

Development  
**Effectiveness**  
Brief

# Federated States of Micronesia ▶

Opening for Business



ADB

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Asian Development Bank

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# Federated States of Micronesia

## Development Indicators

### Non-Millennium Development Goals

Population in million (2010)	0.11
Annual population growth rate (%) (2008–2010)	-0.1
Adult literacy rate (%) (2000)	92.4
Population in urban areas (%) (2009)	22.6

### Millennium Development Goals

Population living on less than \$1.25 a day (%) (2000)	31.2 <sup>a</sup>
Population living below the national poverty line (%) (2005)	29.9
Under-5 mortality rate per 1,000 live births (2009)	39.0
Population using an improved drinking water source (%) (2005)	94.0

<sup>a</sup> Urban only.

Source: ADB. 2011. *Asian Development Bank and Federated States of Micronesia: Fact Sheet*. Manila.

# Federated States of Micronesia and ADB: From Public Sector to Private

The Federated States of Micronesia (FSM) has only 110,000 people and tests the limits of what can comprise a single country. First there is geographical dispersal: the four component states—Yap, Chuuk, Pohnpei, and Kosrae—cover more than 600 islands scattered across 2.5 million square kilometers of the Pacific Ocean. Then there is ethnic diversity: each state has its own language, cultures, and traditions, not least because travel between them has always been difficult. Added to this is administrative complexity: each state has its own government, in turn divided into municipalities, while also sending representatives to the national government, which occupies a modern campus at Palikir on the island of Pohnpei.

Traditionally, people across the islands have survived on subsistence agriculture and fishing, and many still do. Nowadays, the country also derives income from the sale of fishing licenses to foreign fleets. But, directly or indirectly, the principal source of income is government expenditure, which ripples through the rest of the economy, largely based on grants from donors or from the United States (US) through the Compact of Free Association.

Through the Compact, renewed in 2004, the US, among other benefits, gives citizens of the FSM access to some US domestic programs and allows them to live and work in the US. The Compact also provides \$3.5 billion in funding, which is being transferred in annual installments until 2023. The annual grant is, however, reduced each year by \$800,000, which is channeled instead into a jointly managed Trust Fund, for future drawdown to finance government operations.

Economic growth has been slow. Over the period 2001–2008, average gross domestic product (GDP) growth was at -0.5%. However, in 2009 and 2010, growth turned positive at about 0.5%. One-third of the population is considered poor, with poverty rates higher in the outer islands. Seeing relatively few opportunities at home, many young people



Casual fishing at the port in Pohnpei. Many young people are underemployed

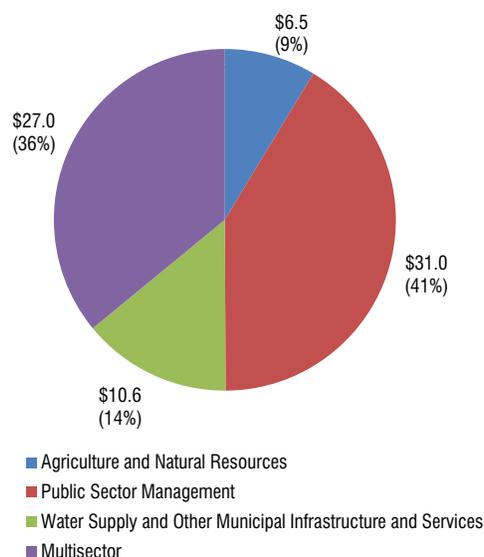
take advantage of their freedom to live and work in nearby Guam or in the US, or to serve in the US military.

Since 1999, following the Second FSM Economic Summit, the country has, with the support of the Asian Development Bank (ADB), been attempting to shift the economic focus from the public to the private sector. The FSM joined ADB in 1990. Since then, it has received eight loans, for a total of \$75 million, and benefited from 42 technical assistance (TA) projects worth \$24 million. ADB concentrated initially on improving economic management and accountability in governance, then on aspects of social development and, subsequently, on ways of stimulating the private sector. ADB loans have been predominantly on concessional terms through the Asian Development Fund (ADF), though by the end of 2010 only \$48 million had been disbursed.

