

S.C.R. NO. 13-11
2003

COMMITTEE ON RESOURCES AND DEVELOPMENT

JUNE 2,

Your Committee on Resources and Development, to which was jointly referred the National Government's proposed FY2004 budget, begs leave to report as follows:

Pursuant to rule 7, section 2(b), of the Official Rules of Procedure of the Thirteenth Congress of the Federated States of Micronesia, your committee has limited 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 Resources Management Authority;
3. Coconut Development Authority;
4. FSM Banking Board;
5. National Fisheries Corporation; and
6. Aquaculture Center ,
7. Grants, subsidies and contributions:
 - a. Pacific Island Development Program;
 - b. Forum Fisheries Agency;
 - c. United Nations Development Program;
 - d. Coordinating Committee for Offshore Minerals Prospecting;
 - e. Plant Protection Program;
 - f. Pacific Asian Travel Association;
 - g. FSM Coastal Fisheries Consortium;
 - h. FSM Giant Clam (*Tridacna Maxima*) Culture;
 - i. Plant Protection and Quarantine Communication;
 - j. Economic Summit;
 - k. Bio Diversity Property Rights;
 1. Climate Change;
 - m. Vulnerability Adaptation;
 - n. Privatization and Gov't.;
 - o. U.N. Environment Protection;
 - p. Migration Statistics;
 - q. Copra Subsidy;
 - r. Asia Pacific Coconut Community;

8 Capital and Human Resources Development:

c. ~~Capital and Human Resources Development.~~

- a. National Visitors Council;
- b. FSM Business Development Loan Fund;
- c. FSM Household Income and Expenditure Survey Program;
- d. EMPAT Phase III; and
- e. 4th Convention of the FSM Coastal Fisheries Consortium.

Your committee conducted a series of public hearings and committee meetings following the convening of Congress on May 11, 2003. The report and recommendations that follow are based upon the information and input provided by the Secretary, directors, and staff of the various offices and entities interviewed during those hearings as well as the most recent National Government Expenditure and Performance Reports.

GENERAL COMMENTS

Your committee wishes to thank and express its appreciation to the members of the Department of Economic Affairs and the various agencies and organizations represented for their continued dedication and diligence in fulfilling their respective missions. The committee is also pleased to note that the proposed budget for the Department of Economic Affairs is again reduced when compared to the previous fiscal year. We encourage the Secretary and his staff to continue their efforts to improve fiscal responsibility within the Department while maintaining high quality services.

Your committee notes that this is the fourth fiscal year in which the budget is presented under the National Government's "Performance Budgeting" process. The committee understands that the goal of Performance Budgeting is to grant executive personnel broad discretion as a means to more efficiently implement the

general policy directions of this Congress. The committee remains committed to this principle. However, the committee also has a duty to closely monitor the activities of the agencies under its supervision and where appropriate, to comment and provide direction regarding those activities.

The committee cannot fulfill its responsibility without accurate information presented in a clear and simple format. The Department and agencies are encouraged to continue to improve the quality of their communication to Congress. We are hopeful that more complete quarterly Expenditure and Performance Reports will be a positive step in that direction. We also encourage the Department and agencies to continue their efforts to refine both this tool and the performance budget provided in the proposed annual budget. However, these documents do not provide to Congress a clear picture of the economic challenges facing our Nation and the strategic plans that are now in place to address those challenges. For this reason, the committee requests that each Department unit and agency within its jurisdiction prepare a summary report to the committee that clearly describes the major economic challenges within their area of responsibility and the strategic plan(s) that are now in place, or will soon be in place, to meet those challenges. These reports should also clearly describe the mission and objectives of each unit or agency and include a listing of their precise functions.

The committee is greatly concerned about current executive branch efforts to reduce expenditures through "across the board" cuts. The committee believes that "across the board" cuts violate the fundamental premises upon which performance based budgeting can be successfully developed in our country and urges the President and his cabinet to make future budget decisions on a performance basis.

While the committee does not seek to "micro-manage" the purchasing functions of those agencies and offices within its jurisdiction, we do believe that the National Government should actively pursue a program to create a bulk purchasing mechanism for computer equipment. It is our understanding that such a program was considered in the past, but abandoned. We would encourage the Department to take the lead in collaboration with the Department of Finance and Administration in re-instituting that effort. We believe that the Department's expertise in cost-benefit analysis could contribute to such an effort.

