

STATEMENT BY H.E. ASTERIO R TAKESY AMBASSADOR OF THE FEDERATED STATES OF MICRONESIA TO THE UNITES STATES BEFORE THE US HOUSE OF REPRESENTATIVES COMMITTEE ON NATURAL RESOURCES SUBCOMMITTEE ON FISHERIES, WILDLIFE, OCEANS AND INSULAR AFFAIRS

Good afternoon, Mister Chairman, honorable Members and Staff of the subcommittee.

It is an honor and privilege for me to appear before you today on behalf of the Government of the Federated States of Micronesia. I have witnessed many hearings such as this during the decades of the Compact of Free Association, but this is my first time to offer testimony since assuming my post as Ambassador. So, I must take the opportunity to express on behalf of all our citizens the deep gratitude we feel for the oversight of our Compact relationship that this subcommittee has provided so faithfully over many years and now continues to provide.

Unfortunately, time does not permit me in this testimony to describe the background that underlies the Compact. However, to underscore the depth of the relationship between our two nations, let me just point out that there is not a Micronesian today who has known any country other than the United States as our principal source of assistance, and encouragement throughout our long journey into nationhood.

One of the most valuable benefits that our country has received from the United States Congress during the years of the Compact, aside from the grant funding, has been the long-running stream of reports on a wide variety of developmental and financial issues provided by the Government Accountability Office. The latest Report that we address today is no exception. So, Mr. Chairman, let me begin by thanking you and the entire Congress for making the considerable investment of resources that you have made to enable the GAO to do its work in Micronesia. I urge you to continue to support that commitment, because it is both useful oversight for you and indispensable guidance for us.

With respect to the Report we address today, I invite your attention to the comments provided by my Government on August 30, 2013, appearing as Appendix X in the GAO Report. For your ease of reference we have attached those comments to the material submitted for this hearing. As indicated in our comments, while not disagreeing with GAO we do ask that you take account of the progress made by the FSM Government on many of these issues since the data underlying the report was collected, and I hope that the subcommittee will take note of that today.

The GAO quite rightly brings focus to the broad areas where there is need for better performance, especially in the basic sectors of health and education. We do not dispute those findings as of the time of GAO's observations, and in fact in our five-

year Compact Review submitted to this body in June of 2011, we called for many of the same actions they now recommend. Making the best and most effective use of Compact grant funds, together with local revenues, has always been and remains today the biggest challenge both for our National and State governments and for your government. Much progress has been made over the years in fiscal accountability and in the health and education sectors, but we don't have the luxury of dwelling on that progress because so much remains to be done, and the time in which to do it is growing shorter. Nevertheless, it needs to be said that no one should look at the tasks confronting us today and conclude that prior efforts have not borne fruit. There are many success stories to be told about tourism development, increased fisheries revenue, improvements in transportation, communications and infrastructure, to name only a few. Anyone who knew the FSM twenty five years ago and returned today would hardly recognize the place.

Mr. Chairman, I hope that our oral and written contributions today will help to clarify FSM's current situation regarding issues raised in the GAO Report, and will also direct your attention to the FSM's intensive efforts launched by President Mori several years ago to develop and implement policies at the State and National levels looking toward 2023 and beyond.

First off, I would like to address the part of the GAO report that seems to suggest that the FSM is somehow failing to respond to audit findings and generally failing in the area of fiscal accountability. We are perplexed by this tone in the Report, because, quite frankly, the FSM has made some of its greatest progress during the ten years of the Amended Compact in the area of fiscal accountability as is reflected in the most recent audit reports and balanced budgets. Please refer to our comments on the GAO Report appended to my testimony. The suggestion that the FSM might be deserving of a "high risk" classification, with all the attendant hardships that would only compound any real problems remaining in this area, is hard to comprehend.

In the GAO Report, much attention is given to the JEMCO-mandated Long Term Fiscal Framework and how FSM National Government, according to GAO, had not fully complied with the JEMCO resolution that created the requirement. The four FSM States, with considerable assistance from the National Government and giving much to the effort from their own resources had complied, as is rightfully conceded by GAO. Nevertheless, because the National Government was not threatened by the decrement, FSM felt that the four State plans satisfied the JEMCO-generated requirement for decrement planning. The US Members of JEMCO did not agree, however, and so I am pleased to report that you will find attached to this testimony the National Government's recently-submitted component to the Long-Term Fiscal Framework. This document stands on its own, despite any JEMCO mandate, and we invite your close attention to it.

