



**The United Nations Micronesia
Federated States of Micronesia National Study
2024/25**

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Abbreviations and Acronyms

ADB	Asian Development Bank
BRI	Belt and Road Initiative
CAT	Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment
CEDAW	Convention on the Elimination of Discrimination against Women
CIP	Country implementation plan
CocoNES	Coconut National Export Strategy
CoFA	Compact of Free Association
COM	College of the Federated States of Micronesia
CRC	Convention on the Rights of the Child
CROP	Council of Regional Organisations of the Pacific
CSO	Civil society organization
DESA	United Nations Department of Economic and Social Affairs
DRR	Disaster risk reduction
EEZ	Exclusive economic zone
ESCAP	Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization
FDI	Foreign direct investment
FFA	(Pacific Islands) Forum Fisheries Agency
FSM	Federated States of Micronesia
GDP	Gross domestic product
GFDDR	Global Facility for Disaster Reduction and Recovery
GHG	Greenhouse gas
GNI	Gross national income
HCHR	High Commissioner for Human Rights
ICCPR	International Covenant on Civil and Political Rights
ICERD	International Convention on the Elimination of All Forms of Racial Discrimination
ICESCR	International Covenant on Economic, Social and Cultural Rights
IOM	International Organization for Migration
IMF	International Monetary Fund
ITC	International Trade Centre
LDC	Less developed country
M&E	Monitoring and evaluation
MIYCN	Maternal, infant and young child nutrition
NCD	Non-communicable disease
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
ODA	Official development assistance
PBP	Partners in the Blue Pacific
PICTs	Pacific Island countries and territories
PICTA	Pacific Island Countries Trade Agreement
PIFS	Pacific Islands Forum Secretariat
PINA	Pacific Islands News Association
PNA	Parties to the Nauru Agreement
PPP	Purchasing power parity
PSDCF	Pacific Sustainable Development Cooperation Framework
SAMOA pathway	Small Island Developing States (SIDS) Accelerated Modalities of Action pathway
SDGs	Sustainable development goals

SDP	Strategic development plan
SIDS	Small Island developing state
SPC	The Pacific Community
SPREP	Secretariat of the Pacific Regional Environment Programme
TTPI	Trust Territory of the Pacific Islands
UNCT	United Nations Country Team
UNCTAD	United Nations Conference on Trade and Development
UNDG	United Nations Development Group
UNSDG	United Nations Sustainable Development Group
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children’s Fund
US	The United States of America
VDS	Vessel Day Scheme
WASH	Water, sanitation and hygiene
WCPFC	Western and Central Pacific Fisheries Commission
WHO	World Health Organization
WTO	World Trade Organization

Executive Summary

The United Nations Micronesia National Study for the Federated States of Micronesia (FSM) provides an impartial assessment of the development situation and challenges in FSM, to inform the United Nations' priorities for supporting the country's sustainable development vision and achievement of the 2030 Agenda and Sustainable Development Goals (SDGs). It uses the five pillars (or 5Ps) of the 2030 Agenda to evaluate the performance of FSM in achieving the SDGs, which are: people, prosperity, planet, peace and partnerships.

FSM is one of 57 United Nations members and associate members classified as a small island developing state (SIDS), with an aggregate population of nearly 120 000 people. It is a sovereign nation located in the North Pacific, about 2 500 miles southwest of Hawaii. The four states of FSM (Yap, Chuuk, Pohnpei and Kosrae) comprise 607 islands, including 65 that are inhabited, with a total combined land area of 700 square kilometres, spread across an exclusive economic zone (EEZ) of more than 2.9 million square kilometres. Key policy challenges include (but are not limited to) emigration, poor education, insufficient local food supply and a high dependency on imported under-nutritious food, limited healthcare services, prevalent gender and human rights issues, lack of employment opportunities, unfavourable business environment, inadequate infrastructure construction, vulnerability to climate change, urgency in protecting ocean ecosystems and threats to national unity.

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About 40 per cent of the population lives below FSM's national poverty line, and 15 per cent are living below the international poverty line of PPP \$1.90 per day in 2019. A considerable number of FSM citizens have migrated to other countries, especially the United States, in search of improved livelihoods. With an estimated net migration rate in 2021 of 20.9 migrants per 1 000 people, FSM has one of the highest migration rates in the region. Under the Compact of Free Association (CoFA), FSM citizens are permitted to reside, work and study in the United States and its territories (including Hawaii, Guam and the Commonwealth of the Northern Mariana Islands) without requiring a visa. They can also access US healthcare and other schemes.

FSM's education system has encountered various difficulties that lead to poor academic performance and limit life choices. Just under eight per cent of FSM's population aged six or above have never attended school. Only 43.0 per cent of those aged 21 years or above completed at least secondary education, while only 10.6 per cent have graduated from tertiary or vocational schools.

The country's restricted local food supplies and growing inclination towards under-nutritious imported food have resulted in unhealthy dietary habits contributing to various health issues, such as obesity, anaemia and other non-communicable diseases (NCDs) among all age groups. The increasing prevalence of these chronic diseases has put additional strains on FSM's healthcare system.

Gender-based violence, the lack of the representation of women in decision-making positions in both public and private sectors and unpaid work for women workers are frequent problems in FSM. Measures are needed to ensure that: women and men in its territory have equal rights in marriage, divorce, property relations, child custody and inheritance; set the legal minimum age of marriage at 18 years for both girls and boys; and criminalize child marriage and bigamy. Implementing protective legislation, shelters and capacity development for police and the judiciary are also recommended for the victims of violence.

FSM has formed fragmented human rights monitoring mechanisms within its government departments, but law enforcement and protection services have remained insufficient. For instance, Chuuk and Pohnpei do not explicitly prohibit adult sex trafficking. However, the FSM government

recognizes the need to establish an independent national human rights institution, following recommendations of the High Commissioner for Human Rights (HCHR). It is also suggested that the FSM government should focus on children's rights and forced labour, especially foreign migrant workers.

Compared to its Pacific peers, FSM's economy suffered less from the impact of COVID-19, due to several reasons. First, the country had a strong fiscal position before the pandemic. Second, stable fishing license fees and significant foreign grant inflows helped maintain the fiscal balance during the crisis. Third, the country's economy partially relies on subsistence farming and fishing, which helped to alleviate food supply concerns during import delays. The government also provided various economic stimuli and social protection programmes, supporting small businesses and low-income citizens and saving hundreds of jobs.

FSM's economy heavily relies on the public sector, fisheries and subsistence agriculture, with a narrow production base while the government offices provide most formal jobs. The sale of fishing licenses generates most of the country's revenue, contributing roughly \$70 million annually. The country also depends on financial aid provided by various development partners, including the United States, Asian Development Bank, World Bank, China, Japan and Australia, among others.

FSM has minimal foreign direct investment (FDI) inflows due to limits and restrictions on foreign ownership of land and specific economic sectors, complicated company registration procedures that require approvals from both state and national governments, weak private sector contract enforcement, insufficient protection for foreign investors' rights, ineffective court and bankruptcy processes, as well as limited commercial flights and high import costs for goods and services.

The country is facing challenges with its modern infrastructure, including digitalization, due to its small and geographically dispersed population. FSM has estimated that over \$1 billion in investment would be required to develop infrastructure in ten sectors, spanning: electric power, water/wastewater systems, solid waste management, road and pedestrian facilities, maritime transportation, air transportation, telecommunications, education, health and government administrative buildings.

In FSM, the impact of climate change poses numerous risks, with extensive consequences for biodiversity and human existence. Sea level rise, disastrous events (such as typhoons, high tide and earthquakes) and droughts are cross-cutting threats to forest and terrestrial resources throughout FSM. Climate change also affects migration patterns, and specifically the trend of rural to urban migration and urbanization. Most of the population resides in coastal regions of the capital islands, and the inhabitants of outer low-lying islands are increasingly moving to urban areas in search of livelihood security. There is therefore a need to develop a comprehensive disaster resilience strategy which requires improved data collection and analysis on the cost estimations of high and low-intensity disasters and disaster response expenditures. Weather services and emergency management capacity at the state and national levels need to be strengthened. A hazard mapping for key infrastructure would also help identify areas vulnerable to climate and disaster risk.

FSM's economic reliance on its fisheries sector makes it necessary to preserve the country's biodiversity. The FSM government is working with various agencies and schemes, such as the Pacific Islands Forum Fisheries Agency (FFA), the Parties to the Nauru Agreement (PNA) and the Vessel Day Scheme (VDS), to preserve marine resources. It is also enacting the Marine Spatial Planning Bill, establishing a legal framework to preserve marine resources and their diversification. The bill will provide policymakers with the necessary information to ensure that the country's revenue from fisheries and deep-sea mining is maximized, while also considering protecting the natural

environment. However, FSM needs to better optimize its utilization of the ocean, strengthen fisheries management and develop marine industries, while ensuring the sustainable use of marine resources for economic growth and improved livelihoods and protecting the health and productivity of ocean ecosystems.

Since FSM achieved statehood in 1979 and became independent in 1986, it has relied primarily on its partnership with the United States to foster the small island state’s internal and external peace and harmony. FSM faces the challenge of national disunity across its four distinct states. Each state has its own constitution and laws and operates independently, albeit with a federal constitution as its supreme law. As a loosely connected federation, there have been persistent notions of state secession in Yap and Chuuk, concerns over political dominance by Pohnpei, and dissatisfaction with the federal funding arrangement, posing threats to national solidarity and unity.

FSM has established diplomatic relations with 97 countries and territories and has embassies in China, Fiji, Japan and the United States, as well as consulates-general in Guam, Honolulu and Portland. It also joined the Pacific Island Forum (PIF) in 1987, the Micronesian Presidents’ Summit (MPS) in 2000, the Micronesia Islands Forum (MIF) in 2003 and the Pacific Islands Development Forum (PIDF) in 2015.

The final section of the FSM national study profiles the most pressing challenges confronting FSM, categorized into the five pillars of the SDGs (i.e., people, prosperity, planet, peace and partnership). They comprise of the following:

- People (1): Taking measures to strengthen public health
- People (2): Creating a prosperous future for FSM’s young population by enhancing the quality of education
- People (3): Taking proactive measures to empower and protect women, as well as other under-privileged groups in FSM
- Prosperity (1): Providing more sustainable fisheries with added value to increase incomes
- Prosperity (2): Fighting poverty and unemployment and providing food security through advances in sustainable rural development
- Prosperity (3): Diversifying economic opportunities throughout reviving the tourism sector
- Prosperity (4): Taking measures to facilitate private investment
- Planet (1): Advocating for stronger international commitments for climate justice
- Planet (2): Following the Sendai Framework for Disaster Risk Reduction 2015-2030
- Peace and Partnership (1): Taking a pragmatic approach towards geopolitical competition and partnership
- Peace and Partnership (2): Achieving sustainable growth through the “BlueEARTH” development model

1. Introduction

The United Nations Micronesia National Study for the Federated States of Micronesia (FSM) was developed within the 2030 Agenda for Sustainable Development or the Sustainable Development Goals (SDGs).¹ This national study is intended to serve as an integrated, forward-looking and evidence-based analysis of FSM’s context for sustainable development. It is an impartial, collective and independent analysis, undertaken by the United Nations Multi-Country Office (MCO) for Micronesia, to help the country realize its development vision and achieve the 2030 Agenda. The study aims to ensure that the United Nations’ support to the host government is relevant and linked to national development priorities, within its normative role, as mandated by the United Nations Sustainable Development Group (UNSDG), and as guided by the United Nations member States.²

As a basis for the structure of this national study for FSM, the five pillars (or 5Ps) of the 2030 Agenda are used: people, prosperity, planet, peace and partnerships. The 17 SDGs are posited and assessed within the five pillars in the country contexts (see figure 1 below). The study concludes by identifying the most likely and damaging risks to the development process and discussing key challenges and opportunities that have the most catalytic impact on achieving the SDGs in the country.

Figure 1
SDGs and their five pillars



Source: United Nations.³

¹ United Nations Department of Economic and Social Affairs (DESA) (2015). *Transforming our world: the 2030 Agenda for Sustainable Development*.

² The United Nations Sustainable Development Group (UNSDG), established in 2008, formally called the United Nations Development Group (UNDG), unites 31 United Nations funds, programmes, specialized agencies, departments and offices that play a role in promoting change and innovation to deliver together on sustainable development.

³ United Nations Sustainable Development Group (UNSDG) (2022). *Key Features and Principles of the 2030 Agenda: Towards sustainable development for all*, see: https://sdgs.un.org/sites/default/files/2022-04/4.Ms._%20Carol.Pollack-Key%20features-and-principles-of-the-2030-Agenda_CP%2027%20March%20Version.pdf.

The Sustainable Development Solutions Network’s *Sustainable Development Report 2022* assesses the progress of ten of 17 SDGs in FSM.⁴ The nation achieved just one of these ten SDGs, namely: SDG13—climate action. Significant challenges exist for four other goals, namely: SDG4—quality education; SDG6—clean water and sanitation; SDG7—affordable and clean energy; and SDG17—partnership for the goals. The remaining five reported goals present major challenges, spanning: SDG3—good health and well-being; SDG9—industry, innovation and infrastructure; SDG10—reduced inequalities; SDG14—life below water; and SDG15—life on land. Among them, SDG4 “quality education” experienced a decreasing trend, while SDG6 “clean water and sanitation” and SDG15 “life of land” were stagnant. See figure 2 below.

Figure 2
FSM’s progress in the SDG implementation



Source: Sachs, et al.⁵

The FSM’s Strategic Development Plan (SDP), a 20-year national development plan, entitled *The Next 20 Years: Achieving Economic Growth & Self-Reliance (2004-2023)*, proposes eight development foci, spanning: the private sector, agriculture, fisheries, tourism, environment, health, education and gender.⁶ FSM has incorporated SDGs into the national development plan, and in 2020, the FSM published its first voluntary national review (VNR) on the SDGs titled “Our actions today are our prosperity tomorrow”.⁷ The VNR is a tool used to monitor the achievements of the government and national and international development partners in pursuing sustainable development, while

⁴ Sachs, J., Lafortune, G., Kroll, C., Fuller, G. and Woelm, F. (2022). *From Crisis to Sustainable Development: the SDGs as Roadmap to 2030 and Beyond Sustainable Development Report 2022*. Cambridge: Cambridge University Press.

⁵ Ibid.

⁶ Federated States of Micronesia (FSM) (2004). *Federated States of Micronesia’s Strategic Development Plan 2004 – 2023—The Next 20 Years: Achieving Economic Growth & Self-Reliance (2004-2023), Vol I: Policies and Strategies for Development*. See: <https://fsm-data.sprep.org/dataset/fsm-strategic-development-plan-2004-2023>.

⁷ FSM’s first VNR identified 89 sub-goals linked to the SDP with an accompanying 90 indicators. Government of FSM (2020). *First Voluntary National Review Report on the Implementation of the 2030 Agenda for Sustainable Development: Our actions today are our prosperity tomorrow*. Palikir, Pohnpei: SDG Working Group, Department of Resource and Development. https://sustainabledevelopment.un.org/content/documents/26668VNR_2020_Micronesia_Report.pdf.

addressing broader global and local challenges.⁸ Acknowledging that the country still has a considerable distance to achieve most SDGs, the VNR highlights the urgent need for capacity building and data collection.⁹

Following the introduction section, this national study presents the regional and country contents, often providing comparisons with other Micronesian and Pacific countries and territories. Then, FSM's progress within each of the 5Ps (people, prosperity, planet, peace and partnership) will be assessed, in turn, again using regional and subregional comparative data, in addition to the national details. Before concluding, key gaps and challenges for FSM to realize the SDGs will be discussed, proposing a new development framework for FSM and other PICTs.

Box 1
The SAMOA Pathway

As a small island developing states (or SIDS), FSM is part of the “SAMOA Pathway”, which recognizes the adverse impacts of climate change and sea-level rise on SIDS’ efforts to achieve: socioeconomic development, food security, disaster risk reduction and ocean management, among other challenges.¹⁰ While many SIDS have made advances in pursuing sustainable development, their inherent vulnerabilities—including small size, remoteness, climate change impacts, biodiversity loss and narrow resource base—mean that progress for many continues to be hampered, and their status as a special case for sustainable development remains pertinent.

The SAMOA Pathway, adopted at the United Nations’ Third International Conference on Small Island Developing States in 2014, aims to address the unique challenges that PICTs and other small island states face and support their development across five priority areas. Those priority areas are: (i) promoting sustained and sustainable, inclusive and equitable economic growth with decent work for all, sustainable consumption and production and sustainable transportation; (ii) acting to mitigate climate change and adapt to its impacts by implementing sustainable energy and disaster risk reduction programmes; (iii) protecting the biodiversity of SIDS and caring environmental health by mitigating the impact of invasive plant and animal species and by properly managing chemicals and water, including hazardous waste, as well as protecting oceans and seas; (iv) improving human health and social development through food security and nutrition, improved water and sanitation, reducing the incidence of non-communicable disease and promoting gender equity and women’s empowerment; and (v) fostering partnership among SIDS, United Nations agencies, development partners and others to achieve these goals.¹¹

⁸ Ibid.

⁹ Ibid.

¹⁰ The United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLS) (2014). *SIDS Accelerated Modalities of Action (S.A.M.O.A.) Pathway*. New York: The United Nations.

¹¹ Ibid.

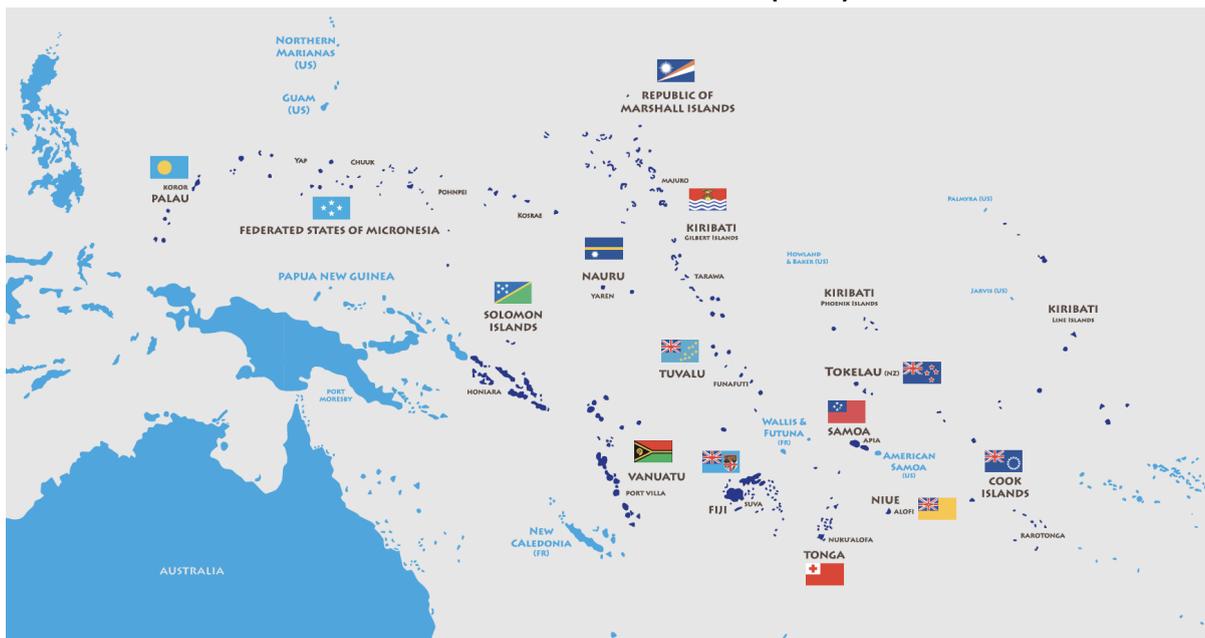
2. Regional and country contexts

First, this section provides some contexts on the PICTs’ characteristics and development models. The section then elaborates more on the FSM’s specific country profile, covering its historical background, geo-political dynamics and the presence of the United Nations.

2.1. The Pacific Islands countries and territories

The PICTs comprise 14 states – see figure 3 below – and have a cumulative population of slightly less than 2.5 million people (less than 0.03 per cent of the global population) but possess territories that cumulatively span 15 per cent of the world’s surface. Nine PICTs are ranked in the Human Development Index, which measures human development across three key areas—a long and healthy life, knowledge and standard of living.¹² Palau (80th), Fiji (99th) and Samoa (111th) are in the high human development category, while Tuvalu (130th), Marshall Islands (131st), FSM (134th), Kiribati (136th), Vanuatu (140th) and Solomon Islands (155th) are in the medium category. No PICT is ranked in either very high or low human development category. Kiribati, Tuvalu and Solomon Islands are classified as least developed countries (LDCs).

Figure 3
Pacific island countries and territories (PICTs)



Source: United Nations.¹³

While the specific profiles of the 14 PICTs, including FSM, vary considerably, they also share some common denominators, such as relative remoteness, limited landmasses, small and disperse

¹² UNDP Human Development Reports (n.d.). *Human Development Index (HDI)*, See: https://hdr.undp.org/data-center/human-development-index?utm_source=EN&utm_medium=GSR&utm_content=US_UNDP_PaidSearch_Brand_English&utm_campaign=CENTRAL&c_src=CENTRAL&c_src2=GSR&gclid=CjwKCAiA3KefBhByEiwAi2LDHNgLKMegHzAxrm0mPrO7ux7NjgpS8ivD0S0qQ2E57g83DGJo74tHyxoCbsoQAvD_BwE-/indicies/HDI.

¹³ The United Nations in the Pacific (2022). *United Nations Sustainable Development Cooperation Framework 2023-2027*, p. 9.

populations, small sizes of their economies and high exposure and vulnerability to external environmental and economic shocks.¹⁴ This broad depiction of PICTs is also pertinent to FSM.

PICTs have typically depended on tourism, inward remittance flows, development partner assistance and high levels of imported food and other commodities.¹⁵ In some cases they also host some food systems that significantly contribute to global food supply chains, such as tuna and other fish in the case of FSM. Although almost no cereals are grown, wheat-based foods and rice play a significant role in the diets of their populations, substituting for traditional staple foods like taro, breadfruit and cassava.¹⁶ Due to changing consumption patterns and economic growth, PICTs have become increasingly dependent on international trade, making them vulnerable to supply chain disruptions, simultaneously affecting their international trade patterns. They face numerous other challenges, such as high non-communicable diseases (NCDs) and perils posed by climate change (e.g., erratic and extreme weather-related events and sea-level rise), adversely impacting livelihoods. The impact of the COVID-19 pandemic – and various measures taken to restrict its spread – were pronounced for PICTs, leading to a near total economic paralysis for the region, and far-reaching ramifications for agriculture and food security from 2020 to early 2023.¹⁷

Even with large offshore territories, PICTs possess a narrow resource base and host small domestic markets, which deprive them of any benefits stemming from economies of scale. As a result, there are only limited, relatively niche, opportunities for private sector development in these economies. They face a combination of being far from export markets and import resources and must cope with low and sometimes irregular international traffic volumes of many essential inputs.¹⁸ This, in turn, translates into high energy, infrastructure, transportation and communication costs (particularly on a per capita basis). This partly explains why the PICTs suffer from a vicious cycle of low productivity and sparse investment.¹⁹ Moreover, many rely on exporting a few primary commodities, making them highly vulnerable to external terms-of-trade shocks, as they lack resilience from diverse income sources. In addition, PICTs face increased incidences of natural disasters and their relatively low resilience to such calamities and other external shocks. As a cumulative result, PICTs tend to experience severe volatility regarding their economic growth patterns. All these characteristics act as further structural impediments to their long-term development. FSM is no exception in this regard.

2.2. Pacific development strategies and models

¹⁴ The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) (2022). *Asia-Pacific Countries with Special Needs Development Report 2022: Financing a Sustainable Recovery from COVID-19 and Beyond*. Bangkok: The United Nations.

¹⁵ Tisdell, Clement A. (2016). “Models of the International Economic Dependence of Pacific Microstates: A Critical Review with Important Implications for International Policies and Relations”, *Journal of Self-Governance and Management Economics*, 4(2), 7–27.

¹⁶ For example, see Nakamura, S. Iida, A., Nakatani, J., Shimizu, T., Ono, Y., Watanabe, S., Noda, K. and Kitalong, C. (2021). “Global land use of diets in a small island community: a case study of Palau in the Pacific”, *Environmental Research Letters*, 16(6), 1-9.