The committee has similar concerns regarding maintenance and repair of computers and other equipment. We note that many offices and departments allocate funds for these functions. We suggest that it may be more economical and more efficient to consolidate these functions in one office that would provide services to the entire National Government. Again, we would encourage the Department to use its resources together with those of the Department of Finance and Administration to develop such a program.

The committee has noted a number of position vacancies and urges that they be filled at the earliest possible time that qualified personnel are available. Where positions remain vacant for a considerable period of time, the continuing need for that position should be carefully re-evaluated.

The committee continues its caution that the Department and each of the agencies and offices under its jurisdiction should limit international travel to absolutely necessary activities, and focus their resources on increasing collaboration with their appropriate counterparts among the States. Toward that end, we request that no more than one-third of the Departments travel funds be utilized for international travel and that both foreign and domestic travel be better coordinated within and among Departments and agencies of the government. Where international travel to conferences does occur, the committee requests follow-up reports that document the specific benefits to the country of those trips.

The committee strongly recommends that the Department and agencies continue to critically examine their missions. The committee encourages the Department and agencies to further minimize administrative overhead, clarify staff responsibilities, and place staff, to the extent possible, in the field where the nation may gain tangible benefits.

It will be necessary for the committee to receive more candid, complete assessments of Department and agency issues and needs. There does not now appear to be a strategic focus for the economic development of our country. The committee looks forward to the development of strategic focus in the coming months. The committee intends to work closely with the Department of Economic Affairs and related agencies to achieve this focus and expand the economy of our country.

Finally, the committee requests that the President instruct his cabinet to re-examine the manner in which the revenues of the country have been apportioned among the funding sectors provided under the Amended Compact II. The committee believes that the majority of Grants, Subsidies and Contributions assigned to the Department of Economic Affairs should be funded by Amended Compact sectoral grants and urges that adjustments to the budget be made to achieve that end. The executive should also re-examine the allocation of revenue sources within the Department of Economic affairs to ensure that clear rationales exist for its revenue decisions within the budget. The availability of funding under Compact sectoral grants should always be considered first before general funds are utilized.

Summary of Major Budget Changes

Overall the Department of Economic Affairs recommended budget is approximately \$130,000 (10 %) less

than their FY2003 appropriated budget. Personnel costs have remained flat while all other areas of the Department's budget have been reduced by at least 15%.

Recommended funding for the Boards, Commissions, authorities and Special Programs under the jurisdiction of this committee has, in total, also been reduced below FY 2003 appropriated budgets by approximately 10% and the recommended air freight subsidy is less than one-half of the amount last granted to the National Fisheries Corporation.

Grants, Contributions and Capital and Human Resources Development programs have increased due to a significant number of new program initiatives that are being undertaken by the Department of Economic Affairs to create improved conditions for economic expansion in our country.

Following is a detailed presentation of the committee's findings and recommendations {committee's recommendations are underlined).

I.	<u>DEPARTMENT OF ECONOMIC AFFAIRS</u>	<u>TOTAL: \$1,238,101</u>
A.	Office of the Secretary	
1.	Positions, Salaries and Benefits	
	Recommended by President	4 at a total of \$18,053
	<u>Recommended by Committee</u>	<u>4 at a total of \$78,053</u>
2.	Travel	
	Recommended by President	\$ 22,686
	<u>Recommended by Committee</u>	<u>\$ 22,686</u>
3.	Contractual Services	
	Recommended by President	\$ 500
	<u>Recommended by Committee</u>	<u>\$ 500</u>
4.	Other Current Expenses	
	Recommended by President	\$ 16,673
	<u>Recommended by Committee</u>	<u>\$ 16,673</u>
5.	Fixed Assets	
	Recommended by President	\$-0-
	<u>Recommended by Committee</u>	<u>\$-0-</u>

B. Economic Policy

- 1. Planning and Economic Management
 - a. Positions, Salaries and Benefits

Recommended by President 6 at a total of \$ 91,860
Recommended by Committee _____ 6 at a total of \$ 91,860

- b. Travel

Recommended by President \$ 39,419
Recommended by Committee _____ \$ 39 419

Your committee notes that 40% of the travel budget is allocated to international trips and the remaining 60% specifically earmarked for Performance Based Budgeting Training. The committee hopes that the budget training will result in tangible improvements, but again cautions that it is this committee's continuing policy to encourage the use of travel funds to expand coordination and interaction with State and local governments to produce tangible economic growth for our country.

