FSM 2023 ACTION PLAN

2023 Planning Committee

Palikir, Pohnpei
February 2015

Table of Contents

FOREWORD....3
EXECUTIVE SUMMARY....8
I. THE FISCAL AND ECONOMIC CHALLENGES....11
1. The Fiscal Gap....11
2. Dismal Growth Scenario....13
3. How did we get here?....14
4. Impact of Amended Compact....15
5. Compact Trust Fund....17
II. ACTION PLAN MATRIX....19
III. 2023 ACTION PLAN....23
1. Economic Growth Strategy....23
2. Macroeconomic Framework....23
3. Infrastructure....25
4. Tourism....27
5. Agriculture....29
6. Fisheries....31
7. Energy....33
6. Information & Communications Technology....34
8. Fiscal Reform....35
9. Regulatory Reform....45
10. Land Reform....47
11. Public Financial Management Roadmap....48
12. Statistics....49
IV. FINANCING THE 2023 ACTION PLAN....50
1. 2023 Investment Development Fund....50
2. Foreign Direct Investment....51
3. FSM Development Bank....52
3. Overseas Development Assistance....52
4. Public Projects....53
APPENDIXES....55
Appendix A: 2023 Action Plan Results Framework....55
Appendix B: Government Fiscal Tables....59
Appendix C: References....72
Appendix D: 2023 Planning Committee Terms of Reference....75

FOREWORD

The 2023 Planning Committee was established on March 6, 2012 by Executive Order No. 40. The Committee is comprised of the President and the four State Governors. The Office of Statistics, Budget, Overseas Development Assistance and Compact Management is the secretariat to the Committee.

The Executive Order stated the primary mandate of the committee was to: (1) Undertake assessment of the nature and magnitude of the financial situation of the FSM Governments in 2024 onwards and identify the expected budgetary shortfalls; (2) Explore different alternative and funding scenarios for addressing the projected budgetary shortfall; (3) Develop and present to the leadership a realistic and credible action plan for addressing the looming financial shortfall in 2024 and beyond; and (4) others as may be necessary to complete its task.

The Terms of Reference for the Committee were endorsed in May 2013 and are attached in Appendix E.

The 2023 Planning Committee at their meeting in Saipan in December 2013 noted the expected fund shortage and its impact at the State level. The Committee noted that growth through economic structural reforms, revenue mobilization (tax reforms), and expenditure contraction (through public administration reforms) are all immediate-to-short-term reforms needed to create fiscal space and to move towards fiscal self-sufficiency. Along with reforms, the Leaders noted the importance of safeguarding the Compact Trust Fund for adequate return earnings through development of a basic investment and distribution strategy framework.

At the 2013 meeting the Committee members further agreed to dissect the nation's Strategic Development Plan into 3-5 year plans with clear targets backed by appropriate resources for implementation. In light of this the Action Plan focuses on activities to be undertaken in the period 2015 – 2017.

The Strategic Development Plan 2004-2023 has been complimented with more recent State Development Plans for Kosrae and Pohnpei. Implementation of these development plans and the national policy and strategy documents in Appendix C is an implicit component of the 2023 Action Plan. The documents essentially provide key updates of the Strategic Development Plan.

The Action Plan focuses on the productive sectors as it is only through growing the economy, and hence the tax base, that FSM can obtain the revenue to fund domestically social services from FY2024 and beyond.

The Planning Committee has developed a 2023 communications strategy in line with deliverable 4 of its terms of reference which states “the Committee shall undertake to raise awareness of its Action Plan with all stakeholders including the whole leadership at the National and State levels, traditional leaders and the public”.

The strategy aims to get village level understanding of the 2023 Action Plan and the steps the FSM needs to take to move towards budgetary self-reliance and economic self-sufficiency.

The 2023 Action Plan was endorsed and adopted at the 8th National and State Leadership Conference in Palikir on January 30, 2015.

8thSNLC Resolution No.001

A Resolution adopting and endorsing the 2023 Action Plan.

WHEREAS, as a result of the expiration of the financial provisions of the Amended Compact of Free Association, the Federated States of Micronesia faces an annual fiscal gap of at least $40 million dollars in 2023 and beyond; and

WHEREAS, the looming fiscal crisis requires a nation-wide strategy that involves a sustained effort to grow the economy, because FSM has experienced dismal economic growth since 2003 despite the efforts of the National and State Governments; and

WHEREAS, in order to prepare the Nation for the anticipated crisis, the FSM 2023 Planning Committee was established in 2012 and was tasked to develop an action plan that would effectively address the fiscal and economic challenges of 2023 and beyond; and

WHEREAS, the 2023 Action Plan, which is based on the National Strategic Development Plan 2004 – 2023, incorporates the recent State Strategic Development Plans and the updated National and State sector policies, strategies and action plans; and

WHEREAS, the 2023 Action Plan is a living document that will be continually updated, including taking into account comments by the State Governments during the 8th FSM States and National Leadership Conference; and

WHEREAS, the principals of the 8th FSM States and National Leadership Conference are in accord with the intent and purpose, policies and strategies, of the 2023 Action Plan;

NOW, THEREFORE, BE IT RESOLVED by the 8th FSM States and National Leadership Conference that the 8th SNLC hereby adopts and endorses the 2023 Action Plan; and

BE IT FURTHER RESOLVED that the 8th FSM States and National Leadership Conference call for swift implementation of the action items contained in the 2023 Action Plan; and

BE IT FURTHER RESOLVED that the 8th FSM States and National Leadership Conference call for the continual review and updating of the 2023 Action Plan.

Adopted in Palikir, Pohnpei, this 30th day of January

Head of Delegation

FSM National Government

Head of Delegation

Chuuk State Government

Head of Delegation

Kosrae State Government

Head of Delegation

Pohnpei State Government

Head of Delegation

Yap State Government

Abbreviations

ADB	Asian Development Bank
COM	College of Micronesia
CPI	Consumer Price Index
CTF	Compact Trust Fund
DOFA	Department of Finance and Administration
DOJ	Department of Justice
EEZ	Exclusive Economic Zone
EU	European Union
FADs	Fish Aggregating Devices
FSM	Federated States of Micronesia
FSMDB	FSM Development Bank
FY	Fiscal Year
GDP	Gross Domestic Product
ICT	Information, Communications and Technology
IDA	International Development Association
IDF	Investment Development Fund
IDP	Infrastructure Development Plan
IFC	International Finance Corporation
IPD	Implicit Price Deflator
JEMCO	Joint Economic Management Committee
LTFF	Long Term Fiscal Framework
NGO's	Non-Governmental Organizations
ODA	Overseas Development Assistance
OEEM	Office of Environment and Emergency Management
OIA	US Office of Insular Affairs
PFM	Public Financial Management
R&D	Resource and Development
SDP	Strategic Development Plan 2004-2023
SEG	Supplemental Education Grant
SBDC	Small Business Development Center
SBOC	Office of Statistics, Budget, ODA, and Compact Management
TC&I	Transportation Communication and Infrastructure
URA	Unified Revenue Authority
US	United States of America
WB	The World Bank Group

EXECUTIVE SUMMARY

The 2023 Action Plan is aimed at addressing the fiscal and economic challenges leading up to and post FY2023. It is based around the mutual principals of the Amended Compact which are to “promote the economic advancement, budgetary self-reliance, and economic self-sufficiency” of the FSM. The Action Plan includes a long-term fiscal reform strategy and a long-term sustainable growth strategy with the emphasis on private sector led growth. The Governments role will be one of facilitation by creating an enabling environment for the private sector to grow.

