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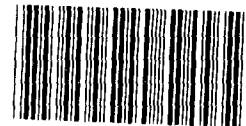
REPORT BY THE
Comptroller General
OF THE UNITED STATES



**The Challenge Of Enhancing
Micronesian Self-Sufficiency**

The Governments of the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands, which are emerging from the U.S.-administered Trust Territory of the Pacific Islands, have been making progress toward becoming self-governing. Enhancing their institutional capabilities and their self-sufficiency will require substantial technical assistance.

Because the United States will have a continuing interest in the long-term development of Micronesia, GAO is making recommendations to help accomplish this objective.



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COMPTROLLER GENERAL OF THE UNITED STATES
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The Honorable James A. McClure
Chairman, Committee on Energy
and Natural Resources
United States Senate

The Honorable John F. Seiberling
Chairman, Subcommittee on Public Lands
and National Parks
Committee on Interior and Insular Affairs
House of Representatives

This report was prepared in response to your October 29, 1981, and February 22, 1982, requests. It discusses the problems the Governments of the Republic of Palau, Federated States of Micronesia, and Republic of the Marshall Islands face in becoming more self-sufficient and the substantial technical assistance the governments need to enhance their institutional capabilities to overcome these problems.

As arranged with your offices, we are sending copies of the report to the principal members of the Micronesia Interagency Group (the Office for Micronesian Status Negotiations, Office of Management and Budget, and Departments of Defense, Interior Justice, and State), the U.S. High Commissioner of the Trust Territory of the Pacific Islands, and the Presidents of the Governments of the Republic of Palau, Federated States of Micronesia, and Republic of the Marshall Islands. Copies are also being sent to various congressional committees and other interested parties.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Comptroller General
of the United States

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ABBREVIATIONS

CIP	Capital Improvement Program
DOI	Department of the Interior
GAO	General Accounting Office
OICC	Officer In Charge of Construction

D I G E S T

Upon termination of the U.N. Trusteeship Agreement, the Governments of the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands, referred to collectively as Micronesia, will become self-governing under a Compact of Free Association with the United States. After the Micronesian governments and the U.S. Congress approve the Compact, the United States will take action to terminate the Trusteeship. In the interim, the United States has transferred nearly all the responsibilities of self-government to the Micronesian governments.

GAO reviewed (1) the institutional capability of the Micronesian governments to plan and administer public-sector programs and services and (2) the conditions and the operations and maintenance of the extensive public works program.

TECHNICAL ASSISTANCE NEEDED TO
ENHANCE INSTITUTIONAL CAPABILITIES

Under the Trusteeship, the United States has been charged with fostering the political, economic, social, and educational advancement of these island peoples. To these ends, the United States has encouraged the formation of constitutional governments, supported the growth of educational programs, expanded the access of the people to modern medical care, and invested extensively in physical facilities as a requisite to economic development. (See pp. 1 to 6.)

Despite these efforts, the Micronesian governments continue to face serious obstacles to becoming more self-sufficient.

--The economy is dependent upon the transfer of U.S. funds. Geographic, social, and public policy constraints--including the remoteness from world markets, limited domestic markets, the inadequate channeling of savings into investments, complex land-tenure systems and other factors--have and continue to limit the growth

of the private-sector economy. As such, government budgets exceed the capabilities of the economies to support them and remain dependent on U.S. funds. (See pp. 7 to 17)

- The Five-Year Capital Improvement Program was an attempt to provide the minimal infrastructure necessary for economic development. Although much progress has been made under this program, a Trust Territory Government status report estimated that \$100 million would be required to fund full scope restoration. (See pp. 18 to 31.)
- The operations and maintenance of Micronesia's capital improvements and support equipment is suffering from a lack of funds, technically capable professionals, qualified trade skills personnel, and planning and work control programs to ensure the operational reliability, protection, and preservation of facilities and equipment. As a result, most Micronesian facilities and equipment are deteriorating and are not operating as intended. (See pp. 32 to 42.)
- Resources to meet increasing demands on health and education services are and will continue to be limited. Micronesian efforts to contain and recover education and health costs have been few or unsuccessful. Separate social security systems may increase costs in comparison to the present Territory-wide system. (See pp. 43 to 49.)
- Micronesia is experiencing public administration problems in financial and personnel management and human resource development. Program managers generally are not receiving timely and accurate financial data; and, when they do, they often ignore it or do not know how to use it. Personnel offices are not systematically identifying staffing and training requirements. Human resource needs are not being fully identified. (See pp. 50 to 57.)

The Micronesian governments lack sufficient managerial and technical expertise and management systems to overcome these problems without assistance. Enhancing these institutional capabilities has required--and will continue to require--substantial technical assistance from multiple sources.

However, a systematic assessment of technical assistance needs and sources has yet to be conducted by either the Micronesian governments or the Department of the Interior, which has legislative authority to carry out U.S. responsibilities under the Trusteeship. Such an assessment is needed to better assure that these governments will make progress toward implementing long-term development plans and toward decreasing their dependence on U.S. funds.

RECOMMENDATIONS TO THE
SECRETARY OF THE INTERIOR

Because the United States will have a continuing interest in the long-term development of Micronesia, GAO recommends that during the period before the Trusteeship ends, the Secretary of the Interior, through the Office of Territorial and International Affairs and in cooperation with the Governments of the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands:

- Conduct a series of assessments of the technical assistance requirements of the Micronesian governments.
- Identify what technical assistance is available and can be provided to the Micronesian governments by the Department of the Interior, other Federal agencies, international organizations, the private sector, and colleges and universities.
- Develop an action plan to guide the provision of all U.S. and other technical assistance to the Micronesian governments. (See pp. 58 to 61.)

AGENCY COMMENTS

GAO provided a draft of this report for comment to the Chairman of the Interagency Group on Micronesia (representing the Departments of Defense, State, and the Interior; the Office for Micronesian Status Negotiations; the Joint Chiefs of Staff; and the Office of Management and Budget), and to the Presidents of the Governments of the Republic of Palau, the Federated States of Micronesia, and the Republic of the

Marshall Islands. (See app. I.) GAO did not receive comments from the President of the Republic of Palau.

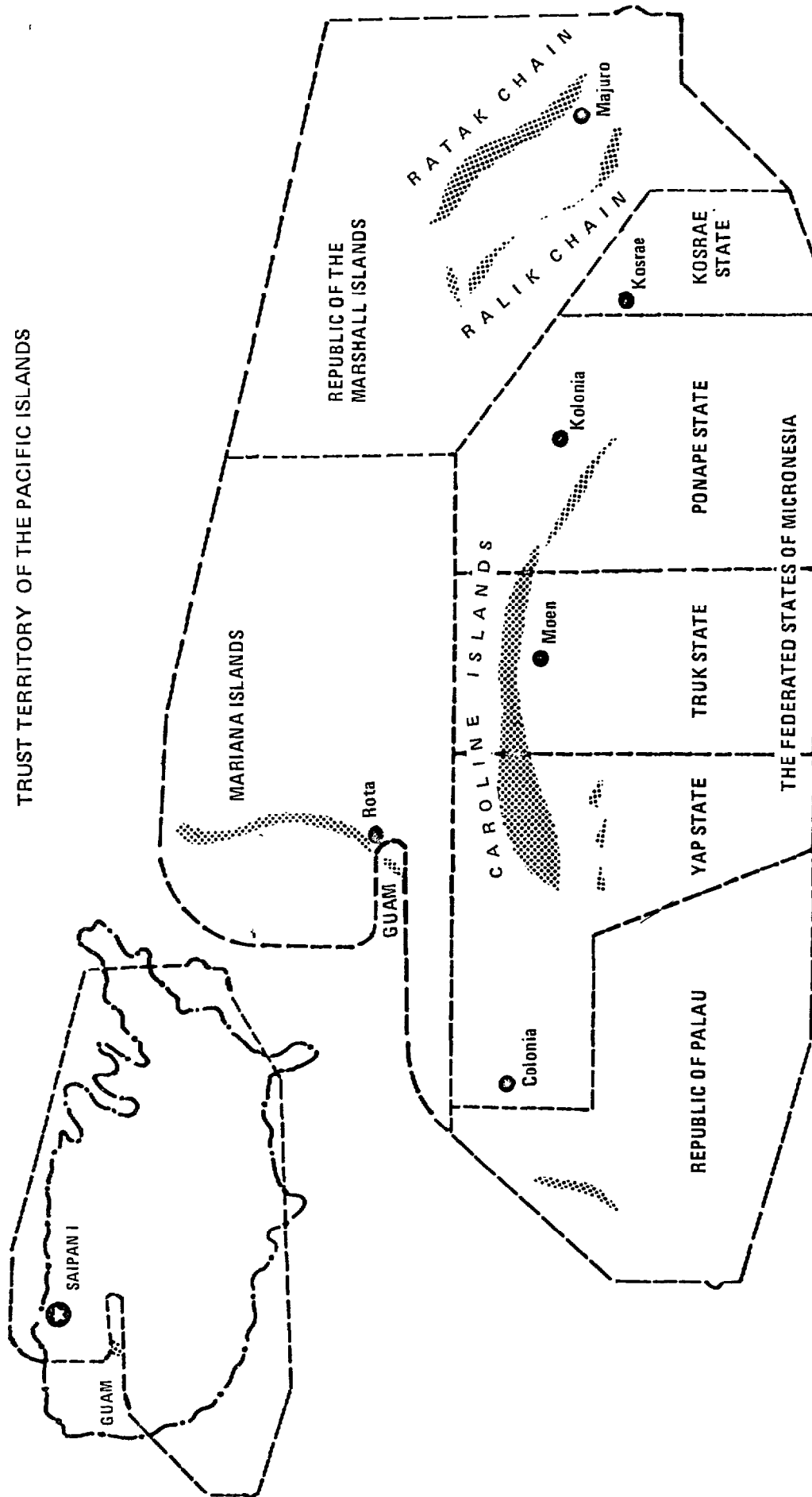
The comments are in general agreement with GAO's conclusions and recommendations. While concurring that the Micronesian governments lack sufficient managerial and technical expertise and management systems, the Interagency Group on Micronesia emphasized that GAO did not conclude that the Micronesian governments are inadequately prepared to assume the authorities and responsibilities contemplated under the Compact of Free Association. Further, it stated that there will be a continuing role for technical assistance after the Trusteeship ends but this will be under a new management structure. The Presidents of the Federated States of Micronesia and the Republic of the Marshall Islands provided additional historical information, including their perspectives on the reasons for some of the problems discussed in the report.

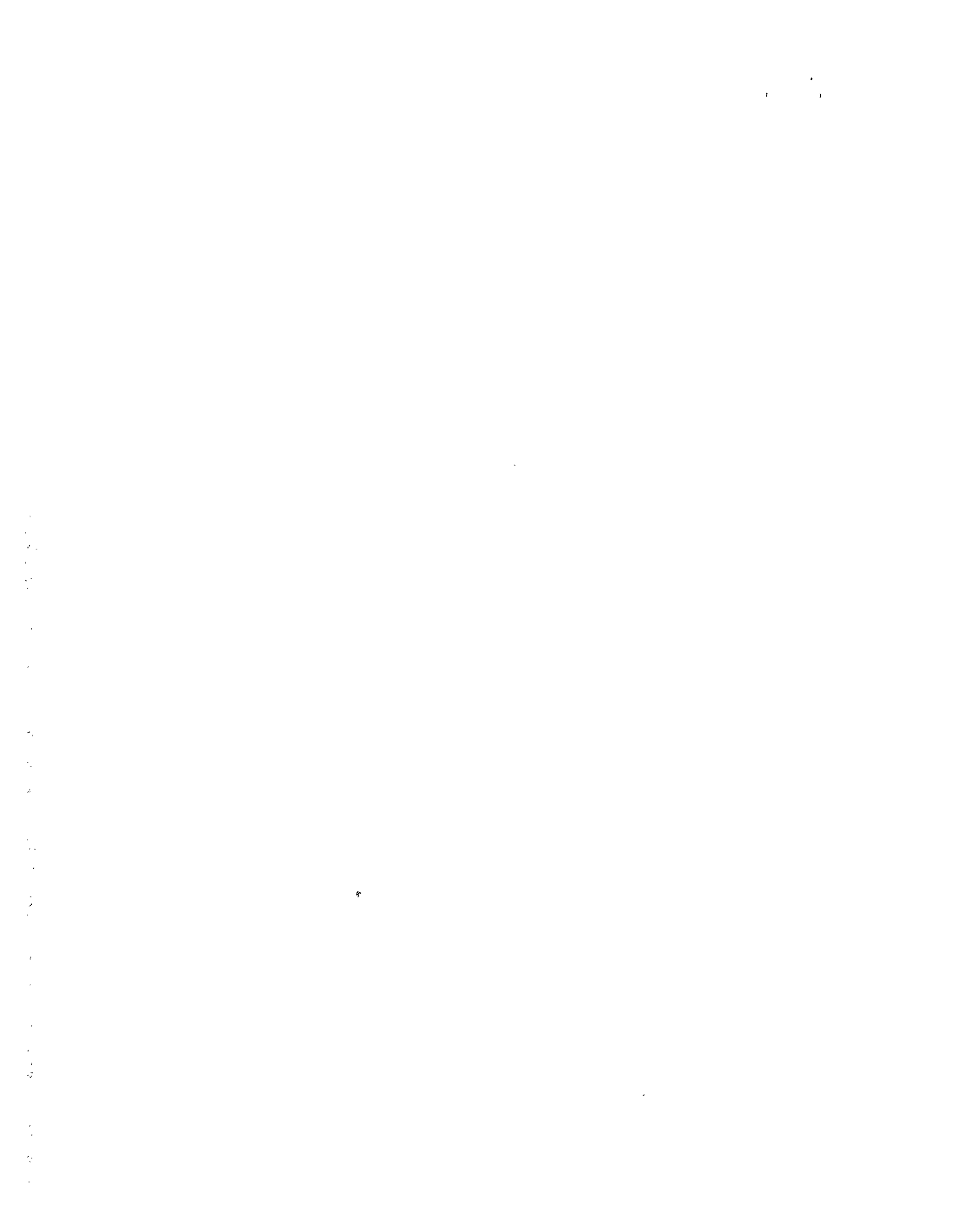
GAO clarified its recommendations to emphasize that the technical assistance role of the Office of Territorial and International Affairs is confined to the period before the Trusteeship ends. Further, the formulation of a comprehensive technical assistance approach should be a cooperative effort between the United States and each of the Micronesian governments.

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GAO made its review at the request of the Chairman, Senate Committee on Energy and Natural Resources, and the Chairman, Subcommittee on Public Lands and National Parks, House Committee on Interior and Insular Affairs.

TRUST TERRITORY OF THE PACIFIC ISLANDS





CHAPTER 1

INTRODUCTION

Micronesia 1/ has been administered by the United States since 1947 as the Trust Territory of the Pacific Islands under a United Nations Trusteeship Agreement. Under the terms of the Trusteeship Agreement, the United States accepted the responsibility of advancing Micronesia--politically, socially, economically, and educationally--toward greater self-sufficiency. In mid to late 1982, the United States and the governments of Micronesia signed a Compact of Free Association, which is designed to terminate the Trusteeship. Under the Compact, the Micronesian governments will assume the authority and responsibility for their internal and foreign affairs; the United States will exercise plenary security and defense authority.

GENERAL DESCRIPTION: THE TRUST TERRITORY OF THE PACIFIC ISLANDS

The Trust Territory comprises more than 2,100 islands and encompasses the island groups of the Marshalls, Carolines, and Marianas (except for Guam). As shown on the map, the area lies in an expanse of the Western Pacific Ocean equal to the continental United States. The land area, however, is approximately 700 square miles--about one-half the size of Rhode Island. Only about 100 of the islands are inhabited; the population totals approximately 117,000.

The Trust Territory is presently composed of three constitutional governments: the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands. The Commonwealth of the Northern Mariana Islands, which was established as a functioning government on January 9, 1978, is legally part of the Trust Territory and subject to the terms of the Trusteeship Agreement until it is terminated; then it will become a U.S. territory. The Northern Mariana Islands are not covered by the Compact of Free Association.

U.S. ADMINISTRATION OF THE TRUST TERRITORY

The Government of the Trust Territory of the Pacific Islands was formally established in July, 1947, when administration of the

1/For purposes of this report, the terms "Micronesia" and "Micronesian governments" refer only to the governments of the Republic of Palau, Federated States of Micronesia, and Republic of the Marshall Islands.

area was first delegated to the Secretary of the Navy. In 1951, jurisdiction was transferred to the Secretary of the Interior, who, in January 1964, delegated executive and legislative authority to the High Commissioner and judicial authority to the High Court of the Trust Territory. In 1965, the Secretary of the Interior transferred the legislative authority for the Trust Territory to the newly created Congress of Micronesia.

The highest U.S. official in the Trust Territory Government is the High Commissioner, who is appointed by the President. Until 1979, the High Commissioner was responsible for long-term planning, technical direction, and program operations throughout the Trust Territory. In that year, Department of the Interior (DOI) Secretarial Order 3039 delegated executive, legislative, and judicial responsibilities, within certain specified limitations, to the Governments of the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands. Despite this redelegation, the High Commissioner still possesses the authority necessary to carry out the U.S. responsibilities under the Trusteeship Agreement and, as in the past, reports to the Secretary of the Interior through the Office of Territorial and International Affairs.

U.S. OBLIGATIONS UNDER THE TRUSTEESHIP AGREEMENT

The Trusteeship Agreement obligates the United States to develop Micronesia. In part, Article 6 of the Trusteeship Agreement provides that the United States shall:

"1. Foster the development of such political institutions as are suited to the trust territory and shall promote the development of the inhabitants of the trust territory toward self-government or independence;

"2. promote the economic advancement and self-sufficiency of the inhabitants, and to this end shall regulate the use of natural resources; encourage the development of fisheries, agriculture, and industries; protect the inhabitants against the loss of their lands and resources; and improve the means of transportation and communication;

"3. promote the social advancement of the inhabitants * * *; protect the health of the inhabitants; * * *; and

"4. promote the educational advancement of the inhabitants, and to this end shall take steps

toward the establishment of a general system of elementary education; facilitate the vocational and cultural advancement of the population; and shall encourage qualified students to pursue higher education including training on the professional level."

In carrying out these responsibilities, the United States has provided for basic government, education, social, and economic support through annual DOI appropriations and various Federal grant programs.

