



Completion Report

PUBLIC

Project Number: 54309-001
Grant Number: 0751
October 2022

Federated States of Micronesia: Health Expenditure and Livelihoods Support Program

This document is being disclosed to the public in accordance with ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

Currency unit – United States dollar (\$)

ABBREVIATIONS

ADB	–	Asian Development Bank
APDRF	–	Asia Pacific Disaster Response Fund
CARES	–	Coronavirus Aid, Relief, and Economic Security
CDF	–	contingent disaster financing
C-HAP	–	COVID-19 Health Action Plan
COVID-19	–	coronavirus disease
CPRO	–	COVID-19 Pandemic Response Option
DHSA	–	Department of Health and Social Affairs
DMC	–	developing member country
DOFA	–	Department of Finance and Administration
ESP	–	Economic Stimulus Package
FSM	–	Federated States of Micronesia
FSMDB	–	FSM Development Bank
GBV	–	gender-based violence
GDP	–	gross domestic product
IMF	–	International Monetary Fund
PFM	–	public financial management
PSC	–	program steering committee
PUA	–	Pandemic Unemployment Assistance
SDG	–	Sustainable Development Goal
SPP	–	Social Protection Program
TA	–	technical assistance
TMF	–	Tourism Mitigation Fund
UNICEF	–	United Nations Children's Fund
US	–	United States
WHO	–	World Health Organization

NOTES

- (i) The fiscal year (FY) of the Government of the Federated States of Micronesia and its agencies ends on 30 September. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2022 ends on 30 September 2022.
- (ii) In this report, "\$" refers to United States dollars.

Vice-President	Ahmed M. Saeed, Operations 2
Director General	Leah C. Gutierrez, Pacific Department (PARD)
Deputy Director General	Emma M. Veve, PARD
Director	Ananya Basu, Director, Social Sectors and Public Sector Management Division (PASP), PARD
Team leader	Rommel F. Rabanal, Public Sector Economist, PASP, PARD
Team members	Maybelline Andon-Bing, Senior Country Officer, Office of the Director General (PAOD), PARD ^a
	Gladys Puzon Franco, Social Development Officer (Gender); Portfolio, Results, Safeguards and Gender Unit, Central and West Asia Department
	Mairi MacRae, Senior Social Development Specialist (Gender and Development), PASP, PARD
	Janice Maureen D. Mariano, Senior Operations Assistant, PASP, PARD
	Ma. Theresa D. Prado, Senior Operations Officer, PASP, PARD
	Alan Semens, Senior Operations Assistant, PAOD, PARD ^a

^a Outposted to the Federated States of Micronesia (FSM) Pacific Country Office, Pohnpei, FSM.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
BASIC DATA	i
I. PROGRAM DESIGN AND IMPLEMENTATION	1
A. Rationale	1
B. Program Impact, Outcome, and Output	5
C. Program Costs and Financing	6
D. Disbursements	6
E. Program Schedule	6
F. Implementation Arrangements	7
G. Technical Assistance	7
H. Poverty, Social, and Gender Equality	7
I. Safeguards	8
J. Monitoring and Reporting	8
II. Evaluation of Performance	8
A. Relevance	8
B. Effectiveness	10
C. Efficiency	12
D. Sustainability	12
E. Development Impact	13
F. Performance of the Borrower and the Executing Agency	14
G. Performance of the Asian Development Bank	14
H. Overall Assessment	14
III. Issues, Lessons, and Recommendations	15
A. Issues and Lessons	15
B. Recommendations	15
APPENDIXES	
1. Design and Monitoring Framework	16
2. Program Cost at Appraisal and Actual	21
3. Annual and Cumulative Disbursement Of ADB Grant Proceeds	22
4. Achievement Of Gender-Specific Targets for COVID-19 Pandemic Response Option	23
5. Status of Compliance with Grant Covenants	31

BASIC DATA

A. Program Identification

1.	Program number and program title	54309-001: Health Expenditure and Livelihoods Support Program
2.	Mode of financial assistance	Countercyclical Support Facility COVID-19 Pandemic Response Option (CPRO)
3.	Country	Federated States of Micronesia
4.	Recipient	Government of the Federated States of Micronesia
5.	Executing agency	Department of Finance and Administration
6.	Products	Grant 0751

Item	Approval Number	Financing Amount (\$ million)	Financing Source	Product Modality and Nature of Activities
Grant Government	0751	14.0	ADF	Policy-based grant
Program Total		14.0		

ADF = Asian Development Fund.

B. Milestone Dates by Product

Item	Grant 0751
Approval of concept clearance	
– Date started	
– Date completed	
Fact finding mission	
– Date started	3 August 2020
– Date completed	7 August 2020
Grant negotiations	
– Date started	8 October 2020
– Date completed	8 October 2020
Date of Board approval	12 November 2020
Date of grant agreement	25 November 2020
Date of grant effectiveness	
– In grant agreement	23 February 2021
– Actual	17 December 2020
– Number of extensions	0
Program completion date	
– At approval	30 September 2021
– Actual	30 September 2021
Grant closing date	
– In grant agreement at approval	30 September 2021
– Latest revised	
– Number of extensions	0
Financial closing date	2 February 2021

C. Program Cost and Financing

1. Program cost (\$ million)

Cost	Estimate at Approval	Actual
Foreign exchange cost	14.0	14.0
Local currency cost	0.0	0.0
Total	14.0	14.0

2. Financing plan and actual (\$ million)

Cost	Estimate at Approval	Actual
Implementation cost		
Recipient financed	0.0	0.0
Asian Development Bank financed	14.0	14.0
Other external financing	0.0	0.0
Total implementation cost	14.0	14.0

3. Disbursements

a. Disbursement dates by product

	First Disbursement	First Disbursement, Excluding Capitalization	Final Disbursement
Grant 0751	18 December 2020		18 December 2020

b. Grant disbursed amount (\$ million)

Category	Original Allocation (1)	Increased/ (Decreased) during Implementation (2)	Canceled during Implementation (3)	Last Revised Allocation (4=1+2-3)	Amount Disbursed (5)	Undisbursed Balance (6=4-5)
Grant 0751	14.0	0.0	0.0	14.0	14.0	0.0
Total	14.0	0.0	0.0	14.0	14.0	0.0

D. Program Implementation

1. Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members	Virtual Mission (Yes/No)
Fact Finding	16 April– 19 June 2020	9	25	Senior finance specialist; senior social development specialist; social development specialist (gender and development); public sector economist; young professional; associate programs analyst; senior operations assistant; counsel; senior country officer.	Yes

I. PROGRAM DESIGN AND IMPLEMENTATION

A. Rationale

1. The Government of the Federated States of Micronesia (FSM) enacted strong and timely measures to limit the risk of a local outbreak of the coronavirus disease (COVID-19), declaring a public health emergency on 31 January 2020, screening all incoming travelers from 2 February 2020, and extending restrictions from 14 March 2020.¹ These extended restrictions included strengthened entry surveillance, restrictions on residents traveling abroad, a 14-day self-quarantine requirement in a COVID-19-free area before entry to the FSM, and restrictions on sea vessel entry and transit. Borders were effectively closed from 25 March 2020. The World Health Organization (WHO) declared the rapidly evolving global health situation related to COVID-19 a pandemic on 11 March 2020.² The FSM avoided community spread of the virus until 20 July 2022, and 73.2% of the population aged 18 and above are fully vaccinated as of 6 October 2022.³

2. The public sector dominates the economy, with a small underdeveloped private sector driven by retail trade and largely providing support services to the public sector. The informal and subsistence sector is relatively large, reflecting the slow rate of growth and transformation of the economy. In FY2018, the government and public enterprises accounted for a third of gross domestic product (GDP) and the retail sector accounted for 45%.⁴ Substantial revenues are derived from the sale of fishing licenses for the FSM's exclusive economic zone. The narrow economic base, reliance on external revenue sources, and vulnerability to climate change and natural hazards make the FSM susceptible to external shocks. The FSM has also one of the highest rates of poverty in the Pacific.⁵ The state governments manage and regulate health care; overall, the FSM lacked health infrastructure and preparedness to cope with the pandemic.⁶

3. The COVID-19 pandemic severely impacted the FSM's economy. Extended border closures were projected to result in economic contractions of 5.4% in FY2020 and 1.8% in FY2021, largely through constraints on trade and travel.⁷ On 6 April 2020, the government disseminated a COVID-19 Response Framework to guide the FSM in mitigating the impact of COVID-19; this included \$20 million for health care infrastructure and supplies.⁸ As the pandemic showed no signs of abating, the government approved a comprehensive countercyclical response program of \$58.7 million, comprising (i) the COVID-19 Health Action Plan (C-HAP): \$29.0 million;⁹

¹ Restrictions were extended through the President of the Federated States of Micronesia's signing of a National Declaration placing the country under the National Public Health Emergency.

² D. B. Taylor. 2020. [A Timeline of the Coronavirus](#). *New York Times*. 4 March.

³ WHO. [Federated States of Micronesia—WHO Coronavirus Dashboard](#); and United States (US) Centers for Disease Control and Prevention. [COVID Data Tracker](#) (both accessed 13 October 2022). A total of 21,673 cases and 51 deaths were recorded as of 12 October 2022. Vaccinations have lagged the available supply and have been slow; while urban centers have achieved higher coverage, distributing vaccines to remote outer islands has been difficult.

⁴ Graduate School USA. 2019. [Federated States of Micronesia FY2018 Economic Review](#). Honolulu.

⁵ Government of the FSM and World Bank. 2017. [Poverty Profile of the Federated States of Micronesia](#). Palikir. In 2014, 41% of the population were living below the total poverty line and 10% below the food poverty line.

⁶ In 2020, the FSM had only 38 skilled health workers per 10,000 population, short of the recommended WHO indicator of 59.4. Less than 20 beds were available for the isolation of suspected or confirmed COVID-19 patients, and isolation rooms were only available in one of the four states. The FSM's high incidence of noncommunicable diseases and comorbidities increases its population's susceptibility to COVID-19 and the risk of a heightened mortality rate.

⁷ Asian Development Bank (ADB). 2020. [Asian Development Outlook 2020 Update: Wellness in Worrying Times](#). Manila.

⁸ The framework standardized national and state governments' collective and coordinated response to the pandemic, including a risk communication plan to guide mitigation interventions in the event of community transmission. Government of the FSM. 2020. [The FSM COVID-19 Response Framework: A Summary](#). Press release. 8 April.

⁹ This is inclusive of the initial \$20 million under the COVID-19 Response Framework (para. 3) plus an additional \$9 million for a vulnerable population mitigation plan to decentralize clinical services.

(ii) the Economic Stimulus Package (ESP): \$18.4 million; and (iii) the Social Protection Program (SPP): \$11.3 million (para. 11). The government's financing needs were projected to increase to \$16.5 million in FY2020 and an additional \$33.4 million in FY2021.¹⁰ The economy remains highly dependent on assistance from its development partners.¹¹ Compact grants from the United States (US) are a key financing source but are subject to uncertainties.¹² The government requested Asian Development Bank (ADB) support to help resource its COVID-19 response program.

