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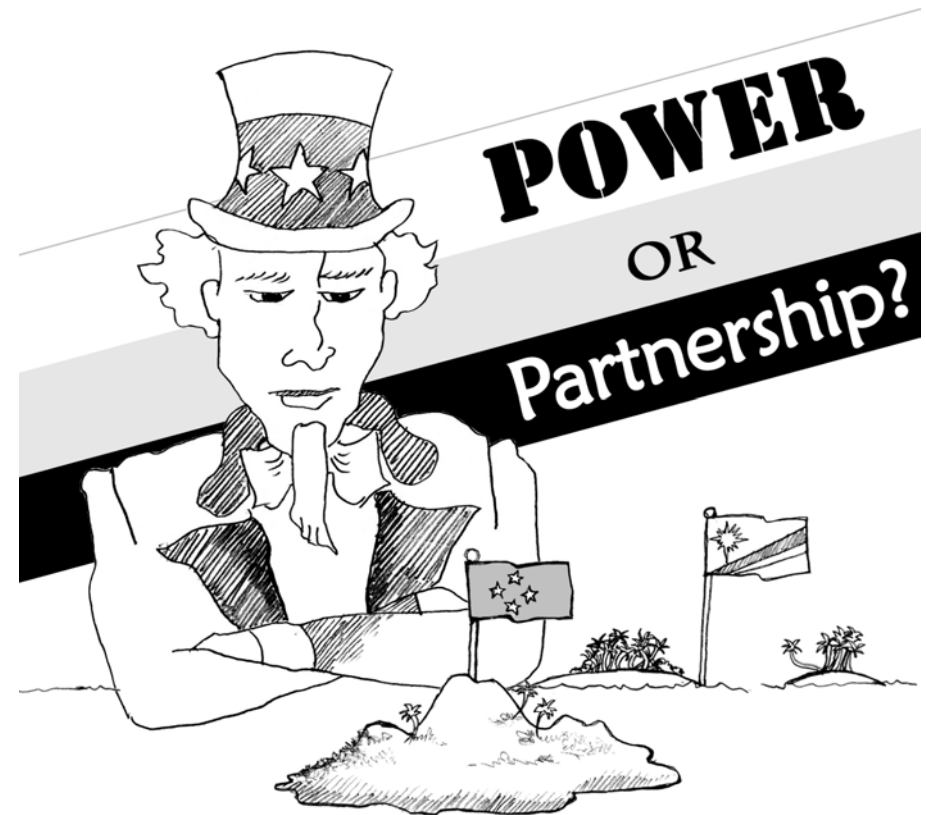
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# Micronesian Counselor

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## Making the New Compact Work

Francis X. Hezel, SJ



## The Last Time Around

It was an era of statesmen—the likes of Andon Amaraich, Tosiwo Nakayama, Bethwel Henry, Bailey Olter, Hiroshi Ismael, and John Mangefel. The public debates that had fired up young audiences on the comparative advantages of commonwealth, independence and free association had faded away. The years of ringing rhetoric and popular referenda and formal negotiations were over. After a hundred years of colonial rule, the Micronesian nations were preparing to assume, with the blessing of the US, full self-government.

The new governments would require funding assistance, of course. Nonetheless, in that Cold War era, the Compact provisions were considered a real bargain. “To prevent any foreign power from establishing a military presence in Micronesia” was, in the words of one US congressman, “an extraordinary concession made by Micronesians and a very real achievement for the United States.” The US committed itself to providing financial support for the fledgling governments during their initial 15 years. US assistance would be withdrawn over the course of three five-year periods in the hope that the Micronesian governments could begin to generate the funds they needed to support themselves at the end of this period.

Today, at the end of Compact I, the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) are still far from being able to provide for themselves adequately. Perhaps fifteen years was too short a gestation period for a national economy in resource-poor islands. An added obstacle was the government-led approach to development that was encouraged by the large percentage of Compact funds earmarked for development projects. Both RMI and FSM made several ineffective attempts, some of them clearly misguided, at establishing a fishing industry. A tourist industry is a still more a hope than a reality.

# MICRONESIAN COUNSELOR

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## Rough Seas Ahead

by Francis X. Hezel, SJ

Compact Negotiations are finished and the US and FSM have initialed a funding agreement to last the next twenty years. The establishment of a trust fund will provide a source of income even after the twenty year period. This article provides a forecast of FSM's economic future for the next twenty years and beyond. How will new funding levels effect jobs, emigration, population and social services?

