

CHAPTER 3**Investment Development Act****SECTIONS**

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§ 301. Title.

This chapter shall be known and referred to as the “Investment Development Act of 1988.”

Source: PL 5-122 § 1.

§ 302. Definitions.

For purposes of this chapter:

(1) “Board of Advisors” means the Board of Advisors for the Investment Development Fund established by section 313 of this chapter.

(2) “Development Bank” means the Federated States of Micronesia Development Bank established by section 101 of this title.

(3) “Federated Development Authority” means the Federated Development Authority created by section 321 of title 55 of this code.

(4) “Financing” means loans, loan guarantees, lease and sale-leaseback arrangements, and such other similar non-grant methods of financing as may be approved by the Federated Development Authority.

(5) “Fiscal Procedures Agreement” means the “Agreement Concerning Procedures for the Implementation of United States Economic Assistance, Programs and Services Provided in the Compact of Free Association Between the Government of the United States and the Government of the Federated States of Micronesia,” and any amendments to such Agreement.

(6) “Investment Development Fund” or “Fund” means the Investment Development Fund created by section 201 of this title.

(7) “Investment Development Fund Agreement” means the “Agreement Between the Government of the United States and the Government of the Federated States of Micronesia Regarding the Investment Development Fund of the Federated States of Micronesia Concluded Pursuant to Section 111(c) of United States Public Law 99-239,” and any amendments to such Agreement.

Source: PL 5-122 § 3, modified.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code. The Investment Development Act of 1988 is codified in chapter 3 of this title. Title 55 of this code is on Government Finance and Contracts.

§ 303. Administration of the Investment Development Fund.

(1) The Federated Development Authority shall be responsible for administering the Investment Development Fund subject to the advice and guidance of the Board of Advisors, in accordance with the provisions of this chapter and other applicable laws, the Investment Development Fund Agreement, and section 201 of this title.

(2) The Federated Development Authority shall have the power and authority to do all such things as may be necessary to administer the Investment Development Fund, including, but not limited to, establishing guidelines, policies, and procedures for administration of the Investment Development Fund; establishing general terms and conditions for financing of projects from the Fund, including qualifications for prospective borrowers and maximum and minimum loan amounts; establishing guidelines for applications; establishing application, loan guarantee, and other

fees and charges; and determining interest rates, repayment schedules, security requirements, and other specific terms and conditions for financings within the limits established by section 315 of this chapter; PROVIDED that, prior to establishing such guidelines, policies and procedures, and general terms and conditions, the Federated Development Authority shall afford the Board of Advisors and the Development Bank an adequate opportunity to comment on such matters; PROVIDED FURTHER, however, that no change in guidelines, policies, and procedures, and general terms and conditions, shall apply to any application for financing pending on the date the change is adopted, if the effect of applying it shall adversely affect, in a material way, the approval of the financing sought.

(3) The Federated Development Authority shall be responsible for:

(a) Approving financing for the projects submitted for funding pursuant to section 309 of this chapter;

(b) Approving the actions by the Development Bank taken pursuant to subsection (5) of this section as the Federated Development Authority deems appropriate.

(4) In exercising its authority under subsection (2) of this section, the Federated Development Authority shall request technical assistance from the Development Bank.

(5) The Development Bank, pursuant to the direction of the Federated Development Authority, shall be responsible for administering all loans, loan guarantees, lease and sale-leaseback arrangements, and other similar financings, including the maintenance of all files on such financings, the monitoring of the progress of projects funded from such financings, collecting any repayments of such financings (including resort to property hypothecated to secure payments due under a financing, or legal action to enforce payment obligations), and, only with specific approval from the Federated Development Authority on a case-by-case basis, renegotiating the terms of such financing. Except as otherwise provided in this chapter, the authority and responsibilities of the Development Bank, with respect to the administration of the Fund, shall be executed by the President of the Development Bank pursuant to the guidelines, policies, and procedures, and general terms and conditions, prescribed by the Federated Development Authority and this chapter, and the Board of Directors of the Development Bank shall have no authority or responsibility with respect to the administration of the Fund.

