

CONFERENCE REPORT SUMMARY



US-FSM Technical Meeting on Compact Implementation
April 16-17, 2008, San Francisco, California

1. Executive Summary

The United States of America and the Federated States of Micronesia held a Technical Meeting on issues relating to Compact implementation from April 16 to 17, 2008, at the HHS Conference Room in the San Francisco Federal Building, in San Francisco, California.

Opening Remarks for the United States were made by Mr. Nikolao Pula, Chairman of the Joint Economic Management Committee and Acting Deputy Assistant Secretary of the U.S. Department of the Interior's Office of Insular Affairs. The FSM's opening remarks were provided by Fabian Nimea, JEMCO Member and head of the FSM delegation.

Meeting participants reviewed the agenda items over the two day period.

1. FY-2009 Budget Issues

- FSM budget timing: budgets are due to the FSM President on May 15th, anticipate formal submission to OIA shortly thereafter. The United States emphasized the importance of timely budget submissions in the annual review process.
- Budget consultations between OIA and FSM were proposed for the week of June 18th in the FSM, but an earlier date is preferred if possible. Agreement was reached that the formal consultations will commence the week of June 2, 2008.
- The United States looks to SBOC to coordinate the budget process among the states, and to ensure that budgets are conforming and reasonable. The US would like to minimize the need by the FSM to reprogram grant funds and encourages proper planning and budgeting.

2. Compact Grants to the FSM

- The United States expressed concern at the amount of carryover grants currently open and the FSM's ability to fully expend Compact funds. The FSM is averaging \$4 million annually in unspent Compact funds, excluding infrastructure.
- The FSM explained that much of the carryover is due to issues with the procurement process. The US suggested that orders be placed earlier in the fiscal year for off-island procurements.
- The United States noted that carryover funds are not state-specific and can be used across states.

3. Reform Programs in Kosrae and Chuuk

- Kosrae provided a written status update of their reform program. The US expressed their admiration of Kosrae for attempting to address their significant budgetary deficit issues.
- SBOC is reviewing the proposed RIF list from Chuuk State and plans to formally submit it to the US before April 30.
- Chuuk anticipates a budget surplus next year as the RIF is implemented. Chuuk also intends to put health and education sector-funded personnel back to 80 hours per pay period. The stabilization fund has been established and has been used to pay Chuuk Government debt.

- The United States clarified that there will not be any non-conforming use of capacity building funds in the coming budget cycle.

4. Performance Reporting and Capacity Building

- The FSM has developed measures for health and education, and intends to continue with additional Compact sectors. FSM plans to use the 2009 budget cycle to link performance measures to the budget. The FSM plans to send consultants through the States for training this summer. The FSM confirmed that while they have identified measures they have not yet begun collecting data.
- The FSM sees both performance management and economic reporting as part of the same need to improve overall big-picture planning and budgeting to meet the long-term goals of the Strategic Development Plan.
- The United States has not yet seen the health or education performance measures, and expressed concern at how well the measures developed fit into the fourteen health and twenty education measures currently established. The US further said that the beneficiaries of this project should be the States, to help their management capacity, and that the US needs to be better informed on the plans of this project.

5. Annual Economic Reports

- The FSM has not yet begun work on the 2007 Annual Economic Report, but recognizes the immediate need to do so—both to meet JEMCO reporting requirements and to assist US Congress in their hearing preparations. The FSM plans to finish the report by June.
- The United States expressed disappointment that economic data will not be provided in a timely and comprehensive fashion in spite of funds having been set-aside for this express purpose.
- The FSM is interested in building the long-term capacity to produce these reports on their own without having to outsource them. The US underscored the importance of developing this data within a reasonable timeframe.

6. Presentation on Resource Management System for the FSM

- The FSM gave a Power Point concept presentation on a resource management system for the FSM. The FSM has also provided a proposal for \$650K to develop this system and hire the necessary personnel to support economic and statistical development. The FSM indicated their ultimate goal is to implement this system to accomplish the goals of the SDP.
- The US questioned existing and competing information systems currently in place for health and education, as well as the ability to meet long-term capacity development challenges in implementing such a complex system.
- The FSM indicated the intended use of \$350K set-aside for performance measurement development and the \$300K set-aside for economic reporting to fund their proposal, but noted that this covers personnel expenditures as well as technology systems.
- The US recommended that personnel expenses for true capacity building positions be included in the FSM's regular budget to the greatest extent possible.

7. 2008 Sector Grant Conditions

- SBOC has hired an education specialist and has plans to hire a health specialist as well. In addition the FSM has produced a matrix that they're using to track special grant conditions.
- SBOC is working with Chuuk to ensure that a plan for solid waste removal in Weno is incorporated into their 2009 budget. The US said it looks to SBOC to ensure that the states are compliant with resolutions like these.
- SBOC has a planner that will help the states develop project-based budget proposals.
- The US expressed concern at a report they had received for the Chuuk State School System Personnel Audit. The FSM explained this was not the final report and that further adjustments will be made to that report via the contractor. The US indicated this will likely be a grant condition at that August JEMCO, and that the US expectation is that SBOC monitor contract deliverables like these for quality control.
- The US reminded the FSM of the need for an inventory of education textbooks.

8. Infrastructure Issues

- FSM provided a Power Point presentation with an update on current infrastructure projects.
- The FSM asked to use infrastructure funds to pay for the dry-docking of field trip ships. The US responded that health and education projects should be prioritized, and that this should be funded through the regular budgetary processes—particularly when FSM Congress just appropriated approximately \$3.8 million to be distributed among senators for local undefined projects. Of higher importance is the overall management of field trip ships and how well they work as a business, with strong management plans.
- The United States expressed anger and frustration at the slow pace of infrastructure projects in the FSM five years into the Compact, and asked for a list of ten hospitals and ten schools that can be fast-tracked for development, prior to June 1st.
- The United States offered a \$3 million grant from infrastructure funds to be split evenly among the four states for small-scale projects to health and education facilities that can be managed outside of the current engineering and design requirements.
- The matching elements of the Infrastructure Maintenance fund have not been put up by the FSM and there is currently \$6.5 million outstanding.

9. Financial Management Information System

- The FSM has installed the new system in all four states, and plans to install the system at the National Government this June. Post-core activities (budget module, fixed assets module, and advanced reporting) will begin in October and November.
- The FSM has hired a full-time project manager.
- The US expressed concern about maintaining the involvement of key consultants in this project, particularly John Schnebly and Debbie Milks.

- The US expressed concern about maintaining the uniformity of the chart of accounts, and asked that the National Government take the lead to ensure this.
- The US noted this as a real milestone to get the national government and four states onto the same system.

10. Chuuk Financial Controls

- The FSM will provide a written summary of funds expended to date from the \$1.5 million JEMCO resolution to address financial control issues in Chuuk. The US asked that quarterly updates be provided.
- The full-time U.S. CPA hired in January has now left Chuuk and a replacement is being actively recruited.
- A Filipino CPA will be hired to help Chuuk component units prepare financial statements.
- The US expressed their satisfaction that significant accomplishments have been made in Chuuk, but expressed concern at the level of cooperation that has been achieved within the rest of the Chuuk government.
- Chuuk state understands the need for the Chuuk Finance Control Commission (CFCC) but also notes that communication between CFCC and Chuuk State Finance needs to improve. The US noted that CFCC will need to continue playing a role until there is an objective track record of performance.
- Chuuk State has just hired a lawyer to look into land purchase and lease agreements. The US requested that health and education land issues be prioritized.