Government finances remain fragile, and will come under increasing strain as Compact grants are phased out. But with TA from ADB, the

**ADB has been helping the FSM shift the economic focus to the private sector through changes in government economic policies and support for small to medium-sized enterprise development**

**Sector Distribution of Loan and Grant Approvals**  
(\$ million, %, 31 December 2010)



Source: ADB.

government has strengthened its budgetary systems. As Gillian Dune of the Office of Statistics, Budget and Economic Management explains: "Before, we used to have large budget overruns, but people have now been trained on audit procedures and on balancing budgets. For the past 10 years, the national budget has been balanced. And for the past 3 years, three of the four states have also been in balance." The country placed \$30 million in the new FSM Trust Fund when it was formed, which is intended to replace the Compact as a source of income. External debt has remained relatively low at about 24% of GDP.

**Table 1: Loan and Grant Approvals (\$ million)**

	1972–2005	2006	2007	2008	2009	2010
ADF	70.34	0	0	0	0	0
OCR	4.80	0	0	0	0	0
Total	75.14	0	0	0	0	0

**Disbursements (\$ million)**

	1972–2005	2006	2007	2008	2009	2010
ADF	36.79	2.46	3.55	3.56	0.80	1.07
OCR	0	0	0	0	0	0
Total	36.79	2.46	3.55	3.56	0.80	1.07

ADF = Asian Development Fund, OCR = ordinary capital resources.  
Source: Asian Development Bank staff estimates.

# ADB's Contribution to Development and Poverty Reduction

Over time, the focus of ADB assistance shifted. In the early years, there were significant investments in social infrastructure. This included water supply (Water Supply and Sanitation Project, ADF Loan No. 1459-FSM, \$9.1 million, completed February 2004) following which about 5,000 households were connected to piped water systems. In addition, there has been support for improved management and infrastructure in the health and education sectors (ADF Loan 1816, for \$4.0 million, completed April 2009) as a result of which around 2,000 pupils benefited from improvements in their schools. Subsequently, however, the focus has been more on public sector reform and private sector development, which are the main subjects of this brief.

## Public Sector Management

With a population dispersed across a number of islands and multiple levels of governance, public administration in the FSM is relatively expensive. In the past, the country could cover these costs through transfers from the US. But with grants from the Compact being reduced, it has become increasingly important to streamline government operations—reducing the size of the public service and increasing efficiency.

From 1997 to 2002, ADB supported these objectives through a Public Sector Reform Program, which aimed to reduce costs of government operations at both the national and state levels (ADF Loan No. 1520-FSM, \$18 million, completed June 1999).

Disbursement by state is indicated in Table 1. The loan was supplemented with TA grants, cofinanced by Japan and the US (TA 2294-FSM, for \$3.0 million, completed February 1999; TA 3024-FSM Economic Policy Reform and Management II, for \$3.8 million, approved June 1998). These TAs funded an Economic Management Policy Advisory Team (EMPAT) consisting of two resident international advisors working alongside less-experienced local economists. EMPAT was to help prepare elements of the program and also support the Government by analyzing the financial and social implications of new policies.

The national members of the EMPAT included Fredy Perman, now Executive Vice-President of the FSM Telecommunications Corporation. "I was a local economist and was working at EMPAT in 1994–1997, traveling to states looking at payroll systems and making the job audits. I also worked on the land tenure, tax, and foreign investment systems. I gained valuable experience from working with some very good people."

**Table 2: Public Sector Reform Program 1997–2002, Financing Plan**

	Estimated Costs (\$ million)	Actual Costs (\$ million)
Chuuk State	5.3	5.1
Kosrae State	2.0	2.0
Pohnpei State	4.2	4.1
Yap State	3.5	3.5
National Government	3.0	3.0
Total	18.0	17.7

Source: ADB.

The EMPAT also worked on the development of a stronger statistical system that would be able to monitor the economic impacts. One of the team members, still in the national government, Sancherina Salle, also had opportunities for learning, through a scholarship at the Australian National University in Canberra, Australia. “I had been working on statistics in Chuuk and started working with EMPAT in 2000 on compiling economic data, like GDP. They showed me how to present information. They also helped me with educational leave to go to school for 1 year with a scholarship from the Australian Agency for International Development.”

A second TA grant was for an Investment Promotion and Financial Sector Review (TA-2786-FSM, for \$380,000, completed 31 March 2000). Five international consultants were engaged on financial analysis, investment promotion, credit and business development, legal issues, and information systems. The aim was to foster the private sector by reviewing financial institutions and devising a plan for investment promotion. This resulted, for example, in the establishment of a private sector promotion agency. And Chuuk and Pohnpei enacted legislation on foreign investment.