## Too Young to be Mothers

by Eugenia Samuel

How serious of a problem is teenage pregnancy? Do most teenage mothers return to school? Do rates of teenage pregnancy differ throughout Micronesia? In this article, Eugenia Samuel shares some of her findings on teenage pregnancy in the FSM, the Marshalls and Palau.

## A Leap Into the Unknown

by Augustine Kohler and Eugenia Samuel

There are now about 30,000 Micronesians in the US mainland and its territories. Each year more and more people leave the islands in search of better jobs, but some are totally unprepared for the journey abroad. In “A Leap Into the Unknown”, the **Micronesian Counselor** visits some of the problems that the migrants encounter, and offers suggestions that may help for a smoother transition.



## Making a Difference

My hunch is that the new nations don't need watchdogs so much as partners. They can benefit from people they can talk to, learn from, argue with, complain about, and even beat on from time to time. These partners—or mentors, if you like—are people who are their friends at the end of it all. They are the kind of people who not only lament their failures but also cheer their successes.

Professional teams, expanded slightly to include expertise in education and health services and lodged in Majuro and Pohnpei, would offer oversight without usurping decision-making authority. They would provide solid input into development planning rather than simply punishment after mistakes are made. If incentives were offered—the sum of money, for instance, that represents the difference between what the island nations are asking and what they are receiving—these teams would be able to hold out the promise of a few million dollars more for a job well done. They would work to get the ears of local leaders before implementing budget reforms. They would acquire the cultural sensitivity, political awareness and patience needed to react on a timely basis to real needs. In doing all this, they would be developing not only managerial expertise but also political will among public officials.

Such teams working under such conditions could make a real difference for FSM and RMI. A healthy partnership of this sort offers the best chance of making the Compact II agreement work—during the next 20 years and beyond.



But was this failure to become more self-reliant avoidable? Could it have resulted from misspent funds and wasted opportunities? A loud chorus of voices in Washington has taken up the chant that much of this is the island nations' own doing. Look at the scathing GAO reports over the last year or two that have documented misuse of funds in FSM and RMI. Look at the stubborn resistance of the FSM Congress, even in the face of local criticism, to curtail pork barrel projects benefitting families rather than communities. Then there is the sale of passports in the Marshalls that resulted in an influx of Asians without any discernible increase in government revenue from the sales. How about the epic building program mounted in Majuro a few years ago that left the country with a poorly constructed capital building, a hotel that has never been able to make money, and a depleted development account?

Not many people I know would want to deny or defend these practices. My own rejoinder is simply that this is not the end of the story. The poor use of funds excoriated in the GAO reports has been brought to light and is being corrected, we would hope. If not, it will become an issue again, this time in the local press, something too close to the ground for people to ignore. Pressure is being brought to bear on FSM to correct some of the more flagrant abuses in its legislative pork programs. It may take time, but FSM citizens will figure out how to turn up the heat on congressional representatives who stray from their will. Since the sale of passports, the Marshalls has had two changes in administration and a turn-around in policy. It has also had to face the effects of the Asian passport holders on their own business community. There's nothing like watching Asian businessmen take over the stores and shops in your largest population center to make you rethink the wisdom of issuing passports to all who can pay for them.

In other words, people here learn from their mistakes as they do anywhere else in the world. Optimist that I am, I believe that people will come to understand the need for fiscal discipline in



the government. I'm even confident that someday health administrators will order medicine and supplies well in advance, keep their accounts with suppliers current, and work out ways to bring medical referral costs down to an acceptable level. In a similar vein, there is no reason not to believe that educational administrators will find ways to fire incompetent teachers or principals and to hold schools responsible for the products they turn out. Micronesians are not morons. Most local leaders understand the basic principles of good management. They are, however, struggling to resolve cultural tensions while gaining control of the bureaucratic systems that they are administering. If the incompetent principal that I ought to fire happens to be my brother-in-law, then I may be caught in a quandary. But not forever. People learn how to resolve these conflicts in time. Think of the Micronesian governor who had his cousin sent to jail for illegal use of drugs, for instance. This sort of thing happens today—not as frequently as some of us might wish, but instances will surely multiply in the future.

