

STANDING COMMITTEE REPORT NO. 16-11

RE: PRESIDENTIAL COMMUNICATION NO. 16-11

SUBJECT: (FSMDB) SECURING A \$5 MILLION LINE OF CREDIT

AUGUST 31, 2009

The Honorable Isaac V. Figir
Speaker, Sixteenth Congress
Federated States of Micronesia
First Special Session, 2009

Dear Mr. Speaker:

Your Committee on Ways and Means to which was referred Presidential Communication No. 16-11 concerning the FSM Development Bank (FSMDB) securing a \$5 million Line of Credit from the European Investment Bank (EIB) to be guaranteed by the FSM government begs leave to report as follows:

This was originally submitted to the 15th Congress as PC 15-354. As this request expired with the 15th Congress, it was resubmitted for consideration by the 16th Congress in May of 2009:

The committee held a public hearing on this Presidential Communication 15-354 on Wednesday, March 18, 2009 although they had not yet received a bill on this issue.

Present at the hearing were: Chairman, Dohsis Halbert; Senator, Dion G. Neth; Senator, Fredrico O. Primo; Senator, Joseph J. Urusemal; Senator, Claude H. Phillip; Senator, Paliknoa K. Welly; Senator, Peter S. Sitan; Senator, Moses A. Nelson; Vice Speaker, Joe N. Suka; Pelsesar Petrus, Special Assistant to the President; Director of SBOC, Fabian Nimea; President of the FSM Development Bank, Anna Mendiola; Chairman of the Board, Ihlen Joseph; Secretary of Finance, Finley S. Perman; Peter M. Christian, Secretary of Resources and Development; Senator-elect, Roger Mori from Resources and Development; Lam Dang, Legislative Counsel and Marsha R. Kennedy, Staff Attorney.

According to the President of the FSM Development Bank, the FSMDB has been attempting for the past three to four years to secure outside funding. The FSM Development Bank must have an additional \$2 million per year for the next ten years in order to be sustainable. All together the bank needs \$9 million per year.

Ms. Mendiola stated that the FSM Development Bank has been in negotiations with the European Investment Bank (EIB) for the past four years to secure funding. According to Ms. Mendiola, the European Investment Bank (EIB) is the only bank that will lend money in the Pacific. Originally, the European Investment Bank (EIB) was going to provide a \$3 million line of credit but now the FSM Development Bank is seeking a \$5 million line of credit to avoid having to return for

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another loan over the next three years. If the government will guarantee the loan, the interest rate will be 3.43% rather than between 4.18% and 4.78%.

The committee also questioned the witnesses about why they did not seek a higher loan. The FSM Development Bank President, Ms. Mendiola, stated that the bank wishes to set a good track record before requesting additional money. According to Ms. Mendiola, this is the second loan that they have requested. The first loan was previously repaid.

With a government guarantee, there will be a faster approval and lower interest rate. Mr. Joseph noted that the FSM Development Bank would attempt to move forward even without the government guarantee since the funds are necessary.

The committee questioned the witnesses on how much the FSM Development Bank has been able to collect. According to the bank President, last year they collected \$7 million on loan repayments including \$2 million in interest.

The committee questioned the witnesses about whether there were any stipulations as to how the Line of Credit would be used. According to Ms. Mendiola, the loan would have a ten-year repayment period with a three-year grace period. Although the European Investment Bank (EIB) promotes clean energy and agriculture, the borrowing bank can set loan criteria.

The committee Chair emphasized the fact that Congress does not want to take responsibility for repayment of this loan. Although getting a loan is the most important way to grow a business, the Chair noted that sustainability should be the most important emphasis.

The committee questioned the witnesses on the status of the China grant. According to the President of the FSM Development Bank, the money from China was not a grant but was a \$2 million loan to the FSM at 7% interest with a five-year repayment period and 1-year grace period. That loan was specifically to supplement bank operations.

The committee questioned the witnesses on why they stopped pursuing the concession loan. According to the bank President, this loan required 50% Chinese imports and large projects as well as the Chinese determining where to loan. This current loan offer from the European Investment Bank (EIB) comes with no restrictions.

The committee related their concerns regarding the President's reliance on these funds when the details concerning the loan had not

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yet been disclosed to Congress. According to Mr. Nimea, these funds are available due to the Cotonou agreement that the FSM entered with the European Union. According to Mr. Mori, this is one of the programs that the FSM Development Bank is eligible for under the Cotonou agreement. Under the agreement, it is necessary to enter into economic activities with the European Union by the end of the calendar year.

The committee Chair noted that because of the problems with the IDF that the FSM Development Bank should not publicize lending. Senator Urusemal noted that the publication was too late. Due to the current publication, Senator Urusemal suggested that \$1 million be earmarked to the fisheries.

The Committee also questioned the witnesses about whether or not the FSM Development Bank could reduce its interest rates. The FSMDB's President noted that when the economy is bad that the terms of the loan can be adjusted but not the interest rate. The bank charges 4% over whatever it costs them to borrow money in order to cover their costs. Members of the Committee were concerned about the government being requested to guarantee the loan so that the bank may acquire a lower interest rate but not passing that cost savings along to the borrowers.

The public hearing ended with FSM Development Bank President thanking the Committee for its time and requesting that support for the private sector continue.

Your Committee on Ways and Means, after subsequent consideration by the 16th Congress, hereby disapproves the government guarantee of the \$5 million Line of Credit from the European Investment Bank (EIB) for the following four reasons:

1. The lower interest rate due to a government guarantee is insignificant compared to the large cost that the FSM government would have to bear should the FSMDB default on its payments;
2. The FSMDB will still be able to secure this funding without the government guarantee;
3. The FSMDB's intent to move forward with this loan even without the government guarantee; and
4. The FSM Development Bank has no intent to pass along the interest savings that it will acquire by a government guarantee of its loan to the citizens of the FSM.

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Respectfully submitted,

/s/ Dohsis Halbert
Dohsis Halbert, chairman

Claude H. Phillip, vice chairman

/s/ Setiro Paul
Setiro Paul, member

/s/ Roger S. Mori
Roger S. Mori, member

Fredrico O. Primo, member

/s/ Peter S. Sitan
Peter S. Sitan, member

/s/ Joseph J. Urusemal
Joseph J. Urusemal, member