



10th States and National Leadership Conference

Rose Mackwelung Public Library, Tofol, Kosrae

March 18 & 20, 2017

Final Communiqué

1. The Leaders of the FSM State and National Governments held their 10th State and National Leadership Conference (SNLC) at the Rose Mackwelung Public Library, Tofol, Kosrae, March 18 & 20, 2017, under the Chairmanship of the Honorable Lyndon H. Jackson, Governor of the State of Kosrae.

2. The Conference was attended by the following Principals:

- Hon. Yosiwo P. George, Vice-President of the FSM;
- Hon. Wesley Simina, Speaker of the 19th FSM Congress;
- Hon. Lyndon H. Jackson, Governor, State of Kosrae;
- Hon. Tulensa Palik, Speaker, Kosrae State 11th Legislature
- Hon. Johnson Elimo, Governor, State of Chuuk;
- Hon. Reed B. Oliver, Lt Governor, State of Pohnpei;
- Hon. Fernando Scaliem, Speaker, Pohnpei State 9th Legislature;
- Hon. Theodore Rutun, Speaker, Yap State 9th Legislature;
- Mr. Francis Itimai, Director, Department of Youth and Civic Affairs, Yap State, Representative of Hon. Anthony Ganngiyan, Governor, State of Yap;

3. The 10th SNLC was also attended by Honorable Members of the FSM Congress and Senators of State Legislatures; Ms. Joanne Cummings, Deputy Chief of Mission, Embassy of the United States of America to the FSM and Captain Jim Pruett, Commanding Officer, US Coast Guard, Guam Sector; Cabinet Members of the FSM National and State Governments; Members of the Private Sector led by Mr. Redley Killion, President of the FSM Association of Chambers of Commerce (FSMACC); and Kosrae Municipal and Church Leaders.

4. The opening prayer was delivered by Reverend Takeo Likiaksa, who drew inspiration from the Bible, Book of Proverbs, Chapter 16, Verse 3 “commit to the Lord whatever you do and your plans will succeed”.

5. The Honorable Carson Sigrah, Lt Governor, Kosrae State, welcomed the Principals to the State of Kosrae on the occasion of the 10th SNLC and thanked them for taking the time to participate in the Conference.

6. The Honorable Theodore Rutun, Speaker, Yap State 9th Legislature, nominated the Honorable Lyndon H. Jackson, Governor, State of Kosrae, to chair the SNLC, and this nomination was approved by acclamation.

7. The agenda of the 10th SNLC was unanimously adopted with the addition of a presentation by the FSMACC.

8. The heads of the five delegations attending the 10th SNLC delivered their opening statements. On behalf of Kosrae State, the Honorable Tulensa Palik, Speaker, Kosrae State 11th Legislature, thanked State and National Leaders for attending the Conference, and called on Leaders to be architects of a sustainable future as they tackle the issues in front of them and to come up with solutions that links economic growth, social justice and environmental stewardship. On issues of special importance for the State of Kosrae, Speaker Palik highlighted the need to revisit the tax reform, the East Micronesia Cable project, which will connect Kosrae to the fiber-optic cable. Finally, the Honorable Palik shared the concern of Kosrae State Leadership and of its People over the possibility of Nauru Airlines ceasing its flight to and from Kosrae; and sought the assistance of the National Government and the sister-States. In this regard, the Principals adopted 10th SNLC Resolution No.001-To urge the National Government to seek all proper means to sustain the Nauru Airlines flights to Kosrae.

9. In his statement, the Honorable Reed B. Oliver, Lt Governor, Pohnpei State, invited the Principals to reflect on the implementation of Decisions and Resolutions emanating from past SNLCs, and reflect on how to implement the ones that are still pending. Lt. Governor Oliver informed the Leaders that Pohnpei State has a number of issues, which will be introduced at the appropriate time. Finally, Lt. Governor Oliver re-affirmed Pohnpei State's commitment to support the National Government and to work with other States for the advancement of the People of the FSM.