From 2024 the Amended Compact grants will be replaced by investment income from the Compact Trust Fund. The fiscal challenge stems from the initial poor performance and inadequacy of the structure of the Fund. The projected income from the Fund will not generate sufficient investment returns to replace Amended Compact Grants, with a projected fiscal gap of $41.3 million in FY2024. As all sector grants from FY2015 onward are passed on to the State Governments to fund education, health and infrastructure. It is here that the fiscal impact will be severely felt.

The economic challenge facing FSM is to reverse the trend of the first 10 years of the Amended Compact where real gross domestic product growth (GDP) has averaged -0.5 percent per annum. Implementing a long-term sustainable growth strategy is the Government’s top priority. However, the challenge of growing the private sector at a rate sufficient to produce jobs and entrepreneurial opportunities and to close the fiscal gap in FY2024 is daunting. The Action Plan targets average real growth of 2 percent per annum over the remaining years of the Amended Compact.

State Strategic Development Plans and key sector policy and strategy documents have been completed or are being finalized. These are implicit components of the Action Plan and contain much of the details on the way forward in growing the FSM economy.

A key component to the Action Plan is to kick start the economy through fast tracking expenditure of the infrastructure grant arrears of $126 million over the period of FY2016-FY2019. This will give space for the implementation of other economic and fiscal reforms to take effect.

Tourism is a key driver of the growth strategy. To ignite the tourism industry, it is essential to attract investment in a large scale hotel development. The economic impact of a 200 room hotel is expected to be $10 million annually in foreign exchange earnings, creation of 100 fulltime and 50 part time jobs, $0.5 million annually in taxes to government, $0.5 million annually in purchases of local agriculture and fishing products, and significant purchases of electricity and telecommunications services. The National Government in conjunction with the States is preparing four State Tourism Investment Plans. These include projects for upgrading over 100 tourism sites, and, obtaining World

Heritage Site status for Nan Madol is seen as an opportunity to take tourism in FSM to a new level.

Agriculture contributes significantly to the livelihoods and food security of a large proportion of FSM's population and is identified as a key productive sector for sustainable economic growth. The recent Agriculture policy provides the basis for action by both the public and private sectors to invigorate sustainable agriculture growth in the FSM. State Agriculture Action Plans are being developed as the modality for implementing the Policy.

The intent is to link agriculture and fisheries production to tourism as part of FSM's unique destination, offering the supply of fresh fruits, vegetables and fisheries produce. This will be achieved through developing farmers and shipping supply chains to boost supply of local food to hotels and restaurants.

The PetroCorp coconut project is a key agriculture initiative supported by the Action Plan. It has the potential to create 300 direct and indirect jobs and to put $4 million annually into the pockets of outer island and rural households as well as generate over $10 million in annual exports.

The fishing industry is the only sector which has shown solid growth over the last 10 years but this industry is fragile and the right balance needs to be maintained between seeking offshore fishing license fees, which have little effect on domestic economic activity, and protecting the domestic fishing industry which contributes significantly to exports. In addition, fisheries infrastructure investment in onshore facilities for transshipment, vessel servicing and value added activities will be established to generate income and employment opportunities

Two key cross cutting sectors are energy and telecommunications. Considerable effort has been undertaken in recent times to secure donor funding for major infrastructure projects in these areas and this focus will continue in the lead up to FY2023. To date, $125 million has been committed by donors to these two sectors over the next three years. Cheaper and more reliable power along with high speed internet connectivity will enhance the private sector business environment.

The key financing component of the Action Plan is the 2023 Investment Development Fund. The primary purpose of the 2023 Fund is to provide equity capital to private sector investments that have potential to create employment opportunities for FSM citizens and generate new inflow of revenue to the FSM economy. The Fund will not replace loan financing by financial institutions but will provide leveraging to compliment it.

From 2024 onwards the FSM states will face serious fiscal deficits without any interventions or reforms. A key challenge in fiscal reform for FSM is that fiscal policy is formulated individually by the national and state governments, with separate expenditure and revenue policies. However, in order to meet the 2023 challenge, all five governments will need to undertake both revenue and expenditure reforms that reflect the nations long term goals and aspirations.

Surpluses for the National Government prior to FY2024 will allow it to achieve two goals. Firstly, it will be able to set aside $15 million per annum into the 2023 Investment Development Fund which will be used to stimulate economic growth. A further $15 million will be invested into the FSM Trust Fund to assist with financing State deficits from FY2024 and beyond.

The fiscal challenge in FY2024 occurs at the State level and in particular in Chuuk and Kosrae. This is a function of the economies of Pohnpei and Yap being stronger and having the capability to partially absorb the fiscal gap of FY2024.

A major part of fiscal adjustment will need to come from revenue increases in order to avoid jeopardizing social service delivery at the state level. The FSM has a very low tax to GDP ratio of 12 percent, and this needs to be raised to at least 16 percent. To this end implementation of tax reforms becomes critical, as they have the potential to close the fiscal gap in the remaining 10 years of the Amended Compact.

Some form of revenue sharing will need to be undertaken by the National Government after 2023 as its surpluses continue to grow. However, this should only be undertaken after the states have implemented appropriate reform measures, such as enabling tax reform legislation, improvements to the investment environment, and expenditure reforms. This is to ensure revenue sharing is part of the long-term economic solution and not a stop gap approach.

The achievement of the required economic growth to meet the key fiscal challenge in 2024 depends upon a complex array of economic and social drivers. Establishing the underlying conditions and context for FSM to flourish is, therefore, a critical step. An improved enabling environment for economic growth will be achieved through the FSM commitment to economic reform and the provision of an environment to support open, outward-oriented and private sector led development.

The macroeconomic framework suggests that with a focus on driving the key sectors to achieve long term average 2 percent real growth, undertaking fiscal reforms, business environment reforms. The FSM will be able to meet the fiscal challenge of FY2023 head on. However, there will be an imbalance at the State level and without some form of revenue sharing to the States most in need, Chuuk and Kosrae, they will face almost impossible fiscal challenges from FY2024 onwards.