### **This Time Around**

Representatives from the US and its two partners, FSM and RMI, are just now leaving the negotiations table after initialing the new provisions for US funding under Compact II. According to the terms of the new funding agreement, the US is prepared to offer FSM and RMI money for the next 20 years, although not quite as much as either island nation would like. Some of the funding will be given annually for current expenditures, while a certain portion will be set aside in a trust fund that is expected to provide for the islands in the future. In theory, the US will have discharged its responsibility for the financial well-being of the islands at the conclusion of this 20-year period.

The problem with these new funding provisions is not so much the dollar figure (although there are concessions that the US could easily make here) as the controls on the funds. The US



there is simply no substitute for power over the purse. In the eyes of US officials, a reversion to the sort of controls that US exercised prior to the independence of FSM and the Marshalls in 1986 is more than justified.

In a confidential report that his economic team issued at the request of President Kennedy in 1963, Anthony Solomon justified a policy shift that would keep Micronesia (then the Trust Territory of the Pacific) dependent on the US forever on the grounds that what is good for the US is good for Micronesia and vice versa. Does Solomon's premise, which dates from chilliest days of the Cold War, still hold true today? If so, then it should be in the best interests of both the US and the Micronesian nations to use US financial assistance well. Moreover, it should be in the interests of all parties to do everything possible to aid in genuine nation-building. This would, in turn, suggest a partnership between the US and its two former wards rather than a reversion to the old power relationship.

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**Nation-building is a long and demanding task that continues long after the constitution is signed and the first local government assumes power.**

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Nation-building is a long and demanding task that continues long after the constitution is signed and the first local government assumes power, as we Americans should know from our own history. In the case of these Micronesian nations, the task may be even more complex inasmuch as islanders have to make a transition from an island-based subsistence economy to a globalized mixed economy. This kind of transition doesn't happen overnight. The past 15 years may have been a good start, but there is no guarantee that the work will be completed at the end of the next 20 years. This brings to mind what old Bishop Vincent Kennally used to reply when asked what Jesuit missionaries most needed in coming to Micronesia. "To learn patience" was his answer. Americans of all callings and stripes could benefit from the same advice.



Although funded by outside sources, the advisory team saw itself as a coach for the FSM leadership in fiscal management. The team sometimes also served as a convenient means of shunting off the blame for tough decisions; political leaders could always say, “I wouldn’t have done this if EMPAT hadn’t forced my hand.” Whatever disagreements the team might have with local leaders, EMPAT always sat at the same side of the table as the FSM leadership. Their loyalties have clearly been to the island people they worked with.

At the end of the day, it was not EMPAT, the small knot of expatriates and their local counterparts who knew the economics of the place better than anyone else, who made the decisions. It was the island political leaders—the president and governors, the elected legislators, the magistrates and other officials. There was never really any doubt who had the last word, but it was also clear that there was plenty of talk before that final decision was made.

### Power or Partnership

Ironically, as the US is casting about to find a system of fiscal oversight that can keep FSM and the Marshalls toeing the line, EMPAT is preparing to disband. The one financial management mechanism that appears to have worked is about to be discarded because the Asian Development Bank and its donor nations, including the US, fail to see the importance of this model for small developing countries. The time limit imposed on EMPAT by the bank is nearly up, even though EMPAT’s services have never been so urgently needed as now, when FSM stands on the brink of a cutback in US funding that will bring on difficult economic times.

Yet, Washington decision-makers feel that the US ought to be able to exercise real authority over the way in which the funds granted to the Micronesian nations will be used. To check the well-publicized abuses in FSM and the Marshalls, they believe



is insisting on establishing a five-person Joint Economic Management Committee (JEMCO) that would meet each year to decide on whether FSM and RMI had complied with US funding terms before the funds were released for the following year. The island nations would be required to present their full national budget for next year for oversight and evaluation by a US team of eight persons residing in Hawaii and responsible to US Department of Interior. This team would serve as the technical arm of the US and would be charged with enforcing the controls that the US is imposing under Compact II.

The US has written these procedures into the funding agreement for a commendable reason; it wants these island nations to use its financial aid responsibly. Many Micronesians would applaud these measures since they see this as a means of holding the government to its commitments and imposing on it a new standard of honesty and transparency. The procedures are control mechanisms that would make US annual funding contingent on how well the funds from the previous year were used. If the US saw itself as erring by inattention during the first Compact funding period, this plan seeks to compel everyone to look at the books many times over during Compact II. Should FSM or RMI fail to comply with these requirements, funding can be wholly or partially withheld.