- c. Contractual Services

Recommended by President \$-0-
Recommended by Committee _____ \$-0-

- d. Other Current Expenses

Recommended by President \$ 8,000
Recommended by Committee _____ \$ 8,000

- e. Fixed Assets

Recommended by President \$-0-
Recommended by Committee _____ \$-0-

- 2. Environmental and Sustainable Development

The committee again states its belief that the title "Environmental and Sustainable Development" is confusing and does not accurately reflect the duties of the unit. The Department should, in light of changes in staffing levels and roles and responsibilities in recent years, reassess the current mission of each unit and restructure and title units as needed once this reassessment is completed. The committee also encourages the Department to complete and implement its proposed National Environmental Framework for Action in advance of the next Economic Summit.

- a. Positions, Salaries and Benefits

Recommended by President 3 at a total of \$42,492

Recommended by Committee _____ 3 at a total of \$42 492

b. Travel

Recommended by President \$ 21,986
Recommended by Committee _____ \$ 21,986

c. Contractual Services

Recommended by President \$ 500
Recommended by Committee _____ \$ 500

d. Other Current Expenses

Recommended by President \$ 14,499
Recommended by Committee _____ \$ 14,499

e. Fixed Assets

Recommended by President \$-0-
Recommended by Committee _____ \$-0-

3. Public Enterprises Reform

This unit was added to the Department in FY 2000. The unit is responsible for facilitating the conversion of certain public enterprises to private companies and to increase productivity and efficiency among those public enterprises inappropriate for transfer to the private sector.

a. Positions, Salaries and Benefits

Recommended by President -0- at a total of \$-0-
Recommended by Committee _____ -0- at a total of \$-0-

The unit has been staffed by consultants since its inception. The Department stated in FY2001 that it expected this to continue for the next 2-4 years. The Department indicated then that Asian Development Bank officials have stated that they could continue the technical assistance in this area for a 2-4 year period on an intermittent basis. The committee has in the past encouraged the Department to integrate Department staff into this program as soon as possible, with the ultimate goal of phasing out external staff, and does so again at this time.

The committee notes that the program has now been in effect for approximately four years at a cost in excess of \$200,000. Your committee strongly urges that the Department re-evaluate this program and determine whether to integrate the program into the Department.

b. Travel

b. Travel

Recommended by President \$ 8,479
Recommended by Committee \$ 8,479

c. Contractual Services

Recommended by President \$ 23,000
Recommended by Committee \$ 23 000

d. Other Current Expenses

Recommended by President \$ 2,000
Recommended by Committee \$ 2,000

e. Fixed Assets

Recommended by President \$-0-
Recommended by Committee \$-0-

C. Sectoral Development

1. Trade and Investment

a. Positions, Salaries and Benefits

Recommended by President 5 at a total of \$ 78,839
Recommended by Committee 5 at a total of \$ 78,839

b. Travel

Recommended by President \$ 23,849
Recommended by Committee \$ 23,849

c. Contractual Services

Recommended by President \$ 3,700
Recommended by Committee \$ 3,700

d. Other Current Expenses

Recommended by President \$ 8,371
Recommended by Committee \$ 8,371

e. Fixed Assets

Recommended by President	\$ 2,500
Recommended by Committee	\$ 2,000

As was noted in last year's committee report, a high quality laptop computer now costs no more than \$2,000.

