

ASIAN DEVELOPMENT BANK

COUNTRY STRATEGY AND PROGRAM UPDATE (2005-2006)

FEDERATED STATES OF MICRONESIA

August 2004

CURRENCY EQUIVALENTS

The United States dollar (\$) is the unit of currency in the Federated States of Micronesia.

ABBREVIATIONS

ADB	–	Asian Development Bank
BSS	–	basic social services
CSPU	–	country strategy and program update
FMIS	–	financial management information system
FSM	–	Federated States of Micronesia
FY	–	fiscal year
GDP	–	gross domestic product
IDP	–	infrastructure development plan
IMF	–	International Monetary Fund
IT	–	information technology
JEMCO	–	Joint Economic Management Committee
JSF	–	Japan Special Fund
MDGs	–	Millennium Development Goals
OIDP	–	Omnibus Infrastructure Development Project
PAH	–	participatory assessment of hardship
PBA	–	performance-based allocation
PDMC	–	Pacific developing member country
PFTAC	–	Pacific Financial Technical Assistance Centre
PRC	–	People's Republic of China
PSDP	–	private sector development program and project
RETA	–	regional technical assistance
SDP	–	strategic development plan
SF	–	special fund
SMEs	–	small- and medium-sized enterprises
SOEs	–	state-owned enterprises
TA	–	technical assistance
UNEP	–	United Nations Environment Programme
US	–	United States of America
USDOI	–	United States Department of Interior
WHO	–	World Health Organization

NOTES

- (i) The government's fiscal year (FY) ends on 30 September. FY before a calendar year denotes the year in which the fiscal year ends.
- (ii) In this report, "\$" refers to US dollars.

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I. COUNTRY STRATEGY

1. The Asian Development Bank's (ADB) operational strategy in the Federated States of Micronesia (FSM) is consistent with ADB's Pacific Strategy for the New Millennium.¹ It continues to support the government's strategy of private-sector-led economic growth. ADB's operational strategy covers three areas—good governance, inclusive social development, and pro-poor economic growth—consistent with the three pillars of ADB's poverty reduction strategy. It is also in line with the government's development strategy and policies and outcomes of the 3rd FSM Economic Summit in March-April 2004. A summary statement of the FSM country strategy is in Appendix 1.

II. CURRENT DEVELOPMENT TRENDS AND ISSUES

A. Recent Political and Social Developments

2. FSM is a stable democracy with actively contested national, state, and local government elections. General elections were held in March 2003 for the FSM National Congress, and approximately half of the 14 senators were newly elected. The new president was appointed in May 2003 from among the four members-at-large of the congress. The new president formed the Cabinet in July 2003.

3. The 3rd Economic Summit was held in March-April 2004 under the new leadership with the theme, "The Next 20 Years: Achieving Economic Growth & Self-Reliance". More than 400 participants attended the summit, representing such stakeholder groups as the national government, the four state governments, traditional leaders, representatives of the private sector, nongovernment organizations (NGOs), and donors. The summit's main objectives were: (i) to build awareness on the structure and projected impact of the Amended Compact²; (ii) to achieve consensus on an overall economic strategy, including an FSM-wide strategic development plan (SDP) and an infrastructure development plan (IDP); and (iii) to improve monitoring mechanisms to enhance implementation of policies and programs such as a strategic planning matrix, directly linked to annual budget performance, and quantifiable outcomes for sector strategic goals.

4. Three scenarios³ of economic growth were presented during the summit, of which the government decided to adopt the high-growth scenario. While details of the above three scenarios were not known, the high-growth scenario requires the country's continuous efforts in major structural reforms. A positive outcome of the summit was the government's commitment to continuing economic policy reform to cope with the transition of the Amended Compact and to maintain long-term sustainable economic growth.

5. The available data on poverty and social indicators show slow progress toward achieving the Millennium Development Goals (MDGs), although there is very limited reliable

¹ ADB. 2000. *A Pacific Strategy for the New Millennium*. Manila.

² Compact of Free Association under which the United States government provides grants and other assistance to the Federated States of Micronesia. The original compact took effect in 1986 and amended in 2004 to extend assistance for 20 more years. See para. 12 for more details.

³ These are: (i) a baseline scenario, with moderate reforms and bare rise in per-capita income; (ii) a dismal scenario, with minimal reforms, no change in per-capita income, and very high outward migration; and (iii) a high-growth scenario, with major reforms, increasing per-capita income and reduced outward migration.

data. A recent analysis⁴ shows that approximately 30% of households in 1998 had incomes below the estimated basic needs poverty line of \$768 per capita per year (\$5,693 per household per year). It also suggests that the 20% of households with the lowest incomes receive less than 4% of total income, while the highest quintile received more than 50% of income. This suggests unequal income distribution.

6. Basic literacy is both high and equitably distributed between gender and states. However, neither the quality of education nor students' attainment levels has improved significantly in recent years. Health indicators are unimpressive. FSM still has one of the highest maternal mortality rates among the Pacific developing member countries (PDMCs)—although maternal mortality rates have fallen significantly—and a rapidly increasing incidence of noncommunicable diseases. Only 41% of the population has access to improved water sources and about 45% to improved sanitation. Table A2.1 in Appendix 2 shows the country's progress toward the Millennium Development Goals and Targets.

7. With a human poverty index of 26.7, FSM ranks ninth among the 13 PDMCs in terms of poverty. This largely reflects the poor social services in the rural and outer islands, caused by factors including insufficient institutional capacity, an inefficient public sector that captures a disproportionate share of resources, and dispersed geographical locations.

B. Economic Assessment and Outlook

8. Real gross domestic product (GDP) growth fell by an estimated 0.1% in FY2003 (ended 30 September 2003) following growth of 0.9% in FY2002. This national average reflected the impact of contraction in the public and financial sectors. Aggregate employment was down by almost 1% in FY2003 as falling employment in public administration, manufacturing, and finance outweighed increases in trade, hotels, restaurants, and education. The drop in employment was concentrated in Chuuk state, where the 2001-2002 financial crisis substantially curbed government employment.

9. In FY2003, FSM recorded a budget surplus of 1.9% of GDP. Consolidated revenues and grants for the national and four state governments increased by 2.1% to \$163.7 million, while total expenditure rose by 3.1% to \$159.6 million over FY2002 levels. Two-thirds of the increase in total expenditure was attributable to higher capital spending, while the increase in current expenditure mostly involved higher wages and salaries. Some state governments ran budget surpluses in FY2003, while the national government recorded a deficit. Total official external debt outstanding at the end of FY2003 was \$54.3 million, or about 24% of GDP, with debt servicing equivalent to 6.1% of exports of goods and services. The debt repayment position was enhanced as the five governments held portfolio investments in an external debt management fund. Adjusting for these assets, unsecured external debt was equivalent to about 9% of GDP.

10. Real GDP is projected to decline by 1.5% in FY2004 because of an anticipated fiscal shock of approximately 10% of GDP. This fiscal shock is the combined result of a 7.3% reduction in Compact transfers into national and state government budgets, and the delayed availability of infrastructure sector grant funding. The reduction in transfers will be partially offset by spending of reserves, as well as spending under the US Federal Emergency Management Agency programs for typhoon relief in Yap and Chuuk. The delay in infrastructure spending

⁴ Calculations of poverty lines based on the 1998 Household Income and Expenditure Survey of Federated States of Micronesia under ADB. 2002. *Technical Assistance for the Preparation of National Poverty Reduction Strategies in Pacific Developing Member Countries*. Manila.

means that \$17 million, or 24% of the planned \$76 million Compact transfers is effectively frozen in FY2004. The latter funds will become available in FY2005⁵ and, with a rise in sector grant assistance under the Amended Compact, is expected to contribute to an economic recovery. Growth in real GDP is projected to be 2.2% in FY2005.

11. The five FSM governments face the long-term challenge of adjusting to a decline in sector grants and making their revenues sustainable. In FY2007, the reduction in real official transfers is estimated to be equivalent to 0.6% of GDP, and the national government's economic modeling suggests that a compensatory rise in taxation revenue is needed during the Amended Compact period from the present level of about 12% of GDP to over 16% of GDP. A comprehensive reform of taxation and tax collection is required but faces strong opposition. Sizeable budget surpluses will need to be run to build up the Compact Trust Fund to the required level. Completion of contributions to the fund scheduled for 2004 will be a major initial test of commitments.