**In providing support to private sector development, ADB also strengthened the capacity within the finance sector to support domestic investment lending**

## Slimming Down the Government

The public sector has long dominated the FSM economy and, by the mid-1990s, accounted for 59% of employment. At that point it was possible that the Compact would not be renewed, exposing the FSM to a serious fiscal crisis. To address this, the Public Sector Reform Program aimed to downsize the civil service and restructure the government.

Dwight Edwards, now training coordinator for the Department of Human Resources and Development, helped identify national-level posts that could be eliminated or combined to achieve an overall reduction of 20%. “We started in 1999 on a voluntary basis,” he says. “But we still had to meet a quota, so had to



Sancherina Salle gained experience while working with EMPAT



Susan Semes (left), with daughter Alicia, runs a busy 'drive-by' lunch box business as well as a grocery store, while Hercules Semes at the barbecue cooks for the lunchtime arrivals

ask people to leave. That was hard, but a loan from ADB enabled us to offer 2 years' salary to buy out the positions so that people could start on their own in the private sector. At the national level, about 120 people left. They were also supposed to get entrepreneurial training, though in the end there was not enough funding for this."

Seeing few business opportunities at home, many people who left government service went 'off island' to Guam or the US mainland to get better-paying jobs. But others did stay in the FSM to switch to the private sector. One was 49-year-old Susan Semes. Having worked for 7 years on budget analysis, she was asked to leave.

"My husband Hercules and I already had a small shop, and he had some taxis. So when I got about \$28,000, we decided to use this to concentrate on the business, expanding the grocery store and later selling take-away food—we called it the 'Bamboo Inn and Store'." Other members of the family, such as daughter Alicia, help in the business, which is situated on a busy road and does a brisk trade. By midday, a stream of customers are stopping in their

cars to pick up lunches that include sausages and grilled meat prepared by Hercules on the barbecue. "I'm really glad that I made the move," says Susan. "The business has been successful and I enjoy the opportunity to do different things."

One outcome of the program was that many people who took payments and left government subsequently moved on to other national or state government departments or agencies. In many cases, this was because state governments took advantage of the renewal of the Compact to employ more people in the health and education services in which the US has been keen to invest. In Pohnpei, for example, state legislator Peter Lohn estimates that while overall employment initially fell from 1,600 to 1,200, it subsequently rose to 1,400.

**By supporting small business development, ADB programs were able to help the citizens establish small businesses as the public sector was slimmed down**

## **Slimming down the government had some unintended benefits, including expanding the level of health service by the private sector**

The national government still had an employment freeze, but as positions fell vacant it was able to reemploy people who had been made redundant provided they had been away for at least 2 years. Brigida Etgar, for example, was a senior budget analyst who had worked for the government for 19 years. “I volunteered to leave in 2000 because I thought it would be an opportunity, though as it turned out, the \$28,000 was only enough to open a ‘mom and pop’ store. I enjoyed the experience, but in 2009 I was asked back to help temporarily with the budget. This gave me an opportunity to use my skills again. Then fortunately, a permanent position opened up, and for personal reasons I chose to return.”

Originally the program identified specific posts to be combined or eliminated. But legislators subsequently amended the program to enable anyone, including some senior government officials, to leave. As a result, their higher-paid posts, with correspondingly higher payoffs, had to be refilled through internal promotions. In many cases, it is doubtful if this was cost effective.

But in one case at least there was an unintended—but beneficial—outcome in that it helped expand service provision. Merlynn Abello-Alfonso had worked for 9 years as a general physician at Pohnpei state hospital. “I had become frustrated due to the lack of many basic items, even Tylenol or antibiotics. I felt I was not doing as much as I could. The early retirement scheme presented an opportunity.”

While still working at the hospital, with her husband, Hermie Alfonso, she had started a small pharmacy. But then saw the chance to take over a small Korean-run private clinic and laboratory that was closing down. Could she take an early retirement payment to help finance this? Her director at the hospital was

surprised at her application, but then realized that this would help decentralize health services and strengthen overall provision. “He pointed out that I would actually be doing the same thing as before, except outside the state system. I left in 1999 with about \$70,000 to add to our own investment in this clinic. We had trouble choosing a name so decided to choose a word from the Bible. It opened at ‘Genesis’, which seemed appropriate because it represented a new start.”

