building a sound infrastructure
- Sustainable Economic Development
- Infrastructure Development
- Good governance

<b>Outputs 3: Complete the Harmonized System by end FY 19 Finalize Customs Software Project by end FY 19 RMI Land-Leasing System Identified by end FY 21</b>	
<p><u>Implementing Actions</u></p> <ol style="list-style-type: none"> <li>1. Regular, monthly meetings of the government-business task force to ease constraints to business.</li> <li>2. Maintain minutes of task force meetings.</li> <li>3. Task force to work through priority constraints as predetermined by March 2018 private sector survey and as adjusted for needs of FDI and ease of constraint removal.</li> <li>4. Task force to co-opt other members as required by each constraint.</li> <li>5. Task force to report on quarterly and annual basis on progress in easing constraints to business.</li> <li>6. Annual government-private sector public conference to be held to review progress with easing constraints to business and to reset priorities for next 12 months. Full report to be prepared and published.</li> <li>7. Task force to hire specialist consultants if required to advise on particular constraints e.g. land leasing and labor market management.</li> <li>8. Draft terms of reference for specialist consultancies in land leasing and labor market administration and management, commission and report on each consultancy.</li> </ol>	<p><u>Responsibility for Activities/Coordination</u></p> <ol style="list-style-type: none"> <li>1. OCIT</li> <li>2. All relevant government offices</li> <li>3. Chief Secretary</li> <li>4. A representative Majuro Chamber of Commerce</li> <li>5. Possible consultancy in land leasing</li> <li>6. Possible consultancy in labor market administration and management</li> <li>7. Other possible consultancies</li> </ol> <p><u>Overarching Development Plans</u> SDG 8.3. Agenda 2020 Major Challenge 1 &amp; 2, Priority Action 1a) Relevant NSP Themes and Sectors: Empowering people and communities to reduce the incidence of access related poverty Ensuring broad-based growth and food security Ensuring outer islands populations receive access to all necessary services Building a sound infrastructure Sustainable Economic Development Infrastructure Development Good governance</p>

<b>Output 4.1: Three New RMI Tourism Packages (Conference Tourism, Picnic Tourism and Dive tourism) to be all operational by end FY 19 and continue through FY 21 (**2 destinations for picnic flight)</b>	
<p><u>Implementing Actions</u></p> <ol style="list-style-type: none"> <li>1. Three new specialist tourism promotion packages to be designed/ redesigned in association with relevant private operators.</li> <li>2. Design layout, printing and distribution at all airports and hotels.</li> <li>3. Compile list of major aid, faith-based, CROP and other regional conference organizing markets (e.g. EWC, PACER, PICTA, PIFS, SPC, SPREP, SPTO, PATA and PALM (<a href="http://www.mofa.go.jp/region/asia-paci/palm/index.html">http://www.mofa.go.jp/region/asia-paci/palm/index.html</a>)). See the chapter on regional organizations in Ron Crocombe's book "The South Pacific."</li> <li>4. Determine priority source conference markets and draft annual promotion campaign.</li> <li>5. Promotional visits to and report on priority conference markets.</li> <li>6. Determine priority dive tourism markets and international dive promotion meetings and finance promotional attendance by private RMI operators. Private operators to evaluate and report on each promotional exercise.</li> <li>7. Operationalize Outer Island "picnic tours" and closely monitor all bookings, prepare for survey, survey, and report on first year experiences, including a cost, benefit ratio assessment of the exercise and recommendation of best option(s) for further, private sector development.</li> </ol>	<p><u>Responsibility for Activities/Coordination</u></p> <ol style="list-style-type: none"> <li>1. OCIT</li> <li>2. MIR, RRE and other hotels</li> <li>3. Majuro airport</li> <li>4. Bikini dive operator.</li> <li>5. Other dive operators.</li> <li>6. AMI and outer island councils</li> </ol> <p><u>Overarching Development Plans</u> SDG 8.2, 8.9. Agenda 2020 Major Challenge 1 &amp; 2, Priority Action 1n) Relevant NSP Themes and Sectors: Empowering people and communities to reduce the incidence of access related poverty Ensuring broad-based growth and food security Ensuring outer islands populations receive access to all necessary services Building a sound infrastructure Sustainable Economic Development Infrastructure Development Good governance</p>