2. Tourism

The committee reiterates its caution that the tourism industry represents one of the most promising areas of the economy for long-term sustainable growth, but that it is our unique physical and cultural attributes that provide the incentive for tourism to our islands. Therefore, the committee again encourages the Department to continue its efforts to develop this resource in a manner that does not negatively impact the local environment or culture.

a. Positions, Salaries and Benefits

Recommended by President	3 at a total of \$52,619
Recommended by Committee	3 at a total of \$52,619

b. Travel

Recommended by President	\$ 9,482
Recommended by Committee	\$ 9,482

c. Contractual Services

Recommended by President	\$ 125
Recommended by Committee	\$ 125

d. Other Current Expenses

Recommended by President	\$ 3,125
Recommended by Committee	\$ 3,125

e. Fixed Assets

Recommended by President	\$-0-
Recommended by Committee	\$-0-

3. Fisheries

a. Positions, Salaries and Benefits

Recommended by President	4 at a total of \$ 55,626
Recommended by Committee	4 at a total of \$ 55,626

b. Travel

Recommended by President	\$ 14,184
Recommended by Committee _____	\$ 14,184

c. Contractual Services

Recommended by President	\$-0-
Recommended by Committee _____	\$-0-

d. Other Current Expenses

Recommended by President	\$ 9,229
Recommended by Committee _____	\$ 9,229

The FY2001 committee report noted: "a significant projected communications expense (\$8,800). This expense reflects the cost of coordinating with the states to implement the Biological Diversity Project. The Project is generally funded by the United Nations Global Environment Facility. The Project will study current laws and regulations addressing the protection of biological diversity in the FSM and prepare a summary of the situation for presentation to the United Nations Convention on the Global Environment. The second phase of the Project will recommend and help implement improvements to the current regulatory and informational framework."

The committee notes that the Department also received \$8,800 in FY2002 and FY2003. The committee would like the Department to report on the status of this program and its recommendations to improve the "current regulatory and informational framework."

e. Fixed Assets

Recommended by President	\$-0-
Recommended by Committee _____	\$-0-

4. Agriculture

Last year the Department reported continuing difficulties in collecting reimbursements on overtime incurred in servicing vessels and aircraft that land outside normal working hours. The committee encourages the Department to continue efforts to develop a system of billing the regular carriers (e.g., PM&O, Continental) on a quarterly or other longer-term basis. The committee maintains its belief that this will reduce the administrative burdens for both the Department and the carriers.

a. Positions, Salaries and Benefits

Recommended by President	13 at a total of \$ 192,096
Recommended by Committee _____	13 at a total of \$ 192,096

b. Travel

Recommended by President	\$ 0,000
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Recommended by President	\$ 9,221
Recommended by Committee	\$ 9,221

c. Contractual Services

Recommended by President	\$ 1,100
Recommended by Committee	\$ 1,100

d. Other Current Expenses

Recommended by President	\$ 16,050
Recommended by Committee	\$ 16,056

e. Fixed Assets

Recommended by President	\$-0-
Recommended by Committee	\$-0-

D. Statistics

1. Positions, Salaries and Benefits

Recommended by President	22 at a total of \$ 219,946
Recommended by Committee	22 at a total of \$ 219,946

2. Travel

Recommended by President	\$ 16,099
Recommended by Committee	\$ 16,099

3. Contractual Services

Recommended by President	\$ 28,382
Recommended by Committee	\$ 28,382

4. Other Current Expenses

Recommended by President	\$ 36,760
Recommended by Committee	\$ 36,760

5. Fixed Assets

Recommended by President	\$-0-
Recommended by Committee	\$-0-

II. AGENCIES OF THE NATIONAL GOVERNMENT

(1) NATIONAL OCEANIC, RESOURCE MANAGEMENT AUTHORITY
TOTAL: \$ 380,787

1. Positions, Salaries and Benefits

The salary of the Executive Director was increased by \$4,280 in the proposed F2004 budget. The committee does not recommend this increase given the financial pressures facing our country and the fact that no other government officials are receiving salary increases in this committee's report. The committee also reminds NORMA that by statute the Executive Director's salary must be set in accordance with this annual budget.

Recommended by President	11 at a total of \$186,817
Recommended by Committee	11 at a total of \$182,537

2. Travel

The NORMA staff are encouraged to combine trips wherever :: possible and to re-evaluate the benefits to our country of participation in each international conference attended by staff.

Recommended by President	\$ 79,720
Recommended by Committee	\$ 79,720

3. Contractual Services

Recommended by President	\$ 83,700
Recommended by Committee	\$ 83,700

Consistent with our general comments at the outset, the committee suggests that the Executive Director or his designee should join with the Department of Economic Affairs to explore alternatives to the current practice of maintaining separate computer/office equipment, maintenance agreements for each department or agency.

