

**STATEMENT OF THE HONORABLE FABIAN NIMEA,  
DIRECTOR, OFFICE OF STATISTICS, BUDGET & ECONOMIC  
MANAGEMENT, OVERSEAS DEVELOPMENT ASSISTANCE AND COMPACT  
MANAGEMENT (S.B.O.C.), GOVERNMENT OF THE FEDERATED STATES  
OF MICRONESIA  
BEFORE THE  
UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON NATURAL RESOURCES  
SUBCOMMITTEE ON INSULAR AFFAIRS,  
THE HONORABLE DONNA CHRISTENSEN, CHAIRWOMAN**

June 10, 2008

Madame Chairwoman, Ranking Republican Member Fortuno, Members of the Committee, ladies and gentlemen:

On behalf of President Emanuel Mori and the people of the Federated States of Micronesia (FSM), thank you for this opportunity to appear before your subcommittee to present our views on the implementation of the Compact of Free Association, as amended.

Madame Chairwoman, I ask your consent to make a brief oral statement, and submit a more comprehensive written statement for the record.

We certainly appreciated having your able counsel, Brian Modeste, as well as Richard Stanton and the Senate staff members, Alan Stayman and Josh Johnson, visit us this spring. Allow me to express the hope that you and other Members of the Committee will find an opportunity also to visit the FSM during the course of the upcoming five-year review, to see firsthand the results of the work you have been doing with us and for us.

I am pleased to open my testimony by paying tribute once again to the enduring bond between our two nations, as embodied in the Compact of Free Association, and by conveying to you the deep gratitude of the people of the Federated States of Micronesia for the role that the United States has played, and continues to play in our development.

The Compact of Free Association has been since its inception a unique expression of unity between peoples who stand in far different circumstances, but who share essential values and beliefs. In fact, the United States was our role model when we formed a

democratically-elected, constitutional government that incorporates a Bill of Rights and is composed of three separate branches, Executive, Legislative and Judicial. Thanks to the provisions of the Compact, citizens of the Freely Associated States alone among all other nations, enjoy the privilege of unlimited, visa-free entry into the United States, to reside, work and study. This privilege has been gratefully exercised by many thousands of our citizens over the years, who today can be found, making constructive contributions to the life of communities throughout the United States and its territories. Ambassador George has already alluded in his introduction, to the service of our citizens in the US Armed Forces.

So, Madame Chairwoman, it is no wonder that we place a high premium on the constant oversight of the Compact relationship by this Committee and other Committees of the United States Congress. It gives us reassurance of your continuing interest in and concern for our country's advancement. We thank you for that concern, and for this and every opportunity afforded to us to discuss with you the operation of the Compact.

In taking stock of where the Compact stands after twenty-two years, I think it is accurate to say that it continues to play a vital and successful role in achieving two of its three major goals – and it is easy to take these for granted, because they have worked so well from the very beginning, without public fanfare and acclaim.

The first of these is the maintenance of peace and security in the vast region of the former Trust Territory of the Pacific. Thanks to the unfailing mutual commitment by both our governments to the terms of Title Three of the Compact, this unique security partnership has been an unqualified success since 1986 as it undoubtedly will continue to be for the foreseeable future.

Secondly, as a complement to the first goal, the Compact seeks to support and help maintain stable democratic governments in our region. In the decades of the 1980's and 90's, few places on Earth provided a better example of emerging, democratic self-government than the Freely Associated States. Today, the Compact relationship with the United States continues to provide to the people of the FSM the inspiration and example that sustains public confidence in our governmental institutions, even in periods of difficulty.

These alone are remarkable achievements to have been attained and maintained within a relatively brief span of time, and full credit is due to the many on both sides who brought it about. I am compelled to state, though, Madame Chairwoman, that the picture is not yet complete.

As a third goal, the drafters and amenders of the Compact have always had in mind that the Compact assistance would itself jumpstart a process of steady, private-sector economic growth in the FSM leading eventually to substantial, national self-reliance. Speaking today, I wish to suggest that, that assumption was at least in some degree misplaced.