11. FSM Energy Crisis

- For the FSM the energy crisis is both a short and long-term issue, and the islands' dependence on oil is problematic—both because of rising fuel costs and delivery efficiency issues. Consultations on alternative energy were included in the original Compact in '86, and energy development and renewable energy are included under potential uses of infrastructure funds. The FSM would like to ensure continual discussions on this important topic.
- The United States expressed their concern with the energy issue as well, and noted the Secretary of the Interior's Energy Act is available on its website, and that the Pacific Power Association is a key resource the FSM might consider utilizing.

12. Environment and Climate Change

- With twenty percent of the FSM population living in the outer islands and eighty percent on low-lying land, climate change and rising sea levels are of critical importance to the FSM. For the FSM the key issue is not financial, but adaptation and Compact resources need to be used in a way that will provide a strong defense against the onset of climate change.
- The United States sees the Compact as flexible enough to address problems related to adaptation, but to-date has not seen this prioritized in budgets or proposed projects. The Compact has provided \$15 million these last few years towards environment, so the problem is not financial. The US encourages the FSM to address environmental concerns, but notes that the impetus to propose solutions rests with the FSM.

13. Project-Based Proposals

- The FSM would like to use the set-aside funds for the environment and private sector (\$50K each) to bring people in from the states to develop strategic plans in continuation of their performance measurement work. The US is in agreement on this use of funds.

14. August JEMCO Meeting

- The US and FSM agreed to an August JEMCO meeting the week of August 25th. In the spirit of partnership, the FSM asked that the meeting take place in Pohnpei. The US asked that Washington, DC be considered. Both sides committed to resolving this issue before the end of April.

The United States and the FSM agreed to the following action items:

1. The FSM will provide the US with a formal response to the US' budget assumptions letter.
2. The FSM will provide a copy of the letter President Mori sends to the States with the budget call, outlining specific budget guidelines.
3. The FSM will provide their draft budgets to the US shortly after they are presented to the FSM President—due by May 15th.
4. The US-FSM Budget Consultations will begin in Micronesia on June 4th.
5. The FSM will provide the US with the Chuuk RIF list by April 30.
6. The FSM will provide the US with the list of health and education measures that have been established through the Performance Reporting Capacity Building project.
7. The FSM will have their Annual Economic Report developed by June, and will make a copy of that report available to the US.
8. The FSM will provide their internal list of 2008 sector grant conditions, including the matrix the FSM is using to track special grant conditions and ensure they're met.
9. The FSM will provide copies of ten task orders issued to professional A&E firms for new health and education infrastructure projects, across the states, prior to June 1st.
10. The FSM will provide an update to the STEPS Survey from Health.
11. The FSM will re-issue a final report on the personnel audit being conducted in Chuuk.
12. The FSM has committed to undertaking a text book inventory.
13. The FSM is to provide a report on funds expended to-date on \$1.5 million set-aside for Chuuk financial controls, and will provide quarterly updates thereafter.
14. The United States will issue preliminary budget control numbers to the FSM for the 2010 budget cycle by August 1st which will then be updated regularly.
15. The FSM and US agreed to look for opportunities for assistance as related to energy assistance and climate change.

16. The FSM and US agreed to an August JEMCO meeting the week of August 25th. Both sides agreed to settle on a location for that meeting prior to April 30th.

2. Detailed Notes

[FY 2009 Budget]

- [FSM] May 15 is the due date on the budget calendar for submission to the FSM President. We plan to forward the budgets to OIA at that time. We have compiled what we can from the states and forwarded them to USDA Graduate School for uniform structure and format. We will provide a response to the budget assumptions letter before we leave San Francisco.
- [FSM] Propose consultations on June 18th in FSM; plan for formal budget submission to US by July 1st, per Compact law
- [FSM] Will take final action in legislatures in late August, post-JEMCO, to adopt budget
- [FSM] Semensin James will work for SBOC after this meeting and serve as new contact person on budget matters.
- [FSM Budget call will go out again in mid-November.
- [US] Does SBOC feel confident that the guidelines set by President will be respected? Are you planning to manage state budget submissions? [FSM] We do travel to the states to help them prepare their budgets, and they are generally in compliance. However, we are unable to look at project-based budgets due to time constraints.
- [FSM] The budget assumptions letter has been very helpful internally for us to ask similar questions among ourselves. We anticipate having draft budgets to you prior to the consultations, and that is the target to which the FSM is working.
- [US] The timing of submissions and the budget format are of primary concern to the US, and there have been problems with this in the past. Does the budget in the States follow the same format? [FSM] We are making an effort to get the budget into a similar format in all four states through the Fundware Budget Module to prepare uniform budgets. [US] Our staff needs to be able to understand and review the budgets prior to the JEMCO meeting and we are now in the fifth year. It's unfair to JEMCO members to receive a late budget and not have time to review it prior to meetings.
- [US] How does the FSM reconcile differing dollar amounts between the FSM President's budget call and control numbers from the US? [FSM] It would help to have budget control numbers prior to the president's call.
- [US] Could we have a copy of the letter that went out to the states on the budget? We'd like to see the written guidance that went out from President Mori. [FSM] Will forward. [US] What is generally contained in the letter, and what gets added to the budget requirements at the State level? [FSM] I don't have a copy of that letter with me, but it contains information on whether or not there is an increase/reduction for that year, requirements for 30% infrastructure floor and 5% IMF, health and education as priorities, and project-based proposals, and the budget format itself. [US] Does Yap have anything additional to what they receive from National? [FSM] There is a new administration, so we're looking at adding private sector and environment projects, as areas we'd like to concentrate our budget on. Otherwise we work with our control numbers we're provided. [FSM] Did you, Yap, instruct health/education to keep their budgets at current year levels? [FSM] Our budget call went out in mid-September, but without knowing what the allocation may be, so we did ask that budgets remain the same. This year the budgets will pretty much be the same. These sectors have a

feeling that they are the priority, so any program they want they expect to be included in the budget. [US] What about Kosrae and Pohnpei's budget calls? [FSM] For Kosrae we issue our budget call in August without knowing control numbers, using our own estimates. Guidelines of National we try to carry, although we do not give allocations to each sector. We do prioritize health and education, and try to restrict new positions and hiring, and as part of our reform programs, we ask departments to do what they can to continue reforms. [FSM] Pohnpei issues the budget call in September using the previous year's allocation, and adjust later once we receive control numbers from president and OIA. [FSM] I think Chuuk issues their budget call sometime in November.

- [US] Your budget call in Chuuk reinstated 80 hours of work per pay period, which is new. Is there anything else new that affects the budget?
- [US] What is the ideal date to get control data from the US? [FSM] November first would be helpful. [US] Could the FSM work to get everyone on a uniform date for budget calls? [FSM] We will bring that to the CEC, but if there isn't going to be change in those numbers and we can receive it in July, that would be better.
- [FSM] Do you need information from the FSM to calculate control numbers? [US] We don't have close-out at that time, so we use numbers from Compact document with inflation adjustment included.
- [US] Do you have flexibility on the June 18 date for budget consultations? We'd like to start earlier if possible? [FSM] Certainly possible to move that date up. We have congress in session from May 12 through first week of June, so it needs to be after that. [US] The biggest issue is spending two weeks on consultation we won't finish until June 28th, and you won't have time to make adjustments prior to submission on July 1st. Will state visits conflict with FSM National Congress' schedule? We'd request an earlier date.
- [US] Can you summarize your response to the budget assumptions letter? [FSM] I'd like to ask the states to speak to that. [US] Our concern in all this is to try to avoid the reprogramming that has happened in the past. We expect this to be an issue this year. [US] Are any of the states concerned about personnel costs becoming disproportionate? Chuuk is looking at a 25% increase in their general fund personnel costs, Pohnpei added \$1 million, but anytime there's an election, while fixed prices for fuel go up, personnel costs go up too. Can this be sustained? How can you deliver services without changing payroll costs? [FSM] For National Govt we're reassessing our human resource needs and are hoping to accelerate our medium term operational plan, because only after this will we be able to assess manpower needed for activities. We have a cabinet committee tasked with reassessing operations to see where we can streamline at the National government. [US] But what of the States? And what is SBOC's role in helping the States address this? The indications we're seeing is that the human resource allocation is taking up more of the budget. How will SBOC address this? [FSM] We're working together. At the last CEC we agreed that we will start with the National Govt developing medium-term plans, and will then work our way down to the States. We need to reassess our needs now. [US] National government doesn't have students or patients, or delivery of services. What about the States? [FSM] Could the US propose this as a policy issue for the governments to consider? [US] In Pohnpei, the tap into instructional supplies and materials to pay for raises and personnel, and the students are victims without school supplies and materials. Where is SBOC on issues like this?

