

The contents of this document are preliminary and subject to change.

GRAY/23/5948

September 14, 2023

**Statement by Mr. Just and Mr. Hagara on Republic of the Marshall Islands
(Preliminary)
Executive Board Meeting
September 18, 2023**

We thank staff for the informative report and Mr. Nicholl, Ms. Choi, and Mr. Wase for their helpful Buff statement. The Republic of Marshall Islands (RMI) is a fragile, geographically isolated country, with adverse demographic trends and highly vulnerable to climate change. Sound domestic policy efforts, supported by external aid remain key and we welcome the advancements towards the Compact agreement as indicated in the Buff statement. We broadly concur with staff's appraisal and would like to offer the following comments for emphasis.

Prudent fiscal policy is needed to ensure sustainability. While the size of fiscal policy changes depends on the finalization of the Compact agreement, the volatile fisheries and copra sectors as well as climate vulnerability add to uncertainty around the budget developments. There is scope to improve prioritization of expenditures and to expedite progress with revenue mobilization efforts. On the expenditure side, capital investment should be prioritized over subsidies channeled through the SOEs to households and strict controls on administration costs. On the income side, *we would like to ask staff for more detailed information about the current stage of the implementation of taxes on profits, excises and consumption and what are the main obstacles if any.*

Regulatory, supervisory and AML/CFT frameworks should be strengthened. We note that there is one remaining USD correspondent banking relationship (CBR) for the main domestic commercial bank. In that regard, we encourage the authorities to follow up on the AML/CFT framework evaluation by the Asia Pacific Group once it is finalized. Equally, we call on the authorities to address incidents of tax avoidance to get removed from the EU's list of non-cooperative jurisdictions for tax purposes. In addition, the authorities should proceed cautiously with their FinTech initiatives, aligned with their supervisory capacities. We encourage the authorities to consider a moratorium on further registration of Decentralized Autonomous Organizations and close the previous initiatives, including completing the SOV

repeal and removing the DEZRA bill from the parliament even though those initiatives lost momentum.

Structural reforms are needed to build climate resilience and support growth. As RMI is one of the most climate vulnerable countries, we strongly encourage the authorities to expediently finalize their National Adaptation Plan to provide guidance and monitoring of progress with climate resilience actions. At the same time, the authorities should ensure that the National Disaster Management Office has appropriate resources to deliver on its mandate. While the RMI's limited land mass is a serious constraint for growth and diversification, the complex traditional landholding system further reduces availability of land. We note that land ownership and rights are constitutional issues and changes would require consensus building. *We wonder whether the authorities plan any initiatives in that area.*