**Output 4.2: Commercial Tuna Industry Socio-Economic Appraisal by end FY 19**

<p><u>Implementing Actions</u></p> <ol style="list-style-type: none"> <li>1. Draft terms of reference for fisheries economist to work with OCIT and MIMRA to survey Majuro commercial tuna financial and socio-economic costs and benefits and compile and report on assessments of financial and economic internal rates of return. The study will assess RMI's competitiveness and comparative advantage in each business area and include a value chain analysis, and prioritization of best government policy, public investments, and rules and regulations to support the growth of the industry to greatest net benefit of the economy and society of the RMI; that is, a public strategic investment plan.</li> <li>2. OCIT and MIMRA staff to work closely with fisheries economist and to present summary of detailed findings and planned investment to OCIT and MIMRA staff and management, boards, to meeting of all secretaries and to Cabinet.</li> <li>3. OCIT, MIMRA and consultant fisheries economist to compile commercial tuna investment plan of implementation and monitoring framework. Report to be made public.</li> <li>4. OCIT and MIMRA monitor implementation of the strategic investment plan and reassess as needed.</li> </ol>	<p><u>Responsibility for Activities/Coordination</u></p> <ol style="list-style-type: none"> <li>1. OCIT</li> <li>2. MIMRA</li> <li>3. Consultant fisheries economist</li> <li>4. Private tuna industry operators</li> </ol> <p><u>Overarching Development Plans</u> SDG 8.2. Agenda 2020 Major Challenge 1 &amp; 2, Priority Action 1e, 1n) Relevant NSP Themes and Sectors: Empowering people and communities to reduce the incidence of access related poverty Ensuring broad-based growth and food security Ensuring outer islands populations receive access to all necessary services Building a sound infrastructure Sustainable Economic Development Infrastructure Development Good governance</p>
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**Output 4.3: Twenty New MSMEs Established Each Year With Formation, Funding and Cash Flow Guidance**

<p><u>Implementing Actions</u></p> <ol style="list-style-type: none"> <li>1. MSMEs provided with guidance on formal company formation including registration, licensing, and all legal requirements.</li> <li>2. MSMEs assisted with financial applications.</li> <li>3. MSMEs advised on simple cash flow management, including means to manage all customers, customary, family, shareholders, and other stakeholder demands.</li> <li>4. Ongoing discussions with Guam SBDC to re-establish earlier working relationship.</li> </ol> <p><u>Responsibility for Activities/Coordination</u></p> <ol style="list-style-type: none"> <li>1. OCIT</li> <li>2. Guam SBDC</li> </ol>	<p><u>Overarching Development Plans</u> SDG 8.3. Agenda 2020 Major Challenge 1 &amp; 2, Priority Action 1h, 1i &amp; 1n) Relevant NSP Themes and Sectors: Empowering people and communities to reduce the incidence of access related poverty Ensuring broad-based growth and food security Ensuring outer islands populations receive access to all necessary services Building a sound infrastructure Sustainable Economic Development Infrastructure Development Good governance</p>
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**Output 5: RMI Promotion Package Under Implementation by end FY 19 and continue through FY 21  
Traffic Light Investment Appraisal operational by FY 19**