12. The critical policy development in 2003 was the passage into US law in late November of the Compact of Free Association Amendments Act of 2003, which revised the original 1986 Compact of Free Association between the US and FSM. Under the Amended Compact, the US will provide a \$76 million sector grant and a \$16 million contribution to the Compact Trust Fund during the first year. The annual sector grants under the Amended Compact will be administered through six sector grants for (i) education, (ii) health care, (iii) private sector development, (iv) environment, (v) capacity building in the public sector, and (vi) public infrastructure, with priorities in education and health care. The contribution to the trust fund will increase by \$0.8 million annually, while the grant will be reduced annually by a similar amount. The fund will remain untouched until FY2023, at which time it is expected to yield an annual income in perpetuity that could replace the Compact's annual contributions to the budget. Contributions to the FSM budget represent a reduction of approximately 7% from the 2001 Compact grant level, and the further step down every year will entail a prolonged period of adjustment. The government needs sound fiscal management to mitigate the immediate and progressive reductions in contributions under the Compact to the FSM budget.

**Table 1: Annual Sector Grant Funding and Trust Fund Contributions
for the Federated States of Micronesia**
(\$ million)

Fiscal Year	Annual Grants Section 211	Audit Grants Section 212 (b)	Trust Fund Section 215	Total
2004/06	76.2	0.5 annually	16.0	92.7 annually
2007/23	Declining from 75.4 to 62.6 (annual decline of 0.8)	0.5 annually	Increase from 16.8 to 29.6 (annual increase of 0.8)	92.7 annually

Source: ADB. 2004. *The Amended Compacts of Free Association of the United States with the Federated States of Micronesia and the Marshall Islands*. Manila.

⁵ It is possible for the funds to be available in FY2004, if the United States immediately submits and endorses IDP.

13. The Compact funds will be managed through a Joint Economic Management Committee (JEMCO). The FSM will establish the secretariat for JEMCO. Among JEMCO's responsibilities will be reviewing government planning and budget documents, monitoring progress toward sustainable economic development and budgetary self-reliance, reviewing and approving grant allocations and performance objectives, and reviewing quarterly trust fund investment reports. The government, and JEMCO in particular, will require timely economic advice and assistance in a number of priority tasks, including formulation of a new economic strategy, expenditure cutting, tax reform, and adjustments in the structure and delivery of public services. A JEMCO meeting is planned in August 2004 for FY2005 budget appropriations.

C. Implications for Country Strategy and Program

14. The fundamental issues have remained since the last country strategy and program update (CSPU) for 2003-2005. The FSM continues to rely heavily on foreign aid—particularly from US Compact funds—and will be affected by any reduction in the external inflows. It is therefore necessary to promote the private sector to achieve sustainable socioeconomic growth. Poor quality social services and limited access to them remain a problem, as do governance and capacity in the public sector. ADB's current country strategy and policy remains relevant and valid: it supports good governance, social sector development and reforms, and pro-poor economic growth led by the private sector. ADB's current strategy is even more relevant with the reductions in grant funding under the Amended Compact.

15. ADB continues to support FSM with its three-pillar country strategy of promoting good governance, inclusive social development, and pro-poor economic growth. ADB's country strategy for 2005-2006 will further emphasize these underlying themes: (i) promoting participation of civil society in development; (ii) addressing poverty issues more explicitly; and (iii) providing assistance with a long-term perspective. Such emphasis on these themes will increase the effectiveness of ADB assistance to FSM through broader community participation, enhanced government accountability, and sustainable long-term development for the poor.

III. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM

A. Progress in Poverty Reduction

16. ADB provided assistance to the government in conducting a poverty assessment between November 2003 and January 2004 under TA 6047-REG: Preparation of National Poverty Reduction Strategies for PDMCs, including (i) a comprehensive quantitative analysis of available poverty indicators and (ii) a Participatory Assessment of Hardship (PAH) conducted in selected communities. The assessment shows a per capita GDP that is high by Pacific regional standards; this masks a gap between per-capita incomes of those working in the formal public sector, those living in Kosrae and Yap states, and those in the rural areas and the outer islands of Pohnpei and Chuuk states. People in rural areas and the outer islands found it difficult to earn enough for food and living expenses. In more urban areas, families with low incomes and limited access to subsistence activities found it extremely difficult to maintain satisfactory standards of living. The government's current priority and ADB's proposed assistance program emphasize poverty reduction. The government requested ADB to provide a TA to help prepare a national hardship reduction strategy.

B. Progress in the Country Strategy and Program Focus Areas

1. Private Sector Development

17. The government dominates the economy. The formal private sector is small, inexperienced, locally focused, and relatively isolated from international opportunities. Economic constraints include an environment that is not conducive for business, poor public infrastructure, a poorly functioning collateral framework, poor skills, ineffective and often inconsistent investment policies for both local and foreign investors, and state-owned enterprises that provide unreliable, expensive services while crowding out private-sector initiatives.

18. Loans 1873/74-FSM (SF): Private Sector Development Program and Project (PSDP)⁶, effective in April 2003, are now helping the government create an enabling environment for the private sector by (i) establishing a secured transaction system, (ii) building institutional capacity for land administration and management, (iii) improving financial services for small- and medium-sized enterprises (SMEs), and (iv) strengthening business development services to SMEs. Privatization or other forms of transformation of state-owned enterprises (SOEs) is a tranche release condition for the PSDP program loan.

19. SOEs represent a critical impediment for the private sector. They are: (i) often badly managed or subject to political interference, resulting in high factor costs for businesses; (ii) preventing access to affordable and reliable services and products; (iii) often involved in semi commercial activities, competing with and crowding out private sector activity; and (iv) often a burden on fiscal budgets while diverting public funds from badly needed social expenditures. Progress in this area is very slow because of poor political commitment.

2. Social Services Development

20. Social sector development and reforms continue to play an important role in FSM's overall development, with emphasis on the outer islands to help improve basic social services delivery. Increased allocation and better utilization of resources will be an important factor in expanding access to essential services.

21. Loan 1816-FSM (SF): Basic Social Services (BSS) Project⁷ commenced in January 2003 to design and introduce essential reforms in health and education. The project also aimed to develop human resources in a sustainable manner and permit long-term social and economic development, with the participation of the national government and the states of Pohnpei, Kosrae, and Yap. Chuuk state has also expressed its interest in participating. The project aims to develop a framework for education and health service delivery systems that are accountable to community requirements and deliver satisfactory, cost-efficient services. The project is now trying to introduce incentives to encourage efficiency, community involvement particularly in maintaining facilities, and improved management of education and health services. It also aims to support initiatives for sustainable financing.

22. FSM has made reasonable progress toward meeting the relevant MDGs for water and sanitation services. More than 80% of households have access to improved water supplies and

⁶ ADB. 2001. *Report and Recommendation of the President to the Board of Directors on Proposed Loans for the Federated States of Micronesia for the Private Sector Development Program*. Manila.

⁷ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Federated States of Micronesia for the Basic Social Services Project*. Manila.

approximately 25% to improved sanitation. As in other countries, however, these statistics can be misleading. For example, improved water sources may not actually be safe, and supply may be limited during droughts. Sanitation may improve household conditions but pollute adjacent areas. These services are often provided from government funds or by heavily subsidized utilities, so they are often neither operated nor maintained in a sustainable fashion, Pohnpei being the notable exception. Poor solid waste management is evidenced by the fact that there are no engineered waste disposal facilities in any of the states. Collection of wastes varies. Ad hoc disposal of solid waste and the resulting environmental degradation is visually evident. Issues relating to the poor access to safe water and sanitation facilities will continue to be addressed under the proposed Omnibus Infrastructure Development Project (OIDP).

