



8th States and National Leadership Conference

COM-National Campus Gym, Palikir, Pohnpei

January 29 - 30, 2015

Final Communiqué

The Leaders of the FSM State and National Governments held their Eighth States and National Leadership Conference in Palikir, Pohnpei, on January 29 and 30, 2015, under the Chairmanship of Honorable John Ehsa, Governor of Pohnpei State and Vice Chairman Marius Akapito of Chuuk State.

2. The Meeting was attended by the following Principals:
 - H.E. Emanuel Mori, President of the FSM
 - The Honorable John Ehsa, Governor of the state of Pohnpei
 - The Honorable James Yangetmai, Lt. Governor of the State of Yap
 - The Honorable Marius Akapito, Lt. Governor of the State of Chuuk
 - Mr. Nena William, Chief of Staff of the State of Kosrae
 - The Honorable Fernando Scaliem, Speaker, Pohnpei State Legislature
 - The Honorable Tulensa Palik, Speaker, Kosrae State Legislature
 - The Honorable Ted Rutun, Speaker, Yap State Legislature
 - The Honorable Nelson Stephen, Floor Leader, Senate, Chuuk State Legislature
 - The Honorable Asaichy Sana, Chairman of Federal & Foreign Affairs Committee House of Representatives, Chuuk State Legislature
 - The Honorable Beauleen Carl-Worswick, FSM Associate Justice
 - The Honorable Aliksa Aliksa, Chief Justice, Kosrae State
 - The Honorable Camillo Noket, Chief Justice, Chuuk State
 - The Honorable Benjamin Rodriguez, Chief Justice, Pohnpei State

3. The 8th SNLC was also attended by Cabinet Members of the FSM National Government, Honorable Members of the State Legislatures, FSM Ambassadors, Members of the Diplomatic Corps, and Representatives of International Organizations, and Members of the Private Sector.

4. President Mori welcomed all the delegations and observers to the 8th FSM SNLC and emphasized the role of the SNLC as a collective decision-making body that has contributed to devise strategies and options to develop the economy with a view to improving the life for the People in the FSM. The President stressed that despite political and cultural differences, the FSM had made great progress in its nation building efforts and should move resolutely to discuss the best strategies to grow economy and mitigate the anticipated budgetary shortfalls after 2023 and avoiding disruption in the delivery of essential public services. In this regard, President Mori presented the 2023 Action Plan, developed in consultations national and state stakeholders, represents the best strategy moving forward; and urged the leadership to adopt and implement the 2023 Action Plan. President Mori commended the FSM Congress for demonstrating their commitment to the 2023 Action Plan by appropriating US\$5 million during FY 2014; and informed the Leadership that moving forward, the National Government will seek US\$15 million annually to finance the 2023 Action Plan.

5. President Mori also addressed the secession movement in Chuuk State and stressed that such a move was a distraction from the current efforts of nation building. He reminded the Conference that the Founding Fathers of the FSM were very much aware of the challenges that the Nation will face; but yet went on to build a Nation with Constitution and institutions based on the concept of unity. Quoting President Tosiwo Nakayama, President Mori encouraged State and National Leaders to remain committed to the legacy of the Founding Fathers and to work hard toward building an ever stronger and united Nation.

6. State Leaders also delivered statements: the Honorable James Yangetmai, Lieutenant Governor of Yap State, reassured the Conference of Yap State's renewed commitment to work with the other State and National Governments to overcome the challenges facing the FSM. He stressed the need for all Governments to do their part in growing the FSM economy in anticipation for 2023 and to renew their commitments to make the FSM another promised land.