¹⁷ Food and Agriculture Organization (FAO) and World Food Programme (WFP) (2022). *Pacific Island countries: Impact of rising costs of food, feed, fuel, fertilizer and finance Bulletin*, November 2022 | Issue #1. Suva: FAO and WFP.

¹⁸ The United Nations Conference on Trade and Development (UNCTAD) (2022a). *Review of Maritime Transport 2022: Navigating Stormy Waters*. Geneva: The United Nations.

¹⁹ ESCAP (2022).

Over the decades, experts have proposed numerous development strategies and economic models to overcome the challenges PICTs face. Earlier, those strategies and models were proposed to enhance PICTs' self-sufficiency (e.g., securing external funds or earning adequate incomes to sustain lifeline and luxurious imports and develop the provision of modern infrastructure), while their economies are too small to capture economies of scale in their domestic markets.²⁰ More recently, they have been shifted to also address sustainability issues (e.g., maintaining maritime ecosystem and disaster risk reduction), congruent with the SDGs implementation in the Pacific.

Over the years, various scholars have proposed several development models for PICTs. Perhaps the most well-known is the so-called MIRAB model, proposed in the 1980s, which has four main components: migration (MI), remittance (R), foreign aid (A) and public bureaucracy (B).²¹ The MIRAB model proposes two distinct income sources: (i) remittances from emigrants to people remaining at home, leading to a local multiplier effect on incomes and employment; and (ii) the provision of foreign aid which is mainly used to fund the government bureaucracy, again leading the multiplier effect. However, the "import leakage" from these effects is typically quite high, so the multiplier effect may not be archived as much as desired. In the mid-1990s, the TOURAB model focused on tourism for revenues, supplemented with inward remittances and aid inflows. There are also the SITE (small island tourism economies) and PROFIT (people-resources-openness-finance-transport) models.²² There have also been attempts to generate economic revenues from providing offshore financial and registration services, such as offshore private banking, vessel registration and so on. Table 1 summarizes these development models for PICTs.

Table 1
Taxonomy of different PICT development models

Models (acronyms)	Key elements	Income sources	Enablers	Past studies
MIRAB	[M]igration, [R]emittance, [A]id and [B]ureaucracy	International remittances and foreign aids	Migration and public bureaucracy	Bertram and Watters (1985 and 1986) ²³
TOURAB	[TOU]rism, [R]emittance, [A]id and [B]ureacracy	Tourism, international remittances and foreign aid	Tourism specialization, dynamic private sector, migration and public bureaucracy	Guthunz and von Krosigk (1996) ²⁴
SITEs	[S]mall (warm water) [I]sland [T]ourist	Tourism	Tourism specialization and	McElroy (2006); Oberst and McElroy (2007) ²⁵

²⁰ Baldacchino, G. (2006). "Managing the hinterland beyond: Two ideal-type strategies of economic development for small island territories", *Asia Pacific Viewpoint*, 47(1), 45–60.

²¹ Tisdell (2016).

²² Ibid.

²³ Bertram, I. G. and Watters, R. F. (1985). "The MIRAB Economy in South Pacific Microstates", *Pacific Viewpoint*, 26(3), 497-519; Bertram, I. G. and Watters, R. F. (1986). "The MIRAB Process: Earlier Analyses in Context", *Pacific Viewpoint*, 27(1), 47-59.

²⁴ Guthunz, U. and von Krosigh, F. (1996). "Tourism Development in Small Island States: From 'MIRAB' to 'TOURAB'", in Briguglio, L., Archer, B., Jafari, J., Wall, G., Harrison, D. and Filho, W. L. (eds.). *Sustainable Tourism in Islands and Small States: Issues and Policies*. London: Pinter.

	[E]conomie[s]		foreign direct investment	
PROFIT	[P]eople (immigration), [R]esources, [O]verseas management (diplomacy), [FI]nance and [T]ransport	Various	Enabling domestic policy framework, dynamic private sector and strategic diversification	Baldacchino (2006) ²⁶

Sources: various.

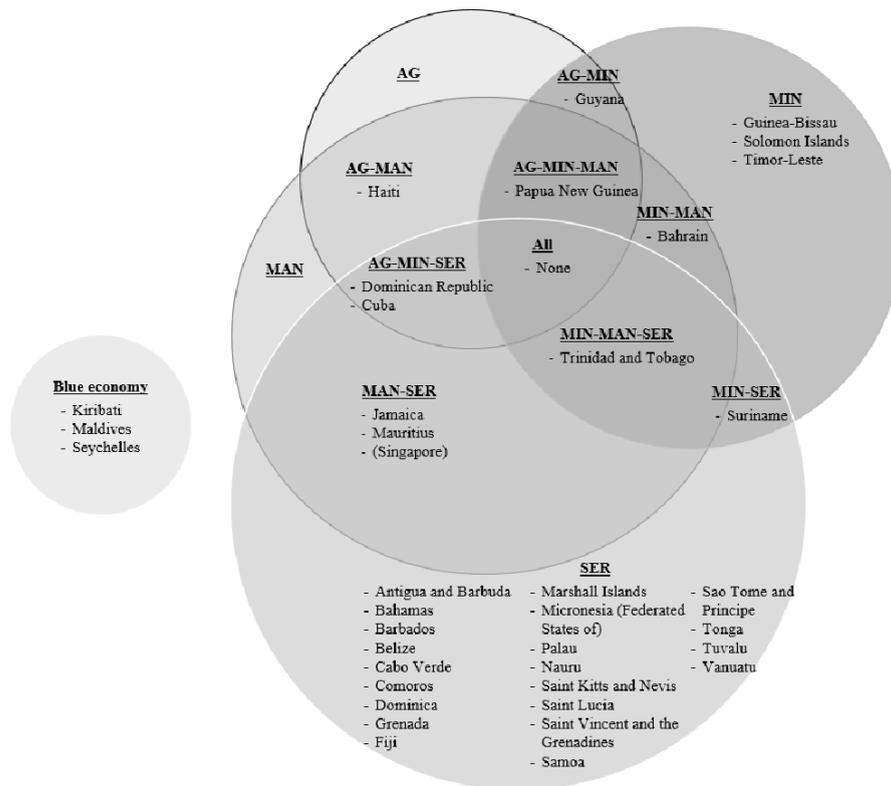
The United Nations Conference on Trade and Development (UNCTAD) has broadly categorized development strategies for SIDS into: (i) agriculture-led development; (ii) manufacturing-led industrialization; (iii) extraction-led development; and (iv) service-led development.²⁷ And has argued that SIDS can “cherry-pick” from one or more development strategies to fit best with their natural and demographic endowment structures. Figure 4 depicts an overview of the development strategies among SIDS globally. The figure also includes the blue economy strategy, with large capture fisheries production.

²⁵ McElroy, J. L. (2006). “Small Island Economies across the Life Cycle”, *Asia Pacific Viewpoint*, 47(1), 61–77; Ashley Oberst, A. and McElroy, J. L. (2007). “Contrasting Socio-Economic and Demographic Profiles of Two, Small Island, Economic Species: MIRAB versus PROFIT/SITE”, *Island Studies Journal*, 2(2), 163-176.

²⁶ Baldacchino (2006).

²⁷ UNCTAD (2022). “Note by the UNCTAD secretariat, TD/B/C.II/EM.6/2”, at the Expert Meeting on Revisiting Development Strategies for Small Island Developing States in the Post-Pandemic Competitive Landscape, Trade and Development Board, Investment, Enterprise and Development Commission. Geneva: United Nations Conference on Trade and Development. See: https://unctad.org/system/files/official-document/ciem6d2_en.pdf.

Figure 4
Development strategies for small island developing States



Source: UNCTAD.²⁸

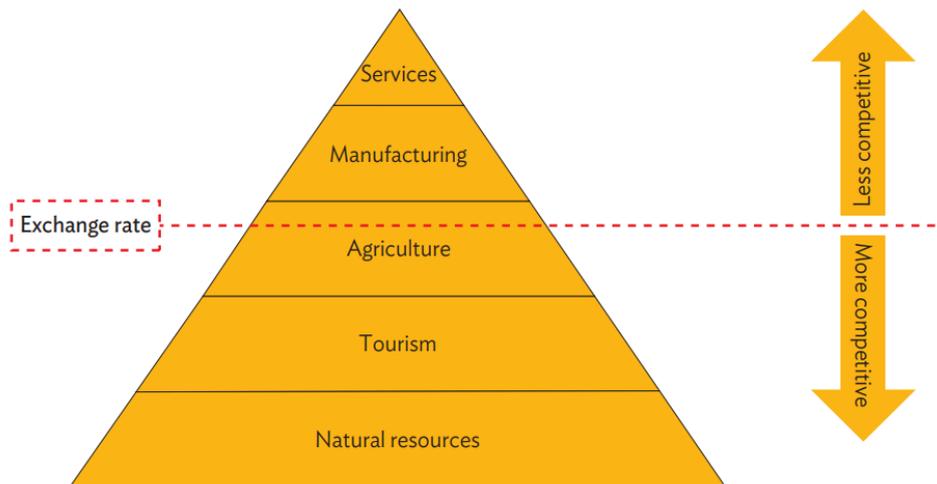
Note: AG, natural resource-led strategy, agriculture variant; MAN, manufacturing-led industrialization; MIN, natural resource-led strategy, minerals variant; and SER, service-led development.

Broadly based on the comparative advantage theory, the International Monetary Fund (IMF) has proposed a PICTs development strategy, as depicted in the “Pacific Pyramid” (figure 5) below.²⁹ The strategy implies PICTs’ comparative advantage in their trade patterns and performances, which is intrinsically linked to their small size and remoteness. PICTs lack economies of scale and exhibit high-cost structures, significantly disadvantaging some industries like manufacturing. The pyramid suggests that a descending degree of comparative advantage exists from the (non-tourism) “services” sector to the “natural resources” sector (e.g., minerals, hydrocarbon, fisheries and forestry). PICTs also enjoy a strong comparative advantage in the tourism sector due to their favourable conditions, such as tropical climate, sandy beaches, pristine water and distinctive cultures. Agriculture ranks third in the pyramid, where land and water resources are relatively abundant with a tropical climate, although distance to major markets and high transportation costs lessen this advantage.

²⁸ Ibid.

²⁹ Chen, H., Rauqueque, L., Raj Singh, S., Wu, Y. and Yang, Y. (2014). “Pacific Island Countries: In Search of a Trade Strategy”, *IMF Working Paper WP/14/158*. Washington, D.C.: International Monetary Fund.

Figure 5
Pacific Pyramid



Source: Chen, *et al.*³⁰

The “blue economy” strategy aims to achieve socioeconomic progress simultaneously with attaining ocean environmental protection and sustainable maritime resource extraction.³¹ It refers to the sustainable use of ocean resources for economic growth, improved livelihoods and job creation, while preserving the health of the ocean ecosystem, and spans: fisheries, tourism, maritime transport, aquaculture, seabed extractive activities, marine biotechnology and bioprospecting.³² It is a relatively new strategy and largely adopts the “green economy” concept in the maritime context. The blue economy's greatest challenge is reconciling two competing interests: (i) opportunities for local development and growth; and (ii) protection of vulnerable and threatened spaces.³³ In recent years, numerous PICT governments and agencies have taken a close interest in the blue economy approach.

In this vein, the “2050 Strategy for the Blue Pacific Continent” was endorsed by 18 countries and territories, including FSM, at the Pacific Islands Forum (PIF) in 2022.³⁴ The strategy consists of seven themes: (i) political leadership and regionalism; (ii) resources and economic development; (iii) climate change; (iv) oceans and natural environment; (v) people-centred development; (vi) technology and connectivity; and (vii) peace and security. The strategy is intended to guide how the countries of the Pacific navigate various challenges confronting the region – including the impacts of climate change, slow economic growth, poor health and education outcomes and significant ocean

³⁰ Ibid.

³¹ Srinivasan, M., Kaullysing, D., Bhagooli, R. and Pratt, S. (2022). “Marine tourism and the blue economy: Perspectives from the Mascarene and Pacific Islands”, in Urban, E. R., and Ittekkot, V. (eds.). *Blue Economy*. Singapore: Springer.

³² A useful taxonomy of the blue economy can be found in World Bank and the United Nations (2017), pp. vii-viii. A matrix of blue economy sectors and the targets under SDG 14 is provided on pp. 28-33.

³³ Srinivasan, *et al.* (2022); Lee, K., Noh, J. and Khim, J. S. (2020). “The Blue Economy and the United Nation’s sustainable development goals: Challenges and opportunities”, *Environment International*, 137. <https://doi.org/10.1016/j.envint.2020.105528>.

³⁴ The 18 countries and territories comprise: Australia, Cook Islands, FSM, Fiji, French Polynesia, Kiribati, Nauru, New Caledonia, New Zealand, Niue, Palau, Papua New Guinea, Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. Pacific Islands Forum Secretariat (PIFS) (2022). *2050 Strategy for the Blue Pacific Continent*, Suva, see: <https://www.forumsec.org/2050strategy>.

and land-based environmental degradation – and leverage their collective strengths (including culture and traditions, a youthful population and significant island and ocean resources).

2.3. Brief country profile

FSM is one of 57 United Nations members and associate members classified as a SIDS, with an aggregate population of nearly 120 000 people. It is a sovereign nation located in the North-Western Pacific, about 2 500 miles southwest of Hawaii. The four states of FSM (Yap, Chuuk, Pohnpei and Kosrae) comprise 607 islands, including 65 that are inhabited, with a total combined land area of 700 square kilometres, spread across an EEZ of more than 2.9 million square kilometres. The islands themselves exhibit a diverse range of geological features, including low coral islands, raised coral islands, low-lying atolls and volcanic high islands, with the highest point being Nanlaud at 782 metres on Pohnpei. Except for Chuuk, which comprises numerous outlying atolls, each state in the FSM is centred on one or more of the high islands. FSM boasts a rich and diverse biodiversity, characterized by high levels of endemism.³⁵ FSM is classified as a tropical coral ecoregion regarding marine biodiversity, featuring some of the world's largest coral atoll complexes.³⁶

The largest city is Weno in Chuuk, but since 1989, FSM's capital has been Palikir on Pohnpei. The system of government is modelled after the United States, with executive, legislative and judicial branches covering three levels of constitutional government: national, state and municipal. The FSM government reserves certain legal and regulatory matters, such as the conduct of foreign affairs.

The World Bank defines FSM as a lower-middle-income country.³⁷ Like many other SIDS, it relies heavily on assistance from other countries and organizations, and especially the United States. The primary source of public revenues is selling fishing licenses. Almost 80 per cent of people live in rural areas, so the country's subsistence level is high. In towns, employment is centred around the government and small businesses.³⁸ Due to FSM's small production and manufacturing base, the import of food, clothes and other essentials is very high, leading to a constant trade deficit. The nation faces challenges in delivering quality education and sufficient job prospects in the long run. Its healthcare system and coverage are insufficient, particularly given the prevalence of NCDs. The country also struggles with poverty and limited social protection programmes.

2.4. Historical background

The ancestors of the Micronesians settled in the archipelago over three thousand years ago.³⁹ Colonization dates to the 1500s when Spain integrated the archipelago into the Spanish East Indies. After over three centuries of Spanish rule, the archipelago was sold to Germany in 1899. Despite their brief 15-year tenure, the Germans brought significant advancements in agriculture and mining. They also established a submarine cable system to Guam, Shanghai and Celebes with Yap, through

³⁵ For details on endemic species, see: Department of Resources and Development, FSM (n.d.). *The Federated States of Micronesia National Biodiversity Strategy and Action Plan 2018-2023*. <https://www.cbd.int/doc/world/fm/fm-nbsap-v2-en.pdf>.

³⁶ Ibid.

³⁷ World Bank (2023a). *DataBank: World Development Indicators*, at worldbank.org.

³⁸ US Department of State (2022a). *Investment Climate Statements: Micronesia*. See: <https://www.state.gov/reports/2022-investment-climate-statements/micronesia/#:~:text=The%20Federated%20States%20of%20Micronesia,percent%20population%20decline%20from%202019.>

³⁹ Fischer, J. L., Robert C. K. and Kahn, M. (2004). *Contemporary Micronesia*. Britannica. See: <https://www.britannica.com/place/Micronesia-cultural-region-Pacific-Ocean/Contemporary-Micronesia>.

the German-Dutch telegraphic company. After World War I, the League of Nations granted Japan a mandate to administer the archipelago as part of the South Seas Mandate.⁴⁰ Japan was obligated to safeguard the interests of the native population and refrain from any military construction or training on the islands, reporting on various subjects, including education, public welfare, administration, industry and finance. FSM's residents did not strongly oppose or resist the Japanese administration due to improved social welfare and the maintenance of peace and public order.⁴¹

The Japanese Government encouraged immigration to the islands and prioritized industrial development, especially in the private sector. Sugar cane cultivation and production, fisheries and dried bonito production thrived through investment and infrastructure development. Also, mining rock phosphate and bauxite deposits took place. Furthermore, the output of copra and fisheries increased, especially in Chuuk and Pohnpei. By 1932, the islands had attained balanced financing and no longer required aid from Japan, even recording trade surpluses for many years, thanks to growing exports to Japan. By 1942, the Islands' population consisted of 51 000 local residents and 90 000 Japanese immigrants. Despite this asymmetry of population, the local culture did not collapse. The Japanese government incorporated local social leaders and maintained local society's traditional systems, customs and manners. The government also established 24 schools with Japanese as the language of instruction, later becoming the primary common language in the South Seas Islands.⁴²

After Japan withdrew from the League of Nations in 1933, Japan began constructing military bases, conducting military drills for residents and employing forced labour to support their military preparations in Micronesia. After World War II, the region was placed in the trust of the newly formed United Nations, which granted administrative authority to the United States in 1947 as part of the Trust Territory of the Pacific Islands (TTPI). TTPI allowed the United States to establish naval, military and air bases, station and employ armed forces and provide volunteer forces, facilities and assistance. Although the US Government was obligated to foster FSM's socioeconomic development, and unlike during the Japanese rule, there was no significant emphasis on developing the private sector and infrastructure that could sustain the country's growth and reduce its dependence on foreign aid.⁴³ The islands were closed to commerce and exports. As a consequence, Micronesian living standards dropped quickly and significantly.⁴⁴

In 1979, four TTPI districts (Yap, Chuuk, Pohnpei and Kosrae) ratified a new Constitution to become FSM. Palau, Marshall Islands and Northern Mariana Islands chose not to participate in FSM. Today, FSM is an independent nation in free association with the United States. In 1986, FSM signed a Compact of Free Association (CoFA) with the United States and assumed full responsibility for its internal and external affairs. The initial CoFA provided financial assistance over 15 years (1986 to 2001). Since then and until now, FSM has been greatly dependent on US development assistance.

⁴⁰ The South Sea Mandate included the range of territories possessed by Germany, which was equal to what the Japanese called *Nanyo Gunto* (the South Sea Islands) and comprised today's Palau, FSM, Marshall Islands and Northern Mariana Islands.

⁴¹ Kobayashi, I. (2021). *The South Sea Islands and Japanese Mandatory Rule over Them*. The OPRI Centre of Island Studies. See: <https://www.spf.org/islandstudies/research/a00023.html>.

⁴² Ibid.

⁴³ The United Nations and the United States of America (1947). *The Trusteeship Agreement for the Former Japanese Mandates Islands*. UN Trustee Council Documentation. <https://documents-dds-ny.un.org/doc/RESOLUTION/GEN/NR0/042/17/PDF/NR004217.pdf?OpenElement>.

⁴⁴ Andrews, C. J. (2017). *Micronesia in Modern Geopolitics*. [Unpublished doctoral dissertation]. University of Texas. See: https://repositories.lib.utexas.edu/bitstream/handle/2152/63613/andrewscameron_3867643_44267389_CameronAndrewsThesis.pdf?sequence=2&isAllowed=y.

The second CoFA provided FSM with \$1.8 billion in assistance between 2004-2023.⁴⁵ In February 2023, both countries signed a Memorandum of Understanding to affirm a close and continuous partnership, agreeing on a value of \$140 million annually between 2024-2044.⁴⁶ The third and latest CoFA agreement was signed in May 2023.

Under the CoFA, FSM citizens are permitted to enter and reside in the United States without visas and for an indefinite period. Due to the limited improvement in the standard of living in FSM since its independence, a significant number of citizens have migrated to the United States for various reasons, such as education, employment and healthcare.⁴⁷

2.5. Geopolitical dynamics

The United States recently commenced a number of initiatives pertaining to the Pacific's development, security and diplomatic allegiances.⁴⁸ In February 2022, it released the "Indo-Pacific Strategy", which reiterated its commitment to an Indo-Pacific that is free and open, connected, prosperous, secure and resilient.⁴⁹ Then in June 2022, the United States jointly launched the "Partners in the Blue Pacific" with Australia, New Zealand, Japan and the United Kingdom, boosting economic and diplomatic relations with PICTs. And in September 2022, the first-ever US-Pacific Island Country Summit took place in Washington, D.C. which endorsed the "Pacific Partnership Strategy".⁵⁰

In April 2022, the United States developed a four-year "Integrated Country Strategy for FSM". The US Mission's strategic framework for FSM comprises three goals, thus:

- i. Support economic, political and social stability in FSM to mitigate the influence of unfriendly foreign powers;
- ii. Increase FSM's ability to maintain its internal stability and maritime security;⁵¹ and
- iii. Increase FSM's resilience to global climate impacts through integrated natural resource management, reinforced disaster risk reduction and implementation of adaptation measures.⁵²

⁴⁵ US Department of State (1982). *Compact of Free Association*.

<https://www.state.gov/wp-content/uploads/2019/02/04-625-Micronesia-Compact-Amendment.pdf>.

⁴⁶ Radio New Zealand (2023). *FSM President negotiates "big top numbers" in getting MoU with US*, February 21.

<https://www.rnz.co.nz/international/pacific-news/484564/fsm-president-negotiates-big-top-numbers-in-getting-mou-with-us>.

⁴⁷ Andrews (2017).

⁴⁸ Executive Office of the President, National Security Council (2022). *Indo-Pacific Strategy of the United States*. <https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf>.

⁴⁹ Ibid.

⁵⁰ Clark, R. (2022). *U.S.-Pacific Summit Successfully Concludes with Greater American Partnership to the FSM & Other Pacific Island Countries*, October 3. The National Government of the Federated States of Micronesia. <https://gov.fm/index.php/component/content/article/35-pio-articles/news-and-updates/653-u-s-pacific-summit-successfully-concludes-with-greater-american-partnership-to-the-fsm-other-pacific-island-countries?Itemid=177>.

⁵¹ The US Pacific Homeland includes Hawaii, the US Pacific Territories (e.g., Guam and Northern Mariana Islands) and the three CoFA states: Palau, FSM and Marshall Islands.

⁵² US Department of State (2022b). *Integrated Country Strategy: Federated States of Micronesia*. Washington D.C.: US Department of State.

2.6. The United Nations in FSM

The United Nations has been present in FSM since 1947,⁵³ although the country only formally joined the United Nations in 1991.⁵⁴ In November 2021, the United Nations Multi-Country Office for Micronesia was established. The office coordinates the United Nations' assistance to Palau, FSM, Marshall Islands, Nauru and Kiribati. Currently, eight resident United Nations agencies and 12 non-resident United Nations agencies work in FSM. A permanent "One UN House" will be built to become the operational hub of the United Nations in Micronesia, with over 20 United Nations agencies and approximately 150 staff, the majority of whom will be Micronesian.⁵⁵

The United Nations has provided FSM with various initiatives and programmes aimed at supporting national development priorities, the SDGs and other internationally agreed-upon development goals and treaty obligations.⁵⁶ These initiatives and programmes involve multiple United Nations agencies working together under a unified programmatic framework, with shared goals and joint responsibilities. This collaborative approach facilitates access to the diverse expertise of the United Nations system as a whole in addressing multifaceted development issues and enables the provision of more cohesive policy guidance and tailored support that best suits the local context.⁵⁷

Following extensive consultations with 14 PICTs, United Nations Country Teams (UNCTs) developed the United Nations Pacific Sustainable Development Cooperation Framework (PSDCF) 2023-2027. The PSDCF is a strategic development and programming plan structured around the key pillars of the 2030 Agenda, namely: people, prosperity, planet and peace.⁵⁸ The fifth partnership pillar serves as a facilitator for executing programmes that are created within each thematic area. Along with these pillars, PSDCF envisions: (i) resilience to existential threats; (ii) gender equality; (iii) people empowered to exercise their rights; and (iv) harmony with the blue continent. The PSDCF is aligned with the recently launched "2050 Strategy for the Blue Pacific Continent" and national development plans.⁵⁹ The funds required for ongoing and future investments in achieving the SDGs, through the PSDCF, come from domestic resources, debt, and bilateral or multilateral development assistance, such as bilateral donors and international financial institutions (IFIs)' grants and concessional loans, and national and international private financing.

