

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2000-2002)**

**FEDERATED STATES OF MICRONESIA**

**December 1999**

## **CURRENCY EQUIVALENTS**

(as of 30 November 1999)

The Federated States of Micronesia uses the United States dollar as its currency.

## **ABBREVIATIONS**

ADB	-	Asian Development Bank
CG	-	Consultative Group
CNMI	-	Commonwealth of the Northern Mariana Islands
EMPAT	-	Economic Policy Reform and Management
FIAS	-	Foreign Investment Advisory Service
FSM	-	Federated States of Micronesia
GDP	-	Gross Domestic Product
OMIP	-	Operations and Maintenance Improvement Program
PDMC	-	Pacific Developing Member Country
PFTAC	-	Pacific Financial Technical Assistance Center
PITI	-	Pacific Islands Training Institute
POHQ	-	Pacific Operations Division
PPTA	-	Project Preparatory Technical Assistance
PRC	-	People's Republic of China
PRSP	-	Public Sector Reform Program
RETA	-	Regional Technical Assistance
SPPF	-	South Pacific Project Facility
SPREP	-	South Pacific Regional Environment Programme
SPRM	-	South Pacific Regional Mission
TA	-	Technical Assistance
UNDP	-	United Nations Development Programme
USA	-	United States of America

## **NOTES**

- (i) In this Report, "\$" refers to US dollars.
- (ii) The fiscal year (FY) of the Government ends on 30 September.

## FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank for Federated States of Micronesia covering the three-year period 2000-2002. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 1999, in close consultation with the Government of Federated States of Micronesia, and other stakeholders. The CAP was discussed with the Board of Directors in October 1999 and has been revised by the ADB to incorporate recent developments. The assistance plan described in the CAP is only indicative and may be revised to reflect future developments.

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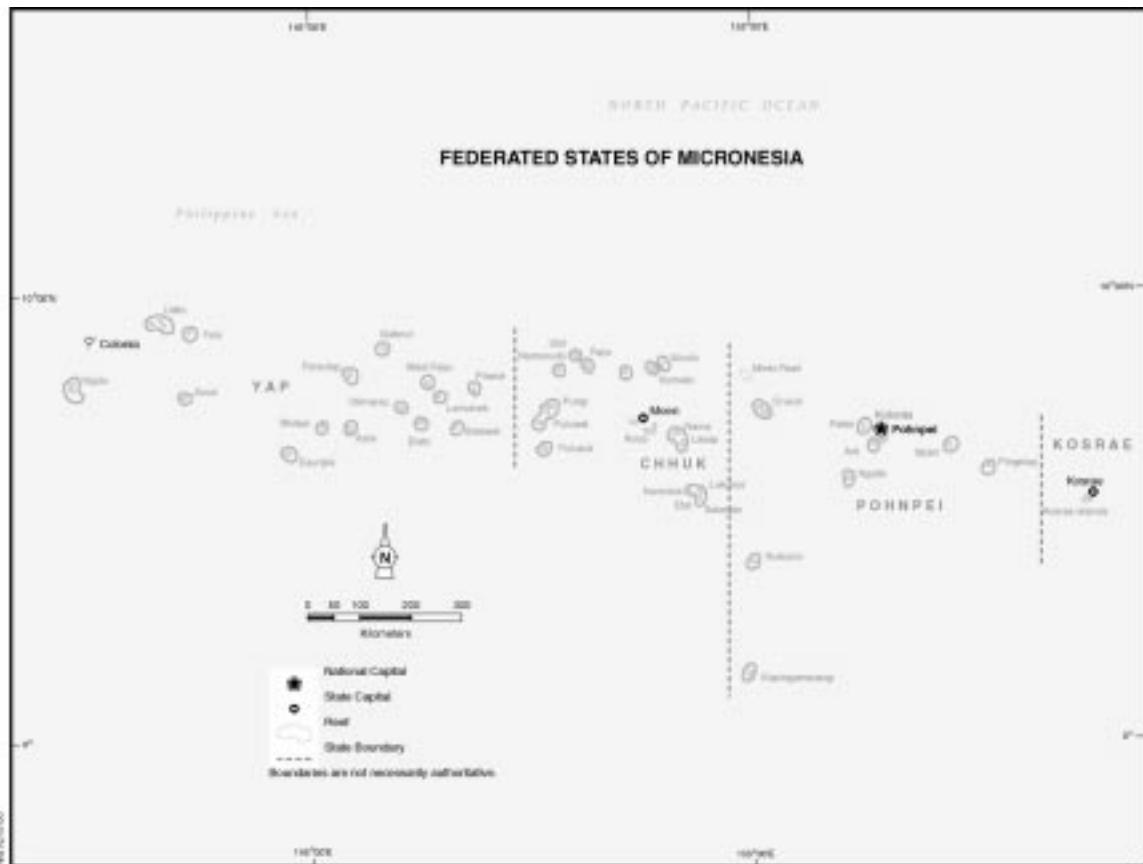
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## FEDERATED STATES OF MICRONESIA

### I. Country Performance Assessment

#### A. Economic Performance Assessment

1. Positive real per capita economic growth in the late 1980s has turned negative since 1992. Although growth has continued in some sectors in some years, this has largely been fuelled by government expenditure and has not been sustained. In 1996, the country experienced a further 20 percent reduction in revenues from the Compact<sup>1</sup> funding from the United States, as a result of the second step-down under the agreement. Since Compact revenues then accounted for 57 percent of consolidated government revenues and as the economy is so dependent on these revenues, reduced Compact funding has resulted in a corresponding depression of the economy. Real GDP fell by an estimated 3.1 percent in the fiscal year ending 30 September 1998, following a 4 percent fall in 1997 (Appendix 1, page 1). Public administration, which accounted for 42 percent of GDP in 1996, continued to contract under an Asian Development Bank (ADB) supported public sector reform program (PSRP) aimed at a medium-term restructuring of the economy.<sup>2</sup> The wholesale and retail trade sector, which accounted for 22 percent of GDP, was negatively affected by diminished public sector activity; and drought had a negative effect on agricultural output, which accounted for 17 percent of GDP. GNP exceeded GDP because of private remittances and fishing license fees.

2. Since the US dollar is the currency in circulation and over 70 percent of imports come from the United States, the inflation rate tracks the US rate. In 1998, it remained at 3 percent. Lending by the commercial banks contracted for the third year in succession, as civil servants' borrowing for consumption purposes and public enterprise commercial borrowing fell. Also reflecting the economic recession, imports continued the decline that began in 1995; but with exports stagnant, the merchandise trade deficit remained substantial at 24 percent of GDP. The current account deficit exclusive of official transfers improved slightly as a result of the small improvement in the trade balance and some growth in private remittances. As a percentage of GDP, it was -16.7 percent, compared with -17.7 percent in 1997. Official transfers turned this deficit into a current account surplus equivalent to 31.4 percent of GDP. An overall balance of payments surplus of 8 percent of GDP was recorded, compared with 3.5 percent in 1997. The financial holdings of the state and national governments, which serve as a measure of external reserves, increased to \$61.7 million, which was sufficient for almost nine months cover of imports at the much-reduced 1998 level. The external debt level at the end of 1997 was \$111.4 million, or 52.3 percent of GDP. Debt servicing absorbed 25.8 percent of exports of goods and non-factor services. The high level of debt and the dependence on official transfers underscore the vulnerability of the economy to external shocks and the need for major structural adjustment.