[US] Can this be a continuous process among the States? We helped you by sending out the budget assumptions letter to think about fuel and personnel issues. Can SBOC show leadership on this? [FSM] On personnel, it doesn't make sense to increase salaries, but rather to have a cost of living adjustment. I look at this from a strategic management standpoint, and am therefore adamant about medium term plans. What about renewable energy? What about looking at the internal structure of governments? [US] All I'm asking is whether you can continue the consultative process in the absence of a medium-term framework to lend your thoughts to their formulation? [FSM] We plan to work together to try to achieve our SDP goals.

- [US] So, on the FSM side, is SBOC looking closely at the state budgets and making recommendations when they are out of balance to address shortfalls, etc? Does the FSM National Govt have the moral power to get the States to respond? [FSM] We recognize the need for this and we will continue to spearhead this effort with the cooperation of the States.
- [US] Final comments? [Yap] We've implemented raises that we're estimating to be \$650K. [Kosrae] We've moved our fringe from 8% to 12%.
- [US] We need to look to SBOC and the National Govt to help coordinate with the States. We appreciate political pressures, but we need to work together to get information flowing so that we can make sound decisions based on reliable information. [FSM] I'd just mention that the budget pressures in the States are clearer after the consultations. The key question for the FSM is that if the consultations highlight budget pressures, but don't result in substantial changes in the budget, the real challenge for SBOC and National is to make the budget consultations more instrumental so that National and States can use it to make changes in budgets—make it realistic and doable so that there isn't a great scramble at the last minute as there has been in the past.
- [US] In summary, we've discussed the format and presentation of the budget. There are five disparate budgets that will be reworked into Fundware for presentation to JEMCO, we anticipate using Fundware next year. Budget consultations will be in June. Semensin will be our budget contact. And most importantly as Evelyn just said, SBOC needs to use this information to format a budget in consultation with the States.

Compact Grants to FSM

- Handout distributed. [US] We're experiencing problems with carry-over grants and need to start closing some of these out. We haven't been putting expiration dates on carry-over dates, but the intention was never to keep them open for years at a time. They were designed to address specific needs, but we don't want a carry-over of carry-over grants. This is also posted on the uscompact.org website. In addition, the more quickly we close these out the fewer reports you all have to do—we're expected to maintain reports for these documents regularly.
- [US] We see difficulties in spending the money, often as a result of procurement policies and procedures. Can SBOC help streamline procurement issues? [FSM] This handout is very helpful. We can coordinate with Finance and OIA to track where the States are with these grants to follow up. [FSM] We've been trying to look at the quarterly reports to monitor this on a quarterly basis.
- [US] What is the reason for all of this carry-over? [FSM] The Departments aren't always able to use what they've budgeted—particularly with big orders that are put in at the end of the fiscal year, which leads to carry-over. We encouraged them not to place

orders in the fourth quarter. [US] Do Departments feel constrained by State budget offices that follow the old Compact I quarterly formula: 30-30-20-20? Why isn't each government buying their textbooks in October and November? [FSM] The budget offices throughout the governments have been using that formula to control expenditures, so they try to allot it on a quarterly basis.

- [US] Cash flow is not an issue in the Compact, and revenues are available as you need them. We send them down monthly, but don't need to. [FSM] This is a management issue, and if we stayed on top of these things it shouldn't be a problem. In Pohnpei I distributed reports to Cabinet members so that they could see where they are with their expenditures.
- [US] Can we get a commitment from you now that before next year this money will be spent? Can you help with procurement or other issues that are currently outstanding? Can somebody at SBOC or Finance monitor this from your office so we can measure progress? [US] We're averaging over \$4 million unspent annually that's unspent, excluding infrastructure. Given the five-year review, it's going to be hard for you to ask for more money when you're unable to spend what you already have. [US] We also see vacancies and personnel as an issue contributing to carry-over, particularly unfilled positions.
- [US] When you meet with your legislative bodies there are issues around carry-over staying within each State, but there's nothing in the Compact that precludes us from taking carry-over from one state and spending it in another.
- [FSM] Where is '05 and '06 carryover for other sectors? [US] All open grants are listed on this handout, everything else has been expended.
- [US] Does SBOC have contact points for each sector in place at this point? [FSM] Rainer Jimmy for education, and we're looking for health, environment and other sectors. We're working with the PMU on infrastructure. [US] If Joann is asking an education question of Rainer, we need more than him asking the same question of the states, he needs to understand his job as helping the states develop answers to questions. [FSM] In terms of monitoring, Rainer has already started looking at Compact requirements, sector conditions, and establishing a network of contacts.

Reform Programs in Kosrae and Chuuk

- [FSM] Kosrae has prepared a report outlining the status of Kosrae which has been submitted for your review. Approved RIF resulted in \$830K savings on general fund, 30% increase in local revenues, and projectized activities to relieve pressure on general fund. Phase II of RIF to be implemented by August 2008. State has provided a second year of RIF funding using a grant from PRC. Kosrae budget now back on track.
- Chuuk's problems are more serious. Chuuk has begun implementing reforms: needed to attain a budgetary surplus to pay accumulated debt. State has established a debt relief fund, issued RIF notices, and we have a report from the finance director that employees on the RIF list have received their last payroll checks. SBOC is in the process of reviewing the final list from Chuuk State, with plans to submit to OIA in compliance with grant condition before the end of this month.
- [US] How many people are expected to be RIF'ed in Kosrae via the second round? [FSM] We're looking at fifteen additional employees. [US] How much of the \$303K will be needed? [FSM] Around \$107K, estimated.