4. ADB responded to the pandemic with a comprehensive package of support to help its developing member countries address the crisis, including the COVID-19 Pandemic Response Option (CPRO).¹³ On 12 November 2020, ADB approved a grant of \$14.0 million to the FSM for the Health Expenditure and Livelihoods Support Program under the CPRO.¹⁴ The program was designed to provide general budgetary support to help finance the government's countercyclical development spending, which aimed to strengthen the health sector; assist affected businesses and individuals; and provide livelihood support and assistance to poor and vulnerable groups.

5. ADB staff prepared the program during June–October 2020. Analytical support was mobilized through regional technical assistance (TA) for a rapid assessment of the social impacts of the disruption to economic activity due to COVID-19 on vulnerable groups.¹⁵ ADB TA also supported the government in refining its macro-fiscal framework to estimate financing needs more comprehensively for FY2020 and FY2021.¹⁶ The FSM is classified as a fragile situation, whose structural constraints translate to thin capacities for effective governance; and the program considered this in the design to strengthen implementation, monitoring, and reporting.¹⁷ The program applied lessons from ADB's experience in providing budget support to its developing member countries for countercyclical responses to crises, as evident in the Economic Recovery Support Programs for Pacific countries during the 2008 global crisis.¹⁸ These programs showed the importance of complementary TA, particularly social protection targeting the poor and most vulnerable, who are the first to be affected by a crisis. Timeliness is critical in crisis response—earlier responses are usually more effective in mitigating medium and long-term impacts. The FSM program leveraged these lessons to help ensure that ADB support was timely and targeted.

6. The program was developed in coordination with the International Monetary Fund (IMF) to ensure that it would help safeguard macroeconomic stability (para. 10).¹⁹ ADB took the lead in

¹⁰ The combined financing needs for FY2020 and FY2021 is less than the total amount of the comprehensive countercyclical response program, as a portion of the program was financed through expenditure realignment.

¹¹ Drawdowns from the Compact of Free Association Trust Fund, US federal programs, and other country grants represented 37% of total revenues in FY2019.

¹² In June 2004, the FSM and the US signed a 20-year agreement—the amended Compact of Free Association—under which the government receives annual financial assistance and access to US federal support programs. From FY2004 to FY2018, the US provided an average of \$70.4 million annually for education, health, and infrastructure. Negotiations to extend the Compact are ongoing, and the status of Compact grants remains subject to finalization. Compact grants, currently about 20% of GDP, will be replaced by investment returns from the Compact Trust Fund and are expected to be about 11% of GDP beyond 2024, a substantial reduction in revenues.

¹³ ADB. 2020. [ADB's Comprehensive Response to the COVID-19 Pandemic](#). Manila.

¹⁴ ADB. [Federated States of Micronesia: Health Expenditure and Livelihoods Support Program](#).

¹⁵ ADB. [Regional: Strengthening Social Protection in the Pacific](#).

¹⁶ ADB. [Regional: Pacific Economic Management \(Phase 3\)](#).

¹⁷ Based on ADB's 2020 country performance assessment, the country's ratings are relatively low for critical areas including the business regulatory environment, the equity of public resource use, and the quality of public administration. ADB. 2021. [Annual Report on the 2020 Country Performance Assessment Exercise](#). Manila.

¹⁸ A summary of the Economic Recovery Support Programs that supported Pacific developing member countries during the global crisis is in ADB. 2011. [Policy-Based Programs for the Pacific Islands](#). *Policy Brief*. November. Manila.

¹⁹ ADB and the IMF have had regular meetings on macroeconomic and fiscal issues through participation during Article IV missions (the latest was held in June 2019 in Pohnpei), and as part of wider development partner discussions on supporting the government during the crisis.

coordinating policy advice from development partners to support the government in preparing the SPP and the ESP. WHO, together with the United Nations Children's Fund (UNICEF), Micronesia Red Cross, and local nongovernment organizations, supported the FSM in implementing a community outreach program to empower communities to protect themselves from COVID-19 infection. This was also supported by community-based small grants under the program. In terms of post-COVID-19 recovery efforts, ADB will continue to support climate- and disaster-resilient infrastructure; build a social protection system for the poor and vulnerable groups; and reorient the design of health and social sector projects to strengthen the resilience of the FSM to health emergencies and outbreaks. Future ADB assistance will be anchored on lessons from ADB's ongoing regional TA supporting effective and sustainable delivery of development results in fragile situations in the Pacific.²⁰ ADB is working closely with development partners in the Pacific to encourage policy and legislative reforms that will improve the business environment; spur investment and private sector-led growth; and support financial inclusion, including for women.

7. The program was part of ADB's comprehensive assistance to the FSM that covered immediate financing support for the government's response to COVID-19 to manage adverse socioeconomic impacts, and medium-term interventions to promote recovery and resilience. At the onset of the pandemic, the FSM drew down \$6 million in grants from the Pacific Disaster Resilience Program for contingent disaster financing (CDF).²¹ ADB provided \$474,000 in TA and collaborated with UNICEF in the procurement of medical equipment and supplies.²² The FSM also accessed \$470,000 from the Asia Pacific Disaster Response Fund (APDRF) to meet immediate financing gaps, such as overtime remuneration for frontline workers, quarantine and contact tracing costs of suspected COVID-19 patients, and other logistics costs. The FSM received a further allocation of \$1.03 million from the APDRF, financed by the Government of Japan, to support additional needs.²³ In August 2022, amid community transmission of COVID-19, the FSM drew down another \$6 million in grants from a CDF instrument approved in November 2020.²⁴

8. The program complemented grant assistance from development partners. The US provided (i) an emergency allocation of \$7 million from unexpended compact sector grant funds for health sector needs; (ii) a \$36 million Pandemic Unemployment Assistance (PUA) program to compensate for job losses under the US Coronavirus Aid, Relief, and Economic Security (CARES) Act, 2020;²⁵ and (iii) an allocation of \$1.3 million from the US Centers for Disease Control and Prevention's emergency response. The World Bank provided \$2.5 million in contingency emergency response for health sector preparedness and procuring medical supplies. The People's Republic of China and Japan provided cash donations and in-kind assistance.

9. The program is aligned with the focus of the Pacific Approach, 2016–2020—ADB's country partnership strategy at the time for the 11 small Pacific developing member countries, including the FSM—on managing risks from external shocks, including by improving health and social protection services.²⁶ The program is also aligned with ADB's Strategy 2030 operational priorities

²⁰ ADB. [Regional: Towards Effective and Sustainable Delivery of Development Results in Fragile Situations in the Pacific](#).

²¹ ADB. [Regional: Pacific Disaster Resilience Program](#).

²² ADB. [Regional: Regional Support to Address the Outbreak of Coronavirus Disease 2019 and Potential Outbreaks of Other Communicable Diseases](#).

²³ ADB. [Regional: COVID-19 Emergency Response](#) (FSM for \$470,000); and ADB. [Regional: COVID-19 Emergency Response](#) (FSM for \$1.03 million).

²⁴ ADB. [Regional: Pacific Disaster Resilience Program, Phase 3](#). Subject to the government's request, ADB will seek to process a new contingent disaster financing instrument for the FSM by early 2023.

²⁵ Citizens of the Freely Associated States are eligible for unemployment benefits under the US CARES Act via two facilities: the PUA program and the Federal Pandemic Unemployment Compensation program.

²⁶ ADB. 2016. [Pacific Approach, 2016–2020](#). Manila.

of addressing remaining poverty and reducing inequality, accelerating progress in gender equality, and strengthening governance and institutional capacity.²⁷

10. The FSM's compliance with the access criteria for the CPRO was examined during program preparation (Table 1 and Appendix 4 of the report and recommendation of the President, footnote 14). The FSM was in compliance with the following access criteria at the time of grant approval and throughout program implementation:

- (i) **Criterion 1: An adverse impact of exogenous shocks.** GDP was projected to fall by 5.4% in FY2020 and by a further 1.8% in FY2021. Formal job losses across sectors were estimated at 1,975 (up to 70% women)—a 12% drop from FY2019 employment levels—by the end of FY2021. Per capita income was expected to fall by 3.6% from FY2019 to FY2021, with the poverty rate rising from 32.3% to 36.8% over the same period. This would translate to more than 4,500 people falling below the poverty line, with more severe impacts on female-headed households. Current estimates indicate a reduced impact, mostly because of the mitigation and stimulus programs, with GDP likely to have contracted by a cumulative 5.0% over the 2-year period and a limited impact on employment and incomes (paras. 24–25).
- (ii) **Criterion 2: Planned countercyclical development expenditure.** In April 2020, the government approved a countercyclical expenditure plan of \$58.7 million (\$28.6 million for FY2020 and \$30.1 million for FY2021) funded via grants and funds realignment. This included (i) C-HAP (\$29.0 million) on COVID-19 preparedness and response; (ii) ESP (\$18.4 million) to assist affected businesses and workers; and (iii) SPP (\$11.3 million) for vulnerable groups (para. 11).
- (iii) **Criterion 3: Pre-shock record of generally sound macroeconomic management.** GDP grew by an average of 1.9% annually in FY2015–FY2019, largely driven by the services sector (trade, financial intermediation, and real estate). Inflation was low, at 0.1%, over the same period. With higher grants and revenues (74.6% of GDP), and restraints on expenditure (59.8% of GDP), annual fiscal surpluses rose to 14.8% of GDP in FY2015–FY2019. The surpluses were used to build up the FSM Trust Fund and reduce public debt, which fell from the equivalent of 20% of GDP in FY2019 to about 15% in FY2021.²⁸
- (iv) **Criterion 4: Structural reforms.** In 2015, the government unveiled the 2023 Action Plan, aimed at enhancing economic and financial stability and moving toward fiscal self-sufficiency, with a focus on revenue enhancement and expenditure management to improve public financial management (PFM) in preparation for a potential reduction in revenues with the expiration of the economic provisions of the US Compact in 2023 (footnote 12).²⁹ In line with this, annual contributions to the FSM Trust Fund from fishing license fees and corporate income taxes have been increased. In FY2019, the Financial Management Act and related internal procedures were updated.³⁰ The national and state governments took early and preemptive actions to contain the threat of the pandemic. The government's COVID-19 Response Framework guided the mitigation interventions

²⁷ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

²⁸ This record of sound fiscal management was in evidence before FY2015, with annual fiscal surpluses since FY2012 and a steady buildup of fiscal buffers in the FSM Trust Fund, which has more than quadrupled in value since FY2015.

²⁹ Government of the FSM, 2023 Planning Committee. 2015. *FSM 2023 Action Plan*. Palikir. This focused on activities to achieve the targets set out in Government of the FSM. 2003. *Strategic Development Plan 2004–2023: The next 20 years: Achieving Economic Growth and Self-Reliance*. Palikir.