Source: PL 5-122 § 4.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code.

§ 304. Purposes and guidelines.

(1) Investment Development Fund moneys shall be used only:

(a) To finance projects which will:

(i) Have their operations located primarily within the Federated States of Micronesia;

(ii) Improve the balance of payments position of the Federated States of Micronesia;

(iii) Increase the value of visible and invisible exports or result in import substitution;

(iv) Demonstrably result in positive economic return; and

(v) Contribute to the furtherance of close economic and commercial relations between the United States of America and the Federated States of Micronesia, encourage the productive presence of

citizens and commercial enterprises of the United States in the Federated States of Micronesia or otherwise compensate the Federated States of Micronesia for the loss of the tax and trade incentives affected by Title IV of United States Public Law 99-239 as provided for in the Investment Development Fund Agreement and as further defined by the Federated Development Authority;

(b) To finance projects which will provide direct services to projects identified in paragraph (a) of this subsection and are in compliance with the conditions in subparagraphs (iv) and (v) of such paragraph; or

(c) For the expenses specified in section 314 of this chapter.

(2) The qualified recipients of financings from the Investment Development Fund are as follows:

(a) Private citizens of the Federated States of Micronesia and corporations with a minimum of 20 percent citizen ownership interest; and

(b) The National and State Governments of the Federated States of Micronesia and public corporations thereof; PROVIDED that, any project which involves direct participation by the National or State Governments of the Federated States of Micronesia, including public corporations thereof, shall include an evaluation by such government of the desirability of future divestiture of the project to the private sector and, if appropriate, identification of possible strategies and estimated timetables for accomplishing such divestiture.

Source: PL 5-122 § 5.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code. The statutory provisions on the Congress of the Federated States of Micronesia are found in title 3 of this code. The statutory provisions on the FSM Supreme Court and the Judiciary are found in title 4 of this code.

The website of the FSM National Government contains announcements, press releases, news, forms, and other information on the National Government at <http://fsmgov.org>.

The FSM Supreme Court website contains court decisions, rules, calendar, and other information of the court, the Constitution, the code of the Federated States of Micronesia, and other legal resource information at <http://www.fsmsupremecourt.org/>.

The official website of the Congress of the Federated States of Micronesia contains the public laws enacted by the Congress, sessions, committee hearings, rules, and other Congressional information at <http://www.fsmcongress.fm/>.

§ 305. Submission of project.

All projects submitted for financings from the State earmarked subaccounts in the Investment Development Fund shall be submitted by a State government or the National Government for review and approval. All projects shall be initially submitted to the Development Bank for review pursuant to section 306 of this chapter.

Source: PL 5-122 § 6.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code.

§ 306. Determination of completeness.

The Development Bank shall have up to 30 days to verify that the application is in conformance with the guidelines for applications established pursuant to section 303 of this chapter and shall, after 30 days or upon verifying that the application is complete, submit the proposal to the Board of Advisors and the Department of Resources and Development of the Federated States of Micronesia for review and comment pursuant to section 307 of this chapter.

Source: PL 5-122 § 7.

§ 307. Review and comment.

(1) The Board of Advisors and the Department of Resources and Development of the Federated States of Micronesia shall have up to 45 days from the time the application is transmitted from the Development Bank upon completion of the review required by section 306 of this chapter to review and comment upon such application. Any comments shall be submitted to the sponsoring State or National Government, the applicant, and whichever of the Development Bank or the Federated Development Authority has authority under this chapter to approve the financing sought by the applicant.

(2) For all projects to be funded from the private-sector reserve of the Fund created pursuant to section 316 of this chapter, the Development Bank shall have up to 60 days, calculated from the day the application is, or the last day the application should have been, submitted to the Board of Advisors and the Department of Resources and Development of the Federated States of Micronesia for review and comment, in which to approve or disapprove the application pursuant to section 310 of this chapter.

Source: PL 5-122 § 8.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code.

§ 308. State approval.