The final section of the document I just mentioned refers to President Mori's establishment of a broad-based, "2023 Committee" with National and State

governments participation, to study the particular fiscal and economic challenges facing our nation between now and 2023, and beyond, and to make recommendations within 18 months (by mid-2015) on policies and measures outside the bounds of government-as-usual, in the form of a comprehensive action plan. The Committee, with the support of its secretariat, the Asian Development Bank and the Secretariat of the Pacific Islands Forum, just completed its second formal session. We anticipate strong support for the work of this Committee from the JEMCO, as it represents the kind of government-wide initiative from within that must be the primary driver of progress toward self-reliance.

Mr. Chairman, when the Amended Compact of 2003 was negotiated, the negotiators took note of the experience of the first seventeen years of the Compact and with the US Congress support made amendments according to the best judgments at that time. Importantly, the Congress foresaw the need for the parties to make further needed course corrections, without waiting for the passage of another full Compact funding cycle. I refer to the five-year reviews that are mandated to take place throughout the 20-year period of Compact grant funding. The US Executive Branch submitted its first five-year report and the FSM Government submitted its own independently, containing a broad set of recommendations for your attention and consideration. While there has been no response from the US Congress and we are now at the stage of the ten-year review, we are very encouraged by this hearing and strongly urge your attention to the FSM's five-year review Report.

A striking aspect of the FSM's Five Year Review is that its detailed and comprehensive economic analysis of the effectiveness of Compact grant funding in the first five years of the Amended Compact remains valid today. The working assumption of the US Government has been that the key to development is through improving the education and health sectors. But education alone falls short if there is no economic opportunity for those whom we educate and they leave. Similarly, an improved health delivery system may not be the best investment for a shrinking population. Now as five years ago, adjustments in funding priorities need to be made. Recently, FSM has been speaking out within the JEMCO calling for tighter budgetary efficiencies in Health and Education and increased focus on how Compact and other US assistance can be employed directly to promote economic development in the near term. FSM's Five Year Review is lengthy and technical, but it is critical to understanding the broad array of recommendations seeking your support, which we have appended to this testimony. These recommendations include, among other things, to address the pressing need for increased contributions to the Compact Trust Fund and a new focus on economic development through institutional reforms in the FSM which we ourselves must take responsibility for, but also Compact support for market-expanding infrastructure.

I would add to that, Mr. Chairman, our appeal to your government for the engagement of the broad array of development support resources within the United States Government if only those that are already provided for by US law, such as the

US Department of Commerce, US Department of Energy, OPIC, SBA, US TR and others.

I also refer to the compensatory program given by the US Congress under the Amended Compact that was supposed to compensate for negotiated and agreed tax incentives under the original Compact, which the US Congress declined to approve. This substitute compensatory mechanism is known as the Investment Development Fund (IDF). It received an initial \$20 million, and performance of the Fund did not live up to expectations. I have to say this happened, in part, because promised US technical support for the Fund's operations never materialized. As stressed in the FSM's Five Year Review the IDF, if now given the additional \$40 million originally authorized, with proper support could become a significant driver of FSM's economic engine very quickly.

As a last comment on the GAO report, FSM must repeat an old request, that in its work the GAO should discuss the two Freely Associated States, the FSM and the Republic of the Marshall Islands separately, not lumped together. We are both island nations with some similarities and shared challenges, and we both have Compacts but not the same Compact. We may be close relatives, but we are not two peas in a pod. To lump us together in your consideration is fair to neither.

In closing, Mr. Chairman, I wish to say yet again what has been said many times before: That both the peoples and governments of the Federated States of Micronesia are profoundly aware of and grateful for our unique relationship with the United States under the Compact, not only because of the benefits and privileges we enjoy but because of the responsibilities that fall to us. For generations now, US Citizens have devoted their time, money and living experience to help advance the people and cultures of the FSM. Likewise, generations of Micronesians have lived, worked and studied in the US, paying taxes and serving in the US Armed Forces. More than a few of us have died in that service. From this common past, our two countries stand together today as partners in the strategic region that is our home, this Micronesia.

There have always been some who believed, and some still do, that a remote and resource-poor island nation like FSM has no chance for sustainability and self-reliance. Our founding fathers believed otherwise, and so do those of us who have followed in their footsteps. Without question we still need your help, but our determination to move toward the goal is as strong as ever.

Thank you for affording us this opportunity today, and I am happy to entertain questions that you may have.