³⁰ A 2019 IMF assessment noted weaknesses in PFM, particularly in procurement procedures and screening of capital projects. IMF. 2019. *FSM: 2019 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for the Federated States of Micronesia*. IMF Country Report. No. 19/288. Washington, DC.

at the national and state levels, while strengthening the health system's capacity for surveillance; early detection, control, and management of diseases; infection prevention and control; quarantine and isolation; contact tracing; clinical case management; and laboratories for local testing. The framework also provides for separate plans for vulnerable populations through decentralized clinical services.

- (v) **Criterion 5: Debt sustainability.** The FSM's public debt stock is relatively low (20% of GDP in FY2019), although the IMF classifies the FSM at high risk of debt distress in view of the fiscal uncertainties after FY2023 with the expiration of the economic provisions of the Compact of Free Association with the US, along with climate change risks that can constrain long-run economic growth (footnote 12). Debt sustainability analyses conducted by ADB and the IMF retain the high risk rating for debt distress, but conclude that public debt remains sustainable.³¹
- (vi) **Criterion 6: Coordination with the International Monetary Fund.** ADB has coordinated closely with the IMF and has built strong relationships through participation in Article IV missions and staff visits to the FSM (para. 6). The IMF was supportive of the CPRO and provided an assessment letter for the FSM.

B. Program Impact, Outcome, and Output

11. The program impact was strengthened capability to respond to and recover from the COVID-19 pandemic's social and economic impacts. The program outcome was reduced adverse impacts of the pandemic on individuals and communities. The program was to support the government's COVID-19 Response Framework and countercyclical response program through three outputs: (i) COVID-19 preparedness and response capacities of the health system strengthened, (ii) economic relief for adversely affected businesses and workers delivered, and (iii) well-being of vulnerable communities and populations supported.³² The program provided general budget support to help achieve targets across these three outputs. The program implementation period was December 2020–September 2021, although the implementation of response efforts is continuing. Achievements are summarized in paras. 26–28 and Appendix 1. The government's response program comprised the following components:

- (i) **COVID-19 Health Action Plan (\$29.0 million): COVID-19 preparedness and response capacities of the health system strengthened.** Travel restrictions and border closures helped prevent a COVID-19 outbreak. The government's COVID-19 Response Framework developed quarantine and isolation facilities across the nation; provided mandatory infection control training for all first responders; increased testing capacity and provided essential medical equipment and supplies, including personal protective equipment; and strengthened local surveillance capacities for national and regional reporting. All four state hospitals are now equipped with ventilators and COVID-19 testing machines. The initial response framework allocation of \$20 million was increased by \$9 million as part of the FY2021 budget for a vulnerable population mitigation plan to decentralize clinical services and establish remote consultation options for vulnerable groups,

³¹ ADB. 2020. *Report and Recommendation of the President to the Board of Directors: Proposed Countercyclical Support Facility Grant to the Federated States of Micronesia for the Health Expenditure and Livelihoods Support Program*. [IMF Assessment Letter](#) and [Debt Sustainability Analysis](#) (accessible from the list of linked documents in Appendix 2).

³² The response plan included several activities not covered by these three outputs, notably (i) unemployment benefit support to qualified citizens funded through the US CARES Act, (ii) substantial efforts in the repatriation of citizens, and (iii) payments to citizens stranded abroad because of travel restrictions. The Department of Finance and Administration (DOFA) quarterly reports on the program provide financial data and the number of beneficiaries covered by these activities (paras. 15 and 19).

as the pandemic showed no signs of abating. Risk communication and community outreach are ongoing to educate the public on COVID-19 awareness.

- (ii) **Economic Stimulus Package (\$18.4 million): economic relief for adversely affected businesses and workers delivered.** In April 2020, the FSM Congress developed an ESP and a Tourism Mitigation Fund (TMF). The TMF's initial funding of \$1 million to support affected tourism businesses (hotels, restaurants, car rentals, tour operators, and dive shops) was subsequently increased to \$15 million. Business owners were eligible to claim full relief for wages, interest on loans, and social security and tax payments. An additional \$0.4 million was provided as temporary unemployment assistance for migrant workers who had lost their jobs because of the pandemic.³³ The government allocated a further \$3 million as a concessional credit line through the FSM Development Bank (FSMDB) for loans to micro- and small-sized enterprises.
- (iii) **Social Protection Program (\$11.3 million): well-being of vulnerable communities and populations supported.** The SPP addressed the severe challenges and vulnerabilities facing the poor, older persons, persons with disability, and victims of gender-based violence (GBV). It comprised (a) cash transfer grants to support an estimated 4,500 low-income households outside the PUA program to help meet their immediate cash needs; (b) a food security program for community groups and low-income households to enhance food production through subsistence livelihood training and the distribution of seeds, planting, and fishing materials at no cost ; (c) community-based small grants, working with nongovernment organizations and civil society organizations to strengthen community awareness of COVID-19; (d) financial assistance to vulnerable groups covering waivers of medical expenses, utility subsidies, distribution of solar lamps, and consultation and services for GBV victims; and (e) one-off cash payments to FSM citizens and students stranded abroad.

C. Program Costs and Financing

12. The CPRO of \$14 million—70% of the ceiling set in ADB's CPRO policy—was equivalent to 4% of nominal GDP and 24% of the government's budget for its COVID-19 Response Framework and countercyclical response program at CPRO approval and completion.³⁴

D. Disbursements

13. The grant was disbursed in a single tranche on 18 December 2020, one day after being declared effective, to support the response program that had been in place since April 2020. The proceeds were deposited in the national government's general account for subsequent withdrawals upon use.

E. Program Schedule

14. The program was approved on 12 November 2020. The grant agreement was signed on 25 November 2020 and became effective on 17 December 2020, ahead of the original date of 23 February 2021, facilitated by ADB's Pacific Country Office in Palau. The program completion date of 30 September 2021 was maintained, but the financial closing date was 2 February 2021.

³³ The FSM hosts an estimated 3,000 migrant workers, of which at least 100 lost their jobs because of the pandemic.

³⁴ The remainder of the ceiling amount was allocated to a subsequent round of financing for FSM's CDF instrument.

F. Implementation Arrangements

15. The implementation arrangements were satisfactory. The Department of Finance and Administration (DOFA) was the program executing agency, responsible for oversight and coordination. Implementing agencies included the DOFA, the Department of Health and Social Affairs (DHSA), the Department of Resources and Development, and the FSMDB. A program steering committee (PSC), co-chaired by the DOFA and DHSA secretaries, monitored budget execution and the flow of funds through the DOFA's quarterly reports.³⁵ The PSC provided monthly updates to the President of the FSM on the program's overall progress and outcomes. The Office of the President and the FSM Public Information Office issued regular press releases on COVID-19 response activities.³⁶ The C-HAP implementation was reported through the National COVID-19 Taskforce. To ensure efficient implementation and monitoring, the ESP and SPP used implementation mechanisms established for the PUA to reach the target beneficiaries. The implementing agencies partnered with municipal governments, nongovernment organizations, and civil society organizations to help communities develop action plans and to provide welfare services to the poor and vulnerable. ADB TA supported the implementation of targeted schemes for the poor and vulnerable groups and monitored social outcomes using sex-disaggregated data.³⁷ The executing agency provided quarterly reporting to ADB for monitoring of the program outcomes and indicators (as specified in the design and monitoring framework [DMF]) and the gender monitoring matrix, but these reports were brief and did not cover all activities (para. 19).

G. Technical Assistance

16. ADB regional TA supported the government in refining its macro-fiscal framework to estimate FY2020 and FY2021 financing needs more comprehensively (footnote 16). Further regional TA is helping to improve future responses to external shocks by analyzing the pandemic's effects on remittances, foreign direct investment, and small and medium-sized enterprises.³⁸

H. Poverty, Social, and Gender Equality

17. The program is classified *effective gender mainstreaming*. It included measures to reduce negative impacts of the pandemic and support women and girls' health and economic empowerment. The ESP supported women employees and women-owned businesses through (i) support to tourism-related businesses to maintain employees and pay salaries, including 418 female employees (out of 863 employees); (ii) support to 14 women-owned tourism businesses (out of 186 total businesses); and (iii) support to women migrant workers in the tourism industry who have become unemployed because of COVID-19. In addition, grants and loans were offered to micro and small enterprises, with a target of 100 women-owned enterprises. The SPP included specific support to women. The one-off cash transfer scheme for 4,500 households included female-headed households and provided additional payments for women with caring responsibilities for children and older persons. Actions to prevent and respond to GBV included (i) provision for the clinical management of rape and intimate partner violence in eight health clinics across all states, (ii) medical waivers for victims of GBV, and (iii) measures to establish GBV services and referral pathways. Women's health was also supported by ringfencing the budget for maternal, child, and reproductive health services, and providing quality decentralized services so that women and girls do not need to travel to a hospital and put themselves at

³⁵ The PSC comprised key government officials from the DOFA and the implementing agencies, and the finance directors of each state government.

³⁶ FSM. [Office of the President / Public Information Office: News and Updates](#).

³⁷ ADB. [Regional: Strengthening Gender Outcomes in Pacific COVID-19 Response and Recovery](#).

³⁸ ADB. [Regional: Assessing and Improving Policy Response to Economic Shocks in the North Pacific](#).

increased risk of COVID-19 infection. The community-based grants scheme supports women's organizations, and all proposals were assessed on gender equality criteria. However, delays in onboarding gender program coordinators disrupted the timeline for implementing some interventions. At evaluation, nine of the 14 gender-related performance targets were achieved (64%), while two of three (67%) gender-related activities were completed (Appendix 4).

I. Safeguards

18. No adverse environmental, involuntary resettlement, or indigenous peoples impacts under ADB's Safeguard Policy Statement (2009) were identified at design. The program was classified *category C*.³⁹ No adverse impacts have been reported.

J. Monitoring and Reporting

19. The covenants in the grant agreement (Appendix 5) were generally complied with, although monitoring and reporting was only partly complied with. The government only partly complied with the Schedule 3 requirement that the recipient regularly monitor and evaluate the achievement of program targets, providing reports for the quarters to December 2020 and March and June 2021. However, the reports were very brief, with little text to elaborate on and explain the data in the tables, and did not cover all the indicators in the DMF (e.g., utility subsidies and the provision of solar lamps in the outer islands). The DOFA noted that reports from the states were often delayed and were incomplete, likely because of fragilities in state governments' capacity whose relatively small staff complement was stretched by the urgent need for the pandemic response. This was also reflected in subsequent delays in the preparation of quarterly reports from September 2021 onward (para. 38). As a result, the government likewise only partly complied with the Schedule 3 requirement of preparing a program completion report within 6 months of grant closing. The completion report was still being prepared as of September 2022. ADB collaborated closely with the government in monitoring through its FSM Country Office and regular virtual missions. In addition, a specialist team under the Economic Monitoring and Analysis Program (EconMAP) monitored the economic and financial performance.⁴⁰

II. EVALUATION OF PERFORMANCE

A. Relevance

20. The program is rated *relevant* at design and at completion.⁴¹ The COVID-19 pandemic severely impacted the FSM's economy, with extended border closures resulting in a cumulative economic contraction of 5% during FY2020–FY2021, largely through constraints on trade and

³⁹ ADB. 2020. *Report and Recommendation of the President to the Board of Directors: Proposed Countercyclical Support Facility Grant to the Federated States of Micronesia for the Health Expenditure and Livelihoods Support Program*. [Safeguards Assessment Matrix](#) (accessible from the list of linked documents in Appendix 2) concluded that there were no anticipated impacts in the three reform areas.

