Adopted Resolutions
Joint Economic Management Committee
Distributed for Vote – March 20, 2007

Resolution 1

JEMCO resolves to reaffirm that as laid out in the Fiscal Procedures Agreement, uses of Compact private sector grants are to support the efforts of the Government of the Federated States of Micronesia to attract new foreign investment and increase indigenous business activity by vitalizing the commercial environment, ensuring fair and equitable application of the law, promoting adherence to Core Labor Standards, maintaining progress toward the privatization of state-owned and partially state-owned enterprises, and engaging in other reforms. Priorities should be given to advancing the private development of fisheries, tourism and agriculture; employing new telecommunications technologies; and analyzing and developing new systems, laws, regulations and policies to foster private sector development, to facilitate investment by potential private investors, and to develop business and entrepreneurial skills. The private sector development grant should not be used to support government-owned industries or to subsidize existing businesses. Environment sector grants should be used for environmental purposes only. All project-based grants must have clearly defined project objectives and quantifiable performance metrics.

Resolution 2

JEMCO resolves that in addition to allocations made on October 5, 2006: 1) an amount of $1,268,548 be allocated for the Federated States of Micronesia to utilize under the Fiscal Year 2007 private sector development sector for programs and activities specified and recommended by the Office of Insular Affairs under Attachment 1 and Appendix A; 2) an amount of $553,284 be allocated for the environment sector for programs and activities specified and recommended by the Office of Insular Affairs under Attachment 1 and Appendix B; and 3) an amount of $211,954 be allocated for the public sector capacity building sector for the activity specified and recommended by the Office of Insular Affairs under Attachment 1.

Resolution 3

JEMCO hereby resolves to approve $1,243,548 for Private Sector Development and $528,284 for Environment Sector, as additional funds from the unallocated amount of $2,033,786 in the FY’07 Budget, to be utilized by the respective FSM governments, as set out below, to carry out the programs and activities hereby approved. The remaining unallocated amounts, $227,419 for Chuuk State and $34,535 for Pohnpei State, shall be available for further allocation to these governments for any of these two sectors, based on their submission of new project-based proposals within thirty days from the date of this decision, for review and approval by the Office of Insular Affairs.
Obligations and expenditures incurred for programs and activities hereby approved are authorized to be reimbursed retroactive to October 1, 2006.

Details of the foregoing decisions are as follows:

<table>
<thead>
<tr>
<th>Private Sector Development ($1,243,548)</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Pohnpei State</td>
<td>$356,648</td>
</tr>
<tr>
<td>Chuuk State</td>
<td>$324,427</td>
</tr>
<tr>
<td>Kosrae State</td>
<td>$278,299</td>
</tr>
<tr>
<td>Yap State</td>
<td>$284,174</td>
</tr>
<tr>
<td>Total</td>
<td>$1,243,548</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Environment Sector ($528,284)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pohnpei State</td>
<td>$159,921</td>
</tr>
<tr>
<td>Chuuk State</td>
<td>$212,944</td>
</tr>
<tr>
<td>Yap State</td>
<td>$155,419</td>
</tr>
<tr>
<td>Total</td>
<td>$528,284</td>
</tr>
</tbody>
</table>
Attachment 1

Summary of recommendations for FY 2007 allocations of sector funding balances

On October 5, 2006 the JEMCO convened via teleconference during which the Committee allocated Fiscal Year 2007 Compact grant assistance among six sectors. Allocations were made totaling $53,390,510 with approximately $45,000,000 targeting the priority sectors of health and education. The remaining amount was allocated among the Public Sector Capacity Building, Private Sector Development, and Environment sectors.

OIA staff was unable to recommend funding for a number of programs under the Private Sector Development and Environment because the proposals submitted for these programs did not have measurable outputs, or direct and clearly discernible correlations to the intended purpose of the defined use of the grants, or the implementing authority had a history of under or non-performance. As a result, $2,033,786 was left unallocated.

JEMCO passed a resolution on October 5, 2006 stating that JEMCO would evaluate proposals utilizing the $2,033,786 after re-submittal by the FSM. On November 17 and 28th, 2006 the FSM re-submitted to OIA project-based proposals on behalf of the four state governments for the Private Sector Development and Environment sectors.

 Allocation Recommendations

Summary

OIA has reviewed proposals submitted by the FSM and recommends additional funding to the three sectors as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Recomm. Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector Development</td>
<td>$1,268,548 (Appendix A)</td>
</tr>
<tr>
<td>Environment Sector</td>
<td>$553,284 (Appendix B)</td>
</tr>
<tr>
<td>Public Sector Capacity Building</td>
<td>$211,954</td>
</tr>
<tr>
<td></td>
<td>$2,033,786</td>
</tr>
</tbody>
</table>

Obligations and expenditures incurred for programs and activities recommended for funding are allowable for reimbursement retroactive to October 1, 2006 if those projects are meeting their stated objectives and performance measures. Further, if projects selected for FY07 funding do not meet their stated objectives and performance measures, they will not be considered for funding for FY08.

