COMPACTS OF FREE ASSOCIATION

Article I of Title Two of the Compacts of Free Association describes the financial assistance commitment by the United States to the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI). The first period of financial assistance expired on September 30, 2003. Following four years of negotiations led by the Department of State with support from OIA, Congress enacted amendments to the Compact as Public Law 108-188. These amendments also include a new permanent and indefinite appropriation that ensures continuation of direct financial assistance through 2023.

The long term goal of United States' Compact financial support is to assist the freely associated states "in their efforts to advance the economic self-sufficiency of their peoples." The funding provided over the past seventeen years provided the basis for meeting the two primary political goals of the compact, to (1) secure self-government for each country by ending the four decades-old Trusteeship; and (2) ensure national security rights for the United States in the freely associated states. The two primary goals could not have been achieved without the stability compact funding gave the FSM and RMI economies.

The amended Compact provides assistance in the form of direct grants in six sectors: education, health care, infrastructure, public sector capacity building, private sector development, and environment. Joint economic management committees, comprised of high ranking officials from the U.S. and the RMI or FSM, meet no less than annually to agree on the allocation of Compact funds among the sectors and to discuss performance, accountability issues and conditions for the use of assistance. OIA serves as the administrator of the financial assistance and ensures enforcement of conditions. An office for monitoring Compact assistance has been established in Honolulu and personnel have also been located in the RMI and FSM capitals. Through a negotiated fiscal procedures agreement, accountability and control standards similar to those which apply domestically to grant agreements between the Federal Government and State and local governments have been implemented. The amended Compact also requires the United States to make contributions to trust funds for each government. The trust funds are intended to help provide a base for financial self-sufficiency following the conclusion of direct assistance in 2023.