⁴⁰ EconMAP is managed by Graduate School USA, funded primarily by the Department of the Interior's Office of Insular Affairs; ADB and the World Bank have provided supplemental program funding. EconMAP monitors economic performance and assists with annual comprehensive updates of fiscal and economic statistics in the FSM, the Marshall Islands, and Palau.

⁴¹ A *relevant* rating is mainly based on the program's response to an obvious immediate need and government request to help fill the financing gap, despite targets for effective gender mainstreaming not being fully met. While the program did not specifically include policy reforms to improve readiness or build capacities for effective crisis response in the future, it supports the government's COVID-19 Response Framework and countercyclical response program, which were designed to strengthen FSM preparedness and response capacity; and provide a coordinated sustainable response through the National COVID-19 Taskforce, the DOFA, and the program PSC.

travel. The government enacted strong and timely measures to limit the risk of a local outbreak of COVID-19, and on 6 April 2020 disseminated a COVID-19 Response Framework to guide the FSM in mitigating the impact of COVID-19, including an initial \$20 million for health care infrastructure and supplies.⁴² As the pandemic showed no signs of abating, a comprehensive countercyclical response program of \$58.7 million (inclusive of the initial \$20 million) was developed, which the program supported through budgetary support. The framework is an action plan guiding national and state government efforts on COVID-19 preparedness and response in containing the pandemic, while the response program addressed economic and social impacts, particularly on the poor and vulnerable. The IMF reported that the response to the pandemic has been strong and broadly appropriate.⁴³ The response program provided resources to strengthen health system, financial assistance to affected businesses and individuals, and income and other support to vulnerable groups, which have helped mitigate the negative effects of the pandemic.

21. ADB responded in a timely manner with a program aimed at mitigating and managing the pandemic's negative effects in the short term, supporting both economic relief for adversely affected businesses and workers and the well-being of vulnerable communities and populations. It was prepared in close consultation with the IMF and other development partners, and is in line with ADB's CPRO policy. ADB TA financed a rapid assessment of the potential social impacts of decreased economic activity on vulnerable groups brought about by COVID-19 (footnote 15). ADB supported, and continues to support, improved financial and economic management through regional TA (footnotes 16 and 38). The FSM was deemed eligible and met the six access criteria outlined in ADB's CPRO policy at the design stage, and this continued throughout program implementation (para. 10). The program remains aligned with ADB's Pacific Approach, 2021–2025, particularly in addressing the core challenge of vulnerability to shocks.⁴⁴

22. The program's DMF was *relevant*. The DMF's target outputs, based on the main components of the government's response—as summarized in a development policy letter dated 19 June 2020—directly resulted in the achievement of the desired outcome of reducing the adverse impacts of COVID-19. Health measures, including strict travel restrictions along with strengthened disease surveillance, prevention, and management capacities, helped combat the entry and spread of COVID-19, resulting in zero community cases until July 2022. The ESP included measures to provide economic stimulus to adversely affected businesses and workers to supplement their incomes and livelihoods. The SPP addressed the heightened challenges and vulnerabilities facing the poor, older persons, and persons with disability during an economic downturn toward safeguarding their welfare. The program's gender-related performance targets helped ease the pandemic's socioeconomic impacts on women and girls by prioritizing their coverage in the provision of mitigation measures (Appendix 4). In consultation with the government, ADB identified meaningful yet realistic targets for which data would be available.⁴⁵

⁴² The framework provided a standardized framework for a collective and coordinated response by national and state governments to the pandemic. Government of the FSM. 2020. [The FSM COVID-19 Response Framework: A Summary](#). Press release. 8 April.

⁴³ IMF. 2021. [FSM: 2021 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for the Federated States of Micronesia](#). IMF Country Report. No. 21/237. Washington, DC.

⁴⁴ ADB. 2021. [Pacific Approach 2021–2025](#). Manila.

⁴⁵ Recognizing the high degree of uncertainty concerning the evolution of the pandemic and the critical need for flexibility in the government's response, ADB applied a flexible approach to the DMF whereby additional or alternative indicators could be identified later for a more comprehensive evaluation of program effectiveness. For the program, however, no alternative or additional indicators were necessary as the government's response remained consistent throughout implementation, with only offsetting adjustments allocations to SPP components.

B. Effectiveness

23. The program is rated *less than effective*. It achieved eight out of 15 (53%) DMF targets (Appendix 1) along with a corresponding nine out of 14 gender-related targets (64%), while two out of three (67%) gender-related activities were completed (Appendix 4). The rating acknowledges the government's timely response program and successful implementation of most measures that reached the intended beneficiaries, and compliance with the six access criteria for the CPRO throughout program processing and implementation (para. 10). The CPRO assistance of \$14.0 million constituted 41.9% of the estimated fiscal deficit of \$33.4 million in FY2021.

24. **Economic growth.** The FSM's economy was projected to contract by 5.4% in FY2020 and by a further 1.8% in FY2021, but the government's mitigation and stimulus programs helped reduce the impact, although not as much as may have been anticipated.⁴⁶ EconMAP estimates that the impact of these programs reduced the decline in GDP to 5.0% over the 2-year period. The government's mitigation and stimulus measures injected about \$70 million into the economy during FY2020–FY2021, equivalent to 19% of GDP, and reduced the cumulative GDP contraction in FY2020 and FY2021 by an estimated 2.2 percentage points. The TMF and the program specifically supported the private sector. During the crisis, the public sector remained largely unaffected, while the impact on the private sector was severe; the hotel and restaurant industry contracted by 73% in FY2021 and the transport industry by 14%, but the small size of the private sector muted the overall decline for the whole economy, while assistance measures mitigated impacts on private sector employment and household incomes (para. 25).

25. **Employment and incomes.** EconMAP's May 2020 projections estimated a loss of 1,800 jobs over FY2020 and FY2021, a reduction of 11% of FSM-wide employment from FY2019 levels. Preliminary estimates for FY2020, however, indicate a loss of just 225 jobs because of the pandemic (504 lost jobs in tourism and transport, but some offsetting increases in retail and government were recorded, reflecting mitigation efforts). The TMF helped maintain the salaries of affected private sector employees, while businesses instituted a reduction in hours before terminating jobs, thus reducing the impact on employment. Household incomes rose during the pandemic but are projected to fall in FY2022 (by about 4.7%) once the assistance programs are complete. The program and the US CARES Act had a significant impact on supporting household incomes, without which EconMAP estimates household incomes would have fallen by 6.3%. The US CARES Act came into force not long after the start of the pandemic, supporting household incomes in both FY2020 and FY2021. Funds from the program were released in FY2021 and continued supporting household incomes into FY2022. Combining both assistance programs, household incomes are estimated to have risen by 0.1% in FY2020 and 3.1% in FY2021, helping to avert a projected 4.5 percentage point increase in the poverty rate if the forecast cumulative 6.9% reduction in incomes during FY2020–FY2021 were realized.

26. **Health systems strengthening.** The C-HAP included building quarantine and isolation facilities across the country; providing infection prevention control training for first responders; increasing local laboratories' testing capacity; providing essential medical equipment and supplies, including personal protective equipment, ventilators, and COVID-19 test machines for each state; and strengthening local surveillance capacities for routine national and regional reporting.⁴⁷ Quarantine areas were designated in all states, initially using hotel rooms in Chuuk and Pohnpei, the sports complex in Yap, and the high school in Kosrae, although the target

⁴⁶ EconMAP analysis indicates that the measured impact of the various mitigation efforts has not directly affected production levels in the worst affected sectors of transport and tourism.

⁴⁷ This includes a risk communication plan to guide mitigation interventions in the event of community transmission.

number of isolation beds was not fully achieved. The targets for training, contact tracing, infection prevention control, and clinical management of suspected and confirmed patients were achieved.

27. **Economic stimulus.** The ESP included (i) financial support through the TMF to tourism businesses that had been heavily hit by the pandemic, (ii) temporary unemployment assistance to support migrant workers who had lost their jobs, and (iii) a concessional credit line through the FSMDB to provide loans to micro and small enterprises. Because of capacity constraints, the implementation of unemployment assistance and the ESP was slow initially but picked up; and the DMF targets, including those for women-owned businesses, have mostly been achieved or partly achieved. By September 2021, 408 tourism businesses had received stimulus checks under the TMF, of which 165 (40%) were owned by women, with total assistance reaching \$10.1 million. The FSMDB had also approved 277 applications from micro and small enterprises for loans under the ESP—159 (57%) to women-owned enterprises—for a total of \$2.4 million. Further, as of December 2020, 40 loans with outstanding balances totaling \$13.3 million were under the FSMDB's interest deferral program.

28. **Social protection.** The SPP addressed the severe challenges and vulnerabilities facing the poor, older persons, persons with disability, and survivors of GBV. It comprised (i) cash transfer grants for low-income households outside the PUA program; (ii) a food security program for community groups and low-income households; (iii) community-based small grants to strengthen community awareness of COVID-19; (iv) financial assistance to vulnerable groups (waivers of medical expenses, utility subsidies, solar lamps to households on the outer islands, clinical management kits, and consultation options for victims of GBV); and (v) one-off cash payments for FSM citizens and students stranded abroad (the DMF provides the targets). The cash transfer target for low-income households was exceeded by September 2021, with 9,325 households receiving transfers (of which 3,127 or 34% were headed by women) and \$9.3 million being distributed. Community-based grants totaling \$1,744,537 had been awarded to 43 communities. Medical waivers were also implemented across all four states to cover the health and medical expenses of vulnerable groups—older persons, persons with disability, survivors of GBV—that are otherwise not eligible for Compact Fund support. This includes in-patient care, medicines, ambulance and transportation services, and physical therapy. By September, benefit payments had been made to 790 stranded citizens (including 411 women) for \$1.3 million; 250 students (149 girls) for \$125,000; and 59 unemployed noncitizens (34 women) for \$119,500.

29. **Fiscal policy and outturns.** The overall impact of COVID-19 on the fiscal position of the national government is estimated to have been minor. Nevertheless, the receipt of large external assistance flows has enabled the national government to finance assistance measures, although administrative delays slowed progress in spending that resulted in fiscal surpluses during FY2020 and FY2021, largely reflecting accumulated reserves of unspent grants. State governments are estimated to have maintained a fiscal balance during the COVID-19 pandemic; the impact of lost tax revenues is estimated to be less than \$0.5 million or a 1.9% decline across all states. Consumer prices fell by –2.6% in FY2019 and –2.9% in FY2020 amid weak economic activity, but inflation returned at 2.0% in FY2021 because of rising prices of fuel and other imports.