<p><u>Implementing Actions</u></p> <ol style="list-style-type: none"> <li>1. Work with the Chief Secretary's Office, the current Chamber of Commerce and other private sector organizations to design a "Representative RMI Council or Chamber(s) of Commerce" and assist in its implementation.</li> <li>2. Work with the new "Representative" RMI private sector organization to draft broad RMI commerce, trade, investment and tourism promotion material.</li> <li>3. Draft, design layout, printing and distribution of RMI promotional material (OIOP &amp; BMBM)</li> <li>4. Update RMI promotional material as required.</li> <li>5. Consult with the Chief Secretary's Office and EPPSO to finalize, test and implement the "traffic lights" appraisal of proposed investments set against development priorities.</li> <li>6. Update "traffic light" development priorities as required.</li> <li>7. Continue proposed investment due diligence</li> </ol>	<p><u>Responsibility for Activities/Coordination</u></p> <ol style="list-style-type: none"> <li>1. OCIT (CEO, Tourism Manager, IPBD Manager)</li> <li>2. Chief Secretary's Office</li> <li>3. Chamber(s) of Commerce</li> <li>4. EPPSO</li> </ol> <p><u>Overarching Development Plans</u> SDG 8.3, 8.4, 8.5, 8.9. Agenda 2020 Major Challenge 1 &amp; 2, Priority Action 1n) Relevant NSP Themes and Sectors: Empowering people and communities to reduce the incidence of access related poverty Ensuring broad-based growth and food security Ensuring outer islands populations receive access to all necessary services Building a sound infrastructure Sustainable Economic Development Infrastructure Development Good governance</p>
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## Monitoring and Evaluation Framework

	Performance targets/ indicators	Data sources/ reporting mechanisms	Assumptions/ Risks
<b>Vision</b> Contribute to self-reliance through helping private sector growth (SDG 8.1; Agenda 2020 Major Challenge #1)	Sustain % private sector contribution to GDP (29.4% in FY 2014-FY 2016)	US/RMI annual economic review	*****
<b>Goal</b> Stimulate private sector economic activity that will increase employment, sustainable FDIs, boost the local economy and especially enhance tourism, fisheries and MSMEs (SDG 8.2, 8.3, 8.5, 8.6, 8.9)	Maintain private sector investment and contribution to employment, exports, and public revenue, and maintain visitor numbers at 2018 levels	US/RMI annual economic review	Elected government continues to commit to private sector development  No natural or other disasters
<b>Objectives</b> New investment policy established (SDG 8.3) Revised OCIT and other relevant legislation (SDG 8.3) Gradual easing of business environment (SDG 8.3) Implementing targeted tourism, fisheries & MSME strategies (SDG 8.2, 8.9) Facilitated private investment Marketed RMI	Investment policy approved by end FY 19 All new legislation by end FY 20 RMI land-leasing system identified by end FY 20 Complete the Harmonized System by end FY 19 Finalize Customs Software Project by end FY 19 New RMI conference and other tourism packages operational by end FY 19 Tuna industry socio-economic appraisal by end FY 19 20 new MSME s established each year RMI Promotion Package under implementation by end FY 19	OCIT quarterly & annual reports  Annual budget World Bank Ease of Doing Business annual report  Annual ADB CPA  New acts gazetted	Labor market supplies required skilled labor  Communities support land leasing by business
<b>Implementation Actions: 2018 to 2020 work programs:</b> 1) Drafting of investment policy 2) Redrafting OCIT & other relevant legislation 3) Continued task force to ease business environment and facilitate investment 4) Targeted tourism, fisheries & MSME development strategies 5) New program to market RMI 6) New investment appraisal	Investment policy submitted for Board approval by end May 18 New OCIT legislation drafted by end FY 19 Easing business task force meeting twice per month Targeted fisheries, tourism & MSME strategies operational by end FY 19 RMI marketing material ready by end FY 19 Traffic Light Investment Appraisal operational by May 18	OCIT quarterly & annual reports  Annual budget	All other government departments help improve business environment, cease support for direct government investment in business & help revise legislation  Chamber(s) of Commerce fully representative & have permanent secretariat

## Appendices

Appendix 1 Constraints to Business

Appendix 2 Government Responsibilities for Helping Private Sector Growth

Appendix 3 Private Sector Prioritized Constraints to Business

Appendix 4 Investment Appraisal

## Appendix 1

### Constraints to Business

The following is a compendium of the major constraints to private sector development in the Marshall Islands as they have been summarized in the RMI Public-Private Dialogue and by the private sector assessments of the ADB, IMF, Pacific Private Sector Development Initiative (PSDI), and the World Bank.<sup>25</sup>