In terms of education, the United States has provided a public school system through grade 12. A college of Micronesia comprising a Community College on Ponape, a vocational training facility in Palau, and a School of Nursing on Saipan has also been established.

Comparable efforts have been made to improve health conditions in the Trust Territory. Many of the health problems have been brought under control, although they are by no means wholly overcome. Hospital facilities, some of which are relatively new, are in operation at all major population centers.

The United States has attempted to let the Micronesians develop their own economy but has invested extensively in a capital improvements program to provide adequate physical facilities, such as airports, roads, docks and water, power and sewer systems, in the principal populated areas.

The peoples of Micronesia have adopted their own constitutions. On July 12, 1978, the voters in four of six districts of the Trust Territory approved a constitution for the Federated States of Micronesia. It was disapproved in the Marshall Islands and Palau Districts. The enabling legislation provided that the constitution would not become effective in any district that did not approve it. The Marshall Islands established its own constitutional government on May 1, 1979, with its capital in Majuro. This new government was modeled after the British parliamentary system with a president in place of a prime minister and a unicameral parliament (Nitijela).

The States of Yap, Truk, Ponape, and Kosrae--forming the central area of the Trust Territory--adopted the constitution of the Federated States of Micronesia on July 12, 1978, effective May 10, 1979. The Government of the Federated States, with its capital located in Kolonia, Ponape, is headed by a president, elected by a 14-member unicameral congress. Each of the four states has a popularly elected governor as the chief executive of the local state government.

Palau adopted its constitution on July 9, 1980, following considerable political activity, including two prior referendums. A constitutional government was installed on January 1, 1981, with an elected president and a bicameral legislature. Palau's provisional capital is in Koror.

Despite all that has happened since 1947, the Micronesian governments believe the United States needs to do more to fulfill its responsibilities under the Trusteeship Agreement to adequately prepare them for a more self-sufficient government under the Compact of Free Association. The intricacies of fulfilling these responsibilities are discussed throughout this report.

THE COMPACT OF FREE ASSOCIATION

Negotiations for a status of free association to replace the Trusteeship took place throughout the 1970s. The resulting Compact of Free Association provides for full internal self-government and a very substantial authority in foreign affairs. Full responsibility and authority is vested in the United States for defense for minimum periods of 15 years for the Marshall Islands and the Federated States and 50 years for Palau.

In the Compact of Free Association, the United States acknowledges the need to promote economic advancement and self-sufficiency of the people of Micronesia. This policy is a significant departure from the earlier idea of emphasizing non-disturbance of the indigenous culture. It also reflects the belief that it was advantageous to U.S. security to bring the Micronesians to the 20th century as quickly as possible by accelerating social, economic, and political development.

Under Title 2 of the Compact, the United States will provide economic assistance through annual grants and will extend specified domestic Federal programs. The grant funds will be dedicated to economic development projects, capital improvements, and government operations. These annual and other one-time grants will total about \$2.2 billion, exclusive of the distribution of unused Trust Territory Government headquarters funds. Over a 15-year period, the following amounts will be distributed: Palau--\$304 million; the Marshall Islands--\$697 million; and the Federated States--\$1,171 million. Some of these amounts will be subject to adjustments for inflation.

The Micronesian governments have signed the Compact and its several subsidiary agreements. The negotiated documents, however, must be approved. The approval process envisions a public information program in Micronesia; plebiscites by the voters of Micronesia (which may be held in early 1983) under U.N. observation; action by their governments in accordance with their constitutional processes; and approval by both Houses of the U.S.

Congress and enactment of the Compact into public law. Subsequent to these steps, the United States will take the necessary actions in the United Nations to terminate the Trusteeship.

OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of the Chairman, Senate Committee on Energy and Natural Resources, and the Chairman, Subcommittee on Public Lands and National Parks, House Committee on Interior and Insular Affairs, we reviewed the U.S. administration of the Trust Territory of the Pacific Islands. Our objectives were to (1) determine the institutional capability of the Micronesian governments to plan and administer public-sector programs and services to foster increased self-sufficiency and (2) assess the condition of the extensive public works systems now in place or under construction and evaluate the capability of the governments to operate and maintain the systems as well as future construction.

To accomplish these objectives, we evaluated the Micronesian governments' ability to administer Federal funds and programs in the areas of health, education, social security, financial management and accountability, and communications. We determined the status of projects constructed under the U.S. capital improvement program and the program's relationship to economic development. We also assessed Micronesia's physical and economic capability to operate and maintain these projects. In addition, we assessed the geographic, social, and public policy constraints affecting Micronesia's economic development potential.

Our review was conducted during December 1981 to September 1982 at the Trust Territory of the Pacific Islands Government, Saipan; the Department of the Navy, Officer in Charge of Construction (Marianas), Guam; the Governments of the Republic of Palau, the Republic of the Marshall Islands, and the Federated States of Micronesia; and the Office of Territorial and International Affairs, Department of the Interior, and the Office for Micronesian Status Negotiations, Washington, D.C. Our review was conducted in accordance with generally accepted government audit standards.

We reviewed and analyzed previous studies and task force reports prepared by U.S. congressional committees, DOI, the Trust Territory of the Pacific Islands Government, the Micronesian governments, the United Nations, and private institutions. We also reviewed manuals, directives, and files at each of the Micronesian governments, the Trust Territory of the Pacific Islands Government, the Office of Territorial and International Affairs, and the Navy Officer in Charge of Construction (Marianas).

We interviewed the High Commissioner and the staff of the Trust Territory of the Pacific Islands Government; the President and Chief Secretary of the Republic of the Marshall Islands; the

President and Vice-President of the Republic of Palau and of the Federated States of Micronesia; the state governors of Yap, Truk, Ponape, and Kosrae within the Federated States of Micronesia; and numerous staff members of these governments. We also met with the Assistant Secretary of the Interior, Territorial and International Affairs, the President's Personal Representative for Micronesian Status Negotiations, and the Navy Officer in Charge of Construction (Marianas).

CHAPTER 2

SERIOUS CONSTRAINTS TO ECONOMIC DEVELOPMENT EXIST

The economies of Micronesia have only small private sectors and are essentially public-sector economies dependent upon U.S. funds to subsidize economic development and social services. Production is exceeded by consumption, imports exceed exports, domestic savings are not adequately channeled into investment, and government budgets exceed the ability of the economies to support them. In addition to the still incomplete supporting infrastructure and the growing burden of its operations and maintenance, these economies are limited by geographic, social, and public policy constraints. Development plans call for increased investment in Micronesia's productive sectors, but Micronesian government institutions should be strengthened to implement these plans through better development program and project design, implementation, and monitoring.

ISOLATED ECONOMIES DEPEND UPON PUBLIC SECTOR SUPPORT

The economic development of Micronesia has been constrained by a number of factors, including geography, small populations increasingly concentrated in the capital centers, small private sectors overshadowed by government employment, and an inadequate level of private investment. Despite these obstacles a declining share of operating funds have been devoted to developing the productive sectors of agriculture, fishing, tourism, and small industries.

The islands of Micronesia lack sizable domestic markets and are remote from the major Asian and U.S. markets. These small islands are spread over 3 million square miles of ocean--an area roughly equal to the continental United States. Thus, remoteness from major international markets is compounded by remoteness within the region.

The marine resources of this vast ocean area are its major natural resource. Deep sea minerals have not yet been fully explored, although some phosphate and bauxite deposits exist in Palau.

The population, according to 1980 census data, totals about 117,000. The trend has been for the population to migrate from the rural areas and outer islands to the capital centers where most government jobs and economic activities are concentrated. The population in these areas increased from 29.1 percent in 1967 to 34.8 percent in 1980.

The dominance of employment and wage levels by the public sector concentrated in the capital centers has had several effects.

--Rural and outer island residents have been attracted to the capital centers, placing heavier demands on the infrastructure and on government services.

--Labor and investment have been diverted from the private sector and from the development of Micronesia's productive sectors of agriculture, fishing, and tourism.

--Commodity imports have not been matched by Micronesian production or exports.

The concentration of economic activity in the capitals is contrasted with the outer islands and rural areas where much of the population survives on a subsistence economy supplemented by income from copra (dried coconut meat, the source of coconut oil) and handicrafts. Wage employment (as opposed to non-wage subsistence farming or fishing) accounted for about 32 percent of the estimated working age population in 1979. As shown below, employment and wage income is dominated by the public sector.

Private and Public Sector
Employment and Wages (note a)

<u>Area</u>	<u>Private</u>			<u>Public</u>		
	<u>Number</u>	<u>Total wages</u> (thousands)	<u>Average wage</u>	<u>Number</u>	<u>Total wages</u> (thousands)	<u>Average wage</u>
Marshall Islands	1,639	\$3,648	\$2,226	2,007	\$6,736	\$3,356
Palau	1,668	6,313	3,785	1,115	6,402	5,741
Federated States:						
Kosrae	146	651	4,500	510	2,158	3,200
Ponape	1,755	4,075	2,322	1,915	9,614	5,020
Yap	586	1,259	2,148	1,220	4,720	3,869
Truk	1,767	3,660	2,071	2,094	7,354	3,512

a/Above data is for various years: Marshall Islands-1979; Palau-1981; Kosrae-1980; Ponape-1980; Yap-1980; Truk-1981. Excludes U.S. Army Kwajalein Missile Range. Current per capita income data not available due to the lack of current national account statistics.

Available data shows that the government accounts for 54 percent of the employment and 65 percent of all wages. Private-sector employment is concentrated in the wholesale/retail establishments, restaurants and bars, and construction firms which

depend on public-sector wages and capital improvement funds for most of their income. There is little industry except for some small-scale furniture making, handicraft, and other enterprises.

As a result, there is relatively little experience in Micronesia in managing productive enterprises. The lack of technical and managerial skills to expand private enterprise is indicated by the presence of alien labor for construction, deep-water fishing, and retail and hotel management, among others. In Palau, we were told that fewer than 25 percent of the fishermen serving Micronesia's major fish storage and transshipment plant were Micronesians.

In the Federated States, exports totaled about \$3.2 million in 1980--a decrease from about \$4 million in fiscal year 1979. An annual commercial commodity trade deficit of about \$15 million has occurred there in recent years. Truk, alone, recorded imports of about \$8.5 million in 1980 while its exports totaled about \$1.9 million--almost all of which was copra. Ponape recorded 1980 imports of about \$12.1 million and exports of over \$1.7 million.

In the Marshall Islands, imports for the 6 months from September 1981 through March 1982 totaled over \$9.6 million. Production for exports of copra oil and copra byproducts in 1981 totaled about \$2.6 million. In Palau, fiscal year 1980 commercial imports totaled about \$8.7 million with exports of about \$8.2 million. Since that time, however, processed copra exports have declined.

The high level of imports compared to local production means that funds transferred to Micronesia have little impact on developing the economy. These funds leave the economy in payments for consumer and government imports.

Foreign investment is concentrated in fish storage and transshipment, copra processing, hotels, airlines, and petroleum distribution. U.S.-based banks operate in most capital centers, but the level of lending is limited by the inability of the banks to secure loans through property liens. Land cannot be owned by non-Micronesians.

Moreover, wages are channeled through the extended family system that prevails in almost all areas of Micronesia. We were told, for example, that a member of the family who plans to build a home expects, and will receive, financial contributions from wage earning members. This and other continuing obligations on the part of the wage earning family members makes the accumulation of savings for investment difficult although it also acts to more evenly distribute income.

Despite these obstacles, the level of DOI funding to the Micronesian governments for resources and development of

agriculture, fishing, tourism, and small industries has generally declined as a portion of the total operating budget for the Trust Territory.

Budget Authority for Micronesia's Resources
and Development Activities

<u>Fiscal year</u>	<u>Resources and development</u> ------(thousands)-----	<u>Total DOI operations</u>	<u>Percent</u>
1977	\$6,114	\$51,552	11.9
1978	5,997	52,296	11.5
1979	5,260	50,266	10.5
1980	5,210	47,410	11.0
1981	4,002	55,413	7.2
1982	4,739	59,692	7.9

LIMITED DEVELOPMENT RESULTS IN
CONTINUED DEPENDENCE ON U.S. FUNDS

Because of development constraints, Micronesia's productive sectors of agriculture, marine resources, and tourism are operating below their potential. The resulting limited development of these sectors has meant that the Micronesian governments remain dependent on U.S. funds rather than on local revenues.

Potential for expanding
agriculture and fishing

Local agriculture is primarily subsistence in the outer islands, supplemented by fishing. Both are part-time activities for home consumption, and small central markets and cooperatives have been established through which small farmers and fisherman can sell their products even in the capital centers. Staple crops such as taro, breadfruit, cassava, and yams, as well as vegetables and fruits, are produced as are some poultry and swine.

Foodstuffs--particularly rice as well as fresh and canned vegetables, fruits, meats and even fish--are imported, indicating that a potential market for increased local production exists. Indeed food, beverages, and tobacco led Micronesia's commercial imports in 1978; recent partial data from Palau and Ponape indicates that this remains the case. In Palau, we found that imports of vegetables, fruits, rice, and meat totaled over 4.8 million pounds in fiscal year 1981, while marketed local production of these commodities totaled only 115,000 pounds. In Ponape, imports of food, beverages, and tobacco accounted for over \$5.6 million of the nearly \$12.1 million in imports in 1980 while marketed local production of vegetables, fruits, and staple crops totaled \$98,404.

Copra is the most important agricultural cash product in Micronesia and the mainstay of cash income for the outer islands. A drop in world copra prices led to a decline in production and exports in recent years. In 1980, the Federated States exported copra valued at about \$2 million. The Marshall Islands produced over 6,000 tons and imported a like amount in 1981. About \$2.6-million in coconut oil and copra cake production for exports resulted. In Palau, about \$1 million in copra was imported in 1981 and about \$1.9 million in cocount oil and related products exported between October 1980 and December 1981.

Agricultural development is also constrained by (1) the land-tenure system, (2) lack of information on land suitable for agriculture, production, or consumption patterns, (3) the nearly duty-free import of food, and (4) lack of reliable transport and farm-to-market roads.

Land-tenure is complex and is held by extended families. Members can claim a share of any cash income from commercial farming, effectively diluting any incentive for younger farmers to start commercial-scale production. Many land holdings are too small for commercial production. In other cases, titles to the land are not clear; much land is publicly held.

Expansion of egg and meat production is hampered by the high cost of imported feed. The establishment of a feed mill in Palau, using a blend of imported and local products was supplying feed at a price which was less expensive than totally imported feed. But the closing of the local copra processing plant has ended the supply of local products for the feed mill. It has also curtailed a vital link with the Solomon Islands from which broken rice and rice bran was imported for the feed mill and copra was imported for the processing plant.

Transporting fish and produce from rural areas and outer islands to the capitals is often unreliable. Few farm-to-market roads exist, especially on the larger islands of Ponape and Babelthuap (Palau). Refrigeration to keep fish or produce from spoiling while in transit is lacking. Field-trip vessels serving the outer islands often have irregular schedules. The lack of refrigeration and reliable transport encourages the import of canned fruits, meat, and fish.

Efforts to expand local fishing have had mixed results. Local recorded commercial fishing is usually organized through fishing cooperatives. In Truk, the cooperative has recently increased its catch and even begun some exports. In Palau, the departure of an expatriate manager who had coordinated the availability of ice, fuel, marketing, and cash payments to the fisherman led to a decline in the marketed catch and a request for a new expatriate manager. In Ponape, the cooperative was taken over by

a state agency due to poor management and lack of equipment maintenance.

Palau has signed a \$1.5-million bilateral aid agreement with Japan for a small-scale fisheries development and marketing project. Small refrigeration units, boats, and other equipment will be provided to increase production and speed up the transport of fish and produce from outlying coastal villages lacking farm-to-market roads.

Japanese interests are conducting feasibility studies of expanded fishery complexes in Ponape and Truk. Truk has already expended about \$2.2 million on a fisheries complex. The Pacific Tuna Development Foundation has also supported pilot projects and experiments to encourage pole and line tuna fishing in several areas in Micronesia.

Tourism earnings limited

With the introduction of regularly scheduled jet airline service and expanded hotel facilities, tourism grew in the Trust Territory during the 1970s. Officials of the Micronesian government noted that further expansion has been hampered by the high cost of air fares, poor quality accommodations in some areas, and lack of direct air links with other Asian and Pacific countries. The Federated States reported that tourism earnings totaled about \$2 million in 1979 from over 17,000 visitors. The Marshall Islands reported 1,242 visitor arrivals in 1981 with estimated earnings of \$323,456. Palau recorded over 5,000 visitors and estimated earnings of over \$1 million in 1981.

Tourism earnings in Micronesia do not generate the same level of additional income as areas with a higher local content of the goods and services provided to tourists. The Pacific Area Travel Association estimated in 1977 that every tourist dollar spent in Truk generated an additional 40 cents in local income. By contrast, each tourist dollar spent in Hawaii in 1980 generated an additional \$1.01 in local income.

Dependence continues

The lack of a productive economic base for the Federated States, Palau, and the Marshall Islands, has meant that these governments have been and remain dependent upon Federal funds. Local resources--income, business, and import taxes as well as reimbursements for public services--that are generated, however, depend on Federal funds because most local resources are derived directly or indirectly from federally supported activities, as shown on the following page.

Budget Allocations by Funding Source

-----Fiscal Year-----

	1980		1981		1982	
	<u>Amount</u> (thousands)	<u>Percent</u>	<u>Amount</u> (thousands)	<u>Percent</u>	<u>Amount</u> (thousands)	<u>Percent</u>
<u>Palau</u>						
Interior grants	\$ 7,377	56.2	\$ 8,053	56.0	\$ 8,939	54.6
Other Federal grants	1,757	13.4	1,816	12.6	2,738	16.7
Local resources	3,987	30.4	4,516	31.4	4,704	28.7
Total	<u>\$13,121</u>		<u>\$14,385</u>		<u>\$16,381</u>	
<u>Marshall Islands</u>						
Interior grants	\$ 7,021	42.1	\$ 8,994	43.5	\$ 9,707	36.8
Other Federal grants	2,677	16.1	3,783	18.3	6,748	25.6
Local resources	6,978	41.8	7,896	38.2	9,930	37.6
Total	<u>\$16,676</u>		<u>\$20,673</u>		<u>\$26,385</u>	
<u>Federated States</u>						
Interior grants	\$24,015	58.1	\$30,415	59.1	\$33,558	58.9
Other Federal grants	9,254	22.4	12,313	23.9	11,670	20.5
Local resources	8,077	19.5	8,727	17.0	11,719	20.6
Total	<u>\$41,346</u>		<u>\$51,455</u>		<u>\$56,947</u>	

GOVERNMENT ORGANIZATION FOR
DEVELOPMENT NEEDS STRENGTHENING

Each of the national and state governments have resource and development or similar offices which are responsible for agriculture, fisheries, tourism, business, and commerce. However, officials in each of the governments informed us that extensive technical assistance will be required if progress in these sectors is to be accelerated and their commitment to long-term development sustained.