30. **Economic outlook.** A slow recovery is expected from late FY2022, reflecting sluggish vaccination progress and government caution on border reopening (borders officially reopened in August 2022). The hospitality and transport industries are expected to return to growth, while construction will benefit from easier materials availability and mobility of skilled personnel. However, full recovery to pre-pandemic levels is not expected until FY2023.⁴⁸ Continued

⁴⁸ This is also the last year of the amended Compact of Free Association with the US.

restrictions prompted the government to extend its ESP for businesses to June 2022 and augment the SPP for low-income households. Risks surrounding the outlook remain high, including uncertainties on financial support after FY2023 with the expiration of the economic provisions of the Compact of Free Association with the US (footnote 12).

C. Efficiency

31. The program is rated *highly efficient*. ADB responded rapidly to the pandemic in the FSM, preparing the program during June–October 2020 following the receipt of the government's request for assistance dated 15 June 2020. A memorandum of understanding was signed on 11 September, and the program was approved on 12 November 2020. The loan was declared effective on 17 December 2020, and full disbursement was made 1 day later as a single tranche.⁴⁹ The timeliness of this support was crucial, particularly with assistance under the ESP and the SPP helping to mitigate the impacts of border closures on businesses and workers as well as on the poor and vulnerable. The government implemented its programs efficiently, providing \$20 million for health care under the response framework in April 2020 together with an initial \$1 million for the TMF and \$300,000 for citizens stranded abroad. These early actions helped delay the entry of the virus into the FSM, while mitigating the adverse impacts of border closures.

32. The CPRO instrument was an efficient recourse mobilization tool, as it helped generate complementary concessional funding and support from the FSM's other development partners (para. 8), including the US and the World Bank. The US provided off-budget financial support through the CARES Act, along with sector budget support (primarily in education and health) and infrastructure funding under its Compact of Free Association with the FSM. The People's Republic of China and Japan provided cash donations and in-kind assistance. The program complemented these with general budget support on a grant basis, which allowed for further flexibility in the government's response, helping safeguard debt sustainability.⁵⁰

D. Sustainability

33. No rating is assigned for sustainability, although improved PFM and financial sustainability is briefly discussed in paras. 34–35. Sustainability focuses on the extent to which the net benefits of the intervention continue or are likely to continue. ADB's evaluation guidelines state that for policy-based loans, "sustainability assessment should primarily consider continued political commitment and support from other stakeholders and the institutional capacity to maintain program reform outcomes."⁵¹ The sustainability conditions will vary with each of the four main policy-based loan products. As outlined in the CPRO policy, rather than medium-term structural reforms, the objective of the CPRO was to help DMCs take immediate action to address the social and fiscal consequences of the pandemic during the initial stage of the pandemic.⁵² By design, most of the actions or reforms in the government's program are not expected to be sustained beyond the crisis, nor is there an expectation that their benefits will be sustained. Therefore, it is not appropriate to include sustainability in assessing the success of a CPRO.

34. ADB support for a low-income household survey lays the foundation for a new database that will contribute to more sustainable and better targeted social protection measures in the FSM.

⁴⁹ In 2020, it took an average of 70 days (2.3 months) to process CPRO operations using One ADB teams. ADB. 2021. [2020 Development Effectiveness Review](#). Manila. Figure 2.2. p. 29.

⁵⁰ ADB coordinated closely with the IMF to ensure that the program helped safeguard macroeconomic stability.

⁵¹ ADB. 2016. [Guidelines for the Evaluation of Public Sector Operations](#). Manila. para. 57 (iii).

⁵² This is aligned with emergency budget support literature, which outlines the "three Ts" of a good stimulus package: timely, targeted, and temporary. European Central Bank. 2009. [Monthly Bulletin: March 2009](#). Frankfurt. Box 7.

Further, the program supports the government's comprehensive countercyclical response, guided by the 2023 Action Plan, which aimed to enhance economic and fiscal sustainability, focusing on revenue enhancement and expenditure management to improve PFM. Thus, the program complements recent and ongoing efforts to strengthen broader fiscal sustainability. A Public Expenditure and Financial Accountability self-assessment was conducted in 2016 to assess progress following the 2013 assessment by the Pacific Financial Technical Assistance Centre. The resulting PFM Roadmap, 2017–2020 prioritizes (i) implementing a new financial management information system (supported by a World Bank project approved in 2018); (ii) updating the FSM's financial management regulations; (iii) improving reporting standards, including via a new DOFA website; and (iv) sustaining capacity development efforts, particularly in accounting, auditing, and financial management.⁵³ The President of the FSM approved the updated financial management regulations in February 2019, strengthening integrity in PFM, but final thresholds for procurement, asset capitalization, and open bidding in the public sector are pending with Congress.

35. The FSM has a low debt profile. Its external debt, at 15% of GDP as of FY2021, is among the lowest in the Pacific. Debt service of 5% of national government domestic revenues is well within the capacity of the government to service and does not present any threat of debt stress.

E. Development Impact

36. The program's development impact is rated *satisfactory*. Assessments made by EconMAP in August–October 2021 estimated that the impact of COVID-19 was less than originally predicted (para. 24), largely because of the government's response and mitigation programs. The government's response framework, with its restrictive travel policies and health system strengthening, helped keep the country free of COVID-19 until July 2022. The ESP and SPP were successful in mitigating adverse impacts by providing economic relief for adversely affected businesses and workers, and supporting the well-being of vulnerable communities and populations. These measures have continued into 2022 because of continued border restrictions, given concerns over the Omicron variant in the context of the FSM's low vaccination rates.

37. The report and recommendation of the President indicated the program aligned with a number of the Sustainable Development Goals (SDGs 1, 3, 5, 8, 9, 10, and 17—poverty, health, gender, growth, and employment, reducing inequality, partnerships). The FSM Strategic Development Plan, 2004–2023 and the 2023 Action Plan (footnote 29) both predate these and do not include SDG targets. While sector coverage of the Strategic Development Plan is comprehensive and includes strategic goals and targets for all sectors (including health, education, gender, and environment), the focus of the action plan is on economic growth and addressing the fiscal and economic challenges leading up to 2023. The 2023 Action Plan results framework includes outcome targets for economic growth and infrastructure, improved efficiency and transparency of governance, and an improved business environment. The President's May 2020 State of the Nation Address referred to a planned national and state leadership meeting to refine the nation's goals and a development partners' roundtable to realign overseas development assistance, ensuring it contributes to the FSM's SDGs.⁵⁴ Although this has not been completed because of the pandemic, given the results achieved (paras. 24–29), it is reasonable to conclude the program has helped progress toward these goals and SDG targets.

⁵³ Government of the FSM. 2017. [Public Financial Management Roadmap, 2017–2020](#). Palikir.

⁵⁴ Government of the FSM. 2020. [His Excellency David W. Panuelo's State of the Nation Address](#). 20 May.

F. Performance of the Borrower and the Executing Agency

38. The performance of the government was *satisfactory* in preparing and implementing the program. The DOFA, as the executing agency, effectively administered the loan proceeds and closely coordinated with ADB and partners in addressing implementation issues. The secretaries of the DOFA and DHSA effectively steered efforts via the PSC to calibrate and avoid duplication in assistance measures. The DOFA coordinated with the Department of Resources and Development and the FSMDB in delivering ESP and SPP assistance. The DHSA led the coordination of the health sector's response, which contributed to the successful prevention of any community cases of COVID-19 in the FSM until July 2022. Although coordination challenges across the national government and four state governments—each facing capacity constraints—contributed to some differential results, implementing agencies managed to deliver key outputs. The DOFA prepared quarterly program reports for continuous monitoring of the program and its impacts. ADB received the reports for the December 2020, March 2021, and June 2021 quarters on a regular and broadly timely basis. However, the submission of reports from September 2021 onward, along with the government's program completion report, has been delayed amid capacity constraints as DOFA staff were stretched by the pandemic response. Capacity constraints were heightened by the unexpected removal of a long-standing resident expatriate advisor, who was leading the consolidation of data on beneficiaries and the preparation of monitoring reports, and the inability to bring in a new adviser given travel constraints. This led to the grant agreement covenants on monitoring, review, and reporting being only partially complied with (para. 19).

G. Performance of the Asian Development Bank

39. The performance of ADB was *satisfactory*. At the onset of the pandemic, ADB was able to rapidly develop and deploy a new financing modality, the CPRO, to respond to DMC needs. ADB played a significant role in the FSM, providing technical and financing support to help the government mitigate the negative impacts of COVID-19 restrictions. There were some challenges in working remotely because of travel restrictions and complying with documentation requirements under immense time pressure. During program preparation, ADB collaborated with the government and other partners, particularly the US and the World Bank, for a coordinated and comprehensive response that would avoid duplication of efforts. ADB coordinated with the IMF through virtual discussions to ensure the alignment of macro-fiscal surveillance during the crisis. In the context of thin local capacities, ADB's agility in employing timely and innovative approaches to providing TA remotely—necessitated in part because the new country coordination officer was unable to enter the country as borders were closed—also contributed to results achievement.

40. ADB actively monitored program implementation and coordinated with the government in responding to emerging challenges. ADB also supported the rollout of the low-income household survey, which will not only inform the delivery of assistance during the COVID-19 downturn but also underpins a new database that will help improve the targeting of social protection measures. Close coordination through ADB's FSM Pacific Country Office and regular meetings with key government agencies contributed to the successful delivery of the program.

H. Overall Assessment

41. Overall, the program is rated *successful* based on its relevance, effectiveness, and efficiency. The overall weighted average of these three core criteria (relevance, effectiveness, and efficiency) is 2.00. For gender equality, the program is rated *not successful* based on the assessment that only nine out of the 14 gender-related performance targets (64%) were achieved and two out of the three (67%) gender-related activities were completed (Appendix 4).

Overall Ratings

Criteria	Rating
Relevance	Relevant
Effectiveness	Less than effective
Efficiency	Highly efficient
Sustainability	Not rated. Sustainability is not an objective of the COVID-19 Pandemic Response Option instrument.
Overall Assessment	Successful
Development impact	Satisfactory
Borrower and executing agency	Satisfactory
Performance of ADB	Satisfactory

ADB = Asian Development Bank, COVID-19 = coronavirus disease.

Source: Asian Development Bank.

III. ISSUES, LESSONS, AND RECOMMENDATIONS

A. Issues and Lessons

42. The CPRO policy and guidelines were still being developed while the program was under preparation, and managing changing internal guidance and expectations added significant pressure. Program preparation efficiency gains from the “One ADB” review mechanism was led by timely support from ADB’s Economic Research and Regional Cooperation Department in conducting a debt sustainability analysis, along with specialist advice from other departments.

43. The program design and implementation benefited greatly from advisory support provided to the DOFA by the regional social protection TA funded by ADB (footnote 15) in calibrating SPP measures. Financial and economic management, however, are hampered by deficiencies in statistics, notably on tax data. In addition, although the program aimed to prioritize coverage for women and girls in targeting assistance measures to safeguard their welfare, gaps in the collection of sex-disaggregated data and delays in onboarding gender program coordinators disrupted the timeline for implementing some planned interventions.