As well-intentioned as these requirements are, they may be counterproductive in the long run. As the recent record suggests, they will cause resentment toward the US, thus putting unnecessary strain on the relationship between the US and its two partners, FSM and RMI. Even more important, they simply won’t work.

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**Micronesians are struggling to resolve cultural tensions while gaining control of the bureaucratic systems that they are administering.**

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## Reasons for Resentment

Restrictions of any sort can be annoying, but the proposed controls under Compact II are seen by some FSM leaders as an infringement on FSM sovereignty. Admittedly, it's common enough for political leaders to bandy about this charge, but it should give us pause when a thoughtful, soft-spoken person like Congressman Isaac Figir delivers a major speech in which he urges the FSM to turn down the financial aid rather than accept money subject to the current oversight provisions. US officials would argue that since the money belongs to the US, the latter should have the right to determine how it's spent. True enough, but the mechanisms under Compact II allow US oversight on how *all* the money is spent, local island revenues as well as US aid. No multi-national donor nor international organization, even the most heavy-handed, has yet demanded such broad financial control as to give them veto power over every dollar spent.

Even if this is not construed as a curtailment of sovereignty, properly speaking, it certainly betrays a complete lack of confidence in the FSM and RMI governments to make sensible fiscal decisions. FSM and RMI, of course, are new nations and have a lot to learn about the most efficient allocation of resources. These nations themselves would acknowledge that, but what galls is that the funding terms in this new agreement are more restrictive than in the original Compact. Micronesian leaders may feel they have been demoted to the status of an irresponsible teenager who, because of a couple of lavish purchases he once made, has had his allowance cut and lost the right to spend it as he wishes. Their funds have been cut and their leash has been shortened under the Compact II funding arrangement—as a punishment for what is deemed reckless behavior.

“Give us time to get our house in order,” is the plea of the new nations to the US. “We’ve learned something about how to manage our finances, but we have a long way to go yet.” The US



the job market in the FSM, or how a two percent income tax increase will impact on other parts of the economy. But their job doesn't end there. When they are finished crunching the numbers and making their projections, they take to the street to explain it all to political leaders. Because everyone on the team has been in FSM for several years, they know the political players and how they think. Their job is not just to understand the numbers and what they tell us, but to be able to read the political weather—with a knowledge of low pressure and high pressure areas, as it were—since they have to sell their ideas to the decision-makers. Often this has meant persuading political leaders to adopt programs that were in the best interest of the nation even if not applauded by large segments of the population. At times they have had to push for an increase in taxes, or a cut in departmental travel budgets, or a downsizing of the government work force.

It's one thing to make people understand that from a fiscal point of view a tax increase or a slash in government jobs is a reasonable thing to do, but it's quite another to persuade them that, even in the face of the political obstacles they will encounter, they should commit themselves to this course of action. The team's job is not just to impart managerial expertise but, equally important, to build political will.

The field of combat for EMPAT has been as much the coffee shops and bars of FSM as the conference room. Over breakfast or after-work beers they would meet with leaders and argue their position, cajoling, haranguing, sweet-talking, and browbeating as necessary. There were warm moments when everyone embraced the same stance, and there were uneasy times when the talk crackled with barely disguised anger. Not everyone was prepared to accept the words of wisdom that fell from their lips, but their role was indispensable. Who else was ready to march into Chuuk during their recent fiscal debacle and argue with the state leadership on what had gone badly awry and what drastic steps needed to be taken to fix it?



in pushing programs. Finally, the team would be largely made up of expatriates, thick-skinned and prepared to take the blame for unpopular but necessary measures. They would be co-workers with Micronesians rather than badged officials who appear suddenly at the budget review to announce “You’ve done it all wrong.”

This team of professionals would have their hands strengthened if island leaders understand that successful implementation of mutually designed policies and targets will yield an extra measure of support from the US. After all, the model of conditioned incentives is preferred to punishments the world over by donors and their partners. In this way, the US could replace the heavy-handed and virtually unprecedented veto power over every dollar of the budget with something that will be more effective. With guidance from the resident team of professionals, the US could reward the nations if the annual grants are spent in an accountable fashion. Additional support would flow to those governments that implement precisely what island leaders have promised their own citizens all these years—namely, to follow a sound path toward sustainable development.

