

STANDING COMMITTEE REPORT NO. 14-46

RE: P.C. NO. 13-315/R&D

SUBJECT: FY 2006 BUDGET

SEPTEMBER 20, 2005

The Honorable Peter M. Christian
Speaker, Fourteenth Congress
Federated States of Micronesia
Second Regular Session, 2005

Dear Mr. Speaker:

Your Committee on Resources and Development, to which was jointly referred the National Government's proposed FY 2006 budget, begs leave to report as follows:

Presidential Communication No. 13-315 relates to the National Government's proposed budget for Fiscal Year 2006 as set forth in a publication entitled *National Government Fiscal Year 2006 Proposed Budget* (the "Budget Book"). Pursuant to rule 7, section 2(b), of the Official Rules of Procedure of the Fourteenth Congress of the Federated States of Micronesia, your Committee has confined its review to those portions of the proposed budget relating to matters within its jurisdiction. These are the budgets for:

1. Department of Economic Affairs;
2. National Oceanic Resource Management Authority;
3. Coconut Development Authority;
4. FSM Banking Board;
5. National Fisheries Corporation;
6. Aquaculture Center
7. Grants, subsidies and contributions:
 - a. Third Fisheries Forum Convention;
 - b. UN Environmental Protection Agency;
 - c. Pacific Island Development Program;
 - d. Forum Fisheries Agency;
 - e. Coordinating Committee for Offshore Mineral Prospecting;
 - f. Pacific Asian Travel Association;
 - g. United Nations Development Program;
 - h. Seaframe Project;
 - i. Food Agriculture Organization;
 - j. Western Forestry Leadership Coalition;

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- k. FAO/TCP Matching;
- l. National Speech Contest;
- m. Copra Subsidy;
- n. Asia Pacific Coconut Community; and
- o. Tuna Commission Membership Fees.

8. Capital & Human Resources Development:

- a. FSM Visitors' Bureau;
- b. Economic Statistic Unit;
- c. Crop Production Improvement; and
- d. Privatization of Public Enterprises.

Your Committee conducted a series of public hearings and committee meetings following the convening of Congress on May 11, 2005. The report and recommendations that follow are based upon the information and input provided by the Acting Secretary, directors, and staff of the various departments, agencies and entities during those hearings as well as written comments and the most recent National Government Expenditure and Performance Reports.

This report, and all previous and subsequent reports of this Committee, should be treated as reflecting policies of the Federated States of Micronesia, as defined by the Congress. It is the intent of your Committee that any commentary found in this report should be treated as policy for the guidance of the relevant departments, agencies and entities.

The findings and recommendations of your Committee are set out in detail below.

INTRODUCTORY COMMENTS

Your Committee is concerned that the Department of Economic Affairs' stated program objectives, contained in the Budget Book, lack a clear statement of strategic direction for what is a very important department. No reference is made to the Strategic Development Plan (the "SDP"), and no attempt has been made to harmonize the Department's goals with the activities identified in the SDP.

The primary focus of the Department must be the future development of the FSM. It is the firm belief of this Committee that such development cannot be achieved without careful planning and strategic direction,

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however, this is clearly lacking from the statement of objectives in the Budget Book. The formulation of the Department's objectives leaves the Committee with doubts as to whether the Department can effectively manage its responsibilities.

In addition, the Committee is of the opinion that the annual plan submitted by the Department fails to comply with the requirements of title 55, section 103 of the FSM Code. Section 103 requires that the annual plan identify the Department's expected accomplishments for the year. If possible, those planned accomplishments are to be expressed in a form that permits the measurement of actual performance against the plan. While there are some clearly quantified goals set out for the Department, for the most part, the Department's FY 2006 plan merely describes its day-to-day operations. When the Department states that it will "continue to facilitate the FSM agriculture sector development"; "continue to facilitate the FSM marine resources development and management"; and "continue to facilitate tourism development" it is simply describing the overall responsibilities of the Department. Such statements give no indication of what will actually be accomplished during the coming year.

The plan does identify a number of specific goals relating to the preparation of certain reports and conduct of a certain number of quarantine inspections. However, overall, the objectives are so general as to be meaningless and provide no basis for evaluation of the Department's performance. Moreover, they leave Department employees with very little guidance as to what they are expected to achieve during the year.