⁵³ United Nations Sustainable Development Group (n.d.). *Federated States of Micronesia*. <https://unsdg.un.org/un-in-action/micronesia>.

⁵⁴ FSM (2021). *Environment and infrastructure indicator*. <http://data.un.org/en/iso/fm.html>.

⁵⁵ Clark, R. (2023). *21st Micronesian Presidents' Summit Paddles Together for a Stronger Micronesia; Micronesian Unity Further Strengthened Prior to Pacific Island Forum Leaders' Retreat in Nadi*, February 14. The National Government of the Federated States of Micronesia. <https://gov.fm/index.php/component/content/article/35-pio-articles/news-and-updates/704-21st-micronesian-presidents-summit-paddles-together-for-a-stronger-micronesia-micronesian-unity-further-strengthened-prior-to-pacific-island-forum-leaders-retreat-in-nadi?Itemid=177>.

⁵⁶ FSM's national development plan and its goals are mentioned in the introduction chapter of the present study. See: FSM (2004).

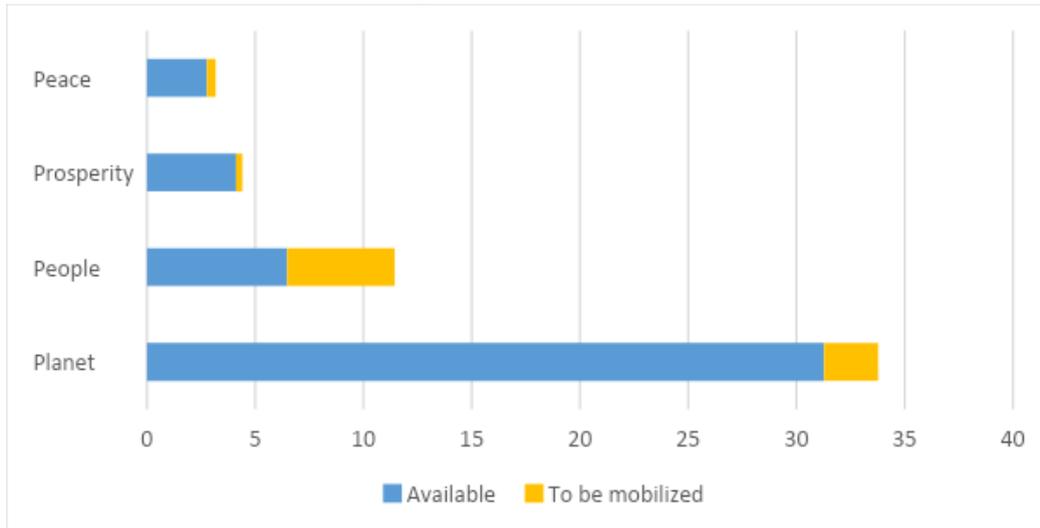
⁵⁷ United Nations Multi-Country Office (MCO) for Micronesia (2023). *Draft FSM Country Implementation Plan (CIP), 2023-2024, narrative* (unpublished). [Contact the United Nations Multi-Country Office for Micronesia at: RCO.micronesia@un.org.]

⁵⁸ The Cooperation Framework guides the entire programme cycle, driving planning, implementation, monitoring, reporting and evaluation of collective United Nations support for achieving the 2030 Agenda.

⁵⁹ PIFS (2022). *2050 Strategy for the Blue Pacific Continent*. Suva: Pacific Islands Forum Secretariat.

To facilitate the PSDCF implementation, a two-year Country Implementation Plan (CIP) for 2023-2024 was developed, which governs the United Nations’ actions and deliverables in FSM. The United Nations Resident Coordinator and the FSM government signed the CIP in early 2023.⁶⁰ Figure 6 provides the present funding status to implement the CIP.

Figure 6
United Nations’ funding in FSM, 2023-2024, in million US dollars



Source: MCO.⁶¹

⁶⁰ MCO (2023).

⁶¹ Ibid.

3. People

This chapter focuses on the important aspects of the SDG's people pillar. It spans: (i) population; (ii) education; (iii) labour; (iv) food and health; (v) gender and inclusion; and (vi) human rights.

3.1. Population

Recent data (from 2021) indicates that the country has a population of 113 131.⁶² About 50 per cent of the population lives in Chuuk, 33 per cent in Pohnpei, 10 per cent in Yap and seven per cent in Kosrae.⁶³ Most individuals reside in the coastal areas of the high islands, while the mountainous interior remains sparsely inhabited. Approximately 20 per cent of the population resides in urban areas. Over 30 per cent of people are 14 years old or younger, more than 50 per cent are 24 years old or younger, and only five per cent are age 65 or older.⁶⁴ The median age is 23, and life expectancy at birth is 72.⁶⁵

Many FSM households live in poverty. The most recent national data (2013-2014) show that approximately 40 per cent of the population lived below the national poverty line, while 15 per cent lived below the international poverty line of PPP \$1.90 per day in 2019.^{66 67} In 2013, the GINI index for FSM recorded a value of 40.1, indicating a slight improvement from 42.4 in 2005.⁶⁸ This reduction implies an ongoing trend of narrowing, but still existent, income inequality within the nation.⁶⁹

A considerable number of FSM citizens have migrated to other countries in search of improved livelihoods. With an estimated net migration rate in 2021 of 20.9 migrants per 1 000 people, FSM has

⁶² World Bank (2022). *Data. Population, total - Micronesia. Fed. Sts.*
<https://data.worldbank.org/indicator/SP.POP.TOTL?locations=FM>.

⁶³ Division of Statistics, FSM Office of Statistics, Budget, Overseas Development Assistance and Compact Management (n.d.). *Summary Analysis of Key Indicators from the FSM 2010 Census of Population and Housing*. Palikir, Pohnpei. See: <https://catalog.ihsn.org/catalog/4155/related-materials>.

⁶⁴ Calculation based on: United Nations Conference on Trade and Development (UNCTAD) (2022). *Development and Globalization: Facts and Figures 2021, Small Island Developing States: DGFF 2021*. Geneva: United Nations.

⁶⁵ Country Reports (n.d.). *Micronesia Demographics*.
<https://www.countryreports.org/country/Micronesia/population.htm>.

⁶⁶ The national poverty statistics of FSM for 2013-14 used a "cost of basic needs" approach to establish a welfare benchmark for the national poverty line, which comprises a food poverty line (FPL) and a non-food poverty line (NFPL). The FPL is estimated to use a basket of goods based on the consumption of the bottom four deciles in the distribution. The NFPL uses the average non-food consumption of households.

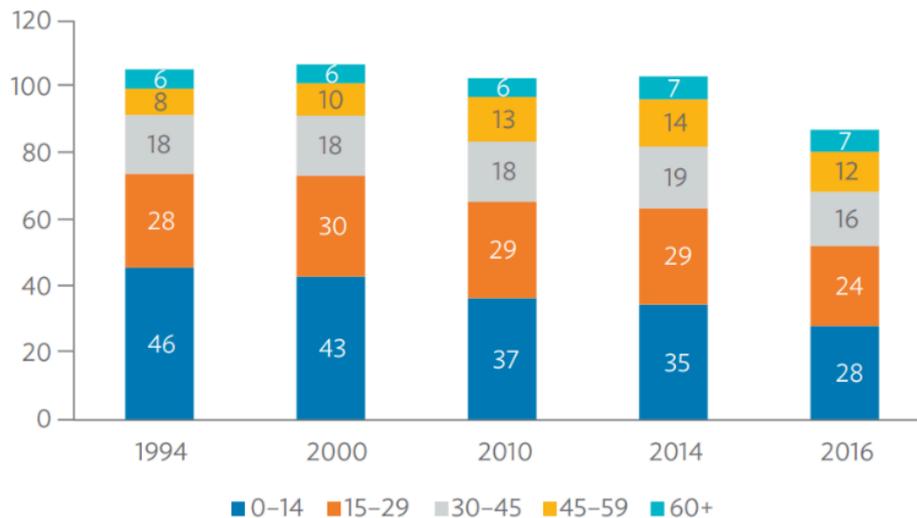
⁶⁷ The international poverty line is a monetary threshold under which an individual lives. It is calculated by taking the poverty threshold from each country—given the value of the goods needed to sustain one adult—and converting it into US dollars. World Bank (2019). *Poverty & Equity Brief Federated States of Micronesia*.

⁶⁸ According to the World Bank definition, the Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality. World Bank (2022).

⁶⁹ United Nations Children's Fund (UNICEF) (2017). *Situation Analysis of Children in the Federated States of Micronesia*. Suva, Fiji.
<https://www.unicef.org/pacificislands/media/1101/file/Situation-Analysis-of-Children-Micronesia.pdf>.

one of the highest migration rates in the region.⁷⁰ Further, the migration of FSM citizens to the United States has been the main reason for the declining population in the country (see figure 7). Under the CoFA, FSM citizens are permitted to reside, work and study anywhere in the United States and its territories (including Hawaii, Guam and the Commonwealth of the Northern Mariana Islands) without requiring a visa. They can also access US healthcare and other schemes.

Figure 7
FSM population by age group
 in thousands



Source: Asian Development Bank (ADB).⁷¹

Younger workers and their families tend to migrate more readily than other age groups, whether to pursue academic or economic opportunities, or for other family reasons.⁷² Only about six per cent of FSM immigrants have an undergraduate degree.⁷³ Consequently, FSM migrants often take on entry-level jobs, such as factory workers, house cleaners, nursing aides, security guards, delivery drivers and cashiers.⁷⁴ The fundamental reasons behind this migration flow are largely associated with: (i) a substandard education system; (ii) insufficient healthcare access; and (iii) limited employment or livelihood prospects.⁷⁵ To reduce the outward migration flow, FSM should prioritize efforts in these three critical areas.

⁷⁰ The World Factbook (2021). *Micronesia, Federated States of*. Central Intelligence Agency. <https://www.cia.gov/the-world-factbook/about/archives/2021/countries/micronesia-federated-states-of>.

⁷¹ Asian Development Bank (ADB) (2020). *Pacific Economic Monitor, December*. Manila. The data are based on the *FSM Statistics Integrated Agriculture Census 2016* and *2010 Census of Population and Housing*.

⁷² World Bank (2020). *Interim Report: Pacific Labor Mobility, Migration and Remittances in Times of COVID-19: Interim Report*, November 30.

⁷³ Hezel, F. X. and Levin, M. (2012). *Survey of Federated States of Micronesia Migrants in the United States Including Guam and the Commonwealth of the Northern Mariana Islands (CNMI)*. Government of the Federated States of Micronesia

⁷⁴ Ibid; World Bank (2020).

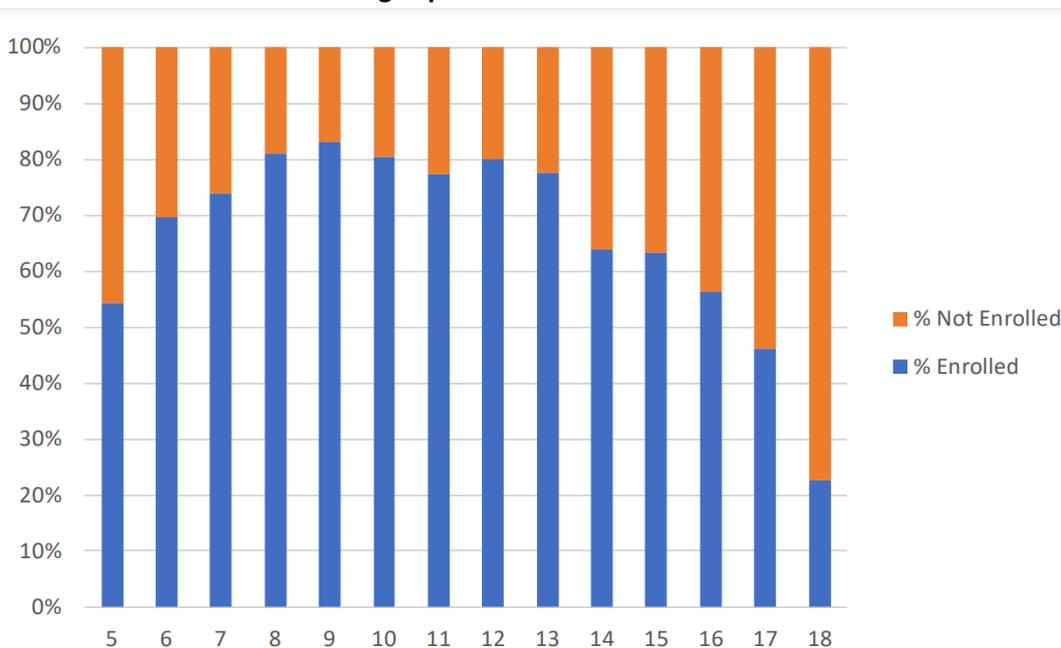
⁷⁵ ADB (2020); International Organization for Migration (IOM) (2016). *Migration in the Federated States of Micronesia: A Country Profile 2015*. Geneva.

3.2. Education

FSM’s education system has encountered various difficulties that can lead to poor academic performance and limit life choices. According to the most recent household income and expenditure survey in 2013-14, 7.9 per cent of FSM’s population aged six or above have never attended school. Only 43.0 per cent of those aged 21 years or above completed at least secondary education, while only 10.6 per cent graduated from tertiary or vocational schools.⁷⁶ The challenges faced by the education sector are considerable.

Given that early childhood education is not mandatory, the proportion of children enrolled in early years is comparatively lower than those in compulsory primary education, which creates a shortfall in academic readiness (figure 8). Despite English being the official language of school instruction, it is a second language for 98 per cent of all students.⁷⁷ FSM’s education system focuses on infrastructure, process and procedure, paying less attention to performance.⁷⁸ Secondary students experience a significantly low admission rate (see figure 8 again).

Figure 8
Age-specific enrolment rate



Source: Developed based on the National Department of Education (NDOE).⁷⁹

⁷⁶ Statistics Division, Office of Statistics, Budget, Overseas Development Assistance and Compact Management (2014). *Federated States of Micronesia Household Income and Expenditure Survey 2013/14, Main Analysis Report (December 2014)*. Palikir, Pohnpei: Government of FSM. <https://microdata.pacificdata.org/index.php/catalog/720/related-materials>.

⁷⁷ FSM Department of Environment, Climate Change and Emergency Management (2024). *Digital Atlas of Micronesia*. Palikir, Pohnpei: Government of FSM. <https://islandatlas.org>.

⁷⁸ Government of FSM (2023). *President Panuelo Provides State of the Nation Address, 15 January*. [Press Release]. <https://gov.fm/index.php/component/content/article/35-pio-articles/news-and-updates/697-president-panuelo-provides-state-of-the-nation-address?Itemid=177>.

⁷⁹ National Department of Education (NDOE) (2022). *FSM education indicators report September 2022, version 1*. Palikir, Pohnpei: Government of FSM.

Gender disparity also exists, mainly at the secondary level, in favour of female students, suggesting that male students have lower access to post-primary education, higher dropout rates and lower transition rates than their female counterparts.⁸⁰ There is also a significant level of over-age students and “drop-offs”.⁸¹ Further, public schools tend to exhibit lower academic performance than private schools, leading to a significant disparity in the quality of education offered.

While FSM has some teachers with higher education qualifications, they comprise a relatively small percentage of the teaching population. Many teachers are not certified for teaching.⁸² In Yap, teachers typically possess only a high school diploma, while only one teacher across all the states has a degree in early childhood education.⁸³ Although the attrition rate (i.e., teachers leaving the profession) has improved in recent years, it remains an issue at 10-18 per cent in 2022. In the same year, school accreditation revealed inequalities among the states, with Chuuk and Yap having the highest percentage of schools that failed to meet most of the accreditation standards.⁸⁴

The College of the Federated States of Micronesia (COM) is the nation’s only fully established post-secondary institution, with its national campus in Pohnpei and state campuses in each of the four states. The college offers programmes in various subjects, and in partnership with the University of Guam, it offers a Bachelor of Arts in Elementary Education. Students who wish to study disciplines other than those offered by COM often go to universities in Guam, Hawaii or the US mainland. Students can also apply for state or bilateral scholarships and training programmes sponsored by the Governments of Australia, China, Japan and the United States.⁸⁵

The abovementioned gaps are likely to persist until the government successfully addresses the key issues in its education system. Otherwise, there will be an increasing disparity between the well-educated and the poorly educated, resulting in a wider income gap between the rich and the poor. Individuals with access to higher-quality education will likely secure better-paying career opportunities, while those with limited education will likely end up with lower-wage jobs.⁸⁶

⁸⁰ Ibid.

⁸¹ Pacific Community (2021). *The status of Pacific education: A sector analysis based on internationally comparable statistics*. Suva.

⁸² Ibid.

⁸³ NDOE (2020).

⁸⁴ Ibid.

⁸⁵ Government of FSM (2020).

⁸⁶ Government of FSM (2023).

Cognisant of these problems in education, the government has taken steps to improve primary and secondary education, notably in terms of quality and accessibility, in collaboration with Australia and ADB.⁸⁷ The World Bank has also sought improved access to vocational training by constructing vocational schools, upgrading vocational curricula, providing teacher training and attracting students across Micronesia, including reopening the once-prestigious Pohnpei Agriculture and Trade School (PATS) on Pohnpei.^{88 89}

3.3. Labour

Although participation in the labour market has increased (see figure 9), formal employment opportunities are relatively limited in FSM, and subsistence farming remains a common means of livelihood. In rural areas, where almost 80 per cent of the population resides, subsistence farming is particularly prevalent, as 92 per cent of individuals employed in agricultural occupations do not receive any pay. This unpaid labour force is nearly 60 per cent of the working population.⁹⁰ The informal sector is expanding with a growing number of people being in subsistence or unpaid jobs and, thus, not in the labour market, where female labour is disadvantaged (see figure 9 again). Sixty-five per cent of the workforce in the country is skilled, with 36 per cent of the skilled workforce in the agriculture, forestry and fishery sectors.^{91 92}

⁸⁷ ADB (2017). *Regional: Improving the Quality of Basic Education in the North Pacific*. Manila: Asian Development Bank. <https://www.adb.org/projects/49456-002/main>.

⁸⁸ Liebrechts, W. (2022). *Federated States of Micronesia / World Bank: Project Manager, FSM Skills and Employability Enhancement Project: 2022/236*, May 23 [Group message]. <https://groups.io/g/PacificVacancies/message/6726#:~:text=The%20FSM%20Skills%20and%20Employability%20Enhancement%20Project%20%28SEE%29,access%20to%20and%20effectiveness%20of%20employment%20support%20programs>.

⁸⁹ Government of FSM (2023).

⁹⁰ ADB (2020). *Pacific Economic Monitor*, based on the *FSM Statistics Integrated Agriculture Census 2016 and 2010 Census of Population and Housing*.

⁹¹ United Nations Development Program (UNDP) (2020). *The Next Frontier: Human Development and the Anthropocene*. New York.

⁹² ADB (2020).

Figure 9
Labour market participation in FSM
 Percentage of population



Source: ADB.⁹³

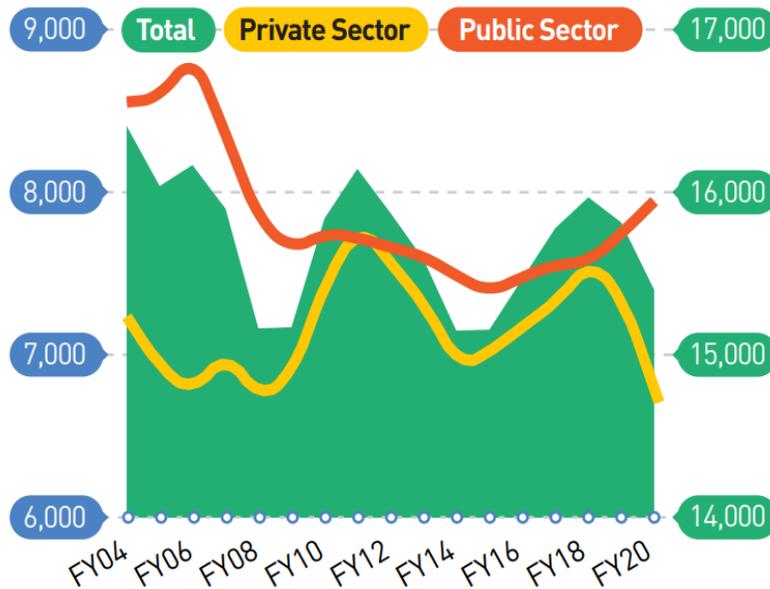
Notes: Not shown in the figure are children (aged below 15) to complete 100 per cent of the population. The 2016 census does not identify the unemployed, making comparisons with the previous year difficult.

The government has been the main employer for many years, offering salaries at least twice as high as those in the private sector (see figures 10 and 11). Although the proportion of public to private employment has decreased gradually, during the COVID-19 pandemic, private sector employment dropped dramatically while the public sector increased.⁹⁴ Workers in the private sector typically neither receive health benefits, nor take sick, family or maternity leave, without participating in the social security system.

⁹³ Ibid.

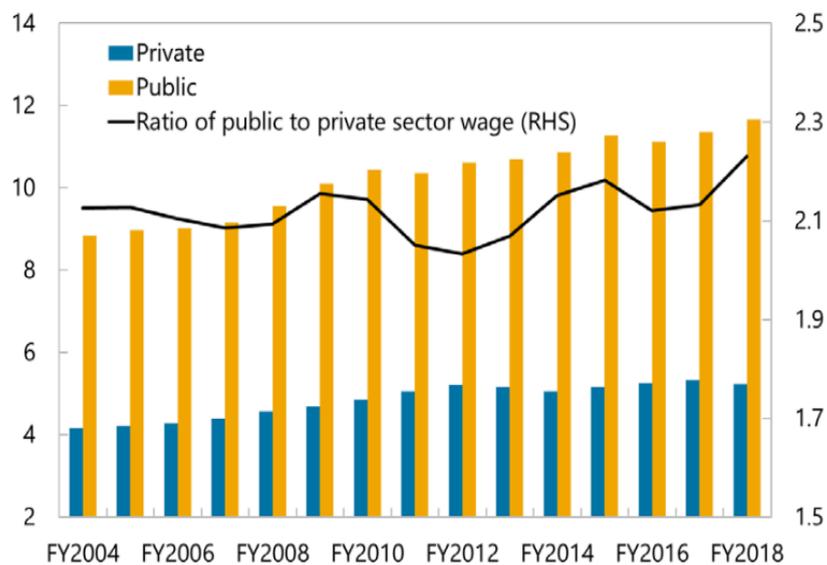
⁹⁴ Pacific & Virgin Islands Training Initiatives (PITI-VITI), Graduate School USA (2021). *Economic Brief FSM 2021, October*. Honolulu.
<https://pitiviti.org/storage/dm/2021/12/fsm-briefingnote-fy21-final-remediated-20211223232101147.pdf>.

Figure 10
Employment in the public and private sectors
 In thousands of jobs



Source: Graduate School USA.⁹⁵

Figure 11
Wages in the public and private sectors
 In thousands of USD



Source: IMF.⁹⁶

Due to the limited number of skilled labour in FSM, foreign workers, predominantly from the Philippines, are often hired to meet the demand for technical expertise. This includes most doctors,

⁹⁵ Ibid.