10. The Honorable Johnson Elimo, Governor Chuuk State, thanked the National Government for the invitation to join the 10th SNLC and the State of Kosrae for its hospitality. He called on the Principals to reach decisions that will translate into tangible results for the benefits of the People of the FSM. Finally, Governor Elimo

stressed the need to monitor the implementation of SNLC Resolutions to ensure that issues identified and discussed are ultimately resolved.

11. The Honorable Theodore Rutun, Speaker of Yap State 9th Legislature, also thanked the National Government for convening the 10th SNLC and the State of Kosrae for the excellent arrangements. Speaker Rutun invited the Principals to be guided by the spirit of the ocean that brings the FSM together as a Nation, despite the geographical distance between the four States.

12. On behalf of His Excellency Peter M. Christian, President of the FSM, the Honorable Yosiwo P. George, Vice-President of the FSM, welcomed the Principals to the 10th SNLC. Vice-President George shared some of the accomplishments of the National Government in the area of air transport, implementation of infrastructure projects; and improved trade performance. Vice-President George reiterated the importance of the main topics of the 10th SNLC, in particular health. In this regard, Vice-President George noted with concern the threat that Non Communicable Diseases (NCDs), such as heart diseases, cancer chronic lung diseases, and obesity were serious matters and will soon become a tragedy for the FSM if no swift actions were taken. He urged the 10th SNLC to move beyond Declarations and adopt some bold actions. Considering the importance of issues in front of the 10th SNLC, including State issues Vice-President George concluded by inviting the Principals to approach the discussion with an open mind.

I. National Security Priorities

13. Mr. Leo Falcam Jr., Chief of Staff, FSM National Government, provided a summary of FSM's national defense and security priorities, which will be presented to the US during the Joint Committee Meetings. The Principals noted the following:

1) Physical defense and security

- Deter and protect against the threat of weapons of mass destruction (WMD), and any potential for physical aggression and unlawful incursion into our national boundaries;
- protection and security of Air/Sea transportation, lines of communication, and sea lanes of commerce; and
- protection and security of FSM ports of entry Air/Sea.

2) Economic security

- Detect, deter, and prevent illegal, unreported and unregulated fishing (IUU) within the FSM exclusive economic zone (EEZ);
- detection and prevention of illegal immigration;
- strengthen local labor force through increased capacity building;
- effectively manage and control foreign labor force populations;

- aggressive implementation of economic infrastructure projects; and
- implement deterrence and prevention measures necessary to mitigate the short and long term degrading effects of climate change

Decision

- i. **The 10th SNLC endorsed the list of national defense and security priorities identified by the National Government, which would be shared with the US during the next Joint Committee Meeting.**

II. International Ship and Port Facility Security

14. A presentation was introduced by Mr. Louis Malfin, Acting Assistant Secretary, Marine Division FSM Department of TC&I, and presented by Captain Jim Pruett, Commanding Officer, US Coast Guard, Guam Sector. He provided an overview on the International Ship and Port Facility Security (ISPS) Code under the auspices of the International Maritime Organization (IMO). The Code is an amendment to the Safety of Life at Sea (SOLAS) Convention (1974/1988) on minimum security arrangements for ships, ports and government agencies, which came into force in 2004.

15. The Conference noted that ISPS Code is a comprehensive set of measures to enhance the security of ships and port facilities, developed by the IMO in response to the perceived threats to ships and port facilities. ISPS Code prescribes responsibilities to governments, shipping companies, shipboard personnel, and port/facility personnel to "detect security" threats and take preventative measures against security incidents affecting ships or port facilities used in international trade. The Code applies to ships on international voyages including passenger ships, cargo ships of 500 gross ton (GT) and upwards and port facilities serving such ships.

16. With respect to compliance vis a vis ISPS Code, the Principals noted that U.S. Coast Guard has the responsibility to ensure that all ships originating from all countries, including the FSM, meet the minimum security standards when entering US ports. Some of the issues identified during the five formal port inspections conducted in the FSM included:

- lack of proper identification of people coming in and out of the FSM ports;
- security fencing; lighting; lack of oversight of fishing vessels; no routine search of people and cargo leaving the port;
- lack of capacity building;
- lack of security agreements between the port facility and the shipping companies; and

- limited participation in reciprocal engagements to learn the US implementation of ISPS Code.