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<sup>1</sup> The Compact of Free Association (the Compact) between the FSM and the United States came into effect in 1986. Under the Compact, the FSM receives financial and technical assistance over a 15-year period until 2001.

<sup>2</sup> Loan 1520-FSM: *Public Sector Reform Program* approved on 29 April 1997 for \$17.9 million. The loan's second tranche has been fully disbursed in June 1999, and the Program is to be closed in 31 May 1999.

3. Projections of the consolidated general government accounts for 1998 showed a substantial increase in the current budget surplus to 11.3 percent of GDP, and an overall budget surplus of 0.7 percent. Exclusive of separation payments, the overall surplus rose to 9 percent of GDP. This represents an important step toward greater fiscal self-reliance, but further adjustments will be required. In 1998, domestic revenue of \$69 million still only accounted for 62 percent of current expenditure. Moreover, the consolidated accounts concealed variation in outcomes between the national and state governments. While the national and three state governments ran current and overall budget surpluses, Pohnpei ran deficits because of delays in raising taxes and relatively slow reduction in the wage bill, and confronted a potential liquidity crisis. The National Government has now brokered a program of assistance to the Government of Pohnpei State to improve the status and management of its finances.

4. FSM economy appears to have bottomed out in FY 99 growing by 0.3 percent. In spite of the preliminary encouraging sign, the country's medium-term economic outlook remains fragile due to likely further reductions in external grants made under the US Compact funding the first re-negotiation of which started on 3 November 1999. Reductions in external grants made under the Compact of Free Association with the United States demand further fiscal adjustments that will impact negatively, and relatively quickly, on living standards. Meanwhile, the private sector development that must be relied upon to generate employment and income will be slow in coming. If the growth of tourism and fisheries in the adjacent territories of Palau, Guam, and the Commonwealth of the Northern Mariana Islands (CNMI) and the large-scale foreign investments in fresh sashimi longline fishing in FSM in the early 1990s offer any indication of FSM's resource potential, then the country has considerable potential for resource investment and economic development. However, many of the conditions, which are essential for investment and economic growth, need to be addressed with increased vigor. FSM does not possess clear, predictable and secure access to land or other property rights. The country's institutions, systems and markets for private land, labor, and capital remain undeveloped. Without internal markets that can attract, utilize, and circulate these resources, any ADB or other donor-supplied capital, technology, and skills will be largely lost to FSM and exported to other growing economies. The country continues to lose some skilled labor overseas as Micronesians may readily migrate to the US under current US immigration laws. Substantial proportions of Commercial Bank deposits are also invested overseas.<sup>1</sup>

## **B. Assessment of Socio-Environmental Performance**

### **1. Poverty Issues**

5. The assertion that the Pacific is a region free of absolute or significant poverty where people live in subsistence affluence is being challenged despite the very little data on poverty for the Pacific islands. In FSM, of serious future concerns are the implications of population growth exceeding economic growth, and inequality of standard of living increasing between the population of outer islands<sup>2</sup> and migrants to Pohnpei and Chuuk.<sup>1</sup> Recent successive

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<sup>1</sup> The commercial banks report that domestic capital build up has worsened in recent years as a result of the further step-down in Compact payments.

<sup>2</sup> The population of the outer islands living on remote atolls far from the main islands, capitals, and urban centers of the four main islands comprise about 18,000 people, 17 per cent of FSM's total population. (FSM Population Profile, SPC, 1997)

economic contractions suggests that there will be a decline in the already low standards of education, health and law and order enforcement which will have a negative impact particularly on the outer-islanders and migrants in the main islands who are virtually landless. Lack of land affects well over half the population of the FSM. The Human Poverty Index of 26.7 indicates the fourth highest extent of poverty amongst PDMCs (Appendix 1, page 2).

6. Facing a step-down of US Compact funding, the continued reduction of government employment and expenditures took place through the ADB's PSRP. The PSRP provided a relatively extensive social safety net through an early retirement program with two-year- salary equivalent separation fees and training and counselling program. A tracer study for retirees under the PSRP will be conducted under the ongoing EMPAT II TA.<sup>2</sup>

## 2. Gender Issues

7. In FSM, women lag significantly behind males in almost every respect: proportionately fewer attend secondary school and college; they have a smaller share of the job market and are mainly employed in subordinate and lowly paid jobs,<sup>3</sup> and, if reproductive health is counted, they have more health problems than men. Furthermore, they are weakly organized and underrepresented in terms of a voice for women in policy-making at state and national levels.

8. The FSM Government recognizes the need to improve the status of women and to include women in the development policy-making process. This is reflected by the inclusion of women in the consideration of social and community services in the Second National Development Plan (1992-1996). An ADB funded Study<sup>4</sup> helped the Government identify the main gender policy objectives including: (i) strengthening women's participation in economic and social development, (ii) research and data collection on the status of women, (iii) improving maternal and child health and community services, (iv) improving rural and outer island water and sanitation, and (v) household food security. The Government will address gender issues in preparing its Strategic Policy Framework, new development strategy for FSM, at national and state levels.

## 3. Human Development

9. A decline in the fertility rate, though still relatively high, and the suppressed rate of infant mortality may indicate some future containment of the rate of population growth. However, while annual population growth rates are eased by emigration to Guam, the Commonwealth of the Northern Marianas (CNMI) and the US, the natural rate of population

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<sup>1</sup> In Pohnpei State, over 2,000 outer islanders have settled on the main island of Pohnpei, while 5,000 outer islanders have settled on the small island of Weno, the State capital of Chuuk. (Women in Development Study, Country Briefing Paper, ADB, April 1993)

<sup>2</sup> TA 3024-FSM: *Economic Policy Reform and Management* approved in June 1988 for \$3,876,000.

<sup>3</sup> Women spend roughly 53 per cent of their time in unpaid labor or subsistence work. In FSM unpaid work refers to child care, housekeeping, food preparation and production, farming and fishing, and assisting with the management and operation of family owned enterprises. The 47 per cent wage earners are employed by state and national governments and private companies. Of all the women who work, three quarters are in service delivery or support services, and less than 10 percent are in administration.(ADB,WID Report, 1993)

<sup>4</sup> *Women in Development: FSM*, April 1993.

increase averages between 2.3 and 2.5 percent, which is high. FSM also has one of the youngest populations in the Pacific with some 50 percent under 18 years' of age. This is a result of the high fertility rate on the one hand and the migration of adults on the other. Therefore, the age-dependency ratio is very high, placing a large burden on the working-age population for funding of government services. In the medium term, the working-age (15~64 years) population is expected to increase considerably, both in proportion and in absolute numbers. Given a low economic growth perspective, providing adequate education and training, as well as employment for the existing and growing labor force is a major concern.

10. Health expenditure as a proportion of GDP is low by regional standards. The FSM allocates less than 8 percent of GDP for health compared to 16 percent of GDP for education.<sup>1</sup> The incidence of some diseases has increased partly as a result of improper nutrition and there is also concern over the distribution of health services between both income groups and between islands. As with other PDMCs, a much larger proportion of government health expenditures support curative rather than preventive health care which is not considered to be sustainable. Inadequate management of the hospitals and dispensaries is a major impediment to improving the health care system.

11. Levels of adult literacy and primary and secondary school enrolments are high by regional standards, but there are concerns over the declining standards and quality of education. FSM is not producing the range of skills required by a modernizing economy. The country is also failing to produce the levels of school graduates that were achieved in previous generations. The ADB's 1995 human resource development study notes that the poor performance of the education system results from a lack of proper facilities, well trained teachers, planning, monitoring and, most importantly, management.