3. Good Governance

23. ADB has been helping the government improve public sector efficiency and effectiveness since 1995 through its Public Sector Reform Program as well as through a series of TAs for economic management and capacity building⁸. ADB continues to support the government in increasing its institutional capacity for public sector management through TA 4258-FSM: Strengthening of Public Sector Management and Administration. This TA addresses (i) Compact transition, and (ii) preparation of a long-term institutional capacity-building roadmap.

24. A transition plan will be prepared to cope with the anticipated reductions in the Compact grant funds. The plan will be based on a careful review of government revenues and expenditures, and will explore the possibility of strengthening revenue-generating efforts as well as reducing government expenditures. Tax reform will be an essential input to the overall economic transition plan. The tax regime and administration will also be carefully reviewed.

25. A roadmap will guide the government in carrying out its institutional capacity building during the Amended Compact period (2003-2023). The roadmap will also help ensure efficient and effective use of the US sector grant for capacity building. The main concerns of the roadmap are (i) economic planning, (ii) financial management, (iii) auditing, (iv) law enforcement, (v) immigration controls, (vi) the judiciary, and (vii) the compilation and analysis of appropriate statistical indicators. Human resource management and staff development issues will be thoroughly reviewed and incorporated in the roadmap.

26. Performance-based budgeting has been another area of ADB intervention in the area of governance. In particular, efforts have been made to introduce an integrated financial management information system (FMIS) in the national government and four states to increase the efficiency and accountability of public financial management. ADB is helping the government identify the specifications of the Amended Compact reporting requirements, in particular financial control, accounting, auditing, and performance-based budgeting aspects of the Compact's fiscal procedures. ADB will also support the government in building its capacity to effectively implement the new FMIS.

⁸ ADB. 1995. *Technical Assistance to the Federated States of Micronesia for a Policy Advisory Team for Economic Management*. Manila. (TA 2294-FSM, approved on 31 January 1995 for \$2,500,000); ADB. 1997. *Technical Assistance to the Federated States of Micronesia for Expansion of the Economic Management Policy Advisory Team*. Manila. (TA 2294-FSM, approved on 29 April 1997 for \$540,000) TA 2294 was rated successful in the Program Performance Audit Report of FSM's Public Sector Reform Program; ADB. 1998. *Technical Assistance to the Federated States of Micronesia for Economic Policy Reform and Management*. Manila (TA 3024-FSM, approved on 2 June 1998 for \$3,876,000). ADB. 2001. *Technical Assistance to the Federated States of Micronesia for Economic Policy Reform and Capacity Building Phase I*. Manila. (TA 3783-FSM, approved on 29 November 2001 for \$883,000).

27. A TA to further enhance public sector governance as a cornerstone of public accountability and transparency is now being planned for 2004: Streamlining and Strengthening the Public Sector Audit Function. The TA will explore and encourage alternative audit arrangements between all governments by establishing a strong, independent office that would undertake audits of state and national governments.

C. Highlights in Coordination of External Funding and Partnership Arrangements

28. The Compact with the US continues to be FSM's major source of external assistance. A wide range of federal and nonfederal US assistance services and programs are also available to FSM. The US Department of Interior (USDOI) established a Honolulu office to oversee the implementation of the Amended Compact. ADB has maintained close coordination with USDOI through frequent visits to its Honolulu office, as well as meetings in the field, to ensure ADB's assistance complements US efforts. ADB's various TAs in the governance area are supporting FSM's efforts for a smooth economic transition to the Amended Compact. A Consultative Group meeting is now being planned in late 2004 or early 2005.

29. Japan is the second largest bilateral donor, with annual grants of about \$10 million equivalent. These are provided to the four states and have usually financed the construction of roads, wharves, ports, and fisheries. Japan also has a grassroots program for the environment and quality of life. The Australian Agency for International Development (AusAID) provides smaller aid programs, mainly for education, health, and training. The People's Republic of China (PRC) provides grants for sports facilities, cargo ships, and presidential and other official residences. PRC also provides \$2.5 million in grants for fiscal support. The World Bank does not currently have a program in FSM. The International Monetary Fund (IMF) only undertakes its Article IV consultations on a two-year cycle, with its next consultation mission planned for 2004. TAs concerning taxation, budget, statistics, and banking supervision are provided through the Pacific Financial Technical Assistance Centre (PFTAC), which is supported by ADB, IMF, and other assistance agencies. The United Nations Environment Programme (UNEP), World Health Organization (WHO), and other donor agencies are engaged in training and TA support. External assistance is summarized in the development coordination matrix provided in Appendix 2, Table A2.5.

IV. PORTFOLIO MANAGEMENT ISSUES

A. Portfolio Performance

30. Since joining ADB in 1990, FSM has received six loans in the total amount of \$56.6 million, of which four were active at the end of 2003. It has also received 39 technical assistance grants in the total amount of \$21.8 million, of which nine TAs are solely funded by the Japan Special Fund (JSF) (\$5.2 million), one partly funded by JSF (\$1.5 million), and four through other financing (\$2.7 million).

31. Contract awards in FY2003 totaled \$2.8 million, bringing the cumulative figure to \$34.48 million. The contract award ratio was 11.7%, lower than the ADB-wide average of 17.3%. Disbursement during the year totaled \$2.7 million, bringing cumulative disbursement to \$33.9 million. The disbursement ratio was 11.7%, lower than the ADB-wide average of 20.2%.

B. Performance Monitoring and Evaluation

32. Based on the latest economic performance evaluation by ADB, FSM's overall rating is slightly lower than the PDMC average. The main macroeconomic issues are management of the public sector budget, the need to raise more local revenue, and development of the private sector. A more effective governance framework is also needed for public enterprises, including regulatory arrangements for monopolies. Public enterprise reform has been the weakest of all elements of the reform agenda.

V. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS

A. Proposed Lending Level

33. The allocation of ADF funds will be determined under the revised performance-based allocation (PBA) policy (under process). For planning purposes, the lending level of \$8 million every two to three years has been set, but this will be subject to change based on the revised PBA policy. Two loan projects—Loan 1816-FSM (SF): Basic Social Services Project (BSS) and Loans 1873/74 (SF): Private Sector Development Program and Project (PSDP)—are currently being implemented, and the Omnibus Infrastructure Development Project (OIDP) is under processing for approval in 2004.

B. Nonlending Program

34. The nonlending program continues to be ADB's key modality for assistance to promote good governance in FSM. In addition to the ongoing TAs in public sector management, administration, and performance-based budgeting, the TA on Streamlining and Strengthening Public Sector Audit Function for 2004 will increase the accountability of public financial management. With the underlying themes of the country strategy (i.e., promoting wider participation, addressing hardship issues, and assisting the country with longer-term perspective), TAs will be provided to support the national poverty reduction strategy, participatory nation building initiatives, and youth and gender assessments.

C. Summary of Changes to Lending and Nonlending Program

35. Changes in the assistance program from the 2002 country strategy and program updates are as follows:

- (i) For 2004, a loan for the OIDP originally planned in 2003 has been moved to 2004; a TA on Public Enterprise Privatization and Corporate Governance II was converted into Public Utilities Corporate Governance as a piggyback TA for OIDP to help improve management capability of public utility corporations; a TA for Business and Information Technology (IT) Skills was cancelled; and a TA for Strengthening of Public Sector Audit Function has been shifted from 2005 to 2004 to meet the urgent need to increase the government's accountability functions.
- (ii) For 2005, a loan for Business and IT Skills Development was cancelled because of a change in the government priorities; and new TAs are proposed to help develop the national hardship reduction strategy, to promote wider participation of civil society in

development processes, and to help implement a public sector capacity building roadmap which will be prepared under the ongoing TA⁹.

- (iii) For 2006, two TAs are proposed: one for a feasibility study for a solid waste management project, another for youth and gender assessments.

36. Concept papers for nonlending products and services are in Appendix 3, Tables A3.1–A3.2.

37. For reference, the 2004 Assistance Program for Lending Products and the 2004 Assistance Program for Nonlending Products and Services are provided in Table A4.1 and Table A4.2, respectively.