<b>Issue and Detail</b>
<p><b>1) Remoteness and small markets</b> RMI is “Sea locked” with comparatively greater costs of production, limited access to world markets, and a lack of economies of scale.<sup>26</sup></p>
<p><b>2) A stagnant macroeconomy</b> There is nothing like ongoing economic growth to stimulate more investment and growth. However, there has been no sustained growth in the RMI since independence in 1986.</p>
<p><b>3) Low rate of return on capital</b> The private sector is a net exporter of capital indicating comparatively low returns on domestic investment.</p>
<p><b>4) A costly business environment/ weak business climate</b> The RMI was ranked 149 out of 190 economies for doing business in 2018 by the World Bank.<sup>27</sup> It ranks comparatively poorly on registering property (187), protecting minority interests (177), resolving insolvency (167) and getting electricity (126). A number of factors combine to raise the costs of doing business in the Marshall Islands, including utility costs, poor infrastructure, the high costs of communications and high import duties. Most of these costs arise from the pervasive influence of the state in the economy and together they greatly exacerbate the impact of the small size and the remoteness of RMI. The existing business law and regulatory framework continues to have many deficiencies, which add to the cost of starting, operating, and closing businesses. Business registration and the foreign investment regime are both cumbersome processes, and there is a lack of efficient procedures for winding down or closing a business. In addition, many aspects of RMI’s business environment limit the benefits of formalization. Local governments impose business licenses to raise revenue rather than achieve a legitimate regulatory purpose.</p>
<p><b>5) Economic power is concentrated in services and distribution sectors</b> The small size of the economy has led to a concentration of economic power in the services and distribution sectors, which has decreased competition and increased costs. Lack of competition is exacerbated by the fact that in a small economy like RMI, many prominent businessmen and politicians often wear both private and public “hats” moving between the private and public sectors, so that there is a blurring of roles along with potential significant conflicts of interest. Although the influx of entrepreneurs from Asia is having a positive effect by increasing competition, it has resulted in increased societal tensions as well as accusations of tax and regulation avoidance.<sup>[SEP]</sup> The private sector share of the economy has grown in recent years driven by tuna fisheries but the benefits of this growth have been concentrated. The government is establishing a Competent Authority to boost fisheries exports to Europe.</p>
<p><b>6) Undeveloped financial markets, including undeveloped land market</b> A framework to enable secured lending against moveable property was established in 2007. The institutional foundation of financial markets in RMI is otherwise very underdeveloped.<sup>28</sup> Property rights in land are uncertain because of communal ownership. The result is that much lending for business support occurs only to those who have substantial assets. The Land Registration Authority, established in 2004, has not achieved its objective of encouraging greater clarity and security of property rights in land. The continued lack of clear title creates uncertainty for investors and impedes lending. As a result, native-born Marshallese are disadvantaged, since they cannot mobilize their wealth (i.e., land) to finance business ventures. The government is exploring the possibility of acting as an intermediary between investors and landowners focusing on resort development. Other important financial market issues include possible regulatory concerns with the largest commercial bank on the island and the poor state of the development bank.</p>

<sup>25</sup> Most of these issues were covered by the ADB and PSDI private sector assessments: The Enterprise Research Institute (2003) Republic of the Marshall Islands – A Private Sector Assessment Promoting Growth Through Reform; ADB (unpublished) The Marshall Islands A Private Sector Assessment Manila.

<sup>26</sup> See IMF Article IV 2013 and World Bank (2009) Pacific Islands Development in 3D. Key Findings and Policy Advice from World Development Report 2009. Reshaping Economic Geography. Washington DC

<sup>27</sup> The World Bank. (2018). Doing Business 2018 Reforming to Create Jobs Economy Profile Marshall Islands. Washington DC

<sup>28</sup> See also IMF (2013) IMF Article IV, 2013. Washington DC

RMI's financial market remains underdeveloped and is dis-intermediating because a substantial portion of deposits currently held by domestic banks continues to flow offshore, and much of what is lent within RMI goes to consumers rather than businesses.

The Marshall Islands Development Bank has a commercial lending mandate but, since 2004, has been unable to play this role. It recently announced plans to reenter this market, but its limited capacity and experience in this area makes this a risky undertaking.