Upon the expiration of 45 days from the time an application for financing from funds in the State-earmarked subaccounts created pursuant to section 316 of this chapter is transmitted from the Development Bank to the Board of Advisors and the Department of Resources and Development of the Federated States of Micronesia or upon the receipt of all comments from the Board of Advisors, the Development Bank, and the Department of Resources and Development of the Federated States of Micronesia, whichever is first, the sponsoring State or National Government may submit the project to the Federated Development Authority for approval.

Source: PL 5-122 § 9.

§ 309. Federated Development Authority approval.

No financing shall be funded from the State-earmarked subaccounts created pursuant to section 316 of this chapter without written approval from the Federated Development Authority. In reviewing each application for financing, the Federated Development Authority shall consider the contents of the application and the comments, if any, of the sponsoring State, the Development Bank, the Board of Advisors and the Department of Resources and Development of the Federated States of Micronesia. If the Federated Development Authority denies the financing sought in an application, it may at the same time approve a lesser or alternative financing, or approve a financing upon condition that the project proposal be amended in some respect. The financing approval shall specify the type of financing approved, the rate of interest, if any, and the length of payment grace periods, if any, and the property to be hypothecated to secure repayment of the financing. In each case, the approval is conditioned upon the recipient's execution of definitive legal documentation of the financing, in form and substance acceptable to the Development Bank.

Source: PL 5-122 § 10.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code.

§ 310. Development Bank approval.

No financing shall be funded from the private-sector reserve created pursuant to section 316 of this chapter without the written approval of the President of the Development Bank or his designee. In reviewing each application for financing, the Development Bank shall consider the comments, if any, of the sponsoring State or National Government, the Board of Advisors and the Department of Resources and Development of the Federated States of Micronesia. If the Development Bank denies the financing sought in an application, it may at the same time approve a lesser or alternative financing, or approve a financing upon condition that the project proposal be amended in some respect. The financing approval shall specify the type of financing approved, the rate of interest, if any, and the length of payment grace periods, if any, and the property to be hypothecated to secure repayment of the financing. In each case, the approval is conditioned upon the recipient's execution of definitive legal documentation of the financing, in form and substance acceptable to the Development Bank.

Source: PL 5-122 § 11.

§ 311. Required permits.

Prior to approving any application for financing a project, in whole or in part, from the Investment Development Fund which will involve a financial interest or other participation by a person who is not a citizen of the Federated States of Micronesia or by a partnership, corporation, or other business entity in which any interest is owned by a person who is not a citizen of the Federated States of Micronesia, the Federated Development Authority or Development Bank, whichever has authority to approve the application, shall ascertain that such person or entity possesses all necessary business licenses and foreign investment permits; PROVIDED that, in appropriate circumstances, the Federated Development Authority or Development Bank, as the case may be, may approve the application with release of financing conditioned on issuance of the necessary licenses and permits; PROVIDED FURTHER, that any project financed through the Investment Development Fund must comply with the terms and conditions of all required licenses and permits.

Source: PL 5-122 § 12; PL 6-109 § 2.

§ 312. Determinations.

(1) In reviewing applications for projects to be financed, in whole or in part, from the State-earmarked subaccounts created pursuant to section 316 of this chapter of the Investment Development Fund, the Development Bank shall evaluate and comment upon the commercial feasibility of the project, the public infrastructure needs of the project and whether existing infrastructure is adequate or whether new or improved infrastructure has been committed to by the government, the qualifications and experience of the applicants with respect to managerial, technical, and marketing skills, the financial ability and past records of the applicants, and such other matters as it deems appropriate.

(2) In reviewing applications for projects to be financed, in whole or in part, through the Investment Development Fund, the Department of Resources and Development of the Federated States of Micronesia shall comment upon the criteria established in section 304 of this chapter, the consistency of the proposed project with overall development goals, policies, and strategies of the Federated States of Micronesia, on matters relating to the coordination of State development programs, commercial viability of the project, and on other matters of National significance.

(3) In reviewing applications for projects to be financed, in whole or in part, through the Investment Development Fund, the Board of Advisors may comment on any or all aspects of the proposal.

Source: PL 5-122 § 13.