7. The Honorable Marius Akapito, Lieutenant Governor of Chuuk State, also reassured the 8th SNLC of Chuuk State's commitment to the ideal of a united Federation. He underscored that the Amended Compact's financial assistance was critical for Chuuk given that it makes up significant part of the State's operational budget; and that after 35 years after its independence, the financial and economic sustainability of the FSM states remain an urgent national challenge. In this regard, the Honorable Akapito urged the 8th FSM SNLC to adopt concrete decisions to

tackle the challenges facing the Nation in order to maintain the survival of the Federation and the sustainability of the States. Lieutenant Governor Akapito concluded by suggesting among other things, the possibility of revisiting the constitutional provisions on the fishing licensing fees and the distribution formula of Overseas Development Assistance to the States.

8. The Honorable Tulensa Palik, Speaker of Kosrae State Legislature, stated that the State of Kosrae has been experiencing financial problems due to the decrement of the financial assistance under the Amended Compact and informed the Conference that the State was receptive to the 2023 Action Plan. Speaker Palik emphasized that without increased revenue sharing from the National Government, State Governments will continue to face fiscal challenges. He concluded by highlighting a number of issues for consideration during the deliberations, including the status of the proposal for a 70/30 revenue sharing discussed during the previous SNLC, whether the fiber optic connectivity will be extended to all the four States, noting that O3B technology is currently contemplated for the State of Kosrae State, and the progress on the FSM Biosecurity Plan.

9. In his remarks, the Honorable John Ehsa, Governor of Pohnpei State, welcomed the Leaders to the State of Pohnpei. Governor Ehsa expressed Pohnpei State's support for the sharing of local revenue (80/20) as discussed in previous SNLC. In addition, He highlighted that Compact grants were too restrictive and that Pohnpei State was sometimes not able to access the funds; and invited the Conference to consider the possibility of using local revenue given that they do not have restrictions. Furthermore, Governor Ehsa suggested that a share of fishing right fees equal to at least FSM's share of Compact funds should be distributed to State Governments, so that State's share of the FSM Compact grants can be directed to State sub-accounts in the FSM Trust Fund. Finally, Governor Ehsa recommended a new approach to move outstanding infrastructure projects forward, which will consist in using the services of the US Army Corps of Engineers, and offered that Pohnpei State could be used in a pilot phase.

10. The agenda of the Conference was adopted as amended by States.

1. 2023 Framework and Action Plan

11. The Office of SBOC delivered a presentation on the 2023 Action Plan. The 8th FSM SNLC noted the consultative process leading to the Plan and the fiscal challenges that the Nation will be facing, in particular the "status quo" scenario between now and 2024 culminating in a projected US\$40.4 million fiscal gap

between 2023 Compact grants levels and interest from the Compact Trust Fund in 2024. The budget shortfall was disaggregated highlighting the shortfall for each Government.

12. The 8th FSM SNLC noted that if concrete actions were not adopted and implemented quickly, the gap will grow after 2024 and result in an ever-decreasing ability to finance social services and economic infrastructure. In this regard, the Leaders acknowledged that the 2023 Action Plan represented the best course of action moving forward, and noted the following key features:

- the 2023 Action Plan focuses on the productive sectors and will complement the SDP as well as State Development Plans and sector-specific policies;
- the 2023 Action Plan recognizes that the following impediments to growth must be tackled moving forward: (1) unattractive business environment; (2) inadequate economic infrastructure; (3) poor access to credit; (4) land issues; (5) an inadequately trained workforce; and (6) relatively high cost of fuel and utilities. In this regard, a number of policy actions and reforms would need to be implemented including adoption and implementation of the proposed tax reforms, completion of a land survey for commercial projects, review of foreign investment laws, streamlining of business license regimes, and establishment of an investment promotion agency; and
- the 2023 Action Plan is innovative given that it has a financing plan and a framework for monitoring progress attached to it. The financing of the Action Plan will be done through a combination of: (1) 2023 Investment Development Fund (IDF) which aims to provide equity capital to private sector investments that have significant potential economic benefit, (2) FSM Development Bank reforms, (3) foreign investment regime reforms, (4) overseas development assistance, and (5) targeted public projects.