17. The most recent formal visit took place in 2014 and a follow up visit was conducted in November 2016. However, little to no progress on resolving issues identified was noted. It is important that all four FSM ports comply with ISPS for the FSM to be considered compliant with ISPS. Failure to comply with ISPS Code will lead to the FSM being added to the Port Security Advisory. Non-compliance can also cause significant delays of the arrivals of the commercial ships resulting in their decision to stop serving the FSM. Additionally non-compliance can cause freight costs of imported commodities to rise hence to be passed onto the consumers.

18. During the discussion, the Principals raised the following issues:

- the authority responsible for putting countries on the Port Security Advisory Lists and criteria used; and
- the importance of boat registration.

19. DCM Cummings reiterated the US commitment to continue to ensure that all information is made available to the FSM Government. She invited the National Government to disseminate the information to all levels of Government and stakeholders; and called on the FSM Leadership to commit to take bold actions to address issues related to ISPS. Finally, DCM Cummings reassured the Principals of the US' support in its efforts to comply with ISPS Code, which are critical for the economic development of the country.

Decision

The 10th SNLC urged continued close and collaborative cooperation with State Governments; the focus of this collaboration must include aggressive and timely implementation of measures and procedures to mitigate the deficiencies noted during the briefing, as well as mobilizing any funding sources available to ensure compliance with the ISPS code minimum security standards.

III. Critical importance of health for FSM citizens and for the FSM long-term socio and economic development (FSM DH&SA)

- **Non-communicable diseases (NCDs) trends**

20. Mr. X-ner Luther, NCDs Section Director, FSM Department of Health and Social Affairs (DH&SA), gave an overview of the NCDs trends in the FSM. The Principals noted that:

- NCDs are categorized as slow and progressive chronic ailment (ie. Diabetes, Hypertension, Cancer, etc);
- all the 4 FSM States have recognized its rampant impact and have declared a State of Emergency due to its epidemic (NCDs Crisis);
- the National Government has instituted an Annual NCDs Summit, which gathers all agencies leading the combat against NCDs, to share best practices and collaborate on opportunities in strategic ways forward out the crisis;
- policy, system and environment landscapes have been adapted/modified in recognition of the NCD Crisis (ie Clean Air Indoor Act, etc); and
- National, State and Traditional Leaders' support and commitment have been proven to be the best channels for ways forward.

Decisions

The 10th SNLC endorsed the Tobacco Tax Bill pending in front of FSM Congress and urged the National Government to finalize the proposed comprehensive Bill on foods and drinks high in salt, sugar and fats and well as a National Declaration on NCDs for consideration by the Principals at the next SNLC.

- **Off Island Referrals Challenges and Manpower Issues**

21. The Honorable Magdalena Walter, Secretary, FSM Department of Health and Social Affairs, delivered a presentation on Off Island Referrals (OIR) Challenges, and highlighted a number of issues; including JEMCO 2014 recommendation on incremental reduction of health sector grant assistance to support international medical referrals starting 2015 and to completely cease in 2017. This has resulted in an increase of funding spent by State Governments on OIR.

22. The presentation also noted that a number of options are being considered by each of the four State Governments, including:

- reimbursing only 50% of medical and 100% of travel expenses and limiting stipend to patient only. Ceasing ticketing for family attendants for Kosrae;
- organizing a Revolving Fund by law for non-insured and ceasing ticketing for patients and family for the next 4 years for Pohnpei;
- mandatory Health Insurance for Government/Private Sector workers for the Chuuk Health Insurance, inclusively in Chuuk State; and
- introducing a mandatory enrollment of Government workers in any health insurance scheme in Yap State.

23. The Principals also noted that some of the States are exploring Health Insurance for farmers/fishermen. The Principals also raised the following issues:

- Identify one of the four main hospitals in FSM and upgrade its infrastructure and standards to become a diagnostic facility for the People of the FSM with respect to certain diseases; and
- support manpower development programs in the health sector.

