

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

The Honorable Peter M. Christian
Speaker, Thirteenth Congress
Federated States of Micronesia
Third Regular Session, May 2004

Dear Mr. Speaker:

Your Committee on External Affairs, to which was jointly referred the National Government's proposed FY 2005 Budget, begs leave to report as follows:

The FY 2005 Proposed Budget Book, transmitted by the Executive on April 1, 2004, details the National Government's proposed budget for Fiscal Year 2005. Pursuant to rule 7, section 5(b), of the Official Rules of Procedure of the Thirteenth Congress of the Federated States of Micronesia, your committee has limited its review to those portions relating to matters under its jurisdiction. Those portions include:

I. The Department of Foreign Affairs, including the Office of the Secretary, the Division of Asian, Pacific, African and Multilateral Affairs, the Division of American and European Affairs, and the FSM embassies and consulates abroad (together the "Department");

II. The National Authorizing Committee (ACP/EU); and

III. Subsidies and contributions to the Forum Secretariat; the Pacific Community; the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP); the United Nations Secretariat; the East West Center; and the Cotonou Membership Fee.

Your committee conducted hearings with the Department to consider its budget request on May 15, 2004.

Based upon the hearing and further deliberations, this Standing Committee Report reflects the final recommendations of your Committee on External Affairs regarding the proposed FY 2004 Budget. Accordingly, your committee offers the following recommendations.

I. Department of Foreign Affairs.

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

Department Total:

FY 2005 Total	\$3,397,792	Committee	<u>\$3,597,792</u>
Proposed:		Recommends:	—
FY 2004 Total	\$3,294,902		
Appropriated:			

Your committee notes that there is an increase of over \$300,000 in the recommended FY2005 budget over the Department's current FY2004 Budget. The committee understands the critical importance of the Department's mission and the necessity of funding its essential functions and duties as generally prescribed by Article X (2), (b) of the FSM Constitution and Section 503, of Title 10 of the Code of the Federated States of Micronesia. As the authority to conduct foreign relations function for and on behalf of this nation and for all levels of governments in this nation, the Department fulfills an invaluable role that may not be delegated to the other levels of governments in the Federated States of Micronesia. We also recognize that the Department's mission will continue to gain importance as time passes. Nevertheless, the Department must play its part along with the other agencies and branches of this government in reducing costs and doing and accomplishing more with less.

To that end, your committee has the following specific comments.

(1) Consistent with sound fiscal responsibility to cut and minimize costs, the Department should carefully review its travel requirements. As noted in the proposed budget and based on your committee's review, there are areas where it is feasible to consolidate purposes of trips so that one trip may be utilized to address a number of issues in one trip. Any and all official travel undertaken must be directly focused on purposes that serve the interests of the nation in its conduct of foreign affairs. The Department should also be cognizant of the requirement that Government itineraries should utilize the most direct and most economic travel plans available. Foreign mission personnel should be utilized where possible in place of home office personnel to cut travel expenses. That being said, the committee has grave concerns regarding the current use of travel funds by the overseas missions and the Department as a whole. The committee recommends that the Secretary carefully review the destinations, purpose and duration of each travel

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

request and determine whether undertaking such travel is truly necessary to fulfill the Department's duties and obligations. In summary, the Department should seek ways and means to avoid travel by multiple officials and of redundant travel to the same destinations. All travel must be prioritized and performed according to an established plan and produce outputs supporting established goals, policies, objectives and performance outcomes consistent with the FSM economic development priorities and fiscal realities.

(2) The Department should continue to seek a permanent solution to the problem of currency fluctuations that impacts the operations, administration and management of the Tokyo and Fiji embassies as per their approved budget and now, with our expanding foreign affairs in Europe, with respect to the Euro-dollar. The committee would reiterate its recommendation in FY2004 budget, that the Department explore the possibility of establishing a "*hedging account*" with one of our money managers to offset losses in the value of the US Dollar against the currencies in the respective countries. Any of our money managers should be able to quickly determine whether this is a viable solution and propose a program to address the matter. Although this issue has been raised in prior years, the Committee understands that there has not been any solution established yet to address this ongoing problem. For this reason, your Committee recommends that, while we are awaiting some sort of solution to be found the Congress authorize a built-in percentage amount against the total budget authorized for the affected offices. This hedging fund percentage should be set at up to 15% of each office budget and can only be used when there is a downside fluctuation of US dollars at a host country. Your Committee further recommends that, prior to the implementation of this recommendation, the President, through the Department of Foreign Affairs, should promulgate and adopt rules and regulation in relation to the use and administration of the "*Hedging Fund*" percentage.

