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**Statement by Mr. Bevilaqua, Mr. Saraiva, and Ms. Mahabir on Republic of the Marshall Islands
(Preliminary)
Executive Board Meeting
May 21, 2021**

We thank staff for a comprehensive review of the situation in the Marshall Islands and Mr. Huh and Mr. Yoo for their informative statement. Like many developing countries, the Marshall Islands have been negatively affected by Covid-19, and growth is not forecasted to return to positive figures until 2022 or later. The measures undertaken by the government resulted in an isolation of the country from the Covid-19 infections. However, these actions have exacerbated some of the issues the country has been struggling with for several years.

The Marshall Islands continue to be heavily dependent on grant funding for the running of the country. While we commend the efforts to diversify its economy, they seem to have met with limited success. It would suggest that perhaps some innovative niche marketing for its products and services needs to be identified. One potential source of revenue, albeit not of diversification, could be to market itself as a high-valued, Covid-19-free tourism destination or perhaps use its history as a US base to attract history-minded visitors. Finalization of the future funding from the United States can allow the country to better plan for its economic recovery.

Corresponding banking relationships (CBRs) have not improved, with the country still only having one facility available. This is particularly concerning as there has been a decline in CBRs across the Asian Pacific countries. We encourage staff to share information with the authorities on how other countries facing the same issue have found a solution to the loss of CBRs. The country has received assistance to improve its Anti Money Laundering /Counter Terrorism Financing (AML/CFT) framework, and other areas identified in Mr. Huh and Mr. Yoo's statement. However, there remains scope for improvement. The authorities should work towards more effective oversight of the offshore sector and the creation of transparent and accessible beneficiary ownership registry. While the country is looking at fintech as a possible solution, we agree with staff that the implementation of this agenda

needs to be carefully considered to avoid giving the impression of attempting to bypass AML/CFT regulations.

The Marshall Islands was one of the first countries to change their legislation to allow for the use of digital currency. The Sovereign (SOV) which would be the country's second legal tender, after the US dollar, is aimed at reducing the reliance on US currency and allowing for greater monetary control. Given the number of islands that comprise the Republic, there are benefits that could come from the use of a digital currency. We agree with staff that the country must be sure that the benefits outweigh the costs, the technical assistance requested by the authorities would help answer this question. The authorities may wish to investigate if some of the newer technologies such as the instant payment rail could achieve the desired objectives. *Could staff clarify whether users of the SOV will have access to a financial services ombudsman or other consumer protection body?*

Net outward migration continues to be an issue for the country. The persistent outflow of persons to work in the United States suggests a need to develop a strategy to ensure that some percentage of remittances received are directed towards facilitating productive activity as an alternative to being used for consumption. We take positive note of a recent report indicating that during the pandemic, remittance flows remained steady. A strategy for engaging with the diaspora in the development of the country should be considered.

Climate change could have a disastrous effect on the Marshall Islands, as a 2017 study suggests flooding of some islands, reduction in freshwater availability and more intense tropical storms could occur. It is therefore very concerning that the country seems to have slowed down in its planning for adaptation. While another recent report suggests that islands built on reefs may have natural reaction to rising sea levels, the country should speed up contingency plans to deal with climate change. *Could staff indicate why national adaptation planning has fallen behind, whether it is due to Covid-19 or the lack of funding? In the report it suggests that the national plan should be completed in 2021. Does staff know if it is on track to be finished in time?*

With these remarks, we wish the Marshallese authorities well in their endeavors.