#### **4. Environment**

12. There are no reliable environmental indicators for FSM. However, major environmental issues have been assessed by the South Pacific Regional Environment Programme (SPREP), including climate change and sea level rise, increasing urban population concentrations, and poor solid waste management - including toxic and hazardous waste, overcultivation of sloping lands and soil erosion in the State of Pohnpei, destruction of reefs by dynamite fishing and cyanide poisoning in the case of Chuuk State, coastal pollution as a result of land reclamation, dredging and construction in all States, the poorly controlled entry of non-indigenous flora and fauna, and a lack of protection of the existing biodiversity.

13. Nationwide Environmental Management Strategy (NEMS) have been prepared by SPREP in 1993. NEMS set out four broad environmental objectives including (i) integrate environmental considerations in economic development; (ii) improve environmental awareness and education; (iii) manage and protect natural resources; and (iv) improve waste management and pollution control. The Government will review the current environment policies in preparing its forthcoming state and national Strategic Policy Framework and national economic summit.

#### **C. Governance: Sound Development Management**

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<sup>1</sup>

Asian Development Bank (1995) *Human Resource Development: Small Pacific Island Countries*. Pacific Studies Series.

14. The system of government is modelled on that of the United States. Each of the four States has a high degree of autonomy with its own constitution, compromising collective development objectives and consistent fiscal management. There are three layers of government with the legislative, executive, and judicial branches replicated at national and state levels. Traditional leaders in Pohnpei and Yap also continue to exert political influence. The current system of government may be considered to be overly excessive for a population of just over 100,000. The decision in January 1998 to reduce the National Government from 11 departments and offices to six is noteworthy and will hopefully lead to greater focus and prioritization of Government at the State level but this will need further encouragement.

15. Traditional island, family, and more private interests tend to prevail over public interest, constraining public as well as commercial accountability. The yielding of public interest applies to the unclear and unequal application of public laws and regulations, the poor accountability for public funds, the partial allocation of finance, business approvals and other rights and resources. As in other Pacific island countries, development opportunities and directions have tended to be a feature of government capture and control rather than the free domain of the people. Poor governance is a serious impediment to effective public resource allocation and to open and competitive investment, which could otherwise support greater economic activity. The Government has, however, shown a notably increased awareness and commitment towards better governance. This has been supported by the ADB-funded PSRP and complementary technical assistance. Formal public and private systems of accountability still require strengthening.

## **D. Implementation Assessment**

### **1. The Portfolio**

16. As of 31 December 1998, cumulative ADB lending to FSM consisted of three loan projects for a total of \$35.1 million. In addition, the ADB has provided twenty four TAs totalling \$16.25 million. Loans have been approved for a PSRP, water supply and sanitation, and fisheries development.<sup>1</sup>

17. Technical Assistance (TA) grants have included six project preparatory TAs of which only two have so far led to the approval of a loan. TAs to date have covered mainly economic policy and planning, natural resource development, and support to the finance and industry sectors. Of these, TAs for policy and economic advisory services account for 62 percent of TA funds and natural resource development TAs for 29 percent. This reflects the ADB's regional and country strategy focus on governance and capacity building.

18. As of 31 May 1999, there are a total of six ongoing TA projects amounting to \$9.76 million. Of these, two TAs are close to completion with the submission of draft final reports.<sup>2</sup> The other four ongoing TAs cover economic policy advise, fiscal and budget management, fisheries sector management, and improved economic use of land.

<sup>1</sup> Loan 1520-FSM: *Public Sector Reform Program* for \$17.9 million was approved in June 1997, Loan 1459-FSM: *Water Supply and Sanitation Project* for \$10.2 million in September 1996, and Loan 1257-FSM: *Fishery Development Project* for \$ 6.4 million approved in October 1993.

<sup>2</sup> These include TA 2294-FSM: *Economic Policy Reform and Management (EMPAT I)* and TA 2786-FSM: *Investment Promotion and Financial Sector Review*.

## 2. Issues in Project Implementation

19. In June 1999, the final second tranche drawdown for the PSRP<sup>1</sup> was disbursed as Chuuk and Pohnpei state governments have met the required conditions by passing the foreign investment law and other legislation. The ADB's other two ongoing loan projects<sup>2</sup> have experienced delays in implementation and a mixed performance to date. The lessons learned are: (i) ADB's project needs to be based on the individual state needs and (ii) ongoing economic reforms to create a more business friendly environment should precede or at least coincide with, the ADB's investment in revenue generating sector. (See Appendix 2 for implementation, disbursement performance and post-evaluation results).

20. The work program of TA 3024-FSM: *Economic Policy Reform and Management (EMPAT II)*<sup>3</sup> was prioritized to focus more on capacity building and state needs on strategic policy formulation and government restructuring. The two other ongoing TA projects<sup>4</sup> (TAs 2758-FSM and 2983-FSM) will complement ongoing economic reforms in the area of budget reform and land market creation. The latter TA is expected to provide significant input to the proposed private sector development project in 2001.

### II. Country Operational Strategy

21. The ADB's strategy in FSM reflects the government's own development strategy aimed at implementing the economic reforms presented to the Consultative Group (CG) Meeting in Tokyo in January 1998.<sup>5</sup> This includes two major complementary initiatives:

- (i) invigoration of domestic markets for land and labor and the securing of property rights and business rights in support of more open and competitive private sector investment and economic growth; and
- (ii) further prioritization of public sector activities and improved public and private sector accountability to complement a more open and competitive private sector.

22. The ADB financed PSRP has succeeded in bringing about required fiscal adjustments in all five governments.<sup>6</sup> FSM is continuing to downsize government, restructure the economy, and pursue other public sector and economic reforms. The renegotiations of the current Compact agreement with the US is likely to lead to a further decline in government revenues

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<sup>1</sup> Loan 1520-FSM: *Public Sector Reform Program* for \$17.9 million was approved in June 1997.

<sup>2</sup> Loan 1459-FSM: *Water Supply and Sanitation Project* for \$10.2 million in September 1996 and Loan 1257-FSM: *Fishery Development Project* for \$ 6.4million approved in October 1993.

<sup>3</sup> Approved in June 1998 for \$ 3.876,000.

<sup>4</sup> TA 2758-FSM: *Improved Economic Use of Land* and TA 2983-FSM: *Performance Based Public Resource Allocation*.

<sup>5</sup> FSM Report to the Consultative Group of Donors: "Adjusting Toward a Private Sector-Led Economy." Prepared for: The Third Consultative Group Meeting. Tokyo, Japan, 26 January 1998. Prepared by: The Government of the Federated States of Micronesia.

<sup>6</sup> Interdepartmental Task Group reviewed the Public Sector Reform Program (PSRP) in February 1999 and confirmed successful fiscal adjustments achieved under PSRP in FSM.

and contraction of the economy. Whatever the result the Compact renegotiations, FSM will have to stay the course of the reforms aimed at improving the performance of the public sector and, equally important, developing the private sector. The national and state governments are working on a comprehensive development strategy which will enable the FSM economy to develop in a more sustainable way with less reliance on external assistance. This needs to be based on a broad consensus of the population and should start its implementation before the end of the current Compact.

