

PROMOTING THE ECONOMIC DEVELOPMENT OF THE
TRUST TERRITORY OF THE PACIFIC ISLANDS

OCTOBER 22, 1969.—Ordered to be printed

Mr. BURDICK, from the Committee on Interior and Insular Affairs,
submitted the following

REPORT

[To accompany S. 232]

The Committee on Interior and Insular Affairs, to which was referred the bill (S. 232) to promote the economic development of the Trust Territory of the Pacific Islands, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

The amendments are as follows:

On page 2, line 23, strike the word "outstanding" and insert in lieu thereof the word "comparable".

On page 3, line 20, after the word "of" insert the words "the outstanding amount of".

PURPOSE

The purpose of S. 232, introduced by Senators Burdick, Metcalf, Moss, Stevens, and Bellmon, as amended, is to establish a Trust Territory of the Pacific Islands Economic Development Loan Fund to promote the development of private enterprise and private industry in the trust territory. It would bring the total economic development authorization fund to a \$5 million level.

This fund would be outside the ceiling limitation on the trust territory...

The Trust Territory of the Pacific Islands consists of the Caroline and Marshall Islands and all of the Marianas except Guam. Though it comprises 2,100 islands scattered over a 3 million-square-mile area its total land area is only 687 square miles. It has 90,000 inhabitants.

The territory is administered by the United States under a trusteeship agreement with the Security Council of the United Nations approved by the President under authority granted by the Congress on July 18, 1947 (61 Stat. 397). The terms of that agreement (61 Stat. 3301) give the United States "full powers of administration, legislation, and jurisdiction" over the former Japanese-administered territory and obligate it to (1) "foster the development of such political institutions as are suited to the Trust Territory and * * * promote the development of the inhabitants of the Trust Territory towards self-government or independence," (2) "promote the economic advancement and self-sufficiency of the inhabitants," (3) "promote the social advancement of the inhabitants, and * * * protect the health of the inhabitants," and (4) "promote the educational advancement of the inhabitants." The U.S. authority is presently vested in a High Commissioner appointed by the President.

Public Law 88-487, among other things, granted approximately \$369,000, which represented the balance in a federally financed revolving fund for loans to private trading companies in the territory, to the local government "for use as a development fund within the trust territory of the Pacific Islands." This fund, assisted by subsequent grants totaling \$550,000, has undertaken an economic development program of limited proportions.

NEED

In February 1967, a comprehensive economic study of the trust territory, prepared by the internationally known economic consulting firm of Robert Nathan Associates, was submitted to the High Commissioner. This study shows that economic resources of the trust territory are limited, yet with suitable guidance and assistance the potentials that exist can be developed. At the present time most of the population is in a subsistence economy. However, at least in the district centers and on Ebeye in the Marshall Island district, this pattern is changing and there is a significant movement into a limited cash economy.

During January 1968, Senator Burdick, chairman of the Territories Subcommittee, along with Senators Metcalf and Moss, made an inspection trip through Micronesia. Aside from a new fish freezing plant in the Palau district, a large cattle ranching enterprise on Timian and a new first-rate tourist hotel on Saipan, both in the Mariana district, the Subcommittee found almost no economic development in the territory. For the most part, the people of Micronesia rely on a subsistence agricultural and fishing economy, or on government input for cash. Economic resources in Micronesia are not large, however, opportunities for development do exist in agriculture, fishing, construction, wholesale and retail trade and services, tourism and travel, and air and sea transportation. These possibilities can only be realized if capital is made available with which to develop them.

The economic consultants who recently studied the trust territory have pointed out that local private capital from savings or from present private or governmental borrowing cannot meet the total needs. Nor are prospects of obtaining outside capital investment good, in view of the uncertainty of the political future of Micronesia. Thus, there is a definite need for a revolving loan fund such as that provided in the bill.

S. 232 is patterned after S. 1763, the Guam development loan fund bill, which passed the Senate on August 30, 1967.

A bill similar to S. 232 (S. 3073) passed the Senate in 1968 but was not acted upon by the House of Representatives.

SECTION-BY-SECTION ANALYSIS

S. 232, the Trust Territory of the Pacific Islands Economic Development Fund Act of 1969, will provide what Micronesia patently needs most—an economic mechanism to help develop a viable economy. The bill, as amended, authorizes to be appropriated to the Secretary of the Interior, to be paid to the government of the trust territory for the purposes of the act, not to exceed \$5 million. Prior to the time the authorized funds are made available to the territory, a plan for the use of the funds is to be submitted to the Secretary of the Interior and approved by him. It must set forth the policies and procedures to be followed in promoting the economic development of the territory through a program of loans and loan guarantees to promote private enterprise and private industry, and make provision for a revolving fund for such purposes.