I. THE FISCAL AND ECONOMIC CHALLENGES

1. The Fiscal Gap

1. In order to assist the Government of the Federated States of Micronesia (FSM) in its efforts to “promote the economic advancement, budgetary self-reliance, and economic self-sufficiency of its people” the United States of America (US) is providing assistance on a sector grant basis for a period of 20 years. Each year beginning in 2004 the US is providing ‘tagged’ budget support to the FSM to the value of $92 million (adjusted annually for inflation).

2. The Amended Compact[1] outlines the sectors in which the grants may be expended being “education, healthcare, private sector development, the environment, public sector capacity building, and public infrastructure, or for other sectors as mutually agreed, with priorities in the education and health care sectors”.

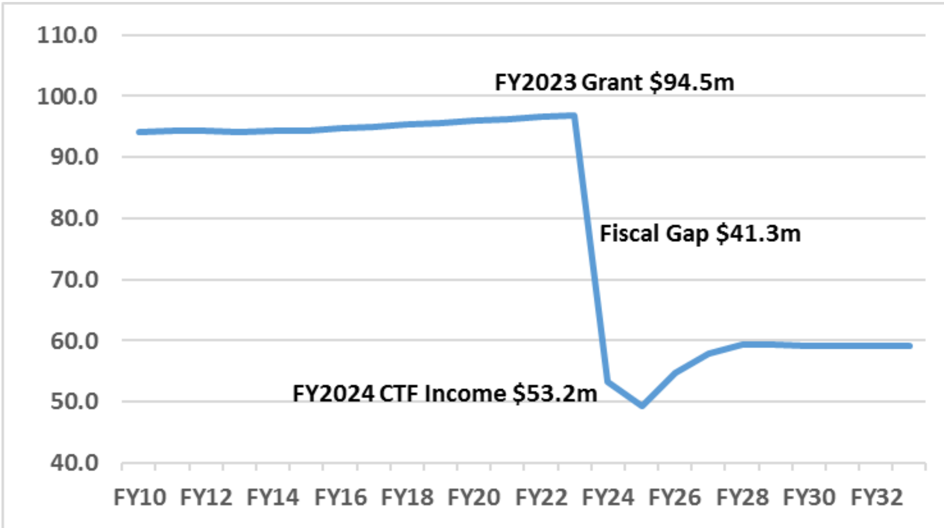
3. The annual sector grants start at a level of $76 million in Fiscal Year (FY) 2004 and are annually reduced by a $0.8 million decrement from FY2007 onwards. The difference between the total contribution and the annual sector grant levels is deposited into the Compact Trust Fund (CTF) to accumulate over the 20-year Amended Compact period.

4. From 2024 the Amended Compact grants will be replaced by investment income from the CTF. This will also be in the form of ‘tagged’ budget support under the same conditions as the Amended Compact grants. The fiscal challenge stems from the initial poor performance, and inadequacy of the structure, of the CTF.

5. The CTF will not generate sufficient investment returns to replace Amended Compact grants. There also remains uncertainty with regards to the Special Education Grants in the long term and their anticipated level in FY2024. Figure 1 below outlines the fiscal gap resulting from replacing US Compact grants with CTF income in FY2024. The projected fiscal gap is $41.3 million.

[1] The allocation of expenditure of the funds is subject to Section 211 of the Amended Compact.

Figure 1: Compact Fiscal Gap



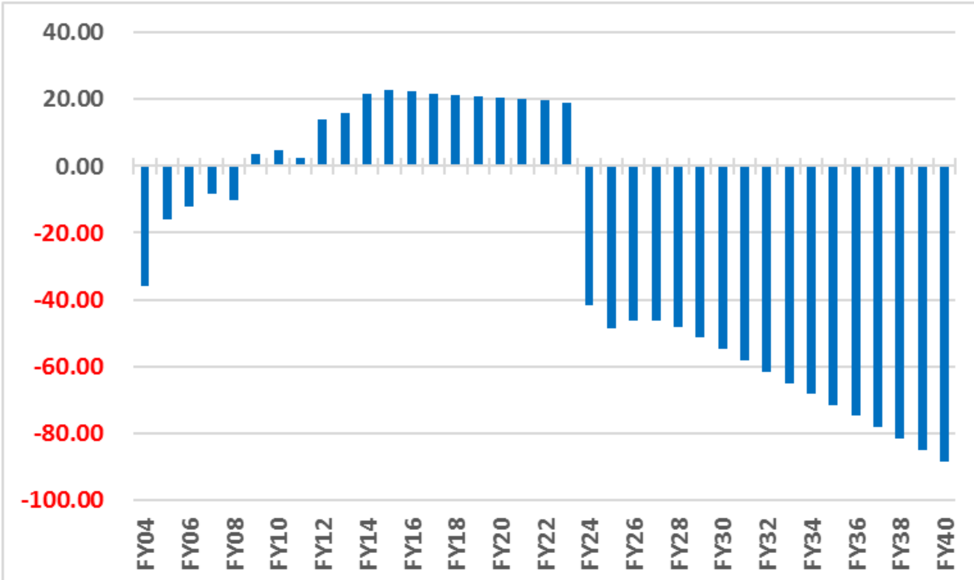
6. As all Amended Compact grant amounts from FY2015 onward are passed on to the State Governments it is here that the fiscal impact will be most severely felt. Table 1 outlines the fiscal gap impact by State using the most recently approved grant distribution and CTF allocation formulas.

Table 1: Fiscal Impact by State ($million)

	FY2023 Grant	FY2024 Interest	Budget Shortfall
Chuuk	39.1	17.4	21.7
Kosrae	11.2	5.4	5.8
Pohnpei	26.1	14.3	11.8
Yap	16.8	9.6	7.2
Total	**93.1**	**46.7**	**46.4**

7. Figure 2 below provides the long term fiscal balance forecast under the current financial and economic conditions. It is based on a weak growth scenario of 0.6 percent and no fiscal or economic reforms. Clearly, from 2024 onwards the country will face a serious fiscal deficit without any interventions. The deficit increases annually reflecting CTF income remaining constant while expenditure grows at the rate of inflation. The timeframe is tight with less than 10 years to embed fiscal and economic reforms that will provide for sustainable economic growth and long term fiscal self-reliance.