⁹⁶ IMF (2021). "Federated States of Micronesia: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Federated States of Micronesia", *Country Report No. 2021/237*, 1 November.

nurses, accountants, lawyers, engineers, construction foremen and heavy equipment operators.⁹⁷ The United Filipino Community of Pohnpei (UFCP) was established in 1980 and remains active.⁹⁸ Other immigrants come from the United States (Guam and mainland), Palau, Marshall Islands and other Pacific SIDS.⁹⁹

The unemployment rate for adults in Micronesia has gradually decreased, from 22 per cent in 2005 to 16 per cent in 2019.¹⁰⁰ However, the youth unemployment rate remains high at 25 per cent, as reported in the *2017 State of Pacific Youth Report*.¹⁰¹ The report also indicates that 29 per cent of young people aged between 15 and 24 are neither engaged in education, employment nor training (NEET). Factors contributing to high unemployment include low education and skills, limited qualifications and low wages. FSM is not a member of the International Labour Organization (ILO) and has not signed any ILO conventions on equality of opportunity and treatment.¹⁰² In 2015, women accounted for 39 per cent of employees in the formal sector.¹⁰³ Generally, women have lower participation rates than men in the adult labour force, informal employment and the education, employment or training (NEET) category (also see figure 9 again).¹⁰⁴ Men typically earn 20 to 50 per cent more than women. The disparity of earnings is clear in every sector (see table 2).

Table 2
Earnings by sector and gender, 2016

US dollars

	Female	Male
State governments	2 070	2 668
Private sector (for profit)	4 454	5 346
NGOs and non-profits	7 200	9 078
Federal government	13 637	21 851

Source: The Government of FSM.¹⁰⁵

3.4. Food and health

FSM's restricted local food supplies and growing inclination towards imported food products, which often lack adequate nutrition, have resulted in unhealthy dietary habits contributing to various

⁹⁷ US Department of State (2022a).

⁹⁸ IOM (2016).

⁹⁹ Ibid.

¹⁰⁰ Federated States of Micronesia (2020).

¹⁰¹ Clarke, D. and Azzopardi, P. (2019). *State of Pacific Youth*. Suva, Fiji: United Nations Population Fund (UNFPA).

¹⁰² UN Women (2022). *Gender Equality Brief for Federated States of Micronesia*. <https://asiapacific.unwomen.org/en/digital-library/publications/2022/12/gender-equality-brief-for-federated-states-of-micronesia>.

¹⁰³ Women's Economic Empowerment in the Pacific (2017). *Microsoft Word - WEE Regional Overview (windows.net)*.

¹⁰⁴ UN Women (2022).

¹⁰⁵ Government of FSM (2020).

health issues, such as overweight, obesity, anaemia and NCDs among all age groups.¹⁰⁶ (Generally, in-country agricultural activities account for over 60 per cent of local food.¹⁰⁷) Physical inactivity, alcohol consumption and smoking also affect poor health.¹⁰⁸ The increasing prevalence of chronic diseases has put additional strains on the fragile healthcare system.

FSM's diet lacks adequate nutrition, as citizens tend to consume insufficient amounts of whole grains, fruits, vegetables, legumes and nuts, which are typically imported. Conversely, the population consumes excessive amounts of red meat and fish. Dairy is the only food item that meets the recommended intake levels.¹⁰⁹ Approximately 15 per cent of children in FSM are underweight, and one in ten people live below the national food poverty line.^{110 111} The latest estimated data from 2023 ranks Micronesia as the 10th most obese country in the world, with a score of 45.8 per cent. It is important to note that FSM is not the only country in the region facing an obesity problem.¹¹² Anaemia, which can also result from poor nutrition, also represents a public health issue in FSM, affecting 36.7 per cent of under-five-year-olds.¹¹³

FSM allocated 11.4 per cent of its GDP to healthcare in 2019, one of the highest expenditures on healthcare among all Pacific SIDS (with an average of 7.2 per cent).¹¹⁴ Despite this high spending, citizens have limited access to healthcare, as 71.3 per cent of people lack health coverage.¹¹⁵ Health facilities and services are limited due to: the remoteness of the outer islands, a shortage of trained personnel, poor transportation facilities and inadequate financial resources. The absence of privacy and confidentiality in health clinics can also discourage women and youth from seeking help in healthcare advice, particularly regarding family planning and counselling.¹¹⁶

As of 2020, the ratio of physicians to the population in FSM was less than one per 1 000 people, which is lower than the global average of 1.6 in 2018.¹¹⁷ State-run hospitals are located on the four

¹⁰⁶ World Bank (2021). *Climate Risk Country Profile: Micronesia*. Washington, D.C.: World Bank. https://climateknowledgeportal.worldbank.org/sites/default/files/country-profiles/15818-WB_Micronesia%20Country%20Profile-WEB.pdf.

¹⁰⁷ Ibid.

¹⁰⁸ UN Women (2022).

¹⁰⁹ Global Nutrition Report. (2022). *Micronesia (Federated States of)*. <https://globalnutritionreport.org/resources/nutrition-profiles/oceania/micronesia/micronesia-federated-states/>.

¹¹⁰ ADB (2017). *Key Indicators for Asia and the Pacific 2017*. Manila:ADB. <https://www.adb.org/sites/default/files/publication/357006/ki2017.pdf>.

¹¹¹ Statistics Division, Office of Statistics, Budget, Overseas Development Assistance and Compact Management (2014).

¹¹² World Population Review (2024). *Obesity Rates by Country 2024*. <https://worldpopulationreview.com/country-rankings/obesity-rates-by-country>.

¹¹³ Food and Agriculture Organization (FAO), International Fund for Agriculture and Development (IFAD), UNICEF, World Food Programme (WFP) and World Health Organization (WHO) (2021). *The State of Food Security and Nutrition in the World 2021: Transforming food systems for food security, improved nutrition and affordable healthy diets for all*. Rome: FAO.

¹¹⁴ UNCTAD (2021). *Development and Globalization: Facts and Figures*. unctad.org.

¹¹⁵ Federated States of Micronesia (2020).

¹¹⁶ UN Women (2022).

¹¹⁷ World Bank (2023a).

main islands, with only 3.2 beds available per 1 000 people and a few scattered clinics. These facilities suffer from a lack of basic supplies, medicine and qualified healthcare providers.¹¹⁸ According to data from 2016, the leading causes of death in FSM were cardiovascular diseases (32 per cent), followed by communicable, maternal, perinatal and nutritional conditions (18 per cent) and other NCDs (16 per cent). In 2019, more men (52 per cent) than women (40 per cent) died from cardiovascular disease, cancer, diabetes and chronic respiratory disease.¹¹⁹ The immunization rate for children was only 65 per cent in 2018, which is insufficient to protect against fatal diseases effectively.¹²⁰

In addition, the maternal mortality rate increased to 121 maternal deaths per 100 000 live births in 2021, well above the target set of 70.¹²¹ In 2020, the Convention on the Rights of the Child (CRC) Committee was concerned about FSM on: (i) insufficient access to healthcare services for children living in the outer islands and remote villages; (ii) high mortality rates among infants and children under five years of age due to preventable causes such as low birth weight, respiratory infections, undernutrition, prematurity, pneumonia, sepsis and diarrhoea; (iii) low level of vaccination coverage, which had even declined in recent years and the wide disparities among states, with particularly low coverage on Pohnpei and Chuuk; (iv) high prevalence of anaemia among pregnant women and new-borns and of tuberculosis; and (v) the lack of data on health issues affecting children, including malnutrition, stunting, obesity, mental health, teenage pregnancy, substance abuse and breastfeeding practices.¹²²

Other concerns pertaining healthcare services voiced by the CRC Committee in 2020 include: (i) the criminalization of abortion in all cases except where the life of the pregnant girl is at risk; (ii) the limited access to safe reproductive and sexual healthcare services, education and contraceptives, especially in the outer islands, due to the limited supply, cultural attitudes and fear of stigmatization; and (iii) the prevalence of substance abuse among adolescents due to the lack of law enforcement of alcohol sales to children and the lack of a legal framework for the sale of *sakau*.^{123 124}

Finally, there has been little to no progress in improving access to clean water and sanitation in FSM. In FSM, 12 per cent of households have no access to basic water and sanitation services.¹²⁵ The local population typically relies on surface water for their drinking water needs, which poses a risk of bacterial contamination and necessitates extensive and expensive treatment. There is also a heightened concern about waterborne illnesses since some of the four states have endemic

¹¹⁸ Country Reports (n.d.).

¹¹⁹ UN Women (2022).

¹²⁰ Federated States of Micronesia (2020).

¹²¹ ADB (2017).

¹²² United Nations, Convention on the Rights of the Child (2020). *Concluding observations on the second periodic report of the Federated States of Micronesia, CRC/C/FSM/CO/2, 3 April*. New York: Committee on the Rights of the Child.

¹²³ *Sakau* refers to both the plant and the herbal brew made from the roots of the kava plant that is strained through the bark of the sea hibiscus tree.

¹²⁴ United Nations, Convention on the Rights of the Child (2020).

¹²⁵ UNICEF (2023). *UNICEF Data Warehouse*, at https://data.unicef.org/resources/data_explorer/unicef_f/?ag=UNICEF&df=GLOBAL_DATAFLOW&ver=1.0&dq=FSM.WS_PPL_S-ALB.&startPeriod=1970&endPeriod=2023.

leptospirosis, hepatitis and amoebiasis.¹²⁶ The COVID-19 pandemic has brought increased attention to the importance of water, sanitation and hygiene (WASH).

3.5. Gender and inclusion

FSM acceded to the Convention on the Elimination of Discrimination against Women (CEDAW) in 2003, albeit with some reservations.¹²⁷ In 2018, FSM endorsed the National Gender Policy, which outlines five objectives for gender equality.¹²⁸ They include: (i) promoting gender mainstreaming; (ii) enhancing equal educational outcomes; (iii) addressing the barriers women face in the workforce; (iv) improving women's healthcare; and (v) empowering women to make informed choices about their fertility. Nevertheless, achieving these objectives will require considerable time and unwavering dedication. Presently, the status of women in FSM leaves much to be desired.

In FSM, gender-based violence is widely tolerated, with little redress for women. There is an absence of legislation providing adequate protection and safety for victims, although the police on some islands have received training in appropriate responses to violence toward women.¹²⁹ Virtually all women live under the threat of violence, which severely constrains their full socioeconomic empowerment, affecting productivity and burdening health services. Women's disadvantaged status in marriage and family relations contributes to the high prevalence of violence against women.¹³⁰

According to a study published in 2014, almost one-third of ever-partnered women aged 15-49 experience physical and/or sexual violence by a partner at least once in their lifetime, and almost one-quarter experienced violence within 12 months preceding the study's interview.¹³¹ Prevalence was highest among women aged 15-24 (35 per cent), while six per cent of ever-pregnant women experienced physical violence, typically punches in the abdomen, by a partner in pregnancy. Slightly over 18 per cent of ever-partnered women experienced sexual violence by a partner in their lifetime, especially forced sexual intercourse. In this vein, FSM requires regularly updated data on violence against women and girls for policymaking.¹³²

The representation of women in decision-making positions in both public and private sectors in FSM remains limited. In 2021, only one out of 14 Senators at the national level, and five out of 85 Senators at the state level, are women.¹³³ To put that in context, the global average of women's representation in lower or upper parliamentary chambers is 26 per cent, while the Pacific average is

¹²⁶ Government of FSM (2018). *Federated States of Micronesia State of Environment Report 2018*. Samoa: SPREP. https://fsm-data.sprep.org/system/files/FSM%20SOE%20digital_20191023.pdf.

¹²⁷ Government of FSM (2003). *FSM ratifies CEDAW*. 9 December. Palikir, Pohnpei: FSM Information Service. <https://www.fsmgov.org/press/pr12090e.htm>.

¹²⁸ Pacific Women (2017). *Assessment of ERAW Services and Gaps in Pohnpei and Chuuk, Federated States of Micronesia*. New York: Pacific Women.

¹²⁹ Ibid.

¹³⁰ United Nations Committee on the Elimination of Discrimination against Women (CEDAW) (2017). *Concluding Observations on the combined initial to third periodic reports of Federated States of Micronesia*, CEDAW/C/FSM/CO/1-3, 9 March.

¹³¹ Leon, C. and Mori, E. S. (2014). *Federated States of Micronesia Family Health and Safety Study: A prevalence study on violence against women*, October. Pohnpei, FSM Department of Health and Social Affairs.

¹³² Ibid.

¹³³ Inter-parliamentary Union (n.d.). *Monthly Ranking of Women in National Parliaments 2021*. Accessed 16 December 2021. <https://data.ipu.org/women-ranking?month=11&year=2021>.

18 per cent, and FSM's representation is only seven per cent.¹³⁴ As of 2022, two women held senior positions in the national executive branch; one in the Department of Education and one in the FSM Postal Service. One woman became a Supreme Court judge, and two held foreign honorary consul positions (out of ten posts). None of the state-owned enterprises employs any women at the board level. Women were most highly represented as board directors of private sector organizations (21 per cent).¹³⁵

Many FSM women are involved in unpaid work, such as domestic work, subsistence farming and fishing. They are also employed in low-paying and vulnerable sectors due to their limited training, unequal share of family responsibilities and traditional gender roles (see figure 12). Less than 13 per cent of them are engaged in paid employment, with the most challenging circumstances found in Kosrae, where only eight per cent of women receive formal remuneration for their work.¹³⁶ In addition, many of them are not covered by the social security system, as they cannot make contributions or are outside the formal scheme. This combination of factors has led to a higher likelihood of women living in poverty, although some initiatives have supported women's empowerment in the country.^{137 138}

¹³⁴ Ibid.

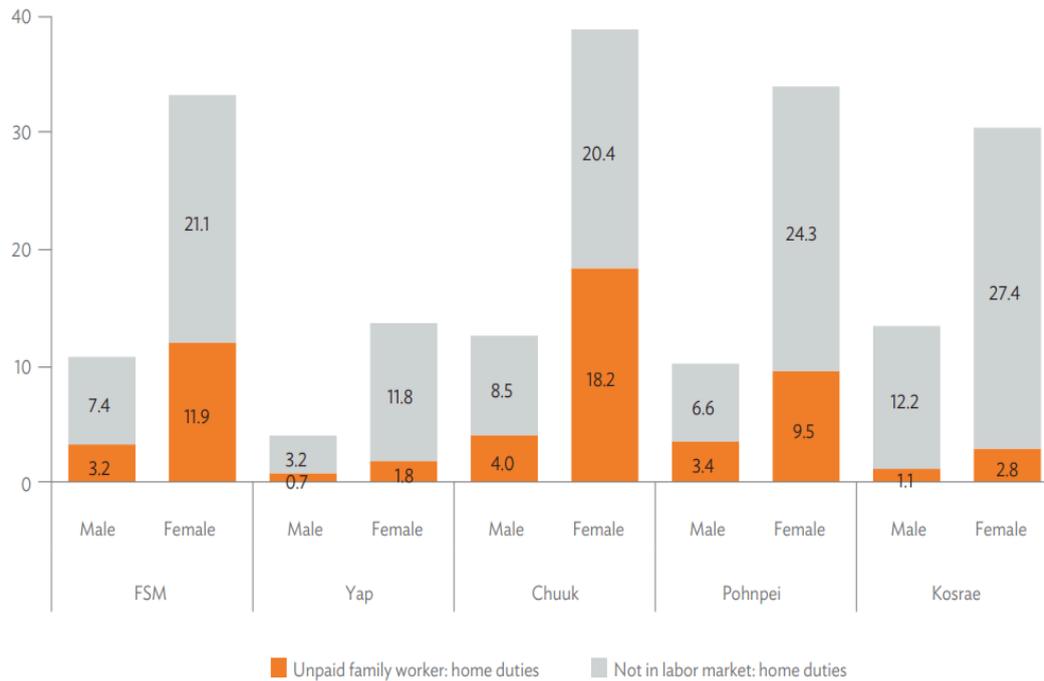
¹³⁵ UN Women (2022).

¹³⁶ Asian Development Bank (ADB) (2020). *Pacific Economic Monitor, December*. Manila: ADB. <https://www.adb.org/publications/pacific-economic-monitor-december-2020>.

¹³⁷ Government of FSM (2018). *National Gender Policy*.

¹³⁸ Federated States of Micronesia (2020).

Figure 12
Home duties by gender and state, 2016
 Percentage of population



Source: ADB.¹³⁹

Note: Not shown in the figure are children (aged below 15) to complete 100 per cent of the population.

It is recommended that FSM undertakes measures necessary to ensure that: (i) women and men in its territory have equal rights in marriage, divorce, property relations, child custody and inheritance; (ii) the legal minimum age of marriage sets at 18 years for both girls and boys; and (iii) child marriage and bigamy are criminalized. Implementing protective legislation, shelters and capacity development for police and the judiciary is recommended for the victims of violence, where international technical support is also suggested.¹⁴⁰

3.6. Human rights

FSM has formed fragmented human rights monitoring mechanisms within its government departments. The government established an anti-human trafficking division and opened a shelter for trafficking in Chuuk, although law enforcement and protection services have remained insufficient.¹⁴¹ Each of Micronesia’s four states has its own laws that criminalize trafficking offences; however, Chuuk and Pohnpei do not explicitly prohibit adult sex trafficking. In this vein, the Office of the United Nations High Commissioner for Human Rights (OHCHR) has recommended that FSM ratify various human rights instruments, including: the International Covenant on Civil and Political Rights (ICCPR); the International Covenant on Economic, Social and Cultural Rights (ICESCR); the International Convention on the Elimination of All Forms of Racial Discrimination (ICERD); the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (CAT) and its Optional Protocol; the International Convention on the Protection of the Rights of All

¹³⁹ ADB (2020).

¹⁴⁰ CEDAW (2017).

¹⁴¹ US Department of State (2020). *Trafficking in Persons Report 20th edition*, June. <https://www.state.gov/wp-content/uploads/2020/06/2020-TIP-Report-Complete-062420-FINAL.pdf>.

Migrants Workers and Member of Their Families; the International Convention for the Protection of all Persons from Enforced Disappearance; the Second Optional Protocol to the International Covenant on Civil and Political Rights; and the Optional Protocol to the Convention on the Rights of the Child.¹⁴² The FSM government recognizes the need to establish an independent national human rights institution.¹⁴³

Children in FSM face multiple forms of exclusion. They may suffer domestic violence, emotional abuse and sexual abuse, with an assumed significant under-reporting of such cases, owing to social stigma and other reasons. Contributing factors to child abuse and neglect include crowded households, many teenagers not in school, high unemployment, a high rate of teenage pregnancy and alcohol abuse.¹⁴⁴ Also, FSM has made limited progress in establishing a specialized approach to children in conflict with the law, without any specialized courts for children. FSM does not have a specific government budget allocation for child protection; a fragmented suite of services has yet to be integrated into the education and healthcare policies and plans, placing children at greater risk of being left behind.¹⁴⁵ Children with disabilities are often denied access to good-quality education due to fear of stigma or prejudices, sometimes pretexted behind the lack of accessible school buildings and transportation.¹⁴⁶

Forced labour is prohibited in FSM, and the government enforces basic standards for working conditions in the formal sector. However, foreign migrant workers remain vulnerable to exploitative labour practices. Those from South-East Asia report working in conditions indicative of human trafficking on fishing vessels in FSM or its territorial waters.¹⁴⁷ Human traffickers exploit domestic and foreign victims in FSM. Sex traffickers exploit Micronesian women and girls through commercial sex with the crew members on vessels in FSM territorial waters, or with foreign construction workers, and which typically go unreported.¹⁴⁸

¹⁴² Office of the United Nations High Commissioner for Human Rights (OHCHR) (2021). *United Nations Human Rights Office of the High Commissioner's Letter to Micronesia*, 8 October. https://www.ohchr.org/sites/default/files/2021-11/HC_letter_to_Micronesia.pdf.

¹⁴³ Universal Rights Group (2021). *Report of the Human Rights Council on its 47th session (A/HRC/47/2)*, 15 July. <https://www.universal-rights.org/report-on-the-47th-session-of-the-human-rights-council/>.

¹⁴⁴ Committee on the Rights of the Child (2020). *Concluding observations on the second periodic report of the Federated States of Micronesia, CRC/C/FSM/CO/2*, 3 April. <https://www.ohchr.org/en/documents/concluding-observations/crcfsmco2-concluding-observations-second-periodic-report>.

¹⁴⁵ Ibid.

¹⁴⁶ Ibid.

¹⁴⁷ Freedom House (n.d.). *Micronesia*. Washington, D.C.: Freedom House. <https://freedomhouse.org/country/micronesia/freedom-world/2022>.

¹⁴⁸ US Department of State (2020).

4. Prosperity

FSM faces significant challenges in achieving sustainable economic growth due to its small size, limited institutional and human capacity and geographic remoteness and dispersion. This chapter focuses on: (i) macroeconomic trends; (ii) trade and investment; (iii) economic sectors; (iv) national finance; and (v) infrastructure and digitalization.

4.1. Macroeconomic trends

In 2021, amid the COVID-19 pandemic, FSM's GDP was slightly above \$400 million.¹⁴⁹ The GDP per capita in the same year was \$3 571, placing the country in the lower middle-income category, with a GNI per capita of \$4 010.¹⁵⁰ FSM's economy heavily relies on the public sector, fisheries and subsistence agriculture, with a narrow production base. The government employs half of the working population. In 2021, the service sector accounted for 67.0 per cent of the economy, followed by fisheries and agriculture at 27.7 per cent and industry at only 5.3 per cent.¹⁵¹ The sale of fishing licenses generates most of the country's revenue, contributing roughly \$70 million annually.¹⁵² The country receives considerable financial aid from the United States, based on the CoFA modality.

Despite being able to avoid a COVID-19 outbreak, FSM, like other North Pacific SIDS, was significantly impacted by border closures imposed to prevent the spread of the pandemic, commencing in early 2020. GDP growth was 2.7 per cent in 2019, dropping to -3.8 per cent and -1.3 per cent in 2020 and 2021 respectively, then recovering to 2.0 per cent in 2022.¹⁵³ Indeed, FSM's situation was relatively better compared to some of its Pacific peers. First, the country had a strong fiscal position before the pandemic.¹⁵⁴ Second, stable fishing license fees and significant foreign grant inflows helped maintain the fiscal balance during the crisis. Third, the country's economy partially relies on subsistence farming and fishing, which helped to alleviate food supply concerns during import delays. The government also provided various economic stimulus and social protection programmes, supporting small businesses and low-income citizens and saving hundreds of jobs.^{155 156 157}

¹⁴⁹ World Bank (2023a).

¹⁵⁰ World Bank (2023a).

¹⁵¹ Asian Development Bank (ADB) (2023). *Asian Development Outlook*, April. Manila: ADB. <https://www.adb.org/sites/default/files/publication/863591/asian-development-outlook-april-2023.pdf>.

¹⁵² Government of FSM (2020). *Report on the audit of financial statements in accordance with the uniform guidance, year ended 30 September 2020*.

¹⁵³ ADB (2023).

¹⁵⁴ US Department of the Interior (2020, June 22). *Initial Economic Impact of COVID-19 Reported for Micronesia, the Marshall Islands, and Palau*. <https://www.doi.gov/oia/press/initial-economic-impact-covid-19-reported-micronesia-marshall-islands-and-palau>.

¹⁵⁵ Government of FSM (2023).

¹⁵⁶ Asian Development Bank (ADB) (2021). *Asian Development Outlook*, April. Manila: ADB.

¹⁵⁷ International Monetary Fund (IMF) (2021). *Federated States of Micronesia 2021 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for the Federated States of Micronesia*, 1 November. Washington, D.C.: IMF. <https://www.imf.org/en/News/Articles/2021/11/01/pr21318-federated-states-of-micronesia-imf-executive-board-concludes-2021-article-iv-consultation>.

GDP growth for 2023 is estimated to be 4.1 per cent. Public projects, construction, transport, hotels and retail trade are leading the economy back to its pre-pandemic level. Consequently, the government has been able to reduce pandemic assistance to households. Inflation in FSM increased from 1.8 per cent in 2021 to 5.0 per cent in 2022, particularly after the conflict in Ukraine began. Inflation is expected to abate towards 2024, following global commodity price trends, particularly in the energy and food sectors.¹⁵⁸

In May 2023, FSM and the United States renewed the CoFA. The new agreement increased sector grants and funding to the Compact Trust Fund: an increase in annual sector grant assistance from \$80 million to \$140 million (amounting to \$2.8 billion over the next 20 years) and an additional contribution of \$500 million to the trust fund.¹⁵⁹

4.2. Trade and investment

In 2022, imported products to FSM were valued at \$158 million, while exports, predominantly fish (over 97 per cent of export earnings), were worth over \$200 million, resulting in a trade surplus of \$42 million (figure 13). Nearly 80 per cent of FSM's merchandise is exported to Thailand (figure 14).¹⁶⁰ The main imports to FSM are foodstuffs (including meat and cereals), machinery and equipment and motor vehicles from the United States, China, Japan, the Republic of Korea, the Taiwan Province of China, the Philippines and Australia (figure 15).¹⁶¹ FSM has yet to ratify the Pacific Island Countries Trade Agreement (PICTA), a free trade agreement among 14 PIF members, excluding Australia and New Zealand. FSM is not a member of any regional economic bloc, nor the World Trade Organization (WTO).