Fundamentally, in the areas of private sector growth and economic self-reliance, the Compact as currently written does not reflect a working understanding of the unique difficulties faced by remote, small island developing states such as the FSM. The reality of these special difficulties was recognized and examined in detail at a UN Conference in Barbados in 1994. In the case of the FSM, the usual problems are further compounded by its distinct differences from the other two Freely Associated States, namely that we are a federation of four culturally distinct States separated by vast distances. Failing to take into account these distinctions the Compact assigns identical obligations and responsibilities to all three of the FAS.

This is not expressed as a criticism of any party, and certainly not of the generations of dedicated US officials who have nurtured our progress. But I do hope that, as I proceed with these comments you may understand and agree that our common experiences thus far, and the current circumstances, call for some mid-course adjustments if there is to be any realistic hope of the FSM's reaching the third objective by the year 2023.

Madame Chairwoman:

It is important to mention first the specific objective embodied in Title Two of the Amended Compact, which is that by the end of the second Compact grants period, in 2023, local revenues produced by a growing FSM private sector-based economy will have risen to a level that, together with annual earnings from the FSM Trust Fund, substantially diminishes or perhaps even eliminates the need for further US grant assistance. We are now approaching the first five-year benchmark under the financial arrangements of the Amended Compact, and despite all our best efforts, it is time to speak openly and directly of the challenges we still face in moving forward under the current arrangements.

The best and most comprehensive source of information as to these challenges is to be found in the recent series of reports issued by your own Government Accountability Office. That information is fully at your disposal, so I need not go into the details, but I will say that my Government has little disagreement with the content of those reports and appreciates the considerable time, effort and expenditure that went into their preparation. We regard the GAO team, whom we have come to know well, as valuable allies in our efforts to improve performance. This is not something that we regard as unwelcome discipline. Apart from accountability for grants, it is helping us to govern better and to serve our people more effectively.

I am glad to report that we in the FSM, both at the National and State government levels, have paid close attention to the GAO reports, and have been making steady progress toward overcoming many of the challenges discussed by GAO, especially in the area of accountability and reporting. As to those, our difficulties have been grounded in the fact that, in 2003 we already had operated since 1979 as four widely-separated States, each with its own management systems. The initial Compact structure accommodated this diversity, for seventeen years. Suddenly in 2003 we were confronted with a nationwide requirement for performance-based reporting, for which no baselines existed, and for a

common, performance-based system of budgeting for sectoral Compact grants, which also did not exist. We willingly took on board these new obligations, believing that they would take us in the direction of the FSM becoming a more meaningful participant in the emerging age of Globalism.

We had come to realize that the concept of “self-sufficiency,” which had been discussed as a goal of the original Compact, probably was not only unachievable but is in fact undesirable in today’s world. We now instead embraced at the onset of the Amended Compact the very different goal of having a healthy degree of “self-reliance” within the world community and among our neighbors and friends. This means that while we continue to solicit needed goods, services and assistance, we develop our capacities to make contributions to the global society in return.

It was a highly challenging prospect for our leaders at the time, but one which we thoughtfully embraced.

A great deal of fundamental planning and technical capacity-building needed to take place quickly in order to move forward. We convened widely-representative economic conferences and ultimately agreed on a broad, long-term Strategic Development Plan. We also commissioned a detailed long-range plan for our infrastructure development.

These plans were put into place, but the question then remained, as to how quickly our capacity to implement them could be brought online including the capacity to transform and unify the diversified budgetary and accounting systems then in use throughout the nation. Our request for a transition period, in which to mobilize a coordinated compliance with the new requirements, was denied.

It is important to understand that, while legally all four FSM States and the National Government are equally bound to honor the terms of the Compact, the FSM Constitution reserves most operational powers to the States, leaving the National Government and especially its Executive Branch, in the role of a coordinator, facilitator and sometimes a persuader. That, combined with a huge geographical area to cover, with limited communication and transportation resources, has posed challenges both to the State and National governments in implementing in a unified way the best approaches to sector grants management. But we are making progress, about which I will say more in a moment.