According to the Compact of Free Association, the annual expenditure of grants for economic development is to follow official overall economic development plans which are to be provided to and concurred in by the U.S. Government before the effective date of the Compact. These plans are to identify the policy and project activities necessary to meet specific goals and objectives and to include an analysis of population trends, human resource requirements, social needs, gross national product estimates, resource utilization, infrastructure needs and expenditures, and specific private-sector projects required to develop the local economies.

Development plans to meet the requirements of the Compact were in various stages of preparation at the time of our field-work. None of the three national governments had completed their plans, however, and only one of the Federated States plans included procedures for plan implementation and monitoring. In undertaking development planning, Micronesian officials cited a need to improve (1) economic and social data bases, (2) standards and staffing for evaluating the economic and technical feasibility of development project proposals, (3) policies for foreign investment, (4) public institutions for development lending, and (5) local tax, finance, and trade measures compatible with the Compact. These needs, however, exist at a time when the Office of the High Commissioner has divested the Trust Territory Government of the capacity to provide any significant technical assistance.

Effective development planning requires a current data base. Statistical offices have only recently been established in these governments, and the systematic identification and collection of economic and social data has just begun. Training and technical assistance in development planning and in statistics has been provided under the U.N. Development Program and by the Government of Japan as well as the Trust Territory Government Office of Planning and Statistics which was eliminated at the end of the fiscal year 1982. Further training in vital statistics is being provided by the United Nations, and U.N. experts are assisting each of the governments in development planning and the establishment of national accounts.

Increased emphasis on, and greater resources for, the development of agriculture and forestry, marine resources, tourism, commerce and industry, and attracting foreign investment are elements common to the various draft plans. Development projects are designed to substitute for imports of food, building materials, and other imports and to build export industries.

In the Federated States, officials at the national and state level noted that they do not have sufficiently trained staffs to appraise, monitor, and evaluate the projects proposed for funding in the first 5 years of the Compact. One official noted that a system for technical and financial accountability for development projects is essential if the highest priority projects with the best prospects for successful implementation are to be chosen.

Although the functions carried out by the Trust Territory Department of Resources and Development were transferred to the Federated States between January and July of 1980 (except for communications), we found that the national government had yet to appoint directors for the Division of Commerce and Industry and the Division of Marine Resources and to fill other positions in the Department of Resources and Development.

The Marshall Islands had no national planner at the time of our fieldwork. The 5-year development plan was still being drafted by a national planning council for submission to the legislature. A planned reorganization of the government includes provision for a planning office as suggested by U.N. Development Program advisors, who are also assisting with national accounts.

The Marshall Islands Department of Resources and Development was not prepared by the Trust Territory Government to assume its functions, according to the chief of that Department. Furthermore, no survey was made technical assistance needs. We were told that expert help in fisheries, sea-bed mining, and livestock development would be needed.

The newly formed Palau Department of National Resources, which combines the public works, agriculture, marine resources, and commerce and industry functions had not developed an integrated planning function. Many bureau and division chiefs were not named at the time of our fieldwork, and a systematic approach among the bureaus and divisions for project appraisal, funding, implementation, monitoring and reporting will be a new responsibility of the Department. At the time of our fieldwork, a task force was just beginning to assess prior development plans to formulate new economic objectives, policies, programs, and projects for Palau. No deadline was set for the completion of a development plan.

Foreign investment promotional activities were fragmented among several Palau agencies. The Divisions of Trade, Domestic Affairs, Foreign Affairs, and Investment had unclear roles in this area. According to Palau's acting director of investment, foreign investment permits were being issued without adequate identification of the investment project or deadlines for making actual investments.

Officials within the Palau Department of National Resources also acknowledged that they did not have the required management and technical skills and that they needed outside expertise. For example, they needed an industrial economist, a handicraft specialist, a trade promotion advisor, an agricultural expert, a forester, a tourism advisor, a fisheries expert, and a labor relations expert.

The three national governments have passed legislation establishing public institutions for development lending: the Federated States of Micronesia Development Bank, the Palau Development Bank, and the Marshall Islands Economic Development Loan Office. Initial funding for each comes from a prior Trust Territory economic development loan fund. These institutions can make loans when 50 percent or more of the enterprise is locally owned; undertake equity participation in commercial and industrial

enterprises; guarantee loans from other sources; provide technical, managerial, and financial consultant services to borrowers; and assist in the identification, formulation, and promotion of new development projects. Priority will be given to projects which place emphasis on job creation, replacement of imports, and efficient use of island resources.

How the responsibility and staffing of these institutions for project appraisal and performance monitoring will relate to the similar responsibilities and staffing needs of other government departments involved in development projects had yet to be determined. The executive director of the Trust Territory economic development loan fund was searching for just such assistance and was looking to institutions like the Asian Development Bank as possible future sources to provide the needed technical advisors to each Micronesian lending institution.

Under the Compact, direct U.S. funding assistance will be greater in the first 5 years than in the second and third 5-year periods. This provision gives even greater urgency to the task of strengthening public institutions in Micronesia to better assure that development funds are wisely invested.

In addition, Micronesia stands to benefit from the trade and tax benefits extended under the Compact. Trade provisions allow for the duty-free entry into the United States of products which derive more than 50 percent of their finished value in Micronesia, effectively extending the same tariff treatment as U.S. territories. This provision may be particularly attractive to foreign investors seeking entry into the U.S. market and to already established copra processing firms.

Tax and finance provisions also provide for treatment of Micronesia as a U.S. possession. U.S. corporations establishing subsidiaries would receive a full foreign tax credit, thus retaining any differences between what would have been the U.S. tax on such income and any lower Micronesian taxes. U.S. citizens--but not U.S. Government employees--residing in Micronesia for 6 months or more would be exempt from U.S. income taxes, if they paid Micronesian income taxes. Micronesian governments' bonds would be exempt from U.S. income tax, and Micronesian citizens working in the United States would pay lower Micronesian income taxes instead of U.S. income taxes.

To take maximum advantage of these provisions and the direct assistance under the Compact will require that development plans, expertise, and institutional structures to plan and control economic development activities be put in place as soon as possible. However, at the very time that the Micronesian governments are attempting to organize public institutions to promote economic

development, the Trust Territory Government has divested itself of the capability to provide any significant technical assistance. Its Department of Resources and Development was abolished in late 1981 and Office of Planning and Statistics at the end of fiscal year 1982. The Office of Territorial and International Affairs has just begun, in consultation with the governments, to assess technical assistance needs and priorities to promote economic development.

The Compact of Free Association specifies that requests for technical assistance may be made to Federal agencies which are authorized to provide such assistance. These requests would have to be given priority over requests from other recipients which are not part of the United States, its territories, or possessions. To maximize the benefits of this provision, however, will require that the U.S. Government provide such assistance in concert with other sources of technical assistance and in relation to the development plans which the Micronesian governments are formulating. This could aid the Micronesian governments' long-term commitment to use these and their own resources for building a more diversified and self-sustaining economy.

CHAPTER 3

U.S. CAPITAL IMPROVEMENT PROGRAM:

A STATUS REPORT

The United States has invested over \$379 million since 1966 in capital improvement projects. The 1976 Five-Year Capital Improvement Program (CIP) was an attempt to provide the minimal infrastructure necessary for economic development to take place; however, its objectives have not been met. Although much progress has been made under this program, the Micronesian governments believe that the United States should restore the projects to their original scope, which could cost an additional \$100 million. To determine future infrastructure needs, project priorities should be set. To accomplish this, the United States will need to assist the Micronesian governments with CIP planning and administration.

INTENT OF CIP UNCLEAR

The goals of the CIP have never been clearly defined. As a result, other than the scope of the individual projects, no established benchmarks exist to measure achievements or to determine whether or not the United States has provided an adequate level of infrastructure development. In fact, we found that no description exists of what the U.S. and Micronesian governments agree is an adequate infrastructure foundation to provide economic and social development.

According to a January 1976 task force report, informally referred to as the Zeder report, 1/ infrastructure development should be based on economic development needs as well as social needs. To accomplish this and adequately plan for infrastructure development, an assessment of Micronesia's economic development potential must first be performed. Once the economic potential is assessed, infrastructure development can then be planned to provide the essential elements to attract and support the kind of economic development the Micronesians are capable of sustaining.

The report further stated that infrastructure development is not the sole key to economic development. Although it may facilitate economic development, it does not in many cases cause economic development. Unless infrastructure development is closely coordinated with a comprehensive economic development program, including an assessment of development potential and other related

1/"Management of Public Works Projects in the Trust Territory of the Pacific Islands," (Jan. 1976, DCI.)

programs to develop that potential, no real change in direction toward economic self-supporting status may occur. (See ch. 2.)

Infrastructure development serves basic social needs as well. For example, the same road that opens up an agricultural area also provides a valuable transportation and communication link between villages. Water and power systems, which are necessary for industrial areas, also serve private homes. Although infrastructure development is needed and desired socially, establishing an infrastructure aimed at satisfying social needs and excluding economic development needs can be financially burdensome.

SERIOUS PROBLEMS WITH CIP CONTINUE

During the first 15 years of the Trusteeship, no measures were taken to promote Micronesia's economic advancement and self-sufficiency. Fiscal year 1966 marked the first year that the United States appropriated specific CIP funds. During the next 10 years (1966-75), the United States invested approximately \$137 million for projects which included upgrading health facilities, constructing schools, and developing transportation facilities.

By the mid-1970s, serious problems were identified with CIP management. According to the Zeder report and a February 1975 congressional staff report, 1/ infrastructure projects were constructed without adequate planning; no acceptable schedule had been established for the completion of the program; projects were conceived as ideals without considering funding constraints; no system existed to establish priorities; projects were built despite the fact that Micronesia lacked the physical and economic means to operate and maintain them; and a serious lack of management existed for capital improvement funds and for equipment going into Micronesia.

Based on recommendations in the Zeder report to correct these deficiencies, the Public Works Department, Trust Territory Government was relieved of the responsibility for implementing federally funded CIPs. In February 1976, the U.S. Navy, Officer in Charge of Construction, (OICC) in Guam was assigned full responsibility to complete Micronesia's proposed infrastructure.

The proposed infrastructure, commonly referred to as the 1976 Five-Year CIP, was developed for Micronesia by DOI and Trust Territory Government representatives in consultation with Micro-

1/"Management of Public Works Programs in the Trust Territory of the Pacific Islands," (Feb. 1975, Senate Committee on Interior and Insular Affairs.)

nesian officials. The primary purpose of this plan was to build a basic infrastructure which included airfields, roads, docks, and power, water, and sewer systems for each district center.

Since 1976, approximately \$242 million has been authorized for the Five-Year CIP. According the Deputy High Commissioner, this program was to provide the minimum infrastructure necessary for economic development. However, as noted earlier we found no clear definition or agreement on what constitutes an adequate level of infrastructure to provide for development.

According to an OICC official, the Five-Year CIP was planned within a very short timeframe to respond to what was considered a crisis created by severe water and power system breakdowns in Micronesia. Because of the urgent situation, there was insufficient time to properly plan projects or prepare detailed engineering estimates.

We found that infrastructure development efforts in Micronesia have been undertaken without much attention given to the financial requirements necessary to support them. Such development provides little employment (except during construction) and generates little revenue. Establishing an infrastructure, without a reliable and productive economic base, has caused the Micronesian governments to rely heavily on U.S. assistance for maintenance. As the level of infrastructure increases, so does the need for operation and maintenance funds. (See ch. 3.)

Project scope changes and shortfalls common

Originally, the Five-Year CIP was to begin in fiscal year 1976 and end in fiscal year 1980. Because of several factors, such as delays, redefinitions of requirements, and engineering problems the program was delayed and is currently scheduled to be completed in 1984. We found that although a great deal of progress has been made and many projects are reportedly completed, funding restraints coupled with inflation reduced the original scope of work contemplated at the program's inception. In addition, certain shortcomings in project scopes have become evident as the years have passed. Although the original scope of several projects has been met, certain anticipated levels of service have not been achieved. The Micronesians believe that correcting these deficiencies is the responsibility of the United States as the administering authority under the Trusteeship Agreement. They do not want to use infrastructure funding assistance made available under the Compact of Free Association to complete current CIPs.

Full scope restoration
could cost \$100 million

The original 1976 Five-Year CIP contained 39 projects with a preliminary cost estimate of \$169.7 million. Since then, the program has been modified and several new projects have been added due to additional Environmental Protection Agency and Federal Aviation Administration funding not originally anticipated. As the program progressed, the scope of work for several projects was redefined. These modifications included changing the scope of several projects for a variety of reasons including inadequate or poorly defined scopes, shifts in priorities by local entities, the lack of prior construction experience in Micronesia, and inflation.

As the program progressed, several unanticipated problems surfaced, resulting in project costs which far exceeded original estimates. Due to the lack of prior construction experience in Micronesia, for example, estimated project costs did not consider (1) transportation, communication, and mobilization problems associated with the isolation of the area, (2) whether adequate local materials existed to complete projects, or (3) whether accommodations and food for contract work crews was available. As problems surfaced in these areas, fewer contractors were willing to bid on projects and bids were increased far above original estimates. Because of these factors and inflation, many projects were reduced in scope and some projects were eliminated to keep the program within available funding.

To date, approximately \$229 million has been appropriated for the Five-Year CIP as compared to the original estimate of \$169.7 million. Despite this \$59.3 million difference, many projects will not be returned to their original scope without additional funding. An April 1982 Five-Year CIP status report, which was prepared by the Trust Territory Government, estimated that \$100 million would be required to fund full scope restoration as follows.

5-Year CIP Scope Restoration

<u>Project</u>	<u>Palau</u>		<u>Federated States</u>		<u>Marshall Islands</u>		<u>Total funding</u>
	<u>Current funding</u>	<u>Additional funding</u>	<u>Current funding</u>	<u>Additional funding</u>	<u>Current funding</u>	<u>Additional funding</u>	
	(thousands)						
Roads	\$ 8,687	\$ -	\$23,676	\$ 7,505	\$ -	\$ 0	\$ 7,505
Docks	705	-	26,345	13,100	9,978	4,000	17,100
Water Sys.	3,956	-	9,081	6,625	4,562	0	6,625
Water Res.	3,450	1,788	4,975	1,667	-	0	3,455
Electrical	5,157	-	8,104	1,284	4,088	0	1,284
Airfields	18,115	-	57,230	38,708	-	0	38,708
Sewers	4,030	<u>1,379</u>	9,636	<u>14,915</u>	7,204	<u>10,000</u>	<u>26,294</u>
Total		<u>\$3,167</u>		<u>\$83,804</u>		<u>\$14,000</u>	<u>\$100,971</u>

Although the Micronesian governments believe scope restoration should be funded by the United States under the Trusteeship, they lack sufficient needs assessments, economic development plans, etc. Before additional funds are appropriated for the Five-Year CIP, the Micronesian governments need to identify, and set priorities for current and long-term development goals and properly plan for those needed improvements. The administration stated that other estimates show the Five-Year CIP could be fully funded at a scope relevant to present needs with an amount substantially less than \$100 million.

Airfields

The Five-year CIP provided for constructing five airfields, one in Palau and four in the Federated States. Only Palau's and Truk's were completed as originally scoped; the other three projects' primary shortfall involved reduction of runway length. According to the April 1982 CIP status report, these reductions were made because of (1) funding restraints, (2) lack of adequate sized stone for construction, (3) unanticipated costs due to deep water construction, and (4) land acquisition problems due to historical preservation concerns. Of the \$38.7-million shortfall, approximately \$28.4 million is for runway length restoration. The remaining \$10.3 million is for parking, lighting, drainage, fencing, and safety areas, that were also deleted.

Although project scope will not be met in terms of runway length, according to OICC the existing runways will be sufficient to handle the current 727 commercial jets servicing Micronesia. It is doubtful, however, that the 727 jets will service Kosrae, unless their airfield paving is funded.

Sewer systems

Even though the Five-Year CIP provided for upgrading or constructing several sewer systems throughout Micronesia, only the Truk project has been completed as originally scoped. Of the \$26.3-million shortfall, approximately \$20 million is attributed to canceling the Marshall Islands and Kosrae projects pending consideration of alternative systems. The remaining \$6.3 million shortfall is the result of deleting upgrades, such as additional sewer lines, due to CIP funding limitations.

Docks

Of the six Five-Year CIP dock projects, only Truk, Kosrae, and Palau's were completed as originally scoped. Of the \$17.1-million shortfall, \$4 million is to replace the Juluit and Wotje docks deleted from the Marshall Islands docks project because of insufficient funds; \$5.6 million is to replace Yap's Ulithi and Woleai docks that were not constructed because funds were reprogrammed to complete higher priority projects; and \$1.5 million is for the deleted Ponape fisheries dock.

The remaining \$6 million is for dredging 8,000 linear feet of Ponape's lagoon to permit small boat transportation. Ponape has agreed, however, to delete this portion of the project if the circumferential road is completed as an alternative means of island transportation.

Roads

According to the status report, only Palau's roads project has been completed as originally scoped. Due to contractor bids exceeding available funding, 7.48 miles of road improvements and paving were deleted from Yap's project and 2.7 miles of road and 13 culverts were deleted from Truk's project. The estimated costs to restore these items are \$2.5 million and \$1.5 million, respectively.

Although the roads project in Ponape is still ongoing, the status report estimated that the current level of funding will leave about 10 miles of the circumferential road uncompleted; the estimated completion cost is about \$2.5 million. The status report also estimated that an additional \$1.5 million is needed to complete Kosrae's road project.

Water systems and resources

Only the Marshall Islands water project has been completed as originally scoped. In Palau there is a projected \$1.8-million shortfall in the water resources project due to deletion of a water pretreatment unit and related improvements. The pretreatment unit was deleted and the project redesigned to accommodate Palau's request for water quantity rather than quality. According to the status report, however, without this pretreatment unit, Palau runs the risk of water contamination and water-borne disease.