(3) The committee notes that there are still some areas in the proposed budget submission that remain to be clearly explained and justified by the Department. For example: 1) Justification of salary increases in the Tokyo Embassy; 2) Travel that is slated as "*State Visits*" without explanation and justification.

(4) The Department should continue to expand its efforts to utilize its contacts and resources to promote the economic programs of the FSM. The committee would hope that the Department improves its

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

cooperation with the Department of Economic Affairs, the National Oceanic Resource Management Authority and all other economic-related agencies and offices to coordinate efforts to accomplish the nation's economic goals.

(5) The committee reiterates its FY2004 recommendation supporting the continued expansion of formal diplomatic relations with other nations. Specifically, the committee would recommend expansion of our relations with nations within the European Union. The committee was informed that a number of European governments and non-governmental organizations offered assistance during the deadly typhoon that struck Chuuk State earlier this year. Some of the assistance was lost because we had no means to coordinate with the donor organizations. The committee believes that an expanded presence in Europe would help to avoid this kind of problem in the future and enhance our access to other development and aid opportunities.

Of course the committee is aware of the significant financial constraints facing the Department at this time. Thus, the committee would request that the Department explore alternatives to establishing resident missions to these countries, including establishing honorary consuls where appropriate.

(6) The committee notes that the Amended Compact of Free Association has now been ratified. We understand that informal negotiation and lobbying efforts will continue during implementation period. Nevertheless, the committee believes that it is appropriate at this time to review the various duties of the various personnel involved in the negotiations to determine which positions, including the legal counsel and lobbyists, may be scaled back or phased out. The committee requests that the Department undertake this task in cooperation with members of the Joint Committee on Compact Economic Negotiations and report its recommendations to the committee at the earliest possible opportunity.

(7) The committee recommends that the Department reevaluate the current pay rates of members of the foreign missions. The committee believes that the pay levels may be excessive in some instances. The National Government must seek to curb expenses where it can. The committee believes that this area is ripe for review.

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

(8) The committee urges the Secretary to ensure that, with specific emphasis on the Consulate in Guam, Honolulu and the Embassy in Washington D.C., each state is represented in the staff membership of each embassy and consulate office. The committee is confident that Department personnel are equally professional and courteous to every FSM citizen, regardless of origin. Nevertheless, some citizens are more comfortable with persons with whom they share a common language and customs. The committee believes that the Department should be particularly sensitive to this issue as many visitors to our foreign missions are in unfamiliar surroundings and/or under stress from the matter that prompted them to contact Department personnel.

A. Office of the Secretary:

1. Positions:

President proposes	4
Committee recommends	4

The proposal is for 4 positions, the same as for FY 2004. Therefore, your committee recommends approval of this proposal.

2. Salaries and Benefits:

FY 2005 Total Proposed:	\$82,977	Committee Recommends:	\$82,977
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FY 2004 Total Appropriated:	\$82,997
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This proposal is of the same level of the FY 2004 appropriation for this category. Your committee recommends approval of the proposal.

3. Travel:

FY 2005 Total Proposed:	\$124,477	Committee Recommends:	\$100,372
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FY 2004 Total Appropriated:	\$118,388
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STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

This proposed appropriation is approximately \$6,000 higher than the amount approved for FY 2004. The committee reduced the President's proposal by \$24,105, eliminating funds for states visits that were not justified.

4. Contract Services:

FY 2005 Total	\$26,000	Committee	\$26,000
Proposed:		Recommends:	
FY 2004 Total	\$26,000		
Appropriated:			

Your committee notes that this proposed funding level for FY2005 is the same level as FY2004. Your committee recommends approval of the amount proposed.

