



TRUST TERRITORY OF THE PACIFIC ISLANDS
OFFICE OF THE HIGH COMMISSIONER
SAIPAN, MARIANA ISLANDS 96930

CABLE ADDRESS
NICOTT SAIPAN

November 14, 1979

The Honorable James A. Joseph
Under Secretary
Department of the Interior
Washington, D.C. 20240

Dear Mr. Joseph:

Attached are the comments of the Trust Territory Government on the Interagency Policy Review on the territories and the Trust Territory, as requested by you in your letter of October 31, 1979.

Our comments consist of excerpts taken from my comments as well as from the comments submitted to me by the Deputy High Commissioner, the Administrators of Community Services, Administrative Services and Developmental Services, and by the Director of Planning and Statistics. This was done to provide an overall view of the opinions and judgments of the staff, particularly in those cases concerning which there were differences of opinion. In all cases, the comments which are presented first are mine.

I did not attempt to secure the comments of the Presidents, Governors and legislative leaders of the Trust Territory Governments because the limits of time made it impossible to transmit the Review and secure responses on a timely basis. If it is desired, I will transmit copies to them, requesting their comments for possible subsequent inclusion as a supplement or appendix to the Review, or in any way you may suggest.

Sincerely yours,


Adrian P. Winkel
High Commissioner

Attachments

*Recd OTA
11/19/79*

Interagency Policy Review

U.S. Territories and the Trust Territory

- Individual Comments of Top Staff - Trust Territory Government

Question No. 1

What should the United States Government be seeking to achieve in or for each of the territories giving due regard to our legal responsibilities, territorial aspirations, U.S. national security objectives, and our commitment to self-determination? What should the United States Government be seeking to achieve in the Trust Territory before the end of the Trusteeship?

- In substantial measure the question stated in the second sentence of Question No. 1 above is answered by the statement on page 14 in which it is written that "too little time remains to permit any major modifications in the Federal Government's treatment of the Trust Territory as such." Within the limitations of time, the general objective of the U.S. Government in the pre-termination period should be to bring all of the various governmental entities up to the maximum possible level of performance in all fields. This objective is the principal responsibility of the Trust Territory Government during the remainder of the Trusteeship period. Assisting the governments to prepare for this assumption of responsibility, and then to transfer such responsibility to the governments as soon as they are prepared to accept the transfer, and then assisting the governments in the actual performance of their new responsibilities, is the most important administrative responsibility of the Trust Territory Government in the remaining time of the Trusteeship. If, in addition, time permitted the programming, funding and execution of additional activities, the highest priority should be given to providing CIP infrastructure projects for the outer islands, particularly in the Marshall Islands, Truk, and Yap, although this is not to exclude or ignore similar needs existing to a lesser extent in other states. The need in this respect is similar to the need which causes it to be stated in another portion of the report that the CIP infrastructure program for the district centers must be completed by the United States. In addition, adequate infrastructure requires operating and maintenance funds which must be given consideration in both pre-termination and post-termination decisions concerning the Trust Territory. This latter need exists not only with respect to infrastructure fixed in place but also with respect to the operation and maintenance of the transportation and communications systems.

- The second part of the Question applies to the Trust Territory and it involves, in the main, the question of basic infrastructure development

(CIP). My comments are:

- (a) The CIP plan of 1976, basic plus subsequent modifications, should be put in place prior to the termination of the Trusteeship.
- (b) In addition to the basic capital improvement program for the central islands, attention should be also focused on the need for similar development in the outlying population centers in each district, including the Marshalls and Palau.
- (c) To insure that the public facilities built under the CIP program are properly managed and operated after termination of the Trusteeship, Public Works operations and maintenance training efforts now underway be enhanced throughout the remainder of the Trusteeship period.

- The IPRTF gives emphasis to putting in place the potential for economic development prior to ending its administrative tutelage. However, to effectively enhance effort in this regard thoughts must be given to strategies appropriate to the areas in terms of their conditions, resources, and future capability. This may call for more than emphasizing the completion of CIP projects. Some re-examination should be given to the question of whether or not certain CIPs may become economic development burdens in the post-trusteeship era rather than strategies for development.