Ponape's water system project also has a \$1.8-million shortfall, which includes 124 water meters, 147 laterals, and 37,860 linear feet of water main. These items were deleted because funds were used to design and improve the main distribution system. The Truk water system project experienced a \$2.6-million funding shortfall for the Wichen intake--deleted for historical preservation reasons--and additional waterlines and laterals. The status report estimated that to complete Truk's water resources project as originally scoped, an additional \$1.7 million, which was reprogrammed to the Truk Airfield project to defray the costs of dredging claims, needed to be reinstated. In Yap, the water system project shortfall totals \$2.2 million, which is needed to increase the water treatment capacity and extend the service main to the airport. Most of this shortfall was due to funding limitations, although \$606,000 was reprogrammed to the Colonia docks project to permit construction contract award.

Electrical

The Truk and Yap projects have electrical system shortfalls. The \$200,000 Yap shortfall resulted from deletion of 2 miles of service line, while the \$1.1-million Truk shortfall resulted in deletion of 7.5 miles of power line on Moen, relocation of generators to Dublon, and deletion of 2 miles of power line on Dublon. In both cases, the shortfalls resulted from limited funds.

Projects not originally planned are needed

Fulfilling project intent may require expanding the original scope of several projects. According to Micronesian officials, additional facilities and improvements are needed which were not originally planned.

One primary objection of these officials with the five CIP airfield projects, for example, is that the original scope did not budget for construction of airport terminals. Except for Truk and the Marshall Islands, Micronesia's present terminals consist of little more than covered open areas with dirt floors. They have no walls, no security facilities, no restrooms, or any of the other facilities required at modern airports. While OICC and Trust Territory Government officials agree that airport terminals would be beneficial, although not necessary, to the airfields, there is debate concerning how elaborate these facilities should be. For example, the Palau terminal cost estimates range from OICC's \$500,000 to Palau's \$6,000,000. The substantial difference is primarily a result of what each believes is needed; however, neither could be supported by a needs assessment.

In addition, fenders to protect ships from smashing into and damaging docks and dock-support facilities and guardrails for dangerous sections of road are further examples of improvements the Micronesian governments identified as needed but not included in the original project scope.

Utility projects need to provide anticipated services

Although many utility projects have been completed, the services they were intended to provide have not been forthcoming. Although the United States has invested about \$26 million in water projects, for example, Micronesia lacks a reliable and adequate supply of water. In almost all locations we visited, demand exceeded supply and the water was contaminated, was available only during certain hours, and was wasted due to leakage. Unless these deficiencies are improved, we believe the water projects will not do much to improve the standard of living or promote development.

In several instances, the new CIP water projects were tied directly into old water lines, some, of which existed prior to the Trusteeship. Today, many of these older lines have further deteriorated due to the lack of maintenance (see ch. 4) and they leak considerably. Even though the extent of leakage varies by location, Ponape estimates its water leakage to be as high as two-thirds of production. In addition to leakage, Micronesian officials identified several problems with the scope and design of the water projects, including the need for pretreatment facilities, household connections, larger distribution lines, and increased storage facilities.

Although seemingly better off than the water systems, the electrical power projects--completed at a cost of \$17 million--also lack adequate capacities and at some locations blackouts have been a recurring problem. In their present state, we believe the power systems will do little to attract future business. In Palau, for example, authorities will not allow Van Camp, a major company, to hook up to the island power system because of insufficient power capacity. To cope with this situation, Van Camp has had to install and maintain its own power generators. Officials of the other Micronesian governments stated that they are experiencing similar problems and believe that additional power-generating capacity is needed if development goals are to be achieved. Where possible, however, the development of hydroelectric power is preferred over additional diesel generators, due to high fuel costs.

Another common problem with the power systems in Micronesia is that the stepdown transformers and service drops, which are needed for hooking up homes to the lines, were not included in the original scope. We believe that having a power system without the means to access the system is a clear example of a completed project that is not providing the anticipated service. Because most Micronesians do not have the financial means to make house connections, some potential users will be deprived of the intended benefits of the power system unless provisions are made for their hookups.

Similar problems also exist with the sewer systems, constructed under the Five-Year CIP at a cost of \$21 million. With the exception of the Kosrae and Marshall Islands sewer projects, which are not yet complete, the sewer systems in Micronesia are drastically under-used. One major reason is that the original sewer projects did not provide for household connections. According to CICC officials, it has always been the policy with CIPs of this type to install the main distribution and, in some cases, lateral lines, but leave household hookups to the local governments. Although this may have proven acceptable elsewhere, it has been ineffective in Micronesia.

Since the completion of the sewer projects, few private homes have been connected to the system. According to local officials, it has been very difficult to connect homes to the system due to limited financial resources. At one time, it was thought that EPA would provide funds for sewer connections; however, budget cut-backs prevented this. We believe that until provisions are made for hookups to the sewer systems, it is unlikely that they will be properly used. Problems with the sewer systems, however, are not limited to household connections. Truk and Yap, for example, do not have adequate water supplies to run the sewer systems. Before the sewer systems can be properly used there, the systems will have to be upgraded.

OUTER ISLAND AND OTHER DEVELOPMENT
PROJECTS NOT CONSIDERED BY FIVE-YEAR CIP

Micronesia's development extends beyond the currently authorized Five-Year CIP, including more outer island development, increased development within principal population areas, and the repair or replacement of deteriorated facilities. Without funding for such projects, the Micronesian governments believe that their efforts to become more self-sufficient will be hindered.

Most infrastructure development has been primarily confined to Micronesia's principal population centers. The area outside the principal population centers, often referred to as the outer islands, has received only marginal benefits, even though 58 percent of the population resides there and greatly needs basic infrastructure facilities.

In 1978, the Second Level CIP prepared by the High Commissioner was designed to address the basic necessities of life in the outer islands and to provide a greater opportunity for economic development. It called for providing such minimal facilities as water, toilets, communication, elementary schools, dispensaries, and protective sea walls to overcome the most serious social problems outside the principal population centers. Other necessary facilities--including docks, boats, copra warehouses, power, freezers, roads, airports, tractors, and special equipment for certain economic developments--were also considered. Estimated at approximately \$199 million, the program was never funded, and Micronesia's outer islands remain undeveloped.

Much also remains to be accomplished within the principal population centers. The Micronesian governments believe the development level is not sufficient to lead them toward self-sufficiency. In addition, migration to the centers has tended to increase, resulting in a loss of talent and human resources in the outer areas. Further, overcrowding has occurred often, leading to a strain on traditional social systems and on the centers' infrastructure.

Rehabilitating deteriorated facilities also concerns the Micronesian governments. Over the years, infrastructure development has exceeded the technical capability and financial resources necessary to operate and maintain it. As a result, we observed that many U.S.-constructed facilities have deteriorated, requiring extensive repair and, in some cases, replacement. Although the Micronesian governments would like to repair or replace these facilities before the Trusteeship is terminated, they have neither the expertise nor the funds.

Although the current CIP is under-funded, according to the Trust Territory Government, we were unable to determine how much it would cost to satisfy Micronesia's minimal construction and repair needs. Funds for improvements, however, will be available under the Compact of Free Association. According to Article 1, Section 211, of the Compact, the United States will provide nearly \$373 million to the Marshall Islands and approximately \$826 million to the Federated States on a grant basis. No less than 40 percent of these amounts will be dedicated to the "capital account." Under the 40-percent limitation, at least \$135 million will be dedicated by the Marshall Islands; and \$314 million will be dedicated by the Federated States. A subsidiary agreement for Palau's infrastructure development is currently being negotiated in lieu of the cash grants offered to the other two governments.

Funds under the capital account are to be obligated for construction or major repair of capital infrastructure or public and private-sector projects identified in the official overall economic development plan. Funds not obligated to the capital account will be obligated to the "current account," for recurring operational activities, including infrastructure maintenance. We were unable to determine if sufficient funds will be available to satisfy all Micronesia's capital infrastructure and economic development requirements.

Current planned improvements

We observed during our review that many of the airfields in Micronesia lack adequate terminals, in almost all locations we visited the water supply was contaminated and available only during certain hours, road improvements were not complete, and power capacity and sewer systems were inadequate. Notwithstanding these shortcomings, DOI's fiscal year 1983 budget request for capital improvements is limited to \$7.8 million for construction of government capital buildings in Palau, the Federated States, and the Marshall Islands.

The Compact of Free Association prescribes that the United States is to provide the Micronesian governments with a new telecommunications system, funding a satellite system at a cost of \$26.25 million--\$10.5 million for communications hardware and

\$15.75 million for operations and maintenance. This will replace the present unreliable high-frequency radio system and will improve both inter-island and international communications. Plans are being implemented now, although full needs are still not fully evaluated. Further, the project plans exceed Micronesia's existing telephone needs and the governments may be unable to operate and maintain the system.

The U.S. and the Micronesian governments have entered into contracts with the Communications Satellite Corporation (COMSAT), which provide for the construction and operation of earth stations and the leasing of communications circuits for each government. Under the terms of the contracts, COMSAT will operate and maintain seven earth stations; the United States will lease 70 circuits at the market tariff rate. As of 1981, the rate was \$1,125 per circuit per month and the estimated cost for leasing circuits totaled at least \$78,750 per month.

Even with the new telecommunications system, some governments will be unable to increase the number of phones in use. In at least two locations, we were informed that constructing earth stations will neither expand telephone capacity nor increase the volume of service because of problems in interfacing the existing system with the COMSAT system. Geographical and financial constraints have also limited ability to expand telephone service.

The Trust Territory Government Communications Director did not know whether the Micronesian governments could use 70 communications circuits but stated that the telecommunications project would provide telephone capacity far exceeding the needs of two islands. These two islands--Kosrae and Ebeye--are scheduled to have earth stations, but Ebeye has no phones. The United States will, therefore, expend at least \$270,000 annually for circuit leases for an island that has no phone service. In addition, the cost per telephone of leasing circuits exceeds the known and estimated annual billings for all the islands.

Without help in many areas, the Micronesian governments may be unable to operate the telecommunications system. Technical assistants from the Trust Territory Government informed us that technical expertise is needed in traffic analysis, tariff sharing, management and supervision, accounting, statistics, collections, billings, and many other areas. Because of the lack of the necessary expertise and knowledge, the Micronesian governments will have to procure technical assistance, training, and expatriate support to operate and maintain the telecommunications system.

The Government of the Federated States, in commenting on our report, stated that it has made and continues to seek improvements to the link between the satellite system and the basic telephone system.

The administration, in its comments on our report, agreed that the Micronesian governments face a challenge in the telecommunications area but that the present unreliable high frequency system would cost millions to upgrade with only a minimal increase in quality and capability. It stated that the Office of Territorial and International Affairs is providing technical assistance to hire the expertise needed to improve the management and operations of the communications satellite system and that the Trust Territory Government has provided funds to facilitate the improvement of the local telephone systems. Further, as effective and reliable satellite systems are put in place, it is expected that traffic volume will increase and the resulting revenues will be available for system maintenance and further expansion and upgrading.

We agree that technical assistance would improve the telecommunications system. We would caution, however, against any expectation that user rates and revenue collections will be sufficient to assure proper operation and maintenance and to provide for system expansion, given the experience with the water, power, and sewer systems.

ADMINISTRATIVE AND PLANNING ASSISTANCE
STILL NEEDED AFTER FIVE-YEAR CIP COMPLETION

Upon completion of the Five-Year CIP, currently estimated to end in 1984, OICC is scheduled to end its responsibilities as the Trust Territory Government contract administrator, under which it has been responsible for planning, designing, and implementing the CIP. Although much infrastructure development will be needed after the Five-Year CIP, the Micronesian governments lack the technical expertise necessary to adequately perform these functions. We believe that without technical assistance, this development will continue to remain beyond their capabilities.

To ensure that Micronesia's development needs are satisfied, the expertise necessary to administer and plan a major CIP will need to be developed. The Micronesian governments have identified the need to establish the expertise for handling CIP planning, design and engineering services, contract administration, construction and inspection, and other related matters. They prefer to develop this capability inhouse, but the long lead time between developing and completing a technical assistance program requires consideration of interim alternatives. One alternative would be to contract out with a non-local private concern. With a large-scale CIP, however, the governments would need to ensure financial accountability and scope compliance, and they currently lack the capability to perform these functions.

A second alternative would be for OICC, or some other U.S. entity, to continue as the CIP contract administrator beyond the

currently authorized Five-Year CIP until the Micronesian governments' internal capabilities were developed. Developing this capability also includes hiring expatriates who already possess the required expertise. Although this would greatly reduce the lead time in developing the needed administrative and planning capability, the governments' current operating budgets do not provide sufficient funds to hire these personnel.

CHAPTER 4

OPERATIONS AND MAINTENANCE OF INFRASTRUCTURE

AND SUPPORT EQUIPMENT NEED IMPROVEMENT

Micronesia's infrastructure and support equipment are deteriorating and are not operating effectively. Although an increasing amount of funds has been spent on the development of capital improvements over the past 5 years, insufficient funding has been provided for the required operations and maintenance of these improvements. The Micronesian governments also lack technically capable professionals, qualified trade skills personnel, and operations and maintenance planning and work-control programs to ensure the operational reliability, protection, and preservation of facilities and equipment.

UTILITIES AND FACILITIES HAVE DETERIORATED FROM INSUFFICIENT MAINTENANCE

The current quantity and quality of operations and maintenance performed throughout Micronesia is inadequate and, as a result, most power and water systems, roads, heavy equipment, and government administration and housing facilities can no longer be operated effectively.

Power systems

Power systems in Micronesia commonly experienced unplanned power outages and restrictions on use primarily due to breakdowns in inadequately operated and maintained power generators. For example, six power-generators in Palau and five in Ponape were non-operational because of insufficient maintenance.

During fiscal year 1982, in recognition of the lack of funds that has prevented the necessary periodic maintenance and overhauls for efficient generator operation, DOI allocated over \$1.8 million for a Micronesian-wide power upgrade program. This program included funds for overhauling power generators, purchasing testing and maintenance equipment, and contracting for technical specialists. Although we did observe some progress being made by the Micronesian governments to upgrade their maintenance efforts, we were informed that the Trust Territory Government does not have enough technical personnel to implement appropriate systems of scheduled maintenance in Micronesia.

Water systems

All the water systems in Micronesia do not operate properly due to a lack of maintenance. Five of the six locations we visited are on restricted water hours because of leaks from water

mains, lateral lines, household connections, and businesses. Because of the leaks, harmful bacteria is entering the water, which often makes it unsafe to drink.

For example, the Ponape water system has so many leaks, according to the Ponape water and sewer specialist, that the system is closed about 8 hours daily to build a reserve of water in the storage tanks. CIP funds totaling \$100,000 has been allocated for a water-leak detection and repair project. The work will include hiring personnel to conduct a house-to-house leak-detection survey, repairing known leaks, and contracting for leak detection and repair.

In Palau, public works officials are unable to identify the extent of water leakage, but current estimates range from 300,000 to 400,000 gallons daily; only 45 percent of the customers receive water 24 hours a day. CIP has allocated \$100,000 to Palau for water-leak detection and repair, water meter installation, and reconstruction of water mains and laterals.

On Yap, an estimated 60 percent of the water demand, is lost to leakage. Customers are receiving water only 6 hours a day. Yap officials are uncertain how much and where the water leakages are because the system is not all metered. CIP allocated \$125,000 to Yap for installing meters, repairing the water treatment plant and distribution system, and purchasing appropriate materials and spare parts.

Roads

Although Majuro in the Marshall Islands and Koror in Palau have paved roads which are in relatively, good condition, the unpaved roads in the Federated States are in poor condition because most public works departments do not have the capability to properly repair and maintain them. For example, Truk's roads are not properly maintained because the necessary heavy equipment is not operational. Yap public works officials told us that roads were their major maintenance problem. In March 1982, we saw roads which needed maintenance because of poor drainage and large potholes. We were told that during the rainy season most of the roads turn to mud and are impassable.

Heavy equipment

All six public works departments in Micronesia have non-operational heavy equipment due to insufficient maintenance. For example, in Majuro a significant portion of the heavy equipment is inoperable. According to a public works official, heavy equipment receives almost no maintenance.

Truk's public works records showed that in April 1982 seven pieces of equipment had been deadlined for 3 to 34 months. In Ponape, we saw numerous pieces of abandoned equipment, such as heavy and light trucks, cars, graders, bulldozers, front-end loaders, jeeps, cranes, and cement-mixers. Ponape officials are uncertain how many pieces of heavy equipment are currently non-operational because no accurate equipment inventory exists.

Government buildings

Government administration and housing buildings are in poor condition. Although regular preventive maintenance would protect the buildings, the public works departments do not regularly maintain the facilities, so many buildings need expensive major renovations.

In Majuro, a public works official told us that preventative maintenance is not performed on government buildings. We observed government apartment buildings and single family homes which needed painting, new screens, and windows repaired. In addition, we observed that the fire station's tin walls were so rusted that it appeared the roof would soon collapse. The adjacent police station was built in the early 1970s with similar materials and was recently reconstructed because it was in such poor condition. The police station and the planned fire station renovation will cost \$32,000.

In Palau, the public works department recently inspected all government facilities and determined that four elementary schools must be replaced and another 172 government administration and housing buildings and schools need minor renovations. The estimated replacement and renovation expense is over \$436,000. Similarly, in Yap about 60 government housing units and 30 government buildings must be restored at an estimated cost of \$740,000.

The lack of proper maintenance of facilities and equipment results in their failure to operate efficiently and be useful for the purposes intended. This is best illustrated by what we observed during a visit to a Truk junior high school in April 1982. The school, which was completed in the early to mid-1970s, had a non-operational water catchment system because the drainpipes were disconnected, broken, or missing. In the school's bathrooms, the sinks, urinals, and toilets were not functioning because no water could reach them. The sinks, stoves, and rice cookers in the kitchen were all broken, so the children's food was being cooked on a woodburning stove located near the non-operational electric stove. In addition, classes were being conducted in rooms without electricity because the fuse boxes had faulty connectors.

AN EFFECTIVE OPERATIONS
AND MAINTENANCE PROGRAM
NEEDS ADEQUATE FUNDING

Insufficient funding has been provided for the required operation and maintenance of Micronesia's infrastructure and equipment. However, the funding shortfall could have been substantially reduced if the Micronesian governments had recovered the operation and maintenance costs of their utility systems.