- [US] How has Kosrae increased its general fund revenue? [FSM] Increases in rates—in some cases 100% increases, and also the municipal governments agreed to give their share of that increase to the state. But on the collections side we have improved that area. Also, the reporting on the collections, when paid, transactions are posted live, and not via receipts posted later. Fundware has enabled us to do this immediately when the clerk receives the payment. This helps with accurate reporting on tax. [FSM] The effort has really been made by the state, at the state level, with increases of 80%.
- [US] I'd like to express the US's admiration of the new administration in Kosrae for addressing their problem so readily. We salute them.
- [US] Has SBOC been working closely with the formulation of the Chuuk list? Are you confident about its accuracy? [FSM] I'm comfortable with it, but would like to see what the Governor submits officially to the president. [FSM] Governor has transmitted that list officially to the President.
- [US] Have the special stabilization funds been created, and have any savings gone into that yet? [FSM] \$3.5 million went to outstanding debts, related to operations. The funds didn't actually go through the account set up by Finley and Gillian, but the funds were used for that purpose. [FSM] The next exercise the states will undertake is to revise the '08 budget to eliminate positions in the RIF list, creating a new budget that will be in surplus for the year.
- [US] For clarification, the RIF is intended to be used for general fund employees only—not sector employees.
- [US] Are you (Chuuk) planning a budget surplus for next year in spite of 80 hour pay periods? [FSM] Only for sector-funded positions. [US] Will this create accounting problems? [FSM] Only minor accounting problems. [US] If you increase sector payroll by over \$1 million annually, other programmatic things will have to be squeezed out.
- [US] Happy to hear that progress is being made, and that urgency to get RIF'ed employees paid out is still in place.
- [US] Are we all of a common understanding that there will not be any non-conforming capacity building uses for 2009? [FSM] For Kosrae, we still have to phase out .5 million in 2009 in non-conforming. We would like to RIF employees funded under capacity building to help with that final transition. [US] After spending PRC funds for a second year payment, it's going to be difficult to recommend to JEMCO that they consider an extension of non-conforming capacity building funds.
- [US] We're expecting a balanced general fund budget from Kosrae and no non-conforming use of capacity building funds.

Performance Reporting Capacity Building

- [FSM] Current USDA GS Project. Developed measures for primary sectors—health/education, we plan to do the same for other sectors. Next step to integrate into budget module as part of FMIS. We just extended the contract through September within which we will try to finish up the remaining part of that. [FSM] This project was held up to wait up during political turnover, ownership tied to restructuring of the national government. Both the performance management and the economic reporting and statistical updates are all components of the overall need to improve planning and budgeting in the FSM Government. See these as related capacity building efforts. USDA GS started in April 2007, on a project intended to deal with all measures for all

sectors, prioritizing health and education. Project started with health and education, and have developed proposed measures we wanted to link to the 2008 budget. However, due to work delays, we now plan to use the 2009 Budget Cycle to put together the measures. Would like for all measures to be tied to budgets eventually. Health and education measures are ready but have not yet been implemented with budgets. All governments were involved in measure development.

- During the last JEMCO Meeting we made a decision that private sector and environment be the next sectors for measure development. We are now prepared to move ahead putting those measures together. The extension we request is to finish up the rest of the sectors.
- From a strategic management standpoint we want to meet the goals of the SDP, although they are long-term in nature. We'd like to measure how we are progressing with goals and objectives, so we'd like to break this into short and medium-term plans that will be easier to evaluate our progress toward specific activities. We don't want performance reporting to produce a report, we want it to influence reaching the goals of the Compact. We'd like to develop a short and medium-term operational plan first, and then assess where we are with measures. We'd like to link performance reports and economic updates to strategic planning.
- [US] Performance reporting measures have been completed in health and education. US has not then seen them, and health already has fourteen measures, and we don't know how our measures fit in with what the FSM has developed. [FSM] We see the need to report on the bigger picture, which includes the 14 and 20 indicators. We see as necessary to have standardized measures for the governments to track. [US] The health officials did a matrix of their fourteen and they chose those fourteen goals; we didn't choose it for them. When MicSem went out to the states to test measures at the states, it doesn't help them measure their SDP goals. I don't see the link to SDP, and I don't see the effectiveness in the States. If you are done, even though you haven't worked through medium-term planning, there's no evidence that you've accomplished very much. [FSM] I think the angle Roylinne is discussing is a component of the bigger picture. The measures that were required by JEMCO that we do report on were there before this project started. [US] We haven't seen measures and I've been getting email from places in Yap and HESA saying they don't know what these measures are for. This was meant to provide internal assistance to the States so that they understand performance and can manage it themselves. It was meant to help the states do their work so they can see the significance of what they do. This project has shifted focus and changed, and I don't understand the change. [FSM] We're focusing on the entire nation, and we want people to look at the bigger picture—not just their respective governments.
- [FSM] The indicators needed depend on the level of management of the individuals using the measures. [US] There is a summer activity to send the consultants to the states to conduct training. What will that consist of and how do you plan to make that training stick, with follow-up, so managers have reinforcement throughout the year? How do you plan to implement that process so that it is continual, and improves? [FSM] I think it's relatively easy to ensure that skills will be sustained if they are documented in an operational manual as a reference. They will get better with constant practice. [US] Will SBOC help develop technical manuals, unique to each state, and to actually help the states use performance measures? This will take constant attention. Will

SBOC do that? [FSM] SBOC will facilitate the process, but all the states will have to be a part of that process.

- [FSM] Another component of this is the budget process itself, and understanding why measures are developed in relation to the budget. National government and line departments—including health—should be able to help in the states.
- [US] Any timeline as to when we will get to certain stages of improvement on the overall project? It seems to be busy intermittently, but nobody in the FSM is on this full-time. [FSM] We expect to spend substantial time on this on the 2010 budget cycle. [US] We'd like to be provided with regular updates on this project so that we know what's happening. [FSM] Our timeline for this project is assessed regularly, and we have developed a manageable timeline.
- [FSM] Our concept of a medium-term plan is a rolling plan, to have it work within the twenty year planning horizon. They are short term with more specific activities that need to be implemented within a certain timeline. The formulation of resource requirements—human and capitol—is part of this. With the FMIS now in place, we have an important tool that we can use to help monitor evaluation.
- [US] What baseline year did you establish for new performance output measures. What's the baseline year? Last year, or did you go back? If you have not, then you have not collected data, you've only identified measures. [GS] We've identified measures, but no measures have yet been collected. [US] If you had no FMIS or technology or external reporting requirements, how would you go about doing it then, without waiting for chart of accounts, or computers with internet access, or consultants, etc. How would you develop the capacity at the states? [FSM] Without the employment of appropriate technology and tools, we would not achieve the SDP goals within the timeline itself. We recognize limited capacity within the islands and we plan to employ appropriate technology to do the job.
- [FSM] What goes into these formats and technology—the actual substance of the performance budgeting—is very important, and I think it would benefit us all in our efforts to develop the capacity for performance reporting among people. This is at the foundation of having successful performance reporting.
- [US] So the next steps are? [FSM] We plan to work on the next sectors, environment and capacity building, and by 2010 begin the budget process to incorporate measures into their performance budgets.

Economic Reporting

- [US] Interested in how the economic data will be presented this year in light of funds set aside to recreate these annual reports. How do we get these reports out of the FSM without having to purchase these services ourselves. [FSM] Right now we have yet to produce the 2007 annual report, and we have an immediate need to do so. We have asked the USDA GS to help us address the immediate need. We also got information from Congress that they are interested in having a report in place prior to the June hearings. I'm confident at this point that we can do it based on information from the USDA GS. Given our limited time we're concerned about the quality of that report. We want to ensure that in subsequent years we will have timely and reliable data. We are having trouble collecting data from the four states, and we need to deal with this to meet our objective to produce timely and reliable data. We want to employ appropriate

technology to do so. We don't want to outsource this, we need to build the capacity within.