B. Recommendations

44. **Review and update the FY2023 Action Plan.** The plan’s focus on enhanced economic and financial stability and fiscal self-sufficiency remains a priority, given the scheduled expiration of the economic provisions of the Compact of Free Association with the US. Economic structural and fiscal reforms remain a priority, but should be broadened to encompass other SDGs.

45. **Simpler process and reporting.** A simpler process is needed for crisis response, with clearly defined access criteria, limited or no policy conditionalities, and user-friendly monitoring and reporting frameworks. Where the government has a reporting framework for a crisis response program, this should be used as the basis for development partner reporting. This would allow DMC governments to implement the program more smoothly and ADB to provide TA resources more efficiently. Monitoring and reporting requirements for complementary support from development partners should be combined or made similar and consistent.

46. **Joint evaluations and timing of the program performance evaluation report.** With similar programs also supported in the Marshall Islands and Palau, a joint evaluation across the three countries in the North Pacific could produce interesting comparisons and lessons. Where development partners have provided complementary support, joint evaluations could be both cost-effective and provide more comprehensive lessons toward strengthening future programs.

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Effective health preparedness and mitigation to COVID-19 ensured; Economic activities in FSM restored, with adverse impacts of COVID-19 to vulnerable segments mitigated ^a		
Design Summary	Performance Indicators and Targets	Program Achievements
Effect of the Program Adverse effects of COVID-19 on citizens and businesses reduced ^b	By September 2021: a. At least four quarantine facilities operational (FY2019 baseline: 0). b. At least 200 registered-businesses that received economic stimulus remain in operation (FY2019 baseline: 0). c. At least 4,500 low-income households (including female-headed households) benefiting from temporary financial and welfare assistance during the crisis (FY2019 baseline: 0)	a. Achieved. By September 2021, quarantine areas were designated in all states, initially using hotel rooms in Chuuk and Pohnpei, the sports complex in Yap and the high school in Kosrae. Folding container housing units were procured for more permanent quarantine and isolation rooms. Schools were to be used in case of a surge. Isolation units were designated and refurbished at hospitals in all states (new construction in Kosrae; refurbished tuberculosis ward in Chuuk; existing isolation rooms in Pohnpei and Yap) (see also 1.2 below). b. Achieved. By September 2021, a total of 408 tourism businesses (40% are owned by women) and 277 micro- and small-sized enterprises (57% are owned by women) that received economic stimulus payments remained in operation. c. Achieved. As of September 2021, at least 9,325 low-income households, inclusive of 3,127 that are headed by women (34%) received temporary assistance through one-time cash payouts (the overall target was achieved despite delayed rollout of utility subsidies and solar lamps distribution).
Outputs 1. Measures to combat the entry and spread of COVID-19 in the FSM delivered	1.1. By January 2021, at least 265 first responders (i.e., Chuuk: 90; Kosrae: 50; Pohnpei: 80; Yap: 45) improved capacity on COVID-19 contact tracing and infection prevention control (with at least 50% being women) (August 2020 baseline: Chuuk: 40; Kosrae: 25; Pohnpei: 40; Yap: 20)	1.1. Partly achieved. As of September 2021: (i) 309 health workers received first responders' training (Chuuk: 64; Kosrae: 70; Pohnpei: 50; Yap: 125); (ii) 119 were trained on COVID-19 contact tracing (Chuuk: 20; Kosrae: 32; Pohnpei: 36; Yap: 56); and (iii) 543 were trained on infection prevention control (Chuuk: 24; Kosrae: 207; Pohnpei: 244; Yap: 88). Based on the observed gender profile of employment as of FY2015, women comprise 65.5% of employed workers in the FSM's health and social work sector. Using this share, it is

Design Summary	Performance Indicators and Targets	Program Achievements
	<p>1.2. By December 2020, at least 55 isolation beds (i.e., Chuuk, 20; Kosrae, 10; Pohnpei, 15; Yap, 10) identified and set up for clinical management of suspected and confirmed patients (August 2020 baseline: Chuuk: 12, Kosrae: 2, Pohnpei: 4, Yap: 2)</p> <p>1.3. By March 2021, simulation exercise at ports of entry for admitting persons under investigation at local hospital for isolation in each state completed (FY2020 baseline: simulation exercise conducted in Pohnpei state)</p>	<p>estimated that around 636 of the total 971 health workers trained are women. However, since sex-disaggregated data was not collected during the conduct of trainings, this target is considered only partly achieved.</p> <p>1.2. Partly achieved. As of December 2020, a total of 11 isolation beds were available (Chuuk: 1; Kosrae: 3; Pohnpei: 5; Yap: 2). This was deemed sufficient given that the FSM remained free of COVID-19 at the time. By September 2021, the number of available isolation beds had increased to 32 (Chuuk: 4; Kosrae: 10; Pohnpei: 4; Yap: 14). As a supplementary measure, training on critical management of suspected and confirmed patients was conducted. As of December 2020, a total of at least 45 people (Chuuk: 6; Kosrae: 32, Pohnpei: no data, Yap: 7) were trained. In October 2022, a new medical wing with 16 additional rooms was completed at the Pohnpei State Hospital.</p> <p>1.3. Partly achieved. Simulation exercises at ports of entry were conducted in June 2020, August 2020, and February 2021 in Pohnpei; July 2020 and September 2021 in Kosrae; March 2021 in Chuuk; and in May 2021 in Yap.</p>
2. Measures to provide economic stimulus relief to businesses implemented	<p>By September 2021</p> <p>2.1. At least 186 affected tourism businesses^c received stimulus checks under the TMF (FY2019 baseline: 0)</p> <p>2.2. At least 56 businesses (including 14 women-owned businesses) received debt relief under the TMF (FY2019 baseline: 0)</p>	<p>2.1. Achieved. As of September 2021, tourism business stimulus payments were provided to a total of 408 businesses, 165 (40%) of which are owned by women. These include 57 businesses in Chuuk (35 owned by women); 126 (47) in Kosrae; 156 (68) in Pohnpei; and 69 (15) in Yap. Total payments amounted to \$10.06 million.</p> <p>2.2. Partly achieved. The FSM Development Bank's 2020 Annual Report confirms that 40 loans with outstanding balances amounting to \$13.3 million are under the active deferral program. The deferment program covers about 30% of the bank's total portfolio, implying that the bulk of</p>

Design Summary	Performance Indicators and Targets	Program Achievements
	<p>2.3. 200 small and micro enterprises received loans and grants under the ESP (at least 100 are women-owned enterprises) (FY2020 baseline: 0)</p>	<p>tourism and travel businesses (comprising about 35% of the portfolio) have availed of the program. Thus, the program achieved its intended purpose of providing debt relief to affected businesses and remains available for others that may need to consider availing of deferrals. Total interest payments from the government amounted to \$300,520 for the period from February to December 2020 and reached \$1,150,933 by September 2021. Further, data provided by FSMDB confirms that 39 loans remained covered by the deferment program by September 2021. Five of the 39 covered loans are to businesses with women as primary owners, 6 are to corporations with women officers, and the rest are to family businesses, jointly owned by husbands and wives (i.e., businesses registered under both spouses' names, with corresponding loans provided under both names as well). Thus, women-owned (5) and co-owned (29) businesses that availed of the loan deferment program were 34 in total. As the target number of women-owned and co-owned businesses to be covered was achieved (and exceeded), but the total number of businesses was not, this indicator is considered only partly achieved.</p> <p>2.3. Achieved. As of June 2021, the FSM Development Bank received a total of 472 applications from micro- and small-sized enterprises for loans and grants under the ESP for a total amount of \$3.7 million. By September 2021, 277 were approved, including 159 (57%) to women-owned enterprises, for a total amount of \$2.4 million. These include 136 enterprises in Chuuk (72 owned by women) for a total of \$880,943; 16 (8) in Kosrae for a total of \$146,965; 116 (77) in Pohnpei for a total of \$1,219,539; and 9 (2) in Yap for a total of \$103,205.</p>
3. Measures to provide social protection to poor and vulnerable groups enhanced	<p>By September 2021:</p> <p>3.1. At least 4,500 low-income households (including all eligible female-headed households)^d received a one-time cash payout</p>	<p>3.1. Achieved. By September 2021, a total of 9,325 low-income households, of which 3,127 were headed by women (34%), received a one-time cash payout</p>

Design Summary	Performance Indicators and Targets	Program Achievements
	<p>as supplementary assistance to meet basic needs (FY2020: 0)</p> <p>3.2. At least 40 community-based baseline COVID-19 proposals (e.g., awareness, sanitation, GBV) funded to strengthen gender-responsive COVID-19 preparedness in the communities (FY2020 baseline: 0)</p> <p>3.3. At least 2,000 low-income households received utility subsidy (FY2020 baseline:0)</p> <p>3.4. At least 5,000 households provided solar lamps in the outer islands (FY2020 baseline: 0)</p> <p>3.5. All four states provided medical waiver to vulnerable groups such as the elderly and persons with disabilities on health services that are not covered under the Compact Fund (FY2020 baseline: 0)</p> <p>3.6. Requirements for clinical management of rape and intimate partner violence^e in place in eight health clinics (FY2020 baseline: 0)</p>	<p>to help meet their basic needs. Total payments amounted to \$9,325,000.</p> <p>3.2. Achieved. As of June 2021, 43 community-based organizations across the FSM (Chuuk: 15, Kosrae: 4, Pohnpei: 19, Yap: 5) have received COVID-19 awareness grants for education on handwashing and social distancing; distribution of soaps, masks, and informational materials; and prevention of GBV. The community grants amount to a total of \$1,744,537.</p> <p>3.3. Not achieved. Implementation of the utility subsidy has been delayed and as of July 2022 this has yet to commence. In October 2022, the electricity utility assistance program commenced, with all senior citizens (ages 65 and older) eligible to receive \$100 through prepaid cards.</p> <p>3.4. Not achieved. Distribution of solar lamps has been delayed and as of July 2022 this has yet to commence.</p> <p>3.5. Achieved. With funding support from the national government, state hospitals are implementing medical waivers covering health and medical expenses of vulnerable groups (i.e., elderly, persons with disabilities, survivors of gender-based violence) across all four states that are otherwise not eligible for Compact Fund support. These include in-patient care, medicines, ambulance and transportation services, and physical therapy.</p> <p>3.6. Not achieved. No firm information is available on the rollout of requirements of clinical management of rape and intimate partner violence to health clinics. As of August 2021, Standard Operating Procedures for the clinical management of rape and intimate partner violence are in place in Pohnpei, with corresponding training provided to health officials. A GBV counseling center has been established in Chuuk. GBV training has also been provided to the police in Kosrae and</p>

Design Summary	Performance Indicators and Targets	Program Achievements
		Pohnpei, as well as to judges in Pohnpei.

COVID-19 = coronavirus disease, ESP = Economic Stimulus Package, FSM = Federated States of Micronesia, FY = fiscal year, GBV = gender-based violence, TMF = Tourism Mitigation Fund.

^a H.E. David W. Panuelo, President of the Federated States of Micronesia. 2020. [State of the Nation Address](#). Pohnpei.