23. A second national economic summit was held in Pohnpei from 13 to 17 September 1999.<sup>1</sup> The Summit updated the national development strategy including sectoral policy frameworks. At the Summit it was widely acknowledged that future progress in reducing the dominance of government in the economy and adjusting to any reduced Compact transfers should be achieved by economic growth in the private sector rather than further large-scale reductions in Government. The Summit therefore identified private sector development as the overarching strategic objective for economic development. Private sector led growth, particularly in the productive sectors (fishery, agriculture, and tourism), will be critical for providing alternative sources of foreign exchange to reduce the country's dependence on external assistance as well as to generate employment for a rapidly growing population. Following the Summit, the fourth CG Meeting will be held in February 2000 to present and confirm its development strategies to the donors' community.

24. The ADB's strategy and program continues to focus on policy and institutional reform, sound macroeconomic policies, and improved performance of both national and state governments. Basic health and education as priority public services will also be reinforced in support of developing human resources and alleviating poverty. At the same time a more conducive environment for private sector development will be promoted through more transparent and predictable regulations, and practices in support of business, particularly with regard to better use of land and labor.

25. To more effectively implement the ADB's strategy in FSM, more emphasis will be put on individual states' needs, and stronger linkages will be established with the states' performance, including their commitment to reform and related policy dialogue under proposed ADB interventions. This approach will be applied to future country programming as well as to future individual project designs. The need to maintain equity between the four states in terms of ADB assistance will, however, also be kept in mind. Both the national and state governments fully support such an increased focus on specific state operations and requirements.

### **III. Sector Strategies**

#### **A. Infrastructure**

26. The FSM country assistance program has developed from one that previously emphasized sector specific lending to a program that is focused on the policies and institutions required for further economic restructuring and the liberalization of factor markets in support of investment and growth. Direct assistance to physical infrastructure does, therefore, not feature prominently in the FSM CAP. Current priorities acknowledge the extent of existing infrastructure and the lack of adequate public asset management and maintenance.

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<sup>1</sup> The first FSM Economic Summit was held in Pohnpei in November 1995

27. The ADB will continue to monitor the progress of reforms in the public sector and factor market liberalization which will improve governance and institutional capacity, including for sound management of public assets and the promotion of a business friendly environment. Subject to further implementation of fundamental macro-economic and institutional reforms, the ADB may provide more attention to direct assistance for physical infrastructure development over the medium term.

## **B. Social Infrastructure**

28. A general decline of human development status is a concern in FSM. The state and national governments are preparing their SPF under the ADB's ongoing EMPAT II TA through which updated social sector policies will be established. These new social sector policies will be further discussed at the state and national economic summits with a wide participation of beneficiary groups and stakeholders. These initiatives are also welcomed as the FSM government is entering into the re-negotiations of US Compact Agreement, on which most health and education expenditures are reliant.

29. To support the introduction of these new policies, a policy-based loan for "Basic Social Services," is programmed in 2000. The proposed program will underpin essential, social sector government finances. It will be particularly relevant to the proposed state focused approach because the FSM constitution gives responsibility for the provision of all education and health service delivery to the state governments. A sector study on human resource development for updating key social indicators and identifying sector policy and management issues will be implemented in 1999. This economic sector work will be followed by program preparatory TA in 2000.

## **C. Environment**

30. An ongoing TA for better management of fishery resources will help improve environment conservation and management in the marine sector. More secure title and economic use of land under the proposed private sector development program in 2001 should also support improved preservation and management of the environment.

## **D. Governance Dimensions of Asian Development Bank Operations**

31. FSM's extensive and complex system of government can be further rationalized and prioritized with ADB assistance through the strategic application of performance budgeting. The political capture of resources and investment opportunities is a far more complex and pervasive issue which will take time and a concerted effort to resolve. This is why the ADB program in FSM places a major emphasis on governance issues as they relate to the application of the law, the pursuit of a balanced regulatory environment, ensuring improved basic social services for all in society, corporate governance, and the rights and responsibilities of all members of civil society.

32. Restoring the quality of education, health and other social services will be addressed through the prioritization of government activities and securing government revenues in support of such services through the establishment of a Trust Fund under the proposed Basic Social Services Program. Successful implementation of community-based elementary schools

in Yap and further communities' participation in dispensary management in Yap and Pohnpei would be a useful model to enhance the management of their basic social services.

33. Under the regional and country operational strategy, most TAs for the period of 2000~2002 are concentrated on capacity building encompassing economic policy management, budget management, privatization and legal staff training. Particularly, a TA for strengthening state governments is programmed in 2001. A law and governance TA program phased over three years, will commence in 2000 to improve the legal capacity of the states and national government and legislatures, and ameliorate the regulatory environment for private sector development. Another three-year phased TA program for privatization and corporate governance will contribute to more efficient public services and the withdrawal of government from commercial activities. The ADB will also support the strengthening of the capacity of national audit and judiciary staff through its regional technical assistance program.

#### **E. Gender Dimensions of Asian Development Bank Operations**

34. Through a social sector Trust Fund structure to be established under the proposed Basic Social Services Program loan, a built-in performance monitoring mechanism on social services will ensure due attention to the needs of women and the poor. Improved governance underpinned by the ADB's TA program particularly in the area of economic policy and financial management and basic health and education services will ensure equal opportunity of gender to public services and private sector activities.

#### **F. Private Sector Operations**

35. In FSM, pressures to create more jobs and business opportunities in the private sector stem from: (i) the decline of the public sector leaving many retiring employees searching for jobs in the private sector, (ii) the decline in household income mainly due to the decreasing external assistance resulting in more demand for formal and informal employment, and (iii) continuing population growth and youthful demographic pattern resulting in a continuously high demand for job opportunities. Private sector-led economic development is a major strategic objective of the country assistance plan. Key policy issues in support of the strategy are the liberalization of factor markets including the removal of restrictive trade and investment practices.

36. A three year phased *Public Enterprise Privatization and Corporate Governance* TA coupled with a proposed *Private Sector Development Program* in 2001 in support of small and medium business development through enhancing factor market management and creating a conducive policy and regulatory environment will assist the Government in achieving this objective. FSM is also considering a Private Investment Symposium in 2000. The symposium aims at brokering specific domestic and foreign ventures based on the recommendations of the ADB sponsored second Banking and Private Sector Development Symposium (October 1998). The ADB will support the Symposium through the ongoing EMPAT II TA and the proposed privatization TA with possible inputs from a proposed regional technical assistance (RETA) for Financial Sector Study in Selected PDMCs. The ADB funded regional agencies including Kula Fund, South Pacific Project Facility (SPPF), and Foreign Investment Advisory Service (FIAS) will also participate in the symposium.

37. The TA program for law and development and basic skills development (2001) will also contribute to creating a conducive environment of private sector development.

#### **IV. Regional Economic Cooperation**

38. The Forum Secretariat indicated its willingness to cooperate with the ADB in social sector policy development in health, education and the social impacts of economic reform. A close interaction with the Forum in the sector would also facilitate the proposed Basic Social Services program. Kula Fund, SPPF and FIAS will contribute to the Government's private sector development initiative. Pacific Financial Technical Assistance Centre (PFTAC) will continue to provide short-term advisory and training inputs for strengthening the government capacities in the areas of statistics, tax, banking, and public expenditures management. This will complement the ongoing EMPAT II TA and the proposed statistics TA.

39. An ongoing RETA (RETA 5830) for long-term regional training program for members of the South Pacific Association of Supreme Audit Institutions will contribute to strengthening FSM's audit capacity. Another proposed regional TA will conduct the review of the financial sector in FSM, with focus on government-owned development financial institutions and commercial banks. A proposed RETA for Judicial Training cofinanced with UNDP is also expected to contribute to enhancing FSM's capacity in the sector. Finally, the ongoing RETA for the Development of an International Fisheries Agreement in the Conservation and Management of Tuna (RETA 5813) is particularly relevant to FSM which possesses major offshore, deep sea marine resources (a major source of foreign exchange), as well as inshore or near shore fisheries which are probably the most important natural resource to local communities.