The term of any loan made under this act would not exceed 25 years, and the maximum term is not to be granted except in cases involving projects requiring substantial construction of buildings, et cetera. Otherwise, the duration of loans should range from a period of 15 to 25 years, as is presently required by the act governing the Small Business Administration. All loans would require payment of interest at rates determined to be reasonable, but in no event less than a rate equal to the average yield on comparable marketable obligations of the United States as determined by the Secretary of the Treasury. Premium charges for insurance and guarantee of loans are required at rates to be established which will adequately cover expenses and probable losses.

Section 4 provides that no loan or loan guarantee shall be made under this act to any applicant who does not satisfy the agency administering the plan that financing is otherwise not available on reasonable terms. This section also makes clear that the maximum participation in the funds made available, with respect to all loans, shall be limited to that degree of participation that is prudent, but in no event shall more than 25 percent of the funds actually appropriated be devoted to any single project; with respect to loan guarantees, to a guarantee of 90 percent of any loan. A further provision with respect to loan guarantees requires that the reserves maintained for the guarantee shall not be less than 25 percent of the guarantee.

Section 5 requires that the plan provided for in section 3 shall contain such fiscal and accounting procedures as will assure proper disbursement and repayment of all loans.

Sections 6 and 7 require that the High Commissioner of the Trust Territory shall make an annual report to the Secretary of the Interior on the administration of the act, and authorize the Comptroller General of the United States to audit the agency, or agencies, administering the loan program.

AMENDMENTS

The committee has adopted two technical amendments recommended by the Department of the Interior.

Cost

Enactment of S. 232 would authorize approximately \$4 million in additional Federal funds for the revolving loan fund.

DEPARTMENTAL REPORTS

The favorable reports of the Department of the Interior and the Bureau of the Budget are set forth below:

U. S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D. C., September 30, 1969.

Hon. HENRY M. JACKSON,
*Chairman, Committee on Interior and Insular Affairs, U. S. Senate,
Washington, D. C.*

DEAR MR. CHAIRMAN: This is in response to your request for the views of this Department on S. 232, a bill to promote the economic development of the Trust Territory of the Pacific Islands. We strongly support the enactment of the bill.

Section 1 of the bill is the citation section, citing the bill as the "Trust Territory of the Pacific Islands Development Fund Act of 1969."

Section 2 authorizes the appropriation of an amount not to exceed \$5 million to the Secretary of the Interior, to be paid to the government of the trust territory for the purposes of this act.

Section 3 provides that prior to the time the authorized funds are made available to the trust territory, a plan for the use of the funds is to be submitted, by the government of the trust territory, to the Secretary of the Interior for his approval. The plan must set forth the policies and procedures to be followed in promoting the economic development of the trust territory through a program of loans and loan guarantees to promote the development of private enterprise and private industry by way of a revolving fund for such purposes.

Section 3 also limits the term of any loan made under this act to not to exceed 25 years. All loans would require payment of interest at rates determined to be reasonable, and as approved by the Secretary, but in no event less than a rate equal to the average yield on outstanding marketable obligations of the United States as of a given date. Premium charges for insurance and guarantee of loans are required at rates to be established which will adequately cover expenses and probable losses.

Section 4 provides that no loan or loan guarantee shall be made under this Act to any applicant who does not satisfy the agency administering the plan that financing is otherwise not available on reasonable terms. This section also makes clear that the maximum participation in the funds made available, with respect to all loans, shall be limited to that degree of participation, prudent under the circumstances.

ees of an individual loan. In no event shall more than 25 percent of the funds actually appropriated be devoted to any single project.

With respect to loan guarantees, the maximum participation in funds made available under section 2 of the act shall be limited to a guarantee of 90 percent of any loan. It also requires with respect to loan guarantees that the reserve maintained for the guarantee shall not be less than 25 percent of the guarantee.

Section 5 provides that the plan prepared by the government of the trust territory for the use of the funds contain provisions for the proper control and auditing of the funds.

Section 5 provides that the plan required in section 3 of this act shall contain such fiscal control and accounting procedures as will assure proper disbursement, repayment and accounting for such funds.

Section 6 of S. 232 requires that the High Commissioner of the Trust Territory shall make an annual report to the Secretary of the Interior on the administration of the act.

Section 7 of S. 232 authorizes the Comptroller General of the United States to audit and examine the accounts of the trust territory agencies administering the loan program.