24. Finally, the Principals adopted 10th SNLC Resolution No. 002 - To Endorse the Establishment of a Diagnostic Health Facility as Remedy to a Referral System, and Support Health Man-Power Development Programs, National Legislative Measures and an Effective Non-Communicable Diseases (NCDs) Monitoring and Surveillance System.

Decisions

The 10th SNLC:

- i. urged the National Government (FSM Department of Health and Social Affairs) to amend the standing JEMCO resolution on Off Island Referral with a view to introduce a cost sharing element and to re-introduce the said Resolution at the next JEMCO meeting;**
- ii. expressed its support for ongoing initiatives to address manpower shortage in the health sector, including FSM Congress scholarship program for FSM citizens and COM-FSM Campus Doctor and Dentist For Tomorrow Program; and**
- iii. directed the National Government (FSM Department of Health and Social Affairs) to develop criteria to guide the establishment of a medical diagnostic center for the People of the FSM.**

• MiCare Briefing

25. A presentation was made by Ms. Arlynne Chugen, MiCare Administrator, on MiCare activities focusing on Off Island Referral. The Principals noted that:

- cardiology and orthopedic remain the two main causes for medical referral in the FSM;
- off-island referral expenses represented 66% of the \$6.8 million spent by MiCare on medical expenses; and
- seven in ten medical referrals are for diagnostic purposes.

26. The Principals discussed a number of issues, including the following:

- progress in resolving outstanding issues between MiCare and Yap State Department of Health Services;

- the amount of money needed to clear MiCare outstanding debts to Medical City Hospital in the Philippines;
- there will be a need for funding support from FSM Congress to help MiCare maintain the premium costs to avoid its increase; and
- whether the issue between MiCare and Genesis Clinic and Hospital has been resolved.

27. The National Government informed the Principals that the proposal for a Diagnostic Facility for the FSM is among the list of ODA priority projects endorsed by the FSM Congress for presentation to Donors at the next Donors Conference tentatively scheduled for May-June, 2017.

Decisions

The 10th SNLC:

- i. expressed its support to FSM Congress Resolution listing the proposal for a Medical Diagnostic Facility among ODA priority projects to be presented at the next Donors' Conference; and
- ii. urged MiCare to provide the Principals with an estimated amount of funding needed to improve its financial situation.
- iii. Express willingness to support MiCare as the Nation's health insurance provider and request FSM Congress' financial support for MiCare

IV. World Bank Fiber-Optic Cable Project

28. Mr. Aaron Warren, ICT Project Coordinator, FSM Department of TC&I, gave an update of ongoing initiatives to connect the remaining three States of Yap, Chuuk, and Kosrae to the fiber-optic cable. Mr. Warren provided detailed information on the status of implementation of the Yap-Chuuk project, which is expected to enter into service in December 2017. The main upcoming events are: May 4, 2017, signing ceremony in Guam; and June 30, 2017, deadline for lifting of Project Disbursement Conditions to make \$17 million in payment due to suppliers.

29. For the East Micronesian Cable (EMC) project, which aims to connect Kosrae to the fiber-optic cable through a sub-regional project between the FSM, Kiribati, and Nauru, Mr. Warren informed the SNLC that the upcoming events were: March 25, 2017, Meeting of the Project Steering Committee hosted by Pohnpei, and May 30, 2017, World Bank review and approval of additional financing grant for Kosrae' participation in the EMC.

30. Mr. Fredy S. Perman, Vice-President and COO of FSM Telecom (FSMTC), informed the 10th SNLC that the report of a study the FSMTC had commissioned on possible options to connect the remaining three FSM States to the fiber-optic cable is available and that the options envisaged in the report may be acceptable to all the parties, including the World Bank. He also informed the SNLC that beginning May 1, 2017, the rate for interstate mobile calls will be same as intrastate mobile calls.

31. The Principals discussed the following issues:

- the status of the Resolution pertaining to connecting the three remaining States to the fiber-optic cable, which was signed by Principals following the 9th SNLC ;
- the implementation of disbursement conditions;
- the need for FSMTC and FSM TC&I to work collaboratively to ensure that Yap is connected to fiber-optic cable ahead of the next Micro games in 2018; and
- the implications for the FSM not meeting certain conditions by June 30, 2017. The supplier may default the FSM and the FSM might end up with a \$35 million debt.