#### **V. Donor Activities and Aid Coordination**

40. The major program of external assistance to FSM remains the Compact of Free Association with the Government of the USA. Annual grants of \$60 million for the first five years (1986/87 to 1990/1991) were reduced to \$51 million for the next five years and to \$40 million for the final five years. The Compact Agreement is to be renegotiated with the US starting late 1999. A wide range of Federal and non-Federal US services and programs of assistance are also available to the governments and to other organizations in the FSM. The US Pacific Islands Training Institute (PITI) also finances the training of accountants and auditors, which will also complement ADB-funded activities. The overall external assistance to FSM is shown in Appendix 3.

41. Japan is the second largest donor to FSM supplying annual grants of some \$10 million, mainly linked to fisheries agreements. These grants are provided to the four States basically on an annual rotation and have commonly financed the construction of government-owned wharves, port and fisheries infrastructure, and small solar power projects in the outer islands. Japan also provides an annual sum of up to \$1 million for small-scale fisheries projects, and it funds a regional program to repair earlier Japan-funded equipment.

42. Australia provided approximately \$1.3 million equivalent in aid to FSM in 1998-1999 mainly for education and training, and health. Technical advisors to strengthen fisheries monitoring and surveillance in support of the FSM sea patrol program are also funded under

Australia's Defense Cooperation Program. Australia's regional Policy and Management Reform Fund also supplies advisory technical assistance complementary to the ADB's program. Particularly, assistance for health care policy design and health care financing will contribute to the formulation of state and national health strategy plans to be included in the new Government's Strategic Policy Framework.

43. In addition to its annual Article IV consultations, the International Monetary Fund has given technical assistance in support of ADB-sponsored reforms, mostly in the fiscal area. The World Bank has mounted only a very limited program of assistance in recent years with its bi-annual preparation of a regional report and occasional TA, including advice on fisheries privatization. At Tokyo CG, the World Bank indicated that it could now offer assistance to FSM in Information Technology and in Education. No concrete assistance has, however, materialized to date.

44. The United Nations Development Programme (UNDP) previously financed UN volunteer economists and associate experts in economic planning, and two new UNDP funded economists are to be recruited to assist the governments of the two most populous states of Chuuk and Pohnpei. This complements the work of TA 3024 (EMPAT II). The UNDP also finances the Micronesian Entrepreneur Development Center project which has successfully helped mitigate the impact of the early retirement schemes under the PSRP. Regional UNDP public sector reform and governance programs also include FSM.

45. The People's Republic of China (PRC) provides small grants, concentrated in the fisheries, health, and education sectors. PRC offers two scholarships each year to FSM for higher education or technical training in the PRC and soft loans for construction projects.

46. Main aid coordination area over the next few years include the health and education sectors under the proposed "Basic Social Services Program" in 2000. Capacity building in core areas of tax, audit, legal sector, and statistics will need continued efforts for aid coordination. The fourth CG Meeting in October 1999 will be instrumental in recognizing the Government's future development strategies and facilitating the effective aid coordination for FSM.

## **VI. Cofinancing and Catalyzing External Resources**

47. Main opportunity for loan cofinancing over the current operational cycle will be explored for the proposed Basic Social Services Program. The enhanced sector policies to be developed under the program together with the establishment of a well managed dedicated Trust Fund should provide sound and sustainable framework for contributions by other donors to the social sectors through the proposed Trust Fund.

## **VII. Asian Development Bank's Operational Program**

48. Over the 2000-2002 period, proposed ADB lending to FSM amounts to about \$27 million for two loans, both on ADF terms. Such lending levels are considered appropriate as: (i) the last ADB loan to FSM was approved in 1997; (ii) FSM's economic reform performance deserves continued ADB lending assistance; and (iii) both proposed lending interventions are not expected to unduly strain the country's absorptive capacity. Use of ADF resources for these two loans is considered fully appropriate given FSM current severe economic difficulties brought about by a massive public sector restructuring program and significant reductions in

Compact funding. The social sector nature of the proposed Basic Social Services Program would also justify ADF terms.

49. The TA program will underpin the two main thrusts of the country program, namely continue to enhance public sector performance and create a more conducive environment for private sector development. TAs for the first component will emphasize areas of state governments' capacity building and budget management. TAs for the second component will stress areas of law and development, privatization, and skills development.

50. The proposed loan and TA program over the 2000 – 2002 period is listed in Appendix 4. Appendix 5 shows proposed lending by type and sector. A project profile for the 2000 loan is in Appendix 6.

**Table 1: Lending and Technical Assistance Program, 2000-2002**

A. Public Sector Lending Program

	1998 (Actual)		1999		2000		2001		2002	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program <sup>a</sup>	-	-	-	-	1	12.0	-	-	-	-
ADF	-	-	-	-	1	12.0	-	-	-	-
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline <sup>b</sup>	-	-	-	-	1	15.0	1	15.0	-	-
ADF	-	-	-	-	1	15.0	1	15.0	-	-
OCR	-	-	-	-	-	-	-	-	-	-

B. Technical Assistance Program

	1998 (Actual)		1999		2000		2001		2002	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program <sup>a</sup>	2	4,864.0	5	1,400.0	5	1,700.0	-	-	-	-
TA Pipeline <sup>b</sup>	-	-	-	-	-	-	4	2,100.0	1	400.0

<sup>a</sup> The Program is comprised of the firm projects.

<sup>b</sup> The pipeline consists of the Program (firm projects) and standby projects. In 2001 and 2002, there is no distinction between firm and standby.

### VIII. Economic and Sector Work Program

51. The ADB has produced a Human Resource Development (HRD) Study for PDMCs in 1995. An HRD study for FSM was also conducted under the Study. Through the 1996 PIER for FSM, a complementary study on the education sector was also carried out. Despite the fact that a general decline of human development status has been observed in FSM, there is however no updated and reliable sector analyses in health and education sector since the ADB financed studies. To update and broaden the picture, the Government supported the preparation of a comprehensive sector study on human resource development. A Small Scale Technical Assistance (SSTA) was included in the 1999 program to this end.<sup>1</sup>

52. The newly established National Statistics Office (NSO) is not yet in a position to establish a basic compilation system for social indicators.<sup>2</sup> The need to enhance the institutional capacity of maintaining up-to-date social statistics should be addressed as the FSM government is entering into the re-negotiations of the US Compact Agreement, on which

<sup>1</sup> TA 3195 approved on 14 May 1999.

<sup>2</sup> A TA for strengthening the National Statistics Office will be implemented in 1999, which will focus on the real sector related statistics. Possible IMF's assistance to complement the TA project will cover government finance and banking sector.

most health and education expenditures are reliant. Accordingly, a TA for strengthening the national statistical system was approved in 1999 and will be implemented over the current operational cycle. Finally, preparation of a new PIER for FSM will be carried out during the program period.

## **IX. Local Cost Financing**

53. Due to severe budgetary constraints and economic contraction, FSM is not in the same position to finance local costs as it would have been earlier in its period of significant Compact funding. The FSM and states governments, nevertheless, continue to finance portions of local costs for advisors and other externally funded priority programs. Under the ongoing comprehensive reform program, domestic resource mobilization measures, improved public expenditure management, and other fiscal reforms are being introduced on a priority basis. Over the medium to long term these efforts (together with resumption of economic growth) should improve the currently very tight budgetary situation and allow for a gradual increase in local cost financing by the Government. In the meantime, and given the Government's credible efforts to restructure the economy, the ADB should give due consideration to appropriate levels of local cost financing of its lending program in FSM.