- [US] Given the timing of this and the immediacy of doing so. I'd like to express some concern and disappointment at this point, in that it seems Congress asking for information is what is driving this. Our greatest concern is the production of these reports on an annual basis. If you have not started anything at this point, I don't see how you are going to prepare anything prior to June. I'm disappointed that we can't have the assurance that this data is going to be given to us in a timely fashion. This is a problem that we have to settle, and there has to be a regular process. I agree that it comes down to people and training, but the bottom line is that if you can contract this out for minimal amounts of money, you should consider doing so. We need this information. It is a significant requirement for everyone in this room.
- [US] For the last few years you've had scholarship funds, do you intend to use a portion of these funds to grow the internal professional capacity of your government? Is this something the FSM intends to tap? [FSM] This is a priority of the Mori administration as stated in his inaugural speech.
- [FSM] Building the long-term capacity is a long-term process that goes beyond offering scholarships. The immediate need to have this report by June and this situation in the past; it's now April and the report is due in June. Our plan at this point is to take a few shortcuts to work through the process, but it will be done in a shorter period of time than in the past and will take more estimating and less raw-data gathering. But when IMF and other experts come in they will poke more holes in the statistics that will go into this report. The forthcoming report will be of a lesser quality than in the past.
- [US] When will you finish the report? What are the barriers to finish the report on time, as per the resolutions which we take seriously? [FSM] We hope to have the report done by June. The major challenge is with capacity. The skill wasn't transferred completely and it wasn't integrated in the plan that the skills be transferred and retained within country. That is the area we are now looking at. Adults learn by doing it. [US] While we appreciate the medium-term challenges of your government, we want to see reports produced in the short term as well.
- [US] To simplify, \$300K was given last August for this report, and we expect a report. We realize we're now targeting June for '08. Let's prepare now for next year. We need preliminary data, we need data within a reasonable timeframe.
- [US] We'd like an update at the August JEMCO on the status of this. In January we were told that the embassy was recruiting an economist. [FSM] We've been trying to recruit an economist and have been having difficulty in doing so for economics and statistics.

Presentation on Concept of Resource Management for FSM

- [Power Point Presentation]
- [US] I think the idea of an information system is good, but our experiences in other islands is that you don't always need a big, expensive system to collect information. It starts with the quality of information that is put into the system. Is this the \$650K proposal from SBOC?

- That needs to be modified to include economic reporting, and also includes an economist and statistician. But our ultimate objective is to build a bridge to accomplish the SDP.
- [US] Is there any buy-in from the states on this? There are a lot of competing systems out there, and won't this create another layer of confusion? [FSM] Many departments within the national government have disjointed systems, which we don't need. The various agencies need to be able to share information. Decision makers need this information. [US] Would this negate the need to pay for various IT Managers at the program and state level? [FSM] We wouldn't need IT people since the database would be centrally located. We can also validate data.
- [US] ADB has just completed an integrated education system in the FSM. The promise of technology is wonderful, the outcome hasn't been proven yet with any of these systems we've built. None of them are working yet, and our education system is a product of fifteen years of development. The pieces are now in place and it has taken that long for people to understand it and its uses. There is capacity development challenges that need to be addressed. [FSM] Just because we've started down a path that includes various systems doesn't mean we should continue down divergent paths
- [US] What resources are you looking to in order to fund this? [FSM] We're looking to the \$350K of performance reporting and \$300K of economic reporting. But that's not just for the system, it's also to bring in people to help develop the system and to build the capacity moving forward.
- [US] Do you then drop the performance project in the states, and at the state level, where the need is? [FSM] Once you procure the system you will reduce costs in so many areas that cost savings will be utilized to compensate. [US] You're quickly going to approach a point where you don't have money to continue the other elements of this project. In addition, it sounds like there is substantial front-end work to assess the need and what is already in place. Is this what needs to be done in the states to develop performance capacity. How much would this cost? [FSM] Total of \$169K for equipment, \$267K for personnel, \$160K for travel, and miscellaneous expenses. And then you want to tweak this to include an economic report which wouldn't be part of an integrated FMIS. [FSM] We have identified initial people to start this project. [US] How will advisors reduce this cost? Why can't these advisors go into your regular budget? [FSM] We are budgeting for this. [US] Then include it in your 2009 capacity building budget, which is what that sector is intended for. The set-asides you are tapping are for specific purposes.
- [US] So you don't currently have the resources within your statistics and economic offices to support this. Are you prepared to budget for this in your regular budget and through the regular budgeting process? [FSM] Yes. I don't see any other way forward than through this.

2008 Sector Grant Conditions

- [FSM] We have Rainer Jimmy at SBOC for sector monitoring. We are now better focused with his arrival as education specialist. I have asked him to develop a template that we can use to monitor sector conditions, taken from grant awards, JEMCO resolutions, etc., as key sources of information to make sure special conditions are met. He has developed a matrix that will incorporate this. I have this write-up that I can

share with you. I also have an update on the STEPS Survey from Health which I can also share with you.

- [FSM] In the case of Chuuk solid waste removal on Weno, we continue to work with them to make sure they have a budgeted plan in 2009.
- [US] How would SBOC deal with a clear proposal by the FSM which Chuuk did not comply with? What will SBOC's role then be to make sure there is a plan with a budget and measures? If there is still no plan in place, how does SBOC deal? [FSM] I have gone all the way to the Governor on this, and continue to have discussions between National Government and Chuuk State, which we see as an ongoing process. Our aim is to have this included in the 2009 budget. [US] What if there isn't? Would National not submit a budget on Chuuk's behalf? [FSM] We are considering these options.
- [FSM] My understanding is that there are activities that are scattered in project-based proposals submitted by EPA. Their next step is to hire somebody to help with how comprehensive this plan needs to be. SBOC can look at whether EPA has budgeted for this activity and to make appropriate adjustments or identify resources as necessary. There may not be the capacity to develop this plan. [FSM] We do have somebody to assist with putting together a project-based proposal as part of overseas donor assistance. We need to define the objectives of these grants to develop specific activities to be undertaken to achieve these objectives. We recognize this as a need, and moving forward our JEMCO resolutions can be better defined or improved.
- [US] Could your planner be sent to Chuuk to help EPA and provide technical assistance? [US] The Chuuk situation is clearly the worst case, but if we have .5 million spent on nothing, essentially, then why spend it? We have no measures, no performance, why would we use this resource to get nothing? I'd start with that .5 million, and I appreciate people are on the payroll, but why keep spending if we don't get results? [FSM] JEMCO put that condition on Chuuk, but they didn't budget for the development of the plan, and the resource side needs to be addressed. [US] There's flexibility to move resources within the Compact. [US] Or use this money to bring in expertise from the outside. [FSM] Why have a plan if the work is getting done? [US] It's getting done as part of a one-off contract, and this is illustrative of SBOC not providing guidance in this process.
- [US] There was also a condition on the education grant this year for a personnel audit for Chuuk State. There was a document produced that was not very good, did not address the needs we hoped to get from this project, and it now needs to be repeated. Shouldn't SBOC look at these things to manage the process themselves?
- [FSM] According to reports from education they hired a company, which is yet to provide a final report. [US] We were provided a copy of a report that said "final" a few weeks ago, dated 3/11. [FSM] Education has repealed that report and intends to make further adjustments to that contract. [US] This will be another grant condition for JEMCO come August. [FSM] Can we ask for something in writing to share with education? [US] We've laid that out in the briefing paper.
- [US] This is a train wreck that should have been seen months ago. Has MI Corp ever done any type of personnel or professional evaluations? We're at this point now, but shouldn't SBOC have a role in this? [FSM] We should have managed this better, we recognize this and will plan better moving forward.

- [US] Regarding education, we have provided a handout regarding grant conditions for education, including a textbook inventory, and some of you will recall that at the JEMCO meeting when US JEMCO meeting insisted text book purchases at \$2.5 million, the intent was that it would be purchased over four years with a course offering subject matter covered each year. They included the right in the resolution to revisit this issue, which we plan to revisit come August. We'd like an inventory of the text books. We recognize the states have done well ordering text books, but we need them to provide an updated inventory. [FSM] The state governments have been reminded of this, and we expect to see this in their budgets. [US] Is anyone actually coordinating the inventory? [US] We depend on the National DOE to work with the States, and they have assured us that they will provide an inventory by July. [US] Have you provided us your written report on each of the grant conditions? [FSM] That is forthcoming.