32. The Principals adopted 10th SNLC Resolution 003 - In support of the FSM's World Bank funded ICT Projects and immediate action to meet the project disbursement conditions.

Decisions

- i. **The 10th SNLC noted upcoming events and urgent deadlines to meet the project disbursement conditions before the project defaults.**
- ii. **The 10th SNLC expressed its support to the take the next steps to meet the project disbursement conditions in accordance with the recommendations of the FSM advisors also taking into consideration any recommendations from the report commissioned by FSMTC, which report is forthcoming.**

V. Revisit Tax Reform Proposal (Kosrae State)

33. At the request of Kosrae State, Mr. Rensley Sigrah, Adviser, FSM Department of Finance and Administration, presented the fiscal situation of each State Government and drew a comparison with the projected performance they would have achieve if the tax reform had been implemented. He discussed three of the possible scenarios for revisiting the tax reform:

- re-embrace the proposed tax reform as originally planned;

- consider a partial tax reform; and
- status quo and raise sales tax rate.

34. The Principal discussed the following issues:

- whether there are options that can accommodate the two States that refused to move forward with the tax reform;
- whether it would be possible for Kosrae State alone to move forward with the tax reform;
- the need for further clarification and detailed information on the partial; and
- any option different from the comprehensive tax package is likely not to the financial shortfall envisaged.

35. The Principals adopted 10th SNLC Resolution 004 - To urge the National Government to develop alternative options to reform the tax system of the Federated States of Micronesia.

VI. Briefing on Information Notes

• PMU & PMO Progress

36. Mr. Vince Porrazzo, PMU, briefed the Principals on infrastructure projects throughout the Nation, and the establishment of PMOs. The Principals noted that Pohnpei and Kosrae already have their PMOs operational. Yap and Chuuk PMOs are yet to be established; however, the two States will continue to benefit from PMU's assistance in implementing their infrastructure projects.

37. The Leaders raised and discussed the following:

- the current structure of PMU;
- issues holding back the completion of the Weno Road Project;
- the status of the Gagil-Tomil Road Project and how PMU would assist with the implementation of this and other infrastructure projects, given that Yap State PMO is not yet established; and
- the remaining balance from Compact Infrastructure Grants.

Decision

The 10th SNLC urged State Governments to collaborate with PMU to progress on establishment of the remaining PMOs in line with JEMCO Resolution.

VII. State Issues

• Local Revenue Sharing with the States (Chuuk State)

38. The Honorable Johnson Elimo, Governor, State of Chuuk, expressed appreciation to the National Government for the financial assistance received thus

far and recommended that the National Government should consider supporting the non-insured program.

- **Financial Needs of FSM State Governments (Pohnpei State)**

39. The Honorable Reed B. Oliver, Lt Governor, Pohnpei State, and Mr. Nick Solomon, Director, Department of Resources and Development, Pohnpei State, made a presentation on financial needs of FSM State Governments focusing on the case of Pohnpei. The Principals noted the real unmet financial needs in the areas of education, health, and infrastructure priority projects.

40. The Principals adopted 10th SNLC Resolution 005 - Reaffirming the mandate for all Governments to collaborate on available financial resources in light of unmet needs.

- **Development Projects of FSM States (Pohnpei State)**

41. The 10th SNLC noted the following from the presentation made by Pohnpei State:

- there is need to enhance State's involvement in the selection process of development projects throughout the Nation and to increase alignment of development projects with State and National SDPs;
- recognize that each State has its own specific needs; and
- ODA projects should be driven by the interests and needs of the FSM Governments and not by donors agenda.

42. The Principals adopted 10th SNLC Resolution 006 - To urge the National Government through its appropriate departments and agencies to regularly invite input and recommendations from the state counterparts to ensure that the State and National priorities are clearly aligned for the betterment of our nation.

