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POSITION PAPER
JCFS COMPACT - TITLE IV - SECTION 404(b)

1. Summary

The JCFS has asked that the \$5 million a year for fifteen years proposed by the U.S. at Carmel for Economic Development Loans be increased to \$10 million a year for the first five years; \$7 million a year for the next five years; and \$5 million a year for the last five years. The JCFS also reintroduces the guaranteed financial assistance to the districts by making portions of these new levels available to the districts.

2. Issue

Should the U.S. increase loan fund grants to the GOM?

3. Background. From the Micronesian perspective, the JCFS may believe that:

a. Domestic savings are low because of the low per capita income. Therefore government will have to provide equity capital if Micronesians are going to be able to compete with outsiders in the exploitation of their resources.

b. Requirements for CIP are greater than what the U.S. has offered - as is the need for Operations funds. JCFS therefore asks to augment Operations with CIP grant funds and is willing to borrow money to meet expanded CIP needs, especially income producing CIP projects such as power plants, telephone, ports and harbors.

From the U.S. standpoint:

a. They are already asking for carry over authority indicating they can't spend CIP now.

b. \$5 million is 500% greater than present EDLF which they can't handle, so why give them any more?

c. U.S. also told JCFS at Carmel "this is it" on money. Don't want to open the door even a small crack.

4. Options

a. Reject JCFS proposal

PRO

(1) No JCFS justification.

(2) GOM has no ability to handle these large loan funds.

(3) GOM will be eligible for loans from other U.S.

organizations, from ADB and from other international institutions.

(4) U.S. Congress not support increased loans to the districts without greater control.

CON

(1) Would open Micronesia to external foreign financial manipulation and influence by requiring them to look to non-U.S. sources for these funds.

(2) Would make GOM less dependent on USG for financial assistance and would therefore reduce USG ability to "weave" substantial ties between USG-GOM during free association relationship

b. Accept JCFS proposal

PRO

(1) Would increase GOM dependence on USG for financial assistance.

(2) USG could continue to exert some influence over GOM progress and development through accountability of funds.

CON

(1) GOM may want to "bank" the extra amounts.

(2) USG would be too near the ceiling set under the negotiating instructions.

(3) Would reopen other U.S. financial commitments to JCFS pressures for increased funding.

(4) Adverse U.S. Congressional action.

c. Modified acceptance. Reject increased amounts, but agree to review the needs for development funds after the first five years and agree to the concept of guaranteed financial assistance to districts.

5. Recommendation

a. Reject; with fall-off to accepting concept of district financial assistance if the JCFS will not increase funding levels.

b. Rationale for reject option:

(1) GOM has no ability to handle these large amounts.

(2) GOM would be eligible for loans from other sources (ADB, other international agencies).

(3) GOM might be wanting these new amounts to "bank" the amounts not needed.

(4) Opens door for other demands for dollars.

(5) Would otherwise place USG too near financial ceiling set by instructions.

(6) U.S. willing to periodically review loans as the economy develops and as local economic factors warrant increasing

U.S. loan commitments.

(7) U.S. Congress would oppose higher loan levels given poor loan performance of Micronesians in past.

c. Rationale for fall-off option

(1) Districts should receive some guaranteed financial assistance to promote Micronesian "unity".

(2) However, increased financial assistance is beyond instructions of President if land options are considered.

(3) U.S. proposed concept at Round Five to reassure districts of some funding guaranteed by USG.