



JOINT COMMITTEE ON FUTURE STATUS
 CONGRESS OF MICRONESIA
 Saipan, Mariana Islands 96950
 "MICRONESIA"

Phone 9759
 Telex 724 5267

01
 74

Sen. Lazarus Salii, Chairman
 Rep. Ekpap W. Siik, Co-Chairman

Sen. Tosiwo Nakayama
 Sen. Bailey Olter
 Sen. Petrus Tun
 Sen. Ambilos Iehsi
 Sen. John Mangafel
 Rep. Ataji Balos
 Rep. Sasauo Haruo
 Sen. Pedro A. Tenorio
 Rep. Isidoro Rudimch
 Rep. Oscar C. Rasa

May 14, 1976

The Honorable Franklin Haydn Williams
 The President's Personal Representative
 for Micronesian Status Negotiations
 Department of the Interior
 18th and C Streets, N.W., Room 3356
 Washington, D.C. 20240

Dear Ambassador Williams:

In anticipation of the upcoming concluding round of future political status talks now scheduled to be held on Moen, Truk District, beginning May 27th, I thought you might be interested in the preliminary results of the recently-concluded ten day conference on the goals and objectives for the five-year Micronesia Indicative Development Plan, held from May 5th through the 15th. The Conference was sponsored by the Congress of Micronesia Joint Committee on Program and Budget Planning (JCP&BP) and included wide representations from the Trust Territory Government, Standing Committee Chairmen of both Houses of the Congress of Micronesia, District Administrations, District Legislatures, U.S. Department of the Interior, United Nations Development Programme, and your personal representative.

I have been advised that the Conference was quite a success and the resulting recommendations will be incorporated into the Draft Indicative Development Plan that the Joint Committee on Program and Budget Planning will be submitting to the Congress of Micronesia during its scheduled Special Session in Ponape District sometime in July of this year.

Under the Plan recommended by the Conference, the development objectives for the period FY 1976-1981, call for, among other things, an overall growth for the six districts (Kusaie was considered as a

Ambassador Williams
May 14, 1976
Page Two

separate district) of 6% annually, and a restructuring of the Micronesian economy to bring the consumption expenditures more into line with our income levels.

Another major change proposed to be included in the Plan is to hold down government consumption and prove more resources for the productive sectors of the economy. This, as you well know, is a major change in development policy as compared with that of the previous ten year period when consumption was encouraged by the nature and manner of allocating U.S. Grants in Micronesia. It was the consensus of the conferees that Micronesia is now faced with a situation where it cannot sustain this level of consumption given the fact of its resources as being largely underdeveloped.

The Conference observed that if Micronesia is ever to reach a level whereby it has the prerequisites to support its own government and meet its economic needs, it must not only have the necessary basic infrastructure to provide for its social needs, but also more investment in the income-producing sectors of the economy. The estimates projected in the Indicative Development Plan indicate that if we can raise our gross national income levels by 6% (or per capita income level by approximately 3%) annually over the 1975 level, by 1981 we hope to reduce the present gap of \$39.2 million between Government revenues and expenditures to \$34.2 million. This will be accomplished by raising our tax revenues by almost 100% in the next five-year period while keeping Government expenditures to the present level of \$46 million.

By 1981 Micronesia hopes to achieve a level of national income of \$121.1 million and government revenues of \$22 million. At a continued projected growth rate of 6% annually, and with adequate projected financial aid, Micronesia expects that by 1995, its national income and tax revenues will have reached a point where our economy can support the necessary level of government services. In this

027179

Ambassador Williams
May 14, 1976
Page Three

connection, tax rates will continue to increase as higher levels of national income are attained.

The development strategy, therefore, calls for more foreign resources for investment and progressively less for the operational expenses of the Government over the fifteen year period, 1981-1995. The proposals in the Draft Compact stipulates foreign assistance of \$450 million for operation over this period, but we believe only \$323 million will be needed before we can reach a point of self-sufficiency in our Government operations. However, the gap between the assistance proposed for CIP and loans will not be adequate to raise our income earning capacity to raise per capita income by a modest 3% annually and raise the taxes necessary to support our Government. We estimate our capital requirements both for capital improvement projects and productive investment at approximately \$471 million as compared to \$190 million in the Draft Compact. A net addition of \$106 million will be required in foreign assistance over and above the amount provided in the Draft Compact. As a further incentive to government economy, we want full flexibility to shift any excess operating funds to productive investment.

As indicated above, our development strategy emphasizes more productive investment to generate higher levels of income, for it is only by these means that Micronesia can ever hope to attain a self-supporting economy and Government. The declining support for Government operations is, of course, offset by higher investment requirements, but we feel that additional foreign resources required over and above that presented in the Draft Compact are modest and will, in the long run, reduce Micronesia's dependence on foreign aid.

It is our recommendation that you and the other members of your Delegation review the above and be prepared to discuss the Draft Compact in the light of the above developmental strategies that the

027180