Figure 2: Fiscal Balance Baseline Scenario



2. Dismal Growth Scenario

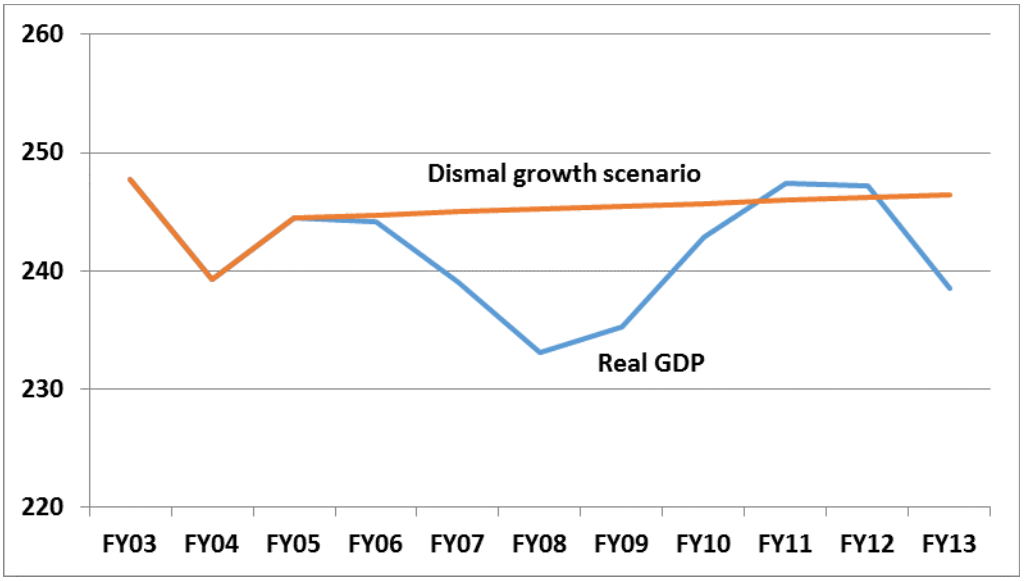
8. The 3rd Economic Summit held in 2004 outlined three possible economic scenarios under the Amended Compact. Under the worst of these scenarios, the 'dismal scenario', economic growth[2] is weak and the economy is projected to achieve only 0.1 percent growth over the period of the Amended Compact.

9. The dismal scenario was essentially a status quo projection. It assumed that the policy regime remains largely unaltered, and the FSM remains inward looking. There is no tax reform and efficiency on the delivery of public services remains largely unaltered. It assumed the transition to the Amended Compact would be arduous and in the absence of tax reform it would result in difficult reductions in expenditures that would threaten financial stability.

[2]Growth projections were made after the initial years adjustment to the Amended Compact so were for FY2006 onwards.

10. Unfortunately, 10 years into the Amended Compact and this 'dismal growth' scenario has turned into the 'actual' scenario (refer figure 3 below).

Figure 3: Real GDP ($million)



3. How did we get here?

11. Why has FSM not even been able to achieve the dismal scenario growth rates in the first 10 years of the Amended Compact and what went wrong? Some observations are as follows:

- The structure and terms of the Amended Compact assistance package do not provide an economic environment supportive of outward-oriented and internationally competitive private sector development. The assistance package is geared heavily to the social sectors of education and health;
- The SDP envisaged the development of sector strategies and policies in the first 5 years of the Amended Compact. However, most of these policies were not endorsed until after 2011 and thus FSM is considerably behind schedule on policy development and is only now moving into the implementation phase;
- The States Strategic Development Plan (SDP) was too cumbersome, with a strategic policy matrix of over 150 pages, which became almost impossible for officials to implement;

- The FSM faced a difficult adjustment in the first year of the Amended Compact, as the economy suffered an immediate shock as grants fell to the lower levels. The drop from $84 million to $76 million was exacerbated by the FSM not adjusting to a whole new way of doing business and in FY2004 the five Governments were only able to spend $56 million of the available grant funds;

- The World recession with soaring food and oil prices also had a significant impact in FY2007 and FY2008;

- The economic impact of the Joint Economic and Management Committee JEMCO decision in August 2012 to supsend infrastructure grants was severely felt in FY2013;

- FSM failed to introduce structural reforms, such as the tax reform, which are necessary precursors to a vibrant private sector-led economy;
- There has been too much emphasis on downward fiscal adjustment without the necessary economic structural adjustment to absorb the shocks; and
- The public sector continues to have a major influence on economic performance.

4. Impact of Amended Compact

12. The structure of the Amended Compact resulted in the need for significant fiscal adjustment both in the near and long term. The new sector grant approach favoured education, and health but did not provide funding for the operations of general government. This required a substantial adjustment in the operations of non-Compact sectors to fit within local revenue levels.

13. A reduction in force and other reforms led to painful fiscal adjustments in Chuuk and Kosrae. However, the economic consequences were not factored into the Amended Compact and as public servants became redundant they entered a private sector which was not ready to accommodate them. Two options were open to them, return to a subsistence lifestyle, or depart for economic opportunities outside FSM, many chose the latter.

14. Between the 2000 and 2010 population censuses, the population of FSM declined by 4,178 or -0.4 percent per annum. This is the first time in recorded history that the population has declined between two census counts. The decline in population occurred in Chuuk and Kosrae directly related to the reductions in

force, while the states of Pohnpei and Yap both experienced population growth during the 10 year inter-census period.

15. Outward migration has a distorting impact on the local economy if it is achieved through a loss of the economically active and skilled individuals. This loss of human capital reduces the long-term productive potential of the economy. Offsetting this however, has been recent growth in net remittances as overseas workers send money to family members in FSM.

16. The inflation adjustment currently being used in the Amended Compact is clearly inappropriate for the FSM economy. Since FY2004 the inflation adjustment has increased on average by 1.6 percent per annum and during this period the FSM Consumer Price Index (CPI) increased by an annual average of 5.1 percent.

17. This gap between the Amended Compact price adjustment and the real prices faced in FSM is having a serious impact on State Governments service delivery. The State Governments purchasing power has been declining dramatically, especially when considering the fiscal tightening measures through the annual decrement being the one undertaken simultaneously. Over the same period the State Government employee wages have also declined significantly in real terms.

18. The FY2005 infrastructure requests were considered substantially below desired levels, and JEMCO felt that a floor should be established to ensure that public investment was maintained at levels sufficient to support the development of the economy as aggregate Amended Compact resources declined. Thus in August 2004 JEMCO resolved that the FSM must allocate at least 30 percent of Amended Compact sector grants to infrastructure.

19. However, this allocation modality has failed as JEMCO has put tight restrictions on project funding. In general, mainly social infrastructure projects are being approved which do not directly support development of the economy and are therefore inconsistent with the JEMCO resolution. The capacity to implement this level of grant funding on infrastructure projects was also an issue in the early years.

20. Failure to spend Compact resources is a serious concern to the FSM. In the case of the infrastructure grant only 60 percent of allocated funds have been

made available to the FSM. This has impacted on economic growth in both the short and long term. Failure to spend grants is an issue for the short term while too much emphasis on social infrastructure as opposed to economic infrastructure has impacted on long term economic sustainability.