13. The SNLC noted that the following have already been initiated: the IDF Bill was submitted to Congress and Congress has already appropriated US\$5million of the required US\$15 million annually to sustain the Fund. Furthermore, the Leaders noted that FSM Development Bank reforms will assist by easing its lending policies and reviewing interest rates and that a key strategy for delivering economic stimulus while structural reforms take effect involves spending the backlog of Compact infrastructure funds on targeted economic infrastructure projects. In this regard, the 2011 JEMCO freeze on project approvals until update of the Infrastructure Development Plan (IDP) must be resolved as soon as possible.

14. During the discussions, the Principals raised a number of concerns, including: whether the adoption of a National Government Long-Term Fiscal Framework will

have an impact on the fiscal gap; the possibility of depositing unused infrastructure grant funds into the Trust Fund; return of unused compact grants to National Government in exchange for an increased share of domestic revenue; the review of revenue sharing arrangements; the possibility of re-negotiating compact economic assistance with the United States and management of FSM airspace; the need to incorporate comments submitted to the 2023 Planning Committee Secretariat into the final 2023 Action Plan; the status of the bio-security plan; the proposed flagship hotel development; and the need for financial assistance to develop the small scale tourism industry.

Decisions

The 8th FSM SNLC agreed to adopt SNLC Resolution No. 001 adopting the 2023 Action Plan as a coordinated and FSM-led approach to addressing the fiscal and economic challenges associated with the conclusion of economic assistance under the Amended Compact of Association with the United States.

The 8th FSM SNLC further agreed to the National Government increasing its multilevel support to the four State Governments considering their current financial and fiscal challenges and the anticipated revenue shortfall after the termination of financial assistance under the Amended Compact and mindful of the set of reforms that they are required to adopt and implement.

2. Investment: improving FSM Business Climate

15. Presentations were delivered by the FSM Department of Resources and Development on activities undertaken to implement recommendations of the 2013 Investment Facilitation Symposium, including the adoption and implementation of time standards by the FSM Supreme Court, Chuuk and Yap State Supreme Courts; the upgrade of the Department website; and the development of the 2014 FSM Investment Guide. With respect to the 2014 FSM Investment Guide, the 8th FSM SNLC noted that it addresses the lack of information on the opportunities available and the steps to starting a business in the FSM identified during the 2013 Investment Facilitation Symposium.

16. The 8th FSM SNLC noted that the 2014 Investment Guide was developed following a consultative process which involved national and state stakeholders as well as relevant agencies and that the document was translated in the Chinese and Japanese languages. In addition, the Principals noted that the next steps in

enhancing investment promotion in the FSM will consist in developing other trade facilitation documents (export guides,...), strengthening the capacity of the FSM Investment Unit, tackling the other key impediments to doing business in the FSM (land issue and the simplification of the regulatory regime).

Decisions

The 8th FSM SNLC agreed to commend the FSM Department of R&D for the work undertaken in implementing the recommendations of the 2013 Investment Facilitation Symposium. The 8th FSM SNLC further agreed to endorse the Draft 2014 FSM Investment Guide as presented and urge the FSM Department of R&D to finalize the Investment Guide in collaboration with State Governments.

3. Coconut Product Development

17. A presentation was delivered by the FSM Petro Corp regarding the development of the coconut industry in the FSM, highlighting the actions undertaken so far, including: adoption of the coconut tree act (PL-18-68) and development of a roadmap to sustainability of the coconut industry. The Principals noted the current challenges facing the company and ongoing actions being implemented, the roadblock envisaged and proposed actions to address those. The 8th FSM SNLC raised the issues of when will FSMPC start buying copra from farmers, whether Caroline Voyager was already in activity to collect copra from the outer islands, and whether there will be processing plants in each State.