- As this relates to the Trust Territory, it has been the stated policy of the U.S. to encourage economic development. However, this is misleading. The Trust Territory budget has always been primarily for administrative expenses. Only recently a CIP program was funded. We cannot argue that this CIP program is not economic development oriented, but it includes a great number of socially oriented projects.

We further question the statement, since the Trust Territory has been excluded from Federal programs which are economic development oriented, such as roads and rural electrification, and has not received preferential tariff treatment for its products to allow it to be competitive with other developing areas.

The commitment to economic development of the Trust Territory in the remaining years of Trusteeship should be reaffirmed as a Federal policy and some positive action taken such as extension of programs mentioned above.

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Since the remaining period of Trusteeship is short, these programs may only have a short-term impact on economic development. Thus, there should be consideration for this extension of programs to go on after termination.

We concur with the statement that the ongoing CIP program must be completed as soon as possible. The CIP program, while it would help development of the area, must not be construed as the United States' economic development program for the Trust Territory.

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Question No. 2

How can the United States Government best encourage economic development in the territories, given scarce resources, small population, untrained labor forces, distances from supplies and markets, etc?

- I emphasize that all of the "givens" named in the question apply particularly and with special emphasis to the Trust Territory.

- Recognizing the diverse characteristics, geographical location, and development potentialities of the territories, the Task Force's concluding recommendation (page 8) emphasized the need for the leading Federal agency (DOI) to undertake a comprehensive study for the development of the private sector of the economy in each territory.

Recalling our own (TTG) experience during the recent 15 to 20 years, studies not implemented have given rise to frustration and false hope among the populace, and often lead to mistrust between the territory and the sponsoring Federal agency. The Task Force apparently recognizes this potential adverse effect and recommended that the lead Federal agency has access to other Federal agencies' resources to implement over a period of time what development strategies were agreed upon for implementation.

- What is urgently needed to stimulate economic progress and promote private investment is a demonstrated commitment by the Federal Government to a systematic, organized program of development that is appropriate to local needs and resources and adequately funded.

The comment (page 7) that the U.S. should not ". . . necessarily participate as an active partner in development activities . . ." should be qualified. This implication that "private investors or local governments" are capable of and/or willing to supply the resources needed to promote economic development is misleading. Under-utilization of local resources is primarily a result of the absence of sufficient capital and know-how. The generation of capital is severely limited by the low income level of the population. Injections of outside capital are essential to initiate the process of development. Similarly, investments in human resources development require, in the long-run,

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investments in educational systems for which local funding is not available.

In the short-range, "crash training" and expatriate employment are necessary to meet immediate needs. These investments in physical and human capital can be efficiently met by well designed and administered Federal assistance. To date, capital investment has been concentrated on infrastructure development in the district centers. The marshalling of funds for venture capital and investment in productive enterprises in rural areas is urgently needed.

A number of problems currently restricting economic growth in the Trust Territory, and presumably in other territories too, have not been touched upon, or have been indirectly mentioned only in the section labeled "problems". The following items are recommended for inclusion:

Skill Development

Management Capabilities Development

Financial Services Development

Communications Improvement

- The question of how the U.S. should encourage economic development in the areas should be looked at within the context of what the neighboring Pacific Islands' small states, whose conditions are similar to the TTPI groups, are doing to economically develop themselves. Economic development effort should take cognizance that the area's resources are limited and will be more so in the post-Trusteeship era. In other words, efforts in economic development, as well as in other aspects of development, must be realistic if one is to live and work within one's own means.

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Question No. 3

How can the system of providing Federal financial aid to the territories be improved so as to eliminate the need for ad hoc subsidies and so as to encourage wiser planning and greater fiscal self-reliance in each territory?

- The subject raised by the above question, in the manner in which it is asked, does not apply to the Trust Territory. If we assume that the Trust Territory will be terminated in 1981, financial assistance during that period of time is already quite firmly established in the remaining budgets for the fiscal years of 1980 and 1981. Obviously, of course, the manner and extent of the providing of federal assistance in the post-trusteeship period will be determined by the negotiations between the parties. All of the options to replace ad hoc appropriations, with the possible exception of option 4, could be applied to the Trust Territory with necessary modifications as determined by the negotiations.