⁹ ADB. 2003. *Technical Assistance to the Federated States of Micronesia for Strengthening of Public Sector Management and Administration*. Manila. (TA 4258-FSM, approved on 16 December 2003 for \$500,000)

SUMMARY STATEMENT OF STRATEGY

Item	Good Governance	Social Development	Pro-Poor Economic Growth
Strategic Focus	<ul style="list-style-type: none"> • Support long-term capacity building efforts • Promote wider participation of civil society in development 	<ul style="list-style-type: none"> • Improve basic social services (e.g., education, health, water supply and waste management) delivery as well as efficiency 	<ul style="list-style-type: none"> • Develop an enabling environment for private sector development
Ongoing/Proposed Loans		<ul style="list-style-type: none"> Basic Social Services Loan (2000) Omnibus Infrastructure Development Loan (2004) 	<ul style="list-style-type: none"> Private Sector Development Program and Project Loan (2001) Omnibus Infrastructure Development Loan (2004)
Ongoing/Proposed Technical Assistance	<ul style="list-style-type: none"> • Strengthening and Capacity Building of Public Sector Financial Management (2002) • Strengthening of Public Sector Management and Administration (2003) • Streamlining and Strengthening the Public Sector Audit Function (2004) • National Hardship Reduction Strategy and Participatory Nation Building (2005) 	<ul style="list-style-type: none"> • National Hardship Reduction Strategy & Participatory Nation Building (2005) • Youth and Gender Development (2006) 	<ul style="list-style-type: none"> • Improving Economic Management and Policy Formulation (2003) • Public Utilities Corporate Governance (2004)
Other Assistance	PFTAC/US	US Compact Japan-Australia WHO/UNEP	Japan/PRC/US Compact
Target Outcomes	<ul style="list-style-type: none"> • Long-term public sector capacity building roadmap prepared and implemented • A uniform public financial management system installed and operational for the five governments • A mechanism for better participation of civil society/NGOs in the country's development processes 	<ul style="list-style-type: none"> • Improved quality of basic education (FSM National Standardized Test—Correct Answers by 6th Grade Students [43% in Math, 55% in Language Arts]) • Improved quality of primary, preventive and public health services (80% of dispensaries report no major drug and/or medical supply shortages; immunization rate of all two-year-old children increased to 80%) 	<ul style="list-style-type: none"> • SOE reforms (one public enterprise transformed by each government) • Improved access to finance (FSMDB processes and systems improved) • ST framework in place (ST law passed and filing archive established) • Improved processes and procedures in land surveying, registration, valuation (qualitative consultant outputs, BTORs)

BTOR = back to office report; FSMDB = Federated States of Micronesia Development Bank; NGO = nongovernment organization; PFTAC = Pacific Financial Technical Assistance Centre; PRC = People's Republic of China; ST = secured transactions; SOE = state-owned enterprise; UNEP = United Nations Environment Programme; US = United States; WHO = World Health Organization.

COUNTRY AND PORTFOLIO INDICATORS, AND ASSISTANCE PIPELINE

Table A2.1: Progress Toward Millennium Development Goals and Targets

Goals and Targets	Country Status		
	1990	1995	Latest Year
Goal 1. Eradicate Extreme Poverty and Hunger			
Target 1: Reduce incidence of extreme poverty by half from 1990 to 2015			
1. Proportion of population below US\$1 per day (PPP-values) (%)	—	—	—
2. Poverty gap ratio	—	—	0.5 (1998)
3. Share of poorest quintile in national consumption (%)	—	—	5.1 (1998)
Target 2: Reduce the proportion of people who suffer from hunger by half from 1990 to 2015			
4. Prevalence of child malnutrition (% of children under 5 years)	13.3 (1987-1988)	—	15.0 ^a (1997)
5. Proportion of population below minimum level of dietary energy consumption (%)	—	—	—
Goal 2. Achieve Universal Primary Education			
Target 3: Attain 100 % primary school enrolment by 2015			
6. Net enrollment ratio in primary education (%)	85.0 ^b (1984-1994)	82.8 ^c (1994)	81.4 ^c (2000)
7. Proportion of pupils starting Grade 1 who reach Grade 5	—	—	66.9 (2000)
8. Literacy rate of 15-24 year olds (%)			
Total	92.3 (1980)	96.4 (1994)	95.1 (2000)
Male	92.4 (1980)	96.2 (1994)	94.2 (2000)
Female	92.2 (1980)	96.6 (1994)	96.0 (2000)
Goal 3. Promote Gender Equality and Empower Women			
Target 4: Eliminate gender disparities in primary and secondary education by 2005 and to all levels of education not later than 2015			
9. Ratio of girls to boys in: (%)			
Primary education	—	92.0 (1994)	93.0 (2000)
Secondary education	—	98.0 (1994)	104.0 (2000)
10. Ratio of young literate females to males (% of age group 15-24)	100.0 (1980)	96.0 (1994)	97.0 (2000)
11. Share of women in wage employment in the nonagricultural sector	—	30.3 (1994)	33.1 (2000)
12. Proportion of seats held by women in national parliament	0.0 ^d	0.0 ^d	0.0 ^d (2003)

Continued on next page.

Table A2.1—Continued

Goals and Targets	1990	1995	Latest Year	
Goal 4. Reduce Child Mortality				
Target 5: Reduce infant and child mortality by two-thirds from 1990 to 2015				
13. Under-5 years mortality rate (per 1,000 live births)	17.0 (1980)	16.0 (1994)	12.0	(2000)
14. Infant mortality rate (per '000 live births)	48.0 (1980)	46.0 (1994)	40.0	(2000)
15. Proportion of 1-year-old children immunized against measles	81.0 ^e	83.0 (1994)	83.7	(2001)
Goal 5. Improve Maternal Health				
Target 6: Reduce maternal mortality rate by three-quarters between 1990 and 2015				
16. Maternal mortality ratio (per 100,000 live births)	—	561.0 ^a (1997-1998)	274.0 ^f	(1999)
17. Births attended by skilled health staff (% of live births)	—	82.0 ^a (1995-1997)	92.8 ^f	(1999)
Goal 6. Combat HIV/AIDS, Malaria and Other Diseases				
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS				
18. HIV prevalence rate among 15-24 year old pregnant women	—	0.0	0.0	
19. Contraceptive prevalence rate (% of women aged 15-49)	—	25.0 ^a (1997-1998)	45.0 ^f	(1998)
20. Number of children orphaned by HIV/AIDS	—	0.0	0.0	
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases				
21. Malaria:				
Prevalence rate (per 100,000 people)	—	—	—	
Death rate (per 100,000 people)	—	—	10.0 ^d	(2000)
22. Proportion of population in malaria risk areas using effective malaria prevention and treatment measures	—	—	—	
23. Tuberculosis:				
Prevalence rate (per 100,000 people)	—	—	78.0 ^d	(2000)
Death rate (per 100,000 people)	—	—	17.0 ^d	(2000)
24. Tuberculosis cases, DOTS:				
Detection rate (%)	—	16.0 ^d	32.0 ^d (2000)	17.0 ^d (2001)
Treatment success rate (%)	64.0 ^d (1994)	80.0 ^d	93.0 ^d (2000)	
Goal 7. Ensure Environmental Sustainability				
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources				
25. Forest area (% of total land area)	34.8 ^d	51.4 (1994)	21.7 ^d	(2000)
26. Nationally protected areas (% of total land area)	—	15.0 (1994)	0.0 ^g	(2003)
27. GDP per unit of energy use (PPP\$ per kg oil equivalent)	—	—	—	

Continued on next page.

Table A2.1—Continued

Goals and Targets	1990	1995	Latest Year
28. Carbon dioxide emissions (per capita metric tons)	—	2.2 ^d (1994)	1.312 ^d (1996)
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water			
29. Access to an improved water source (% households)			
Total	—	43.8 ^h (1994)	87.8 (2000)
Urban	—	—	92.7 (2000)
Rural	—	—	86.4 (2000)
Target 11: By 2010, to have achieved a significant improvement in the lives of at least 100 million slum dwellers			
30. Access to improved sanitation (% households)			
Total	7.9	27.5 (1994)	25.2 (2000) 59.1 (2000)
Urban	—	—	15.4 (2000)
Rural	—	—	
31. Access to secure tenure (% households, owned or rented)	—	79.1 (1994)	94.0 (2000)

— = not available; DOTS = directly observed treatment, short course; GDP = gross domestic product; HIV/ AIDS; kg = kilogram; PPP\$ = purchasing power parity in United States dollar.