Infrastructure

- [Power Point Presentation]
- Request use of infrastructure funds to pay for dry docking of field trip ships. [US] FSM Congress just appropriated \$4 million. Are they planning on spending any of that money for this? [FSM] One senator has provided \$30K. [US] Not enough. How will you budget for this, year in and year out? This is a \$1 million operation to dry dock a field trip ship. [FSM] We need multi-year budgeting to compel everyone to think in terms of the priorities of the country and where to allocate resources to effect the performance of the economy. [US] Shouldn't it be easier to get your own government to fund activities like these? How can they not fund something as critical as this, and then throw it under the Compact when this is such a priority for the FSM. Infrastructure funds are designed to cover health and education needs. [FSM] From a policy level the Executive Branch is proactive about this. [FSM] The short answer is that this was not considered in the budget for 2009. This should be a policy issue. But this year Francis is pointing this out and we're seeking your input on whether or not you can support something like this. [US] On the Weno emergency power project you had three generators in good shape. Now two units are down and one has been scrapped for parts, all of which are down because they didn't change fuel filters when they have a shelf full of them. The ships are the same way—they need to be maintained regularly.
- [US] The larger issue of sea transportation will be part of our discussions for the coming years. We're interested in how they work as businesses, how they are subsidized, etc. The best example of this is FSM Telecom, which has been able to be successful because they are forced to work on business principles. We are hesitant to commit to supporting money for something like dry docking without a strong management plan to make sure that this is something that will be sustainable. [US] I'd just add that there are eight government ships right now, and that's the budgetary reality that needs to be addressed.
- [FSM] We understand that there are more projects that will be submitted from the governments, starting in 2009. This is something we need to sit with the governments to understand what they need, and to help them with their priorities.
- [US] Infrastructure is a big issue and we can discuss this for a long time. Meetings like the CEC and moving infrastructure to President's office is important, but having \$130 million on the table for infrastructure is inexcusable. I know there are different pressures on how to spend infrastructure money, but we're going to get with Congress in hearings that they're going to ask why you're not moving forward with this, since

you're not spending the money. With all due respect, we need to say enough is enough, and this is ridiculous. We need to get the money out to people who need jobs, and we have millions sitting around. I'm really frustrated and angry about this, but we need to focus our energy on this. Can the FSM give us a list of hospitals and schools—ten each—that they can provide by June 1st? This is so poor, I don't know what to say to the Congressmen that will ask this question. They'll say that if the FSM can't use it, we'll give it to somebody else. So I ask, do you have a plan for health and education? If we can infuse \$30 to \$40 million in the economy it will help. We've been working for four years on this and it's absolutely ridiculous. These meetings are worthless if year after year we go through the same exercise and we don't make any progress. Nobody in this room wants to sit in the schools in the FSM. Let's stop talking, let's fix things, let's move forward. What is going to happen in infrastructure before August?

- [US] Can you put 10 task orders out by June? Is this possible? How can we move an additional 4 projects in Chuuk? What are Pohnpei's next 2 projects? We know the problem is the internal formula. It's not right that Kosrae can't move forward with this project because they've spent more than their share. If you can't do this, pack your bags and hit the road.
- [FSM] We all share this sentiment, and recognize that this is holding everyone hostage, that this will pave the way for private sector and getting the schools and dispensaries moving. Things have now been reorganized, the IDP is being updated, and we're looking at approaches we can employ to facilitate the process, including boilerplate projects which enable us to save money. We've made a commitment to push for Iras Elementary this summer and have set that as a target for the leadership of Chuuk. We need to get things moving in the outer islands too and we see challenges and opportunities there that we can dive into. We don't need fancy structures out there that will damage the environment. Most important is to set a timeline to monitor and evaluate our progress on this.
- [US] So you'll make a good-faith effort to get a list of schools out before June 1st? [FSM] We've got one school in Iras that will be visible near the airport. [US] Design takes 3-6 months, but right now everyone is saying the three schools are almost ready for design completion, who's working on the next two, the next three? We need a pipeline of projects flowing one after another, and that is not currently the case. [US] Can you identify more than one school by June 1st? [FSM] We're committed to move forward.
- [US] We received a list of 32 schools in Chuuk in which the land is free and clear. Why can't we begin working on these schools? If Iras is becoming problematic, let's move on to something else. There has to be movement in Chuuk, in all the states, on education and health. Can we get a list of ten? We're trying to see some added movement on your part, and the JEMCO needs to see that. [US] Is it possible to have discussions at the CEC next week that will provide us with a list of schools and dispensaries prior to June 1st? Please relay to them the urgency we're trying to impart to you.
- [US] We talked about infrastructure last year as well, and had these same discussions. Two years ago we said that if we're not going to build new buildings, let's fix the things that need immediate repairs. So we have a grant here for infrastructure for \$3 million to fix up schools, to get this process moving. [US] This hasn't been discussed, but there are a number of projects like catchment tanks and toilet replacements, covered walkway

replacements, roof replacements, etc. This is \$750K for each state to go out and administer these projects at the state level for repairs—to deal with small requests. We're asking that this be limited to health and education problems, addressing urgent needs. There's no need for professional designs for a water tank. We'd like to get this signed quickly.

- [US] This is 2007 ungranted money that hasn't been obligated but has been allocated by JEMCO. We'd like for you to accept this quickly and start using it. It can be administered by the state governments, just give us a list of what you're going to do with it.
- [FSM] Please give us the proposed resolution and I'll review it.
- [US] Can you discuss plans for the Infrastructure Maintenance Fund, and the unspent money in that fund? This is a big chunk of unused money that only requires matching funds for use, and the process has failed to allocate funds for this. My thought was that this is a perfect thing for FSM Congress to contribute into a pot, which could then be sub-allocated into election districts, if need be. It's ridiculous for this money to just sit there.
- [FSM] We're working with the States on this. \$109K set aside in Kosrae. Chuuk was looking at \$600K, but that's coming from the ADB loan and we're trying to discourage debt. [FSM] We really need a status report on amount of cash that has been set aside for each government. I know Pohnpei state has done that--\$800K for '07. We agreed in our last meeting here that each of the governments will have their own accounts rather than tracking this at the national level. Pohnpei has put up their share of '06 and '08 and there's a bill before Congress for more.
- [US] If you used it all in '09, we'd need \$6.5 million. The FSM should provide a status report from each of the governments explaining those accounts. [FSM] If the states have started using money in that account, can we send you the deposit reference for that account? Why wouldn't they ask for the money straight away?
- [US] A year ago at this meeting we were talking about toilets and water. Use this money to do something about this. Repair toilets, get drinking water flowing.
- [FSM] Chuuk state has received authorization that their match will come from BSS loan from ADB.

Financial Management Information System

- Chuuk was installed last month and we've issued a notice to proceed to Kintera to install national government, which will complete installation of the core modules. We're looking at beginning post-core activities in October and November. Because of recently approved grants made available via the carryover funds, that will be used to pay for post-core modules, including the budget module, fixed asset module and an advanced reporting module. This will take an additional six months. Our project manager, Bill Oakes, maintains a website with regular weekly reports. The recent reports are positive. As Nik pointed out yesterday we're doing extensive training in the four states to make sure the installation lasts.
- There is a concern that the funding we plan to use for post-core, FY-04 capacity building, which we need to extend for installation. [US] If you give us a timeline we can extend the award for you.