The Genesis Hospital and Pharmacy, painted a bright pink, is now one of Pohnpei’s most distinctive buildings. With 6 doctors and 13 nurses, it can deal with emergencies, as well as longer-term treatment. Patient fees are paid using government health insurance on a capitation basis. “Since this is not sufficient on its own, we have also built up the pharmacy and also now supply state hospitals in Pohnpei and Chuuk, as well as in Majuro, and have an office in Guam.”



Merlynn Abello-Alfonso at the Genesis Hospital and Pharmacy

Overall, the Public Sector Reform Program successfully focused attention on the need for greater discipline. It helped reduce public employment and wages and encouraged both national and state governments to work toward fiscal balances. In addition, the national government reduced its number of departments from 11 to 7 and, in Pohnpei State, the number of departments fell from 14 to 7. The government has also reformed the public utilities and transferred power, water, and sanitation services to independent public utility authorities. The EMPAT was also able to make valuable contributions toward tax reform, which should bear fruit with the introduction of a system of value-added tax.

In 2008, ADB helped the government enhance the capacity to carry out its socioeconomic plan: Government Visions 2025 (TA 4789-FSM: Implementation of the Public Sector Capacity Building Roadmap, \$556,115, completed July 2008). Although this had less impact at the state level, it did help strengthened staff performance and policy focus in the national government.

## Private Sector Development

In parallel with increased efficiency of the public sector, ADB has also been assisting the FSM develop the private sector. Much of this has been through the Private Sector Development Program (ADF Loan 1873-FSM, for \$3.5 million, closed 31 December 2006; and ADF Loan 1874-FSM, for \$6 million, closed 31 March 2009). This had had two broad purposes. The first was to continue the economic and legal reforms started under the Public Sector Reform Program. The objectives included reducing the wage differential between the public and private sectors; making additional funds to the FSM Trust Fund; constraining external debt and preparing legislation on land leasing,

mortgages, and foreign investment. A second set of objectives included devising a new system for secured transactions, strengthening land administration and management, boosting the capacity of the Federated States of Micronesia Development Bank (FSMDB), and creating small business development centers in each state.

Some overall outputs of ADB support are summarized in Table 3. To illustrate the results through the experience of the beneficiaries, this development effectiveness brief considers public and private sector programs together since a number of benefits could be attributed to either or both programs.

### ADB support to the private sector was augmented by improvements in land administration and management

**Table 3: Selected Outputs of ADB Assistance for Private Sector Development**

	Outputs Achieved 2002–2008
Ratio between private and public sector employment	Reduced from 1.2 to 1.0
Contribution of private sector to gross domestic product	Stable at 26%
Performance targets for economic and legal reforms	84% achieved
Legislation on land leases, mortgages, and foreign investment	Enacted
Secured transaction system	In place
Small business development centers	4 now operational
Training for land surveyors and managers	35 participants

Source: ADB.

## Encouraging Foreign Investment

The EMPAT also worked on ways to encourage foreign investment, which is controlled by the national government for some sectors, such as fisheries licensing, and communications. This work resulted in a new national Foreign Investment Act in 1998.

These efforts were resumed through the Private Sector Development Program. One outcome was the 2011 Foreign Investment Act in Pohnpei. Previously, foreign investment in Pohnpei was very restricted since proposals were sifted by a committee that included local businesses who were not always keen to encourage competition. The new system enables consistent application of a standard set of selection criteria. As Ernie Weirlangt,

assistant secretary at the Division of Trade and Development, says “The ADB loan has had a big effect, and should encourage new investment.”

## Creating More Credit

Another aim of the Private Sector Development Program has been to increase the flow of bank credit. One of the main sources of funds

**ADB’s program also sought to increase the level of foreign investment by improving the foreign investment requirements**