The discussion of alternatives to the present tax systems in the territories is not applicable to the particular status of the Trust Territory in neither the pre- or post-termination periods.

- Each of the four options listed has substantial merit and should be implemented but in a closely coordinated manner, e.g.:

Option 1 - Federal match of local taxes. This method of funding could be applied to an area of government spending such as operations and/or maintenance. Perhaps the match should be on a declining scale in successive years to further encourage local tax efforts and collection of user taxes.

Option 2 - A territorial development bank should be integrated with a comprehensive development program. Loans should be made only for investments in real production. This could be the primary funding source for economic development projects.

Option 3 - Block grants might be made available for economic and social infrastructure development. This would allow the local government more flexibility in meeting their priorities.

Option 4 - The expenditure of federal funds should always be in accordance with sound financial and budgetary practices. The apparent disarray of territorial finances is sufficient indication that closer monitoring to assure compliance with this principal is urgently needed.

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- It will be in the interest of the various entities of the TTPI to give serious thoughts to limiting the inflow of Federal monies into their jurisdictions. If smooth transition is to be made from the present high budget government to one whose financial resources will be considerably less, efforts must be taken now to gradually decrease Federal assistance and maintain only those which will complement transition efforts.

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Question No. 4

Does any practical device exist to refine the application of Federal grant programs to the territories and the Trust Territory, so as to eliminate those without substantial value to the territory or the Trust Territory, and to make more effective those that do have value?

- We believe that the answer to the question stated above is yes, and that the objective of the Task Force with respect to Federal programs, as stated on pages 1 and 2 of this section of the Report, has been, at least in part, achieved at the Trust Territory level. We have a functioning A-95 Clearing House, approved by OMB. It requires constant oversight and attention to assure adherence to the process but it is proving to be a helpful mechanism. In connection with the establishment of the new constitutional governments, we are discussing increasing the degree of the new governments' role in the selection and approval process of Federal programs, as well as transferring greater administrative responsibility for such programs to the new governments.

It is difficult to comment on the administration of Federal programs in the post-termination period because of the uncertainty of the status of such programs, if any, following the termination of the Trusteeship.

Options 1 and 2 on pages 7-9 probably will not be applicable to the Trust Territory because of time constraints. However, if they were to be applicable, either option would be considered helpful and beneficial, with option 2 preferred as a matter of choice.

- TTG should support any decision which aims to eliminate "matching funds" requirement for Federal grants, as all such matching funds are ultimately derived from U.S. grant funds -- not local revenues as is the case in the several States.

Option 1 in the Task Force Report (page 7), with modification to include all matching fund requirements, seems best suited for TTPI.

- We have no objection to a Federal-level coordinating unit which could provide the territories with a range of useful data and services as long

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as it did not define for the territories, which programs they may or may not apply for and receive. The territories could also provide "decision packages" for programs and priorities to the Federal unit who could coordinate at the Washington level for funding support under the joint simplification act or under PL 95-134, or other existing legislation.

We also do not believe that the territories will wish the Federal Coordinating Agency/unit to retain such powers as described in Option 1 in item C (" . . . establish (FCO) to the satisfaction of the Federal Coordinating level," or E, "Require approval of Feds before final action on a grant application". Option 2 has merit in that it proposes specific legislation to result in multi-year planning and funding.

- It will be in the interest of the various entities of the TTPI to give serious thoughts to limiting the inflow of Federal monies into their jurisdictions. If smooth transition is to be made from the present high budget government to one whose financial resources will be considerably less, efforts must be taken now to gradually decrease Federal assistance and maintain only those which will complement transition efforts.

- The Trust Territory has already established a Central Clearing House for the review of Federal programs.

As far as the Trust Territory is concerned, the experience in dealing directly with the regional offices has been effective and efficient. The placement of a person in Washington for a special task of coordinating Federal programs may be more applicable for United States territories rather than the Trust Territory of the Pacific Islands.

