

Opening Remarks
by
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US-FSM JEMCO Meeting
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Good Morning everyone. It is a great honor to be here in beautiful Honolulu today to represent the Federated States of Micronesia at this Joint Economic Management Committee meeting, together with my colleague, Ms. Evelyn Adolph. This is my first JEMCO, so I would hope that you will be patient with me throughout our meeting.

I would like to begin by extending the greetings of President Emanuel Mori, and the rest of the National and State leaderships and the people of the FSM. On their behalf and on behalf of our delegation here this morning, I would also like to take this opportunity to acknowledge and welcome JEMCO Chairman Nikolao Pula, JEMCO members, Alcy Frelick and *Dr. Nadine Gracia* and the rest of the U.S. delegation from the Department of State, Department of Interior and Department of Education.

We could also not start a JEMCO meeting without giving special recognition to our long-time Department of Interior and Department of State partners Tom Bussanich and Mary Comfort. I must also offer my special thanks to the OIA Hawaii Field Office team members, Stephen Savage, Tim Donahue, Roylinne Wada and Gerald Shea, who have made this year's budget work both enjoyable and effective. We believe that our work with you this year has established a strong precedent for improved budget deliberations in the future.

With me and my colleague today are representatives of both the National and State Governments, whose interests form the basis of our aspiration as a nation for a sustainable future. It is my hope that our meeting will result in positive outcomes and improved understanding of our respective issues, concerns and national, as well as state, perspectives.

Friends, as a new member of JEMCO, I come with optimism and the anticipation that the second five years of our relations under the Amended Compact can move forward from an articulation of the issues and mechanisms, to the development of

real solutions to these issues as long-term partners. After all, that is what the JEMCO is all about: finding solutions.

I am also mindful that Partnerships, by their very nature, are difficult and complex, especially when discussing the best use of limited resources and the appropriate direction to take to sustainably develop the Federated States of Micronesia. Recognizing these inherent difficulties, it is imperative that we not lose sight of our goal of articulating practical solutions to FSM's development issues.

I think that it is appropriate that we meet today on this beautiful island of Oahu, a middle ground between our two capitals, that reflects not only the unique island issues that we face, but also the compromises that we must come to in order to realize this ultimate goal. To accomplish these compromises and to achieve our goal, I believe it is necessary to step back and calmly reassess our reality in a peaceful island environment, such as we have here in Honolulu.

Within this context, I believe we must first recognize that these have been hard economic times for the FSM. Since 2005 our recession has resulted in a drop in the average income of our people from \$1,934 per person in 2005 to \$1,832, in 2007. In the same context, we have faced massive instability and increases in our fuel and food prices that will continue to impact us into the future while our revenue streams from the Amended Compact continue to decline. Unfortunately, the current recession parallels the implementation of the new Compact. Adding to these financial stresses are the negative consequences of the current global economic crisis, which regional projections suggest will expand in the near future.

Our economic difficulties are exemplified by the problems recently faced by two of our States, Chuuk and Kosrae. Both States have responded well, with the help of the United States, with strong reform programs and instituted reductions in their work forces that have resulted in improved economic positions by their respective governments. These activities must be reinforced and continued over the next few years. In Chuuk, reform has resulted in a budget surplus in 2009 and we expect another budget surplus again in 2010 and a continued reduction in its overall debt. In Kosrae, we hope that a new tax regime will help bridge the currently deficient domestic revenue stream. In the meantime, Kosrae and the National Government have worked together to identify full domestic funding for the fourth quarter of 2009 and a full budget for 2010. Balancing funds are from one-time-only sources and cannot be repeated after 2011. Consequently effective tax reform and improved collection are critical to Kosrae's future efforts to balance its General Fund budget. Kosrae's funding plan for 2010 includes an innovative exchange of

approximately \$110,000 of sector funding for a like amount of local unrestricted revenues from the National Government. This is a temporary approach to identifying immediate funding to bridge the gap to enhanced revenues through tax reform.

Since the inception of the Amended Compact, I believe that the FSM has made very significant strides forward to respond to reduced Compact revenues. We have moved from a line-item budget system to a performance based system, as required under the Compact, in a very short period of time. Implementing performance budgeting has not proven to be an easy task even in the most sophisticated jurisdictions. Our achievements over the past five years to totally change our budget system and to establish performance based budgeting are therefore ongoing and quite exemplary. While certainly not perfect, the foundations for improvement have been laid. I suggest, therefore, that JEMCO and our two governments not focus on past deficiencies, but rather on future opportunities.

We also continue to work, at the State and National level, to improve our tax and fiscal policies. It is our hope that within the next year, we will put into place a comprehensive tax reform that will rationalize tax collection and increase tax revenues across the nation.

In the area of education, our goals are the same as yours, to ensure a better education for the current and future generations of our children. President Mori recognizes that our performance to date has not achieved this goal and much work is needed. Declining performance is no longer acceptable and we will take the steps necessary, with your assistance, to reverse this trend.

We must also undertake to improve our health institutions and to focus not only on primary care, but on preventive measures and programs. That is why the FSM is working diligently to improve its performance in building the basic infrastructure for both health and education, which is the current focus of the infrastructure sector grants. And progress is being made in this area. Today, there are \$7 million dollars worth of completed projects, \$37 million more projects currently under construction, \$46 million worth of projects in the design phase and \$54 million in projects pending task orders for design work. The President assures you that moving these projects forward is his highest priority. We are also committed to working with the U.S. to better use the available Infrastructure Maintenance Fund dollars and hope to gain full accessibility of these dollars in the coming year.

And while we recognize the need to implement infrastructure projects that support health and education, we would hope the United States would agree that there is a need to respond to other infrastructure issues as well, including upgrading our energy plants, improving transportation to our outer islands and bring broad-band telecommunications to all of our islands. We would seek the assistance of the United States, along with other multi-lateral partners, to respond to these developmental needs. Within this context, we recognize the need to improve the management of our utility corporations to ensure improved services in the future.

Ladies and Gentlemen, there is much work ahead, whether it is in improving solid waste management or enhancing our private sector environments, to improving our living standards. No one knows that as well as we. And through this knowledge, we continue to seek your patience and creative understanding of our unique development process in the FSM. While it may sometimes appear that we are at odds in our planning priorities, let me assure you that we both are seeking to achieve the same goal, a cleaner, healthier, economically stronger Federated States of Micronesia. Through a holistic partnership, and through our current Compact, we must and will find the solutions to our many issues. On behalf of the President, the Congress, the States, our people, and our delegation here today, let me assure you that we are committed to working with you to make this Compact work through practical initiatives.

Thank You.