^a United Nations Development Programme. 1999. *Pacific Human Development Report*. Suva

^b United Nations Children's Fund. (1997, 1999, 2000). *The Progress of Nations*.

^c Computed from the Age-specific Enrollment Rate data of the Federated States of Micronesia's (FSM). 2000. *Population and Housing Census Report*, Table 8.3, page 60.

^d United Nations Statistics Division (UNSD). 2003. *Millennium Indicator Database* (Available: <http://millenniumindicators.un.org>).

^e Asian Development Bank. 2003. *Key Indicators 2003*. Manila.

^f World Health Organization (WHO). 2001. *Country Health Profiles 2001 Revision*. Regional Office for the Western Pacific: WHO. Available: <http://wpro.who.int>

^g World Resources Institute. 2003. *Earth Trends 2003*. Available: <http://earthtrends.wri.org>

^h Refers to access to piped supplies through either public or communal reticulated system, as computed from the 1994 census data.

Sources: Unless otherwise specified, data are from (i) Asian Development Bank. 2003. Discussion Paper on Assessment of Hardship and Poverty. Undertaken under regional technical assistance 6047: *Preparation of National Poverty Reduction Strategies in Pacific Developing Member Countries*. Manila; and (ii) Secretariat of the Pacific Community, Pacific Regional Information System (PRISM) (<http://www.spc.int/PRISM>). Figures have been computed primarily from the 1998 Household Income and Expenditure Survey (HIES) and various national censuses (1980, 1994, 2000).

Table A2.2: Country Economic Indicators

Item	Fiscal Year				
	1997	1998	1999	2000	2001
A. Income and Growth					
1. GDP per Capita (\$, current)	1,819.0	2,025.0	2,056.0	2,066.0	2,058.0
2. GDP Growth (% , in constant prices)	(3.5)	9.3	0.5	0.9	0.1
a. Agriculture	—	—	—	—	—
b. Industry	—	—	—	—	—
c. Services	—	—	—	—	—
B. Saving and Investment (current market prices)					
	(% of GDP)				
1. Gross Domestic Investment	—	—	—	—	—
2. Gross Domestic Saving	—	—	—	—	—
C. Money and Inflation					
	(annual % change)				
1. Consumer Price Index ^a	1.9	2.1	1.3	(0.2)	(0.2)
2. Total Liquidity (M2)	(0.8)	1.4	0.7	(8.0)	6.9
D. Government Finance					
	(% of GDP)				
1. Total Revenue and Grants	77.0	68.4	62.4	72.2	73.8
2. Total Expenditure and Onlending	85.2	75.3	68.6	69.7	72.0
3. Overall Fiscal Surplus/Deficit	(8.2)	(6.9)	(6.2)	2.5	1.9
E. Balance of Payments					
1. Merchandise Trade Balance (% of GDP)	(39.8)	(39.4)	(42.6)	(36.4)	(40.0)
2. Current Account Balance (% of GDP)	1.6	(0.9)	(8.6)	4.6	7.3
3. Merchandise Export (\$) growth (cif, annual % change)	(12.1)	8.3	2.1	17.9	2.4
4. Merchandise Import (\$) growth (cif, annual % change)	(3.0)	10.1	8.6	(9.0)	8.3
F. External Payments Indicators					
1. Gross Official Reserves (\$ million, end of period)					
a. months of imports					
2. External Debt Service (% of exports of goods & services)	63.6	65.7	32.8	6.2	6.1
3. External Debt (% of GDP)	43.0	30.7	26.1	23.9	24.5
G. Memorandum Items:					
1. GDP (current prices, million local currency)	194.1	216.6	220.6	222.1	221.8
2. Exchange Rate (per \$, annual average)	1.0	1.0	1.0	1.0	1.0
3. Population (million)	0.1	0.1	0.1	0.1	0.1

— = not available; cif = cost in freight; GDP = gross domestic product; M2 = broad money supply

^a period average.

Fiscal year ends 30 September.

Sources: International Monetary Fund, International Financial Statistics, and FSM Department of Economic Affairs, Economic Management Policy Advisory Team web site
<http://www.empat.fm/statistics/stats/htm>.

Table A2.3: Country Poverty and Social Indicators

Item	Period			
	1990	1995	Latest Year	
A. Population Indicators				
1. Total Population (million)	95.6 ^a (1989)	105.5 (1994)	108.0 (2003 est.)	
2. Annual Population Growth Rate (% change)	2.99 (1989)	1.93 (1994)	0.25 (1994-2003)	
B. Social Indicators				
1. Total Fertility Rate (births/woman)	4.8 ^b	4.6 (1994)	4.4 (2000)	3.8 ^b (2002)
2. Maternal Mortality Rate (per 100,000 live births)				
3. Infant Mortality Rate (below 1 year/1,000 live births)				
4. Life Expectancy at Birth (years)	64.8 (1980)	65.2 (1994)	67.0 (2000)	66.5 ^b (2002)
a. Male	—	64.4 (1994)	66.5 (2000)	64.9 ^b (2002)
b. Female	—	66.8 (1994)	67.6 (2000)	68.1 ^b (2002)
5. Adult Literacy (%) ^c	88.9 (1980)	93.9 (1994)	92.4 (2000)	
a. Male	90.3 (1980)	94.8 (1994)	92.9 (2000)	
b. Female	87.6 (1980)	93.0 (1994)	91.9 (2000)	
6. Primary School Gross Enrollment (%) ^d	—	93.7 (1994)	92.3 (2000)	
a. Male	—	93.5 (1994)	91.7 (2000)	
b. Female	—	93.9 (1994)	92.9 (2000)	
7. Secondary School Gross Enrollment (%) ^d	—	81.4 (1994)	72.3 (2000)	
a. Male	—	78.4 (1994)	68.1 (2000)	
b. Female	—	84.7 (1994)	76.7 (2000)	
8. Child Malnutrition (% below age 5)				
9. Population Below Poverty Line (%)				
10. Population with Access to Safe Water (%)				
11. Population with Access to Sanitation (%)				
12. Public Education Expenditure (% of GDP)	—	5.5 ^e (1998/99)	9.6 (2001/02)	
13. Human Development Index Rank (out of 12 PDMCs)	—	5		7
14. Gender-Related Development Index Rank (Global)	—	—		—
C. Poverty Indicators				
1. Poverty Incidence				
2. % of Poor to Total Population	—	—	39.5 (1998)	
3. Poverty Gap				
4. Poverty Severity Index				
5. Inequality (Theil L Index)				
6. Human Poverty Index Rank (out of 12 PDMCs)				9

Continued on next page.

Table A2.3—Continued

— = not available; GDP = gross domestic product; PDMC = Pacific developing member country.

- ^a Interpolated from the mid-1980's states' censuses by the Federated States of Micronesia (FSM) Statistics Division, Department of Economic Affairs
- ^b World Health Organization (WHO). (2001, 2002, 2003) *The World Health Report*.
- ^c Refers to percentage of literate population in the age group 10 years and over, as culled from Table 8.11 (page 67) of FSM's 2000 Population and Housing Census Report.
- ^d Defined as the ratio of primary level enrollment (in grades 1 to 8) to the population aged 6-13 years; and of secondary level enrollment (in grades 9 to 12) to the population aged 14-17 years. Culled from Table 8.5 (page 62) of FSM's 2000 *Population and Housing Census Report*.
- ^e United Nations Educational, Scientific and Cultural Organization (UNESCO), Institute for Statistics <http://www.uis.unesco.org>

Sources: Unless otherwise specified, data are from the: (i) Asian Development Bank (ADB), Discussion Paper on Assessment of Hardship and Poverty (Dec-03), undertaken under regional technical assistance (RETA) 6047: Preparation of National Poverty Reduction Strategies in Pacific Developing Member Countries (PDMCs); and (ii) Secretariat of the Pacific Community (SPC), Pacific Regional Information System (PRISM) (<http://www.spc.int/PRISM>), (iii) United Nations Development Programme, and (iv) Pacific Human Development Report (1994, 1999). Figures were computed primarily from the 1998 Household Income and Expenditure Survey (HIES) and various national censuses (1980, 1994 and 2000).