¹⁵⁸ ADB (2023).

¹⁵⁹ Government of FSM (2023). *President Panuelo Visits the White House, Brokers Top-line Deal; FSM Planning to Receive \$2.8 Billion Over 20 Years in Compact Sector Grants, \$500 Million Injection to Existing \$1 Billion Compact Trust Fund Projected to Reach \$4 Billion in 20 Years, Removal of Fiscal Cliff, & Continuation of Federal Programs & Services*, January 31. [Press Release].

<https://gov.fm/index.php/component/content/article/35-pio-articles/news-and-updates/700-president-panuelo-visits-the-white-house-brokers-top-line-deal-fsm-planning-to-receive-2-8-billion-over-20-years-in-compact-sector-grants-500-million-injection-to-existing-1-billion-compact-trust-fund-projected-to-reach-4-billion-in-20-years-removal-of-fiscal-cliff-continuation-of-federal-programs-services?Itemid=177>.

¹⁶⁰ International Trade Centre (ITC) (2023). *Trade Map*. <https://www.trademap.org>.

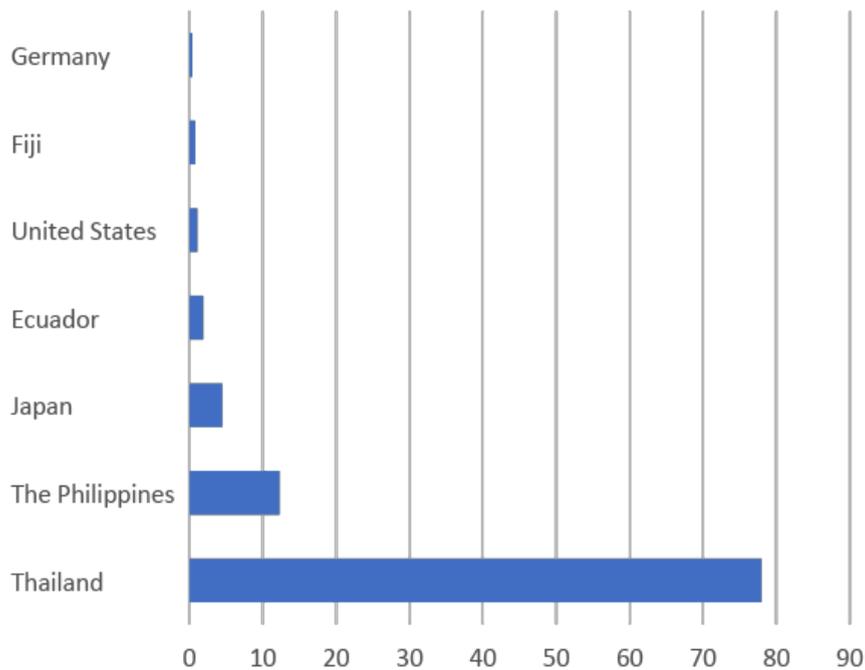
¹⁶¹ *Ibid.*

Figure 13
FSM's product trade
 in millions of US dollars



Source: Developed based on ITC.¹⁶²
 Note: Mirror data are used.

Figure 14
Export trade partners, 2022
 In per cent



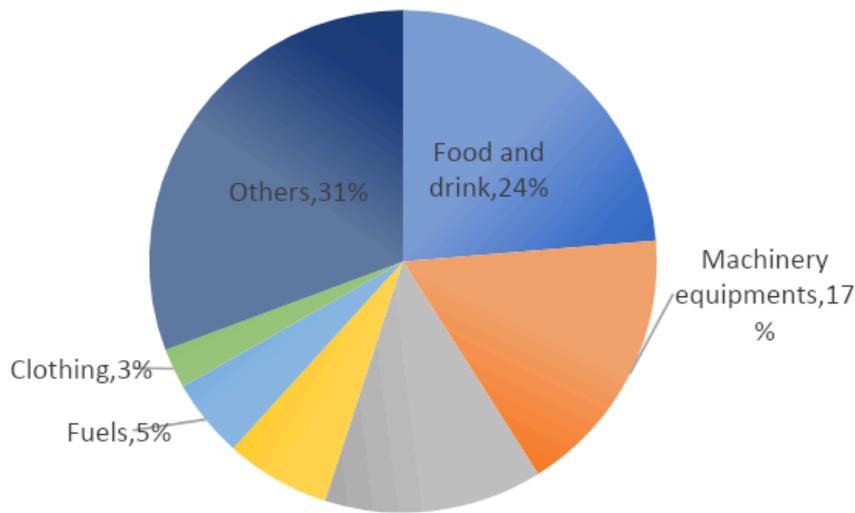
Source: Developed based on ITC.¹⁶³

¹⁶² Ibid.

¹⁶³ Ibid.

Figure 15

Breakdown of main import products, 2022
in per cent of total



Source: Developed based on ITC.¹⁶⁴

FSM is a significant coconut producer, ranked fifth among its Pacific peers.¹⁶⁵ In 2020, the government initiated the Coconut National Export Strategy (CocoNES) with the Vital Petroleum Corporation (Vital), a state-owned enterprise (SOE). CocoNES aims to increase exporting of coconut products, ultimately improving farmers’ livelihoods. The International Trade Centre (ITC), a joint agency of the United Nations and WTO, has provided technical assistance for developing CocoNES.¹⁶⁶

Foreign direct investment (FDI) inflows to FSM have been minimal due to several factors. They include: (i) limits and restrictions on foreign ownership of land and specific economic sectors; (ii) complicated company registration procedures that require approvals from both state and national governments, weak private sector contract enforcement; (iii) insufficient protection for foreign investors’ rights; (iv) ineffective court and bankruptcy processes; (v) inadequate infrastructure, as well as limited commercial flights and high import costs for goods and services.¹⁶⁷ According to the World Bank’s most recent “Doing Business 2020” report, FSM ranked 158th out of 190 countries, and is not believed to have significantly improved its relative position in recent years.^{168 169}

¹⁶⁴ Ibid.

¹⁶⁵ International Trade Centre (ITC) (n.d.). *Micronesia: Coconut Export Strategy*. <https://intracen.org/our-work/projects/micronesia-coconut-export-strategy>.

¹⁶⁶ The Vital Group (n.d.). *Frequently Asked Questions – Coconut for Life*. <https://www.vitalenergy.fm/faqs/>.

¹⁶⁷ US Department of State (2022a).

¹⁶⁸ Foreign nationals can own buildings in FSM, but not the land on which they stand. Although a long-term land lease is possible, obtaining a land contract is one of the most challenging tasks for foreign investors in FSM. Land is mainly passed on through clan structures, resulting in negotiations over leases with multiple parties and renegotiations after the death of one of the parties. See: US Department of State (2022a).

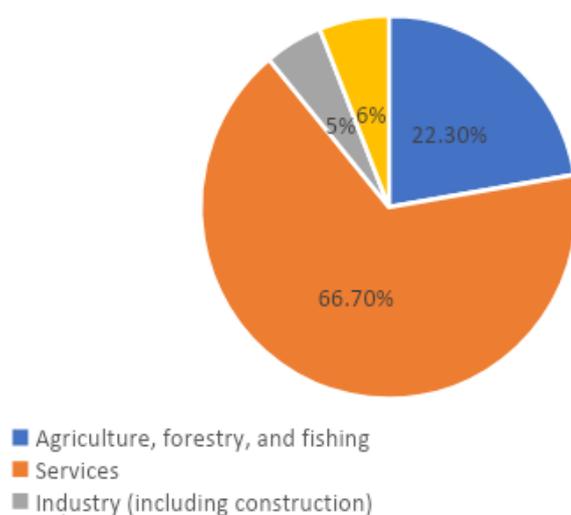
¹⁶⁹ World Bank. (2020). *Doing Business 2020: Micronesia, Fed. Sts.* Washington, D.C. <https://archive.doingbusiness.org/content/dam/doingBusiness/country/m/micronesia/FSM.pdf>.

IMF has suggested several measures to facilitate greater FDI inflows to FSM, including: (i) amending the Foreign Investment Act; (ii) reducing business startup costs and dispute settlement time; (iii) easing regulatory burdens; (iv) improving the efficiency of the judicial process; (v) enhancing coordination across federal and state governments; and (vi) establishing a national single window system for trade and investment.¹⁷⁰ The government has responded by drafting amendments to the Foreign Investment Act and working with four state governments to simplify the FDI application process. The authorities also plan to establish a one-stop shop for FDI and to prioritize certain sectors to attract more foreign investment.¹⁷¹ However, those regulatory and non-regulatory challenges still require substantial changes.

4.3. Economic sectors

The FSM economy is primarily service based, contributing 66.7 per cent of GDP, with agriculture, forestry and fishery making up 22.3 per cent and industry (including construction) merely five per cent (figure 16).¹⁷² Agriculture, forestry and fisheries play an important role in food production, providing both formal and informal employment.¹⁷³

Figure 16
Sectoral contributions to the economy
2021



Source: Developed based on the World Bank Group.¹⁷⁴

Agriculture, forestry and fishery

FSM has greater agricultural potential than many other PICTs, with over 70 per cent of the population living on fertile volcanic islands and relatively few atolls, and 90 per cent of the

¹⁷⁰ IMF (2021).

¹⁷¹ Ibid.

¹⁷² World Bank (2023a).

¹⁷³ Federated States of Micronesia (2020).

¹⁷⁴ World Bank (2023a).

households have access to land that can be used for agricultural purposes.¹⁷⁵ The suitable climate also allows for year-round agriculture.

The contribution of agriculture to GDP in FSM has remained relatively stable over the last decade, broadly ranging from 14 per cent to 16 per cent, with a slight upward trend.¹⁷⁶ Over 60 per cent of local food production and 50 per cent of the labour force, whether full-time or seasonal, are attributable to in-country agricultural activities.¹⁷⁷ About 63 per cent of FSM's households were engaged in agricultural and forestry activities in 2013, but only 14 per cent received some income from the sectors.¹⁷⁸ Out of the total area of 700 hectares, approximately 25.5 per cent is dedicated to agriculture, with only 2.9 per cent of the land being arable.^{179 180}

Coconut, breadfruit and bananas are staple crops grown on household lands, while betelnut, swamp taro, yam, papaya, lime, lemon and tapioca are other common tree and root crops. Only a small proportion of households report growing vegetables.¹⁸¹ *Sakau* is a culturally and economically important crop, contributing to 57 per cent of household income in Pohnpei, where almost all the sale of *sakau* occurs. However, growing this crop has reduced the area of primary forest from 15 000 hectares in 1975 to 5 200 hectares in 1995 and 4 200 hectares in 2002.¹⁸² Some commercial agricultural produce is cultivated in some areas of the islands, such as coffee and tea. During the 1990s, Pohnpei peppers gained a global reputation as high-quality export goods; however, this success was short-lived.¹⁸³

FSM's complex traditional land ownership system makes the tenure and use of land complicated. Agricultural land is mostly freehold or held through customary titles, making managing and recording tenure difficult.¹⁸⁴ According to the 2016 agriculture census, only eight per cent of land parcels used for agriculture were leased or held with other forms of tenure.¹⁸⁵

¹⁷⁵ Federated States of Micronesia (2020).

¹⁷⁶ Government of FSM (2019). *Federated States of Micronesia Integrated Agriculture Census 2016*. Pohnpei, Department of Resource and Development.

¹⁷⁷ World Bank (2021).

¹⁷⁸ Secretariat of the Pacific Community (SPC) (2014). *Federated States of Micronesia 2013/2014 HIES, Agriculture*. [Fact Sheet].
<https://library.sprep.org/content/federated-states-micronesia-20132014-households-income-and-expenditure-survey-hies>.

¹⁷⁹ UNCTAD (2021). *Micronesia (Federated States of)*.
<https://dgff2021.unctad.org/micronesia-federal-states-of/>.

¹⁸⁰ Center for Excellence in Disaster Management and Humanitarian Assistance (CFE-DM) (2022). *FSM Disaster Management Reference Handbook*, November.
<https://reliefweb.int/report/micronesia-federated-states/federated-states-micronesia-disaster-management-reference-handbook-november-2022#:~:text=Download%20Report,PDF%20%7C%207.74%20MB>).

¹⁸¹ Ibid.

¹⁸² Government of FSM (2018).

¹⁸³ Barth, J. (2019). *Pepper: A Guide to the World's Favorite Spice*. Lanham, Maryland: Rowman & Littlefield.

¹⁸⁴ Government of FSM (2018).

¹⁸⁵ Government of FSM (2019).

FSM is ranked second in the world for most forested countries, behind Suriname, with 92 per cent of land area covered by forest.¹⁸⁶ In 2016, approximately 60 per cent of households in FSM reported utilizing forest resources for various purposes, such as firewood, cultural and social practices and production.¹⁸⁷ FSM's forests provide food, medicine, building materials, garlands and perfumes. However, invasive alien species, climate change and wildfires have threatened forest resources. Unsustainable harvesting practices pose another challenge, while mangroves are under threat across FSM. In 2018, the revenue generated by the vast forest coverage of the country was estimated to be only 0.02 per cent of GDP.¹⁸⁸

FSM's EEZ covers almost three million square kilometres, providing access to major equatorial tuna migratory paths, generating approximately 30 per cent of the world's tuna supply. FSM's fisheries sector is the main source of both exports and domestic revenues, representing around 18 per cent of GDP.^{189 190} Although most local fishing activities are for subsistence purposes, the country generates a significant income of over \$70 million annually from selling fishing rights in its waters, representing approximately 26 per cent of the government's income (figure 17).^{191 192 193} Fishing license revenues will likely decline in the long term, due to the depletion of natural resources, although rents may be increased in the short term by renewing relevant agreements, such as the Nauru Agreement.¹⁹⁴ It is also necessary to add more value to tuna exports.¹⁹⁵

¹⁸⁶ Miller, R. (2019). "Revealed: Most Forested Countries in the World", *CEOWORLD Magazine*, September 10. <https://ceoworld.biz/2019/09/10/revealed-most-forested-countries-in-the-world/>.

¹⁸⁷ Miller (2019).

¹⁸⁸ CFE-DM (2022).

¹⁸⁹ UNCTAD (2021).

¹⁹⁰ IMF (2016).

¹⁹¹ In 2016, 55 per cent of all households in FSM reported engaging in fishing activities in the previous 12 months. Of the 89 per cent of households in FSM that consume fish regularly, 47 per cent for their own consumption (subsistence), while the other half purchase from local fishermen or at fish markets, contributing to 1.8 per cent of the total wage and salary income according to the State of Environment report (Government of FSM, 2018).

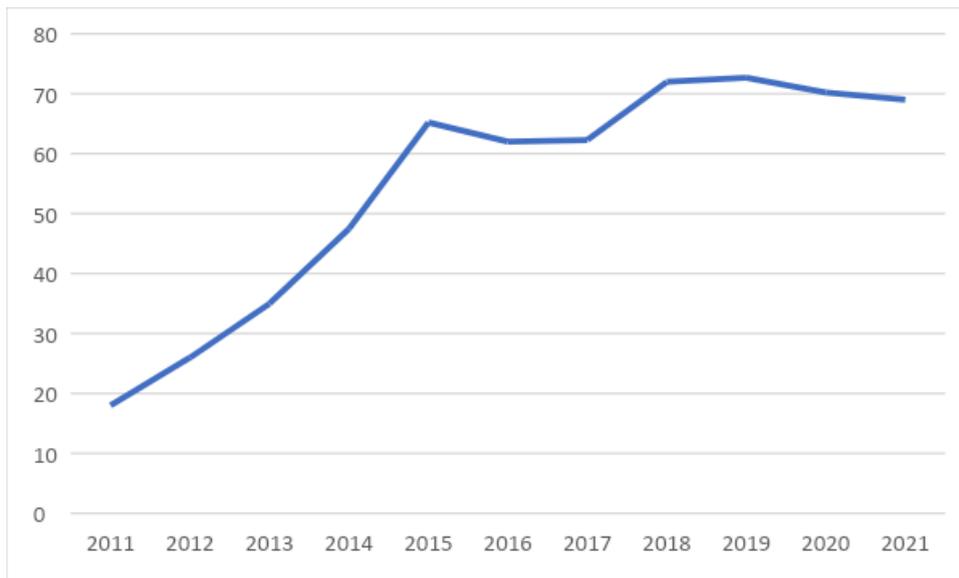
¹⁹² Montenegro Ministry of Sustainable Development and Tourism and the United Nations (2015). *The Second National Communication on Climate Change*. https://unfccc.int/sites/default/files/resource/mnenc2_eng.pdf.

¹⁹³ Australian Government, Department of Foreign Affairs and Trade (u.d.). *Federated States of Micronesia country brief*. <https://www.dfat.gov.au/geo/federated-states-of-micronesia/federated-states-of-micronesia-country-brief>.

¹⁹⁴ Signed in Nauru in 1982, the Nauru Agreement is an Oceania subregional agreement between FSM, Kiribati, Marshall Islands, Nauru, Palau, Papua New Guinea, Solomon Islands and Tuvalu. World Bank (2023b). *Pacific Economic Update*, February 2023. Washington, D.C.

¹⁹⁵ Government of FSM (2023).

Figure 17
FSM’s income from fishing licenses
 In millions of US dollars



Sources: Developed based on FSM government’s various reports on the audit of the financial statements.

Tourism

Before the country's borders were closed due to the COVID-19 pandemic, tourism in FSM contributed approximately \$18 million to the economy in 2019, accounting for around 6.5 per cent of GDP.¹⁹⁶ The tourism sector employed fewer than 800 workers in 2018, representing only 2.5 per cent of the workforce. In 2019, the country received 18 000 visitors, mainly from the United States, other Pacific countries, Asia, Japan and other regions. Pohnpei is the primary destination for 60 per cent of visitors, followed by Chuuk at 28 per cent, Kosrae and Yap six per cent each. In 2018, more visitors travelled to FSM for business purposes (36 per cent) than for leisure (29 per cent), visiting friends (eight per cent) or other purposes (27 per cent).¹⁹⁷

Since reaching a peak of over 47 500 visitors in 2009, the tourism sector in FSM has been in constant decline.¹⁹⁸ This could be attributed to factors such as the country's distance, expensive and limited air connections, low-quality accommodation and inadequate marketing and product development efforts, as well as the lack of coordination between the national government and the four state governments.^{199 200} Although tourism has been identified as a key economic sector, alongside agriculture, fisheries and energy in the government's 2004-2023 Strategic Development Plan and

¹⁹⁶ The Pacific Private Sector Development Initiative (PSDI) (November 2021). *Federated States of Micronesia: Pacific Tourism Snapshot*.
<https://www.pacificpsdi.org/publications/read/federated-states-of-micronesia-pacific-tourism-sector-snapshot>

¹⁹⁷ Ibid.

¹⁹⁸ World Data (n.d.). *Tourism in the Federated States of Micronesia*.
<https://www.worlddata.info/oceania/micronesia/tourism.php>

¹⁹⁹ PSDI (2021).

²⁰⁰ Landownership and its practices are the severe problems in developing the tourism sector in FSM, highlighted during the closure of the Village Hotel, a globally acclaimed high-end boutique hotel on Pohnpei, in 2015.

National Tourism Policy (2015), the country has yet to revive this industry.²⁰¹ ²⁰² Ongoing marketing and promotion efforts with FSM destination branding – “Paradise in our Backyards” – may serve as a starting point for extensive promotion of the country as a tourist destination.²⁰³ This promotion needs to be carried out on a larger scale, targeting regional and international audiences. The expansion of air routes – such as between FSM and Yap and Palau – would also be expected to support greater tourism numbers.

Box 2

Ecotourism in evergreen forest islands

Pohnpei, the biggest island in FSM, shares some similarities with Japan's Yakushima Island, most notably regarding their circular land shapes, sizes and lush green forests (see figure 18 below). Both islands are known for being among the wettest places on earth. While Yakushima has experienced a decrease in population since the 1960s, due to emigration to Japan’s main islands, Pohnpei's population has marginally increased, as people from other FSM states (i.e., Yap, Chuuk and Kosrae) migrate to work for the national government. However, Pohnpei has recorded growing remittances, indicating that out-migration from the island remains significant.²⁰⁴ Consequently, emigration poses a challenge for both Pohnpei and Yakushima.

Figure 18
Pohnpei and Yakushima

Pohnpei, FSM



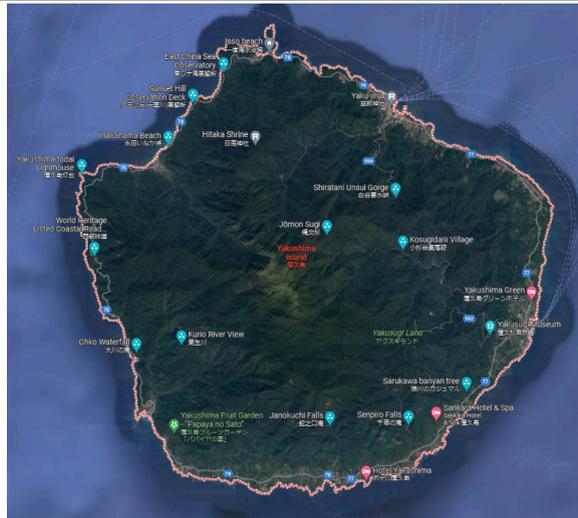
Yakuhsima, Japan

²⁰¹ FSM Environment, Climate Change and Disaster Risk Management and Data Portal (2021). *FSM Strategic Development Plan 2004-2023*. Palikir, Pohnpei: Government of FSM. <https://fsm-data.sprep.org/dataset/fsm-strategic-development-plan-2004-2023>.

²⁰² Government of FSM (2015a). *National Tourism Policy Vol. 1. Final Report*. Palikir, Pohnpei.

²⁰³ Ibid.

²⁰⁴ Graduate School USA (2019). *FSM FY18 Economic Statistics, Version 3, 27 September*. <https://pitiviti.org/fsm>.



Source: Google Maps.²⁰⁵

Both islands possess spots that are recognized as world heritage sites. In 1993, Yakushima was inscribed on the World Heritage List under Natural. International designations for the Japanese island include a Biosphere Reserve under the United Nations Educational, Scientific and Cultural Organization (UNESCO) Man and Biosphere Programme (1980), and the Yakushima Nagata-hama was designated a Wetland of International Importance under the Ramsar Convention (2005). The Kirishima-Yaku National Park covers nearly the whole island and is sometimes referred to the Japanese evergreen forest.²⁰⁶ Pohnpei's Nan Madol UNESCO World Heritage Site was designated in 2016.²⁰⁷

Both Pohnpei and Yakushima provide an array of attractions for tourists. In Yakushima, hiking takes centre stage as a major tourist activity, allowing visitors to explore the island's picturesque landscapes.²⁰⁸ Yakushima also offers an array of marine-based activities, including sea turtle watching, snorkelling, scuba diving and kayaking, providing diverse experiences for nature enthusiasts.²⁰⁹ Similarly, Pohnpei offers various captivating activities such as mountain and jungle hikes, pristine waterfalls and serene lagoon islands and atolls. Moreover, visitors can engage in activities like snorkelling, fishing, surfing and kayaking on the island.²¹⁰

²⁰⁵ Google (2023). *Google Maps*. <https://www.google.com/maps/@6.9138354,158.2383927,12z?entry=ttu>.

²⁰⁶ World Heritage Data Set (n.d.) *Yakushima*. <http://world-heritage-datasheets.unep-wcmc.org/datasheet/output/site/yakushima/>.

²⁰⁷ United Nations Educational, Scientific and Cultural Organization (UNESCO) (2024). "Nan Madol: Ceremonial Centre of Eastern Micronesia", *World Heritage Convention*. <https://whc.unesco.org/en/list/1503/>.