21. The US First 5-Year Review[3] stated "the Compact was intended to be an economic springboard and to a lesser extent a safety net for the FSM." However, the structure of sector allocations and the infrastructure grant clearly show that the Amended Compact is operating only as a social safety net.

22. Amended Compact grants, no matter how efficiently administered, will not lead to better economic outcomes by 2023, without substantial rebalancing of sector grant usage to focus on private sector growth that leads to achieving budgetary self-reliance and economic self-sustainability.

5. Compact Trust Fund

23. The projected value of the CTF on 1 October 2023 is $975.8 million. This will provide an investment drawdown (assuming a 6 percent return), under current CTF rules, of $53.2 million in FY2024. This amount is considerably below the projected US grants of $94.5 million in FY2023, therefore creating the fiscal gap referred to earlier.

24. The initial fiscal gap is of less concern to FSM compared to the underlying structural problems of the CTF disbursement. Under the current structure of the CTF investment portfolio it would be anticipated in some years that the return on the CTF could be zero or negative, thus providing no drawdown for the FSM. This would create significant fiscal stress and seriously impact the state governments' ability to provide essential health and education services. In the first 10 years of the CTF there has been 2 years with a negative return and 1 year of less than 1 percent return.

25. The current structure of the CTF allows full drawdown of annual investment earnings from FY2024 onwards. Thus, from FY2024 there will not necessarily be any increase in the capital value of the Fund. Other successful

[3] US Office of Insular Affairs, 2012, Report to Congress on the First 5-Year Review of the Compact of Free Association with the Federated States of Micronesia (FSM)

trust funds do not allow drawdown until an inflation adjustment is made to the corpus to maintain the Fund value in real terms. Under current CTF rules the real value of the fund is not maintained and thus the drawdown of the fund will decline annually in real terms.

26. Once we consider reinvestment of a portion of the investment income, available resources in FY2024 for drawdown will be reduced. Assuming the value of the Fund is $1 billion in FY2023 and an inflation rate of 2 percent per annum, there would be a need to reinvest $20 million of interest income in FY2024 in the Fund, thus reducing the amount of funds available for drawdown for the FSM for the same amount.

27. The CTF structural issues should be addressed as soon as practicable so that long term fiscal sustainability can be approached with more certainty

II. ACTION PLAN MATRIX

	Action	Responsibility	Timeframe
1.	**Infrastructure**		
1.1	Infrastructure Development Plan updated	TC&I	June 2015
1.2	PMU enhancement plan implemented	PMU	Dec 2015
1.3	Infrastructure Arrears Implementation Plan		
	$20 million arrears	PMU	FY2016
	$35 million arrears	PMU	FY2017
	$41 million arrears	PMU	FY2018
	$30 million arrears	PMU	FY2019
1.4	Complete Contracting Manual	TC&I	Dec 2014
1.5	Implement Procurement Plan	TC&I & PMU	Dec 2014
2.	**Tourism**		
2.1	Develop a National Tourism Policy in accord with Sustainable Tourism principles	R&D	March 2015
2.2	Implementation of State Tourism Investment Plans	R&D & STO's	2015-2017
2.3	Upgrade and improve access to historic and tourist sites, including addressing land issues for tourism sties	R&D & STO's	2015 - 2017
2.4	Establish a National Tourism Authority	R&D	Dec 2015
2.5	Conduct an Annual Tourism Conference	R&D	2016
2.6	Develop a branding strategy for FSM tourism	R&D	2016
2.7	Strengthen and expand hospitality and tourism management training	R&D, DOE & COM	2016
2.8	Develop an accreditation system for hotels, commercial tourism operators and tour guides	R&D	2017
2.9	Improve & expand tourism statistics	R&D	2016
3.	**Agriculture**		
3.1	Develop Agriculture Sector State Action Plans – Yap & Chuuk	R&D, States	Dec 2014
3.2	Food Security & Coconut Rehabilitation Project	States/R&D	2015-2017
3.3	Establish a National Agriculture Research Center in partnership with COM-FSM	R&D/COM-FSM	Mar 2015
3.4	Establish export protocols with U.S.	R&D, T&I	Dec 2015
3.5	Build Quarantine, treatment and processing facilities	R&D, States	2017
3.6	Establish quality compliance centers and build producers	R&D	2017

	Action	Responsibility	Timeframe
	capacity to meet Sanitary and Phyto Sanitary standards		
3.7	Establish feed mills for processing local materials for poultry, pig and aquaculture feeds	R&D, States,	2016
3.8	Establish Central Markets in each State;	R&D T&I, States	Dec 2015
3.9	Increase extension services to equip farmers associations and cooperatives with appropriate technology	R&D	2017
4	**Fishing**		
4.1	Develop a comprehensive national overarching plan covering inshore fisheries	FSM R&D	2015
4.2	Competent Authority established to facilitate EU fish exports	DoH&SA/R&D	2016
4.3	Establish National Over-arching Aquaculture Development Framework	R&D-MRU	2015
4.4	Promote small-scale community managed aquaculture projects	R&D	2015-2017
4.5	Undertake training for packaging, storage, and marketing fisheries products		2016 - 2017
4.6	Complete management plan for key inshore resources (commercial marine invertebrates: trochus, clams and sea cucumber)	R&D-MRU	2015
4.7	Establish National coastal fisheries monitoring teams	R&D-MRU & OEEM	2015
4.8	Deployment of FADs	R&D/OEEM	2016
4.9	Develop National Aquatic Animal Health Strategy	R&D-MRU	2015
5	**Energy**		
5.1	Increase share of renewable energy sources in total energy production to 30 percent by 2020	R&D	2020
5.2	Develop relevant legislation to regulate the energy sector	R&D	2015
5.3	Increase private participation in the energy sector to improve efficiency	R&D	2015 - 2017
5.4	Develop State Energy Action Plans	R&D/States	2015
6	**ICT**		
6.1	Advance submarine cable to Yap/Chuuk	TC&I	2017
6.2	Introduce telecommunication competition	TC&I	2016
6.3	Free internet access at all government sites	TC&I	2016
7	**Fiscal Reform**		
7.1	Update Financial Management Act and internal procedures	DoFA	2015
7.2	Publish Annual Economic & Fiscal Update (includes monitoring	SBOC	April 1 2016