- We've also hired a full-time project manager to replace Bill Oakes who works for the Graduate School as an interim manager. We have now hired a full-time project manager who will be starting work Monday, April 21st, which is a positive step.
- Just note that the work of John Schnebly and Debbie Milks will end with this project and we ought to be strategic about trying to continue their involvement.
- [US] What is the status of the uniformity of the chart of accounts? It's very helpful to us as grants managers that textbooks are called textbooks and are classified consistently as such in each of the different budgets budgets. [FSM] That's definitely our goal to make sure the COA stays uniform.
- [US] For clarification, what is the use of the carryover funds? [FSM] The source is mostly '04 carryover and other carryover totaling \$700K to install additional modules to provide complete accounting software that we will need.
- [US] Are you budgeting for maintenance of the systems? [US] We're well aware of this and are already budgeting for maintenance. All the governments are budgeting for this and are paying the company for maintenance. [US] Note that that is not an infrastructure cost and is ineligible under infrastructure. [FSM] Most of us are using local funds to pay for maintenance, since it's our responsibility.
- [FSM] On post-core modules, in Yap we've been using Fundware for fifteen years now. Is it possible to include a control in the system that controls certification when funds are obligated. This has been going on for a long time, and it would be helpful for flags to appear when funds are unavailable. Is this possible? [FSM] We do have some minor issues we need to deal with, and perhaps this is one of them. [GS] That feature is available and can be turned on or off, but may not currently be on. [US] This came up in Kosrae where they're over-obligating funds. I'd encourage you to turn the switch on.
- [FSM] We're interested in keeping John and Debbie around as long as possible, not only for the Fundware system but for other areas in which they can be helpful.
- [US] This is a real milestone that we have been discussing for many years. We're happy to finally be at this point and this is a real achievement to be proud of. We look forward to common reports that we can all get used to.

Chuuk Financial Controls

- [FSM] Tom, I've shared with you recent reports on progress in Chuuk. I'm pleased to report that progress in Chuuk to help their Dept of Administrative Services manage the \$1.5 million awarded to National to provide close and constant oversight, progress has been made and continues to be made. We've spent approximately \$257,718 of the \$1.5 million as of April 9th, which includes: \$18K cost sharing to supplement the salary and benefits of the director of finance. The installation of the new director of finance in Chuuk has led to significant changes that have stabilized financial controls within the department. He has also made important management changes within key staff, restored general fund payment and full payroll. [US] Are all the allotments currently paid? [FSM] Yes, a lot of them are paid with help of a grant from China, \$3.5 million. Gillian can give you an estimate of budget surplus figures they're estimating as a result of the new controls that are being put in place. We have recently been able to clear about \$10 million in liabilities, including purchase orders, medical referral claims, and others that have been cleared as a liability. So the estimated general fund deficit was at

\$40 million and is now substantially less. Other uses of \$1.5 million include our share of the salary cost \$9,000, for the budget officer, Perez Graham.

- We had hired a US CPA as financial advisor in January, but unfortunately he worked for three months before resigning. This puts us in a difficult position, but we are making progress and are concerned about working towards completing the '07 audit in June, which is why I'm working with the Graduate School to help us by providing John Schnebly in Chuuk, prior to returning to the national government to help with conversion. We're in the process of recruiting a replacement for Steve French. I also discussed with John the possibility that we might bring him on board full-time, as we're interested in keeping this guy around as much as possible. We're looking at the \$1.5 million as a source, but are interested in other sources as well. We budgeted about \$100K for this position to attract a good person to come and help us. We now plan to deobligate that amount.
- We've recruited another Filipino CPA from Chuuk to help us with the accounting department, focusing especially on component units—helping them put together financial statements. This individual was recruited from finance in Chuuk as an accounting advisor as we recruit a tax advisor as well. The budget for this position is \$24K.
- [US] If you could provide a written copy we'd appreciate that. We're concerned about the quality of some of the advisors and accountants that you recruit from the Philippines. [US] Gillian did you have input into the hiring of the CPA? [FSM] Yes, I had recommended that the CPA be hired. [US] Are you satisfied with his credentials and professionalism?
- [US] We all feel this is a significant accomplishment. Have you gotten cooperation from the rest of the government in Chuuk state—elected officials and otherwise. [FSM] I have many battles, but the Chuuk state government is forced to be receptive to what we do, even if they are not pleased. Dealing with CFCC has made my battles more difficult, and I'd rather develop a better partnership relationship with CFCC so that we can work together to solve Chuuk state problem. I battle them daily and would rather concentrate on more important areas. [US] What is the nature of your problems with CFCC? [FSM] Communication is a problem. Alan prefers to write to OIA directly rather than deal with me. We're trying to meet regularly to improve this. The overall problem with CFCC is that it creates an operational bottleneck for Chuuk State. I have to admit that without CFCC the controls would be shattered, so we need them there, but we need them to be cooperative. We know what the problems are: I communicate to Alan and he communicates to you guys. [US] We'd be happy to take a role in working this out. I'm glad to hear you say that you understand the need for CFCC. My belief is that they need to continue to play a role until there's an objective track record of performance in Chuuk state, much of which we attribute to you personally which I applaud. However, if you were to leave your office we'd lose that progress, and until there's demonstrated progress through the audits we need to keep CFCC in place. [FSM] There is a unique situation in Chuuk and finances there will never be a top priority. I don't want my work there to go away, and I need to keep CFCC around providing oversight. But I think the controls should be under Chuuk state and not under the Compact.
- [FSM] We have made significant progress in Chuuk, with a budgeted surplus much of which is due to my employees for a job well done. [FSM] A big liability in Chuuk is

land purchase and lease agreements. Gillian just hired a legal person to look into this, from the \$1.5 million. It may be hard for the state to pay off those debts. [FSM] We budgeted \$50K for that purpose. If they can utilize that attorney it will help with further reduction of debts. The importance of this activity is that it has contributed to the disclaimer on the audits. [US] We just finished the land surveys for schools and dispensaries. Could we request that these be prioritized for the new legal person to review? Education is trying to hire their own lawyer for this, which we'd rather they not do. [US] We need this type of update quarterly on the use of that \$1.5 million.

- [FSM] Can you update us on the ADB study on the valuation of land in Chuuk? [FSM] We've been pushing legislature to make that into law, but the governor has issued a directive. Perhaps we should revisit the court judgments as some of those findings are outrageous, now totaling \$30 million.
- [US] Are there any plans to shore up the personnel functions of your office? [FSM] There is now a public service commission that is not under finance. [US] How does the commission work in relation to your office? [FSM] The chairman of the PSC has the idea that he can go directly to OIA or CFCC for funding is instilled by your own staff. We'll tell them not to go directly to you, but it would help if that message be reinforced by you all.
- [US] We see this as an opportunity to move forward in spite of pressures—political and otherwise. We do want to help Chuuk at every level.