Required funding levels
have not been met

Almost 5 years ago, the Trust Territory Government recognized the need to determine the level of funding that would be required annually to adequately operate and maintain the Micronesian governments' basic infrastructure (including existing, under construction, and planned projects) for a 10-year period. An April 1978 plan ^{1/} acknowledged that the maintenance of the Micronesian infrastructure has, in the past, been hampered by budget restrictions to the extent that the major effort of the public works departments has been likened to a "fire fighting procedure." Furthermore, the plan stated that

"* * * it can only be possible to keep that amount of the infrastructure (facilities, utilities, and equipment) in barely acceptable operating condition which present funding will allow. As a result, the maintenance effort has been forced to operate at a level of effectiveness far below that of the average American community."

The plan concluded that an operation and maintenance program cannot be fully effective without an adequate budget.

The plan recommended that \$239.6 million be budgeted for operations and maintenance during the 10-year period (fiscal years 1979-88). The plan's budget estimate included maintenance costs for utilities, facilities, and vessels and operational costs associated with utilities and vessels. The operational costs for other functions, such as health services, communications, broadcasting, and transportation, were not included in the estimates. In August 1979, the Trust Territory Government updated the estimates, recommending that \$239.2 million be budgeted for operations

^{1/}"Long-Range Operations and Maintenance Plan for Infrastructure (1979-1988)," (Apr. 1978, Trust Territory Government.)

and maintenance. In May 1981, DOI published a report 1/ identifying additional funds needed by the Micronesian governments for this purpose. The report concluded that most existing infrastructure was in some state of deterioration and that the current level of operation and maintenance services being provided by each government was insufficient to prevent or retard further deterioration. Further, the additional burden of operating and maintaining the new projects constructed under the Five-Year CIP would only compound the situation. The report recommended that the Micronesian governments' operation and maintenance budgets be increased \$21.1 million for fiscal years 1982-84 to hire skilled personnel (primarily expatriates) and local personnel and purchase vehicles/heavy equipment, tools/equipment, and materials/supplies. The report concluded that, without these increases, operation and maintenance services would continue to be inadequate.

Although the Trust Territory Government and DOI studies identified the operation and maintenance funding required for Micronesia, not all the funding has been forthcoming in accordance with the studies' recommendations. As a result, there has been a significant funding shortfall.

Using the two aforementioned studies as a basis, we calculated the operation and maintenance funding shortfall for fiscal years 1979-83. We found that the Federal and Micronesian governments provided only 85 percent of the required funding for adequate operation and maintenance of facilities and utilities. Our calculations included only the funding required for the Micronesian and Trust Territory Governments' public works departments. We did not include the required operation and maintenance funding associated with health, communications, broadcasting, fieldtrip vessels, and transportation because we could not determine the funding provided for those functions.

As shown in the following table, during fiscal years 1979-83, \$104.0 million in operation and maintenance funding was required. Only \$88.3 million was provided, resulting in a \$15.7-million funding shortfall. The figures are not adjusted for the increased inflation occurring during fiscal years 1979-83, which understates the funding shortfall.

1/"Operations and Maintenance Study, Trust Territory of the Pacific Islands," (May 1981, DOI.)

Federal and Micronesian Funding Shortfall
for Operations and Maintenance

Fiscal Year	funding required			funding provided			funding shortfall
	O&M plan	C&M study	Total	Federal	Micronesian	Total	
1979	\$17,721	\$ -	\$ 17,721	\$ 8,450	\$ 1,616	\$10,066	(\$ 7,655)
1980	18,502	-	18,502	12,398	1,790	14,188	(4,314)
1981	17,800	-	17,800	15,516	2,702	18,218	(418)
1982	17,013	8,876	25,889	20,941	2,981	23,922	(1,967)
1983	17,368	6,739	24,107	18,993	2,928	21,921	(2,186)
	<u>\$88,404</u>	<u>\$15,615</u>	<u>\$104,019</u>	<u>\$76,298</u>	<u>\$12,017</u>	<u>\$88,315</u>	<u>(\$15,704)</u>

Accelerated fuel costs consume
limited funds, contribute to deficit
spending, and curtail maintenance

Fuel represents the single largest expenditure for the Micronesian public works departments. Most fuel is used by the utility systems--primarily the diesel generators for electrical power production. Fuel costs for these generators rose from \$0.50 per gallon in fiscal year 1979 to \$1.34 per gallon in fiscal year 1981, a 168 percent increase. These price increases, plus increased consumption due to new generating equipment, have (1) consumed a major portion of the public works departments' limited funding, (2) contributed to deficit spending, and (3) curtailed maintenance efforts.

Fuel costs consumed 62.8 percent of the public works department funding in fiscal year 1980 and 80.8 percent in 1981--or 71.7 percent for the 2-year period (Kosrae is excluded because we could not obtain the data.) Fuel costs represented a large percent of total funding in fiscal year 1981 because fuel costs increased about \$2.1 million from fiscal year 1980 while total funding decreased approximately \$0.2 million. In addition, fuel costs represented 65.1 percent of the approximately \$3.2 million increase in total costs from fiscal year 1980 to 1981. Further, the accelerated fuel costs contributed significantly to the public works departments' \$3.6 million operating deficit during the 2-year period.

Accelerated fuel costs have had an extraordinary effect on the Micronesian governments' utility systems, which are a part of the public works departments' operations. Fuel costs consumed 94.7 percent of the utility systems funding during fiscal years 1980 and 1981. (See table below.) Further, the accelerated fuel costs contributed significantly to the utility systems \$3.2 million operating deficits during the 2-year period. The fiscal year 1980 deficit would have been much larger but, with congressional approval, DOI reprogramed \$3.6 million of unobligated construction funds to offset the increased fuel costs. In fiscal year 1981, the approximately \$1.7-million fuel-cost increase, and the \$0.6-million funding decrease contributed significantly to the \$3.2-million operating deficit for that year.

Effect of Fuel Costs on Total Funding and Costs
of Utility Systems
(FY 1980-81)

<u>Government</u> (note a)	<u>Total</u> <u>funding</u>	<u>Total</u> <u>costs</u>	<u>Surplus</u> <u>(deficit)</u>	<u>Fuel</u> <u>costs</u>	<u>Percent of</u> <u>costs to</u> <u>Funding Costs</u>	
Palau	\$ 4,631,892	\$ 5,964,151	(\$1,332,259)	\$ 4,732,035	102.2	79.3
Yap	2,368,879	2,362,208	6,671	1,653,880	69.8	70.0
Truk	2,540,645	3,747,541	(1,206,896)	2,736,339	107.7	73.0
Ponape	<u>3,128,148</u>	<u>3,762,532</u>	(<u>634,384</u>)	<u>2,876,717</u>	<u>92.0</u>	<u>76.5</u>
Total	<u>\$12,669,564</u>	<u>\$15,836,432</u>	(<u>\$3,166,868</u>)	<u>\$11,998,971</u>	<u>94.7</u>	<u>75.8</u>

a/For Kosrae and the Marshall Islands, total funding, total costs, and fuel costs were not available.

Because of the accelerated fuel costs and resulting operating deficits, the public works departments have curtailed their maintenance efforts. Although we could not ascertain the amounts, officials told us that to keep the power plants operating, they have transferred funds allocated for maintenance to pay for fuel. As a result, insufficient funds have been available to purchase materials/supplies and tools/equipment to perform required maintenance.

Funding shortfalls could be reduced
by recovering more utility costs

Operation and maintenance funding shortfalls could have been reduced if the Micronesian governments had recovered more of their utility systems' operation and maintenance costs from their customers. If this had been done, the extensive subsidies could have been reduced.

As the following table illustrates, Micronesian revenues (\$1.7 million) recovered only about 10.8 percent of the utility costs (\$15.8 million) during fiscal years 1980 and 1981. (Kosrae and the Marshall Islands are excluded because we could not obtain the data.) As a result, the utilities incurred about a \$14.1 million deficit. A \$10.9 million Federal subsidy still resulted in a \$3.2-million net deficit. During the 2-year period, Palau had the highest revenue/cost ratio (13.6 percent) and Truk had the lowest (6.6 percent).

U.S. Government Subsidies for
Micronesian Utility Systems

<u>Government</u> (note a)	<u>Costs</u>	<u>Micronesian</u> <u>revenues</u>	<u>Deficit</u>	<u>DOI</u> <u>grants</u>	<u>Surplus</u> <u>(deficit)</u>
Palau	\$ 5,964,151	\$ 811,892	(\$ 5,152,259)	\$ 3,820,000	(\$1,332,259)
Yap	2,362,208	285,479	(2,076,729)	2,083,400	6,671
Truk	3,747,541	248,645	(3,498,896)	2,292,000	(1,206,896)
Ponape	<u>3,762,532</u>	<u>367,848</u>	(<u>3,394,684</u>)	<u>2,760,300</u>	(<u>634,384</u>)
Total	<u>\$15,836,432</u>	<u>\$1,713,864</u>	(<u>\$14,122,568</u>)	<u>\$10,955,700</u>	(<u>\$3,166,868</u>)

a/For Kosrae and the Marshall Islands, costs, revenues, and DOI grant figures were not available.

Customers should be metered

All utility customers should be metered to ascertain their consumption and to charge them for the service. As of March 1982, however, the Micronesian governments had identified 703 power and 1,042 water/sewer customers who were not metered. Most of them nonmetered power customers were private and government users; private and commercial users represented most of the nonmetered water/sewer customers.

All the public works directors told us that efforts are being made to meter all private and commercial utility customers. They stated that meters would be installed as they became available. However, there were no immediate plans to meter government facilities.

Utility rates should be established
to recover production costs

Utility rates should be established to recover production costs. First, however, production costs should be known. We found that the Micronesian governments had not determined the

production costs of their water and sewer operations. On the other hand, all the governments, except Palau and Kosrae, had determined their power production costs. Palau had only determined production costs for fuel and lube oil; other costs, such as labor, supplies, etc., had not been ascertained. Kosrae had estimated only its power production costs.

Although most Micronesian governments have determined their power production costs, they have not established rates sufficiently high enough to recover these costs. While they have established water rates, they have not determined the production costs for these operations. Furthermore, the governments have not determined their sewer production costs and have not established rates.

The utility systems should be self-supporting. A policy of subsidizing utility systems only encourages waste and drains limited resources. By instituting a policy of gradually increasing rates, the Micronesian governments could begin to recover a greater share of the utility systems' production costs; the higher monthly bills would encourage customers to reduce their consumption. Along those lines, the Federated States have developed a plan to gradually increase power rates. At the end of a 5-year period, they anticipate that their power systems will be more self-supporting.

In addition, the government sector--which is the largest utility customer--could contribute in making the utility systems more self-supporting. Presently, the government sector receives all its utilities free. Requiring individual government agencies to pay for utilities would require them to promote conservation.

INADEQUATE TECHNICAL EXPERTISE AND TRADE SKILLS TRAINING HAMPER OPERATIONS AND MAINTENANCE

In Micronesia, the lack of technically capable professionals, as well as qualified trade skills personnel, hampers the operations and maintenance of facilities and equipment. public works departments need qualified managers, technical experts, and skilled tradesmen for proper operations and maintenance.

Technical experts needed

The April 1978 Trust Territory Government's long-range operation and maintenance plan concluded that only qualified personnel could effectively manage an operation and maintenance function; it recommended that additional qualified personnel be recruited to fulfill these needs. The May 1981 followup study concluded that the shortage of adequate human resources, especially personnel

skilled in maintenance control and engineering, was a key factor contributing to the lack of operation and maintenance planning. The study recommended that the public works departments receive \$8.2 million during a 3-year period, beginning in fiscal year 1982, to increase public works staffs, including 79 expatriates. However, plans have been made to hire only 7 technically qualified expatriates, at an annual salary cost of \$135,000. The Marshall Islands, Kosrae, and Ponape do not plan to hire any expatriate specialists even though the study showed a need for 36 expatriates in these locations.

Public works management positions were vacant in many Micronesian governments. For example, in Ponape the director and assistant director positions were vacant and the acting head was a cabinet-level official with many duties and no public works background. In Palau, vacant positions included the director, the chiefs of the maintenance and utilities divisions, and six technical personnel in a proposed design/engineering division which includes architects, engineers, inspectors, surveyors, physical planners, and construction and contract experts.

Micronesian leaders also stated that the lack of appreciation for government property and the failure of managers and supervisors to enforce discipline and observe accepted management principles were attributable to the (1) perception among government employees that neither the government nor the associated costs were theirs, (2) absence of administrative guidelines and procedures, and (3) limited ability to read manuals written in English. As a result, government drivers forgot to check oil levels in engines, watchmen left their posts unattended at night, workers abused government equipment, and people did not conserve other government resources. According to these spokesmen, overcoming these problems would require training supervisors and managers to enhance technical expertise and administrative ability.

Trade skills training needed

The 1978 long-range plan and the 1981 followup study both concluded that most public works employees in Micronesia lack basic education and trade skills which contribute to inadequate operations and maintenance. Because the departments are not conducting any in-house training, and outside training opportunities are limited, training personnel in trade skills was recommended to upgrade the operation and maintenance capability of the public works staff.

At the time of our review, four Department of Defense civic action teams, which were in various Micronesian locations, were responsible for training Micronesians in heavy equipment operations and maintenance and providing skilled personnel for construction supervision. As of April 1982, only nine full-time and three part-time Micronesians were in training.

In addition, the Navy and the Trust Territory Government have implemented a program to train Micronesians in trade skills. Students will obtain journeyman status in a trade when they successfully complete a 4-year course. Training is conducted on Guam at the Navy Public Works and Naval Ship Repair Facility in a wide array of trades, such as electricians, carpenters, plumbers, machinists, welders, woodcrafters, and diesel, air-conditioning, automobile, telephone, heavy and marine equipment mechanics.

According to an OICC official, the quality of training is very high, but not enough students are currently in the program to meet Micronesian operation and maintenance needs. The enrollment of only 64 students is in two groups; 34 students graduated in October 1982, and the final group is scheduled to graduate in October 1984.

Public works officials believe that the skills of these graduates could enhance the operation and maintenance of utilities and facilities because they are highly qualified in their respective trade skills. The chief of training in the Federated States told us that these graduates would be the most highly qualified trade skill personnel in Micronesia. Currently, the Micronesian governments have no firm commitments to employ any of the students who will graduate from the program and students are not required to return to Micronesia after graduation.

OPERATIONS AND MAINTENANCE PLAN NEEDED

The public works departments need to develop an operations and maintenance planning and work-control program to ensure that operations and maintenance needs are identified, remedied, and evaluated.

A comprehensive public works planning and work-control program was never fully implemented when the Trust Territory Government was responsible for the operations and maintenance of facilities and equipment. During our review, we identified two planning and work-control programs the Trust Territory Government developed, but both programs were very general and neither system was completely implemented.

Both the April 1978 long-range plan and the May 1981 follow-up study recommended that the Trust Territory Government implement a planning and work-control program to insure the preservation of facilities and equipment. The program consisted of an overall management plan to (1) identify operation and maintenance needs through data collection and analysis, (2) conduct a cycle of preventive maintenance, and (3) evaluate the quality of completed operations and maintenance.

During our review, we found that public works departments have not developed an operation and maintenance planning and work-control program. Planning is based on day-to-day management or "crisis" planning to solve each new problem. Because sophisticated facilities and equipment must receive appropriate care to operate efficiently, the public works departments should develop a plan with a firm schedule of cyclical, preventive maintenance for all facilities and equipment.

CHAPTER 5

DEMANDS INCREASING FOR SOCIAL SERVICES

Containing social program costs has been difficult and will continue to be, particularly given increasing demands for health and education services and Micronesia's plans for separate social security systems. The Micronesian governments will remain linked to the United States through the Compact of Free Association, but they will be struggling to expand their economic resources to meet the needs of their populace in as self-sufficient a manner as possible. Yet, the education and health status of the people must continue to be improved if further economic advances are to be made. Given the limited funding which will be available for social services under the Compact, Micronesia may well have to reexamine its priorities and better manage its limited resources. To do so, however, will require continued outside technical assistance.

GOVERNMENTS FACE RISING DEMANDS UPON SOCIAL SERVICES

Education and health are a large portion of the operations budgets of the three governments as shown below.

Interior and Specific Federal Grant Programs (FY 1982)

<u>Government</u>	<u>Total budget</u>	<u>Budget for educa- tion and health</u>	<u>Percent</u>
Federated States	\$56,947,000	\$24,006,000	42
Marshalls	19,636,025	8,048,725	41
Palau	16,436,000	4,698,000	29

The Micronesian education system provides compulsory elementary and secondary education. Throughout Micronesia, approximately 25,000 students are enrolled in public elementary schools and 5,100 in public secondary schools. Post-secondary education is provided at low cost to the residents by the College of Micronesia, a 2-year institution. The college comprises the Micronesian Occupational College in Palau, Community College in Ponape, Community College's School of Nursing in Saipan, and seven extension centers located throughout the islands. It offers elementary education, general business, liberal arts, vocational education, special education, and nursing. About 2,000 Micronesians attend the college which is operated jointly by the three Micronesian governments.

Medical services are subsidized throughout Micronesia and are provided through the six government hospitals, one sub-hospital,

and 173 dispensaries. Forty-five percent of the Micronesian resident population has direct access to government hospitals. Another 34 percent is within 1-day access to these facilities. Dispensaries serve the outer islands.

As Micronesia's population grows, the demands upon social services will correspondingly increase. According to the 1980 census, the resident population was about 117,000: 4,000 in the Federated States (63 percent); 31,000 in the Marshall Islands (27 percent); and 12,000 in Palau (10 percent). The Trust Territory Government projects that by the year 2000, the population will have increased to 242,000--about 108 percent.

Micronesia has a young population. In 1980, about 44 percent of the population was under the age of 15. This factor specifically affects the demand for education.

MORE ECONOMICAL EDUCATION AND HEALTH SERVICES NEEDED

The funds to meet education and health needs are likely to become limited when the Trusteeship ends. Governments' efforts to reduce subsidies by increasing fees and improving fee collection procedures and to contain or reduce costs, however, have been few or unsuccessful.

Funds for education and health will be limited

Under the Compact, the United States will provide economic assistance through annual grants and the extension of specified domestic Federal programs. The grant package includes \$3 million for a higher education scholarship fund and \$2 million for health and medical programs annually and provides \$12 million annually for the United States to extend those Federal programs which will be mutually agreed upon for education and health. The overall objective in the status negotiations, with regard to Federal programs, has been to curtail their post-Trusteeship application to the maximum extent consistent with the capability of the new governments to provide like services from U.S. grant aid and local revenue sources. Thus, the funds to meet education and health needs are likely to become limited upon termination of the Trusteeship.