This Department endorses and urges enactment of S. 232 as a measure designed to provide substantial and necessary support for the trust territory's existing program of economic development. It embodies the purpose and concept envisioned by the enactment of section 3 of Public Law 88-487, approved August 22, 1964.

Section 3 of Public Law 88-487 granted approximately \$369,000, which represented the balance in an existing revolving fund, for loans to private trading companies in the trust territory, to the government of the trust territory "for use as a development fund within the Trust Territory of the Pacific Islands." This fund has been augmented by appropriations until it has reached a current capitalization of approximately \$1 million. The effect of the bill would be to increase the fund by \$5 million and to provide useful guidelines for basic lending policies. We interpret the provisions of this bill as being broad enough to include loans to qualified American entrepreneurs, as well as to Micronesian entrepreneurs who alone participate in the existing Economic Development Loan Fund.

The historic American economic development policy in the territory has been to encourage Micronesians to establish commercial and industrial enterprises. Upon the liquidation of the Island Trading Co., a government operation, the assets of that operation were made available to assist in the creation of locally owned trading companies. Since that time, in the early 1950's, there has also been a substantial development of cooperatives and credit unions and the number and diversity of Micronesian economic enterprises has increased. The trading company fund was, under Public Law 88-487, incorporated into the Economic Development Loan Fund.

Recently American firms have been encouraged to invest in the trust territory so as to provide employment opportunities for Micronesians and commercial or industrial activities beyond the financial resources of Micronesians. Some such enterprises have been established but there is as yet little large-scale industrial activity. American firms have established a fish-freezing facility at Palau, a cattle ranch on Tinian,

...a hotel on Suipan. An American firm is prospecting for phosphate deposits in Palau. Air Micronesia, a joint American and Micronesian endeavor, operates jet service to most district centers and to Honolulu and Okinawa, and it plans to build modern hotel facilities in each of the six districts within the next 5 years. A new shipping service provides direct shipment from the U.S. west coast. Thus, the transition from pure subsistence conditions to production for commercial markets is gaining momentum and returns to Micronesians from this expanded economic activity will grow.

While it can be expected that some unaided investment by Micronesians and Americans alike will continue to be made in the future, it will fall short of both the potential and the requirements. The economic development consultants recently employed by the trust territory have pointed out that local private capital from savings or from present private or governmental borrowing capacities cannot begin to meet the total needs. They stated that "if the economic development of Micronesia is limited to the rate of growth which can be generated by resources of local ownership, the few local owners will prosper, but the total investment will be so limited that it will leave the great majority of the people with few employment opportunities, high prices, and shortages of goods and services."

Development of Micronesia is dependent upon the initiative and assistance of the United States in aiding Micronesian and American entrepreneurs to obtain adequate capital for investment. The availability of this Economic Development Loan Fund to both Micronesians and citizens of the United States—which availability to both must be clearly understood—could well provide the essential catalyst to give major impetus to the economy of the trust territory.

However, in providing this impetus, it is highly important, as High Commissioner Johnston informed the United Nations Trusteeship Council this year, that the Micronesians have the responsibility for developing the ideas on how this money might best be used. Thus, while it is anticipated that the expanded Economic Development Loan Fund will make possible more ambitious efforts in regard to (1) tourist-related enterprises, (2) marine resource processing and marketing facilities, (3) inter-island shipping development, and (4) outer-island retail, handicraft, and copra industry development, we would contemplate that the Micronesians, with guidance from the trust territory government and this Department, would set the priorities, and play a major role in devising the plan for the use of the Fund.

To effect technical improvement in the bill, we recommend the following two amendments:

- (1) "To bring the language of the bill more closely in line with standard provisions relating to interest rate, substitute the word 'comparable' for the word 'outstanding' on page 2, line 23."
- (2) "To assure that the lender will have a continuing incentive to monitor his loan as it is repaid, insert the words 'the outstanding amount of' between the words 'of' and 'any' on page 3, line 20."

The Bureau of the Budget has advised that there is no objection to the presentation of this report from the standpoint of the administration's program.
Sincerely yours,

LESLIE L. GLASGOW,
Acting Secretary of the Interior.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., September 30, 1969.

Hon. HENRY M. JACKSON,
*Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your request of January 23, 1969, for the views of the Bureau of the Budget on S. 232, to promote the economic development of the Trust Territory of the Pacific Islands.

The Bureau of the Budget would have no objection to the enactment of S. 232 subject to its being amended in the manner recommended in the report of the Department of the Interior.
Sincerely yours,

WILFRED H. ROMMEL,
Assistant Director for Legislative Reference.