§ 313. Board of Advisors for the Investment Development Fund.

(1) There is hereby established a Board of Advisors for the Investment Development Fund. The members of the Board of Advisors shall be appointed and serve in accordance with article III, paragraphs 2, 3, and 4 of the Investment Development Fund Agreement and section 207 of title 2 of this code, and amendments thereto. The Board shall have the powers, duties and responsibilities specified in article III, paragraphs 5, 6, 7, 8, 9, and 10 of the Investment Development Fund Agreement.

(2) Members of the Board of Advisors who are not officials or employees of the Government of the United States or of the National or State Governments of the Federated States of Micronesia shall be authorized a reasonable honorarium at the discretion of the Board of Advisors, not to exceed the rate of \$35 per day while on the business of the Board.

(3) The Department of Resources and Development of the Government of the Federated States of Micronesia, or any successor department or office as determined by the President, shall provide staff support and assistance to the Board of Advisors, to the extent feasible.

Source: PL 5-122 § 14, modified.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code. Section 207 of title 2 (Executive) of this code is on Appointment Authority.

§ 314. Expenses.

(1) Subject to the procedures specified in this section, Investment Development Fund moneys may be used to pay expenses of the Development Bank relating to administration of the Fund, the Board of Advisors, the study and reports required by section 319 of this chapter, and investment of the Fund, and may also be used to reimburse expenses incurred pursuant to subsection (6) of section 6 of Public Law No. 4-51, as amended by Public Law No. 4-88. Except as otherwise provided in subsection (2) of section 317 of this chapter, such expenses shall be assessed against the private-sector reserve created by section 316 of this chapter.

(2) No later than April 1 of the year preceding a given fiscal year, the Development Bank shall submit to the Federated Development Authority for approval a budget request for the Federated Development Authority may determine. The budget request shall be reviewed and approved by the Board of Directors of the Development Bank prior to its submission to the Federated Development Authority. In no event shall this budget request exceed \$130,000.

(3) No later than April 1 of the year preceding a given fiscal year, the Board of Advisors shall submit to the Federated Development Authority for approval a budget request for the upcoming fiscal year and budget projections for each of the two subsequent fiscal years. The budget request shall include estimates as to the costs of operations of the Board of Advisors, with such information and detail as the Federated Development Authority may determine.

(4) No later than April 1 of the year preceding a given fiscal year, the President of the Federated States of Micronesia shall submit to the Federated Development Authority for approval a budget request for the upcoming fiscal year and budget projections for each of the two subsequent fiscal years. The budget request shall include estimates as to the costs of the study and annual reports required by subsection (1) of section 319 of this chapter, with such information and detail as the Federated Development Authority may determine.

(5) Subject to such overall policies and limitations as may be established by the Federated Development Authority, expenses associated with the investment of Investment Development Fund moneys may be paid out of the Fund by the Development Bank without prior approval.

(6) The Federated Development Authority shall establish such reprogramming and other budgetary policies with respect to the funds referred to in subsections (2), (3), (4), and (5) of this section as it deems appropriate.

(7) Summary information on the budget requests or approved budgets provided for in subsections (2), (3), and (4) of this section shall be included in the annual budget submission required by section 103 of title 55 of this code.

Source: PL 5-122 § 15; PL 7-106 § 1, modified.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code. Section 103 of title 55 (Government Finance and Contracts) is on the Annual Budget.

§ 315. Limitations on terms of loans.

All loans made from the Investment Development Fund shall be at an interest rate of less than or equal to five percent, except that fundings funded from State-earmarked subaccounts created pursuant to section 316 of this chapter, may, at the election of the sponsoring State or National Government, be interest-free as long as the financing recipient is a government or public corporation, or a business association in which a government or public corporation has a

financial interest, and may have a grace period during which no interest or principal payments are required of not more than three years.

Source: PL 5-122 § 16.

§ 316. Allocations to the States; Private-sector reserve.