4. National Tourism Policy and State Tourism Investment Plans

18. A presentation was delivered by the FSM Department of R&D on the National Tourism Policy and State Tourism Investment Plans. The Conference noted the process that led to the documents, the current status and performance of the FSM tourism sector and the main constraints. The vision of the National Tourism Policy is to “arrest the decline in visitor arrivals over the next three years, then progressively develop the FSM tourism sector to become a leading sustainable tourism destination by 2023. The National Tourism Policy envisages a two stage strategy: first, to put in place the building blocks and consolidate and reform FSM’s tourism industry; and second, use this as a platform to develop future sustained economic growth.

19. In doing this, the Policy emphasizes a highly participatory approach, tourism building blocks, coordination among States to develop a national brand, and more realistic arrival targets. The Conference further noted the six statements of the

National Tourism Policy: (1) provide more effective governance and institutions, (2) increase public and private investment, (3) improve the overall quality of FSM tourism services by focusing more on human resources capacity development, (4) expand tourism product development to increase visitors' length of stay and spending, add value, increase yield and develop niche market opportunities, (5) target a more realistic increase in tourist arrivals over the next three to five years through more effective destination marketing programs, and (6) make the FSM more internationally competitive by improving industry quality standards for sustainable tourism development.

20. Finally, the 8th FSM SNLC noted that for the implementation of the National Tourism Policy, an Action Plan with priority activities, timelines, and responsible agencies was developed. Also, it is proposed to establish a new National Tourism Authority for destination marketing purposes and to strengthen the current Tourism Unit at the FSM Department of R&D.

21. The Principals raised the following issues: whether the flagship hotel referred to in the National Tourism Policy was the same highlighted in the 2023 Action Plan, the need to work with other Micronesian Countries to increase the number of flights into the sub-region, and the need for enhanced coordination between National and State Governments. President Mori briefed the Conference on his recent discussions with a hotel chain in Hawaii interested in starting business in the FSM.

Decisions

The 8th FSM SNLC agreed to endorse the Draft National Tourism Policy and State Tourism Investment Plans and urge the FSM Department of R&D to finalize the Policy and Plans in collaboration with State Governments.

5. Manpower Development: the Regional Workforce Development Strategy

22. The Center for Micronesian Empowerment (CME), which is a member of the Pacific Workforce Investment Workgroup (PWIW), a committee of the Micronesian Chief Executives Summit (MCES), presented a regional workforce development strategy to establish a network of workforce development centers in each of the FSM States using the strategy successfully implemented by CME on Guam. The 8th FSM SNLC was informed that the strategy is designed to increase regional workforce participation in unsubsidized employment and is consistent with the regional workforce development strategy endorsed by the Association of Pacific

Island Legislators (APIL) and the MCES. The program presented to the Principals would be jointly funded by the State and National Governments and would provide tuition to five participants from each FSM State to be selected by CME and the respective State Governments.

Decision

The 8th FSM SNLC acknowledged the importance of manpower development and the strategy presented by CME, and expressed their support for an evaluation of the CME workforce by a third party evaluator known to the U.S. government.

6. Official Development Assistance (ODA)

23. The Office of SBOC provided a presentation on the implementation of the ODA Policy since its adoption, highlighting a number of key actions undertaken, including: (1) undertaking of a PIFS Peer Review follow-up in September 2014 and a South-South exchange in May 2014; (2) development of a database to capture, analyze and report on ODA activities in the FSM; (3) facilitation of complementary activities, including PFM roadmap development; and (4) exploring the feasibility of specific initiatives. The Principals noted that current activities include: discussions with donors and stakeholders regarding the Private Sector Support Facility (PSSF) and collection and analyzing of detailed data on financial assistance to National Government (preliminary report is available). Other upcoming activities include: (1) collection and finalizing of ODA data for detailed ODA reporting; and (2) facilitation of the identification of ODA priorities at State and National levels following the endorsement of the 2023 Action Plan. Following the endorsement of ODA priorities, the ODA division plans to host the second FSM Development Partners Forum (pursuant to available funding).