The Committee notes that there are a number of position vacancies, including vacancies for positions that are critical for the effective operation of the Department. Your Committee urges that they be filled as soon as qualified personnel are available. The committee is disappointed that the funds for these vacancies are being used for other activities and we strongly discourage this practice. Ultimately, if it is not possible for the Department to fill these positions, your Committee will recommend that they are defunded.

The Committee reiterates its words of caution that the Department and each of the entities under its jurisdiction should limit international travel to essential activities, and focus their resources on increasing collaboration with their appropriate counterparts among the states. Your Committee notes that the primary function of the Department is to act as a National facilitator for development. As

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such, the Department's focus should be working with the States to assist them to achieve their Development goals. On this basis, it is the view of the Committee that it should be largely unnecessary for staff from the Department to undertake international travel.

Travel of any kind should only be taken for the purpose of furthering the objectives of the SDP and IDP and in any event, we urge that international travel be coordinated within and among departments and agencies of the government. Where international travel to conferences does occur, the Committee requests follow-up reports which document the specific benefits to the country of those trips.

It is an issue of concern to your Committee that the National Government continues to subsidize unprofitable entities to such a significant extent. In many instances these entities have little or no prospect of ever becoming financially viable and the benefit to the FSM in their continued operations is not apparent. However, the Committee hopes that under the leadership of the new Secretary of the Department, there will be an improvement in this area. Your Committee therefore recommends that subsidies to these entities be continued for FY 2006, but requests that careful consideration be given on a case by case basis to how National Government subsidies to these entities can be phased out. Possibilities for achieving this may include, preparing entities for financial self-sufficiency or transferring responsibility for particular concerns to the States.

DISCUSSION OF THE FY 2006 BUDGET

The appropriations discussed below are presented in the order in which they appear in the Budget Book. The figures given for each department or agency include the total amount appropriated in FY 2005, including any supplemental appropriations; the amount requested by each entity for FY 2006, as listed in the "2006 proposed" column in the Budget Book; and the total amount recommended by your Committee for FY 2006.

1. DEPARTMENT OF ECONOMIC AFFAIRS

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Personnel	774,563	830,535	830,535
Travel	143,982	140,315	95,670
Contractual Services	25,475	3,309	5,309

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Other Current Expenses	110,733	106,599	121,599
Fixed Assets	16,600	10,000	10,000
Total	1,071,323	1,090,758	1,063,113
No. of Employees	58	59	58

Overall the request for the Department represents an increase of \$19,435 from FY 2005. The most significant change is in the level of funding given to the Division of Agriculture, with increases in the number of quarantine inspectors and in the travel budget.

Your Committee notes that in Presidential Communication 13-334 the President requested an additional \$15,000 which had been inadvertently omitted from the Office of Statistics budget. The President's request is therefore in effect \$34,435 more than for FY 2006.

1a. Office of the Secretary

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Personnel	78,053	79,512	79,512
Travel	25,440	25,500	16,279
Contractual Services	150	150	150
Other Current Expenses	11,673	11,673	11,673
Total	115,316	116,835	107,614
No. of Employees	4	4	4

In keeping with your Committee's concerns regarding international travel, as expressed above, your Committee does not believe that travel to the CBD meeting in Brazil (\$7,375) or accompanying the President to the South Pacific Forum meeting (\$5,923) are essential. Your Committee considers that any possible benefit in having additional persons travelling to the meetings would be outweighed by the significant cost of their travel.

Your Committee is concerned about the negative affect of the increasing price of fuel on the FSM economy and would like to see steps taken to utilize alternative energy sources thereby ameliorating the impact. On this basis, your Committee recommends that \$10,000 be

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appropriated to fund research and travel by the Secretary or his designee to identify technologies for harnessing alternative energy sources that would be appropriate for FSM conditions. Upon completion of this project, and in any event not later than July 1, 2006, the Secretary or his designee shall report to Congress on their findings.

In addition, this Committee understands that the European Union has made certain funds available to the FSM to install and operate alternative energy systems. Your Committee urges the Department to take every step necessary to make appropriate use of the grant money available.