**FEDERATED STATES OF MICRONESIA  
COUNTRY PERFORMANCE INDICATORS**

Item	1994	1995	1996	1997	1998	1999 <sup>a</sup>
<b>ECONOMIC INDICATORS</b>						
<b>A. Income and Growth</b>						
1. GDP per Capita (US dollars, current)	1,921	1,925	1,913	1,813	1,734	...
2. GDP Growth (% in constant prices)	-1.8	1.6	0.7	-4.0	-3.1	...
Agriculture	...	...	...	...	...	...
Industry	...	...	...	...	...	...
Services	...	...	...	...	...	...
<b>B. Saving and Investment (current market prices)</b>						
1. Gross Domestic Investment	...	...	...	...	...	...
2. Gross National Saving	...	...	...	...	...	...
<b>C. Money and Inflation</b>						
1. Consumer Prices [annual average (%)]	4.0	4.0	4.0	3.0	3.0	...
2. Broad Money (M2)	...	...	...	...	...	...
<b>D. Government Finance (FY end 30 Sept.) (US\$)</b>						
1. Revenue	166.2	172.5	178.3	157.3	161.0	...
(Less Grants)	(60.5)	(60.2)	(68.4)	(65.8)	(68.8)	...
2. Expenditure	167.3	169.1	163.5	154.2	160.3	...
3. Overall Surplus/Deficit (-)	-1.1	3.4	14.8	3.1	0.7	...
(Less Grants)	(-54.8)	(-52.9)	(-44.2)	(-41.5)	(-43.0)	...
<b>E. Balance of Payments (FY end 30 Sept.)</b>						
1. Merchandise Trade Balance (% of GDP)	-48.0	-36.7	-27.4	-24.4	-24.0	...
2. Current Account Balance less official transfer (% of GDP)	-53.2	-36.1	-20.9	-20.5	-17.2	...
3. Export (\$) growth (annual percent change)	135.9	-26.1	-34.7	3.1	-3.0	...
4. Import (\$) growth (annual percent change)	16.6	-22.2	-26.8	-7.2	-2.4	...
<b>F. External Payments Indicators</b>						
1. International Reserves (B\$) (end of period)	...	...	...	...	...	...
- months of imports	...	...	...	...	...	...
2. External Debt Service (% of exports of goods & services)	18.8	21.4	25.3	25.8	26.8	...
3. External Debt (% of GDP)	62.0	54.0	44.0	43.0	43.0	...
<b>Memorandum Items:</b>						
GDP (current prices, US\$Mn)	194.9	205.8	215.5	213.0	212.7	...
Exchange Rate (N.C.U. per US\$, annual average)	1.0	1.0	1.0	1.0	1.0	...

<sup>a</sup> EstimateS

Source: IMF, International Financial Statistics and Government Estimates

**FEDERATED STATES OF MICRONESIA  
COUNTRY PERFORMANCE INDICATORS**

	1985	1990	1998	
<b>POPULATION INDICATORS</b>				
Total Population (thousands)	73.2 <sup>c</sup>	95.7 <sup>a</sup>	114.1	
Annual Population Growth Rate (% change)	2.3 <sup>c</sup>	0.10	2.10	(1990 - 1998)
<b>SOCIAL INDICATORS</b>				
Total Fertility Rate (births per woman)	7.4 <sup>a</sup>	...	5.0 <sup>a</sup>	...
Maternal Mortality Rate (per hundred thousand live births)	...	...	561.0	...
Infant Mortality Rate (below 1 year; per '000 live births)	48 <sup>c</sup>	46 <sup>a</sup>	46	...
Life Expectancy at Birth (years)	65 <sup>a</sup>	65 <sup>a</sup>	66	...
Female	...	...	67 <sup>c</sup>	...
Male	...	...	64 <sup>c</sup>	...
Adult Literacy (%)	89 <sup>a</sup>	...	71 <sup>a</sup>	...
Primary School Enrollment (% of school age population)	...	...	83 <sup>a</sup>	...
Female	...	...	83 <sup>a</sup>	...
Secondary School Enrollment (% of school age population)	...	...	44 <sup>a</sup>	...
Female	...	...	43 <sup>a</sup>	...
Child Malnutrition (% of under age 5 underweight)	...	...	15	...
Population Below Poverty Line (%)	...	...	...	...
Income Ratio of Highest 20% to Lowest 20%	...	...	...	...
Population with Access to Safe Water (%)	90	...	44	...
Population with Access to Sanitation (%)	8	...	51 <sup>a</sup>	...
Public Education Expenditure as % of GNP	...	6.9 <sup>b</sup>	0.4	...
Public Health Expenditure as % of GDP	...	8.3 <sup>b</sup>	n.a.	...
Human Development Index	...	...	0.569	...
Human Development Global Ranking	...	...	120	...
Human Poverty Index	...	...	26.7	...
<b>ENVIRONMENTAL INDICATORS</b>				
<b>Forestry</b>				
Deforestation	...	...	...	...
Total Area	...	...	...	...
Annual deforestation	...	...	...	...
<b>Biodiversity</b>				
Nationally protected area	...	...	...	...
Area	...	...	...	...
Number	...	...	...	...
As % of land area	...	...	...	...
Biosphere reserves	...	...	...	...
Area	...	...	...	...
Number	...	...	...	...
World Heritage sites (number)	...	...	...	...
Wetlands of international importance	...	...	...	...
Area	...	...	...	...
Number	...	...	...	...
<b>Land Use</b>				
Cropland; permanent pasture	...	...	...	...
<b>Air Pollution (Ambient concentrations)</b>				
Particulates	...	...	...	...
SO <sub>2</sub>	...	...	...	...
<b>Water Pollution (concentration of pollutants in water bodies)</b>				
Biochemical Oxygen Demand (BOD)	...	...	...	...
Chemical Oxygen Demand (COD)	...	...	...	...
<b>Global Environmental Problems</b>				
CO <sub>2</sub> emissions (total and per capita)	...	...	...	...

**FEDERATED STATES OF MICRONESIA  
PORTFOLIO PERFORMANCE**

**Table 1 : Implementation, Disbursement Performance and Postevaluation Results  
Public Sector Projects only  
(as of 31 December 1998)**

A. Project Portfolio <sup>a</sup>	Net Loan Amount \$ million      %		Rating (No.) <sup>a</sup>									
			Total		Implementation Progress				Development Objectives			
			No.	%	HS	S	PS	U	HS	S	PS	U
Agriculture and Natural Resources	6.43	18.7	1	33.3	-	-	-	1	-	1	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-
Finance	17.86	51.8	1	33.3	-	1	-	-	-	1	-	-
Transport and Communications	-	-	-	-	-	-	-	-	-	-	-	-
Social Infrastructure	10.16	29.5	1	33.3	-	-	-	1	-	1	-	-
<b>Total</b>	<b>34.45</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)		34.45	34.45
(2) Disbursed amount (\$ mn, cumulative, active loans only)		18.01	18.01
(3) Percentage disbursed [(2)/(1)] (%)		52.00	52.00
(4) Disbursements (\$mn, active loans only, latest year)		6.25	6.25
(5) Disbursement ratio (%) <sup>c</sup>		29.00	29.00

C. Net Transfer of Resources <sup>d</sup> (\$ million)	OCR	ADF	Total
Net transfer in 1995		0.34	0.34
Net transfer in 1996		0.11	0.11
Net transfer in 1997		11.31	11.31
Net transfer in 1998		6.15	6.15

D. Post-Evaluated Projects	1968 - 1977		1978 - 1987		1988 - 1998		1968 - 1998			
	No.	%	No.	%	No.	%	No.	%		
<b>1. Postevaluation Rating</b> (as of 31 December 1998)										
Rated Generally Successful (GS)										
Rated Partly Successful (PS)										
Rated Unsuccessful (US)										
No Rating										
<b>Total</b>										
<b>2. Postevaluation Rating by Sector</b> 1968-88 (as of 31 December 1998)	<b>GS</b>		<b>PS</b>		<b>US</b>		<b>NR</b>		<b>Total</b>	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources										
Energy										
Finance and Industry										
Social Infrastructure										
Transport and Communications										
Others/Multisector										
<b>Total</b>										

<sup>a</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

<sup>b</sup> Active loans only (excluding closed loans during the year).