(1) With respect to the amounts to be provided pursuant to section 111(b)(1)(i) of United States Public Law 99-239 and article II, paragraphs 2(a) and (b) of the Investment Development Fund Agreement, \$3,000,000 shall be placed in subaccounts within the Fund for each of the States of Pohnpei and Truk, and \$2,000,000 shall be placed in subaccounts within the Fund for each of the States of Kosrae and Yap. The funds in the State-earmarked subaccounts shall be available only to qualified recipients whose application for financing is sponsored by the State from whose earmarked subaccount the financing shall be funded. An additional \$10,000,000 shall be placed in a private-sector reserve, which shall be available for financing to qualified recipients. State or National Governments are not qualified recipients of these funds with the exception that a joint venture in which a State or the National Government has an equity ownership shall be a qualified recipient of these funds. Public corporations shall be considered qualified recipients for these funds. These funds shall be available for projects whose total financing from the Fund shall equal or exceed \$300,000, or when the balance of the private-sector reserve should fall below \$300,000, a lesser amount. Any additional amounts provided by the United States shall be retained in the Fund and invested in accordance with section 317 of this chapter, but shall not be disbursed except when authorized by subsequent legislation.

(2) All repayments of principal and interest and penalties on loans made from a State's earmarked subaccount of the Fund and all cash assets recovered on such loans shall be credited to that State's earmarked subaccount. All other repayment of principal and interest and penalties, cash assets recovered, and other fees, charges, and penalties shall be credited to the private-sector reserve.

Source: PL 5-122 § 21; PL 6-109 § 3.

§ 317. Investment and drawdowns.

(1) Funds in the Investment Development Fund shall be invested at the discretion of the Development Bank; PROVIDED, however, that in no event shall funds in the Investment Development Fund be invested in securities of any kind other than short-term readily-marketable investment-grade nonconvertible bonds, guaranteed investment contracts issued by an insurance company with over \$1 billion in assets, or shares in a money-market open-ended mutual fund. For the purposes of this section, the purchase of one or more certificates of deposit issued by a bank, savings bank, or savings and loan association not insured by either the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC), or the purchase of one or more certificates of deposit issued by a federally-insured bank, savings bank, or savings and loan association such that after the purchase the total Fund deposits in that financial institution exceeds \$100,000, shall be deemed an investment in a security.

(2) The accounts and accounting records of the Investment Development Fund shall be established and maintained in such a manner that each State's earmarked subaccount and the private-sector reserve and the unallocated remainder under section 316 of this chapter will be credited with investment income earned on such allocation or reserve and will be assessed investment expenses related to such investment income earned. The Development Bank shall report on the status of such accounts on a monthly basis to the Federated Development Authority.

Source: PL 5-122 § 18.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code.

§ 318. Participation in projects by officials of the Federated Development Authority, FSM Development Bank, and the State Governments; Conflicts.

(1) The President of the Development Bank, the members of the Federated Development Authority, and any officer, employee, or agent of a State government who has official authority to approve or disapprove an application for that State's sponsorship of project financing from the Fund, shall not, during their term of such office or employment, or one year thereafter, have a personal equity or other financial interest in any project to be financed, in whole or in part, through the Fund. An equity or other financial interest of a spouse or minor child of a person, or of a corporation, partnership, trust, or other business association of which a person is a shareholder, partner, trustee, beneficiary, or principal, or of anyone with whom a person is negotiating for or has an arrangement for future employment, partnership, or other participation shall be deemed for the purposes of this subsection to be an equity or other financial interest of that person. The prohibition of this subsection applies irrespective of whether the person exercises authority with regard to any specific project. Any person who knowingly violates this subsection shall be answerable at law for any damages to the Fund occasioned thereby, and shall, upon conviction therefor, be fined not more than \$10,000 or be imprisoned for not more than two years, or both.

(2) Nothing contained in this section shall be construed as limiting the applicability of conflict of interest and other laws to members, alternates, officers, employees, agents or contractors of the Federated Development Authority or members, directors, officers, employees, agents or contractors of the Development Bank, and to this end such persons as well as members of the Board of Advisors shall be considered "public servants" within the meaning of subsection (11) of section 104 of title 11 of this code and "public officials" within the meaning of subsection (2) of section 1301 of title 11 of this code. In the event that any such person knows or has a reason to believe that he or she has a conflict of interest with respect to an application pending before the Federated Development Authority, the Development Bank, or the Board of Advisors, such person shall have an affirmative obligation to disclose such conflict of interest, whether or not such person personally and substantially participates in the consideration of such application.