Efforts to reduce government subsidies and contain or reduce costs have been few or unsuccessful

Micronesia has little economic base to support the education and health care system. (See ch. 2.) Because of the inability or refusal of most of the population to pay more for education

and health, the governments' efforts to generate revenues and pass more costs to the users have poor potential or have been unsuccessful. Some effort has been made to reduce medical referral costs, but little has been done to increase medical fees and improve collection procedures.

Medical insurance is under consideration in the Marshall Islands, Ponape, and Truk, but many people cannot afford it. Palau found that no company would provide insurance without charging premiums which would be too expensive for the users. Taxing government and private employees to cover more costs is under consideration in Yap. Palau also considered a tax but found that the users would not be able to pay it.

Medical referral costs have exceeded budgets. Micronesians are frequently sent to American hospitals when they require special medical attention. These medical referrals usually go to U.S. hospitals in Guam, Hawaii, and San Francisco. In general, locally appropriated funds have been inadequate to pay for medical referral costs. For fiscal year 1981, Micronesia's actual referral expenditures were more than twice the amount locally appropriated for medical referrals and have contributed to the deficits of those governments.

<u>Government</u>	<u>Medical referral</u>	
	<u>budget</u>	<u>expenditures</u>
Federated States	\$ 300,000	\$ 900,000
Palau	75,000	216,000
Marshalls	<u>700,000</u>	<u>1,238,804</u>
Total	<u>\$1,075,000</u>	<u>\$2,354,804</u>

Only Palau and Truk have attempted to reduce medical referral costs. Since August and November 1981, respectively, their medical referral patients have been required to pay their air fares to and from the referral site. The governments continue to pay for medical and hospitalization costs.

Little has been done to increase medical fees or to collect existing fees. The medical fees charged do not cover actual service costs. The Micronesian governments charge fees which were established by the Trust Territory Government in 1971, and these fees have remained constant while costs have increased. The departments of health services have been reluctant to increase medical fees or strongly assert their powers of fee collection. Moreover, unpaid bills are seldom pursued because the users have been accustomed to heavily subsidized social services. Our analysis of collection data shows that the rate of collection is generally poor: 40 percent in Palau; 10 to 50 percent in the Federated States; and 25 to 75 percent in the Marshall Islands.

The need for additional skilled medical personnel will make it difficult to contain budgets for medical services. Some effort to reduce health costs has been made through the use of traveling Micronesian and U.S. Public Health Service Corps physicians, but expatriate health care personnel will still be needed.

The departments of education have made some effort to reduce education costs. Palau built a high school study hall largely with public donations, and Ponape plans to consolidate some of its elementary schools. The departments of education in Palau and Truk also plan to pass more education costs, including administration and maintenance, to the users by transferring responsibilities to the municipalities. If the municipalities accept these responsibilities, some administrative positions in the education departments may be eliminated.

Some savings may be possible

Some savings may be possible through grant consolidation and streamlining personnel. Our earlier report 1/ pointed out that the Congress saw grant consolidation as a means to minimize the administrative and financial burdens of with the Federal assistance system. The report noted that there was some concern that the recipient governments, including the Trust Territory, were overwhelmed by administrative requirements.

The number of administrative personnel for Federal education and health grants (by government) is shown below.

<u>Government</u>	<u>No. of administrative personnel for Federal grants</u>		
	<u>Education</u>	<u>Health</u>	<u>Total</u>
Federated States	235	25	260
Palau	63	9	72
Marshalls	<u>29</u>	<u>3</u>	<u>32</u>
Total	<u>327</u>	<u>37</u>	<u>364</u>

Generally, each specific grant program has been administered by a coordinator, supported by other staff members. When block grants are implemented, some costs may be saved by streamlining administrative personnel. Politically, streamlining the government is a difficult decision and there are no formal plans for any of the governments to do so.

1/"Limited Progress Made In Consolidating Grants to Insular Areas" (GGD-81-61, July 10, 1981).

In interviewing education and health department officials in Micronesia, we learned that generally there has been no planning to relate specific Federal grants to prevailing education and health conditions. The Yap education plan goes as far as stating that education and health programs have been adjusted to those particular activities which Washington, D.C., would approve (activities appropriate to the U.S. mainland and to the American culture). Based upon interviews with education and health department officials in the other Micronesian governments, we believe that this procedure is followed throughout Micronesia. Under the block grant system Micronesia will have greater flexibility in designing programs more suited to prevailing conditions and needs. Even under the block grant programs, however, Federal program coordinators and individual program managers will need technical assistance in writing grant proposals and reports, planning and monitoring programs, and understanding grant rules and regulations.

SEPARATE SOCIAL SECURITY SYSTEMS
MEAN INCREASED COSTS

The Trust Territory Government social security system applies on a unified basis to the three Micronesian governments. It will continue as a unified system until the Trusteeship terminates, when it continue as a unified system or be divided among the governments. The Micronesian governments have stated a desire to establish separate systems.

The present social security system has been operating since July 1, 1968. Its headquarters office is located in Saipan with branches in seven major population centers. Employees and employers pay a social security tax of 2 percent on the first \$1,200 of quarterly wages. Over 22,000 people actively contribute each quarter; over 1,800 families receive benefit checks each month. Cumulative payments have reached about \$4.7 million and continue to increase. The present system meets all expenses from a portion of contribution receipts.

A Trust Territory Government study noted that separate social security systems for Micronesia may be too small to be viable and that administrative expenses will be greatly increased. Further, the Micronesian governments do not have the technical capabilities to administer and operate separate systems.

Costs will increase

Smaller social security systems would not only be more costly to operate but most likely would require major restructuring of tax rates and benefit provisions. The present system has advantages which are available under a larger system.

At a March 1982 meeting, representatives from the three Micronesian governments stated their desire to establish separate social security systems. Interior Secretarial Order No. 3039 issued in 1979 provides for the present system to continue as a unified system until the Trusteeship ends. The governments of Palau and the Federated States have introduced legislation to establish their own separate social security systems. In its comments on our report the Government of the Federated States said that, in conjunction with the High Commissioner, it has sought to amend the Order to allow for a separate system prior to termination. Statistics for the unified social security system follow.

<u>Government</u>	<u>No. of people enrolled</u>	<u>No. of families receiving benefits</u>	<u>Total monthly benefits</u>	<u>Government share (percent)</u>
Federated States	30,176	910	\$ 70,602	55
Marshalls	12,370	300	27,943	25
Palau	<u>9,709</u>	<u>298</u>	<u>24,244</u>	<u>20</u>
Total	<u>52,255</u>	<u>1,508</u>	<u>\$122,789</u>	<u>100</u>

According to a March 1982 Trust Territory Government report, separation of the social security system would result in higher administrative costs, lower investment income, and a smaller trust fund. Administrative costs for 1982 under the unified system are estimated to be \$300,000 but would jump to \$485,000 under separate systems. Investment income for 1982 under the unified system is estimated to be \$900,000 but would fall to \$600,000 under separate systems. The trust fund under the unified system is estimated to increase in 1982 by \$1.15 million but would increase only by \$735,000 under separate systems. A smaller trust fund would limit the availability of funds for investment projects.

Separate systems would also necessitate the establishment of independent record systems, each estimated to cost from \$30,000 to \$40,000, annually. Increasing the employee deduction and employer contribution rates would be necessary to finance higher administrative costs and to protect the integrity of the trust fund.

Technical expertise and investment capabilities should be developed

According to the Trust Territory social security administrator, Micronesian governments do not have the technical capabilities to administer and operate separate social security systems. Each government needs a social security administrator, actuary, disability examiner, accountant, and claims adjudicators and processors. Investment capabilities will also have to be developed. The absence of sufficient technical expertise to operate separate

systems may be more detrimental than the lack of funds, according to the Trust Territory Social Security Administrator.

Trust Territory and Micronesian officials expect the unified system to continue for about 2 more years, during which the Trust Territory Government plans to provide technical assistance and training to Micronesian personnel in administration and operation of separate systems. Each government plans to select a social security administrator to be trained in the technical aspects of social security. Even though needs have been identified, we know of no plans to provide training to personnel other than prospective social security administrators.

Under separate systems, each Micronesian government would become responsible for the investment of future contributions and its share of the \$9-million unified trust fund, as follows.

<u>Government</u>	<u>Share of trust fund</u>	<u>Percent</u>
Federated States	\$4,770,000	53.0
Marshalls	2,367,000	26.3
Palau	<u>1,863,000</u>	<u>20.7</u>
Total	<u>\$9,000,000</u>	<u>100.0</u>

The successful operation of separate social security systems requires that the trust funds be appropriately invested to insure their integrity. The separate systems should not jeopardize the rights of current beneficiaries or of insured persons who are acquiring future benefit rights. We are concerned, however, that the Micronesian governments may need to improve their investment expertise to support separate systems with secure investments. According to Palau's Minister of Administration, for example, the government would like to withdraw its share of the unified trust fund and invest it in its new economic development bank. Generally, such loans are made only to those enterprises which cannot qualify for commercial loans. Thus, they are higher risk loans.

CHAPTER 6

PUBLIC ADMINISTRATION AND HUMAN RESOURCE PROBLEMS

The Micronesian governments are experiencing problems in two critical areas of public administration--financial management and identifying personnel staffing needs and training requirements--and in addressing overall human resource needs.

Micronesian officials claim that technical assistance, training, and qualified expatriate support should be made available for many years into the future. We agree and believe that the U.S. and Micronesian governments should identify and set priorities for each governments' requirements and develop a plan to help Micronesia improve public administration capabilities and to better address human resource shortages.

IMPROVING PUBLIC ADMINISTRATION IS IMPORTANT

According to the United Nations, emerging governments which suddenly become self-governing face problems of administrative confusion, the need to replace key personnel, and the task of building a system from the ground up. In addition to the need for administrative reform, the new government is confronted with major obstacles, including shortage of trained personnel, excessive centralization, and expectations exceeding its capabilities. To overcome these obstacles and improve public service, external technical assistance, training, and expatriate support become important. The United Nations and the Micronesian governments recognize the importance of these elements.

Micronesia's development plans recognize the importance of public administration and its role in economic development. According to Palau's draft development plan, for example, economic self-reliance requires strong public administration. Similarly, development plans for the governments of the Federated States acknowledge that administrative capabilities must be increased if operating costs and public employment are to be contained to maximize economic development funding. According to most managers we interviewed, the Micronesian governments will need extensive help in many areas and for many years to come.

In the Compact of Free Association, the United States recognizes the need to promote self-sufficiency among the Micronesians. The administration of funds provided under the Compact will be the responsibility of the Micronesian governments' public administration systems, which are still evolving.

Anticipating the termination of the Trusteeship, the Trust Territory Government started phasing out its operations. Staffing

consisted of 914 employees in December 1978 and 399 as of February 1982. These reductions reflected the phaseout of positions and the effects of a recruitment freeze in 1979, which together reduced the employment level commensurate with the Trust Territory Governments' diminishing administrative role.

On January 5, 1981, the High Commissioner signed an executive order reorganizing the Trust Territory Government to maintain its efficiency during the transition. As of March 1982, the remaining employees were being encouraged to accept employment elsewhere as the staff was reduced in conjunction with the transfer of responsibilities to the Micronesian governments.

According to the High Commissioner's Special Assistant for Legislation and Public Affairs, the Trust Territory Government anticipated the need to transfer its administrative and management functions and tried to phase in this transfer according to the Micronesian governments' capabilities. Such transfers necessitated technical assistance, training, and expatriate support. For instance, the finance office provided both formal classroom and onsite technical assistance in financial management systems and basic accounting; health and education personnel provided assistance in specific programs and training in grant management; and the personnel office administered training programs in budgeting, management and supervision, personnel administration, and other areas through the Intergovernmental Personnel Act program. Unfortunately, as the Trust Territory Government phases out its operations, its ability to provide technical or training support is diminishing.

Recognizing the need for assistance and training, the Micronesian governments are individually contacting universities and consultants to satisfy these needs. Their efforts, however, are uncoordinated because they lack a central agency or office to coordinate their needs.

DEFICIENCIES IN FINANCIAL OPERATIONS

We found that each government is experiencing financial management problems, despite the presence of some capable financial managers and technical assistance efforts by the Office of Territorial and International Affairs and the Trust Territory Government. Specifically, we noted that program managers

- were approving expenditures without checking on, or were ignoring the status of, available funds and other financial and grant restrictions;
- had no routine procedures to check on the status of funds because they did not know how to use financial reports; or

--did not have the latest financial reports and could not adequately reconcile accounts or remaining budget funds.

As of October 1981, the Micronesian governments have been responsible for program and financial management. The Trust Territory Government adjusted the financial management and payroll systems accordingly to allow each government to control the timing of its data processing and to request changes to the system without affecting other governments. The Trust Territory Government became responsible only for assessing the proper operation and use of the system and for preparing consolidated accounting reports.

These problems facilitate overexpenditures

The problems discussed above contributed to expenditures which exceeded DOI and Federal program authorizations. Since at least 1977, overcharges have occurred in Federal program grants and every government has exceeded its DOI budget authorization. According to the Trust Territory Finance Director, these deficits were either deducted from subsequent year appropriations or absorbed by the U.S. Government. For instance, fiscal year 1980 deficits in DOI grants were deducted from fiscal year 1981 appropriations. At the time of our fieldwork, however, no resolution for financing these deficits had been reached.

Beginning in fiscal year 1982, each Micronesian government was advised that operations funding would be apportioned on a quarterly basis and that any operations deficits would be the responsibility of each government. Despite this warning, these governments have failed to remain within their budgets. During our review, over expenditures were occurring in Palau, the Marshall Islands, and in some of the Federated States and over-obligations were expected to continue throughout the fiscal year. In comments on our report the Federated States said each state has a small fiscal year 1982 surplus.

At the end of fiscal year 1981, over-obligations amounted to \$6.2 million and would have been higher if the transition funding of the Trust Territory Government had not been available. This over-obligation, when combined with prior year deficits, increased the Trust Territory's cumulative operational deficit to over \$18 million. If estimated fiscal year 1982 deficits are added to this amount, over-obligations would total more than \$20 million.

Use of financial management system needs improvement

We found that management attitudes were not always conducive to sound financial management. This was compounded by a lack of knowledge of, and access to, current financial information. As a

result, despite warnings to the contrary, executives and fiscal managers continued to overspend and ignored financial and grant restrictions.

Four of the seven finance officers we interviewed indicated that they experienced problems in getting program managers to recognize the importance of adhering to their budgets. The reprogramming of funds by finance officers and political leaders to cover anticipated deficits in such areas as health services, medical referrals, and personnel costs, contributed to the problem. For example, the chief of administrative services and the coordinator of programs and development in the education department, Marshall Islands, reported that the cabinet's reprogramming of its department's surpluses to cover other deficits contributed to the attitude not to observe fiscal restraints in the future.

In Palau, we found that program managers for education were approving purchases without checking on fund status. Health officials had no system for reconciling the status of funds reports and no qualified staff to do so. However, these program managers also were not regularly receiving from the Palau central finance office, the necessary status of funds reports, and reports they did receive were often late. Education officials reported that errors in payroll and vendor payments had gone uncorrected for as long as 9 months after their referrals to the central finance office.

In the Marshall Islands, education officials informed us that status of funds reports were sent infrequently and were often late. Errors were not corrected by the Marshall Islands finance office, and as a result, officials relied on their manual ledgers. Finance officials said that because they only received two copies of funds status reports, program managers were not given copies.

In the Federated States, health officials noted that most program managers did not have current status of funds reports. In Yap, finance officials said they had insufficient copies to distribute; health officials stated that they depended upon their manual records. In Truk, health officials noted that they also did not receive such reports and would not know what to do with them if they had received them. In Ponape, health officials noted that they not only failed to regularly receive such reports but had no staff qualified to use them to control expenditures. In Kosrae, finance officials cited a lack of copying machines as the reason for not sending fund status reports to program managers.

Although the Trust Territory Government provided training in financial management systems in an effort to enable managers to account for and be responsible for funds, individual managers stated they still did not understand the current system and needed additional training. Other managers outside the finance offices also claimed they needed further training and technical assistance in financial management systems. Finance officers also noted that

further training for program managers as well as finance office personnel was needed.

Divisions such as personnel, health, education, and others, also stated they lacked knowledge of basic accounting and internal cost-accounting systems. As a result, they depended on the finance offices not only to provide current balances, but also to help them observe budget integrity and to control their expenditures. Finance officers informed us, however, that their offices are only responsible for providing information and should not be assuming these responsibilities for program managers. Yet, as previously noted, this information was not always provided.

Proposed computer system will
require technical assistance

The Micronesian governments, and Trust Territory Government computer specialists, support a proposal for a decentralized, self-operated computer facility for each government. Retaining the present central system, or a modification thereof, was cited as an unacceptable alternative to the individual governments. As a result, a modification of the present system is unlikely to succeed because of the lack of management commitment.

The \$5-million proposal would allow the full accounting cycle to be processed by each government (including the Northern Marianas), ending the need to depend upon central processing by the Trust Territory Government. Standard systems of municipal fund accounting, payroll and personnel, and accounts receivable would replace the present Trust Territory Government accounting system.

The proposal includes about \$2 million in technical assistance. Expatriate experts would be used over a 3-year period to initiate the system and train Micronesians to eventually run the system. This assistance and training has been cited by system proponents as a key to successful implementation. However, neither the Office of Territorial and International Affairs nor the Trust Territory Government are staffed to implement a new financial management system.

Moreover, program managers--not just finance and accounting officers--would need to be trained in how to use information from the system for program management. The present proposal does not provide for such training. To be effective, a parallel program to train program managers is needed.

Most internal audit functions
are yet to be established

Each Micronesian government will be required to report annually to the U.S. Congress and the President on the status of its

economic development plans, use of specified funds, and need, if any, for additional funds for economic assistance. Most governments are establishing internal audit functions, but the organizations were not fully established and public auditor positions were not filled except in two of the seven governments (the three national governments plus the four Federated States governments). In view of the recent dissolution of the Trust Territory Government's internal audit office, the problems discussed in our report on U.S. Government Comptrollers 1/ and the amount of U.S. funds involved, the importance of the audit function cannot be over-emphasized.

