

Chapter 12. Conclusion: Challenges to Achieving Sustainable Development

Facing a significant reduction in grant funding, and an aid management regime under Compact II that largely stipulates the allocation of funding among relatively few priority sectors, FSM governments will have to reach consensus on new economic development policies and strategies. Maintaining the status quo can no longer be tolerated, if the nation has any chance of achieving sustainable growth of employment and income, slowing the out-migration of its more productive citizens, and avoiding social decline.

The Third Economic Summit held in early 2004 deliberated economic policies and strategies to enable the nation to transition to the reduced level of aid under Compact II and to achieve sustainable growth and increased self-sufficiency by 2023. The recommended economic strategies and policies endorsed by this summit essentially mirrored those recommended in the 1st and 2nd Summits. The latter policies and strategies were largely not supported, and thus not implemented. Consensus among governments was not achieved, and there was little dialogue among and between stakeholders and government on why or how the earlier recommended policies and strategies should or could be implemented.

The Strategic Development Plan that resulted from the 3rd Economic Summit provides the basis for the nation to move ahead toward reaching a consensus on development policies and priorities. Broad based support—that of the general public, private sector, FSM governments, and the donor community—can be expected to generate the strength of commitment needed to complete and implement the currently proposed SDP.

Summarizing specific challenges, it is critically important that the FSM has resident (citizen) capacity to carry out strategic planning on a continuing basis. While this capacity will in the short-term necessarily have to depend on externally supplied expertise, more institutional strengthening will be required to ensure the development and institutionalization of planning and policymaking capacity at both national and state levels.

Both national and state governments need to implement institutional strengthening and human resources development (HRD) programs to raise productivity of the public service. Strengthening institutional capacity, particularly in economic and financial planning and management is a high priority in all governments. Integrating strategic planning and performance budgeting

will require substantially more training, to enable efficient and effective execution of the monitoring, reporting, budget preparation, revision of strategic development plans and grant proposal preparation that is required to satisfy Compact II requirements.

Strengthening governance standards may be one of the most important tasks for achieving sustainable development. Governance elements to be addressed would include commitment (to stated policies), transparency, accountability, efficiency, equity (fairness), inclusiveness (promoting participation of all citizens), and predictability. Other important elements include, honesty (absence of corruption, ethical behavior), prudence, and cooperativeness.

Increased growth in private sector activity will create new jobs and provide an expanded tax base. A number of elements contributing to an enabling environment must be addressed, including strengthened communications between public and private sectors, rationalization of the Public Sector Enterprise sector to remove unfair competition and pro-active initiatives to contract out activities that can be more efficiently performed by businesses, a needs assessment to pinpoint and address industry short- and longer-term skills training to raise productivity, a regulatory climate characterized by transparency and efficient customer-oriented responsiveness of public agency services, and legal framework supportive of business that includes secured transactions and bankruptcy laws.

There must be renewed commitment on the part of national and state governments to attracting foreign investment. Private sector development, particularly in fisheries and tourism, will require substantially greater foreign direct investment (FDI) than what has occurred in the past, to achieve sustainable growth in income and employment. Particularly important elements in promoting greater domestic investment and FDI include: (a) greatly improved public-private sector dialogue; (b) reasonably predictable costs of doing business; and, perhaps most importantly, (c) transparency of foreign investment regulations. National and state governments need to reach consensus on a consistent, transparent set of procedures for issuing foreign investment permits.

Improved fiscal performance is needed to increase tax revenues to offset declining Compact II resources and to provide budgetary balance that promotes overall macroeconomic performance conducive to promoting private sector growth and investment. As recommended by several technical assistance missions, the FSM may consider implementing a value-added tax (VAT) to replace import and state sales taxes.

The NGO sector represents large unrealized potential toward enabling the nation to achieve sustainable development and increased self-sufficiency. While the NGO sector currently is heavily involved in social and economic development,

the unrealized potential could be tapped by FSM governments working more directly with the NGO sector, particularly if this approach is facilitated by dedicated funding and an agency or bureau made responsible for coordinating all government working relations with the NGO sector.