5. Other Current Expenses:

FY 2005 Total	\$48,400	Committee	\$48,400
Proposed:		Recommends:	
FY 2004 Total	\$48,400		
Appropriated:			

Your committee continues to encourage the department to seek ways to cut telecommunications expenses. Your committee recommends approval of the amount proposed.

B. Division of Asian, Pacific, African & Multilateral Affairs:

1. Positions:

President proposes	6
Committee recommends	6

The President proposes 6 positions, the same as for FY 2004 Your committee recommends approval of the 6 positions.

2. Salaries and Benefits:

FY 2005 Total	\$95,869	Committee	\$95,869
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STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

6. Fixed Assets:

FY 2005 Total	\$4,000	Committee	\$4,000
Proposed:		Recommends:	

FY 2003 Total	\$3,000
Appropriated:	

The President's request is for additional office furniture and equipment. Your committee recommends approval of the proposed amount.

E. FSM Consulate - Honolulu:

1. Positions:

President proposes	4
Committee recommends	4

The President proposes 4 positions. There is no change from FY 2004, and your committee recommends approval of the 4 positions.

2. Salaries and Benefits:

FY 2005 Total	\$114,596	Committee	\$114,596
Proposed:		Recommends:	

FY 2004 Total	\$114,596
Appropriated:	

The President's request is unchanged from FY 2004. Your committee recommends approval of the proposed amount.

3. Travel:

FY 2005 Total	\$9,884	Committee	\$9,884
Proposed:		Recommends:	

FY 2004 Total	\$12,000
Appropriated:	

Your committee renews its request that the consulate use an appropriate amount of the amount approved to serve FSM citizens who

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

live on Hawaii's outer islands. Your committee recommends approval of the proposed amount.

4. Contract Services:

FY 2005 Total	\$91,500	Committee	\$91,500
Proposed:		Recommends:	

FY 2004 Total	\$86,400
Appropriated:	

Your committee notes that there is an increased of \$5,100 from FY2004 funding level for the increased costs Office/Parking rental. Your committee recommends approval of the proposed amount.

5. Other Current Expenses:

FY 2005 Total	\$15,000	Committee	\$15,000
Proposed:		Recommends:	

FY 2004 Total	\$17,944
Appropriated:	

The President's request is \$2,944 less than for FY 2004. Your committee recommends approval of the proposed amount.

6. FIXED ASSETS:

The President did not submit any proposed budget for fixed assets. Your Committee, during its hearing and consultations with the Department, found that one of the Office vehicles was stolen. During the hearing a request for funding for a replacement was made. Your Committee finds that such a vehicle is needed to support the operation of the Office. Your Committee recommends funding in the amount of \$24,105 for the purpose of purchasing a replacement vehicle. Your Committee strongly recommends that this funding be used only to purchase a vehicle suitable and fitting for the purpose for which the original vehicle was intended.

F. FSM Embassy - Washington, D.C.:

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

1. Positions:

President proposes	4
Committee recommends	4

The President proposes 4 positions, unchanged from fiscal year 2004. Your committee recommends approval of the 4 positions.

2. Salaries and Benefits:

FY 2005 Total	\$174,380	Committee	\$174,380
Proposed:		Recommends:	

FY 2004 Total	\$174,380
Appropriated:	

The President proposes \$174,380, unchanged from FY 2001 through 2004. Your committee recommends approval of the proposed amount.

3. Travel:

FY 2005 Total	\$40,000	Committee	\$40,000
Proposed:		Recommends:	

FY 2004 Total	\$33,378
Appropriated:	

Your committee notes that there is an increase of over \$6,000 over FY 2004, but would repeat its recommendation that the office consolidate missions and seek methods to be more efficient with travel funds. Your committee recommends approval of the proposed amount.

4. Contract Services:

FY 2005 Total	\$471,800	Committee	\$671,800
Proposed:		Recommends:	

FY 2004 Total	\$496,500
Appropriated:	

Your committee recommends approval of an additional amount of \$200,000 to be authorized only for professional services relating to Amended

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

Compact Implementation and consultation including lobbying and negotiations. The Committee recommends that prior to any use of this fund, the Department and the Embassy in Washington D.C. shall first consult the Congress through the Committee on External Affairs.