(3) Section 112 of this title shall not apply to members of the Board of Directors of the Development Bank with respect to the Investment Development Fund moneys.

Source: PL 5-122 § 19.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code. Title 11 of this code is on Crimes.

§ 319. Study and reports on additional adverse impacts; Annual and quarterly reports.

(1) The Department of Resources and Development of the Government of the Federated States of Micronesia, or any successor department or office as determined by the President of the Federated States of Micronesia, shall, in cooperation with the Development Bank and other appropriate National and State Government agencies and in consultation with the Board of Advisors, conduct a continuous study and prepare an annual report on the overall financial and economic impacts on the Federated States of Micronesia resulting from the amendments to the Compact

of Free Association contained in title IV of United States Public Law 99-239. Such annual report shall be transmitted to the Federated Development Authority no later than January 15 of each year and shall cover the period between November 3, 1986 and September 30 of the fiscal year most recently completed. The President of the Federated States of Micronesia shall promptly transmit such annual reports to the Congress of the Federated States of Micronesia. The costs of conducting such study and preparing such annual reports shall be paid out of the Investment Development Fund created by section 201 of this title in accordance with section 314 of this chapter.

(2) The Development Bank shall prepare after each fiscal quarter a report on the status of the Investment Development Fund. Such reports shall include information on the financial status of each State's earmarked subaccount and the private-sector reserve under section 316 of this chapter. Such quarterly reports shall be transmitted to the Federated Development Authority no later than ten days after each fiscal quarter.

(3) The Development Bank shall, in cooperation with the appropriate officials and agencies of the Government of the Federated States of Micronesia and in consultation with the Board of Advisors, prepare an annual report on administration of the Investment Development Fund in the fiscal year most recently completed. Such annual reports shall include the information required by article IV, paragraph 1 of the Investment Development Fund Agreement and such other information as the Federated Development Authority deems appropriate, and shall be separate from the reports required by sections 114 and 119 of this title. Such annual report shall be transmitted to the Federated Development Authority and the Congress of the Federated States of Micronesia no later than January 15 of each year.

(4) The President of the Federated States of Micronesia, in preparing the annual reports required by section 211(c) of the Compact of Free Association and article III, paragraph 3 of the Fiscal Procedures Agreement, shall utilize, to the extent appropriate, information contained in the reports prepared pursuant to subsections (1) and (3) of this section, and shall consider the comments, if any, of the Federated Development Authority on such reports.

Source: PL 5-122 § 20.

Cross-reference: The statutory provisions on the President and the Executive are found in title 2 of this code. The statutory provisions on the FSM Congress are found in title 3 of this code.

The official website of the Congress of the Federated States of Micronesia contains the public laws enacted by the Congress, sessions, committee hearings, rules, and other Congressional information at <http://www.fsmcongress.fm/>.

§ 320. Financial Management.

The provisions of the Financial Management Act of 1979, as amended, 55 F.S.M.C. chapter 2, shall not apply to the funds appropriated by this Act, PROVIDED that this exemption shall apply only upon the Federated Development Authority's adoption of procedures for the accounting of such funds.

Source: PL 5-122 § 21; PL 6-21 § 1.

Cross-reference: Title 55 of this code is on Government Finance and Contracts.

Editor's note: PL No. 6-109 amends PL No. 5-122, section 1 (30 F.S.M.C. 122 — q.v.), to appropriate \$8 million from FY 91 to further capitalize the IDF; section 12 (corrects typographical error only) and section 17 (q.v.) to place the \$8 million in the private-sector reserve, to authorize public corporations to apply for private-sector reserve funds, to allow joint ventures in which the State or National Governments have equity interests to qualify for those funds, and reduce the minimum amount which may be loaned for each project.