Energy Crisis

- [FSM] We've been speaking about a lot of internal matters here, but we also need to be mindful of the externalities. The energy crisis is a major threat, and we'd like to look at it seriously, including its impact on our ability to meet overarching goals of the Compact. As the value of the dollar continues to erode, we struggle to move forward in achieving our SDP goals. I'd like to ask Jim Stovall to brief us on this generally.
- [FSM] It doesn't seem fair to go through this entire discussion without focusing for a brief while on the energy crisis in the FSM, as anyone paying \$5/gallon for gas would know. The harder part crosses all the grants we're worrying about. The negotiators of the original Compact in '86 included a provision that the US would provide studies and consultations on alternative energy. We didn't know enough at that time to be worried about climate change, but even then there was a sense that islands dependent on oil is not a good thing.
- [FSM] We're faced with a short-term and long-term crisis. We can't bring in alternative energy overnight. What can be done to avoid a train wreck on the cost of energy in the near term? We don't have answers and are not asking for new money, but there may be some ways for us all to work together, to be innovative, to try to confront this crisis in the near term. One possible avenue we've discussed is to possibly use some portion of the infrastructure funds in some way to alleviate pressure on fuel costs in the FSM in the short term, which we throw out for consideration. Perhaps there are other ways to go about things as well. Meanwhile, we also focus on energy efficiency to the extent we can implement efficiency in the FSM and it can have an immediate and positive effect. In the US we only lose about 5% of energy in efficiency, whereas in Micronesia it's closer to 20%. We don't want this to defeat so many of our other efforts.
- [FSM] In the fiscal procedures agreement, there is a provision that discusses the priorities for infrastructure, energy development and renewable energy is included as a

priority. This is not a wide-open door, but it does nevertheless show that this topic was on the mind of those that negotiated the Compact.

- [US] This is an issue we all face, all over the world. I appreciate the issue and we understand that it needs to be dealt with innovatively. I'd just mention that the Secretary of Interior updated a report via the Energy Act, which is available on our website. Pacific Power Association did a report in 2006 and it included the freely associated states with specific recommendations. This may be worth revisiting. I also expect hearings to be forthcoming on this issue. We'll also look into the specific issues that you mention, and I suggest we all look at them and determine what ways we can move forward.
- [US] All of the utilities in the FSM are associated with the PPA, based in Fiji, that OIA helps support. I would urge the governments to use them as a resource, as they explain they are in the energy business, and not the diesel power generator business. They understand alternative energy, rate structures, and the demand side of things to ensure things do run efficiently.
- [FSM] Two weeks ago we hosted a steering committee meeting in which, via the EU, we established an association of utilities in the FSM to look at renewable energy. But before we can get there in the short term there are things that can be done. It would be something that we can consider this under infrastructure.
- [US] It would be good to put this under infrastructure. We'd also appreciate any data you can provide to keep us up to date.

Environment and Climate Change

- This is another external matter, but it is now well known that this can have a significant impact on our economy in the FSM, in which 20% of our population lives in the outer island. 80% of our islands are on low-lying land that depend on farm crops as food substance. But there are problems with taro patches and unsuitable soil due to rising sea levels. What type of infrastructure development will we place out there? What kind of projects will we implement out there?
- We have learned via research that 50% of our domestic revenue is generated from our fishing licenses. If our major source of revenue is impacted it will affect our ability to move forward. Many of our fishing operations are now in Guam, so we look to a compromise solution in which we can speak with Guam with your help. This issue is not going to go away. It is an important issue to us and will remain an important agenda item.
- [FSM] The main issue for us to worry about is not financial since there is a lot of assistance out there these days, both within the US and through multilateral organizations. For the FSM this is not about cutting emissions since their contribution is so small to that problem. The real issue is adaptation. We need to plan for development with the resources available—primarily Compact resources—to provide a strong defense against the onset of climate change.
- [US] We view the Compact as a flexible document that puts a lot of flexibility at the hands of the FSM itself. We've prioritized health and education, but certainly within the environment sector we'd love to see something new and creative to address that. But to date the problems we face is having trouble getting people to pick up garbage. If you

put forward a plan we'll support it, but we see the ball as in your court to develop reasonable adaptations that will work for you.

- [FSM] During President Mori's visit to the Washington, DC, we were made aware of domestic US programs for adaptation. Isn't the State Department involved in much of this work?
- [US] The quick answer is the environment sector grant which has totaled to \$15 million over the last few years. The problem is not financial resources.

Project-Based Proposals

- [FSM] Congress just approved the money that was given to us and we'd like to use it to bring key people from the States to Pohnpei to use put forward plans to address these sectors.
- [US] We agree.

August 2008 JEMCO Meeting

- [US] We all seem to be planning for the last week of August—the 25th. I understand that the FSM would like to have it in Pohnpei, is that correct?
- [FSM] We pay a lot of rhetoric to the partnership spirit of the Compact and we all know that we need to work hard at engendering and contributing to a perception that we are serious about this partnership. Having the meeting in the FSM will contribute to that so we hope you will give it serious consideration.
- [FSM] As a former JEMCO member we agreed that we would try to alternate.
- [US] I think in the spirit of partnership you're absolutely right and we seriously feel that we're family and appreciate the notion of having it in the FSM. I know we'll have a new member from the State Department at that time. In the past it has been good to have it in Hawaii for logistical support. But Washington, DC is an option too. Let's try to decide by the end of next week so we can begin with logistics.
- [FSM] We agree and would like it in the FSM, if not this time then another time, but at some point. Otherwise, we have a strong preference for Washington DC as opposed to Hawaii.
- [US] A meeting in DC would allow participation from other US agencies which might be good. Let's try to get this resolved next week.

Action Items from US

- Key dates for '09 budgets, presented to president by 5/15 with copies to OIA shortly thereafter.
- Consultations will begin 6/4.
- We expect a final RIF list before then end of this month.
- We would like a list of indicators that have been established for health and education.
- We're expecting an annual economic report available by June
- On 2008 Sector Grant Conditions we'd like to get a copy of the write-up from Epel.
- In discussing infrastructure, we strongly suggested that the FSM indicate 10 task orders for new projects developed across the states, prior to June 1st.
- Implement a quarterly through Secretary of Finance on Chuuk activities.

- We'll issue preliminary control numbers for 2010 by August 1st which we'll update regularly.
- We've agreed to look at opportunities for assistance related to energy and climate change.
- We've agreed to solidify the location of JEMCO prior to next week.
- Tom Bussanich will write this up and send this out to everyone.

Closing Remarks

- [US] We appreciate this meeting, this opportunity. These mid-year meetings are meant to move action items forward and I'd like to express my gratitude in discussing specifics on the amount of work to be done. I commend you all, as well as our team on the US side, including State and HHS. I'm proud and with all seriousness I appreciate the efforts of our Hawaii OIA staff. They travel frequently to the FSM spending hours and time there and we appreciate their efforts. In expressing my gratitude I'd just like to say also that there is a lot to be done.
- [US] We look to SBOC to be the leaders in the FSM in coordinating work in the States. It's important that communication really be open and I would suggest weekly conference calls among technical people in the states and SBOC, and perhaps weekly calls to our office in OIA when practical. Many times we meet at JEMCO and mid-year with business in between, but it would be good to keep a checklist of what's been done from year to year. I'm not saying that nothing was done—we've dealt with Kosrae and Chuuk's financial situations—but there's much that we need to do to move forward.
- [US] Lastly, I'd like to recommit ourselves to work. It's going to be difficult every year, as resources are squeezed and limited. I appreciate the work everyone does and I recommit all of us on the US side to action. Thank you.
- [FSM] Likewise, on behalf of the FSM delegation, I extend our appreciation for this opportunity for this open exchange of ideas leading to a better understanding of these issues and our ability to implement the Compact. There has been a lot of rhetoric in this partnership value, but I think it's important. We need an open line of communication as Nik suggests, and we have a lot of challenges ahead of us. We will continue to work, and we thank you for that initiative. We'd like to work closely to ensure that many of the things that need to be done will be done. In that spirit thank you for this opportunity and I commend my colleagues and counterparts from the states for their time and contributions.

3. Additional Information

Please note that a full version of this conference report, inclusive of appendices, can be downloaded online at <http://www.uscompact.org>.