	Action	Responsibility	Timeframe
	and updating of the Action Plan)		
7.3	Unified Revenue Authority operational	DoFA	2015
7.4	Tax Reform implemented	DoFA	FY2017
7.5	Debt policy endorsed, including fiscal responsibility ratios	Debt Management Advisory Committee	Mar 2015
7.6	Annual FSM Trust Fund contributions $10M up to 2023	DoFA	Annual
7.7	Complete organizational, functional, and staffing review of the public administration system	President's Office	Dec 2014
7.8	Revise pay structure and staff grading in the National Government	President's Office	Mar 2015
7.8	Formulate incentive-compatible revenue sharing arrangement between the National Government and the States	SBOC DoFA	Mar 2015
8	**Enabling environment**		
8.1	Replicate the State of Kosrae's dispute resolutions system in Chuuk, Pohnpei, and Yap	DoJ	2017
8.2	Establish time standards for State Courts based on FSM Supreme Court	FSM Supreme Court	2015
8.3	Develop Legal Framework for Protection of FSM genetic resources and associated traditional knowledge	DoJ/R&D	2015
8.4	Complete land survey and boundary identification in the States for sites suitable for commercial development	TC&I	2015 - 2017
8.5	Establish the Registrar of Corporations, including legislation amendments	Department of Justice	2015
8.6	Intellectual property rights regime review	R&D	2015
8.7	Develop Legal Framework for Deep Sea Mining of FSM non-living resources	DoJ/R&D	2015
8.8	Assess and upskill the capacity of existing SBDCs to deliver private sector support	R&D	2015
8.9	Diversify trading partners and seeking preferential market access opportunities	R&D	2015-2017
9	**Financing the Action Plan**		
9.1	2023 Investment Development Fund Act	DoJ	Jan 2015
9.2	IDF institutional set-up	SBOC	Mar 2015
9.3	Foreign Investment Law Review	R&D	Dec 2015
9.4	Enhance the existing online information system on investment within the FSM	R&D	2015

	Action	Responsibility	Timeframe
9.5	Establish Investment Promotion Agency at the national level to act as a One-Stop-Shop to handle foreign investment	R&D	2015
9.6	Development Partner Forum to align ODA programs with FSM development priorities	SBOC	Feb 2015
9.7	FSM Development Bank policy review - Reevaluate lending policies to small businesses - Strengthen entrepreneurs capacity to formulate fundable business projects	FSM Development Bank	Mar 2015

III. 2023 ACTION PLAN

1. Economic Growth Strategy

28. The Macroeconomic Framework contained in the Strategic Development Plan (SDP) 2004–2023 was fundamentally sound, but the detailed policy and reform matrix was too extensive, lacked focus, and was not prioritized. Thus those responsible for implementation found the document confusing and almost impossible to implement.

29. Government policy, commercial laws, regulations and creating an environment that facilitates investment will be key factors that underpin private sector led growth. The key economic sectors remain as for the SDP, being agriculture, fisheries, and tourism, with the addition of energy in recent times.

30. The economic challenge facing FSM is to reverse the trend of the first 10 years of the Amended Compact where real GDP growth has averaged -0.5 percent per annum. Implementing a long-term sustainable growth strategy is the Government's top priority. However, the challenge of growing the private sector at a rate sufficient to produce jobs and entrepreneurial opportunities and to close the fiscal gap in FY2024 is daunting. The SDP and State development plans all note that the FSM needs to radically realign its productive capacity if it is to generate the required levels of growth.

31. The Action Plan targets average real growth of 2 percent per annum over the remaining years of the Amended Compact. This is not an overly ambitious target, but realistic in terms of the FSM historical performance and current capacity.

2. Macroeconomic Framework

32. The macroeconomic framework to meet the challenge of long term fiscal and economic stability has the following fiscal components:

- Infrastructure backlog of $126 million spent FY2016 – FY2019 to stimulate the economy
- Tax/GDP ratio increases from 12 percent (baseline) graduating to 16 percent by FY2018
- Fishing license fees are stepped up by $5 million every 10 years

- Recurrent expenditure growth of 2 percent per annum in line with projected inflation to maintain current service levels

- Fiscal balance from FY2015 onwards allows $15 million to be transferred annually to the 2023 Investment Development Fund and $15 million to the FSM Trust Fund

- 2023 Investment Development Fund will be used to leverage finance for private sector projects that can have significant impact on the economy

- The Compact Trust Fund will grow at an average of 6 percent until FY2023

- Drawdown from the Fund for FY2024 and beyond is estimated at 5 percent of the Fund balance

33. The economic assumptions in the model include:

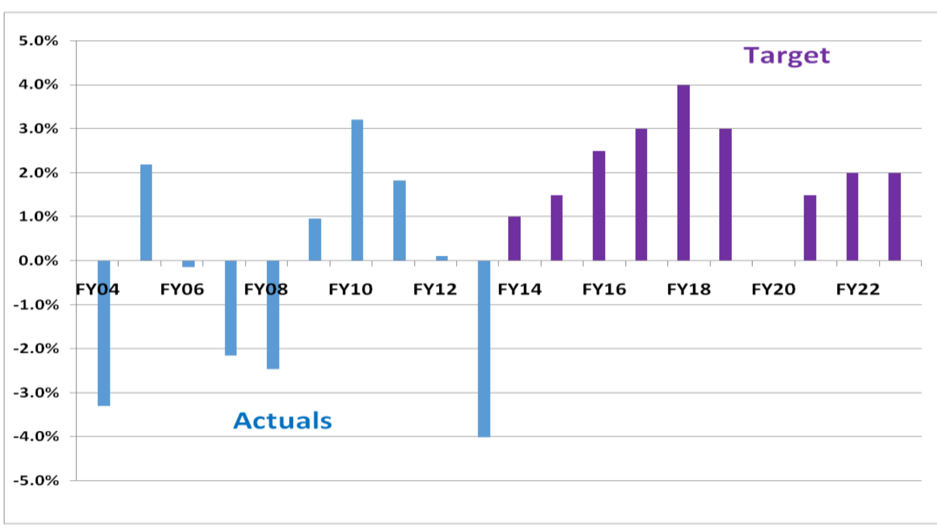
- Growth spurt between FY2016 – FY2019 to reflect spending of infrastructure backlog and implementation of 2023 Investment Development Fund

- From FY2020 onwards economic growth target of 2 percent (revised down from the original SDP target of 2.6 percent)

- CPI growth rate of 2 percent per annum

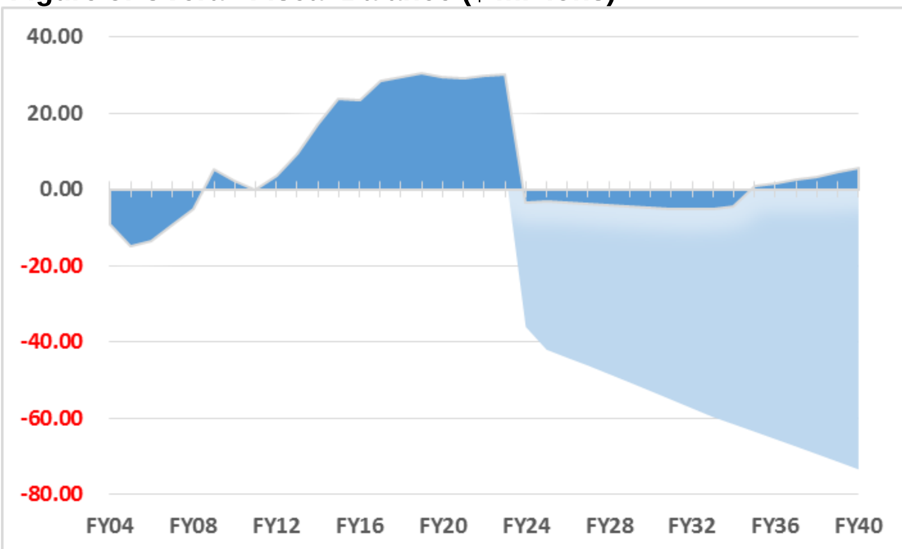
34. Figure 4 below shows the real GDP growth targets under the 2023 Action Plan.