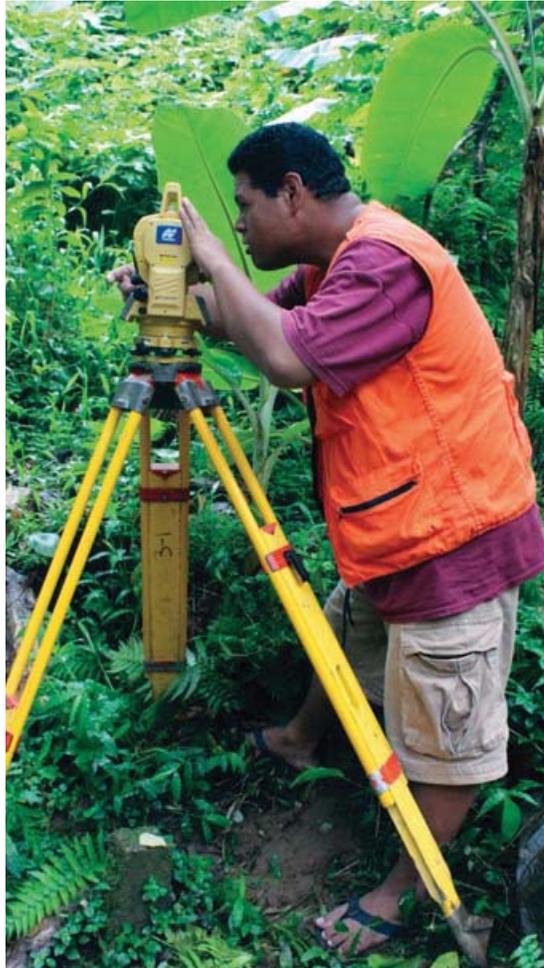
Open for business: Rullen Phillip took a substantial loan from the Federated States of Micronesia Development Bank for his used-clothing store

## Support to the creation of a Secured Transaction Act and Registry meant banks were more willing to lend to small investors

is the FSMDB. This lends primarily to larger businesses, particularly those that want to use land as collateral. Land cannot be owned by foreign corporations, so FSMDB, as the only wholly FSM-owned bank, is the only one that can foreclose in the event of a default. The ADB loan was designed to improve the efficiency of the bank. Anna Mendiola, president of FSMDB, reports mixed results. "The introduction of new software was a failure, and it had to be abandoned, but there was good work in improving our forms and systems, as well as in creating a government system for secured transactions."

One person who benefited from improved efficiency at FSMDB is Rullen Phillip who runs the Super Savers store in Kolonia, which sells used clothes imported from Hawaii. He has taken a loan of \$230,000 from FSMDB for 6 years largely to construct a substantial new building. "It can even withstand earthquakes. I was able to use land elsewhere on the island as collateral. It takes a lot of effort, but I am successfully repaying at 9%."

According to Anna Mendiola, the best outcome of the Private Sector Development Program for the banking sector was probably the TA for the Secured Transactions Act of 2006. Now the banks can go to a website to check which goods potential borrowers have already used as collateral for loans from other banks. "We have tested it in court, and it works. One borrower went to the Bank of Guam using vehicles as collateral, but we already had a lien on them. Previously, to prevent this from happening, we had to add our name to the vehicle registration—exposing us to legal liability as owners in case of accidents."



Land management teams received training at the College of Micronesia in Yap

## Laying Out the Land

A common problem for new businesses in the FSM is acquiring land. Many occupants of the land do not have titles. As part of the Private Sector Development Program, ADB has, therefore, been helping improve land administration and management so as to establish legal and transparent ownership. This included training courses for government employees on land management and registration and on technical issues, such as the use of global satellite positioning systems.



William Hawley of LP Gas makes extensive use of local surveyors

Courses were organized by the College of Micronesia. Jean Toulagh is the College's vice-president for instructional affairs. "We were careful," she says, "to start where people were. In Kosrae, for example, they did not even have a computer." In addition to financing the training, the ADB funds were used for new buildings for the land offices and the purchase of software and equipment.

This program has markedly improved the management of land registration and helped reduce the potential for land disputes. While government survey teams work primarily on residential plots, commercial businesses rely on private sector firms, such as the Pacific Survey Company. Company owner, Briner Sam, says: "Now we can feed data more easily into the land registration department."

One company that has been benefiting from this more efficient system is the Kolonia company LP Gas, run by William Hawley. "Among other things, we import and supply gases to businesses and households, and we

manufacture hospital-grade oxygen. Land is something very sacred here. To be able to work freely, you have to know your boundaries. It stops a lot of quarreling. Now the surveyors can get the survey certified and get it quickly logged into the government's database."

## Business From the Bottom Up

While larger businesses may be able to get loans from FSMDB or commercial banks, smaller start-ups have a tougher time. Bob de Courtney, president and chief executive officer of the Bank of FSM, says: "I have surplus deposits raised in Micronesia that I would like to invest here. There's a lot of lending that we would like that we are unable to accommodate because small businesses can't afford an in-house accountant, and few businesses prepare adequate financial

statements. Borrowers should be able to get help from small business centers. Then we would all win.”