IMPROVEMENTS NEEDED TO IDENTIFY STAFFING AND TRAINING NEEDS

Holding down the size of government to maximize public investment in social and economic development requires the Micronesian governments to carefully identify staffing and training requirements to upgrade the skills of public employees. We found, however, that the governments were not systematically identifying these needs and requirements, in part because some government departments and functions have yet to be fully organized. Furthermore, personnel offices were not identifying existing staff levels, vacancies, or training needs.

We found that personnel offices in Palau, Yap, Truk, Ponape, and Kosrae were unable to fully identify staffing needs. The personnel officers noted they did not have the skilled personnel needed to systematically identify staffing needs. Tables to show which positions were filled or vacant were not being prepared, even though program managers were citing the need for staff in several areas, including vacant positions. In Palau and Ponape, for example, health service officers claimed that they needed hospital administrators, accountants, health planners, and financial staffs to perform tasks they were unqualified or unable to do.

In discussions with government leaders and personnel officers, we were told that the lack of training, budget restraints, inadequate staff, and turnover in the personnel offices prevented personnel offices from performing all their responsibilities.

In a 1980 assessment of training needs among selected government managers, it was noted that almost 38 percent of the supervisors had received no management training during the last 5 years and that 99 percent of the respondents believe training programs

1/"The Federal Audit Function in the Territories Should be Strengthened," (AFMD-82-23, Mar. 25, 1982.)

helped them to fulfill their job duties and responsibilities. The respondents suggested 317 workshop topics for themselves and 242 skills and techniques as areas of training for themselves and their subordinates. The chief topics included general management; personnel skills, management, and administration; and planning.

The report recommended that managers receive additional training. Unfortunately, according to the report, past training efforts were hampered by lack of coordination, direction, purpose, and efficiency. The report added that management training in each jurisdiction should be based on, and should support, government and department objectives and that training plans should be developed for each jurisdiction.

In the past, training was provided in the development of personnel laws, regulations, procedures, and pay plans by the Trust Territory Government personnel office and under the Inter-governmental Personnel Act. The personnel office has been reduced to one person, and training under the act has been discontinued. Without this support, personnel officers in some governments will rely on adapting outdated Trust Territory Government personnel directives to their particular needs.

A few programs have been made available to upgrade the skills of public education and health care personnel; however, the shortage of skilled personnel in these areas persists. In-service training and college courses for elementary and secondary teachers has been provided under the Territorial Teacher Training Assistance Program (Public Law 81-815 (92 Stat. 2397)). Authorization for the program, however, ends in fiscal year 1983. Health personnel have received training under the Continuing Education for Nurses Program (Public Law 96-63 (42 U.S.C. 254b)) and the Health Manpower Development and Training Program. The first program provided only \$90,337 for training; the second provided over \$835,000 from July 1979 to December 1981 but it has been terminated.

Trust Territory Government representatives--including the directors of finance, education, health services, and personnel, automated data processing specialists, and many others--reiterated Micronesia's need for long- and short-term assistance. However, none of these spokesmen was aware of any coordinated or formal plans to identify or set priorities for the assistance needs of each Micronesian government or to provide such assistance.

HUMAN RESOURCE NEEDS NOT FULLY IDENTIFIED

No Micronesian government has an office responsible for human resource development. Human resource needs have not been fully identified. Formal human resource development plans geared toward meeting each government's economic development requirements do

not exist or have not been implemented. Consequently, none of the governments systematically coordinate the education system and human resource development.

According to Micronesian officials, they do not have enough engineers, construction workers, carpenters, and masons to construct buildings or enough heavy equipment operators to build roads. Statistics from Palau's bureau of labor showed that as of June 30, 1981, nonresidents comprised about 47 percent of the workers in the production areas, including heavy equipment operators, carpenters, masons, mechanics, and fishermen.

Vocational education in secondary schools for construction, carpentry, masonry, mechanics, boat-building, agriculture, and home economics has been provided under the Vocational Education Program (Public Law 81-815, as amended (20 U.S.C. 1241)). Public vocational training beyond secondary school has been provided by the Micronesian Occupational College and by a 4-year Micronesian trades apprenticeship program conducted by the U.S. Navy in Guam. (See ch. 4.) According to the College's acting president, the lack of a formal human resource assessment raises questions as to whether the College's 2-year curriculum addresses the most pressing shortages in the trade skills. A 1981 followup survey of graduates showed that only about half of them were employed in their fields of study.

Micronesia's education system is supplemented by post-secondary opportunities for students in U.S. and other colleges. Between 2,500 and 3,000 Micronesians attend post-secondary institutions outside Micronesia. They have been able to further their education through Federal educational assistance programs, such as the Basic Education Opportunity Grant, Supplemental Education Opportunity Grant, and Student Work Study Program, and through scholarship and loan programs in each government.

Our analysis of grant and loan program scholarships showed that the Marshall Islands and Palau do not base their scholarship and loan awards on fields of study which are needed for economic development. Rather, awards are based on financial need. On the other hand, most of the Federated States scholarship and loan programs award funds to students in fields of study identified as priorities or essential to economic and social growth.

CHAPTER 7

CONCLUSIONS, RECOMMENDATIONS,

AGENCY COMMENTS, AND OUR EVALUATION

CONCLUSIONS

The Governments of the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands lack sufficient management and technical expertise and capability to efficiently plan, implement, and monitor public sector programs and services without technical assistance. In addition, the Micronesian governments do not have all the necessary management systems to support their operations. Although the governments face these problems, neither they nor DOI have made a systematic assessment of the technical assistance requirements necessary to enhance their institutional capabilities.

Although the Trust Territory Government and the Office of Territorial and International Affairs have provided technical assistance, other assistance is also available. In view of the phasing out of the Trust Territory Government and the limited technical assistance resources of the Office of Territorial and International Affairs, these other sources--including other Federal agencies, international organizations, private firms, and colleges and universities--may become more important. Identifying present and potential sources of technical assistance before the Trusteeship ends could facilitate the timely provision of such assistance and better assure that the Micronesian governments sustain the commitment to long-term development which their development plans represent.

The technical assistance from multiple sources should be provided in cooperation with the Micronesian governments and should relate to the priorities they establish. In our opinion, therefore, it will be necessary to have a plan that reflects these priorities. The Office of Territorial and International Affairs already has legislative authority to coordinate U.S.-provided technical assistance, so it could serve as a focal point to formulate such plans in cooperation with all concerned parties.

RECOMMENDATIONS

Because the United States will have a continuing interest in the long-term development of Micronesia, we recommend that during the period before the Trusteeship ends, the Secretary of the Interior, through the Office of Territorial and International Affairs, and in cooperation with the Governments of the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands:

- Conduct a series of assessments of the technical assistance requirements of the Micronesian governments.
- Identify what technical assistance is available and can be provided to the Micronesian governments by DOI, other Federal agencies, international organizations, the private sector, and colleges and universities.
- Develop an action plan to guide the provision of all U.S. and other technical assistance to the Micronesian governments.

AGENCY COMMENTS AND OUR EVALUATION

The Interagency Group on Micronesia and the Presidents of the Governments of the Republic of the Marshall Islands and the Federated States of Micronesia generally concurred with our conclusions and recommendations, but they raised some specific questions and concerns.

Interagency Group on Micronesia

The Interagency Group (representing the Departments of Defense, State, and the Interior; the Office of Micronesia Status Negotiations, the Joint Chiefs of Staff; and the Office of Management and Budget) provided the administration's coordinated response to the draft report. They concurred with our conclusions and are implementing the recommendations.

While concurring that the Micronesian governments lack sufficient managerial and technical expertise and management systems, the Interagency Group emphasized that we did not conclude that the Micronesian governments are inadequately prepared to assume the authorities and responsibilities contemplated under the Compact of Free Association. Further, they agreed that there will be a continuing role for the technical assistance after Trusteeship termination and the implementation of the free association relationship. As such, the administration plans to ensure that the institutional capabilities of the Office of Territorial and International Affairs, with respect to coordination of technical assistance, are fused into the new management structure which will be established for the free association relationship.

The Interagency Group raised the point that other estimates show the Five-Year CIP could be fully funded at a scope relevant to present needs with an amount substantially less than the \$100 million estimated by the Trust Territory Government. We must point out that \$100-million estimate was based on full scope restoration of the CIP, rather than a reduced scope based on present needs. Nevertheless, as stated in the report, before additional funds are

appropriated for the Five-Year CIP, the Micronesian governments need to identify, and set priorities for, current and long-term development goals and properly plan for those needed improvements. The Interagency Group concurred with our position.

The Interagency Group agreed that the Micronesian governments face a challenge in the telecommunications area. It stated that the Office of Territorial and International Affairs is providing technical assistance to hire the expertise needed to improve the management and operations of the communications satellite system and that the Trust Territory Government has provided funds to facilitate the improvement of the local telephone systems. Further, the Interagency Group indicated that as effective and reliable satellite systems are put in place, traffic volume is expected to increase and the resulting revenues will be available for system maintenance and further expansion and upgrading.

We agree that technical assistance would improve the telecommunications system. We would caution, however, against any expectation that user rates and revenue collections will be sufficient to assure proper operation and maintenance and to provide for system expansion, given the experience with the water, power, and sewer systems.

Marshall Islands

The President of the Republic of the Marshall Islands stated that since the inception of the Islands' constitutional government considerable progress has been made toward self-sufficiency and in managing its own affairs. He stressed, however, that continuing this progress would be greatly enhanced if appropriate and effective technical assistance was provided by the United States directly to his government. Further, the President expressed his desire for less control by the United States over the use of such assistance.

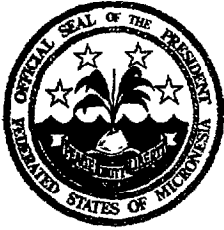
Federated States

The President of the Federated States of Micronesia endorsed our recommendations but believed that the report did not adequately reflect historical factors accounting for the current conditions of his government's economy and infrastructure. He provided specific examples in his comments, which are in appendix I.

The President stated that we were premature in recommending that the Office of Territorial and International Affairs have a continuing post-Trusteeship role in identifying, coordinating, and providing technical assistance to the Micronesian governments, as that had not yet been determined. To avoid any misconception, we clarified our recommendations to emphasize that the technical

assistance role of the Office of Territorial and International Affairs is confined to the period before the Trusteeship ends. Further, the formulation of a comprehensive technical assistance approach should be a cooperative effort between the United States and each of the Micronesian governments.

The President also stated that our technical assistance recommendations were not specific as to amount and duration of need. We believe that determining the amount and duration of needed technical assistance should be an integral part of the process of assessing, identifying, and providing such assistance.



Federated States of Micronesia

KOLONIA, PONAPE, EASTERN CAROLINE ISLANDS
TELEPHONE: 228 CABLE: FSM GOVT

Office of the President

November 4, 1982

Mr. Victor L. Lowe
Director, Far East Branch
International Division
U.S. General Accounting Office
P. O. Box 50187
Honolulu, Hawaii 96850

Dear Mr. Lowe:

I thank you for the opportunity to comment on the draft GAO report entitled, "The Challenge of Micronesian Self-Sufficiency."

The draft report is unprecedented in its compilation of observations on the institutional capabilities of the Micronesian governments and the condition of and prognosis for Micronesia's capital infrastructure. From the viewpoint of the government of the Federated States of Micronesia, certain of the observations are deserving of special emphasis.

Specifically, as the draft report states, national and state officials in the FSM do not have sufficiently trained staffs to appraise, monitor and evaluate the projects proposed for funding in the first five years of the Compact. These staffs must be trained and guided to improve their capabilities to evaluate and monitor both government funded projects and private sector investments attracted by the trade and tax benefits extended under the Compact.

Another good point raised by the draft report is that the Micronesian governments will need to obtain or develop the expertise necessary to administer and plan major CIPs, including evaluation of design and engineering plans, capability to administer contracts and inspect, and the capability to evaluate financial accountability and scope compliance. The obtaining or development of this expertise in the FSM is admittedly a very critical need.

Other points raised in the draft report are also important, specifically the need to improve our capability for operations and maintenance of capital improvements, and support equipment, the need to reorganize health and education efforts, the need for an improved basic communications system, the need for an adequate Financial Management System with trained practitioners and the need for systematic manpower training.

Mr. Victor L. Lowe
U.S. General Accounting Office

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These observations of the draft report suggest that attaining self-sufficiency in the Federated States of Micronesia is a challenge that infusion of Compact funds may not completely meet. As such, we are in full support of the recommendations of the report that call for increased provision of expert technical assistance.

One significant OTIA technical assistance effort, in the development of a computerized financial management system for the FSM, will begin in early FY 1983. We are placing reliance on this technical assistance to develop a system that will support financial accountability for receipt and expenditures of Compact monies, as well as accounting for the increased tax base to be developed in the Compact years, and the new social security system. Other technical assistance in this area may come from the International Monetary Fund.

While the observations of the draft report are generally valid and to the point, we have problems with certain aspects of the draft report, namely, the ahistorical form of explanation used, the recommendation for future involvement of OTIA, and the lack of specificity of the recommendation for increased technical assistance effort to Micronesia.

1. First, the report in many cases does not do justice to the complexity of existing situations because its form of explanation is generally ahistorical. While granting that such a report has limited goals and must therefore be pragmatic in its explanations, the draft report's pragmatism manages to distort the current condition of the government's economy and infrastructure of Micronesia. This distortion is caused by the draft report's omission of discussion of historical factors.

The section entitled, "U.S. Administration of the Trust Territory" takes up one-half of a page. There is no discussion of decisions made by the U.S. administration that were inconsistent with or worked at cross purposes with the avowed U.S. obligations under the Trusteeship, particularly the obligation to promote self-sufficiency.

In addition, the report introduces issues without providing needed historical background. Some examples of this are as follows:

According to the report there has been no planning to relate U.S. Federal Programs to prevailing education and health conditions. It is not stated that this situation occurred partially as a result of centralized

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administration of U.S. Federal Programs from Trust Territory Headquarters in Saipan. This administration was conducted without the benefit of a plan linking disparate Federal programs with each other or with local conditions. Also omitted is acknowledgement of the past efforts of Federated States officials to gain state agency designation for the FSM from U.S. grantor agencies.

The report cites the weakness of the private sector in the Micronesian economy and states that the economies depend on public sector support. While true, a penetrating, historical description of this state of affairs would reference the U.S. prohibition on foreign investment in the Trust Territory, which was in effect until 1974.

The report suggests that DOI's FY 1983 budget request of \$7.8 million for the purpose of building government capitals for the three constitutional governments is questionable. An historically accurate approach to this request would note that there has been a U.S. commitment to build the capitals since 1976, and that the commitment was made largely because the U.S. did not take a hard line against the fragmentation of the Trust Territory into "entities," starting with the Northern Marianas. With the break out of the Northern Marianas, the existing Trust Territory Headquarters was unavailable as a capital. This motivated a commitment by the U.S. to furnish capitals to the other "entities." The commitment by the U.S. to the capitals in no way diminishes the need for construction of our basic infrastructure. However, given the state of the current capital facilities, the construction of a new capital is an FSM priority.

The report notes deficiencies in financial operations, including problems with the timely receipt of, comprehension of, and willingness to use financial reports. The historical background to this situation is omitted from the discussion, namely that the current TT automated financial management system has been in operation only since 1976, and has built-in problems with accuracy and also timeliness. The report references a proposal for a decentralized, self-operated computer facility. This type of facility would plausibly meet managers' needs more closely than the centralized system. The Federated States of Micronesia has been pressing for the decentralized facility and other improvements since 1980.

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The draft report implies that financial management deficiencies in the Micronesian governments contributed to cumulative operating deficits at over \$18 million. The report does not note that the Trust Territory administration's accounting practices also contributed to the creation of these cumulative deficits. It should also be noted that the FSM has been informed by the Trust Territory High Commissioner that TT or DOI will take responsibility for funding FSM deficits occurring prior to FY 1982. Contrary to the GAO implication that FSM deficits would also occur in FY 1982, each FSM state has a small FY 1982 surplus.

The report suggests that it is questionable for the U.S. and Micronesian governments to enter into contracts for the construction and operation of satellite earth stations, as long as there is a poor terrestrial communications system and statistical data and analyses are nonexistent. While true that the basic telephone system is severely deficient, it should be noted that the Federated States of Micronesia has been calling for improvements from the Trust Territory since 1980. Feedback from the Micronesians caused the re-direction of the 1979 upgrade program sponsored by the Trust Territory to set up high frequency radios as the prime means of communication. Even when re-direction was made to the telephone system, the upgrade program fell short of FSM's needs. The upgrade program has apparently been discontinued. In addition, statistical data and analyses are not nonexistent. The FSM has received technical assistance from the International Communications Union based in Fiji and in 1980 contracted with a private consulting firm specializing in telecommunications, which produced demand analyses and proposed rates. The FSM's FY 1982 and FY 1983 budget submissions to the U.S. Congress contained substantial amounts for telephone communications upgrade, indicating that the FSM is attempting to improve the link between the satellite system and the basic telephone system.

The draft report suggests the alternative of having OICC continue as the contract administrator beyond the currently authorized five-year CIP. However, such a suggestion should be viewed in the light of the historical track record of OICC in Micronesia. The evidence of their track record must be brought to bear before serious consideration of this alternative. Yet, the draft report does not bring this evidence to bear.

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The draft report states that the attempt of the governments of Palau and the Federated States of Micronesia to establish their own separate social security systems is contrary to Interior Secretarial Order No. 3039 providing for the present system to continue as unified until termination. It should be noted in this regard the the FSM, in conjunction with the Trust Territory High Commissioner's office, has been attempting since 1981 to amend the order to allow the set-up of separate systems prior to termination.

Finally, where the draft report does have historical references, there is little discussion of implications. For example, it is noted that the first CIPs began in 1977. In another section, the report states that the first report on maintenance of CIPs and other infrastructure was done in 1978. The report, in discussing the reasons for poor maintenance, could have referenced deferral of attention to maintenance for 12 years. In addition, the FSM FY 1983 budget submission to the U.S. Congress contained a \$6.0 million request for experts to help rectify the poor maintenance capability of the government. Such was not noted in the draft report.

Other examples of the ahistorical form of explanation of the draft report could be noted. It is sufficient to state that the draft report distorts the picture of Micronesia capability by not delineating how conditions came to be as they are and omitting the record of past Micronesian Efforts.