4. Other Current Expenses

Recommended by President	\$ 34,830
Recommended by Committee	\$ 34,830

5. Fixed Assets

Recommended by President	\$-0-
Recommended by Committee	\$-0-

(2) COCONUT DEVELOPMENT AUTHORITY TOTAL: \$ 115,533

1. Positions, Salaries and Benefits

Recommended by President	3 at a total of \$ 60,739
Recommended by Committee	3 at a total of \$ 60,739

2. Travel

Recommended by President \$ 14, 634
Recommended by Committee \$ 14,634

3. Contractual Services

Coconut Development Authority requested an increase in funding in this area to extend the services of their Consultant to install and train personnel to operate and maintain new coconut processing machinery. The committee asks the executive to make funds in the amount of \$3,000 available within this FY2003 budget to keep the Consultant here until the beginning of the next fiscal year. This will eliminate the need for an increase in funding in the FY2004 budget of approximately \$7,000 to complete this project.

Recommended by President \$ 28,660
Recommended by Committee \$ 28,660

4. Other Current Expenses

Recommended by President \$ 11,500
Recommended by Committee \$ 11,500

5. Fixed Assets

Recommended by President \$-0-
Recommended by Committee \$-0-

(3) FSM BANKING BOARD TOTAL: \$ 138,384

1. Positions, Salaries and Benefits

Recommended by President 4 at a total of \$ 66,704
Recommended by Committee 4 at a total of \$ 66,704

2. Travel

Recommended by President \$ 22,400
Recommended by Committee \$ 22,400

The committee recognizes the Board's short-term, critical need for legal services. To the extent that the Attorney General's office cannot meet this need in a timely manner, an additional \$15,000 is recommended to allow the Board to address this need with contract services.

Recommended by President \$ 11,900
Recommended by Committee \$ 26,900

4. Other Current Expenses

Recommended by President	\$ 21,537
Recommended by Committee	\$ 21,537

5. Fixed Assets

Recommended by President	\$ 843
Recommended by Committee	\$ 843

4. NATIONAL FISHERIES CORPORATION (NFC) TOTAL: \$ 156,000

The committee again reminds NFC officials that during the FY 1998 budget discussions, they assured this committee that NFC would no longer request funding from Congress after FY 1999. It is FY 2004 and NFC is again requesting \$275,000 as an air freight subsidy. In the future, the committee urges NFC to plan to operate without government funding.

The committee recommends an air freight subsidy of \$156,000, which will provide an average \$3,000 per flight subsidy for one additional flight each week during the coming year. The subsidy per flight amount is based upon the most recent data provided by NFC to the committee. These funds are to be administered by the Department of Transportation, Communication and Infrastructure.

Recommended by President	\$ 275,000
Recommended by Committee	\$ 156,000

III. SPECIAL PROGRAMS

(1) AQUACULTURE CENTER TOTAL: \$ 91,833

The committee requests that the Department prepare a report explaining the feasibility of operating this center as an independent agency beginning in FY 2005.

1. Positions, Salaries and Benefits

Recommended by President	4 at a total of \$ 37,908
Recommended by Committee	4 at a total of \$ 37,908

2. Travel

Recommended by President	\$ 11,534
Recommended by Committee	\$ 11,534

3. Contractual Services

Recommended by President	\$ 14,874
Recommended by Committee	\$ 14,874

4. Other Current Expenses

Recommended by President \$ 27,517
Recommended by Committee \$ 27,517

5. Fixed Assets

Recommended by President \$-0-
Recommended by Committee \$-0-

IV. GRANTS, SUBSIDIES AND CONTRIBUTIONS

The committee has reviewed the requests for annual grants, subsidies, and contributions to the organizations under its jurisdiction. Regarding the regional and international organizations to which our country belongs, the committee urges that better utilization of the technical resources available through these organizations be achieved.

To ensure this result, the committee requests that the Department prepare and present a report no later than March 1, 2004, in which the specific benefits to our country of continued participation in each regional and international association is detailed.