Table A2.4: Country Environment Indicators

Item	1990	Latest Year
1. Energy Efficiency of Emissions		
Traditional Fuel Use (% of total energy use)	—	—
2. Water Pollution		
Water Bodies Exceeding Contact Recreation Standards		
Biological Oxygen Demand (BOD)	—	—
Chemical Oxygen Demand (COD)	—	—
3. Air Pollution		
Carbon Dioxide (CO ₂) Emissions		
Total ('000 metric tons)	236.0 (1994)	141.4 (1996)
Per unit of GDP (kg/PPP\$ GDP)	—	—
Sulfur Dioxide (SO ₂) Emissions		
Total ('000 metric tons)	—	1.0 (1995)
4. Land Use and Deforestation		
Total Land Area (km ²)	701.0	701.0 (2003)
Average Annual Deforestation		
Area (remaining km ²)	—	—
% change	—	—
Arable Land (% of total land)	—	5.7 (1998)
Cropland, Permanent (% of total land)	—	45.7 (1998)
Pastures, Permanent (% of total land)	—	—
Population Density, Rural (people per square mile)	309.0 (1994)	327.0 (2000)
5. Biodiversity and Protected Areas		
Nationally Protected Area(s)		
Area (km ²)	—	—
Number	—	2.0 (2003)
Mammals (number of threatened species)	—	6.0 (2002)
Birds (number of threatened species)	—	5.0 (2002)
Higher Plants (number of threatened species)	—	4.0 (2002)
Reptiles (number of threatened species)	—	2.0 (2002)
Amphibians (number of threatened species)	—	—
6. Urban Areas		
Urban Population		
Total ('000)	26.9 (1994)	23.9 (2000)
% of total population	25.5 (1994)	22.3 (2000)
Per Capita Water Use (liters/day)	—	—
Wastewater Treated (%)	—	—
Solid Waste Generated per Capita (kg/day)	—	—

— = no data available; GDP = gross domestic product; kg = kilogram; km² = square kilometer; PPP\$ = purchasing power parity in United States dollars

Sources: Central Intelligence Agency. *The World Factbook 2003*. Available: <http://cia.gov>; Secretariat of the Pacific Community (SPC). 2003. *Oceania Population*; SPC. *Pacific Regional Information System (PRISM)*. Available: <http://www.spc.int/PRISM>; United Nations Statistics Division. 2003. *Millennium Indicator Database*. Available: <http://millenniumindicators.un.org>; World Bank. (2000-2003). *The Little Green Data Book*; World Resources Institute. *Earth Trends 2003*. Available: <http://earthtrends.wri.org>.

Table A2.5: Development Coordination Matrix

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
A. Governance	<p>Ongoing</p> <ul style="list-style-type: none"> • TA 3765-FSM: Implementation of Performance-based Budget Management • TA 3962-FSM: Capacity Building I Public Sector Financial Management • TA 4258-FSM: Strengthening of Public sector Management and Administration • Improving Economic Management and Policy Formulation <p>Programmed</p> <ul style="list-style-type: none"> • Streamlining and Strengthening Public Sector Audit Function (2004) • Implementation of Public Sector Capacity Building Roadmap (2005) 	<ul style="list-style-type: none"> • Economists/Statisticians (AusAID) • Trust Fund (PRC) • Tax Reform/Administration (PFTAC)
B. Inclusive Social Development	<p>Ongoing</p> <ul style="list-style-type: none"> • TA 6047-REG: Preparation of National Poverty Reduction Strategies in PDMCs <p>Programmed</p> <ul style="list-style-type: none"> • TA: National Hardship Reduction Strategy and Participatory Nation Building (2005) • Youth and Gender Development (2005) 	<ul style="list-style-type: none"> • FSM-China Friendship Sports Center in Pohnpei • National Youth Policy Dev. Program (AusAID) • Pohnpei Ladies Club (UNESCO)
C. Private Sector Development	<p>Ongoing</p> <ul style="list-style-type: none"> • Loans 1873/1874: Private Sector Development Program <p>Programmed</p> <ul style="list-style-type: none"> • TA: Public Utilities Corporate Governance (2004) 	<ul style="list-style-type: none"> • Micronesian Entrepreneurship Development Center (UNDP) • Development Activities are Training, Marketing Products and etc. (SPFS)
D. Education	<p>Ongoing</p> <ul style="list-style-type: none"> • Loan 1816: Basic Social Services Project 	<ul style="list-style-type: none"> • Short-Term Technical Training (AusAID) • Short-Term Training (Japan) • PATS School & Ext. (UNESCO) • Scholarship (AusAID) • School Supplies (Japan)
E. Health, Nutrition, and Social Protection	<p>Ongoing</p> <ul style="list-style-type: none"> • Loan 1816: Basic Social Services Project 	<ul style="list-style-type: none"> • Pharmacy/Medical Specialist (AusAID) • Medical Equipment Supply (Japan) • Hospital Management (US) • Training Fellowships, Medical Equipment and Supplies (WHO and UNFPA)

Continued on next page.

Table A2.5—Continued

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
F. Water Supply, Sanitation and Waste Management	<p>Programmed</p> <ul style="list-style-type: none"> • Loan: Omnibus Infrastructure Development Project (2004) • TA: Public Utilities Corporate Governance (2004) 	
G. Energy	<p>Programmed</p> <ul style="list-style-type: none"> • Loan: Omnibus Infrastructure Development Project (2004) • TA: Public Utilities Corporate Governance (2004) 	<ul style="list-style-type: none"> • Pohnpei Power Plant (Japan)
H. Transport and Communications		<ul style="list-style-type: none"> • Road Improvement Project, Harbor/Wharves (Japan) • Cargo, Passenger Boats (PRC) • Chuuk State Airport (PRC)
I. Environmental Sustainability	<p>Ongoing</p> <ul style="list-style-type: none"> • 6064-REG: Climate Change Adaptation Program for the Pacific 	<ul style="list-style-type: none"> • Environment Specialist for Environment Awareness Program-Teacher Training (AusAID) • Environment and Quality of Life Projects (Japan) • Global Environment Facility Funding for Biodiversity, Climate Change, International Water, Etc. (UNEP) • Climate Change (EU) • Special Programme for Food Security FAO (UN) • Regional Food Security Programme-UN/FAO through SAPA Office • ACP-FC Tech. Center for Agriculture & Rural Corp. (CTA) • Outer Islands Electrification Program (EU) • Convention on Law of the Seas (NORMA) • Convention for the Conservation of Migratory fish stock in the Central and Western Pacific Ocean (NORMA)

Continued on next page.

Table A2.5—Continued

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
J. Agriculture and Natural Resources		<ul style="list-style-type: none"> • Fishing Ports (Japan) • Tuna Commission (PRC) • Agriculture Farm for Vegetables (PRC) • SPC-Plant Protection/Quarantine & Plant Protection (ACP-EU) • SPC/GTZ Tropical Forestry Program (German) thru USP/IRETA. For Farmers Training Program/Communication Program. • EDF-9 Development of Sustainable Agriculture Pro. (DSAP)
K. Industry and Trade		<ul style="list-style-type: none"> • Tourism Promotion (Japan) • Tourism Specialist (Japan)
L. Others		<ul style="list-style-type: none"> • Voter Registration and Training for FSM Election Commission • Immigration Computerized System, GIS Special (AusAID) • Grassroots Cooperation, Heritage Program (Japan) • Historic Preservation (Spain) • Volunteer Assistance (UK) • Kosrae Public Information (UNESCO) • Peace Corps Volunteer Program (US) • DAB Emergency Assistance (AusAid) • Grassroots Culture and Historical (Japan) • Official Residential Homes (PRC)

AusAID = Australian Agency for International Development; EU = European Union, FSM = Federated States of Micronesia; PFTAC = Pacific Financial Technical Assistance Centre; PRC = People's Republic of China; REG = regional; TA = technical assistance; UK = United Kingdom, UNDP = United Nations Development Programme, UNEP = United Nations Environment Programme; UNESCO = United National Educational, Scientific and Cultural Organization; US = United States.