²⁰⁸ Every year, about 40 000 tourists walk the trails.

²⁰⁹ Usui, R., Funck, C. and Adewumi, I. B. (2021). "Tourism and Counter-urbanization in a Low-Amenity Peripheral Island: A Longitudinal Study at Yakushima Island in Kagoshima, Japan", *Sustainability*, 13(16), 8822. <https://doi.org/10.3390/su13168822>.

²¹⁰ Micronesia Tour (n.d.). *Pohnpei the Land of Mystery*. <https://www.micronesiatour.com/destinations/pohnpei>.

The main difference between the two is that Yakushima has developed its tourism sector to a significant degree, with about 300 000 tourists yearly.²¹¹ In contrast, and despite FSM's aim to make the country a major tourist destination, Pohnpei has not. Nonetheless, in 2019, Pohnpei received 60 per cent (or 10 000) of all FSM's visitors.²¹² Also, the tourism-related infrastructure in Yakushima is more developed. The island hosts quality accommodation, convenient inland transportation and well-maintained tourist attractions. Pohnpei has only 11 hotels estimated at two- to three-star standards.²¹³ It is cheaper, easier and faster to get to Yakushima by hydrofoil ferries or planes than to Pohnpei by plane.^{214 215}

Yakushima has emerged as the foremost and highly developed destination for ecotourism and stands out as one of the rare locations in Japan where guided ecotours to explore natural attractions have become a customary aspect of the tourist journey.^{216 217} In Yakushima, ecotourism positively impacts the community by enhancing economic benefits, creating employment opportunities and raising the local standard of living. It is viewed as revitalizing the island, reducing depopulation and attracting people back to work in the tourism industry.²¹⁸

In Pohnpei, there is potential to emphasize the cultural aspect of ecotourism and combine marine and forest resources, such as using sea kayaking tours, including the traditional construction of outrigger canoes.²¹⁹ The cultural practices of Carolinian wayfinding and canoe-making in Micronesia were inscribed on the UNESCO List of Intangible Cultural Heritage in 2021, further enriching the cultural experiences available to visitors.²²⁰

Manufacturing

Manufacturing in FSM is limited. In 2021, the manufacturing sector accounted for only five per cent of FSM's economy, with slightly over two per cent of total employment (2020); much lower than the average of 14 per cent in other Pacific countries and the world (figure 19).²²¹ The main production in

²¹¹ Kuwahara, S. (2013). "Culture and Society in the Islands of Kagoshima". In Kawai, K., Terada, R. and Kuwahara, S. (Eds.), *The Islands of Kagoshima*. Kagoshima: Kagoshima University Research Center for the Pacific Islands.

http://cpi.kagoshima-u.ac.jp/The%20Islands%20of%20Kagoshima%20PDF/1-The_Island_of_Kagoshima.pdf.

²¹² PSDI (2021).

²¹³ Ibid.

²¹⁴ Flight Connections (2024). *Flights from Pohnpei*.

<https://www.flightconnections.com/flights-from-pohnpei-pni>.

²¹⁵ See: Direct Ferries (2024). <https://www.directferries.com/>.

²¹⁶ Adewumi, I. B. and Funck, C. (2016). "Ecotourism in Yakushima: Perception of the People Involved in Tourism Business", *Geographical Sciences Chiri-Kagaku*, 71(4), 185–205.

²¹⁷ Usui, Funck and Adewumi (2021).

²¹⁸ Adewumi and Funck. (2016).

²¹⁹ Food and Agriculture Organization (FAO). (n.d.). *Country Note: Pohnpei*.

<https://www.fao.org/3/w7714e/w7714e09.htm#country%20note:%20pohnpei>.

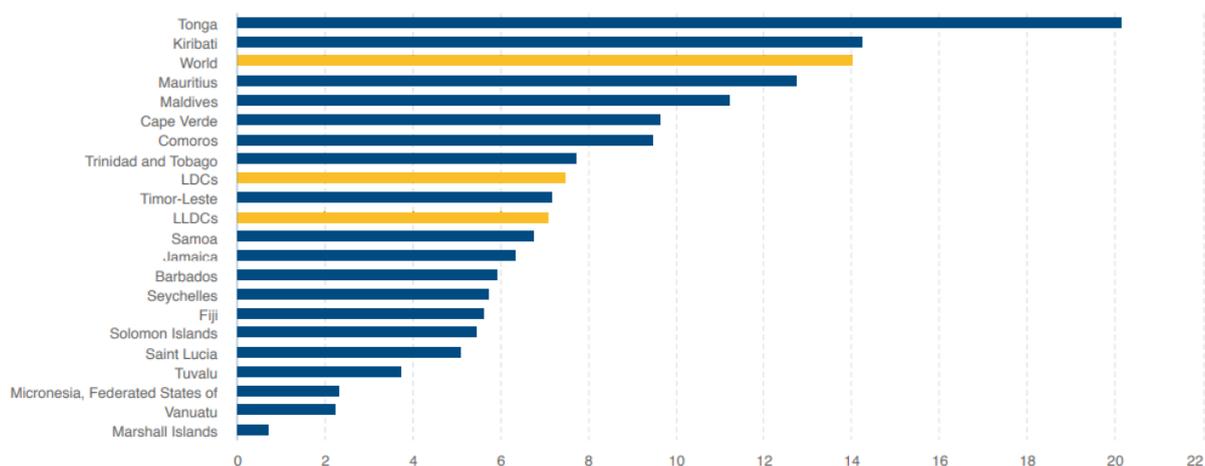
²²⁰ UNESCO (2024). "Carolinian wayfinding and canoe making", *Intangible Cultural Heritage*.

<https://ich.unesco.org/en/USL/carolinian-wayfinding-and-canoe-making-01735>

²²¹ UNCTAD (2021).

FSM consists of processing betelnuts, trochus shells for buttons and copra and banana-based products.²²²

Figure 19
Employment in manufacturing
Per cent of total employment



Source: UNCTAD.²²³

Notes: Data represents the latest available year: 2019 data for Saint Lucia, Seychelles, Barbados, Jamaica, Cabo Verde and Mauritius; 2018 data for regional aggregates and Tonga; 2017 data for Samoa; 2016 for Tuvalu, Fiji, Timor-Leste and Trinidad and Tobago; 2015 data for Kiribati; 2014 for FSM, Comoros and Maldives; 2013 for Solomon Islands; and 2010 for Vanuatu and Marshall Islands.

Financial sector

FSM has two commercial banks, namely the Bank of Guam, a foreign bank, and the Bank of FSM, which has a minor foreign holding. These banks control 85 per cent of total banking assets and are regulated by the FSM Banking Board and the US Federal Deposit Insurance Corporation. The FSM Development Bank, which holds 14 per cent of total banking assets, is not under the same regulations and supervision due to its non-deposit-taking status.²²⁴

FSM's bank deposits have continued to increase, but the loan portfolio has remained relatively stagnant.²²⁵ As of January 2023, the deposit portfolio amounted to \$438 million, with no indication of a decline. However, loans only accounted for 16.6 per cent of banking assets, with commercial loans making up 55.8 per cent and consumer loans making up 44.2 per cent.²²⁶ Although the number and value of loans increased to 944 loans, worth \$14.4 million (a 47 per cent increase), the banks' lending capacity is severely restricted due to various factors, such as: a ban on using land or businesses as collateral; challenges in debt collection; and an inability to determine collateral that can be sold in the case of non-payment. There are no credit reporting agencies in FSM. As a result, the banks can

²²² Federated States of Micronesia (2020).

²²³ UNCTAD (2021).

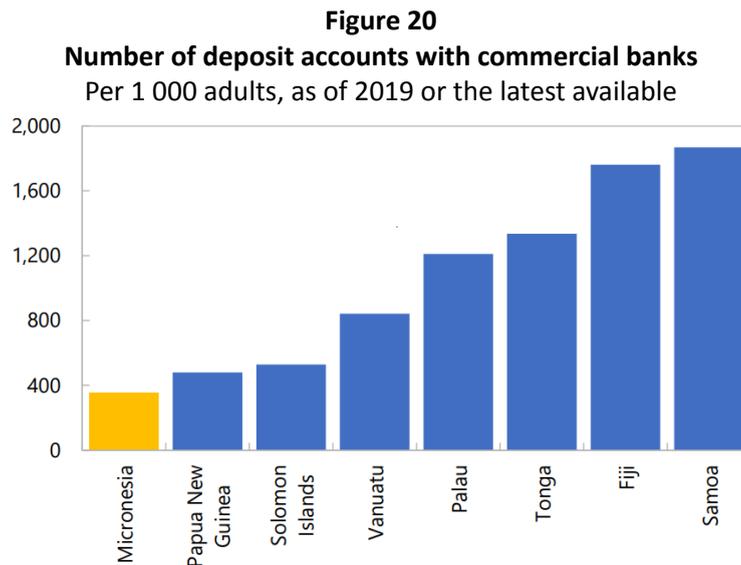
²²⁴ IMF (2021).

²²⁵ Ibid.

²²⁶ Government of FSM (2023).

only provide small, unsecured loans for a brief duration.²²⁷ Increasing the loan-to-deposit ratio is needed by promoting domestic commercial loans and utilizing the benefits of bank deposits to support development and commercial projects within the country.

Deposit account services also face challenges. The number of deposit accounts in commercial banks increased to 37 540 (565 per 1 000 adults) in 2013, but by 2016 it had dropped to 26 885 (around 400 per 1 000 adults). This was mainly due to introducing a minimum \$100 savings account requirement. As of 2019, the number of deposit accounts remained stable at around 400 per 1 000 adults, which is much lower than the number of accounts in other SIDS (figure 20).²²⁸



Source: IMF.²²⁹

Moreover, the general public faces difficulties in accessing the banking system. With only eight branches and ten ATMs spread across the country's 65 inhabited islands, physical access to banking services is often impossible.²³⁰ Low digital connectivity and limited e-banking options do not allow for improved financial inclusion through remote technology or additional banking options. Improving digital connectivity would instantly increase the financial inclusion of FSM citizens.²³¹

4.4. National finances

The latest available financial data for the Government of FSM is for the end of the fiscal year 2021 (30 September).²³² Total revenues were just over \$158 million, and thus 24 per cent higher than the

²²⁷ US Department of State (2021). *Investment Climate Statements: Micronesia*. <https://www.state.gov/reports/2021-investment-climate-statements/micronesia/>.

²²⁸ IMF (2021).

²²⁹ Ibid.

²³⁰ ADB Pacific Liaison and Coordination Office (2019). *Federated States of Micronesia*. Sydney: ADB. <https://www.adb.org/sites/default/files/publication/530236/pacific-finance-sector-federated-states-micronesia.pdf>.

²³¹ IMF (2021).

²³² Government of FSM (2021). *Report on the audit of financial statements in accordance with the uniform guidance, year ended 30 September 2021*. http://www.fsmopa.fm/files/FY2023/FSMNG_fs21%20%5bFINAL%2004.28.23%5d.pdf.

one in the previous year, despite the adverse impact of the COVID-19 pandemic. Expenditures totalled almost \$91 million, resulting in a revenue surplus of \$67 million.²³³ ²³⁴ Total assets equalled \$853 million and exceeded total liabilities by \$756 million. Overall, government funds reported a combined fund balance of \$597 million; an increase of 13 per cent compared to the previous year. At the same time, the general fund reported a fund balance of \$559 million, an increase of 13 per cent.²³⁵ In the fiscal year 2021, total international reserves were reported to \$497 million, with \$479 million in foreign exchange.²³⁶

During the 1990s, FSM borrowed funds to finance development projects. In recent years, the external debt has fallen significantly, and the country's ratio of external debt to GDP is much lower than most Pacific neighbouring countries. At the end of 2022, total public debt stood at \$59 million, equivalent to 16.9 per cent of GDP. It included \$56 million in external and \$3.3 million in domestic debt. Of the external debt, 67.5 per cent is owed to ADB, 19.6 per cent to the US Rural Utilities Services, 6.8 per cent to the Bank of Guam and 6.1 per cent to the European Bank for Reconstruction and Development. All domestic debt is owed to the country's Development Bank.²³⁷

FSM's overall fiscal management suggests a large room for commence various development initiatives, which are required in the present post-pandemic period. However, the government's weak governance and poor institutional capacities must be overhauled to accelerate their implementation.

Box 3 **Captive insurance in FSM**

In 2006, FSM passed an insurance law that allows for the creation and operation of captive insurance companies, principally designed to appeal to large Japan-based corporations, and in 2009 the FSM Captive Insurance Council was established.²³⁸ Distinct from the conventional insurance sector, the captive insurance concept – first designed in the United States in the 1950s – is intended to provide more favourable tax rates and flexibility in selecting reporting currency, accounting standards and service providers to large corporations.²³⁹

To date, around 25 Japanese-owned captive insurance companies have been either licensed or approved to be licensed in FSM, and the country has become a leading captive insurance domicile for Japan-based companies.²⁴⁰ Other domiciles offering captive insurance services include Bermuda, Cayman Islands, Guernsey, Luxembourg, Barbados, the Isle of Man and Singapore, among numerous others. (In the United States, some states with relatively low tax rates – such as Vermont, Delaware,

²³³ IMF (2021) presents another perspective on revenues and expenditures, including compact grants and other grants from the United States. The revenue with overall grants is about \$300 million.

²³⁴ Government of FSM (2020). *Report on the audit of financial statements in accordance with the uniform guidance, year ended 30 September 2020*. [http://www.fsmopa.fm/files/FY2022/FSMNG_fs20%20\[FINAL%2012.31.21\].pdf](http://www.fsmopa.fm/files/FY2022/FSMNG_fs20%20[FINAL%2012.31.21].pdf).

²³⁵ Ibid.

²³⁶ Asian Development Bank (ADB) (2022). *Key Indicators for Asia and the Pacific 2022*. Manila: ADB. <https://www.adb.org/publications/key-indicators-asia-and-pacific-2022>.

²³⁷ FSM Department of Finance and Administration. (2022). *Debt Bulletin*.

²³⁸ FSM Captive Insurance Council (2024). *Welcome to FSM CIC*. <https://www.fsmcaptiveins.com/>.

²³⁹ Barker, W. (1986). "Federal Income Taxation and Captive Insurance", *Virginia Tax Review*, 6(2), 267-327.

²⁴⁰ FSM Captive Insurance Council (2024).

Hawaii and South Carolina – provide captive insurance services to companies incorporated elsewhere in the United States.)²⁴¹

A captive insurance company is a subsidiary insurer that exclusively underwrites risks for its own parent company, affiliated companies, associations or groups. Such companies may not offer insurance services to third parties beyond their own corporate confines. The parent company pays insurance premiums to its own captive insurance company, located in a low-tax haven, such as the FSM, and seeks to deduct these premiums in its home country, which is typically a higher-tax jurisdiction.²⁴²

The captive insurance structure allows companies to manage various risks more easily than they would in Japan (or wherever the parent company is incorporated), spanning: marine cargo, product liability, property, employee's compensation, liability, travel, fire, accident, health, earthquakes, global pandemic and cyber risks, among others.²⁴³

The minimum capital requirement for a captive insurance company in FSM is \$100 000.²⁴⁴ Such companies must maintain an office in FSM, designate a principal representative and physically hold an annual board of directors meeting in FSM. This in turn necessitates retaining the services of various professional providers, including law firms, captive managers, accounting and auditing firms, as well as non-professional services, such as hospitality, transport, rental, etc. The provision of captive insurance services in the FSM has been a useful additional source of public revenues for the country.

Foreign assistance

Official development assistance (ODA) has played a crucial role in FSM's socioeconomic development since its independence at the end of the 1980s. Between 2015 and 2020, ODA to FSM accounted for over 20 per cent of GDP.²⁴⁵ ODA to FSM reached its highest point in 2020 amid the COVID-19 pandemic, totalling \$170 million. The following year, the country received \$125 million, equivalent to 30 per cent of FSM's GNI and averaging \$1 156 per capita.²⁴⁶

The United States, ADB, World Bank, China, Japan and Australia remain the most prominent foreign contributors, with the United States, under the CoFA modality, providing over 70 per cent, and the second and third donors providing nearly 20 per cent of total aid.²⁴⁷ The transport, environment, energy and ICT sectors are the biggest ODA recipients (see table 3). Contributions to healthcare have also grown exponentially due to the pandemic.

²⁴¹ National Association of Insurance Commissioners (NAIC) (2024). *Captive Insurance Companies*, 31 January. <https://content.naic.org/cipr-topics/captive-insurance-companies>.

²⁴² Barker (1986).

²⁴³ Ibid.

²⁴⁴ FSM Captive Insurance Council (2024).

²⁴⁵ The Economic and Social Commission for Asia and the Pacific (ESCAP), the Asian Development Bank (ADB) and the United Nations Development Programme (UNDP) (2023). *Delivering on the Sustainable Development Goals through Solutions at the Energy, Food and Finance Nexus: 2023 Asia-Pacific SDG Partnership Report*. Bangkok.

²⁴⁶ World Bank (2023a).

²⁴⁷ Lowy Institute (n.d.). *Pacific Aid Map*. <https://pacificaidmap.lowyinstitute.org/>.

Table 3
ODA expenditure by sector
 In millions of US dollars

Item	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Agriculture/Fishing	1.4	1.0	0.0	0.6	1.0	1.5
Energy	5.5	7.5	9.6	24.0	24.7	5.9
ICT	21.0	13.5	11.0	6.0	5.0	4.8
Transport	7.5	21.0	16.1	29.4	50.5	57.0
Environment	8.3	12.0	7.1	6.8	12.0	12.4
Other	27.5	25.2	24.0	33.3	28.1	14.0
Total	71.2	80.1	67.9	100.1	121.3	95.5

Source: FSM Department of Finance and Administration.²⁴⁸

Compact trust fund and sovereign wealth fund

FSM has two types of funds that support fiscal management: (i) Compact Trust Fund; and (ii) sovereign FSM Trust Fund. The Compact Trust Fund was established in 2004 and has received annual contributions from the US Government to provide a stable source of government revenue.²⁴⁹ On the other hand, the sovereign FSM Trust Fund has been supported by government revenue surpluses.²⁵⁰ As of January 2023, the balance of the Compact Trust Fund was approximately \$1 billion, while the FSM Trust Fund raised its overall balance to approximately \$400 million.^{251 252} FSM's present fund balances are one of the highest among PICTs, accounting for over 400 per cent of GDP (figure 21).²⁵³ Under the new CoFA agreement signed in May 2023, FSM secured annual instalments of \$250 million, paid in first two years for a total of \$500 million, to the Compact Trust Fund.²⁵⁴

²⁴⁸ FSM Department of Finance and Administration (2022). *Economic & Fiscal Update*. Palikir, Pohnpei. <https://dofa.gov.fm/wp-content/uploads/2023/05/FSM-Economic-and-Fiscal-Update-FY2022.pdf>.

²⁴⁹ Trust Fund for the People of the Federated States of Micronesia. (2017). *Fiscal Year 2016 Annual Report*, 7 March. US Department of the Interior. https://www.doi.gov/sites/doi.gov/files/uploads/fsm_tf_fy16_annual_reportfinal_3.27.17.pdf.

²⁵⁰ FSM Trust Fund receives 20 per cent of its fisheries revenues and 50 per cent of funds from the MRA Advisors Inc.

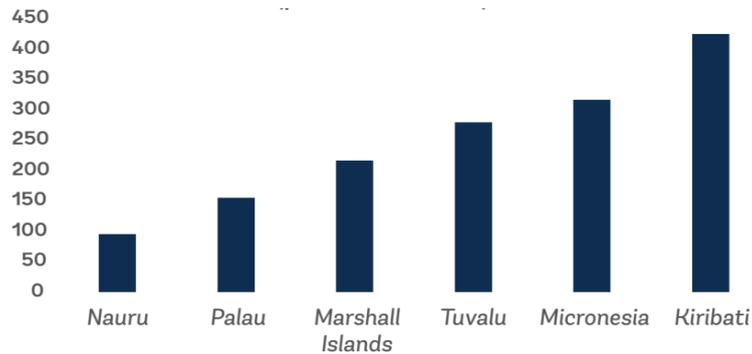
²⁵¹ Government of FSM (2023).

²⁵² US Department of State (2021).

²⁵³ World Bank (2023b).

²⁵⁴ Government of FSM (2023).

Figure 21
Sovereign wealth fund assets
 Percentage of GDP



Source: World Bank.²⁵⁵

Concessional loans

FSM has received concessional financial support in important sectors through its partnerships with IFIs like the World Bank and ADB. FSM has received support from the World Bank across various areas since joining in 1993.²⁵⁶ Since 2014, World Bank projects in FSM represented a total financing of \$293 million for various sectoral improvements such as roads and maritime transport, education, digitalization, the environment and natural resources management and renewable energy.^{257 258 259} ADB has assisted FSM since 1990, focusing on increasing the supply of renewable energy, improving disaster risk financing and public financial management, supporting safe water and sanitation and developing the private sector. As of January 2023, ADB had committed \$188 million in 66 public sector loans, grants and technical assistance to FSM. Of this, \$23 million was allocated for the country’s COVID response.²⁶⁰

Remittances

Remittances and money transfers to the country from family members who migrated abroad, support FSM households. The highest rate of remittances comes from a large diaspora that have relocated to the US mainland. In 2019, remittances accounted for \$23 million, representing 6.1 per

²⁵⁵ World Bank (2023a).

²⁵⁶ World Bank (2023c). *Member Countries*. <https://www.worldbank.org/en/about/leadership/members>.

²⁵⁷ World Bank (n.d.). *IBRD/IDA Summary*. Accessed 4 May 2023. <https://financesapp.worldbank.org/summaries/ibrd-ida/#ibrd-len/countries=FM/>

²⁵⁸ World Bank (2021). *Federated States of Micronesia (FSM)*, 30 June. [Factsheet]. <https://thedocs.worldbank.org/en/doc/ffa38419c918e0bcec6476537a8458ea-0070012021/original/FSM-Country-Insert-A4-Digital.pdf>.

²⁵⁹ World Bank (2022). *Roads Across Federated States of Micronesia set for Climate-Resilient Upgrade*, 27 March. [Press Release]. <https://www.worldbank.org/en/news/press-release/2022/03/27/roads-across-federated-states-of-micronesia-set-for-climate-resilient-upgrade>.

²⁶⁰ See: <https://www.adb.org/sites/default/files/publication/27761/fsm-2021.pdf>, ADB 2021, with the last update January 2023.

cent of GDP, declining from 7.4 per cent in 2015.²⁶¹ ²⁶² The World Bank predicts that inward remittances will further decline due to reduced income by the diaspora in the context of COVID.²⁶³ One concern around remittances to FSM is the high cost of bank transfers, which favour cash transactions whenever possible.²⁶⁴ ²⁶⁵ Digitalization of remittances is vital to improve transparency, reduce transfer costs and enhance efficiency, convenience and access.²⁶⁶

4.5. Infrastructure and digitalization

Providing adequate and modern infrastructure, including digitalization (i.e., adapting information and communication technologies and related facilities), is a challenge for FSM due to its small and geographically dispersed population living across 65 islands. FSM has estimated that over \$1 billion in investment would be required to develop infrastructure in ten sectors, spanning: electric power, water/wastewater systems, solid waste management, road and pedestrian facilities, maritime transportation, air transportation, telecommunications, education, health and government administrative buildings (figure 22).

²⁶¹ UNCTAD (2021).

²⁶² World Bank (2021). *DataBank: Personal remittances, received (% of GDP) - Micronesia, Fed. Sts.* at <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?end=2019&locations=FM&start=2009&view=chart>.