Private Sector Development

OIA recommends private sector development sector funding assistance for programs and activities that have the potential to aid efforts to attract foreign investment and/or increase
business activity. A number of these activities recommended for funding have been marginal performers in the past, but are being given the opportunity to demonstrate measurable performance during FY 2007.

OIA also recommends funding for programs and activities that will need to transition out of private sector development grant funding into other sources of funding.

Environment Sector

The definition of this grant in the Fiscal Procedures Agreement. OIA recommends funding for programs and activities that are able to demonstrate measurable activities and objectives.

Assistance in Development of Proposals

OIA recommends that $50,000 be designated for the FSM to retain professional assistance in its efforts to assist the state governments in developing project specific metrics and proposals for consideration of the FY 2008 sector submissions in the environment and private sector development sectors. $25,000 has been recommended for allocation to each of these sectors to support such an effort.

Public Sector Capacity Building

OIA further recommends that $211,954 be allocated under the Public Sector Capacity Building Grant in order to assist the FSM National Government in its on-going efforts to install a uniform financial management system throughout the FSM governments.
Appendix A

Private Sector Development Sector

OIA recommends that funding be allocated to the Private Sector Development sector for use by the following governments:

<table>
<thead>
<tr>
<th>Government</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Pohnpei State</td>
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</table>

$1,268,548

Program activities and recommendations are summarized below:

Pohnpei

Recommended - Pohnpei State Government: Office of Economic Affairs - $356,648

Marine Development - Program activities center on three project work plans with measurable outputs:

1) Community Aquaculture Project – 2 new pilot farms and training on farming methods.
2) Fisherman Cooperatives – formalized training in fishing technology and awareness programs.
3) Fisheries Stock Survey – Data collection and survey of five outer islands and twelve sites in Pohnpei.

Agriculture – Program activities and services are targeted toward the following:

1) Operations of a training pilot farm.
2) Agriculture sales and services intended to increase production from traditional farming methods.
3) Establishment and management of genetic resource materials.

Successful implementation of these projects has the potential to result in increased business activity within Pohnpei.

Not recommended

OIA does not recommend funding for support of the Pohnpei State Foreign Investment Board (FIB) nor the Pohnpei Small Business Guarantee Financial Corporation (SBGFC). The Pohnpei State FIB appears to be a barrier to private sector development in Pohnpei State and its efforts are not conducive toward attracting foreign investment. The Pohnpei SBGFC’s functions are duplicative of the FSM Development Bank and are of a commercial nature.

OIA does not recommend funding for the Court of Land Tenure. Sector grant funds are not intended to support on-going operations of deliberative and/or judicial bodies.
Chuuk

Recommended - Chuuk State Government: Department of Agriculture - $76,779
Nursery Development and Management Project – This project is comprised of community workshops and consultations, construction of a nursery and on-going monitoring and evaluation. This program is recommended for funding as successful implementation has the potential to result in increased business activity within Chuuk State. This program is marginally able to identify performance outputs and has a work plan. The program has been unable to demonstrate past performance partly due to a lack of proper resources beyond significant personnel costs. With increased oversight and monitoring it is recommended for funding in order to be given the opportunity to demonstrate performance.

Not recommended - Piggery Production and Breed Improvement Project ($19,071) and the Banana Rehabilitation Project ($72,399)
These projects are not recommended for funding. The programs have been unable to demonstrate past performance. The project objectives are difficult to assess in determining how achievement of such objectives contributes toward development of Chuuk’s private sector environment and increasing business activity.

Recommended - Chuuk State Government: Department of Marines Resources - $109,986
These projects are recommended for funding as they have the potential to result in increased business activity within Chuuk State. The projects have measurable activities and objectives.

1) Black Lip Pearl Oyster Project – deployment and monitoring of spat collectors.
2) Giant Clam Reseeding and Grow-out Project – establishment of a demonstration research clam hatchery station.
3) Sea Cucumber Reseeding Project – establishment of sea cucumber farms, workshops and training, statistical data gathering.
4) Fish Aggregation Device Project – construction and deployment of three FADs, research, workshop and conducting effectiveness studies.

Recommended for FY 2007 funding but to be transitioned from sector funding in FY 2008 - Chuuk State Government: Division of Commerce and Industry - $137,662
On-going, recurrent funding of operations for three programs:
1) Foreign Investment Program – Processing of permits
2) Labor and Manpower Development – Processing of permits
3) Business and Trade Development – Assistance with transformation of two state owned enterprises.