While the position of Secretary of the Department has recently been filled, your Committee notes with concern that the position of Deputy Secretary is vacant and has been for some time. The Committee requests a report detailing how the \$54,570 that was appropriated to pay both these salaries for FY 2005 was spent. This report should be provided to the Chairman of this Committee by no later than November 1, 2005.

Except for the items identified above, your Committee agrees with the proposed FY 2006 budget for the office of the Secretary.

1b. Economic Policy

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Personnel	114,407	117,126	138,054
Travel	34,720	34,530	21,278
Contractual Services	21,500	0	0
Other Current Expenses	19,500	19,500	19,500
Total	190,127	171,156	178,832
No. of Employees	8	7	7

As noted above, the costs of international travel undertaken by the National Government is an ongoing matter of concern for your Committee. On this basis, we do not believe that it is necessary for a member of this Division to travel to the JEMCO consultation meeting to be held in Hawaii (\$8,252). The FSM will be well represented at the meeting by the Office of Compact Management and the Department of

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Foreign Affairs. In addition, it is unnecessary for staff from the Division of Environmental and Sustainable Development to attend the Environment Ministers' Forum (\$5,000), as the Secretary of the Department will be in attendance. Your Committee considers that any possible benefit in having additional persons travelling to these meetings would be outweighed by the significant cost of their travel.

Your Committee notes that, while Jesse Giltamag has been undertaking work in Public Enterprise Reform for some time, his salary is still funded under the personnel budget for Fisheries. It is recommended that Mr. Giltamag's salary be funded out of the Public Enterprise Reform personnel budget, within the division of Economic Policy to more accurately reflect the nature of his role. The above increase in the Economic Policy personnel budget is intended to achieve this.

The Committee is disappointed that three economist positions are vacant and have been for some time. We were advised at the Committee hearing during the May 2005 session that part of reason for the vacancies has been the low salary level that attaches to the positions. On this basis, your Committee recommends that the funding for two of the Economist positions (\$29,560 in total) be used to fund one Senior Economist position. This Senior Economist may also play a role in training someone for the remaining Economist position. The Committee also requests a report detailing how the \$44,340 that was appropriated to pay these salaries for FY 2005 was spent. This report should be provided to the Chairman of this Committee by no later than November 1, 2005.

Except for the line items identified above, your Committee agrees with the proposed budget for FY 2006 for Economic Policy.

1c. Sectoral Development

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Personnel	362,157	407,028	386,100
Travel	61,508	61,962	39,790
Contractual Services	3,825	3,159	5,159
Other Current Expenses	36,977	47,927	47,927
Fixed Assets	2,500	2,500	2,500

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Total	466,967	522,576	481,476
No. of Employees	46	48	47

In keeping with your Committee's concerns regarding international travel, as expressed above, your Committee does not believe that it is necessary for staff from this Division to travel to the SOPAC Annual meeting (\$4,780), the HIPAM meeting in Fiji (\$5,509) or the 33rd Conference of Food and Agriculture Organization in Italy (\$11,883). Your Committee considers that any possible benefit in sending staff to the meetings would be outweighed by the significant cost of their travel.

As noted above, your Committee recommends that funding for the salary of Mr. Giltamag be shifted from Sectoral Development to Economic Policy. On this basis, it recommends an appropriate decrease in the Sectoral Development personnel budget and an equivalent increase in the personnel budget for Economic Policy.

Your Committee recommends an increase of \$2,000 to the contractual services budget of the Division of Agriculture for the purpose of hiring staff on an as needs basis to undertake quarantine inspections of vessels and aircraft visiting outer islands where there may not be any permanent quarantine staff. In addition, your Committee urges the Department to fill all vacant quarantine inspector positions as soon as possible.

Except for the items identified above, your Committee agrees with the proposed budget for FY 2006 for Sectoral Development.

1d. Statistics

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Personnel	219,946	226,869	226,869
Travel	22,284	18,323	18,323
Other Current Expenses	42,583	27,499	42,499
Fixed Assets	14,100	7,500	7,500
Total	298,913	280,191	295,191

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No. of Employees	20	20	20
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In Presidential Communication 13-334, the President indicated that \$15,000 for supplies and materials had inadvertently been omitted from the Division of Statistics budget in the Budget Book. This amount is reflected in the above Committee recommendation for "Other Current Expenses".