^b Community transmission is the highest level of the 4-level COVID-19 transmission classification adopted by the World Health Organization.

^c Support to tourism-related businesses to maintain employees and pay salaries, including 418 female employees (out of 863 employees). Women-owned tourism businesses are defined as businesses with women as sole or co-owners).

^d Households with annual income of \$3,600 (based on the minimum wage) or less.

^e Following WHO 2020 guidelines. WHO, United Nations Population Fund, and United Nations High Commissioner for Refugees. 2020. [Clinical management of rape and intimate partner violence survivors: Developing protocols for use in humanitarian settings](#). Geneva.

Sources: Asian Development Bank and Federated States of Micronesia Department of Finance and Administration COVID-19 / HEALS Program Quarterly Reports.

PROGRAM COST AT APPRAISAL AND ACTUAL
(\$ million)

Item	Estimate at Approval			Actual		
	Foreign Exchange	Local Currency	Total Cost	Foreign Exchange	Local Currency	Total Cost
Health Expenditure and Livelihoods Support (HEALS) Program						
1. Grant 0751	14.0	0.0	14.0	14.0	0.0	14.0
Total	14.0	0.0	14.0	14.0	0.0	14.0

Source: Asian Development Bank estimates.

ANNUAL AND CUMULATIVE DISBURSEMENT OF ADB GRANT PROCEEDS

Year	Annual Disbursement		Cumulative Disbursement	
	Amount (\$ million)	% of Total	Amount (\$ million)	% of Total
2020	14.0	100.0	14.0	100.0
Total	14.0	100.0		

ADB = Asian Development Bank.

Source: Asian Development Bank estimates.

ACHIEVEMENT OF GENDER-SPECIFIC TARGETS FOR COVID-19 PANDEMIC RESPONSE OPTION

1. **Introduction.** Gender inequalities are exacerbated during crises. In the event of a coronavirus disease (COVID-19) outbreak, women are at increased risk of infection because of their roles as frontline health workers and carers. Indirect health risks include worsening health outcomes for women and girls, as essential services such as maternal and reproductive health have a lower priority because of COVID-19 and women may be reluctant to seek health care because of fear of COVID-19 infection. In the Federated States of Micronesia (FSM), women are more vulnerable to economic hardships given their reliance on remittances and informal work, particularly in travel and tourism-related industries. In the formal sector, 39% of employees were women, who received 36% of gross earnings and earned 13% less than men, on average. About 20% of total households are female-headed, and they face an increased risk of poverty. Before the COVID-19 crisis, 50% of female-headed households were below the poverty line compared with 39% of male-headed households. Existing prevalence data indicate that one in three women in the FSM have experienced some form of gender-based violence (GBV) in their lifetime, and this is likely to increase because of COVID-19 measures.

2. **Key objectives.** The design of the FSM Health Expenditure and Livelihoods Support (HEALS) program prioritized measures to reduce key negative impacts of the COVID-19 pandemic and support women and girls' health and economic empowerment. Schemes supporting women employees and women-owned businesses include (i) support to tourism-related businesses to maintain employees and pay salaries, particularly to female employees; (ii) support to women-owned tourism businesses; and (iii) support to women migrant workers in the tourism industry who have become unemployed because of COVID-19. In addition, grants and loans will be offered to micro- and small-sized enterprises. Several schemes aimed to support low-income households and female-headed households, including a one-off cash transfer scheme for an estimated 4,500 households with additional payments for those with caring responsibilities, such as children and the elderly; and a utility subsidy allowance for at least 2,000 households. Actions to prevent and respond to GBV include provisions for the clinical management of rape and intimate partner violence in eight health clinics across all states; medical waivers for survivors of GBV; and measures to establish GBV services and referral pathways. Women's health is further supported by ringfencing budget for maternal, child, and reproductive health services; and investing in providing quality decentralized services so that women and girls do not need to travel to a hospital and put themselves at increased risk of COVID-19 infection. Finally, the community-based COVID-19 preparedness scheme supports women's organizations, with all proposals assessed on gender equality criteria.

3. **Key Achievements.** At program completion, nine of the 14 gender-related performance targets (64%) were achieved, while two of three (67%) gender-related activities were completed. Delays in onboarding gender program coordinators disrupted the timeline for implementation of some planned interventions.

- a. **Women-owned tourism businesses received economic stimulus.** As of September 2021, tourism business stimulus payments were provided to a total of 408 businesses, 165 (40%) of which are owned by women. These include 57 businesses in Chuuk (35 owned by women); 126 (47) in Kosrae; 156 (68) in Pohnpei; and 69 (15) in Yap. Total payments amounted to \$10.06 million.
- b. **Women-owned tourism businesses provided debt relief.** The FSM Development Bank's 2020 Annual Report confirms that 40 loans with outstanding

balances amounting to \$13.3 million are under the active deferral program. The deferment program covers about 30% of the bank's total portfolio, implying that the bulk of tourism and travel businesses (comprising about 35% of the portfolio) have availed of the program. Five of the 40 covered loans are to businesses with women as primary owners, 6 are to corporations with women officers, and the rest are to family businesses jointly owned by husbands and wives (i.e., businesses registered under both spouses' names, with corresponding loans provided under both names as well). Thus, women-owned (5) and co-owned (29) businesses that availed of the loan deferment program were 34 in total.

- c. **Women-owned micro- and small-sized enterprises likewise received assistance.** As of September 2021, the FSM Development Bank had approved 277 applications from micro- and small-sized enterprises for loans under the ESP—159 (57%) to women-owned enterprises—for a total amount of \$2.4 million. These include 136 enterprises in Chuuk (72 owned by women) for a total of \$880,943; 16 (8) in Kosrae for a total of \$146,965; 116 (77) in Pohnpei for a total of \$1,219,539; and 9 (2) in Yap for a total of \$103,205.
- d. **Sustained employment for women workers.** Based on the FSM's labor market profile as of 2010 (latest available), it is estimated that around 41.3% of the 1,296 averted job losses due to the availability of assistance and stimulus measures would benefit women employees. This amounts to about 535 women workers retaining their jobs.
- e. **Basic needs of low-income women-headed households supported.** By September 2021, a total of 9,325 low-income households, of which 3,127 were headed by women (34%), received a one-time cash payout to help meet their basic needs. Total payments amounted to \$9,325,000.
- f. **Health and medical needs of vulnerable groups, including survivors of GBV, covered.** As of September 2021, medical waivers are in place across all four states to cover health and medical expenses of vulnerable groups (i.e., elderly, persons with disabilities, survivors of gender-based violence) that are otherwise not eligible for Compact Fund support. This includes in-patient care, medicines, ambulance and transportation services, and physical therapy. Based on the FSM's demographic profile as of 2020, it is estimated that 49.2% of the beneficiaries of these waivers would be women.

Gender Equality Achievements and Results

DMF Performance Indicators	Additional tracking targets and actions	Achievement at Program Completion	Data Sources
Outcome: Adverse effects of COVID-19 on citizens and businesses reduced			
Target 1 At least 200 of total registered- businesses received economic stimulus remain in operation (FY2019 baseline: 0).		Target achieved. By September 2021, a total of 408 tourism businesses (40% are owned by women) and 277 micro- and small-sized enterprises (57% are owned by women) that	DOFA COVID-19 / HEALS Program Quarterly Reports.

DMF Performance Indicators	Additional tracking targets and actions	Achievement at Program Completion	Data Sources
		received economic stimulus payments remained in operation.	
Target 2 At least 4,500 low-income households (including female-headed households) benefiting from temporary financial and welfare assistance during the crisis (FY2019 baseline: 0)		Target achieved. As of September 2021, at least 9,325 low-income households, inclusive of 3,127 that are headed by women (34%) received temporary assistance through one-time cash payouts (the overall target was achieved despite delayed rollout of utility subsidies and solar lamps distribution).	DOFA COVID-19 / HEALS Program Quarterly Reports.
Output 1: Measures to combat the entry and spread of COVID-19 in FSM delivered			
Target 3 By January 2021, at least 265 first responders (i.e., Chuuk: 90; Kosrae: 50; Pohnpei: 80; Yap: 45) improved capacity on COVID-19 contact tracing and infection prevention control (with at least 50% being women) (August 2020 baseline: Chuuk: 40; Kosrae: 25; Pohnpei: 40; Yap: 20)		Target not achieved. As of September 2021: (i) 309 health workers received first responders' training (Chuuk: 64; Kosrae: 70; Pohnpei: 50; Yap: 125); (ii) 119 were trained on COVID-19 contact tracing (Chuuk: 20; Kosrae: 32; Pohnpei: 36; Yap: 56); and (iii) 543 were trained on infection prevention control (Chuuk: 24; Kosrae: 207; Pohnpei: 244; Yap: 88). Based on the observed gender profile of employment as of FY2015, women comprise 65.5% of employed workers in the FSM's health and social work sector. Using this share, it is estimated that around 636 of the total 971 health workers trained are women. However, since sex-disaggregated data was not collected during the conduct of trainings, this gender target considered as not achieved.	DOFA COVID-19 / HEALS Program Quarterly Reports; the Secretariat of the Pacific Community Statistics for Development Division.
	Activity 1. Budget for essential health care services,	Activity completed. DHSA's share in total	FSM national budget documents (from

DMF Performance Indicators	Additional tracking targets and actions	Achievement at Program Completion	Data Sources
	including maternal and reproductive health, ringfenced	General Fund Appropriations in the national budget has stable, slightly increasing from 1.4% in FY2020 to 1.5% in FY2021 and further to 1.6% in FY2022.	FSM Congress website).
	Activity 2. Decentralization of maternal, child and reproductive health and GBV services to community health centers to minimize risk of COVID-19.	Activity completed. As part of a vulnerable population mitigation plan supported by the FY2021 budget, clinical services were decentralized, and remote consultation options were established to serve the elderly and those with pre-existing comorbidities, who are at greater risk of possibly contracting COVID-19.	FSM DHSA confirmation.
Output 2: Measures to provide economic stimulus relief to businesses implemented			
Target 4 By September 2021, at least 186 of affected tourism businesses received stimulus cheques (FY2019 baseline: 0)		Target achieved. As of September 2021, tourism business stimulus payments were provided to a total of 408 businesses, 165 (40%) of which are owned by women. These include 57 businesses in Chuuk (35 owned by women); 126 (47) in Kosrae; 156 (68) in Pohnpei; and 69 (15) in Yap. Total payments amounted to \$10.06 million.	DOFA COVID-19 / HEALS Program Quarterly Reports.
	Target 5 At least 418 women employees (out of 863 total men and women) supported to retain their jobs	Target achieved. Preliminary estimates (from May 2020) by EconMAP projected job losses of up to 1,800 during FY2020–FY2021. Revised estimates show that the employment impacts of COVID-19 have been relatively contained—largely due to the availability of stimulus and assistance measures—with only about 504 job losses at most according to	EconMAP FSM COVID-19 Impact Reports .