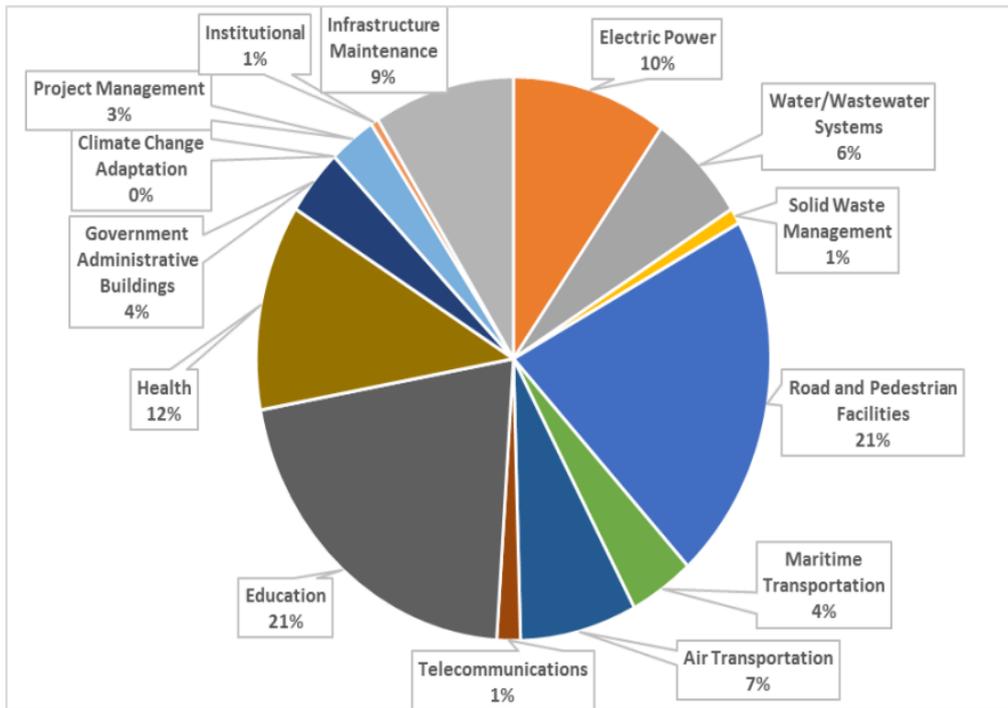
²⁶³ Dung, D., Dornan, M., Parsons, K., Petrou, K. and Yi, S. (2020). *Pacific Labor Mobility, Migration and Remittances in Times of COVID-19: Interim Report*. Washington, D.C.: the World Bank.

²⁶⁴ ESCAP (2019). *Finteching remittances in Paradise: a path to sustainable development*. Bangkok.

²⁶⁵ ADB. (2021). *Harnessing Digitization for Remittances in Asia and the Pacific*. Manila. <https://www.adb.org/sites/default/files/publication/714036/harnessing-digitization-remittances-asia-pacific.pdf>.

²⁶⁶ US Department of State (2021).

Figure 22
Infrastructure investment by sector



Source: FSM Department of Transportation, Communication and Infrastructure.²⁶⁷

Water

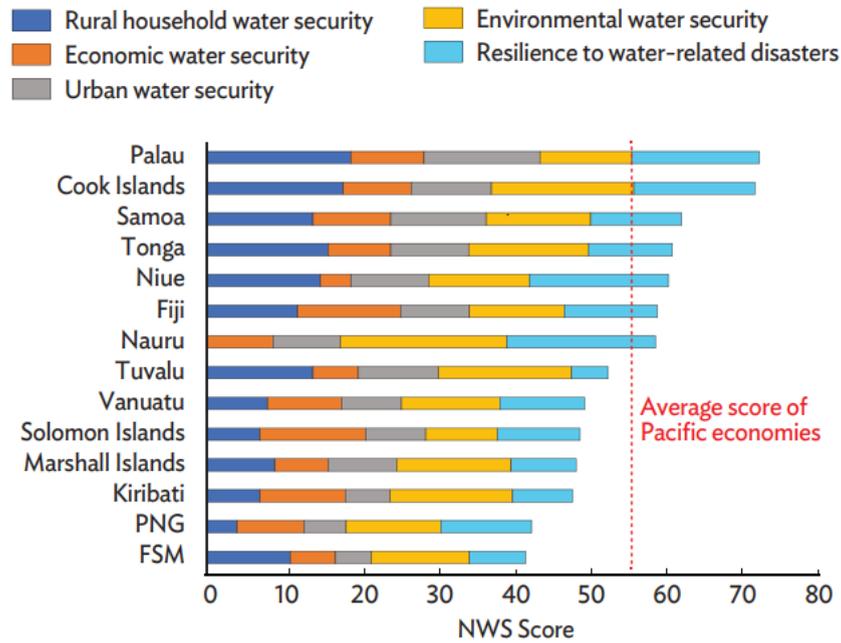
FSM’s small size and limited resources make it highly vulnerable to threats to freshwater availability, including saltwater intrusion into groundwater supplies, primarily due to sea level rise. One of the main challenges for FSM is the limited storage of rainwater due to the disparity in rainfall rates across the four states, exacerbated by seasonal variations associated with the *El Niño*-Southern Oscillation (ENSO) and tropical cyclone events.²⁶⁸ Despite rich traditional culture and indigenous knowledge of effective water management, this resource has not been fully utilized. The damage to water supplies and treatment could also be significant and expensive.²⁶⁹ In 2020, FSM's water security score was just above 40, the lowest among the 14 PICTs (figure 23).

²⁶⁷ FSM Department of Transportation, Communication and Infrastructure (2015). *Federated States of Micronesia Infrastructure Development Plan FY2016-FY2025*. <https://policy.asiapacificenergy.org/sites/default/files/Infrastructure%20Development%20Plan%20FY2016-FY2025%20%28EN%29.pdf>.

²⁶⁸ World Bank (2021).

²⁶⁹ Ibid.

Figure 23
Water security in the Pacific
 2020



Source: ADB.²⁷⁰

Notes: NWS = national water security; PNG = Papua New Guinea. Perfect score is 100. Nauru has no score for rural household water security because it is 100 per cent urban; the NWS index is determined by multiplying the sum of key dimensions by a factor of 5/4.

²⁷⁰ ADB (2023).

Electricity

As of 2020, 83 per cent of the population in FSM had access to electricity, while the regional average is 90 per cent.²⁷¹ Access varies significantly among the four states. In 2017, Kosrae was 98 per cent, Pohnpei was 87 per cent, Yap was 67 per cent and Chuuk was only 26 per cent.²⁷² The average residential electricity price in FSM is nearly twice as high (\$0.41 per kilowatt-hour) than the average residential rate in the United States (\$0.21 per kilowatt-hour).²⁷³ Almost all electricity in FSM is produced by diesel generators, and only two per cent of electricity consumption is renewable.²⁷⁴

Roads and transportation

FSM has a population spread across four semi-autonomous states and is served by over 200 kilometres of primary roads.²⁷⁵ ²⁷⁶ The main island of each of the four states typically has only one circumferential route, which is owned and maintained by the federal government. Most interior roads are unpaved and are susceptible to partial damage due to climate change and natural disasters, such as rising sea levels, intensified storm surges, increased rainfall and flooding.

Digitalization

FSM is at a relatively low state of digitalization.²⁷⁷ Owning a mobile phone with an Internet connection is unaffordable for many. On average, mobile connection costs account for 10 per cent of monthly GNI per capita, and the cheapest smartphone costs around 40 per cent of the monthly GNI per capita.²⁷⁸ Not surprisingly, the number of mobile subscriptions in FSM is low, with only 19 per 100 people; the second lowest in the world.²⁷⁹ Mobile coverage mainly offers only primary voice services, and it is concentrated on the four main islands. Only 15 per cent of the population is covered by 3G mobile networks, and 4G mobile network coverage is nil. The digital literacy of FSM's population is

²⁷¹ Energy Sector Management Assistance Program (ESMAP) (n.d.). *Micronesia (Federated States of)*. <https://trackingsdg7.esmap.org/country/micronesia-federated-states>.

²⁷² Secretariat of the Pacific Regional Environmental Programme (SPREP) (2021). *State of Environment and Conservation in the Pacific in the Pacific Islands 2020 Regional Report*. Samoa: SPREP. <https://library.sprep.org/sites/default/files/2021-03/SOE-conservation-pacific-regional-report.pdf>.

²⁷³ Nation Master (n.d.). *Federated States of Micronesia – Price of Electricity*. <https://www.nationmaster.com/nmx/timeseries/federated-states-of-micronesia-price-of-electricity>.

²⁷⁴ Asian Development Bank (ADB) (2023). *Finding Balance 2023: Benchmarking Performance and Building Climate Resilience in the Pacific State-Owned Enterprises*. Manila.

²⁷⁵ Asian Development Bank (ADB) (2022). *Micronesia, Federated States of: Preparing the Sustainable Road Infrastructure Investment Project*. Manila. <https://www.adb.org/projects/55009-001/main>.

²⁷⁶ The World Factbook (2021).

²⁷⁷ Look at the United Nations' E-Government Development Index (EGDI), which is a composite benchmark of e-government development consisting of the weighted average of three independent component indices: the Online Services Index (OSI), the Telecommunications Infrastructure Index (TII) and the Human Capital Index (HCI). <https://publicadministration.un.org/egovkb/en-us/About/Overview/-E-Government-Development-Index>.

²⁷⁸ UNCTAD (2022). *Digital Economy Report Pacific Edition 2022*. <https://unctad.org/publication/digital-economy-report-pacific-edition-2022>.

²⁷⁹ World Bank (2023a).

also limited, with a large gap between genders and urban-rural areas, hindering the opportunity to tap into the potential of digitalization.²⁸⁰

Although three inhabited islands (i.e., Yap, Chuuk and Pohnpei) are connected by submarine cables, the remaining 62 inhabited islands rely on satellite or microwave connections.²⁸¹ The Internet speed is slower than the PICT average. As of 2017, only 35 per cent of FSM's population had access to the Internet, although this was still above the PICT average of 21 per cent. FSM is lacking in data protection and privacy, digital content regulation, online dispute resolution and digital ID.²⁸²

FSM's most public services, such as birth, marriage and death certificate acquisition, business registration and tax return payments, still rely on manual, paper-based processes. There is also a lack of standardization in government email and information systems, with fragmentation occurring at the federal and state agencies. While most public offices have a website, the content is often limited, outdated and inconsistent in appearance and service provision.²⁸³

²⁸⁰ Redeker, D. and Sturm, I. (2020). "ICT skills in small island developing states: ICT capacity building economic opportunities and brain drain", *International Telecommunication Union Digital Skills Insights*.

²⁸¹ Submarine cables: one intercontinental, one intraregional and one domestic were funded by the Government of FSM, a privately owned US company, ADB and World Bank. East Micronesia Cable Project connecting FSM with Nauru and Kiribati is an ongoing project worth \$70 million. It will provide fibre optic connection to Kosrae - the last state in FSM without it.

²⁸² UNCTAD (2021).

²⁸³ World Bank. (2020). *Project Information Document (PID)*.

5. Planet

FSM acknowledges the importance of fortifying resilience against climate change to achieve sustainable development. This necessitates the timely implementation of adaptation and mitigation strategies, as well as effective governance and financing mechanisms, all working towards enhancing socioeconomic resilience. This section describes the issues in FSM related to the “planet” pillar of the 2030 Agenda. It covers: (i) climate change; (ii) disaster risk reduction; and (iii) preserving marine diversity.

5.1. Climate change

In FSM, the impact of climate change poses numerous risks, with extensive consequences for biodiversity and human existence. It is an essential cross-cutting threat to forest and terrestrial resources throughout FSM. Sea level rise, which is the most dangerous to low-lying atolls, causes flooding.²⁸⁴ It also threatens drinking water supplies and food security to critical levels, increasing the risk of saltwater infiltration into the groundwater, hampering irrigation and poisoning the soil.²⁸⁵ Disastrous events, such as Typhoon Wutip in February 2019, hitting areas of Chuuk and Yap, and Typhoon Maysak that tore through the islands of FSM in March 2015, caused fatalities, damaged houses, crops and public infrastructure and inflicted millions of dollars in damages.²⁸⁶ Droughts, which directly impact subsistence agriculture, are expected to occur less frequently but with more severity.²⁸⁷ Rising ocean temperature and acidification cause coral reef damage and bleaching, contributing to coastal erosion, leaving the islands more vulnerable to storm surges and floods and directly threatening the most profitable source of FSM’s income, tuna supply.²⁸⁸ Shifting weather patterns already have had negative impacts through stronger *El-Niño* associated droughts and wildfires, while *La Niña* is increasing sea levels and precipitation.²⁸⁹

Climate change is not only causing environmental impacts, but also social consequences throughout FSM. It is affecting migration patterns and specifically the trend of rural to urban migration and urbanization. Most of the population resides in coastal regions of the capital islands, and the inhabitants of outer low-lying islands are increasingly moving to urban areas in search of livelihood

²⁸⁴ Fujimoto, K., Ono, K., Tabuchi, R. and Lihpai. S. (2022). “Findings from long-term monitoring studies of Micronesian mangrove forests with special reference to carbon sequestration and sea-level rise”. *Ecological Research*, 1–14.

²⁸⁵ Welle, D. and Bilsky, P. (2010). “Water Woes”, *Deutsche Well*, 20 April. <https://www.dw.com/en/micronesia-grapples-with-increasing-water-salinity/a-5479726>. Micronesia grapples with increasing water salinity.

²⁸⁶ European Commission (2015). *Emergency Response Coordination Centre (ERCC) – ECHO Daily Map - Tropical Cyclone MAYSAC - Federated States of Micronesia, Philippines*, 2 April. ECHO.

²⁸⁷ Government of FSM (2018; 2019).

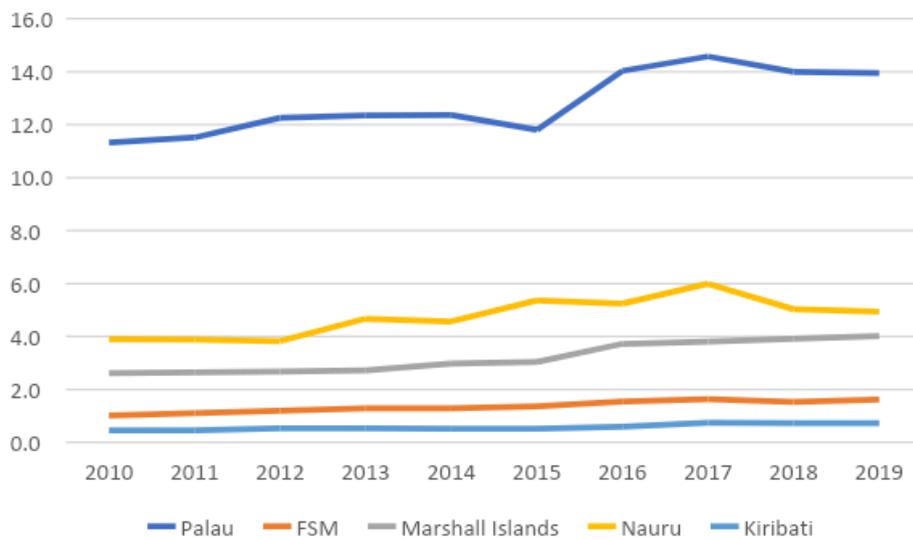
²⁸⁸ United Nations Children’s Fund (UNICEF) (2017). *Situation Analysis of Children in the Federated States of Micronesia*, December. Suva. <https://www.unicef.org/pacificislands/media/1101/file/Situation-Analysis-of-Children-Micronesia.pdf>.

²⁸⁹ National Aeronautics and Space Administration (NASA) (n.d.). “El Niño: Pacific Wind and Current Changes Bring Warm, Wild Weather”, *Earth Observatory*. <https://earthobservatory.nasa.gov/features/ElNino>.

security.²⁹⁰ The needs are numerous in terms of climate change adaptation and mitigation to help improve resilience and increase the coping capacity of the nation.²⁹¹

The primary source of CO₂ emissions in FSM is energy production in power plants, as almost all electricity in FSM is produced by diesel generators.²⁹² While the FSM's contribution to global greenhouse gas (GHG) emissions is relatively minute, the country is firmly committed to reducing its emissions (figure 24). FSM has established specific targets for reducing GHG emissions from 2019 to 2030 and has made a resolute pledge to achieve carbon neutrality by 2050. FSM is rich in renewable energy resources with potential for hydropower, solar and to a lesser extent, wind power.²⁹³ However, electricity generated using renewables in FSM is lower than in other PICTs.²⁹⁴

Figure 24
GHG emissions per capita of FSM and other Micronesian countries
 Metric tons



Source: World Bank.²⁹⁵

²⁹⁰ Eighty-nine per cent of people live within one kilometre of the coast, according to UN Women (2022). *Gender Equality Brief for Federated States of Micronesia*; IOM (2016).

²⁹¹ IMF (2019). “Federated States of Micronesia: Climate Change Policy Assessment, 6 September”, *Country Report No. 2019/292*. Washington D. C.: International Monetary Fund.

²⁹² Government of FSM (2018).

²⁹³ Asian Development Bank (ADB) (2019). *The Pacific Islands: The Push for Renewable Energy*, May 1. <https://www.adb.org/results/pacific-islands-push-renewable-energy>.

²⁹⁴ SPREP (2021).

²⁹⁵ World Bank (2023a).

5.2. Disaster risk reduction

FSM is located within the “Pacific Ring of Fire”, making it prone to various natural disasters, exacerbated by its remoteness, dependence on outside aid, limited food security, governance challenges across the states and high prevalence of communicable and non-communicable diseases.²⁹⁶ Moreover, with the adverse impacts of climate change, FSM is expected to encounter more extensive disaster risks.²⁹⁷

FSM has been ranked 40th in the Climate Risk Index, which evaluates the impact of weather-related losses on countries between 2000 and 2019.²⁹⁸ The INFORM risk index, another global tool that measures the likelihood of humanitarian crises and disasters based on three dimensions: hazard and exposure, vulnerability and lack of coping capacity, ranked FSM 93rd.²⁹⁹ Similarly, the World Risk Index 2022, evaluating the disaster risk for 181 countries based on exposure, vulnerability, susceptibility, lack of coping and adaptive capacities, also ranks FSM at 93rd.³⁰⁰ According to the Global Facility for Disaster Reduction and Recovery's (GFDRR) Think Hazard tool, FSM is at high risk of cyclones, medium risk of coastal floods, tsunamis and extreme heat and low risk of earthquakes and landslides.³⁰¹ Furthermore, the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) has categorized FSM as highly susceptible to natural hazard-induced disasters.³⁰² Despite the differences in these global rankings, they all indicate that FSM is exposed to various hazards, vulnerabilities and risks.

Under the worst-case climate scenario, FSM will encounter high adaptation costs, equivalent to about five per cent of GDP.³⁰³ In this context, priorities include multi-hazard early warning systems, impact forecasting, resilient infrastructure and nature-based solutions. Cross-sectoral discussions involving public and private actors are crucial to identify and manage systemic risks with potentially detrimental effects on numerous societal functions.³⁰⁴ Data collection and analysis need to be improved, including the cost estimations of high and low-intensity disasters and disaster response expenditures. A comprehensive disaster resilience strategy is needed in cooperation with all

²⁹⁶ United Nations Disaster Risk Reduction (UNDRR) and Asian Disaster Preparedness Center (ADPC) (2020). *Disaster Management in the Federated States of Micronesia*. Unpublished.

²⁹⁷ Economic and Social Commission for Asia and the Pacific (ESCAP) (2021). *Resilience in a Riskier World: Managing Systemic Risks from Biological and Other Natural Hazards*. Bangkok. <https://www.unescap.org/kp/2021/asia-pacific-disaster-report-2021>.

²⁹⁸ Eckstein, D., Künzel, V. and Schäfer, L. (2021). *Global Climate Risk Index 2021: Who Suffers Most from Extreme Weather-Related Loss Events in 2019 and 2000-2019*. GermanWatch. https://www.germanwatch.org/sites/default/files/Global%20Climate%20Risk%20Index%202021_2.pdf.

²⁹⁹ INFORM (2023). *INFORM Risk Index 2023*. [Data Set]. <https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk/Results-and-data/moduleId/1782/id/469/controller/Admin/action/Results#inline-nav-3>.

³⁰⁰ Bündnis Entwicklung Hilft (2022). *World Risk Report 2022*. https://weltrisikobericht.de/wp-content/uploads/2022/09/WorldRiskReport-2022_Online.pdf.

³⁰¹ Think Hazard (u.d.). *Federated States of Micronesia*. <https://thinkhazard.org/en/report/163-federated-states-of-micronesia>.

³⁰² United Nations Office for the Coordination of Humanitarian Affairs (OCHA) (n.d.). *Asia and the Pacific Islands*. <https://www.unocha.org/pacific>.

³⁰³ ESCAP (2021).

³⁰⁴ ESCAP (2020). *The Disaster Riskscape across the Pacific Small Island Developing States: Key Takeaways for Stakeholders*. Bangkok. <https://www.unescap.org/sites/default/d8files/IDD-APDR-Subreport-Pacific-SIDS.pdf>.

stakeholders and relevant development partners. Weather services and emergency management capacity at the state and national levels must also be strengthened. A hazard mapping for key infrastructure would also help identify areas vulnerable to climate and disaster risk.

5.3. Preserving marine diversity

FSM's EEZ spans nearly three million square kilometres, granting access to significant migratory paths of equatorial tuna. The fisheries sector in FSM accounts for over 90 per cent of the country's total export of goods.³⁰⁵ However, the primary source of revenue from the ocean originates from fishing licenses, which may decrease in value if the anticipated migration of tuna stocks, induced by climate change, materializes.³⁰⁶ FSM has worked to preserve marine resources, associating with various agencies and schemes such as: the Pacific Islands Forum Fisheries Agency (FFA), the Parties to the Nauru Agreement (PNA) and the Vessel Day Scheme (VDS).³⁰⁷

To establish a comprehensive plan for preserving the country's biodiversity, FSM identified 130 areas of biodiversity significance. These areas included 86 coastal and marine sites spanning over 260 000 hectares. FSM's four states have developed their own laws for biodiversity preservation.³⁰⁸ However, the situation in FSM remains complex due to variations in the institutional and legal frameworks related to biodiversity preservation across different states. Furthermore, each state possesses autonomy and jurisdiction over near-shore waters.³⁰⁹

The FSM government is enacting the Marine Spatial Planning Bill, establishing a legal framework to preserve marine resources and their diversification. The plan will provide policymakers with the necessary information to ensure that the country's revenue from fisheries and deep-sea mining is maximized, while also considering protecting the natural environment.³¹⁰ FSM must optimize the utilization of the ocean, strengthen fisheries management and develop marine industries, while ensuring the sustainable use of marine resources for economic growth and improved livelihoods and protecting the health and productivity of ocean ecosystems. A challenging brief for any government.

³⁰⁵ UNCTAD (2021).

³⁰⁶ Bell, J. D., *et al.* (2021). "Pathways to sustaining tuna-dependent Pacific Island economies during climate change", *Nature Sustainability*, 4, 900-910. <https://doi.org/10.1038/s41893-021-00745-z>.

³⁰⁷ Pacific Islands Forum Fishery Agency, <https://www.ffa.int/>; Parties to the Nauru Agreement, <https://www.pnatuna.com/>; Parties to the Nauru Agreement (PNA) Office, <https://www.pnatuna.com/content/pna-vessel-day-scheme>.

³⁰⁸ Reef Resilience Network. (2022). *Designing a Marine Protected Area Network in the Federated States of Micronesia*. <https://reefresilience.org/case-studies/micronesia-mpa-design/>.

³⁰⁹ *Ibid.*

³¹⁰ Government of FSM (2023).

6. Peace and Partnerships

Since FSM achieved statehood in 1979 and became independent in 1986, it has relied primarily on its partnership with the United States to foster the small island state's internal and external peace and harmony. This chapter describes: (i) threats to national unity; and (iii) partnerships with allies.

6.1. Threats to national unity

FSM consists of four distinct states regarding their culture, economy, society and geography. While they share common challenges such as unemployment, migration, poor healthcare services and limited access to quality education, the severity of these issues varies across the states. Each state has its own constitution and laws and operates independently, albeit with the federal constitution as its supreme law. As a loosely connected federation, there have been persistent notions of state secession, concerns over political dominance by Pohnpei, and dissatisfaction with the federal funding arrangement, posing threats to national solidarity and unity.³¹¹

Within this context, the most prominent issue in FSM has been secession movements in Yap and Chuuk. Yapese secessionists claim that Yap made a mistake in joining FSM when it became independent, and that Yap should instead have joined Palau, based on cultural similarities and geographic proximity.³¹² However, this independence movement is less significant than Chuuk's, which is driven in large part by Chuuk's poor economic performance and high unemployment rates, coupled with disputed federal fund allocation. Chuuk separatists believe that breaking away would attract more foreign financial aid, offer greater economic flexibility and expand the fishing industry.³¹³ Since 2015, the independence referendum has been postponed several times, and its fate is uncertain as, in case of separation, the Chuukese cannot depend on funds from CoFA, and a third of Chuuk's population, which has already migrated to the United States, would probably be required to return to the state.³¹⁴ As of today, there has been no disclosure of any further plans or actions regarding secession from any of the four states. However, the secession sentiment remains with the systemic issues, which may cause further disunity of the nation.