<sup>c</sup> Disbursement ratio is defined as the ratio of the total disbursement in a given year over the net loan amounts of newly approved loans which have become effective.

"Net loan amount at the beginning of the year" includes all effective loans at the beginning of the year.

"Loan amounts of newly approved loans which have become effective" includes

**FEDERATED STATES OF MICRONESIA  
PORTFOLIO PERFORMANCE**

**Table 2: Status of Project Implementation  
Public Sector Projects Only  
(As of 31 December 1998)**

Sector <sup>a</sup>	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating <sup>b</sup>	
		OCR (\$ million)	ADF			Original (mm/yy)	Revised (mm/yy)				Implement Progress	Development Objective
AGR	Loan 1257-FSM(SF) Fisheries Development		6.433	Oct-93	Sep-94	Dec-98	Dec-99	20	3.687	3.397	U	S
SOC	Loan 1459-FSM(SF) Water Supply & Sanitation		10.162	Sep-96	Oct-97	Oct-00		5	1.103	0.614	U	S
OTH	Loan 1520-FSM(SF) Public Sector Reform		17.855	Apr-97	Jun-97	May-99			14.000	14.000	S	S
<b>Total</b>			<b>34.5</b>						<b>18.8</b>	<b>18.01</b>		

<sup>a</sup> Sector:  
 AGR: Agriculture & Natural Resources  
 ENY: Energy  
 SOC: Social Infrastructure  
 I & F: Industry and Finance  
 T & C: Transport and Communications  
 OTH: Multisector and others

<sup>b</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

**FEDERATED STATES OF MICRONESIA  
OVERALL EXTERNAL ASSISTANCE**

External Source (\$ million)	Past 3-5 Years (annual average)		1998 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
<b>A. Multilateral Assistance</b>				
Bank	9.80	2.80	-	1.30
UNDP	-	0.81	-	-
World Bank	-	1.39	-	0.50
UN/Others	-	11.17	-	5.60
Subtotal	9.80	16.17	-	7.40
<b>B. Bilateral Assistance</b>				
Australia	-	3.20	-	1.30
China/Taipei	-	1.00	-	1.00
Japan	-	10.00	-	10.00
USA	-	113.00	-	70.00
Subtotal	-	127.20	-	82.30
<b>Total</b>	<b>9.80</b>	<b>143.37</b>	<b>-</b>	<b>89.70</b>
Memo Items: External Assistance as % of Current Expenditures External Assistance as % of Capital Expenditures				

**FEDERATED STATES OF MICRONESIA**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**  
**(Amounts in \$ million)**

Sector/Project Name	Strategic		Responsible Division	Year of PPTA	PROJECT COST					
	Dev't Objectives <sup>a</sup>				TOTAL	Bank		Gov't	Cofinancing (Others)	
	Primary	Secondary				OCR	ADF			Total
<b>2000 FIRM LOANS</b>										
<b>Social Infrastructure</b>										
1. Basic Social Services Program	HD	POV	POHQ	1999	17.0	0.0	12.0	12.0	5.0	0.0
<b>Subtotal</b>					17.0	0.0	12.0	12.0	5.0	0.0
<b>Total</b>					<b>17.0</b>	<b>0.0</b>	<b>12.0</b>	<b>12.0</b>	<b>5.0</b>	<b>0.0</b>
<b>2000 STANDBY LOANS</b>										
<b>Others</b>										
1. Private Sector Development Project	ECO		POHQ	2000	22.0	0.0	15.0	15.0	7.0	0.0
<b>Subtotal</b>					22.0	0.0	15.0	15.0	7.0	0.0
<b>Total</b>					<b>22.0</b>	<b>0.0</b>	<b>15.0</b>	<b>15.0</b>	<b>7.0</b>	<b>0.0</b>
<b>2001 LOAN PIPELINE</b>										
<b>Others</b>										
1. Private Sector Development	ECO		POHQ	2000	22.0	0.0	15.0	15.0	7.0	0.0
<b>Subtotal</b>					22.0	0.0	15.0	15.0	7.0	0.0
<b>Total</b>					<b>22.0</b>	<b>0.0</b>	<b>15.0</b>	<b>15.0</b>	<b>7.0</b>	<b>0.0</b>
<b>2002 LOAN PIPELINE</b>										
NONE										

<sup>a</sup> ECO = Economic Growth; HD = Human Development; POV = Poverty Reduction; WID = Women in Development; and ENV = Environmental Protection.

**FEDERATED STATES OF MICRONESIA**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**

Sector/Project Name	Project Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
<b>2000 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Social Infrastructure</b>					
1. Basic Social Services	POHQ	AD	200.0	-	200.0
	<i>Subtotal</i>		200.0	0.0	200.0
<b>Natural Resources</b>					
1. Private Sector Development	POHQ	AD	200.0	-	200.0
	<i>Subtotal</i>		200.0	0.0	200.0
<b>Finance</b>					
1. Public Enterprises Privatization and Corporate Governance II	POHQ	AD	400.0	-	400.0
	<i>Subtotal</i>		400.0	0.0	400.0
<b>Others</b>					
1. Enhancement of Performance Based Public Resources Management	POHQ	AD	500.0	-	500.0
2. Law and Governance	POHQ	AD	400.0	-	400.0
	<i>Subtotal</i>		900.0	0.0	900.0
<b>Total</b>			<b>1,700.0</b>	<b>0.0</b>	<b>1,700.0</b>
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Natural Resources</b>					
1. Basic Skills Development	POHQ	AD	400.0		400.0
	<i>Subtotal</i>		400.0	0.0	400.0
<b>Finance</b>					
1. State Government Capacity Building	POHQ	AD	900.0	-	900.0
2. Public Enterprises Privatization and Corporate Governance III	POHQ	AD	400.0		400.0
	<i>Subtotal</i>		1,300.0	0.0	1,300.0
<b>Others</b>					
1. Law and Governance II	POHQ	AD	400.0		400.0
	<i>Subtotal</i>		400.0	0.0	400.0
<b>Total</b>			<b>2,100.0</b>		<b>2,100.0</b>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Others</b>					
1. Law and Governance III	POHQ	AD	400.0	-	400.0
	<i>Subtotal</i>		400.0	0.0	400.0
<b>Total</b>			<b>400.0</b>		<b>400.0</b>