Figure 4: Real GDP Growth



35. The impact of the above policy actions and economic assumptions on the overall fiscal balance is shown in figure 5 below. Although the fiscal gap has been closed there is still the issue of the CTF structure and income uncertainty. The macroeconomic framework will need to be adjusted once the CTF distribution issues outlined earlier have been addressed.

Figure 5: Overall Fiscal Balance ($ millions)



36. The key challenge facing FSM in the second half of the Amended Compact will be how to achieve sustainable economic growth across all States. The macroeconomic model appears to balance at the consolidated government level but underlying this fiscal balance are continued serious fiscal challenges for both Chuuk and Kosrae States.

3. Infrastructure

37. The SDP had as a key strategy to “provide efficient and cost-effective economic infrastructure to support competitive private sector development”. This strategy is still relevant in the context of the 2023 Action Plan in that there is a need to maintain and develop infrastructure to improve the everyday lives of the people of FSM.

38. Variable infrastructure and transport limitations undermine the potential for private sector growth. Despite the considerable public investment throughout the FSM, the state of completion and durability of infrastructure is still variable. This includes the adequacy of roads, access to telecommunications, electricity, water and other utilities essential for most business operations.

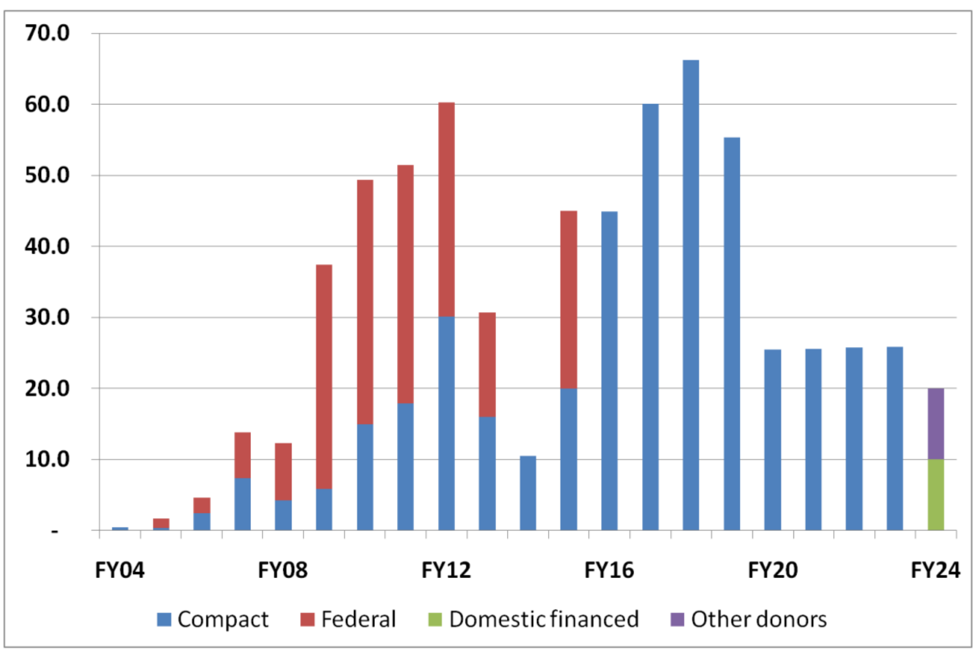
39. Development literature and field experience worldwide underscore the influence of market expanding infrastructure in fostering economic growth and productivity, particularly in emerging economies and there is ample evidence that market expanding infrastructure both raises growth and lowers income inequality.

40. Major infrastructure projects are expensive and can have significant impacts on people's lives. They can raise the ability of islands to compete but are essentially irreversible. That is why decisions must be made carefully and in a considered manner.

41. To ensure that FSM priorities are understood the Infrastructure Development Plan is being updated in 2015. This work will establish a framework for project prioritization agreed by stakeholders including the Government, private sector, NGOs, and local communities. A second component will consider and recommend the institutional arrangements for project implementation at the national and state levels for the ongoing infrastructure grants up to FY2023, as well as spending the infrastructure arrears over the next four years.

42. One way to increase economic output quickly is to expand public infrastructure that would add to the productive capacity of the economy in the longer term and create jobs in the near term. A key component of the Action Plan is the accelerated spending of the infrastructure arrears of $126 million over the next four years (refer to figure 6 below). As noted earlier, the only period since the beginning of the Amended Compact which saw consistent economic growth was during the period of high Federal capital grants for the airports upgrading (shown in red).

Figure 6: FSM Infrastructure Spending ($millions)



43. This infrastructure spending will be used to kick start the economy while other reforms and actions under the Plan are implemented and flow through the economy.

4. Tourism

44. The planning and development of the tourism industry in FSM has been guided primarily by the SDP 2003-2024. However, the Plan set unrealistic goals for growth in visitor arrivals – with an initial target of doubling visitor numbers by 2008 and raising numbers by 5 percent per annum thereafter. To achieve these goals 23 pages of detailed activities, outcomes and outputs for tourism are listed in the SDP Matrix. This was far too extensive and quickly forgotten. Aside from the pure logistical challenges of air links, this approach stands at odds with the SDP's own assertion that much of the nation can only absorb small numbers of visitors.

45. The FSM has made no progress in establishing a vibrant tourism industry. In fact, the tourism sector is in decline. Tourism development remains constrained by isolation, limited (and costly) airline connections, high energy costs, and the unique problems associated with doing business in a Pacific island environment.

46. The key issue for tourism in the FSM is to determine how best to break this cycle - by investment, by promotion, by the creation of appropriate institutions, by stimulating private investment, by using public investment to leverage an acceleration of activity or by any other means?

47. The National Government in conjunction with the States is currently preparing a National Tourism Sector Development Framework. This project includes developing four State Tourism Investment Plans which will identify and source funds for priority tourism investments.