The Bank of Marshall Islands (BOMI) has the country's largest banking network, but uncertainty around its ability to access the United States' banking system has the potential to reduce competition in RMI's already small banking sector and threatens to make transactions involving foreign payments more difficult. Regulation of the sector also needs to improve. All financial service providers should be brought under prudential regulation, and weaknesses in anti-money laundering and combatting the financing of terrorism legal framework need to be addressed.

#### **7) A difficult labor market**

Skilled workers capable of enhancing productivity are important for the long-term development of RMI's economy. However, the pool of capable workers is limited, skilled and capable Marshallese are increasingly migrating, and recruiting skilled foreign workers is time-consuming and expensive.

#### **8) Limited business – government consultation**

An atmosphere of mistrust persists between government officials and the business community. Good communication is essential for building a common understanding of each other's respective roles and creating a sense of local ownership that makes policies more likely to succeed in practice.

In the longer term, this situation will harm economic development.

A forum for regular consultation is required to promote the development of a common vision for private sector development, and ultimately the growth and prosperity of the RMI.

#### **9) SOE dominance in some sectors crowding out the private sector**

There is extensive state ownership of enterprises. Most of them are running at a loss. Even those that are earning positive cash flows cannot generate sufficient earnings to finance capital expenditures.

The State continues to employ a substantial proportion of the workforce. Public sector wages are higher than those in the private sector and are unrelated to productivity.

SOEs absorb large amounts of capital, have low productivity, tend to provide poor quality services, and crowd out private business activity. As a result, they are a drain on the government's limited resources and undermine private investment.

The passage of the new SOE legislation in 2015 sets the stage for addressing the situation but has not been fully implemented. Political will is needed to ensure it is effectively implemented. Of concern are recent steps that weaken the SOE framework and moves to pursue government ownership in new commercial ventures.

Current ADB SOE reform project including Community Service Obligation costing exercise and possible future Request For Proposals to service the community.

#### **10) Outdated commercial code including weak insolvency framework/ bankruptcy**

The commercial laws underlying private sector transactions in RMI are outdated and unsuited to modern business practices. Many of them date from the 1960s and 1970s and are based on US commercial codes from the 1950s. A particular problem is that there is no bankruptcy code. There is a provision by which companies can elect to close themselves down, but there is no law through which creditors can apply to the court for liquidation and sale of assets of companies that are unable to pay their debts.

A further problem is the haphazard codification of laws governing business transactions. It is extremely difficult to obtain information on the laws that have actually been passed and combing Parliamentary minutes to obtain information, as difficult as it is, is frequently the only way to obtain information on rules that apply to particular commercial transaction. Similarly, obtaining information on precedent from legal rulings is difficult and costly, which contributes to the high costs of doing business in the Marshall Islands.

#### **11) Weak public governance and fiscal policy**

Government processes, communications and work ethics should improve.

Improved court efficiency in resolving some commercial disputes is helping business transactions.

CAP, TRAM and other fiscal reform efforts need revisiting

#### **12) Uncertain policy environment**

The multidimensional nature of private sector development requires effective policy coordination across many government institutions. Currently, no agency within the government has specific responsibility for this role or for ensuring the implementation of a coherent and supportive policy framework for private investment.

## Appendix 2

### Government Responsibilities for Helping Private Sector Growth

Office of Government	Support to the Private Sector
Attorney General	Designs and oversees all trade, commerce and investment law including company law, bankruptcy law. Oversees the enforcement of contracts. Corporate business registration.
Chief Secretary and EPPSO	Sets policy for economic development including trade, investment, SOEs, and private sector development policy.
Ministry of Finance, Banking and Postal Service	Sets fiscal including taxation policy; monetary and financial sector, including credit policy; other public revenue policy such as setting of fees, licenses. Allocates funding for public infrastructure investment and maintenance
Ministry of Foreign Affairs and Trade	Sets trade policy.
Municipal Government (MIMA)	Sets and implements local taxation.
Banking Commission	Helps set banking policy and oversee bank operations, including the setting of interest rates and issuing of credit
FIBL, MalGov and MISSA	Administer business and investment licenses, rules and regulations
Ministry of Natural Resources and Commerce and MIMRA	Provides professional and technical advice for fisheries and other resource development.
Ministry of Works, Infrastructure and Utilities	Constructs and manages public infrastructure. Sets policy for utilities. Issues construction permits
Ministry of Transportation, Communication and Information Technology	Sets policy and oversees management of government owned and run air and sea transportation and telecommunications
NTA	Helps set policy and delivers telecommunication services
MEC	Sets policy, manages and delivers energy supplies
MWSC	Sets policy, manages and delivers water supplies and sewer services
LRA	Registering of property, including the Secured Transactions Framework
Ministry of Justice, Immigration and Labor	Sets policy to enforce laws, including the enforcement of contracts. Sets labor market, including immigration policy
Ministry of Education, Sports and Training (NTC & National Scholarship Office)	Supplying the right skills and other attributes for the private sector labour force.
Ministry in Assistance and Environment and EPA	Conforming will all environmental protection legislation, rules and regulations Land construction permits