2. The draft report, in our judgment, can also be criticized as premature in its recommendations that OTIA have a future role in identifying, coordinating, and providing technical assistance to the Micronesian governments. The scope of the future role of OTIA in Micronesian government affairs is not yet determined. The Trusteeship may be terminated within two years. Once terminated, the FSM will have the status of a sovereign state that is freely associated with the U.S. While the FSM needs U.S. technical assistance to improve its institutional capability for eventual attainment of self-sufficiency, it should not be assumed that this technical assistance must be controlled by the Office of Territorial and International Affairs. Rather, the OTIA role should be as a conduit of technical assistance funds during the transition period and possibly after. The FSM government has developed an in-house capability to assess technical assistance needs and specify projects that fit in with state and national development plans and are within the absorption capacities of the FSM

Mr. Victor L. Lowe
U.S. General Accounting Office

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states. The FSM government will enhance this capability in the future, so as to put U.S. technical assistance funding to best use.

3. Our third criticism of the draft report is that its recommendation for increased technical assistance to Micronesia is not specific as to the amount and duration of need.

The report does not emphasize or cite the scale of resources necessary of GAO's technical assistance recommendations are to have an impact. Among the needs cited or implied by the report are:

- public works maintenance experts
- CIP contract management capability
- economic development planning
- capability to appraise, monitor, and evaluate economic development projects
- expertise in fisheries, livestock production, agriculture
- telecommunications expertise
- social security system own capability
- U.S. Federal Grant coordination
- financial management system expertise, including expertise in computers
- financial management of public utilities
- personnel office functions expertise
- manpower survey and manpower development

and others.

Based on a partial assessment of the technical assistance needs of the Federated States of Micronesia completed in September, 1982, technical assistance funding would have to be at least \$2.0 million per year for at least three to four years in order to have the requisite impact. This is just for the Federated States of Micronesia, for 29 need areas, including the Financial Management System and Social Security development. Since OTIA's technical assistance funding has to be spread across the three governments of the Trust Territory, plus Northern Marianas, Guam, American Samoa, and non-Pacific territories, it may well be difficult to obtain the necessary scale of funding that the FSM, Palau, and the Marshalls need. As an example, of the \$2.5 million in technical assistance funding that was available to OTIA in FY 1982, \$115,000 or about 5% was awarded to FSM.

Mr. Victor L. Lowe
U.S. General Accounting Office

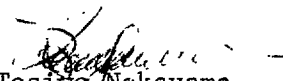
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By avoiding the question of funding for its recommendations, the report also avoids the question of whether its recommendations are practicable. To ensure that technical assistance funding of the report is not diluted, the report should have recommended that a specific share of amount of technical assistance funding be earmarked for use in Micronesia.

Overall, the draft report is a valuable document in terms of its identification of problems and obstacles relating to Micronesian self-sufficiency, despite its ahistorical form of explanation. The Federated States of Micronesia endorses the draft report's recommendation that technical assistance resources be marshalled to improve our institutional capabilities. The position of the FSM government is that this marshaling of resources does not necessarily imply an active role for OTIA in the assessment of needs and coordination of technical assistance resources beyond the termination of the Trusteeship. The matter has simply not yet been determined. The draft report stops short of indicating the scale of resources that must be applied to have an impact on the problems described in the report. Without such an indication, there is a danger that technical assistance funding will be diluted and not have the requisite effect.

In the short transition period remaining, and after, we hope to work with the United States in improving the institutional capabilities that the draft GAO report is so critical of. Thank you again for the opportunity to comment.

Sincerely,


Tosiwo Nakayama



Office of the President
THE MARSHALL ISLANDS

November 12, 1982

Mr. Frank C. Conahan, Director
 International Division
 United States General Accounting Office
 Washington, DC 20548

Dear Mr. Conahan

In response to your letter of October 7, 1982, which covers a draft of a proposed report, "The Challenge of Enhancing Micronesian Self-Sufficiency," two copies of which were forwarded for our comments, I wish first to thank you and your colleagues for the opportunity extended to us to review the draft. I wish also to express regrets that due to my absence from the Republic for most of October for the urgent discussions in Washington, D.C., our response has been slightly delayed.

We wish to congratulate you and your colleagues for the keen observation and diligent examination of economic growth and financial management problems. We are a young country with only incipient experience and technical know-how, but learning rapidly as we must be "self-sufficient."

Our public service staff members do agree that the United States agencies, including the Trust Territory government, overlooked the importance of training and preparing our people to take over their own affairs. Indeed, the United States Congress, particularly its committees responsible for our overall development, had other thoughts and may have seriously neglected to provide funds for such developments which would have otherwise been much more meaningful for our objective of self-sufficiency. I would add that perhaps the more critical and important matter was the fact that the Marshallese people were not given the opportunity and exposure to practice governing themselves during the long period of U.S. administration. The U.S. government, through its agencies, including the Army Corps of Engineers, whether or not they were sympathetic and genuinely interested in assisting our growth, made all the decisions for us. They decided what projects were to be built, what materials to use, what training programs to implement, and what the funding levels should be. They set the priorities for us and at times certain projects were built and certain programs implemented which were totally irrelevant to a proper scheme of development. If electricity, water, transportation and communication are basic for a developing country, it is difficult for us to understand why they seem to have been neglected in the past.

We have a fleet of field trip vessels powered by high speed Diesel engines which consume high cost fuel beyond imagination and continue to wear out faster than we can keep up with their maintenance. Our present power plant contains several models of engines. Some were selected and purchased for us, and some are old, used surplus engines from various military bases. Parts for the larger generators are hard to find and sometimes must even be manufactured to special order, thus burdening us with unnecessarily high costs.



Mr. Frank C. Conahan
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November 12, 1982

There are other examples of problems, particularly in the built-in delays by the Corps of Engineers in expending the funds for development of vital infrastructure. (The Corps of Engineers, unfortunately, manages our U.S. CIP funds). The Ebeye community has been a major victim of such delays.

Since the inception of our constitutional government, considerable progress has been made in our strides toward self-sufficiency. On our own initiative, our road system has been improved and extended to reach most of our populace. The new Majuro Port was initiated by our own funding and was later funded by the U.S. Congress. New airfields to improve communication with our outer island communities have been built on almost all of our islands. A new power plant has been built, and a bridge and channel to flush out our lagoon and promote local fishing capability will be completed in the early part of next year. Other important projects to promote self-sufficiency will be launched by the middle of next year. Vegetable farming has been successfully proven to be a potential industry and now awaits commercialization. With the new power plant to be commissioned this year, tourism and an expanded local fishing industry will now be possible. I wish to emphasize that after more than three decades of U.S. administration, all of these vital projects were initiated by ourselves, in the three years since the inauguration of our own constitutional government.

Reports from both U.S. and Japanese explorations of living and non-living resources in and around the economic zone of the Marshall Islands have indicated an abundance of manganese nodules and other elements, and fish for commercial harvesting. With modern technology, commercial exploitation of these vast and viable resources can bring us very close to that self-sufficiency for which we strive.

The Republic of the Marshall Islands has been under U.S. administration for more than 30 years, and the U.S. is still considering whether or not we are ready to take over our own affairs or if the U.S. should continue to manage those affairs for us. There is no doubt in our minds that we are better off handling our own affairs than having anyone else do it for us; and this is certainly not intended as a criticism of anything the U.S. has done on our behalf. It is simply a fact of reality that the problems of our little nation cannot possibly command a very high priority in the great, worldwide concerns that confront a super-power nation like the United States, whereas those same problems that may seem so inconsequential in the affairs of mighty nations, are a matter of the greatest urgency to us, and command our highest priority and utmost attention.

We have found great wisdom in involving our private sector in development plans and will continue to accord wider and more meaningful participation on their part. We know that with the strength and determination to do for ourselves that which should have been done before, we can accomplish all that is needed to put our country back on its feet again. We must stress, however, our strong



DEPARTMENT OF STATE

Washington, D C. 20520

November 15, 1982

Mr. Frank C. Conahan
Director
International Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

I am writing you pursuant to Mr. Buckley's commitment of September 28 that he, as Chairman of the Interagency Group on Micronesia, would assemble the Administration's comments on the draft GAO report, "Enhancing Micronesian Self-Sufficiency." As you may be aware, Mr. Buckley has since left the Department of State to undertake new responsibilities with Radio Free Europe/Radio Liberty in Munich.

On behalf of the Interagency Group, I am hereby transmitting the Administration's comments on the draft study.

Sincerely,

A handwritten signature in cursive script, appearing to read "Allen R. Overmyer", written in dark ink.

Allen R. Overmyer
Coordinator for Micronesia Transition
Office of the Counselor

GAO DRAFT REPORT:
"THE CHALLENGE OF ENHANCING MICRONESIAN SELF-SUFFICIENCY"

The Interagency Group on Micronesia, representing the Departments of State, Defense and Interior, the Office for Micronesian Status Negotiations, the Organization of the Joint Chiefs of Staff and the Office of Management and Budget, offers the following comments on the draft report. This is the coordinated Administration response to the draft report. We have not taken into account any comments made by the Governments of Palau, the Marshall Islands or the Federated States of Micronesia, all of which received copies of this report directly from the GAO. The primary comments are concerned with the conclusions and recommendations of the report (pp. 59-60).¹ We also offer additional information and points of view on various observations and comments contained in the background sections of the report.

Page 59 -- Conclusions (now p. 58)

The central finding of the draft report is that the capabilities of the Governments of Palau, the Marshall Islands and the Federated States of Micronesia in the areas of management and application of technical knowledge are insufficient to allow efficient planning, implementation and monitoring of public-sector programs and services. A subsidiary finding is that neither the Governments of Palau, the Marshall Islands and the Federated States of Micronesia nor the United States Government, acting through the Department of the Interior, have ascertained the extent of technical assistance necessary to remedy the insufficient capabilities.

The central conclusion of the report is that the identification of present and potential technical assistance efforts which are targeted directly to the creation and maintenance of effective public-sector management systems, and the identification of sources and the application of such technical assistance, can put the Governments of Palau, the Marshall Islands and the Federated States of Micronesia in the position of sustaining their commitment to long-term development and put the Government of the United States in the position of providing, or arranging for the provision of, the last component remaining for the establishment of efficiently operated self-governing polities in the Trust Territory.

The draft report concludes that the Governments of Palau, the Marshall Islands and the Federated States of Micronesia should determine the priorities for the establishment of technical assistance and that the identification of sources will, itself, constitute a major step toward its provision. Finally, the report concludes that the Office of Territorial and International Affairs of the Department of the Interior (OTIA) possesses the proper institutional and legislative authority to coordinate the formulation of needs assessments

¹now pp. 58 and 59

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and provision plans for United States sourced technical assistance to the Governments of Palau, the Marshall Islands and the Federated States of Micronesia.

As a general matter, the Administration concurs in the conclusions of the draft report. On the specific question of the management capabilities of the Governments of Palau, the Marshall Islands and the Federated States of Micronesia, a finding of insufficiency, as is made in the draft report, could have led to a conclusion the Palau, the Marshall Islands and the Federated States of Micronesia are inadequately prepared to shoulder the responsibilities inherent in their anticipated new political status of freely associated states. We believe this conclusion would have been unjustified and inappropriate and note that the draft report did not so conclude. In fact, the responsibilities for program design and management which the Governments of the Marshall Islands and the Federated States of Micronesia have been exercising since 1979, and the Government of Palau has been exercising since 1981, are substantially similar to the authorities and responsibilities forseen for these governments under the Compact of Free Association. The Administration therefore believes that prescriptions for management and capability improvement identified in relation to present, Trusteeship-era needs are essentially the same as prescriptions for the free association period. Carried a step further, to the extent that the technical capabilities Governments of Palau, the Marshall Islands and the Federated States of Micronesia are brought into harmony with their 1982 levels of responsibility, these governments should be properly positioned to assume and efficiently execute the full self-government authorities and responsibilities contemplated under the Compact.

The Administration also concurs that the Interior Department's Office of Territorial and International Affairs is now ideally suited to serve as a focal point for formulation of plans with respect to United States sourced technical assistance. As pointed out in the draft report and later in these comments, there will be a continuing role for technical assistance after Trusteeship termination and the implementation of the free association relationship. The Administration plans to ensure that the institutional capabilities of the Office of Territorial and International Affairs with respect to coordination of technical assistance are fused into the management structure which will be established for the free association relationship.

The draft report identifies agencies of the Federal government, international organizations, private firms and colleges and universities as the likeliest sources of the types of technical assistance needed to improve the management capabilities of the Governments of Palau, the Marshall Islands and the Federated States of Micronesia. We agree with this

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finding and believe that the Compact, specifically Section 226 with respect to the United States Government, Article II of Title One with respect to international organizations and Article V of Title Two with respect to private firms, provides a proper foundation for the authorization or encouragement, as appropriate, of the sustained provision of technical assistance.

Pages 59-60 -- Recommendations (now pp. 58 and 59)

The draft report recommends that the Government of the United States, through OTIA, identify the technical assistance needs of the Governments of Palau, the Marshall Islands and the Federated States of Micronesia, identify sources for this technical assistance and develop an action plan for the provision of this assistance. The draft report states that the needs assessment and source identification components of the recommendation should be accomplished before the termination of the Trusteeship and in consultation with the Governments of Palau, the Marshall Islands and the Federated States of Micronesia. The Administration concurs in these recommendations and is implementing them.

It should be noted that the present mandate of OTIA with respect to technical assistance is fully consistent with the draft report's recommendations. Attached as Tab A to these comments is an illustrative list of the kinds of technical assistance already provided or programmed to be provided by OTIA to the Government of Palau, the Marshall Islands or the Federated States of Micronesia.

There are other kinds of technical assistance now provided by the Government of the United States which should assist in meeting the objectives identified in the draft report. These include the provision of military civic action teams in the Federated States of Micronesia and Palau and the apprentice training program for Trust Territory citizens conducted with DOD resources on Guam. Further, OTIA and the Office of Installations and Economic Adjustment of DOD, with the support of the Office for Micronesian Status Negotiations, have recently developed a technical assistance program designed to further the development of small business enterprises throughout the Trust Territory. Interior, DOD and Commerce are cooperatively funding this program, initially at the level of \$172,000.

The draft report makes the correct assumption that a solid and meaningful program of capability building through provision of systems-oriented technical assistance will satisfy the present need and lay the base for efficient program design and administration in the future. Further, the Administration views the provision of technical assistance as

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as an activity which can continue after Trusteeship termination. For this reason, Section 226 of the Compact authorizes the agencies and institutions of the Government of the United States to provide technical assistance to the Governments of Palau, the Marshall Islands and the Federated States of Micronesia. Section 226 establishes no specific level or type of technical assistance, but authorizes federal agencies to respond, on a mutually agreed basis, to changing requirements in the freely associated states.

Specific Comments

Pages 21-27 ^(now pp. 18 to 30) -- Five-year construction program (CIP)

The draft report estimates that the amount of \$100 million, additional to the approximately \$230 million already spent, would be required to "return" the five-year CIP program to its original scope. While it is possible to argue that the program is not fully funded even with the approximately \$230 million already appropriated, other estimates show that the program could be fully funded at a scope relevant to present needs with an amount substantially less than \$100 million.

The Administration agrees with the finding in the draft report that the Governments of Palau, the Marshall Islands and the Federated States of Micronesia should identify and set priorities for development goals and the capital improvements which are necessary to support achievement of those goals. We believe this finding of the draft report will be realized in the national development plans which the Governments of Palau, the Marshall Islands and the Federated States of Micronesia are required to produce in Compact Section 211. We further note that, over the first fifteen-year funding period of the Compact, the Governments of Palau, the Marshall Islands and the Federated States of Micronesia are each required to devote an overall average of 40% of their general economic assistance grants (Section 211 funding) to economic development activities including infrastructure. This percentage is significantly greater than that which is now being devoted to development (draft report, page 10). The "capital account" funding under the Compact, therefore, together with the national development plans which identify related expenditure priorities, should be seen as the logical successor to the Trusteeship-era CIP program. We are pleased to note that their design is compatible with the structural recommendations and observations of the draft report.

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Pages 29-30 (now pp. 27 to 29)
-- Telecommunications Improvements

The draft report notes that a satellite based tele-communications system is being installed in Micronesia, and that the governments may be ill-equipped to operate and maintain the system. Further, the report recognizes that the future usage of system is unquantified.

The Administration agrees that the Micronesian governments face a challenge in the telecommunications area. We believe that the communications satellite earth stations are the best solution to the present and future communication needs of the area. These stations which will be operated and maintained by COMSAT are highly reliable and cost effective systems which will replace an antiquated and unreliable high frequency system. This old system would cost millions to upgrade and if modernized would result in only a minimal increase in quality and capability. The OTIA is providing technical assistance to hire the expertise needed to improve the management and operation of the interface with COMSAT, and to facilitate the improvement of local telephone systems. In addition, the Trust Territory Headquarters has provided funds to all three governments to upgrade the quality and to extend coverage of the existing telephone systems. As effective and reliable satellite systems are put in place it is expected that the traffic volume will increase and the resulting revenue will be available for system maintenance and further expansion and upgrade. The installation of satellite systems in the Northern Mariana Islands and Samoa has achieved these results, and on November 15, 1982 the first satellite system was placed in operation in Palau.

Pages 4-5 -- The Compact of Free Association

The levels of economic assistance specified in the Compact are adequately approximated in these paragraphs. The language should be updated, however, to indicate that Governments of Palau, the Marshall Islands and the Federated States of Micronesia have now all signed the Compact and its subsidiary agreements with the United States. It is expected that a plebiscite will take place in Palau by January of 1983, to be followed shortly by plebiscites in the Marshall Islands and the Federated States of Micronesia.

FY 1982 Technical Assistance Project List
Palau, Federated States of Micronesia and Marshall Islands

<u>Location/Project*</u>	<u>Budget</u>
<u>A. TTPI-General</u>	
1. Health assesement-Sisters of Mercy	\$5,000
2. Drug enforcement training-DEA	32,000
3. Financial system	300,000
	\$337,000
<u>B. FSM</u>	
1. Finance management system oversight	10,000
2. Finance advisor	45,000
3. Engineering and maintenance advisor	60,000
	115,000
<u>C. Republic of the Marshall Islands</u>	
FAA assistance	87,000
<u>D. Republic of Palau</u>	
Communication advisor and assistance	75,000
<u>E. All Territories (including TTPI)</u>	
Grants conference	20,000

*Note: \$2.5 million is available from the FY-82 supplemental for technical assistance. A substantial portion of these funds will be dedicated to the three Micronesian governments for financial management, communications, operations and maintenance improvements. These technical assistance projects will be initiated during Fiscal year 1983.

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