First, though, Madam Chairwoman, I would like to recognize at this point the tremendous contribution that the US Government is making through the Interior Department’s Office of Insular Affairs, the Department of State and the Department of Health and Human Services as we all try and find our way through the thicket of daily problems with Compact grants management and implementation. During the coming year we will all need to examine the organization and function of the JEMCO to identify any means possible to increase the effectiveness of this crucial body.

The Compact management and oversight provided by the Department of Interior's Office of Insular Affairs is of course at the heart of the entire enterprise. The OIA staff possess a deep understanding of the FSM and they are scrupulously fair. We would like to recognize the long years that Nick Pula and Tom Bussanich (and many others in that office) have devoted to our common cause, and also look forward to working with the newly-appointed Deputy Assistant Secretary, Mr. Doug Domenech.

One of the greatest advances under the Amended Compact was the establishment by the Department of the Interior of its office in Honolulu dedicated solely to management of Compact affairs. We deeply appreciate the steadfast dedication of Steve Savage and his staff. This was a tremendous commitment by the US Government which, from our point of view, tells us that the US Government is a full partner in the Compact enterprise.

I must also give recognition to the current US Ambassador to the FSM, Her Excellency Miriam K. Hughes, who has not yet been with us long but has already won her place in our hearts for her caring nature and also for her deep knowledge of and experience in diplomacy. She joins an unbroken line of her predecessors who are remembered with fondness and gratitude.

Madame Chairwoman:

Regarding the progress of which I spoke earlier, I would like to focus on the program that has been put in place by President Emanuel Mori and the FSM Congress during the first year of his Presidency. This is a program that combines important restructuring of the National Government's Executive Branch with deep administrative reforms in the states of Kosrae and Chuuk.

As guiding principles of the Executive reorganization, we have streamlined the Departments' and Offices' duties and responsibilities so as to achieve greater focus. We have upgraded important portfolios such as environment, culture and education, in view of the enormous challenges we face in those areas. In light of our need to move ahead with delayed infrastructure projects on a nationwide basis we have moved the National Project Management Unit into the Office of the President where priority will be given to prompt implementation of projects in cooperation with the States. Where formerly health and education affairs were addressed within a single Department we now have two Departments in recognition of the priority accorded to both of these sectors both in the Compact and by this government.

The Office which I serve as Director has been created to combine and coordinate important functions that have always been closely related but formerly suffered by being independently administered. These include statistics, budget, overseas assistance and Compact management. At this time I am moving as fast as possible to install within our staff highly qualified economists and statisticians to give us an improved residential capability in these areas immediately and to provide training for the Micronesian staff.

Other aspects of my Government's progress toward improved Compact compliance include the recent development of performance baselines for the Health and Education sectors, a commitment to medium-term strategic planning that will facilitate linking of performance outcomes to specific development goals, and completion of the installation of the Uniform Financial Management Information System (FMIS) so that all four States and the National Government can now share and utilize accounting and budgetary data.

I should not fail to include reference to the Administration's commitment to a meaningful and rational reform of the Nation's tax system that would hopefully play a role in increasing government revenues. This is a long-sought and much-debated objective, and with the hard work of our dedicated task force, we are drawing near to the objective. While this is one of our building blocks, I would caution that it cannot be seen as a panacea without significant economic development. How can higher tax revenues be generated in a stagnant economy?

I mentioned earlier my Government's support for administrative and fiscal reforms in the States of Kosrae and Chuuk, both of whom recently faced serious financial crises. Both States have voluntarily undergone significant reforms that involved sharp reductions in the government workforce and other austerity measures to control budgets and reduce debt obligations. While Kosrae leaders are to be congratulated for their success to this point, and Chuuk also continues to make diligent effort, the National Government will continue to challenge the State leaders to maintain and accelerate the pace of their efforts.

