



Asian Development Bank & Federated States of Micronesia

FACT SHEET

Table 1. Federated States of Micronesia: Development Indicators

Non-MDG	
Population in millions	0.11 (2008)
Annual population growth rate (%)	0.0 (2006–2008)
Adult literacy rate (%)	93 (2000)
Percent of population in urban areas	22.5 (2007)
MDG	
Percent of population living on less than \$1.25 a day	...
Percent of population living below the national poverty line	27.9 (1998)
Under-5 mortality rate per 1,000 live births	40 (2007)
Percent of population using an improved drinking water source	94 (2006)

... = data not available, 0.0 = value is less than half of unit employed, MDG = Millennium Development Goal.

Sources: ADB. 2009. *Basic Statistics 2009*. Manila.

SPC. 2009. Pacific Regional Information System.

World Bank. 2009. World Development Indicators Online.

The Federated States of Micronesia (FSM) is a loose federation of four states, each with its own government and identity. The physical isolation of the country, coupled with the remoteness of the four states, poses particular development challenges, as does coordination between the national and four state governments.

The FSM economy is dominated by the public sector, which is largely funded by sector grants under the United States (US) Compact of Free Association. Despite significant levels of development assistance, the FSM gross domestic product contracted by 0.1% over 2000–2007. It is estimated to have contracted a further 0.5% in 2008 before rebounding slightly with positive growth expected in 2009 on the back of large public sector infrastructure investments.

The major long-term challenges to poverty reduction stem from a need to move toward self-sustainability; reduce the country's reliance on foreign assistance; and increase government revenue. The steady decline in grant aid and conditions placed on expenditure of US funds makes it imperative for national and state governments to reduce expenditure and increase revenue. Improvements in basic social services continue to be crucial. Private sector-driven, sustainable economic growth and good public sector governance are key to long-term development.

Relationship with ADB

The FSM has received eight loans for \$75.14 million and 43 technical assistance (TA) activities totaling \$23.68 million since joining the Asian Development Bank (ADB) in 1990.

Historically, ADB has played an important role in helping FSM formulate overall development strategies, promote economic reform, provide economic policy advice, and strengthen these institutions to provide services into the future. It continues to support a government strategy of private sector-led economic growth and increased self-sufficiency. In recent years, operational strategy has covered good governance, inclusive social development, and pro-poor economic growth and private sector development.

The Country Operations Business Plan (COBP) 2007–2009 emphasizes the need to promote civil society's involvement in development and to address poverty issues more explicitly, putting a long-term perspective on all assistance. Special attention will be given to the results-oriented implementation of ongoing projects, the performance-based allocation of assistance among the states, and continued support for capacity building in close coordination with the US Government. The major challenge will be to apply US resources in a manner that will build sustainable local capacities.

The COBP 2007–2009 can be found at www.adb.org/Documents/CSPs/FSM/2007/COBP-FSM-2007.pdf.

Impact of Assistance

Loans worth \$13.0 million for private sector development have helped the Government create a better environment for the private sector by establishing a secured transactions system, building institutional capacity for land administration and management, and improving financial and business development services for small- and medium-sized enterprises (SMEs). More needs to be done to create conditions conducive to attracting foreign investment. Ongoing effort is required to support small and emerging businesses to access the assistance they need to establish, maintain, and invest in their enterprises.

ADB has also supported government efforts to increase institutional capacity for public sector management and administration. ADB assistance has addressed human resource management and staff development issues through a capacity development road map, which is now being implemented by the Government with the assistance of donor partners.

The Omnibus Infrastructure Development Project, a \$19 million infrastructure loan, is developing key utility infrastructure in Kosrae, Pohnpei, Chuuk, and Yap states to address key sanitation, water, and power needs. The project is refurbishing and replacing infrastructure that threatens human health and the environment and impedes economic development. The overall objective is to enhance public health and the environment by improving water supply, sanitation, and power infrastructure to support economic growth and reduce poverty in the FSM. This loan project is supported by TA that strengthens institutional public utility corporations in Chuuk, Kosrae, and Yap.

In the health and education sectors, the Basic Social Services Project aims to improve human resource development in a sustainable manner. Capacity building and institutional strengthening at both the national and state levels are ongoing, with a focus on information

and management systems. Teacher qualifications and performance are being strengthened through training and certification processes, and through developing community participation. In health, a quality assurance program is being rolled out, and in-service training is being developed in collaboration with the College of Micronesia. In both education and health, standardized budgets and expenditure reporting aim to improve resource management and utilization efficiency.

Economic management, planning, and financial management require further support if the FSM is to maximize the benefits of reform and the support of donors. Assistance for strengthening economic management and planning was approved in 2007 and will support capabilities and skills in budgeting and planning at each state and national government.

Future Directions

The COBP 2007–2009 sets the direction for ADB assistance in support of improved governance, inclusive social development, and private sector-led economic growth. In 2009, ADB and the Government of FSM will develop a new business plan for 2009–2012 to guide ADB's assistance toward achieving FSM's development goals. The business plan is expected to build on current areas of achievement in water and sanitation sectors and continue strengthening public sector performance.