This model might sound fanciful, a liberal’s dream of what should rather than could be, were it not for the fact that the model is currently operational in FSM. The Economic Management Policy Advisory Team (EMPAT) is a small group of expatriates (three until recently) with local counterparts, who are based on Pohnpei but travel widely throughout the FSM. As their name suggests, they are an advisory team, with no stranglehold over the local political authorities, no power of veto over government decisions. Their autonomy, to the extent that they have any, depends solely on the fact that their salaries are paid by Asian Development Bank and other international donors.

The men who make up EMPAT gather economic data from every conceivable source and analyze it. They can tell you just how a five percent drop in US funding will affect business and



response is, in effect, “You’ve already had 15 years. How much longer do you need?” As I’ve been reflecting on this over the past two weeks, I happened to be reading Joseph Ellis’ bestseller, *Founding Brothers*, the engaging story of the early years of the US republic. The financial situation after the Revolutionary War was dreadful; the states and the federal government had outstanding war debts to several major European countries. Worse still, there were serious issues, especially slavery, that threatened to rip apart the fragile nation. Suppose France had called in its chits immediately and denied support to the US unless it implemented without reserve those precepts of “liberty, fraternity and equality” so central to the French Revolution. This would have been a summons to reject slavery immediately, even at the expense of national unity. Not an easy choice to make, is it?

Neither are the choices that Pacific islanders have to face today as they build their nations. Those without a sense of history are condemned to repeating the past? Perhaps the old saw should be rephrased: Those without a sense of history are bound to demand of other nations what they themselves could not have done under similar circumstances.

### Why the Controls Won’t Work

The mechanisms that the US has proposed in the new funding agreements represent a series of hurdles to be jumped before funding is released. The budgets must be presented, the objectives set, and due notice taken of performance during the previous year. From time to time US officials drop in to check into the management of the programs. Does any of this sound familiar? It should, because this is essentially the formula used for the allocation and oversight of federal program funds, the same funds that GAO reports indicate were misused—or at least used with negligible benefit—on many occasions.



Islanders have mastered that system. Administrators have become proficient in the intricacies of presenting budgets and financial statements that pass muster, not to mention marshaling data that will support whatever needs to be proven. The point of the exercise is to play the system so that it disgorges the money that the program provides. Whether these funds are used to best effect is a secondary concern, something to be seen to with whatever energy remains after the exhausting task of getting the money released.

The US officials, on their occasional visits to the islands, will not have the time or the first-hand knowledge they need to do proper oversight of the budget, much less offer suggestions for correcting what's wrong with it. If they can't verify a line-item budget—and it's unrealistic to expect them to do so—then the system proposed by the US is unenforceable. Would any US official, on the strength of what little he can learn about fiscal decisions in a few weeks, recommend penalties that would cost the island governments millions of dollars?

FSM and RMI administrators will comply with the requirements, but they won't learn how to manage their resources any more efficiently. Their effort will go into doing all the things that have to be done to ensure the funds, but there will be little attention given to creative ways of making the funds deliver more effective services. Development of long-range goals and the vision implied by these will be put off to another day, perhaps another 20 years down the road. While compliance can be expected, genuine growth in nation-building—the kind that comes from learning to shepherd one's own resources carefully—will have to wait.



M. Vitarelli



Meanwhile, we will have reverted to a Trust Territory-style management system that represents a step backwards rather than an advance toward the development of the managerial skills and the political will these island nations will need to administer their trust funds well at the end of Compact II.

Meanwhile, the US will have squandered an opportunity to become a respected partner in the development of these nations in favor of becoming a resented watchdog. Although the US will remain a benefactor of FSM and RMI, it will have created an adversarial climate rather than a collaborative one. Where the US is holding out threats, it could be offering incentives. Where it's emphasizing punitive measures, it could offer mutually agreeable targets for development. Where it's demanding reports directly to Washington, it could be encouraging responsible feedback to local citizenry. Where it's proposing to have eight experts flying in and out to keep watch over its aid, it could support a team of professionals living and working in the two countries as they carry on a thoroughly informed development dialogue with the recipient nations.

### So What Will Work?

There is another model, one that will ensure a good measure of accountability while strengthening the relationship between the US and the two island nations it supports. In this model, a team would be positioned on the ground to work with local decision-makers before the budget is completed. The team would assist Micronesian administrators in shaping the budget to reflect development goals while tailoring it to fit projected revenues. The team would be engaged in training local personnel as they work with them to develop strategies for what the countries would hope to achieve. Because the team was resident in the islands and worked with island officials on a day-by-day basis, they would be aware of the political currents on the local scene and would be in a position to help navigate these currents