Box 4

The dual power structure in FSM: Federal versus state

FSM has a federal system of government, where power and responsibilities are shared between the federal and state governments. The federal government handles matters of national importance, such as defence, foreign affairs and economic policy. Each state government is structurally similar, utilizing three co-equal branches of government: executive, legislative and judicial.³¹⁵ FSM's system seeks to ensure equal representation and cooperation among the four states (Yap, Chuuk, Pohnpei and Kosrae), promoting unity and shared governance. The existing dual power structure presents numerous advantages, including autonomy, representation,

³¹¹ Hofschneider, A. (2018). "Many Chuukese Immigrants Fear Losing their Legal Status in the US", *Civil Beat*, September 27. <https://www.civilbeat.org/2018/09/many-chuukese-immigrants-fear-losing-their-legal-status-in-the-us/>.

³¹² United States Institute of Peace (2022).

³¹³ Hofschneider (2018).

³¹⁴ Ibid.

³¹⁵ Government of FSM (n.d.). *Government of the Federated States of Micronesia*. <https://gov.fm/>.

flexibility, inclusiveness and responsiveness. However, this federal structure also poses various challenges and problems.

First, the federal system can raise disagreements in power distribution, decision-making, authorization and funding allocation. These conflicts could lead to political deadlock and hinder effective governance. FSM is an aid-dependent country where the large Compact funds from the United States can raise conflicts among the states.

Secondly, the lack of project coordination and difficulties in agreeing on priorities between the national and state governments can lead to committed but unused capital grants in FSM.³¹⁶ (For example, the Lowy Institute reports \$277 million committed and only \$184 million spent in FSM in 2020.)³¹⁷ These unused funds can be due to the absence of coordination.³¹⁸ Additionally, the dual approval from the federal and state governments required to register a new business can hinder investments.³¹⁹ Achieving consensus from duplicate bureaucratic requirements can also be time-consuming.

Thirdly, the dual power structure increases the demand for administrative personnel. More people are needed to coordinate, communicate and cooperate among the multiple levels of government causing a burden on the system and leading to inefficiencies.³²⁰

Fourthly, the dual power structure can lead to inequality between the states. For example, Chuuk may exhibit more political influence and bargaining power due to their greater representation. This inequality between states was an issue during the last presidential election in 2023 when a “gentlemen’s agreement” should have been applied. (In the end, the Senator-at-Large for Chuuk, the most populous state, was chosen.^{321 322}

Finally, it is difficult to divide responsibilities clearly among the different levels of the government. When responsibility is being pushed back and forth between the national and state governments, the overall effectiveness of the governance is inevitably diminished. To tackle these challenges, it is crucial to prioritize intra-governmental cooperation and establish well-defined structures for authority and accountability. To improve efficiency and timeliness, the federal government should implement systems that facilitate effective decision-making processes. This includes setting clear priorities, establishing specific time frames and clearly defining desired outcomes. Promoting dialogue and negotiation among the different levels of the government is essential.

³¹⁶ IMF (2021).

³¹⁷ Lowy Institute (n.d.).

³¹⁸ IMF (2021).

³¹⁹ US Department of State (2022a).

³²⁰ Forum of Federations. (2005). *Micronesia (country profile)*. <https://forumfed.org/document/micronesia-country-profile/>.

³²¹ It is a tacit understanding that the FSM Congress selects its President by rotation among the four states. This was largely held until 2019 when Panuelo succeeded fellow Pohnpeian Peter Christian. In 2023, the turn was for Kosrae, but the Senator-at-Large took the presidency for Chuuk, Wesley W. Simina.

³²² Pruet, R. (2023). *FSM’s Presidential Politics*. *New Zealand and Pacific Studies*, 22 May, Georgetown University Center for Australian. <https://canzps.georgetown.edu/2023/05/22/fsms-presidential-politics/>.

6.2. Partnerships with allies

FSM has several close bilateral relationships with many countries, establishing diplomatic relations with 97 countries and territories.³²³ FSM currently has embassies in China, Fiji, Japan and the United States, and three consulates-general in Guam, Honolulu and Portland. The permanent mission to the United Nations is in New York. All diplomatic missions in FSM are based in Pohnpei, including Australia, China, Japan and the United States.

To strengthen its regional ties, FSM has joined organizations such as the PIF since 1987 and the Pacific Islands Development Forum (PIDF) since 2015.³²⁴ FSM also joined the Micronesian Presidents' Summit (MPS) in 2000 where the leaders of the five-member countries convene and the Micronesia Islands Forum (MIF) in 2003 to promote regional cooperation within Micronesia.³²⁵

In early 2022, FSM, along with four other Micronesian countries, expressed their intention to withdraw from the PIF due to their inability to reach a consensus with other PIF members on a Micronesian candidate for the PIF secretary-general position. However, in a significant breakthrough, Pacific leaders reached a deal to restore much-needed unity in June 2022, with all but one country, Kiribati, agreeing to continue their membership in the Forum by signing the Suva Agreement.³²⁶ Kiribati finally returned to the PIF in January 2023 after the Fiji President's national visit.³²⁷

³²³ Government of FSM (n.d.) *Countries with Which the Federated States of Micronesia Has Established Diplomatic Relations*. <https://www.fsmgov.org/diprel.html>.

³²⁴ Pacific Islands Forum (n.d.). *Serving the Pacific: Our Work and Programs*. <https://www.forumsec.org/>; Pacific Islands Development Forum. *PIDF Initiatives*. <https://www.pidf.int/>.

³²⁵ See: Micronesian Islands Forum Secretariat. (n.d.). *Sowing the Seeds of Prosperity for a Sustainable Micronesia*. <https://www.mifsecretariat.org/>; Embassy of the Federated States of Micronesia. (2023). *21st Micronesian President's Summit Paddles Together for a Stronger Micronesia; Micronesian Unity Further Strengthened Prior to Pacific Island Forum Leaders' Retreat in Nadi*. <https://fsmembassy.fm/2023/02/15/#:~:text=Day%3A%20February%2015%2C%202023&text=PALIKIR%2C%20Pohnpei%E2%80%94On%20February%2013th,%E2%80%9D%2C%20His%20Excellency%20David%20W.>

³²⁶ The Guardian (2022). *Pacific leaders reach crucial deal to restore political unity as China's interest in region accelerates*. <https://www.theguardian.com/world/2022/jun/08/pacific-leaders-reach-crucial-deal-to-restore-political-unity-as-chinas-interest-in-region-accelerates>.

³²⁷ Pacific Islands Forum (2023). *Releases: Kiribati Government to rejoin the Pacific Islands Forum*, 30 January 30. <https://www.forumsec.org/2023/01/30/releases-kiribati-government-to-rejoin-the-pacific-islands-forum/>.

7. Key gaps and challenges in attaining the 2030 Agenda

This final section of the FSM national study presents pertinent challenges and recommendations, categorized into the five pillars of SDGs: people, prosperity, planet, peace and partnership. This part of the country analysis is based on the previously presented chapters.

People (1): Taking measures to strengthen public health

Although FSM spends a significant amount of its income on its healthcare system, the coverage and outcomes are sub-optimal. FSM citizens struggle with one of the highest world obesity levels, leading to NCDs and premature deaths. They often seek healthcare services in the United States and the Philippines. Enhancing healthcare services should be one of the top development priorities for FSM. In addition to developing healthcare facilities (e.g., hospitals and dispensaries), medical professionals must be fostered to provide healthcare services locally.

Imported under-nutritious food places a high risk on people's health, and the government might explore the imposition of taxes and duties on sweet, salty and fatty foods and tobacco or alcohol to discourage their high consumption.³²⁸ FSM already has a tax on imported soft beverages. Still, the country could expand the "healthy tax" on other products as well, including those high in salt and fat.³²⁹ Here, additional revenues from taxes and duties could strengthen the healthcare system in FSM and/or assist in making healthier substitutes more readily available.

To tackle health problems, the government should consider applying a holistic approach to strengthening public health and consider the following measures, among others:

- i. Increase public awareness and knowledge about healthy habits and nutrition to reinforce healthy lifestyles from early education;
- ii. Support the adoption of healthy diets and physical activities in schools and communities;
- iii. Formulate national dietary and physical activity guidelines;
- iv. Provide clear, simplified messages regarding healthy diets and physical activities to the public (reducing salt, sugar and fat; taking more fruit and vegetables; exercising more);
- v. Encourage people to grow more plants that have nutritional values and help tackle the obesity problem;
- vi. Incorporate healthy lifestyle issues in national strategies, policies and action plans; and
- vii. Introducing mobile doctors and medicine implementing necessary ICTs.³³⁰

³²⁸ While the primary purpose of such taxation has been to generate additional income, countries have recently realized that this could be a powerful tool to promote desired (e.g., healthy) behaviour. For more information on taxation: Jensen, J. and Smed, S. (2018). "State-of-the-art for food taxes to promote public health", *Proceedings of the Nutrition Society*, 77(2), 100-105.

³²⁹ The "healthy tax" has been enacted in numerous countries, such as Denmark, Finland, Mexico and Norway, as well as some cities in the United States, Mexico, or recently in Tonga. WHO has promoted such taxation for many years: WHO (2004). *Global Strategy on Diet, Physical Activity and Health*. Geneva. https://www.fao.org/fileadmin/user_upload/sap/docs/Food%20Security%20Policy%20Measures%20in%20the%20Federated%20States%20of%20Micronesia%202014.pdf.

³³⁰ For more information, refer to: <https://intelehealth.org/>.

People (2): Creating a prosperous future for FSM's young population by enhancing the quality of education

To address FSM's challenges and promote better opportunities for its young population, it is crucial to overhaul the education system. This will not only enhance school performance but also enable young people to secure better employment within the country and decrease the rate of outward migration, while reducing the nation's dependence on foreign workers to fill specialized roles. To foster the country's development, it is imperative to prioritize the higher education of its own citizens in key areas, including expanding the College of FSM into a full four-year college, perhaps taking a liberal-arts option with professional education streams (e.g., law, business and medicine).³³¹ The education system could be restructured with the following considerations:

- i. Implement mandatory early years education to provide a strong foundation for primary schools;
- ii. Enhance the existing teachers' certification system, including opportunities for selected teachers to receive training abroad;
- iii. Include more practical subjects, particularly for rural areas, focusing on sustainable land utilization for income generation;
- iv. Address high youth unemployment requiring technical and vocational education and training (TVET) aligned with the labour market demand;
- v. Address educational inequalities between states by prioritizing resources and support for disadvantaged islands and areas (e.g., outer atolls);
- vi. Provide incentives to young individuals to complete at least secondary education;
- vii. Encourage student exchange programmes between the College of FSM and educational institutions abroad, fostering cross-cultural learning and knowledge exchange; and
- viii. Provide opportunities for studying abroad in key development areas, ensuring that the knowledge gained from these experiences will benefit the home country.³³²

People (3): Taking proactive measures to empower and protect women, as well as other underprivileged groups in FSM

Empowering and safeguarding women and other underprivileged groups necessitates the comprehensive implementation of various development initiatives. The FSM government should ratify human rights instruments yet to be endorsed. Launching a widespread public awareness campaign is crucial to challenging gender stereotypes, promoting gender equality and fostering a culture of respect and inclusion. A multi-stakeholder approach involving government, civil society organizations and the private sector is vital to implement these initiatives effectively and bring about lasting empowerment and equality for women and underprivileged groups in FSM. Some specific actions might include:

³³¹ The liberal arts form of higher education is common in the United States, covering various study fields, such as the arts, humanities, fine arts, social sciences, natural sciences and mathematics, typically under a Bachelor of Arts degree.

³³² The FSM Government could provide conditional scholarships to its students. The students must return to FSM to serve the government or any organization for a predetermined number of years. Subsequently, individuals are free to decide their future paths. This approach effectively enables the acquisition of critical skills and knowledge from overseas, which can then be transferred back to the country and passed on to local people.

- i. Address violence against women, and develop comprehensive strategies encompassing legal protection, support services, awareness campaigns and educational programmes promoting healthy relationships and gender equality;
- ii. Enhance women's representation and participation in decision-making bodies, such as political institutions, corporate boards and public administration, perhaps by introducing gender quotas;³³³
- iii. Create more job opportunities with equal pay to increase the number of women in formal employment;
- iv. Provide training programmes, financial support and networking opportunities to support female entrepreneurs; and
- v. Establish social protection measures that encompass disability support and social assistance, benefiting all disadvantaged groups of people.

Prosperity (1): Providing more sustainable fisheries with added value to increase incomes

FSM relies heavily on its fisheries sector for food security, livelihoods and economic growth. As it does not have a sufficient fishing fleet to fish the abundant tuna resources in EEZ, the country should continue to sell a sustainable level of fishing rights to foreign companies. However, it should also add value to the export of the fish that is fished and processed by the local fishing boats. Therefore, the FSM government is recommended to:

- i. Coordinate with the private sector to access local, regional and international markets, investing in seafood processing facilities;
- ii. Provide support for small-scale fisheries by providing training on accounting and finance;
- iii. Ratify the Marine Spatial Planning Bill to exploit marine resources sustainably;
- iv. Enhance regional cooperation, including the Nauru Agreement, for sustainability in fisheries;
- v. Reduce illegal, unreported and unregulated fishing; and
- vi. Allocate public funds to help develop innovations and investments in fisheries and aquaculture enterprises that may offer lower returns or higher short-term risk, but have long-term nutrition, livelihoods and sustainability benefits.

Prosperity (2): Fighting poverty and unemployment and providing food security through sustainable rural development

Agriculture in FSM is mainly for subsistence at present but has high growth potential and can greatly help to decrease poverty, enhance food security and limit dependency on imports. The sector can create new jobs, decreasing unemployment and boosting women's inclusion if the right policies are promoted. Therefore, the following recommendations are proposed:

- i. Promote agricultural diversification which increases food security, creates job opportunities and enhances healthy nutrition in the obesity fight;
- ii. Train women in rural areas on creating income from the land to enhance inclusion, equality and formal employment;
- iii. Help farmers with low water security and droughts due to climate change;
- iv. Invest in research and development, including developing drought/extreme weather-resistant vegetables and fruits;
- v. Develop cooperatives and other organizations to help small-scale farmers their market access;

³³³ For more information on the pros and cons of gender quotas, refer to: <https://www.idea.int/data-tools/data/gender-quotas/quotas>.

- vi. Develop value-added food supply chains, encouraging investment in local processing facilities;
- vii. Increase land devoted to agricultural production through land ownership reforms including farm leasing schemes; and
- viii. Create social enterprises to provide rural jobs for inclusive wealth creation by encouraging the young generation to be responsible for their land and society.

Prosperity (3): Diversifying economic opportunities throughout reviving the tourism sector

FSM has experienced a decline in tourism since 2009 and is not currently reliant on the sector. To rejuvenate the tourism sector in a sustainable way, it is crucial for the country to prioritize infrastructure development, including hotels, transportation and other related facilities. The government should also promote ecotourism and the country's local cultural, heritage and historical sites, such as Nan Madol and Chuuk Lagoon. To reduce dependence on a single market segment, a broader range of activities should be offered to attract a more diverse range of visitors.

Prosperity (4): Taking measures to facilitate private investments

As half of all formal employment is in the public sector, FSM needs initiatives to create job opportunities and income generation for local people within fisheries, agriculture, tourism and other private sector industries. To facilitate this, the government, with support from partners, should seek to:

- i. Improve infrastructure including transportation, electricity and water access;
- ii. Find solutions for the land rent and ownership problems;
- iii. Expand digitalization by increasing the affordability of the Internet and enhancing digital literacy;
- iv. Coordinate with the banks to provide access to finance for local investors and support the development of private equity;
- v. Develop human capital by investing in education and TVET, promoting lifelong learning and skill development;
- vi. Simplify regulations for setting up businesses, e.g., the dual approval from the federal and state governments required to register companies;
- vii. Set up a department dedicated to promoting investment and providing incentives for foreign investments; and
- viii. Implement local entrepreneurship programmes for low-income individuals such as the “one town one product” scheme, which promotes traditional handicrafts, garments, pottery, fashion accessories, household items and food items.³³⁴

Planet (1): Advocating for stronger international commitments for climate justice

As a nation that is not a significant polluter but increasingly suffering the consequences of climate change, FSM should actively engage in global efforts to ensure the effective implementation of climate justice. In this vein, FSM should join forces with other affected nations to demand greater emission reduction targets and increased financial support for climate change adaptation and mitigation measures. This includes actively participating in climate negotiations and other international forums to ensure that the voices of SIDS are heard. Specific interventions could usefully comprise:

³³⁴ Opportunities to employ OTOP, especially in Yap, are analyzed in: Schumann, F. (2016). “One Village One Product (OVOP) Strategy and Workforce Development: Lessons for Small Islands and Rural Communities”, *Pacific Asia Inquiry*, 7(1), Fall.

- i. Explore the possibility of pursuing legal actions against major polluters and greenhouse gas emitters, in line with the ICJ's advisory opinion on countries' obligations to address climate change. This could include seeking reparations for the environmental, social and economic impacts of climate change on FSM, perhaps developing the multidimensional vulnerability index (MVI), and supporting efforts to establish an international legal framework for climate justice,³³⁵ and
- ii. Strengthen cooperation with regional organizations such as the PIF) and the Secretariat of the Pacific Regional Environment Programme (SPREP) to develop comprehensive regional strategies for climate resilience, adaptation and mitigation. This will enable FSM to pool resources, share expertise and leverage regional influence to advocate for more robust global climate action.

Planet (2): Following the Sendai Framework for Disaster Risk Reduction 2015-2030

The Sendai Framework for Disaster Risk Reduction 2015-2030 outlines five priorities for action to prevent new and reduce existing disaster risks, comprising: (i) understanding disaster risk; (ii) strengthening disaster risk governance to manage disaster risk; (iii) investing in disaster reduction for resilience; (iv) enhancing disaster preparedness for effective response; and (v) "Building Back Better" in recovery, rehabilitation and reconstruction.³³⁶ FSM has limited resources and capacities. It is therefore not realistic to rely on itself for disaster risk reduction. However, the country should actively work with development partners and other donors to mobilize resources and expertise to support disaster risk reduction.

Peace and Partnership (1): Taking a pragmatic approach towards geopolitical partnership

To overcome the various issues described in this paper, FSM requires continuous support from its partners. FSM should advocate for greater collaboration with neighbouring countries while climate change is the major threat to the nation. By taking a pragmatic approach to its relations with the neighbouring countries, FSM should be able to receive much-needed developmental assistance, which is crucial for its sustainable growth. However, FSM should also maintain a balance and ensure that it does not jeopardize its relationship with them based on mutual understanding and support among them. The government must maintain diplomatic and economic relations with all stakeholders to effectively achieve the country's development goals.

Within FSM itself, there is also a pressing need to improve domestic cooperation and coordination between the four states to bring about more efficient and effective governance. Similarly, improved dialogue and cooperation with the other four countries of the Micronesia region (i.e., Palau, Marshall Islands, Nauru and Kiribati) has the potential to bring about mutually positive change and to pursue objectives that no single country can do alone. In this regard, the assistance and services of the United Nations MCO on issues pertaining to socioeconomic and environmental development could be of particular value.

³³⁵ United Nations Department of Economic and Social Affairs (DESA) (n.d.). *Multidimensional Vulnerability Index for SIDs*. <https://sdgs.un.org/topics/small-island-developing-states/mvi>.

³³⁶ United Nations Office for Disaster Risk Reduction (2015). *Sendai Framework for Disaster Risk Reduction 2015-2030*, 18 March. <https://www.undrr.org/publication/sendai-framework-disaster-risk-reduction-2015-2030>.

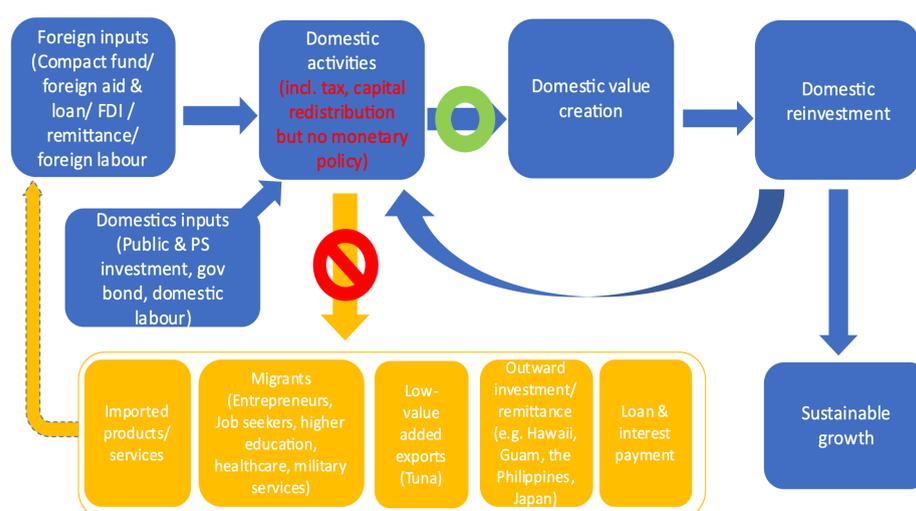
Peace and Partnership (2): Achieving sustainable growth with the “BlueEARTH” development model

The analysis of FSM highlights a continuous loss of valuable domestic assets, including capital and human resources to other countries. Money flowing into FSM or generated within the country can either contribute to domestic value creation or be lost through outflows. To foster sustainable growth, it is crucial for the assets to remain within FSM, enabling local reinvestment and fueling a cycle of development. The country should prioritize the value creation process within its borders, which will effectively halt the outflow of assets and promote investments and reinvestments domestically.

For instance, significant amounts of money are spent on imported goods. While certain products, like rice and wheat, may not be feasibly grown within the country, there are opportunities to locally produce other goods or seek equivalent substitutes. Presently, locally caught tuna is exported without processing, leading to low prices and reduced income for the local economy. Remittances received by foreign immigrants, who play an important role in FSM, are often sent back to their home countries. To retain money within the country, it is crucial to develop a self-reliant workforce capable of fulfilling demanding jobs across various fields. This requires sufficient education and healthcare services to citizens and foreigners in all necessary and specialized fields so that the money they earn can circulate within the country.

Another significant outflow of money stems from investments made overseas. The lack of a conducive business environment in FSM discourages local and foreign investments. The funds lost through these investments in foreign markets should instead be reinvested within FSM, fostering sustainable growth and development. FSM should focus on retaining money within the country by emphasizing value-creation processes, reducing outflows and reinvesting lost funds in local markets. This approach will contribute to sustainable economic growth and self-reliance (figure 25).

Figure 25
Simplified FSM’s value creation process



Source: UN MCO Micronesia (2023).

Based on the discussion in this paper, we propose a new development model for FSM called “BlueEARTH.” BlueEARTH stands for [Blue] economy, [E]ducation, [A]id, [R]emittance, [T]ourism and

[H]ealth. Apart from FSM, this model could be adopted by most of the PICTs as it includes key components that are crucial for their country’s development. Blue economy advocates using ocean resources suitable for economic growth, improved livelihoods and job creation with focus on fisheries, tourism, maritime transport, aquaculture, seabed extractive activities, marine biotechnology and bioprospecting. Blue Economy also considers preserving the health of the oceans’ ecosystems (table 4).

Table 4
The “BlueEARTH” development model

Model	Key elements	Income sources	Enablers
BlueEARTH	[Blue] economy [E]ducation [A]id [R]emittance [T]ourism [H]ealth	Fishing licences, foreign aid, agriculture, international remittances,	Education, healthcare, dynamic private sector, international cooperation, bureaucracy and digitalization, environmental protection

Source: The authors.

The model includes income sources for FSM, such as fees from fishing licences, foreign assistance, international remittances and agricultural sector earnings. It also presents its enablers, namely education, healthcare, the dynamic private sector, international cooperation, bureaucracy, digitalization and environmental protection.



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