Operational costs of the Division of Commerce and Industry are not recommended for funding during FY 2008 as project activities are not identifiable within these programs. Business and Trade Development has utilized the same performance measurement and
objective for the past three years and has not been able to achieve transformation of two state owned enterprises. Nonetheless, funding is recommended for Fiscal Year 2007 in order to allow Chuuk State Government sufficient time to transition these programs out of sector grant funding.

Not recommended - Chuuk State Land Commission -$114,791
This is not recommended for funding in FY 2007. Sector grant funds are not intended to support on-going operations of deliberative and/or judicial bodies.

**Kosrae**

Recommended - Department of Commerce and Industry - $55,780
On-going, recurrent funding of operations, promotion of foreign investment opportunities, development of export data, and coordination of support services to Kosrae Business Development Council.

Program activities and results are difficult to quantify. Nonetheless, this program is recommended for funding in FY 2007 with the condition that performance metrics are needed to be developed before consideration of future funding.

Recommended: Department of Agriculture, Land and Fisheries - $222,519
The activities below are recommended for funding in FY 2007 as they have the potential to result in increased business activity within Kosrae.

Program activities focus on three main activities:

1. Implementation of third phase of mangrove crab project. This project is commercial in nature and the Kosrae Government has entirely funded its operations since inception during fiscal year 2004. This project is not recommended for funding during FY 2008 as the private sector grant is not intended to be used to support government-owned industries or to subsidize existing businesses. Nonetheless, funding is recommended for Fiscal Year 2007 in order to allow Kosrae State Government sufficient time to transition this program out of sector grant funding.

2. Agriculture extension services, technical assistance, training, and support to farmers and fisherman. This is a well managed program. Higher level performance metrics need to be developed in order to measure impact and effectiveness of such services.

3. Support of Micronesian Plant Propagation Research Center. This is also a well managed project with clearly defined activities and measurable outcomes. Successful implementation has the potential to increase exports of agriculture products from Kosrae State.
Yap

Recommended: Yap Visitor’s Bureau - $284,174
Support of development and promotion of tourism within Yap State. Heavy in marketing and promotion through community projects, educational campaigns, advertising and attendance at trade shows.
Appendix B

**Environment Sector**

OIA recommends that funding be allocated to the Environment sector for use by the following governments:

- Pohnpei State $ 159,921
- Chuuk State $ 212,944
- Yap State $ 155,419
- National $ 25,000

$ 553,284

Program activities are summarized below:

**Pohnpei**

Recommended: Marine and Forestry Conservation - $84,875

Project objectives and outcomes are focused on public education, establishment of community-based mangrove reserves, distribution of planting and propagation materials to combat erosion, impact assessments of earthmoving activities, monitoring of watershed reserves and mangrove forests.

Performance metrics and documentation are needed to assess program impact and effectiveness.

Recommended: Historic Preservation Office - $46,915

Activities and outcomes are focused across four programs:

1) Ethnographic Survey and Inventory
2) Archaeology Survey and Inventory
3) Cultural Education Awareness
4) Support of Historic Review Board and Administration

Conditionally Recommended: Tourism and Parks Program - $28,131

The project has vague project objectives and outcomes and needs to demonstrate a practical distinction between it and the functions of the Pohnpei State Visitor’s Bureau which is fully funded by the Private Sector Development sector grant. Nonetheless, funding is recommended for FY 2007 but prior to consideration for FY 2008 sector funding the Pohnpei State Government needs to better demonstrate the purpose of this program.

**Chuuk**

Recommended: Department of Agriculture - $47,945

1) Endemic Plant Species Project – propagation of seeds and cuttings of five endemic plant species in Chuuk State.
2) Establishment of Forest Protected Areas – 10 acres will be established as protected areas.
3) Mangrove Replanting Pilot Project – minimization of shoreline erosion by planting a 1760’ x 20’ swath of shoreline/reef flat with mangrove propagils.

Not recommended
OIA does not recommend funding assistance ($20,871) for the support of the Environmentally Friendly Pig Unit Project. It appears that the primary goal of this program is to purchase feed for pigs and the purchase of piglets.

Recommended: Department of Marines Resources - $164,999
1) Coral Reef Monitoring Project – creation of baseline data, monitoring changes to reefs and mapping of coral reef habitats. Objectives and work plan clearly defined in proposal.
2) Marine Environmental Protection Project – surveillance and monitoring trips throughout lagoon and airport inspections. This project needs performance metrics and has a history of being under-funded (fuel).
3) Marine Education and MPA Establishment Project – The project mission is to “protect the marine resources so biodiversity will always be there”.

Yap

Historic Preservation Program - $155,419
Program support of HPO. A clear line item budget and broad strategic goals were included as part of this proposal.