## Appendix 3

### Private Sector Prioritized Constraints to Business

Priority	Constraints
1	Government services are inefficient/ government processes; communications and work ethics should improve.
2	Lack of secure land tenure and clear land title/ problems registering land/ need to restore the LRA
3	Unfair competition where competitors avoid tax and regulations
4	Poor and high cost Internet and other telecommunications
5	A difficult labor market/ public sector wages high and unrelated to productivity/ lack of skilled Marshallese/ impediments to recruiting foreign labor
6	Undeveloped financial markets/ MIDB problems/ insufficient banking regulations/ need to implement anti-money laundering measures (e.g. difficulty in accessing loans and high interest rates)
6	Outdated commercial laws underlying private sector transactions/ haphazard codification of laws and difficulty securing legal precedent governing business transactions
8	Need better communication between business and government/ Majuro Chamber of Commerce is not representative
9	Unreliable and, or costly air and sea transport
10	Cumbersome business registration and foreign investment approval
11	Excessive engagement of government/ SOEs in business, crowding out business
12	Government policy on commerce, trade and investment is unclear/ inconsistent/ poorly coordinated
13	High/ regressive/ inefficient taxation and import tariffs
14	Electricity, water and sewer connections unreliable and, or expensive
15	Local government business licensing is slow and expensive with the license fee for exporting higher than that for importing
16	Poor infrastructure
17	Lack of enforcement of contracts and protection of minority interests
18	Difficulty in resolving insolvency/ bankruptcy and closing down business/ no bankruptcy code

## Appendix 4

### Investment Appraisal

#	Development priority	Score
<b>1</b>	<b>How likely is the investment to be profitable?</b>	
	Investment has already proven to be profitable in another country	
	Profitability projected but as a new investment this is therefore uncertain	
	Profitability not assessed	
<b>2</b>	<b>Will the investment stimulate additional commerce, trade and investment within the RMI?</b>	
	Yes, it will stimulate additional local business	
	Impact on local business is uncertain	
	It will make no difference to existing local business activity	
<b>3</b>	<b>Will the investment help add to public revenue?</b>	
	The investment is projected to add annually to future public revenue	
	Impact on future public revenues is uncertain or minimal	
	The investment will not lead to any future increase in public revenue	
<b>4</b>	<b>Is the investment planned to take place in the outer islands?</b>	
	The investment will take place in one or more of the outer islands	
	The investment is planned for Majuro and, or Kwajalein	
<b>5</b>	<b>Will the investment employ Marshallese?</b>	
	The investment will employ "many" (more than 50) Marshallese	
	The employment of Marshallese is uncertain	
	No employment of Marshallese is envisaged	
<b>6</b>	<b>Will the investment help ease hardship?</b>	
	It is expected to directly employ or otherwise benefit people in hardship	
	Expected to provide marginal benefit to people in hardship	
	Not expected to benefit people in hardship	
<b>7</b>	<b>How will the investment impact the environment?</b>	
	No impact on the environment is envisaged	
	Likely negligible impact on the environment	
	Likely to have some negative impact on the environment	
<b>8</b>	<b>How will the investment impact the Marshallese culture, identity and society?</b>	
	No negative impact on Marshallese culture, identity, society expected	
	Impact is uncertain	
	Likely to have negative impact that will have to be corrected	