After careful review, the committee recommends approval as follows:

1. DEPARTMENT OF ECONOMIC AFFAIRS:

(a) Pacific Island Development Program

Recommended by President \$ 15,000
Recommended by Committee \$ 15,000

(b) Forum Fisheries Agency

Recommended by President \$ 21,000
Recommended by Committee \$ 21,000

(c) United Nations Development Program

Recommended by President \$ 3,000
Recommended by Committee \$ 3,000

(d) Coordinating Committee for Offshore Minerals Prospecting

Recommended by President \$ 8,000
Recommended by Committee \$ 8,000

(e) Plant Protection Program

The Department of Economic Affairs informed the committee that this is an ongoing, essential program that requires funding and should be continued.

Recommended by President \$ -0-
Recommended by Committee \$ 60,000

(f) Pacific Asian Travel Association

Recommended by President \$ 5,000
Recommended by Committee \$ 5,000

(g) FSM Coastal Fisheries Consortium

Recommended by President \$ 21,000
Recommended by Committee \$ 21,000

(h) FSM Giant Clam (*Tridacna Maxima*) Culture

The committee believes that efforts to assist clam farmers in the States should continue for another year.

Recommended by President \$ -0-
Recommended by Committee \$ 11,440

(i) Plant Protection and Quarantine Communication

The Department of Economic Affairs informed the committee that this communication program has been completed and needs no further funding.

Recommended by President \$ 29,700
Recommended by Committee \$ -0-

(j) Economic Summit

The committee recommends funding at this level for the Economic Summit with reluctance due to a concern that the resulting benefit to our country will not justify this level of expense.

Recommended by President \$ 100,000
Recommended by Committee \$ 100,000

(k) Bio diversity Property Rights .

Recommended by President \$ 20,000
Recommended by Committee \$ 20,000

(l) Climate Change

Recommended by President \$ 25,000
Recommended by Committee \$ 25,000

(m) Vulnerability Adantation

(m) ~~Environment~~
(Pohnpei and Yap)

Recommended by President	\$ 50,000
<u>Recommended by Committee</u>	<u>\$ 50,000</u>

(n) Privatization and Gov't

Recommended by President	\$ 133,120
<u>Recommended by Committee</u>	<u>\$ 133,120</u>

(o) U.S. Environment Protection

Recommended by President	\$ 600
<u>Recommended by Committee</u>	<u>\$ 600</u>

(p) Migration statistics

Recommended by President	\$ 60,000
<u>Recommended by Committee</u>	<u>\$ 60,000</u>

(q) Copra Subsidy

Recommended by President	\$ 100,000
<u>Recommended by Committee</u>	<u>\$ 100,000</u>

(r) Asia Pacific Coconut Community.

Recommended by President	\$ 15,500
<u>Recommended by Committee</u>	<u>\$ 15,500</u>

V. CAPITAL AND HUMAN RESOURCES DEVELOPMENT BUDGET

(a) National Visitors Council

The Department of Economic Affairs reported to the committee that the current balance in this account is approximately \$600,000. The committee recommended funding level for next year will bring the fund to almost \$1,000,000. The committee believes that this amount of funding should allow the visitors Council to achieve all of its objectives in the coming year. Given the significant investment that our country is making in this economic area, the committee requests that the Department prepare a report for the committee no later than April 1, 2004 in which the economic benefits of this program are explained in detail.

Recommended by President	\$ 500,000
<u>Recommended by Committee</u>	<u>\$ 350,000</u>

(b) FSM Development Loan Fund

The committee requests that a report be provided within 90 days explaining current loan and interest rate policies as they relate to world financial markets.

Recommended by President	\$ 1,000,000
Recommended by Committee	\$ 1,000,000

(c) FSM Household Income and Expenditure Survey Program

Recommended by President	\$ 151,524
Recommended by Committee	\$ 151,524

(d) EMPAT Phase III

Recommended by President	\$ 47,000
Recommended by Committee	\$ 47,000

(e) 4th Convention of the FSM Coastal Fisheries Consortium

Recommended by President	\$ 17,405
Recommended by Committee	\$ 17,405

CONCLUSION

Your Committee on Resources and Development has reviewed the proposed FY2004 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 funding for the designated activity, program or project for all of fiscal year 2004.

Subject to the conditions and limitations set forth herein, and the availability of funds as determined by your Committee on Ways and Means, your Committee on Resources and Development recommends approval of the amounts listed above.

Signed by Senators Alik, Neth, Aritos, Figir, Nelson, Asor and Moses