Operational Challenges

A lack of coordination between state and national governments is hampering FSM growth and thereby limits the effectiveness of reform efforts, development partner funding, and ADB's assistance. Further institutional strengthening is required to ensure effective planning capacity is developed at the national and state levels and that these plans are integrated across FSM more effectively. Improvements in coordination and planning will raise productivity in the public sector and improve the Government's ability to manage and implement ADB projects. Capacity development at the institutional and organizational

Table 2. Federated States of Micronesia: Economic Indicators, 2004–2008

Economic Indicator	2004	2005	2006	2007	2008
Per capita GNI, Atlas method (\$)	2,310	2,400	2,390	2,470	...
GDP growth (% change per year)	-3.3	-0.6	-2.3	-3.1	-1.0
CPI (% change per year)	1.8	4.2	4.4	2.8	5.0
Unemployment rate (%)
Fiscal balance (% of GDP)	-16.0	-5.3	-6.4	-3.3	-3.0
Export growth (% change per year)	-39.9	8.8	-8.1	15.9	18.3
Import growth (% change per year)	14.3	2.5	3.7	0.9	12.8
Current account balance (% of GDP)	-20.0	-12.5	-16.3	-12.8	-20.4
External debt (% of GNI)	26.4	25.4	25.8	24.5	...

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.

Sources: ADB. 2009. *Asian Development Outlook 2009*. Manila. ADB staff estimates. World Bank. 2009. World Development Indicators Online.

Table 3. Federated States of Micronesia: 2008 Loan, TA, and Grant Approvals (\$ million)

Loans		TA	Grants	Total
Sovereign	Nonsovereign			
–	–	0.8	1.0	1.8

– = nil.

Cumulative Lending (as of 31 Dec 2008) : \$75.1 million
Cumulative Disbursements (as of 31 Dec 2008) : \$46.3 million

Table 4. Federated States of Micronesia: Cumulative ADB Lending as of 31 December 2008

Sector	Loans (no.)	Amount (\$ million)	% ^a
Agriculture and Natural Resources	1	6.50	8.65
Law, Economic Management, and Public Policy	3	31.02	41.28
Multisector	3	27.02	35.96
Water Supply, Sanitation, and Waste Management	1	10.60	14.11
Total	8	75.14	100.00

^a Total may not add up because of rounding.

Table 5. Federated States of Micronesia: Project Success Rates

By Sector	Percentage ^a	No. of Rated Projects/Programs
Agriculture and Natural Resources	0.0	1
Law, Economic Management, and Public Policy	100.0	1
Water Supply, Sanitation, and Waste Management	100.0	1
Total	66.7	3
By Year of Approval		
1990s	66.7	3

^a Based on aggregate results of project/program completion reports (PCRs), PCR validation reports (PCRVRs), and project/program evaluation reports (PPERs) using PCRVR or PPER ratings in all cases where PCR and PCRVR/PPER ratings are available.

Sources: PCRs, PCRVRs, and PPERs containing a rating circulated as of 31 December 2008.

levels is required before support to human resource development activities can have a sustainable effect.

National and state government's commitment to its policies is essential for the creation of a stable and predictable environment in which businesses can operate efficiently. These policies should be developed in an environment that is inclusive, ensuring the participation of the private sector and nongovernment organizations. Improving public awareness of public sector performance is a demand-side pressure that can help to create change in the FSM.

Partnership

ADB places strong emphasis on partnerships in its FSM operations. In helping the FSM achieve their development priorities, stronger coordination among development partners is critical. Improved coordination will maximize the benefits of the funds provided by FSM's development partners. The United States, including the US Department of the Interior, is a vital partner for ADB, given the scale of its assistance to the FSM, and ADB works closely with the department in infrastructure and performance monitoring activities. Japan is also an important development partner, sponsoring many of ADB's TA activities through the Japan Special Fund.

ADB emphasizes the participation of civil society in development as a key theme in its strategy.

Table 6. Federated States of Micronesia: Portfolio Performance Quality Indicators for Sovereign Lending, 2007–2008

	2007 (\$ million)	2008 (\$ million)
Number of Ongoing Loans (as of 31 Dec 2008)		1
Contract Awards/Commitments	3.7	1.6
Disbursements	3.6	3.6
Loans at Risk (%)	–	–

– = nil.

Table 7. Cumulative Nonsovereign Operations Portfolio Distribution by Top Countries, 1983–2008^{a,b}

Country	No. of Projects	Total ADB Approvals (\$ million)
India	37	2,268
People's Republic of China	21	1,694
Indonesia	15	879
Philippines	28	768
Pakistan	27	721
Kazakhstan	5	550
Thailand	10	319
Viet Nam	8	305
Sri Lanka	13	280
Bangladesh	8	242
Afghanistan	6	208
Lao People's Democratic Republic	1	100
Other DMCs	13	87
Azerbaijan	4	66
Nepal	4	59
Regional	36	930

DMC = developing member country.