VIII. FSMACC

43. Mr. Redley Killion, President of the FSMACC addressed the 10th SNLC. The Principals noted the need for the State and National Governments to take actions in the following areas to improve and grow the FSM economy with a view to generate the needed revenue:

- FSM Development Bank and commercial banks' high interest rates;
- Infrastructure Development Fund for capital equity for local businesses;
- land survey and titling;
- general lack of skill manpower development, in particular the need to speed up the implementation of 9th SNLC Resolution 001 to Endorse the Establishment of a National Career and Technical Education School;

- cost of fuel and utilities;
- current tax structure; and
- high cost and poor communication services.

44. The 10th SNLC also noted the Resolutions adopted by the FSMACC Board of Directors during its recent Meeting.

45. The Principals discussed a number of issues, including:
- Chambers of Commerce's involvement in the identification of projects for funding under US Compact Private Sector Development Grants;
 - FSMACC's position on the proposal to centralize foreign investment permit processes at the national level;
 - how to reverse the brain drain and to attract the Diaspora back to assist in the development of the country, in particular those who have used Government scholarships;
 - Chuuk State is in the process of securing a site for a vocational center;
 - the need for Government and private sector to create the conditions for those who are willing to come back do so; and
 - the need for COM-FSM to revisit its curriculum to reflect the needs of the Nation.

IX. Miscellaneous

• Overseas Development Assistance (ODA) Distribution

46. The Principals referred to 10th SNLC Resolution No. 002 - To Endorse the Establishment of a Diagnostic Health Facility as Remedy to a Referral System, and Support Health Man-Power Development Programs, National Legislative Measures and an Effective Non-Communicable Diseases (NCDs) Monitoring and Surveillance System.

• Office of Veterans Affairs

47. Mr. Leo Falcam Jr., Chief of Staff, FSM National Government, provided an update on the establishment of an Office of Veterans Affairs under the Department of Foreign Affairs. The Principals noted the following:

- the Office is already established by Law;
- operating budget has already been approved by FSM Congress; and
- on-going efforts include: administrative actions required for formal establishment, drafting of functional responsibilities and initial recruitment of key personnel.

48. Pohnpei and Kosrae States also updated the SNLC on the status of their respective State Office of Veterans Affairs.

- **Convention on the Rights of Persons with Disabilities**

49. FSM Vice-President George informed the 10th SNLC that the FSM has recently ratified the Convention on the Rights of Persons with Disabilities. In this regard, States will have to redesign some of their buildings; and the National Government stands ready to support them.

- **Uniformed minimum wage**

50. The Honorable Reed B. Oliver, Lt Governor, State of Pohnpei, raised the issue of all the Governments harmonizing minimum wage and salary across the Nation.

- **Public sector reform**

51. FSM Vice-President George informed the 10th SNLC that the National Government has recently received the report of the ADB Public Service Survey. The recommendations, which include among other things the proposal to increase the salary for National Government employees by 3%, are being considered.

- **2018 Micro Games**

52. Mr. Francis Itimai, Director, Department of Youth and Civic Affairs, Yap State, Representative of Hon. Anthony Ganngiyan, Governor, State of Yap, informed the SNLC that Yap will host the Micro Games in July 2018 and conveyed Yap State's appreciation for the assistance received from the National Government.

- **Implementation of SNLC Resolutions and Decisions**

53. The Principals adopted 10th SNLC Resolution 007 - To request that the State and National Leadership of the Federated States of Micronesia establish and adopt a tracking system on all issues, discussions and recommendations at the conclusion of the Conference Agenda for reference and update in future State and National Leadership Conferences.

X. 11th SNLC

54. The Honorable Johnson Elimo, Governor, State of Chuuk, offered to host the 11th SNLC.

XI. Closing remarks

55. The Chair of the 10th SNLC thanked the Principals for their active participation in the discussion and for the successful outcomes.

56. The Principals expressed their appreciation to the Government and People of Kosrae State for their hospitality and the National Government for the logistic arrangements. The Principals also thanked the Chair for his leadership and for bringing the 10th SNLC to a successful conclusion.

Adopted in Tofol, Kosrae, this 21st day of March 2017



Head of Delegation
Chuuk State Government



Head of Delegation
Pohnpei State Government



Head of Delegation
Kosrae State Government



Head of Delegation
Yap State Government



Head of Delegation
FSM National Government