Except for the adjustment identified above, the Committee has considered and agrees with the proposed FY 2006 budget for Statistics. However, your Committee notes its disappointment that the recent Household Survey did not break down the information collected by region. For example, there were no aggregate figures available for the North West region in Chuuk. Such information is critical to effective government planning and this Committee urges the Department to consider ways in which more detailed information can be provided in future studies.

2. NATIONAL OCEANIC RESOURCE MANAGEMENT AUTHORITY

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Personnel	182,537	192,506	192,506
Travel	79,720	50,000	50,000
Contractual Services	83,700	98,900	98,900
Other Current Expenses	38,400	38,400	38,400
Fixed Assets	13,000	0	0
Total	397,357	379,806	379,806
No. of Employees	11	11	11

Your Committee agrees with the proposed FY 2006 budget for NORMA. However, your Committee notes with concern that in recent times revenues from access agreements have been decreasing. NORMA is strongly encouraged to explore means by which this trend can be reversed.

3. COCONUT DEVELOPMENT AUTHORITY

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	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Personnel	67,217	68,471	68,471
Travel	10,469	10,469	10,469
Contractual Services	22,160	22,160	22,160
Other Current Expenses	9,500	9,500	9,500
Fixed Assets	0	15,000	15,000
Total	109,346	125,600	125,600
No. of Employees	4	4	4

As noted in the introductory comments section of this report, your Committee is concerned that a number of entities are receiving significant subsidies without taking any steps towards achieving financial self-sufficiency. Your Committee recognizes that the Coconut Development Authority plays an important role in generating much needed income for outer island communities and that the nature of its activities may make it difficult to ever become financially independent. However, your Committee urges the Authority to undertake a careful review of its current activities, and alternative coconut products that may not have been considered to date, in order to determine the most effective uses for its resources in the future. The Authority should not assume that National Government funding will continue to be made available.

We request that the Authority work with the Department and the States to prepare a plan for transitioning out of reliance upon National Government Subsidies to be submitted to this Committee by no later than July 1, 2006.

Despite some reservations, your Committee has considered and agrees with the FY 2006 budget for the Authority.

4. FSM BANKING BOARD

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Personnel	66,704	67,949	71,555
Travel	22,400	20,106	20,106

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Contractual Services	11,200	15,700	15,700
Other Current Expenses	21,997	21,996	21,996
Fixed Assets	16,087	3,000	3,000
Total	138,338	128,751	132,357
No. of Employees	4	4	4

In Presidential Communication 13-334, the President indicated that the Banking Board has had significant difficulty filling the banking examiner position, which is currently vacant. In addition, the President noted that the primary reason for the failure of the Banking Board to attract a suitably qualified candidate is the compensation level. On this basis, the President requested that the salary for the position be increased from \$19,794 to \$23,400. Your Committee's recommendation in respect of personnel above reflects this increase.

With the above adjustment, your Committee agrees with the proposed budget for FY 2006 for the Banking Board.

5. NATIONAL FISHERIES CORPORATION (NFC)

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Contractual Services	50,000	50,000	50,000
Other Current Expenses	50,000	100,000	100,000
Total	100,000	150,000	150,000

As noted in the introductory comments above, your Committee is disappointed that it continues to be asked to approve subsidies for entities that are unprofitable and have little prospect of becoming financially self-sufficient. It is therefore urged that a thorough review of all such subsidies be undertaken. Your Committee recommends that the NFC request be approved for this financial year, however, the NFC should not assume that further funding will be made available in the future. In addition, your Committee urges the NFC to take all steps necessary to collect the significant debts we are advised remain outstanding. Your Committee understands that were these amounts able to be collected they would be sufficient to fund the operations of the NFC for the coming fiscal year.

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Finally, we request that the NFC work with the Department and the States to prepare a proposal for transitioning out of reliance upon National Government Subsidies. This proposal should be submitted to the Committee by no later than July 1, 2006.