^a Includes nonsovereign projects processed by the Private Sector Operations Department and various regional operations departments of ADB. Regional operations departments started nonsovereign operations in 2007.

^b Net of facilities cancelled in full before signing.

Source: Private Sector Operations Department.

Cofinancing and Procurement

Cofinancing operations enable ADB's financing partners—government or their agencies, multilateral financing institutions, and commercial organizations—to participate in financing of ADB projects. The additional funds are provided in the form of grants, official loans, or credit enhancement products.

As of year-end 2008, cumulative direct value-added cofinancing for the FSM amounted to \$2.6 million for five TA projects.

As of 31 December 2008, 10,330 consultant contracts were awarded under ADB loan projects worth \$4.17 billion, of which six contracts were awarded to consultants from the FSM worth \$1.94 million.

From 1 January 1985 to 31 December 2008, 18,104 consultant contracts were awarded under ADB technical assistance projects worth \$2.33 billion, of which two contracts were awarded to consultants from the FSM worth \$0.03 million.

A summary of procurement contracts awarded to companies and consultants from the FSM for goods and works, and consulting services can be found at www.adb.org/Documents/Fact_Sheets/Micronesia/procurement.asp.

Table 8. Federated States of Micronesia: Contractors/suppliers involved in ADB loan projects, 1 January 2004–31 December 2008

Contractor/Supplier	Sector	Contract Amount (\$ million)
Vincent and Brothers Construction Company	Law, Economic Management, and Public Policy	0.80
Apsco Construction Company	Law, Economic Management, and Public Policy	0.50
Pohnpei Island Architects and Construction	Law, Economic Management, and Public Policy	0.49
Pacific Landscaping, Engineering and Construction	Multisector	0.44
Waab Transportation Company Incorporated	Law, Economic Management, and Public Policy	0.27
Yap Cooperative Association	Law, Economic Management, and Public Policy	0.24
College of Micronesia	Law, Economic Management, and Public Policy	0.20
MCM Construction Company	Multisector	0.20
Pohnpei Computer Consulting	Multisector	0.13
M & R Construction	Multisector	0.10

Table 9. Federated States of Micronesia: Top individual consultants involved in ADB loan projects, 1 January 2004–31 December 2008

Consultant	Number of Times Contracted	Contract Amount (\$ million)
Individual Consultants from Federated States of Micronesia*	2	0.10

* Consultant may have one or more contracts within the period covered.

Table 10. Federated States of Micronesia: Top individual consultants involved in ADB technical assistance projects, 1 January 2004–31 December 2008

Consultant	Number of Times Contracted	Contract Amount (\$ million)
Individual Consultants from Federated States of Micronesia*	2	0.03

* Consultant may have one or more contracts within the period covered.

About the Federated States of Micronesia and ADB

The Federated States of Micronesia (FSM) is the 37th largest shareholder among regional members and the 45th largest shareholder overall. It shares both positions with Kiribati, Maldives, Nauru, and Tonga.

ADB Membership

Joined	1990
Shares held	142 (0.004%)
Votes	13,374 (0.30%)

Phil Bowen is the Executive Director and **Dereck Rooker-Smith** is the Alternate Executive Director representing the FSM on the ADB Board of Directors.

ADB's operations in the FSM are managed through ADB's Manila Headquarters. ADB's Pacific Department provides the primary operational link to the government, private-sector, and civil-society stakeholders in its activities. The Pacific Department engages in policy dialogue and acts as a knowledge base on development issues in the FSM.

Sirpa Jarvenpaa is the Director of Pacific Operations Division (PAHQ).

The FSM government agency handling ADB affairs is the Department of Finance and Administration.

About the Asian Development Bank

ADB is a multilateral development bank owned by 67 members, 48 from the region and 19 from other parts of the world. ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance (TA). In 2008, lending volume was \$10.49 billion (86 projects), with TA at \$274.5 million (299 projects) and grant-financed projects at \$811.4 million (49 projects). This also generated \$1.65 billion in direct value-added cofinancing from financing partnerships operations. Over the last 5 years (2004–2008), ADB's annual lending volume averaged \$7.70 billion, with TA averaging \$231.5 million and grant-financed projects \$655.1 million. As of 31 December 2008, the cumulative totals were \$143.53 billion in loans for 2,147 projects in 41 countries, \$4.08 billion for 263 grant projects, and \$3.55 billion for 6,599 TA projects.

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Useful ADB websites

Asian Development Bank
www.adb.org

Country website
www.adb.org/micronesia

Asian Development Outlook
www.adb.org/Documents/Books/ADO/2009/SMALL-PAC.pdf

Annual Report
www.adb.org/Documents/reports/annual_report/2008/

Depository Libraries
www.adb.org/Publications/Depositories/fsm.asp