5. Other Current Expenses:

FY 2005 Total	\$40,000	Committee	\$40,000
Proposed:		Recommends:	

FY 2004 Total	\$40,000
Appropriated:	

The President's request is at the same level approved for FY 2004. Your committee recommends approval of the proposed amount.

6. Fixed Assets:

FY 2005 Total	\$6,000	Committee	\$6,000
Proposed:		Recommends:	

FY 2004 Total	\$1,000
Appropriated:	

Your committee recommends approval of the proposed amount.

G. FSM Embassy - Suva, Fiji:

1. Positions:

President proposes	2
Committee recommends	2

The President proposes 2 positions, the same as fiscal year 2004. Your committee recommends approval of the 2 positions.

2. Salaries and Benefits:

FY 2005 Total	\$93,225	Committee	\$93,225
Proposed:		Recommends:	

FY 2004 Total	\$93,225
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STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

Appropriated:

The President's request is unchanged from FY 2004. Your committee recommends approval of the proposed amount.

3. Travel:

FY 2005 Total Proposed:	\$23,456	Committee Recommends:	\$23,456
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FY 2004 Total Appropriated:	\$23,456
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The President's request is unchanged from FY 2004. Your committee recommends approval of the proposed amount.

4. Contract Services:

FY 2005 Total Proposed:	\$49,125	Committee Recommends:	\$49,125
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FY 2004 Total Appropriated:	\$46,725
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The President's request is increased \$2,400 over FY 2004. Your committee recommends approval of the proposed amount.

5. Other Current Expenses:

FY 2005 Total Proposed:	\$30,350	Committee Recommends:	\$30,350
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FY 2004 Total Appropriated:	\$30,350
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The President's request is unchanged from FY 2004. Your committee recommends approval of the proposed amount.

6. Fixed Assets:

FY 2005 Total Proposed:	\$450	Committee Recommends:	\$450
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STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

FY 2004 Total \$2,400
Appropriated:

Your committee recommends approval of the proposed amount.

H. FSM Embassy - Tokyo, Japan:

1. Positions:

President proposes	3
Committee recommends	3

The President proposes 3 positions, unchanged from fiscal year 2004. Your committee recommends approval of the 3 positions.

2. Salaries and Benefits:

FY 2005 Total	\$245,096	Committee	\$245,096
Proposed:		Recommends:	

FY 2004 Total \$231,651
Appropriated:

Your committee notes that the increase in this category reflects adjustment of salaries of one of the staff in the Embassy. Your committee recommends approval of the proposed amount.

3. Travel:

FY 2005 Total	\$21,200	Committee	\$26,527
Proposed:		Recommends:	

FY 2004 Total \$26,527
Appropriated:

The President's request is a reduction from past travel requests. Your committee commends the office and the Department for their efforts to conserve funds. Because the committee trusts that the Department is satisfied that the office can accomplish its mission with the limited funds, your committee recommends approval of the proposed amount.

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

4. Contract Services:

FY 2005 Total	\$535,381	Committee	\$535,381
Proposed:		Recommends:	

FY 2004 Total	\$543,500
Appropriated:	

The President's request is \$7,119 less than the amount approved for FY 2004. The committee commends the Department's efforts and recommends approval of the proposed amount.

5. Other Current Expenses:

FY 2005 Total	\$82,900	Committee	\$82,900
Proposed:		Recommends:	

FY 2004 Total	\$82,900
Appropriated:	

The President's request is unchanged from for FY 2004. The committee recommends approval of the proposed amount.

I. United Nations Mission:

1. Positions:

President proposes	3
Committee recommends	3

The President proposes 3 positions, unchanged from fiscal year 2004. Your committee recommends approval of the 3 positions.

2. Salaries and Benefits:

FY 2005 Total	\$159,753	Committee	\$159,753
Proposed:		Recommends:	

FY 2004 Total	\$159,753
Appropriated:	

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

The President proposes \$159,753, the same amount that was approved for FY 2004. Your committee recommends approval of the proposed amount.