6. AQUACULTURE CENTER

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Personnel	37,908	38,617	38,617
Travel	11,534	11,534	11,534
Contractual Services	14,874	14,874	14,874
Other Current Expenses	27,517	23,389	23,389
Total	91,833	88,414	88,414
No. of Employees	4	1	4

The Budget Book indicates that the staff of the Aquaculture Center is to be reduced from 4 to 1. Your Committee has been advised that this is the result of a typographical error. While your Committee recommends approval of the personnel budget for the Aquaculture Center, it is on the understanding that all four staff will be retained at their FY 2005 salary levels.

Your Committee notes that the SCR for the FY 2005 budget requested that the Department prepare a report detailing the feasibility of operating this center as an independent agency beginning in FY 2007. This report has not been forthcoming. While your Committee recommends approval of the FY 2006 budget request for the Aquaculture Center, it will not recommend any further funding approvals without having had an opportunity to consider the report requested.

As with many entities currently subsidized by the National Government, your Committee believes it is essential that careful consideration be given to whether the benefits of continued support outweigh the cost.

Your Committee has considered and agrees with the proposed FY 2006 budget for the Aquaculture Center.

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7. GRANTS, SUBSIDIES & CONTRIBUTIONS

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
Third Fisheries Forum Convention	0	13,558	13,558
UN Environmental Protection Agency	600	600	600
Pacific Island Development Program	15,000	15,000	15,000
Forum Fisheries Agency	21,000	21,000	21,000
Coordinating Committee for Offshore Mineral Prospecting	15,000	40,000	40,000
Pacific Asian Travel Association	5,000	5,000	5,000
United Nations Development Program	3,000	3,000	3,000
Seaframe Project	1,500	7,500	7,500
Food Agriculture Organization	4,700	4,700	4,700
Western Forestry Leadership Coalition	500	500	500
FAO/TCP Matching	0	28,800	28,800
National Speech Contest	0	15,000	15,000
Copra Subsidy	125,000 w- suppl.	75,000	75,000
Asia Pacific Coconut Community	15,500	15,500	15,500
Tuna Commission Membership Fees	16,000 w-suppl.	16,000	16,000
Total	222,800	261,158	261,158

The amount requested for the Coordinating Committee for Offshore Mineral Prospecting has increased significantly from FY 2005 (from \$15,000 to \$40,000). The Department of Economic Affairs has advised that the increase is due to a failure to appropriate sufficient funds in the past, leading to a gradual build up of arrears over the previous four fiscal years. On the understanding that the proposed

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amount will be sufficient to meet the arrears and the annual dues for FY 2006, your Committee recommends that the request be approved.

In this Committee's SCR regarding the FY 2005 budget, we requested that the Department prepare and present a report no later than March 1, 2005, detailing the specific benefits to our nation of continued participation in each regional and international association listed. This report remains outstanding and your Committee requests that it be provided by no later than March 1, 2006.

Your Committee recommends approval of the grants and subsidies listed above for FY 2006, in the amounts requested in the Budget Book.

8. CAPITAL & HUMAN RESOURCES DEVELOPMENT BUDGET

	FY 2005 Appropriations	FY 2006 Request	Committee Recommends
FSM Visitors' Bureau	140,00 w- suppl.	100,000	50,000
Total	140,000	100,000	50,000

Your Committee is disappointed that, to date, no plan has been submitted in regard to proposed expenditures for tourism promotions. We are advised that such a plan will be available shortly. Your Committee therefore recommends an appropriation of \$50,000 now and undertakes to consider a further appropriation once the plan is available.

CONCLUSION

Your Committee on Resources and Development has reviewed the proposed FY 2006 Budget and carefully scrutinized all of the information provided by the Executive and the entities within your committee's jurisdiction. Each of the sums "**Recommended by Committee**" set forth above reflects this Committee's recommendation for funding for the designated activity, program or project for all of fiscal year 2006.

Subject to the conditions and limitations set forth herein, and the availability of funds as determined by your Committee on Ways and

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Means, your Committee on Resources and Development recommends approval of the amounts listed above.

Respectfully submitted,

Manny Mori, chairman

Ramon Peyal, vice chairman

Alik L. Alik, member

Peter M. Christian, member

Dion G. Neth, member

Simiram Sipenuk, member

Peter Sitan, member