There is one development opportunity, crucial to virtually every Compact sector, that came to President Mori's attention immediately when he took office, and to which he made reference in his recent State of the Federation Address. It is the establishment of region-wide broadband telecommunications connectivity through participation in the laying of a fiber-optic cable by the US Defense Department from Guam to Kwajalein. The idea of connecting the FAS to this cable springs from the terms of Article XII, section 2. of the Federal Programs and Services Agreement. It has been on the drawing boards for more than four years, and is now well in sight of fruition for the DOD. Funding for the FSM, Marshalls and Palau connections, however, remains undetermined.

In his visit with Senator Daniel Inouye in February, President Mori spoke of the value of this resource to the FSM and the larger FAS community. President Mori asked that the Congress appropriate the remaining funds set aside for the Investment Development Fund ("IDF," see Section 108(b) of Public Law 108-188) as a means to finance the Submarine Fiber Optic Cable project for FSM.

The IDF was envisioned in 1986 as a fund to help start joint venture businesses between Micronesian and American firms. I can think of no project with greater potential for doing exactly that than the establishment of modern, broadband telecommunications throughout the FSM by means of the submarine fiber optic cable. The \$40 million remaining authorized, but unappropriated in the IDF will be one of the most intelligent investments the United States could make in opening up real economic development in

the FSM, not to mention the equally valuable social service benefits in the sectors of health and education. Importantly, this resource is not dependent on fossil fuel, weather or transportation. We in the FSM desperately need a source of revenue that meets those criteria.

Madam Chairwoman:

We take pride in recent accomplishments and find reason for optimism in the progressive policies of President Mori and his Administration's spirit of collaboration with the FSM Congress. Even so, the Nation faces a set of circumstances, some internal and many external, that cast serious doubts on our ability to attain the elusive third Compact goal of which I spoke earlier, namely substantial self-reliance by 2023, unless some adjustments can be made.

Despite our very best efforts, we will continue to grapple with many of the challenges listed by the GAO, at least in the near future.

Despite our very best efforts, the combination of the unrelenting annual decrement in Compact grants and the partial inflation adjustment combine to make each year increasingly difficult for the FSM. The "tough love" theory of economic stimulation has been shown, ever since 1991, to be invalid as applied to the FSM.

Despite anything we do in the FSM, alone or in concert with the US or other donors, the unrelenting effects of the growing world energy crisis at minimum absolutely mandate a re-evaluation of Compact assumptions and expectations. As I speak, FSM residents are paying upwards of \$6.00 per gallon for regular gasoline. Electric power is increasingly on rolling blackouts. Boats have largely disappeared from the Chuuk lagoon. The FSM patrol boats lie at their docks. Food prices have reached such levels as to cause the President to make an appeal for subsistence agriculture. Tourism is diminishing. Fisheries, the mainstay of local revenue, are being adversely affected. Any project previously costed-out must be reconsidered. Health and Education budgets are disastrously affected.

I understand that such problems are also confronting Americans at home, but I am speaking of the Compact as presently written, and what we and the United States now can hope to make of it by the end of the current grants in 2023.

This challenge is compounded by the increasing concern, especially in the current economic climate, that original expectations of earnings from investments of the FSM Trust Fund may not be met. Latest quarterly earnings reports indicate that, just at the time when we need to be maximizing earnings early in the twenty-year period, we have recorded a loss of almost 6% of the Fund's asset value, from \$139 million to \$131 million. We hope and do believe that the market will rebound over time, but this experience just illustrates how the FSM is challenged by yet another unpredictable force in trying to reach the goal of significant self-reliance by 2023.

There is no single easy answer, and I do not pretend to propose one here, but I sincerely hope that during the coming year our discussions can proceed in an atmosphere where all are taking into consideration the essential realities of the equation. This is precisely why the US Congress wisely provided in Section 104 (h) of Public Law 108-188 for regular, detailed reviews of the progress of the FSM during the period of the sector grants and of our operating requirements.

Madame Chairwoman:

On behalf of President Mori I wish to say again how grateful we are to you and the Members of the Subcommittee for this opportunity to appear before you today. I and my colleagues who are here with me are available to try and answer any questions that you might have.