As part of the Private Sector Development Program, ADB has recently supported the establishment of small business development centers in each state. The centers on Kosrae, Chuuk, and Yap have the advantage of being funded by the US Small Business Administration. But the one on Pohnpei, which is part of the College of Micronesia, relies on funding from the state government—which has constrained the operations since the budget supports only one person.

Coordinator Herman Semes, says: “I have to manage the center and also help clients develop loan proposals for the Pohnpei State Small Business Guarantee Scheme. They can be household farms, small fishing operations, taxi services, or retail stores who want loans of between \$5,000 and \$25,000. I also offer a little training as we go along.” In the case

of Rihter Ringan, for example, Semes enabled her to get a loan for her small store, despite there being a larger one across the street, by demonstrating that their adjacent family business, which dispenses the traditional and mildly narcotic local drink *sakau*, would attract more customers to her store.

Other beneficiaries of advice from the Pohnpei center are Maureen and Baron Mendiola who run the MB-3 taxi company (the “3” refers to their three children). “I am very happy with the service,” says Maureen. “The center helped with a business plan to get a loan of \$25,000 over 4 years to increase the number of cars. Now we have seven taxis of our own and operate a base station, which is also used by 27 other taxis.

On the whole, the Private Sector Development Program has been well supported by national and state governments even if they have at times been slow to pass the necessary legislation.



Maureen Mendiola at the MB-3 taxi base station

# Operational Effectiveness: Improving Efficiency and Performance

Operating in the FSM can be difficult since it involves addressing the needs of four widely dispersed island groups and engaging not just with the national government but with four state governments. Generally, programs have started well and generated relevant projects and recommendations. But they can subsequently be slowed or modified by state legislatures. Policies in some states also have changed following changes of government. The Public Sector Reform Program, for example, did not proceed as initially envisaged. The consultants initially identified posts to be eliminated or merged, but the Congress altered this so that anyone who wished to leave could claim a redundancy payment. This resulted in the loss of a number of key personnel who had to be replaced by internal promotion.

ADB has also assisted with other aspects of public sector reform. This has included TA on financial management (TA 3431-FSM, Improving Capacity in Performance-based Public Finance Management Implementation \$438,848, completed August 2003). This TA was, however, only partly successful because the system was not easily understood by local staff, and skills transfer was limited.

This was followed by a further TA, which assisted the government in the introduction of a Financial Management Information System.

**Progress in shifting the economic focus to private sector development has been slow, but there have also been advances in a number of areas**

(TA 3765-FSM, Implementation of Performance-Based Budget Management, \$303,177, completed December 2004). As well as preparing the specifications for the new system, the TA also offered support in the selection of software vendor. Although the TA was only rated 'partially successful' because of some weaknesses in human resource development, the overall outcome was positive in that the government has since been using the system to manage regular budgeting.

Further TA concerned privatization (TA 3201-FSM: Privatization of Public Enterprises and Corporate Governance Reforms, for \$450,000, approved June 1999). This resulted in a road map for reforming public sector enterprises. This seems to have been largely unsuccessful with only a few of the reforms been realized. Pohnpei subsequently sold fishing vessels to a private company, for example, and Yap transferred its TV service from within a state department to FSM Telecom, in effect corporatizing it. Moreover, some operating subsidies have been reduced. Overall, however, there has been little progress in privatizing, commercializing, or divesting public enterprises.

Thus far, ADB support has yet to result in sustained changes in the FSM's economic structure. Public sector employment and wage bills have crept up again, while private sector employment and wages have not grown as quickly as desired. Nevertheless, there have been advances in a number of areas. Public revenues increased between 2003 and 2008 and the country placed \$30 million in the Trust Fund. Moreover, the FSM now has a stronger system of land administration, as well as a secured transaction system. As a result, the annual number of titles for commercially used

**Table 4: Program Ratings by ADB**

	Relevance	Effectiveness	Efficiency	Sustainability	Impact	Overall
Public sector reform program	Highly	Effective	Efficient	Less likely	Modest	Unsuccessful
Private sector development program <sup>a</sup>	Relevant	Less effective	Less efficient	Not rated	Not rated	Not rated

<sup>a</sup> Includes program and project loans.

Source: ADB Support for Public Sector Reforms in the Pacific, 2009.