**FEDERATED STATES OF MICRONESIA**  
**LENDING PROGRAM BY TYPE AND SECTOR, 2000-2002**

<b>Classification</b>	<b>2000 (Firm)</b>		<b>2001-2002</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
<b>By Type</b>				
A. Economic Growth		0.0	1	100.0
B. Projects Directly Aimed at Social Concerns	1	100.0		0.0
C. Projects Directly Aimed at Environmental Concerns		0.0		0.0
D. Economic Growth-oriented Projects with Social and/or Environmental Concerns		0.0		0.0
<b>Total</b>	<b>1</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>
<b>By Sector</b>				
A. Agriculture and Natural Resources		0.0		0.0
B. Energy		0.0		0.0
C. Finance		0.0		0.0
D. Transport and Communications		0.0		0.0
E. Social Infrastructure	1	100.0		0.0
F. Others/Multisector		0.0	1	100.0
<b>Total</b>	<b>1</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>

**FEDERATED STATES OF MICRONESIA**

<b>PROJECT PROFILE</b>				
1. <b>Project Name:</b> Basic Social Services Program			2. <b>Sector/Subsector:</b>  Social Infrastructure/Health and Population	
3. <b>Dev. Objective:</b> Primary: HD Secondary: POV			5. <b>Beneficiary Participation in Formulation:</b>  The national and state governments, communities, and NGOs will be consulted in the course of the program formulation and implementation.	
3. <b>Rationale:</b>  A general decline of level of health status and educational attainment is a grave concern in FSM. The poor performance of the health and education systems result from a lack of proper facilities, well-trained staff, planning, monitoring and, most importantly, management. A sound sector policy framework and performance monitoring mechanism underpinned by sustainable financing to the basic health care and elementary education is required.				
6. <b>Objectives and Scope:</b>  (i) establish a trust fund to provide sustainable financing to ensure basic health and education services, (ii) enhance the capacity of the national and state governments for developing a sound policy framework for human resource development, (iii) improve basic social service delivery systems through the participation of communities and NGOs, and (iv) improve the governments' institutional capacity to formulate a sound external assistance management system.				
7. <b>Estimated Cost &amp; Financing Plan (\$):</b>				<b>Remarks</b>
Loan Project Cost (\$m)				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
Bank	10.0	2.0	12.0	
Cofinancing	0.0	0.0	0.0	
Borrower	0.0	5.0	5.0	
<b>Total</b>	<b>10.0</b>	<b>7.0</b>	<b>17.0</b>	
8. <b>Estimated Benefits and Beneficiary Groups:</b>  All population of FSM				
9. <b>Executing Agency:</b>  Department of Finance and Administration Department of Health, Education and Social Affairs			10. <b>Project Implementation Period:</b>  Start: 2000 End: 2003	
11. <b>Environment Category:</b> C			12. <b>Processing Year:</b> 2000	

**FEDERATED STATES OF MICRONESIA**

<b>PROJECT PROFILE</b>				
<b>1. Project Name:</b> Private Sector Development Project			<b>2. Sector/Subsector:</b>	
<b>3. Dev. Objective: Project</b> ECO      Secondary:      -			Others	
<b>4. Rationale:</b>  To assist FSM in establishing an open and competitive economy that is conducive to increased private sector development through creating more deregulated factor market (land, labor, capital) and supporting basic skills training and business development.			<b>5. Beneficiary Participation in Formulation</b>  The private sector, employees, schools, and communities will be consulted in the course of the project formulation and implementation.	
<b>6. Objectives and Scope:</b>  (i) enhance the institutional capacity of the national and state governments in land survey, registration, and adjudication, (ii) improve the vocational training schemes, (iii) improve financial support to small and medium enterprises, (iv) promote business and entrepreneurial development, and (iv) enhance the regulatory environment of the private sector.				
<b>7. Estimated Cost &amp; Financing Plan (\$million):</b>				<b>Remarks</b>  Stand-by Loan in 2000
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
Bank	10.0	5.0	15.0	
Cofinancing	0.0	0.0	0.0	
Government	0.0	7.0	7.0	
<b>Total</b>	<b>10.0</b>	<b>12.0</b>	<b>22.0</b>	
<b>8. Estimated Benefits and Beneficiary Groups:</b>  Private sector and eventually all population of FSM				
<b>9. Executing Agency:</b>  Department of Economic Affairs			<b>10. Project Implementation Period:</b>  Start: 2001 End: 2004	
<b>11. Environment Category:</b> C			<b>12. Processing Year:</b> 2000	

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2000-2002)  
PIPELINE UPDATE**

**FEDERATION STATE OF MICRONESIA**

**June 2000**

**FEDERATED STATES OF MICRONESIA**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**  
**(Amounts in \$ million)**

Sector/Project Name	Strategic		Responsible Division	Year of PPTA	PROJECT COST					
	Dev't Objectives <sup>a</sup>				TOTAL	Bank		Gov't	Cofinancing (Others)	
	Primary	Secondary				OCR	ADF			Total
<b>2000 FIRM LOANS</b>										
<b>Social Infrastructure</b>										
1. Basic Social Services Program	HD	POV	POHQ	1999	17.0	0.0	5.0	5.0	5.0	0.0
<b>Subtotal</b>					17.0	0.0	5.0	5.0	5.0	0.0
<b>Total</b>					<b>17.0</b>	<b>0.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>0.0</b>
<b>2001 LOAN PIPELINE</b>										
<b>Others</b>										
1. Private Sector Development	ECO		POHQ	2000	22.0	0.0	15.0	15.0	7.0	0.0
<b>Subtotal</b>					22.0	0.0	15.0	15.0	7.0	0.0
<b>Total</b>					<b>22.0</b>	<b>0.0</b>	<b>15.0</b>	<b>15.0</b>	<b>7.0</b>	<b>0.0</b>
<b>2002 LOAN PIPELINE</b>										
NONE IDENTIFIED										

<sup>a</sup> ECO = Economic Growth; HD = Human Development; POV = Poverty Reduction; WID = Women in Development; and ENV = Environmental Protection.

**FEDERATED STATES OF MICRONESIA  
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**

Sector/Project Name	Project Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
<b>2000 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Finance and Industry</b>					
1. Public Enterprises Privatization and Corporate Governance II	POHQ	AD	400.0	0.0	400.0
2. Improving Capacity in Implementation of Performance-Based Public Finance Management*	POHQ	AD	500.0	0.0	500.0
			<b>Subtotal</b>	900.0	0.0
					900.0
<b>Others</b>					
1. Improving Access to Laws	POHQ	AD	300.0	0.0	300.0
			<b>Subtotal</b>	300.0	0.0
					300.0
<b>Total</b>			<b>1,200.0</b>	<b>0.0</b>	<b>1,200.0</b>
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Agro-Industry</b>					
1. Basic Skills Development	POHQ	AD	400.0	0.0	400.0
			<b>Subtotal</b>	400.0	0.0
					400.0
<b>Finance</b>					
1. State Government Capacity Building I	POHQ	AD	500.0	0.0	500.0
			<b>Subtotal</b>	500.0	0.0
					500.0
<b>Others</b>					
1. Private Sector Development	POHQ	AD	200.0	0.0	200.0
			<b>Subtotal</b>	200.0	0.0
					200.0
<b>Total</b>			<b>1,100.0</b>	<b>0.0</b>	<b>1,100.0</b>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Finance</b>					
1. Public Enterprise Privatization	POHQ	AD	400.0	0.0	400.0
2. State Government Capacity Building II	POHQ	AD	500.0	0.0	500.0
			<b>Subtotal</b>	900.0	0.0
					900.0
<b>Total</b>			<b>900.0</b>	<b>0.0</b>	<b>900.0</b>