

STANDING COMMITTEE REPORT NO. 19-15

RE: C.B. NO. 19-36/R&D

SUBJECT: SOVEREIGN GUARANTEE FOR POHNPEI PORT  
DEVELOPMENT PROJECT

JULY 14, 2015

The Honorable Wesley Simina  
Speaker, Nineteenth Congress  
Federated States of Micronesia  
First Special Session, 2015

Dear Mr. Speaker:

Your Committee on Resources and Development, to which was referred  
C.B. No. 19-36, entitled:

"A BILL TO AUTHORIZE THE PRESIDENT OF THE FEDERATED STATES OF  
MICRONESIA, OR HIS DESIGNEE, TO EXECUTE A SOVEREIGN GUARANTEE TO  
SECURE AN ASIAN DEVELOPMENT BANK LOAN IN THE AMOUNT OF \$16.4  
MILLION, TO FUND THE POHNPEI PORT DEVELOPMENT PROJECT, AND FOR  
OTHER PURPOSES.",

begs leave to report as follows:

The intent and purpose of this bill are expressed in its title.

**BACKGROUND**

Congressional Bill 18-36 was transmitted to Congress on July 19,  
2013, through Presidential Communication No. 18-50 during the First  
Special Session of the 18th Congress. The Committee on Resources and  
Development of the 18th Congress conducted a hearing on the said bill  
on Friday, January 30, 2015. Witnesses present included Ricky Carl,  
Chairman of the Board of Directors of the Pohnpei Port Authority  
(PPA), Nelperson Etse, General Manager of the PPA, Administrative

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Officer Thelma Palik, Juda Johnny, Pohnpei State Attorney General, Assistant AG Aaron Warren, from the FSM Department of Justice, Secretary Kensley Ikosia from the Department of Finance and Administration, and Esmond Moses, ADB representative.

During the deliberation of C.B. No. 18-36, it was decided that Congress will not act on the bill until Pohnpei State passes a legislation to authorize the government of the State of Pohnpei to guarantee a national loan from loan funds of the ADB.

On June 19, 2015, Acting Governor Marcelo Peterson sent a communication to Congress (State Communication No. 19-03), which encloses a copy of the legislation (S.L. No. 8L-71-15) authorizing the Government of the State of Pohnpei to guarantee the national loan funds of the ADB for the expansion and development of the Pohnpei Seaport. The State of Pohnpei is trying to access a \$16.4 million concession loan from the ADB to be matched by \$0.7 million from Pohnpei State.

To expedite the passage of this measure, C.B. No. 19-36 was drafted and introduced by the Chairman. The content of C.B. No. 19-36 is the same as C.B. No. 18-36.

The funding will fund a project to lengthen the current 328-meter seaport by another 173 meters to ease congestion and create capacity to accommodate more commercial ships. Specifically, it will avail a new passenger terminal, transport interchange, and a port control room. Additional navigation aids, separate access for cargo handling as well as access for persons with disabilities will be put in place. In addition, the project will bring Pohnpei Port in compliance with the International Ship and Port Security (ISPS) Code.

Your Committee was assured that the PPA has the financial capacity to pay back the loan on the basis that PPA has around \$1.5 million invested with Smith and Barney. In addition, the ongoing activities at the Pohnpei Seaport as well as at the Pohnpei International Airport

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are sources of revenue for the PPA. The annual revenue generated by PPA is around \$3.3 million. Chairman Carl is confident that the PPA can pay back the loan.

Your Committee understands that for the purpose of this project, the FSM Congress has been requested to grant an authorization for the President to execute a sovereign guarantee with Pohnpei State and ADB, pursuant to Article IX of the FSM Constitution. The ADB requires a sovereign guarantee from the FSM National Government as a condition for approving the loan.

Your Committee inquired with the General Manager and Chairman of the Board of Directors of the Pohnpei Port Authority on the amount of payment for the loan annually. General Manager Etse explained that the PPA, the FSM Department of Finance and Administration, and the ADB representative will discuss the annual payment on the loan after their execution of the sovereign guarantee.

Furthermore, your Committee discussed why there is no legislation passed by the Pohnpei State Legislature in a supporting effort in securing the loan. Your Committee stated that it is important that the Pohnpei State Legislature enact a legislation pledging its state revenues and agrees to an offset of its national revenue in the event of default by the State of Pohnpei.

**Recommendations of your committee**

Your Committee on Resources and Development is in accord with the intent and purpose of C.B. No. 19-36 and recommends its passage on First Reading and that it be placed on the Calendar for Second and Final Reading in the form attached hereto as C.B. No. 19-36.

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Respectfully submitted,

/s/ David W. Panuelo  
David W. Panuelo, chairman

/s/ Robson Romolow  
Robson Romolow, vice chairman

Victor V. Gouland, member

/s/ Florencio S. Harper  
Florencio S. Harper, member

/s/ Berney Martin  
Berney Martin, member

Joseph J. Urusemal, member

Paliknoa K. Welly, member