We reiterate the view that other Federal programs directly related to economic development listed in our comments to Question No. 1, should be extended to the Trust Territory.

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Question No. 5

Should any change be made in the organizational arrangement that places the focus for Federal assistance and liaison for the territories in the Interior Department? Attention should be given to post-Trusteeship Micronesia, Puerto Rico, and the Northern Mariana Islands.

- Relative to the above-named topic, I would favor option B as stated on page 6 of this section of the Report. I think the basic questions and problems concerning the administration of the territories transcend the question of the possible outcome of Micronesian negotiations, and that, therefore, organization arrangements for administering the territories at the Washington level should proceed.

However, if, as hypothetically stated on page 7, it is decided to defer the decision on Micronesia, I recommend option 1, as described on page 8. The elevation of the status of the territorial function within the Department of Interior would enhance and strengthen the performance of that function. As an adjunct of this problem, I might add that so also would increased funding and staffing strengthen the function. On the basis of my observations over a period of several years, it has seemed to me that the function has been underfunded and understaffed. I would strongly oppose option 2. At least for the duration of the Trusteeship the administration of the Trust Territory Government will continue to be a very significant part of the total set of responsibilities relative to the Trust Territory. An interagency office, essentially constituting a committee of agencies, is not designed for effective administration. Similarly, I would oppose option 3.

If the decision is to proceed with the development of an organizational arrangement that will accommodate the prospective freely associated states, I recommend option 1, with a modification. As I stated below, at least in the pre-termination period, governmental administration is a significant part of the U.S. responsibilities for the Trust Territory and, therefore, this function should be continued in the Department of Interior, upgraded as recommended. However, matters relative to the relationships between the FAS and other governments, to the extent they are permitted during the pre-termination period, and other related questions, could very well be administered by the State Department and/or OMSN. As a practical matter, such a division of functions presently exists and seems to work relatively well, on the basis of coordination between the Office of the High Commissioner and Status Liaison Officer domiciled in Saipan at the territorial level, and at the inter-Departmental level, including OMSN,

at the Washington level. Option 3 could also be applied to this arrangement, modified to provide that Interior would continue responsibility for administrative affairs of the Trust Territory, together with its responsibilities for the other territories. I do not believe placing entire responsibility for the FAS in the State Department is desirable for the reason that the many comprehensive and serious responsibilities concerning administrative affairs would inevitably and unavoidably be neglected, with the primary attention being given to those types of matters for which State is normally responsible. My reasons for opposing options 4 and 5 are as stated above relative to the other options.

- Among the Federal agencies with interests in Micronesia, the Department of Interior seems the best suited to oversee the affairs of Micronesia during the remainder of the Trusteeship period. It has the management resources and experience in the administration of the Trust Territory. What probably is lacking within the present organizational arrangement is its inability to demonstrate effective coordination and control over the activities of other Federal agencies that impact on the administration of the Trust Territory. For example, DOI lacks the clout to control the inflow of HEW, HUD, DOD, etc., program activities in the Trust Territory, all of which have certain effects in the administration of the Territory.

The cause or causes of this deficiency, or lack of effective coordination and control of Federal activities in TTPI, might be attributable to the status, or lack of it, of DOTA as the operating arm of Undersecretary Joseph. To strengthen, not replace, this organizational arrangement is probably to elevate the status of OTA and the Director to an equivalent of a Deputy Assistant Secretary (e.g., DAS for Territorial Affairs), or higher if that is possible.

- The legitimate question now asked is whether a decision on organizational placement of responsibility for Micronesia should be deferred pending the outcome of negotiations? A most reasonable answer to be expected is a conditional NO. The TT Government is already in transition. And the same process, or at least planning process, should be initiated at this time where U.S. FAS organizational placement of responsibility is concerned.

It is suggested that the Department that should have the end responsibility for the three entities is the State Department. However, the actual assumption of the responsibility should not take place until after the negotiations and plans for transition from Interior to State have been finalized. Between now and then Interior would continue as the administering authority in the TT and would coordinate, assist and advocate the interests of the TT.