Table A2.6: Portfolio Indicators—Portfolio Amounts and Ratings
(public sector loans, as of 31 December 2003)

Sector	Net Loan Amount		Total		Rating ^a											
					Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory		Potential Problem ^b		At Risk ^c	
	\$ million	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	(%)
Agriculture and Natural Resources	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Education	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Energy	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Finance	15.0	44.4	2	50.0	—	—	2	100.0	—	—	—	—	—	—	—	—
Health, Nutrition, and Social Protection	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Industry and Trade	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Law and Public Sector Management	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Multisector	9.2	27.2	1	25.0	—	—	1	100.0	—	—	—	—	1	100.0	1	100.0
Transport and Communications	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Water Supply, Sanitation, and Waste Management	9.6	28.4	1	25.0	—	—	1	100.0	—	—	—	—	—	—	—	—
Total	33.8	100.0	4	100.0	—	—	4	100.0	—	—	—	—	1	25.0	1	25.0

— = not available, No. = number

^a One rating for implementation progress and development objectives, based on the lower rating of either.

^b Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^c A loan is "at risk" if it is rated as partly satisfactory, as unsatisfactory, or as a potential problem.

Source: Asian Development Bank estimates.

Table A2.7: Portfolio Indicators—Disbursements and Net Transfers of Resources
(public sector loans, as of 31 December 2003)

Disbursements and Transfers	OCR	ADF	Total
Disbursements			
Total Funds Available for Withdrawal (\$ million)	—	33.8	33.8
Disbursed Amount (\$ million, cumulative)	—	11.1	11.1
Percentage Disbursed (disbursed amount/total available)	—	32.8	32.8
Disbursements (\$ million, latest year)	—	2.7	2.7
Disbursement Ratio (%) ^a	—	11.7	11.7
Net Transfer of Resources (\$ million)			
1999	—	4.8	4.8
2000	—	4.1	4.1
2001	—	2.2	2.2
2002	—	1.1	1.1
2003	—	2.4	2.4

— = not available, ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the year less cancellations during the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

Source: Asian Development Bank estimates.

Table A2.8: Portfolio Indicators—Evaluation Rating by Sector
(as of 31 January 2004)

Sector	Highly Successful		Successful		Partly Successful		Unsuccessful		No Rating		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	0	—	0	—	0	—	0	—	0	—	0	—
Education	0	—	0	—	0	—	0	—	0	—	0	—
Energy	0	—	0	—	0	—	0	—	0	—	0	—
Finance	0	—	0	—	0	—	0	—	0	—	0	—
Health, Nutrition, and Social Protection	0	—	0	—	0	—	0	—	0	—	0	—
Industry and Trade	0	—	0	—	0	—	0	—	0	—	0	—
Law and Public Sector Management	0	—	0	—	0	—	0	—	0	—	0	—
Multisector	0	—	0	—	0	—	0	—	0	—	0	—
Others	1	100.0	0	—	0	—	0	—	0	—	1	100.0
Transport and Communications	0	—	0	—	0	—	0	—	0	—	0	—
Water Supply, Sanitation, and Waste Management	0	—	0	—	0	—	0	—	0	—	0	—
Total	1	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1	100.00	

— = not available.

Source: Asian Development Bank project (program) audit reports.

Table A2.9: Portfolio Implementation Status
(public sector loans, as of 31 December 2003)

Sector	Loan ^a No.	Seg	Title	Net Loan Amount		Approval Date (dd/mm/yy)	Effective Date (dd/mm/yy)	Closing Date		Progress (% complete)
				OCR (\$ million)	ADF (\$ million)			Original (dd/mm/yy)	Revised (dd/mm/yy)	
WSW	1459		Water Supply Sanitation Project	0.0	9.6	19 Sep 1996	10 Oct 1997	31 Oct 2000	31 Aug 2003	98%
MLT	1816		Basic Social Services Project	0.0	9.2	20 Dec 2000	21 Jan 2003	30 Jun 2007	—	0%
FIN	1873		Private Sector Development Program	0.0	5.7	12 Dec 2001	24 Apr 2003	31 Aug 2005	—	Program Loan
FIN	1874		Private Sector Development Project	0.0	9.3	12 Dec 2001	24 Apr 2003	31 Aug 2006	—	4%
Total				0.00	33.8					

Table A2.9—Continued

Sector	Loan No.	Seg	Title	Cumulative Contracts/ Commitments (\$ million)	Cumulative Disbursements (\$ million)	Rating		Potential Problem ^b	At Risk ^c
						IP	DO		
WSW	1459		Water Supply Sanitation Project	9.4	9.1	S	S	No	No
MLT	1816		Basic Social Services Project	0.0	0.0	S	S	Yes	Yes
FIN	1873		Private Sector Development Program	1.9	1.9	S	S	No	No
FIN	1874		Private Sector Development Project	0.4	0.1	S	S	No	No
Total				11.7	11.1				

— = not available; ADF = Asian Development Fund; DO = development objectives; FIN = finance; HS = highly satisfactory; IP = implementation progress; MLT = multisector; No. = number; OCR = ordinary capital resources; PS = partly satisfactory; S = satisfactory; Seg = segment (pertaining to loans with more than one withdrawal authority); U = unsatisfactory; WSW = water supply, sanitation, and waste management.

^a includes ongoing loans only

^b "Yes" for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^c A loan is considered "at risk" if it is rated as "PS" or "U" in either implementation progress or development objectives, or if it is a potential problem loan.

Source: Asian Development Bank staff estimates.

Table A2.10: Assistance Pipeline for Lending Products, 2005-2006

Sector Project/Program Name	Poverty Classification	Thematic Priority	Year of Project Preparatory Assistance	Total	Cost (\$ million)				
					ADB			Gov't	Cofinancing
					OCR	ADF	Total		
2005 Firm Loans									
None					0.0	0.0	0.0	0.0	0.0
2006 Firm Loans									
None					0.0	0.0	0.0	0.0	0.0

— = not available, ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources
 Source: Asian Development Bank staff estimates.

Table A2.11: Assistance Pipeline for Nonlending Products and Services, 2005-2006

Sector Assistance Name	Responsible Division	Assistance Type ^a	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source ^b	Amount (\$'000)	Source ^c	Amount (\$'000)	
2005							
Law, Economic Management and Public Policy							
1. National Hardship Reduction Strategy and Participatory Nation Building Initiative	PAHQ	AD	TASF	400.0		0.00	400.0
2. Implementation of Public Sector Capacity Building Roadmap	PAHQ	AD	TASF	300.0		0.00	300.0
Subtotal				700.0		0.00	700.0
2006							
Water Supply, Sanitation and Waste Management							
1. Solid Waste Management	PAHQ	PP	TASF	500.0		0.00	500.0
Law, Economic Management and Public Policy							
2. Youth and Gender Development	PAHQ	AD	TASF	200.0		0.00	200.0
Subtotal				700.0		0.00	700.0

— = not available, AD = advisory; ADB = Asian Development Bank; PAHQ = Pacific Operations Division; PP = project preparatory; TA = technical assistance.
Source: Asian Development Bank staff estimates; NBP frequently asked questions.

CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES

**Table A3.1: National Hardship Reduction Strategy
and Participatory Nation Building**

<p>1. Type/modality of assistance (double-click on appropriate box)</p> <ul style="list-style-type: none"> <input type="checkbox"/> Lending <ul style="list-style-type: none"> <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Nonlending <ul style="list-style-type: none"> <input type="checkbox"/> Project preparatory <input type="checkbox"/> Other than project preparatory <ul style="list-style-type: none"> <input type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input checked="" type="checkbox"/> Other: advisory 								
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector(s): Law, Economic Management and Public Policy Subsector(s):</p> <p>b. For project preparatory and lending, classification</p> <ul style="list-style-type: none"> <input type="checkbox"/> Core poverty intervention <input type="checkbox"/> Poverty intervention <input type="checkbox"/> Other <p>c. Key thematic area</p> <p>Theme:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;"><input type="checkbox"/> Sustainable economic growth</td> <td style="width: 50%;"><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>Subtheme{s}:</p>	<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p>4. Responsible division/department: PAHQ, PARD</p>								
<p>5. Responsible ADB officer: Hideta Kawada</p>								
<p>6. Description of assistance</p> <p>a. Background/linkage to country/regional strategy: A recent assessment on hardship in FSM shows that the high level GDP per capita by Pacific regional standard masks large gaps in income according to region and sector of employment. Many families throughout the country interviewed for the assessment were experiencing hardship. People in rural areas and outer island found it difficult to earn enough for food and living expenses. In more urban areas, families with low incomes and limited access to subsistence activities found it extremely hard to maintain a satisfactory standard of living. As the Compact negotiations were completed and subsequently the government adopted a high-growth scenario during the 3rd FSM Economic Summit, it is more important that a vivid</p>								

long-term vision of country (i.e., what the country looks like after 20 years, how its major industries are developed, and what is FSM's way of sustainable development) needs to be discussed, identified, and shared in various concerned parties of the country to determine a long-term path for development.

The government requested that ADB provide a TA to help prepare a national hardship reduction strategy and participatory vision-setting for development.

b. Goal and purpose: To provide a mechanism for the country to hold continuous discussions to formulate a lively national development vision over 20 years, and to find an appropriate path to realize the vision. The TA will also support the country to develop a national hardship reduction strategy.

c. Components and outputs: There are two major components of the TA. First, the TA will help the country nurture participatory nation building initiatives. A "Nation Building Council (NBC)" will be created in each of the four states, as well as at the national level, with the participation of community leaders, representatives of the government, NGOs, private sector and other concerned parties. NBCs will discuss and identify local resources and values, create a common vision of the future of states and country, and establish a strategy to realize the vision. Based on the above process, additional hardship assessment and national hardship reduction strategy will be, as the second component, prepared.

d. Expected results and deliverables: The major outputs of the TA are (i) a participatory long-term vision and strategy of the country and states, and (ii) a national hardship reduction strategy.

e. Social or environmental issues or concerns: The TA will directly deal with hardship issues of the country.

f. Plans for disseminating results/deliverables:

7. Proposed executing/implementing agency: Department of Finance and Administration

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP Update: 2005
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): April 2005
- c. Period and duration of assistance
 - Lending:
 - Nonlending: One year

10. Financing Plan

- a. For lending
 - Ordinary capital resources: \$
 - Asian Development Fund: \$
 - Other:

If cofinancing is required, indicate amount and sources, and amount sought: \$ ____, from _____.
If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	
Source: (e.g., total cost, ADB financing, other financing, and government financing):	

- b. For nonlending
- No resources required, other than ADB staff
 - ADB's administrative budget: \$
 - Grant TA funds: \$400,000 from TA Special Fund
 - Other:

If cofinancing is required, indicate amount and sources, and amount sought: \$____, from _____.

If known, provide cost estimates and financing arrangements.

(e.g., total cost, ADB financing, other financing, and government financing):

Source	Amount (\$)
ADB Financing	400,000
Government Financing	
Other Financing	0
Total Cost	400,000

Source: ADB estimates.

ADB = Asian Development Bank, CSP = country strategy and program, FSM = Federated States of Micronesia; GDP = gross domestic product; RSCSP = subregional regional cooperation strategy and program, TA = technical assistance.

<p>b. Goal and purpose: To help the government implement the roadmap.</p> <p>c. Components and outputs: The TA provides specialist support to implement the roadmap (to be prepared under TA 4258).</p> <p>d. Expected results and deliverables: To be determined (based on the outcome of the roadmap)</p> <p>e. Social or environmental issues or concerns: No major issue is envisaged at this stage.</p> <p>f. Plans for disseminating results/deliverables:</p>																				
7. Proposed executing/implementing agency or agencies: Department of Finance and Administration																				
8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:																				
9. Timetable for assistance design, processing, and implementation																				
<p>a. Year included in CSP, CSP Update, RSCSP, RSCSP Update, or interregional work plan: 2004</p> <p>b. Expected date of submission for approval</p> <p style="padding-left: 20px;">Lending:</p> <p style="padding-left: 20px;">Nonlending (project preparatory):</p> <p style="padding-left: 20px;">Nonlending (other than project preparatory): October 2005</p> <p>c. Period and duration of assistance</p> <p style="padding-left: 20px;">Lending:</p> <p style="padding-left: 20px;">Nonlending: 8 months</p>																				
10. Financing Plan																				
<p>a. For lending</p> <p><input type="checkbox"/> Ordinary capital resources: \$</p> <p><input type="checkbox"/> Asian Development Fund: \$</p> <p><input type="checkbox"/> Other:</p> <p>If cofinancing is required, indicate amount and sources, and amount sought: \$ ____, from ____.</p> <p>If known, provide cost estimates and financing arrangements.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Source</th> <th style="text-align: right;">Amount (\$)</th> </tr> </thead> <tbody> <tr> <td>ADB Financing</td> <td></td> </tr> <tr> <td>Government Financing</td> <td></td> </tr> <tr> <td>Other Financing</td> <td></td> </tr> <tr> <td>Total Cost</td> <td></td> </tr> </tbody> </table> <p style="padding-left: 20px;">Source: (e.g., total cost, ADB financing, other financing, and government financing):</p> <p>b. For nonlending</p> <p><input type="checkbox"/> No resources required, other than ADB staff</p> <p><input type="checkbox"/> ADB's administrative budget: \$</p> <p><input checked="" type="checkbox"/> Grant TA funds: \$300,000 from TA Special Fund</p> <p><input type="checkbox"/> Other:</p> <p>If cofinancing is required, indicate amount and sources, and amount sought: \$ ____, from ____.</p> <p>If known, provide cost estimates and financing arrangements.</p> <p>(e.g., total cost, ADB financing, other financing, and government financing):</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Source</th> <th style="text-align: right;">Amount (\$)</th> </tr> </thead> <tbody> <tr> <td>ADB Financing</td> <td style="text-align: right;">300,000</td> </tr> <tr> <td>Government Financing</td> <td></td> </tr> <tr> <td>Other Financing</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Total Cost</td> <td style="text-align: right;">300,000</td> </tr> </tbody> </table> <p style="padding-left: 20px;">Source: ADB estimates.</p>	Source	Amount (\$)	ADB Financing		Government Financing		Other Financing		Total Cost		Source	Amount (\$)	ADB Financing	300,000	Government Financing		Other Financing	0	Total Cost	300,000
Source	Amount (\$)																			
ADB Financing																				
Government Financing																				
Other Financing																				
Total Cost																				
Source	Amount (\$)																			
ADB Financing	300,000																			
Government Financing																				
Other Financing	0																			
Total Cost	300,000																			

ADB = Asian Development Bank, CSP = country strategy and program, RSCSP = subregional regional cooperation strategy and program, TA = technical assistance, US = United States.

Table A4.1: Assistance Program for Lending Products, 2004

Sector Project/Program Name	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)				
					ADB			Gov't	Cofi- nancing
					OCR	ADF	Total		
Year Firm Loans									
Multisector									
Omnibus Infrastructure Development	SEG	PAHQ	2002		5.00	14.20	19.20	11.10	0.00
Total					5.00	14.20	19.20	11.10	0.00

— = not available, ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources, SEG = Sustainable Economic Growth.
Source: Asian Development Bank staff estimates.

Table A4.2: Assistance Pipeline for Nonlending Products and Services, 2004

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2004							
Law, Economic Management, and Public Policy							
1. Streamlining and Strengthening Public Sector Audit Function	PAHQ	AD	TASF	300.00		0.00	300.00
Water Supply, Sanitation, and Waste Management							
1. Public Utilities Corporate Governance	PAHQ	AD	TASF	400.00		0.00	400.00
Total				700.00		0.00	700.00

— = not available, AD = advisory; ADB = Asian Development Bank; PAHQ = Pacific Operations Division; TA = technical assistance; TASF = Technical Assistance Special Fund.

Source: Asian Development Bank staff estimates; NBP frequently asked questions.