**Table 5: Private Sector Development Loans, allocation and disbursement (\$ million)**

	National	Chuuk	Kosrae	Pohnpei	Yap	Total
Proposed	3.776	3.080	2.061	2.095	2.005	13.017
Disbursed	3.577	1.941	1.955	1.505	1.372	10.350

Source: ADB Project Completion Report for the Private Sector Development Program.

parcels has increased. In addition, nascent businesses are taking advantage of the Small Business Development Centers. In the case of the Private Sector Development Loans, only about 75% of the initial loans were disbursed (Table 3). This was partly because the project implementation unit did not have sufficient resources to carry out complex tasks that involved dealing with a multitude of national and state coordination points. Also, the states lacked the capacity and commitment to use all the funds. In addition, the states had other funding options as a result of the renewal of the Compact. Other projects have been unsuccessful. There has, for example, been no progress in the reform of public enterprises.

Experience in the FSM has underlined the importance in future of ensuring that all stakeholders are fully involved in the planning of projected projects and programs. In particular, members of the state and national legislature need to be fully informed and aware of budgetary and other implications. It is also evident that if projects are to be fully owned by the community and government, at both the state and national levels, activities will need to be less complex and demonstrably within the capacities of local administrations building on success.

# Future Challenges

The FSM's main challenge will always be its location, far from major sources of trade and tourism, which drives up transport and travel costs. The islands are served by only one international airline, limiting travel to and between the islands. Natural resources are scarce. If transport options were expanded, there would be more opportunities, for example, for niche tourism, whether ecotourism, or diving, or even self-contained resorts.

Then there is the question of dependence on the US. The FSM does benefit from funds from the Compact of Free Association. But these are being phased out and are due to end in 2023. Moreover, the close link with the US means that

many of the best and brightest people are free to leave and take their skills and energies to the US, or Guam, or elsewhere where they can double or triple their salaries.

The Government of the FSM aims, therefore, to make the country more self-reliant. It is committed to the Strategic Development Plan 2004–2023 and has resolved to boost economic growth. To support these efforts, the ADB Country Operations Business Plan (COBP) 2011–2013 shifted the focus to economic infrastructure, particularly energy and transport. Projects in these sectors can take advantage of strong government capacity to deliver, and there are clear opportunities to recover costs.



New docks would extend the port in Pohnpei

## Looking forward, ADB will assist the people of the FSM toward greater self-reliance

The COBP 2012–2014 confirmed this strategy, along with the need to support government reforms and capacity development. In future programs and projects, ADB and the Government of the FSM will design and implement its projects to be less complex, focus on fewer sectors, and more targeted to a particular state. This approach will drive more realistic outcomes and improve implementation performance.

For power supplies, for example, the FSM can make greater use of hydropower, wind, and solar energy while upgrading diesel generators and improving transmission. In Yap and Pohnpei, it should be possible to halve fossil fuel consumption. The Yap Renewable Energy Development Project will be financed by a \$2.5 million ADF loan and a \$2.0 million loan from ordinary capital resources (OCR); and the

Pohnpei Power Sector Development Project will be financed by a \$2.5 million ADF loan and a \$1.0 million OCR loan. In addition, a project to extend the Pohnpei port with new docks and dredge the shipping channel will speed up the handling of containers.

As Governor Ehsa of Pohnpei says, “The people of FSM do not aim to be millionaires. They mostly want a fairly simple life. But we have now passed a foreign investment law that says the state is open for business. So, to anyone who wants to, I say: come let’s talk.”

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Photography by Peter Stalker.

The cover shows former government worker Susan Semes who, as a result of the Public Sector Reform Program, was able to invest in a successful grocery store.

For more information, please visit [beta.adb.org/countries/micronesia](http://beta.adb.org/countries/micronesia) or contact Sally Pedersen, Principal Public Management Specialist, Pacific Department ([spedersen@adb.org](mailto:spedersen@adb.org)).

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## **Development Effectiveness Brief**

Federated States of Micronesia

The government and the people of the Federated States of Micronesia (FSM) have been working with the Asian Development Bank (ADB) since 1990. The FSM has achieved important development gains since it became a full-fledged member of the United Nations in 1991. ADB has helped the government build the foundations of this reform. It has provided much-needed support for the government's private sector development efforts, and the finance sector and public sector reforms. ADB has also assisted citizens of the FSM improve their health and education sector management. Due to ADB support for public infrastructure, the citizens also have greater access to essential services, including water, sewerage, and power. By the end of 2010, the FSM had received a total of \$99.57 million of support from ADB through loans, grants, and technical assistance.

### **About the Asian Development Bank**

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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