Question No. 5 - page three

One of the reasons for recommending the timing of actual transfer to be after negotiation is to avoid disruption of TT Government transition to the entities without compounding the process with transition of organizational placement of responsibility for Micronesia.

- Given the framework of political relationship contemplated in the proposed free association relationship between the United States Government and the various emerging entities in the TTPI, it will be logical that the Freely Associated States relate organizationally to the State Department rather than to the Department of Interior.

- Our option for Micronesia is that the State Department handle the FAS for reasons stated under "Organization Issues (Micronesia)" in the Report.

- During post-Trusteeship Micronesia and for as long as Federal assistance exists, there should be some form of Federal presence within the territories (of Micronesia, excluding the Northern Mariana Islands). The present setup should be reversed. The Office of Territorial Affairs (as it relates to the Trust Territories, excluding the Northern Mariana Islands) should be physically located within the Trust Territory with a branch office located within the Department of the Interior. This "Office of Territories" (or Office of Territorial Affairs) located within the Trust Territory should be in an excellent position to resolve any of the problems identified and defined under Question No. 4. I do not see this Micronesian office exercising any executive or administrative functions but serving only as a Federal presence or liaison with the Federal bureaucracy and the Constitutional Governments of Micronesia (excluding the Government of the Northern Mariana Islands).

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Question No. 6

With the elimination of appointed governors, is there a need for a Federal presence in the territories, beyond that provided by the Federal Comptroller?

- While the heading for this section of the Report includes the Trust Territory, it seems that the question, as stated, and the discussion which follows, applies only to the U.S. territories. Because of the responsibilities of the United States Government to the U.N. during the period of the Trusteeship, there is no question about the need for a Federal presence prior to the termination of the Trusteeship. Whether or not there is a Federal presence in the Trust Territory following termination of the Trusteeship would appear to depend upon the outcome of the negotiations between the parties.

If it was decided that a Federal presence was desired, I would recommend that it consist of a combination of options 2 and 4. Without question, it would be desirable to continue the presence of the United States Comptroller with the joint functions of providing technical assistance and audits. If, in addition, an office of Federal coordination could be established in the area, a much needed service could be provided to the new governments. Because of the fact that the United States Government offices would be serving the Freely Associated States, and not United States territories, the question of Federal control and other elements of the relationship would be even more sensitive than in the case of the U.S. Territories. Elements of this type would have to have been resolved in the status negotiations to the satisfaction of both parties.

- Complete self-government will not be achieved until after the termination of the Trusteeship. From the perception of the local government entities, the U.S. Comptroller is not perceived as a functioning political and administrative link with Washington -- a link indispensable in the USG/ local governments relationships during the transition to complete self-government after termination. The absence of Federal presence (at least for TTPI) can easily be mistaken for a "calculated abandonment" of the emerging Micronesian governments by the United States, which if viewed from the political standpoint might cause undesirable elements in the Status negotiations now in progress. Further, the United Nations Trusteeship Council might also frown upon such action as a symbol of insensitivity on the part of the Administering Authority over the people of the Trust Territory. There is more to lose than gain by subscribing to the suggestion embodied in the Question.

Question No. 6 - page two

- It would be our recommendation that the Federal Comptroller Office, under Option 4, continue its dual role of auditing and of providing technical assistance in the areas of financial management, to the territories, since a perennial need has existed in this subject area.

At the same time, in order to improve communications and awareness of territorial needs and problems, we would also support Option 3, the creation of policy representatives in the field. Significantly, it would improve responsiveness of U.S. Administration to territories, the lack of which has long been a source of irritation to the territories.

We do not believe the creation of offices of Federal coordination in the territories would be particularly effective or even well-received.

- As long as the United States Government maintains a relationship with the post-Trusteeship political entities and as long as those post-Trusteeship political entities receive Federal assistance - either direct or through specific Federal grants, there should exist "a Federal presence" within the 'old' Trust Territory (excluding the Northern Mariana Islands). This Federal presence should be affiliated with the Department of the Interior and should exist for as long as these territories (DMI, FSM, and Palau) continue in free association with the United States.