DMF Performance Indicators	Additional tracking targets and actions	Achievement at Program Completion	Data Sources
		estimates as of September 2021. Based on the FSM's labor market profile as of 2010 (latest available), it is estimated that 41.3% of the 1,296 averted job losses would benefit women employees. This amounts to about 535 women workers retaining their jobs due to the availability of assistance and stimulus measures.	
<p>Target 6 By September 2021, at least 56 businesses (including 14 women-owned businesses) received debt relief under the TMF (FY2019 baseline: 0)</p>		<p>Target achieved. The FSM Development Bank's 2020 Annual Report confirms that 40 loans with outstanding balances amounting to \$13.3 million are under the active deferral program. The deferment program covers about 30% of the bank's total portfolio, implying that the bulk of tourism and travel businesses (comprising about 35% of the portfolio) have availed of the program. Thus, the program achieved its intended purpose of providing debt relief to affected businesses and remains available for others that may need to consider availing of deferrals. Total interest payments from the government amounted to \$300,520 for the period from February to December 2020 and reached \$1,150,933 by September 2021. Further, data provided by FSMDB confirms that 39 loans remained covered by the deferment program by September 2021. Five of the 39 covered loans are to businesses with women as primary owners, 6 are to corporations with women</p>	<p>FSM Development Bank 2020 Annual Report and DOFA COVID-19 / HEALS Program Quarterly Reports.</p>

DMF Performance Indicators	Additional tracking targets and actions	Achievement at Program Completion	Data Sources
		officers, and the rest (29) are to family businesses co-owned by husbands and wives (i.e., businesses registered under both spouses' names, with corresponding loans provided under both names as well). Thus, women-owned (5) and co-owned (29) businesses that availed of the loan deferment program were 34 in total and the target is achieved.	
Target 7 By September 2021, 200 small- and micro-enterprises received loans and grants under the ESP (at least 100 are women-owned enterprises) (FY2020 baseline: 0)		Target achieved. As of June 2021, the FSM Development Bank received a total of 472 applications from micro- and small-sized enterprises for loans and grants under the ESP for a total amount of \$3.7 million. By September 2021, 277 were approved, including 159 (57%) to women-owned enterprises, for a total amount of \$2.4 million. These include 136 enterprises in Chuuk (72 owned by women) for a total of \$880,943; 16 (8) in Kosrae for a total of \$146,965; 116 (77) in Pohnpei for a total of \$1,219,539; and 9 (2) in Yap for a total of \$103,205.	DOFA COVID-19 / HEALS Program Quarterly Reports and FSM Development Bank data.
Output 3: Measures to provide social protection to poor and vulnerable groups enhanced			
Target 8 By September 2021, at least 4,500 low-income households (including all eligible female-headed households) received one-time cash payout as supplementary assistance to meet basic needs (FY2020 baseline: 0)		Target achieved. By September 2021, a total of 9,325 low-income households, of which 3,127 were headed by women (34%), received a one-time cash payout to help meet their basic needs. Total payments amounted to \$9,325,000.	DOFA COVID-19 / HEALS Program Quarterly Reports.
Target 9 By September 2021, at least 40 community-		Target achieved. As of June 2021, 43 community-	

DMF Performance Indicators	Additional tracking targets and actions	Achievement at Program Completion	Data Sources
based COVID-19 proposals (e.g., awareness, sanitation, GBV) funded to strengthen gender-responsive COVID-19 preparedness in the communities. (FY2020 baseline: 0)		based organizations across the FSM (Chuuk: 15, Kosrae: 4, Pohnpei: 19, Yap: 5) have received COVID-19 awareness grants for education on handwashing and social distancing; distribution of soaps, masks, and informational materials; and prevention of GBV. The community grants amount to a total of \$1,744,537.	DOFA COVID-19 / HEALS Program Quarterly Reports.
Target 10 By September 2021, at least 2,000 low-income households benefited from utility subsidy;		Target not achieved. Implementation of the utility subsidy has been delayed and as of July 2022 this has yet to commence. In October 2022, the electricity utility assistance program commenced, with all senior citizens eligible to receive \$100 through prepaid cards.	DOFA COVID-19 / HEALS Program Quarterly Reports.
Target 11 By September 2021, at least 5,000 households provided solar lamps in the outer islands (FY2020 baseline: 0)		Target not achieved. Distribution of solar lamps has been delayed and as of July 2022 this has yet to commence.	DOFA COVID-19 / HEALS Program Quarterly Reports.
Target 12 By September 2021, all four states provided medical waiver to vulnerable groups such as the elderly and persons with disabilities on health services that are not covered under the Compact Fund (FY2020 baseline: 0)		Target achieved. With funding support from the national government, state hospitals are implementing medical waivers covering health and medical expenses of vulnerable groups (i.e., elderly, persons with disabilities, survivors of gender-based violence) across all four states that are otherwise not eligible for Compact Fund support. These include in-patient care, medicines, ambulance and transportation services, and physical therapy. Based on the FSM's demographic profile as of	FSM DHSA confirmation.

DMF Performance Indicators	Additional tracking targets and actions	Achievement at Program Completion	Data Sources
		2020, it is estimated that 49.2% of the beneficiaries of these waivers would be women.	
Target 13 By September 2021, requirements for clinical management of rape and intimate partner violence in place in eight health clinics (FY2020 baseline: 0)		Target not achieved. No firm information available on the rollout of requirements of clinical management of rape and intimate partner violence to health clinics.	FSM DHSA.
	Activity 3. Pilot GBV hotline in Pohnpei (FY2020 baseline: 0)	Activity not completed. The Pohnpei Department of Public Safety, with support from the Australian Embassy, had planned to establish a 24-hour hotline for anyone experiencing GBV, child abuse, and abuse of senior citizens or persons with disabilities by late-2020. However, although standard operating procedures have been prepared, the lack of corresponding training and awareness raising initiatives has delayed the launch of the hotline.	Pohnpei Department of Public Safety.
	Target 14. Establish referral pathways and GBV Standard Operating Procedures in all states (FY2020 baseline: 0)	Target not achieved. As of August 2021, Standard Operating Procedures for the clinical management of rape and intimate partner violence are in place in Pohnpei, with corresponding training provided to health officials. A GBV counseling center has been established in Chuuk. GBV training has also been provided to the police in Kosrae and Pohnpei, as well as to judges in Pohnpei. However, with no GBV referral pathways established in Yap, this target is not achieved.	FSM DHSA.

COVID-19 = coronavirus disease, DHSA = Department of Health and Social Affairs, DOFA = Department of Finance and Administration, ESP = Economic Stimulus Package, FSM = Federated States of Micronesia, FY = fiscal year, GBV = gender-based violence, HEALS = Health Expenditure and Livelihoods Support.

Source: Asian Development Bank.

STATUS OF COMPLIANCE WITH GRANT COVENANTS

Covenant	Reference in Grant Agreement	Status of Compliance
Use of proceeds of the grant		
The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the program in accordance with the provisions of the Grant Agreement.	Article III section 3.01	Complied with. No items from the negative list were financed
The proceeds of the Grant shall be withdrawn in accordance with the provisions of Schedule 2 to the Grant Agreement, as such schedule may be amended from time to time by agreement between the Recipient and ADB.	Article III section 3.02	Complied with. Grant drawn down in one installment 2 days after grant effectivity.
The Grant closing date for the purpose of section 8.02 of the Grant Regulations shall be 30 September 2021 or such other date as may from time to time be agreed between the Recipient and ADB.	Article III section 3.03	Complied with. Grant was closed on 5 February 2021, ahead of the scheduled grant closing date.
Particular Covenants		
In carrying out the program, the Recipient shall perform, or cause to be performed, all obligations set out in Schedule 3 to the Grant Agreement.	Article IV section 4.01	Complied with.
As part of the reports and information referred to in section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all reports and information as ADB shall reasonably request concerning: (a) the Counterpart Funds and the use thereof, and (b) the implementation of the program including the accomplishment of the targets and carrying out the actions set out in the Policy Letter.	Article IV section 4.02	Partly Complied with. All information requested by ADB has been provided although the regular monthly situation reports were not always provided on a timely basis (Schedule 3 below).
Schedule 3: Program Implementation and Other Matters		
Implementation Arrangements The Recipient shall designate the DOFA as the program Executing Agency, which shall be responsible for overseeing and coordinating the implementation of the program. The Recipient shall designate (a) DOFA, (b) the Department of Health and Social Affairs, (c) the Department of Resource and Development, and (d) the Federated States of Micronesia Development Bank as implementing agencies for the program, which shall be responsible for implementing and monitoring the program.	Schedule 3, para. 1	Complied with.
Implementation Arrangements The Recipient shall establish and maintain a Program Steering Committee co-chaired by the Secretary of Finance and Administration and Secretary of Health, and comprised of key government officials from DOFA, the implementation agencies and Finance Directors of the state governments of Chuuk, Kosrae, Pohnpei and Yap to provide oversight and monitoring of the budget execution and flow of funds for countercyclical measures based on monthly reports prepared by DOFA.	Schedule 3, para. 2	Complied with.
Policy Dialogue The Recipient shall promptly discuss with ADB problems and constraints encountered during the program implementation and appropriate measures to overcome and mitigate such problems and constraints.	Schedule 3, para. 3	Complied with.

Covenant	Reference in Grant Agreement	Status of Compliance
Policy Dialogue The Recipient shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Recipient shall take into account ADB's views before finalizing and implementing any such proposal.	Schedule 3, para. 4	Complied with.
Use of Counterpart Funds The Recipient shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the program.	Schedule 3, para. 5	Complied with.
Governance and Anticorruption The Recipient, the Program Executing Agency, and the implementing agencies shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practice relating to the program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.	Schedule 3, para. 6	Complied with. There have been no indications nor reports of misuse of program funds.
Monitoring and Review, and Reporting The Recipient shall monitor implementation of the program and provide quarterly reports to ADB throughout the implementation period of the program until 6 months after the Grant Closing Date, including monitoring and reporting data on: (a) macroeconomic and finance sector conditions, (b) budget execution, expenditure and flow of funds to support the Recipient's countercyclical measures including COVID-19 response measures for the protection of poor and vulnerable groups; and (c) beneficiaries of the countercyclical measures and the program (disaggregated by sex as feasible).	Schedule 3, para. 7	Partly complied with. ADB had received the reports for the December 2020, March 2021, and June 2021 quarters on a regular and broadly timely basis. However, submission of reports from September 2021 onward have been delayed amid capacity constraints with DOFA's staff being stretched by pandemic response and unexpected loss of consulting support.
Monitoring and Review, and Reporting Within 6 months after the Grant Closing Date, the Recipient shall submit to ADB a program completion report that assesses the extent of progress and the impact of the program.	Schedule 3, para. 8	Partly complied with. There have been ongoing delays amid various pressing demands for government response during the pandemic, but the latest quarterly report (June 2021) provides some basis for an interim assessment of results. A working draft of the September 2021 quarterly report—which completes the information base for the government's ongoing efforts to prepare its own program completion report—has been shared with ADB as of July 2022.

ADB = Asian Development Bank, DOFA = Department of Finance and Administration.
Source: Asian Development Bank.