24. Finally, the 8th FSM SNLC was briefed by H.E. Akilino Susaya, FSM Ambassador to the Peoples Republic of China on Chinese bilateral assistance and the multilateral assistance available to the FSM.

7. Debt Management

25. The Secretary of the Department of Finance and Administration presented the 8th FSM SNLC with an overview of public debt management. The Principals noted that public debt in the FSM exceeds \$87 million and that public debt may create a burden for FSM after 2023. In addition, the 8th FSM SNLC noted that an audit of the FSM public debt revealed inadequate debt management practices. In this regard,

the President has established a Debt Management Advisory Committee to analyze proposed new debt, to create a formal debt management strategy, and to recommend debt policy and fiscal responsibility ratios to Congress. The Principals further noted that in the future, public debt should be managed according to an established policy and legal framework, including National and State debt service accounts, fiscal responsibility ratios, formal delegations of authority, reporting, auditing, and assessment.

26. The Principals discussed whether a debt management policy and strategy would improve or make public debt management more difficult. The Principals recognized that a debt management policy would improve access to credit by FSM Governments, while they also acknowledged that certain critical public infrastructure needs to be subsidized by Government, and that State Governments need to improve capacity to successfully manage public debt.

8. Other National and State Issues

27. The 8th FSM SNLC also considered and discussed issues pertaining United Airlines pricing practices and adopted SNLC Resolution No. 002.

28. Regarding fiber optic connectivity, the 8th FSM SNLC reinforced the standing policy pertaining to the connectivity of all the four States to the fiber optic cable.

29. With respect to the secession movement in the State of Chuuk, the 8th FSM SNLC while respecting the move by Chuuk State, expressed concerns and reservations considering the prevailing context. The 8th FSM SNLC further urged the People of Chuuk to consider the implications of such a move on the political stability of the Federation and the efforts of the Nation in addressing its challenges moving towards 2023.

9. FSM Association of Chambers of Commerce (FSMACC)'s statement

30. Mrs. Katrina Adams, President of the FSMACC addressed the 8th FSM SNLC. Mrs. Adam indicated that the FSM Private Sector was alive; but not very healthy. Every State Private Sector has a number of constraints and impediments affecting business development within their respective jurisdiction. In this regard, the FSMACC is working with the State Chambers of Commerce to identify those issues that must be overcome for economic growth to take off in the FSM and to establish and strengthen ongoing private public dialogue. Mrs. Katrina Adams stressed that in

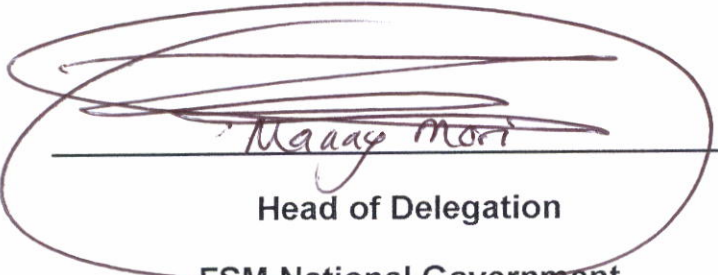
light of the impending 2023 crisis, the time for talking was over and there was an urgent need for action.


31. The President of the FSMACC concluded her remarks by thanking the National Government, which has enabled the FSMACC to be a position to work in partnership with the public sector to grow the FSM economy.

10. Closing remarks

32. The Chair and Vice-Chair of the 8th FSM SNLC thanked State and National Leaders for their active participation during the deliberations and their sense of compromise. State and National Leaders congratulated the Chair and the Vice-Chair of the 8th FSM SNLC for their leadership in conducting the proceedings.

Palikir, Pohnpei, this 30th day of January


Maay Mori
Head of Delegation
FSM National Government



Head of Delegation
Chuuk State Government



Head of Delegation
Kosrae State Government



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