3. Travel:

FY 2005 Total	\$16,000	Committee	\$20,000
Proposed:		Recommends:	

FY 2004 Total	\$16,000
Appropriated:	

The President's request is at the same level as the funding for FY2004. During hearing and consultation with staff from the UN Mission, a request was made for an additional \$4,000 to fund the Ambassador traveling to accompany the President to the "Barbados plus ten" sustainable development meeting to be held in Mauritius during the month of January 2005. Your committee approved this request, however your committee believes that the office should consolidate its trips and limit its travel to critical meetings and events. The committee believes that the amount proposed is sufficient to accomplish this. Thus, your committee recommends approval of the proposed amount.

4. Contract Services:

FY 2005 Total	\$438,241	Committee	\$438,241
Proposed:		Recommends:	

FY 2004 Total	\$328,241
Appropriated:	

The President's request is \$100,000 more than the amount approved for FY 2004. The increased amount represents the needed funding for the office lease that was not funded under this current budget. Your committee recommends approval of the amount requested.

5. Other Current Expenses:

FY 2005 Total	\$40,000	Committee	\$40,000
Proposed:		Recommends:	

FY 2004 Total	\$40,000
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STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

Appropriated:

The President's request is unchanged from FY2004 funding. Your committee recommends approval of the proposed amount.

II. Special Programs.

A. National Authorizing Committee (ACP/EU):

National Authorizing Committee (NAC) members briefed your committee on the proposed outer island renewable and sustainable energy projects to be funded out of EU grants. The NAC noted that our performance with regard to this first project may have significant impact, either positive or negative, on our ability to procure future grants. The long-term success of the project will depend upon reliable maintenance of the system and its sustainability. The committee, therefore, requests that the committee work closely with the states to explore ways to create a payment scheme whereby the recipients pay for services or provide maintenance services in exchange for service. The committee believes that the system must be self-sufficient if it is to prove a success.

The committee notes that the NAC requests \$15,000 for travel. All of the members work in departments that have significant travel budgets. Therefore, consistent with our earlier comments, the committee would request that the President encourage the various members to consolidate their NAC work with their respective department travels.

1. Travel:

FY 2005 Total	\$15,000	Committee	\$15,000
Proposed:		Recommends:	

FY 2004 Total	\$15,000
Appropriated:	

Your committee recommends approval of the proposed amount.

III. Grants, Subsidies and Contributions:

Except for the membership fees for the United Nations and for the ACP, pursuant to the Cotonou Agreement, all of the amounts requested in

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

this category are fixed amounts, unchanged from FY 2003. All of the programs in this category are important and useful to the nation.

A. The Forum Secretariat:

FY 2005 Total	\$35,000	Committee	\$35,000
Proposed:		Recommends:	

FY 2004 Total	\$35,000
Appropriated:	

Your committee recommends approval of the requested amount.

B. Pacific Community:

FY 2005 Total	\$17,000	Committee	\$17,000
Proposed:		Recommends:	

FY 2004 Total	\$30,000
Appropriated:	

Your Committee notes that the President's request is \$13,000 less than in FY2004 and previously. This reduction represented some adjustment that the Department made with the Secretariat on overpayments of our membership fees during previous years. Your committee recommends approval of the proposed amount.

C. United Nations Economic and Social Commission for Asia and the Pacific (ESCAP):

FY 2005 Total	\$5,000	Committee	\$5,000
Proposed:		Recommends:	

FY 2004 Total	\$5,000
Appropriated:	

Your committee recommends approval of the proposed amount.

D. United Nations (membership and other fees):

FY 2005 Total	\$60,000	Committee	\$60,000
Proposed:		Recommends:	

STANDING COMMITTEE REPORT NO. 13-125

RE: P.C. 13-153 EA/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2005

Respectfully submitted,

/s/ Isaac V. Figir
Isaac V. Figir, chairman

/s/ Jack Fritz
Jack Fritz, vice chairman

Alik L. Alik, member

/s/ Henry C. Asugar
Henry C. Asugar, member

/s/ Resio S. Moses
Resio S. Moses, member

/s/ Tiwiter Aritos
Tiwiter Aritos, member

Dion G. Neth, member