48. The key outcome from this process has been the consensus in the FSM adopting "sustainable tourism" policy. The Tourism policy takes full account of the current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities.

49. Tourists visiting FSM are mainly of specialty groups such as divers, eco-tourists, and regional and world explorers of the oceans. The benefit of specialty tourism is that its mass tends to be small, but produces more economic and financial benefits per tourist than mass tourists who tend to travel with small personal and family budgets.

50. The State Tourism Investment Plans include upgrading over 100 tourism and historical sites across the four States. The issue of land ownership is a

crucial factor in developing tourism. Access to sites of interest, the opening up of forest walks and trails, and the availability of land for new development will be required as the industry expands. The Investment Plans will also include developing farmers supply chains to boost supply of local food to hotels and restaurants and hotel energy audits to assist reducing the cost of one of the major hotel expenses.

51. The National Government will establish a National Tourism Authority with Board membership from the four States and the private sector. This will be informed by an Annual Tourism conference. The key role of the Authority is marketing FSM as a tourist destination, and the first key activity will be to develop a branding strategy for FSM tourism.

52. The Authority will also be responsible for developing an accreditation system for accommodation providers, commercial tourism operators and tour guides. A first step in the process will be to utilize the US National Restaurant Association Servsafe[4] training and accreditation programs.

53. Human resource development is a key strategic goal of the National Tourism Framework and in particular the College of Micronesia-FSM hospitality and tourism courses will be expanded to the State campuses. Tourism related curriculum will also be developed for schools. The National Tourism Association will also be responsible for sourcing annual tourism training workshops in areas identified as priorities by the States.

54. To support tourism policy, marketing, business and investment planning, a key component of the tourism framework will be to improve and expand tourism statistics. The visitor arrivals survey will be processed and data released to the public, as well as introducing visitor exit surveys for each State and annual accommodation surveys.

55. Key Trade Policy initiatives for the growth sectors include liberalization of the tourism sector to attract foreign investment and improve the quality of services offered to tourists. Development of hotel capacity - new or refurbished - is an area within tourism most likely to attract foreign investment. In this context, the need to make the process of foreign investment appraisal consistent and transparent is important, as is the need to set any investment project in the context of national and state planning controls and environmental protection.

[4] http://www.servsafe.com/home

56. There is capacity for a large scale hotel/resort to be established in FSM. This type of investment would not only have a significant impact on the tourism sector but would have a flow on effect across other sectors of the economy which would provide services to the operation.

57. The economic impact of a 200 room hotel investment can expect to include $10 million annually in foreign exchange earnings, creation of 100 fulltime and 50 part time jobs, $0.5 million annually in taxes to government, $0.5 million annually in purchases of local agriculture and fishing products, and significant purchases of electricity and telecommunications services. A key aspect of such a large development would be that it would attract increased airline services to FSM.

58. The Action Plan is supportive of the World Heritage Site application for Nan Madol and Lelu Ruins. Nan Madol in particular has the potential to drive the tourism industry and will place FSM on the world stage as a tourist destination. However, it is imperative that some of the current issues that are providing a negative experience are overcome such as access road, multiple entrance fees, and lack of signage describing Nan Madol's significant history.

5. Agriculture

59. Agriculture contributes significantly to the livelihoods and food security of a large proportion of FSM's population and is identified as a key productive sector for sustainable economic growth. However, the sector growth has been sluggish over the last 10 years. The lack of a coherent policy, and a solid legal and regularity framework has inhibited strategic action and dissipated the already limited human and financial resources.

60. The recent Agriculture Policy[5] provides the basis for action by both the public and private sectors to invigorate sustainable agriculture growth in the FSM. It recognizes the major role played by traditional farming systems and the impact of socio-cultural realities.

61. The policy aims to reflect and address the differentiated needs, constraints and opportunities for small farm families who farm primarily for subsistence and

[5] FSM Agriculture Policy 2012-2016

more commercial oriented farmers and agri-business operators. Local production needs to remain the core of the food system and the capacity of FSM farmers to trade produce locally, regionally and internationally needs to be supported.

62. Large scale commercial agriculture holds limited potential in the FSM because of limited land supply, distance to markets, and lack of a comparative advantage. However, there is room for specialty crops such as pepper, coffee, etc. and increased subsistence production to supplement household food supply. Small, incremental improvements in the markets can add up to significant gains in competitiveness over time, especially in the agriculture sector.

63. The National Government will explore private sector partnerships Investment Development Fund (IDF) to establish feed mills for processing local materials for poultry, pig and aquaculture feeds. There are also opportunities in the production of poultry products, fruits and vegetables. Common agriculture produce of the FSM include kava, betel nuts, root crops (taro, yam, and cassava), breadfruit, mango, papaya, pandanus, banana, cucumber, pumpkin, eggplant and citrus. One of the challenges is the capacity to undertake agro-processing of these products into intermediate goods such as flour, juice, and oil.

64. The FSM National Export Strategy focuses on increasing the level of exports from FSM through increasing the capacity of the private sector to export. As a key component the FSM Government will work with other countries, in particular the US, in overcoming bio-security issues.

65. Coconuts are one agriculture commodity that is in abundance in FSM. It is a resource that almost every household has access to. PetroCorp has been given the mandate to revitalize this industry and has recently conducted a rapid coconut resource assessment that confirmed that the sustainable coconut harvest for the FSM is over 55,000 nuts per day from a total FSM wide forestry of 1.3 million trees.

66. PetroCorp has allocated funding for the establishment of both copra and whole coconut processing facilities with initial capacity requirements of 5,000 nuts per day, with an expansion capability of up to 55,000 nuts per day. It aims to have these facilities operating in 2015 while at the same time it will renovate and upgrade the existing plant on Pohnpei.

67. Appropriately developed and managed, the sector has a potential to create in excess of $4.0 million per annum in new economic activity for households, 300 new jobs in both formal and informal and produce approximately 10 megawatt hour per year of electricity from biomass (coconut shell).

6. Fisheries

68. In the fisheries sector responsibility for the oversight and management of near shore and coastal resources to 12 miles is vested in State Governments with the management of offshore oceanic resources retained as a National Government function.

69. Coastal and near shore marine and fisheries resource comprises inshore fisheries (those taking place in mangroves, reef areas, and lagoons), near shore fisheries for large pelagic species (including tunas) and bottom fisheries (for snappers, groupers and other demersal species).

70. In the main islands of each state small-scale fisher's sell catch in excess of their own requirements through various outlets. A few fishers and traders also ship small quantities of fish to other parts of FSM and elsewhere although commercial activity in the export of reef fish is controlled in Kosrae, Yap and Pohnpei due to concerns as to resource depletion.

71. The National Government will establish a Management plan for key inshore resources (commercial marine invertebrates: trochus, clams and sea cucumber) as well as a National Over-arching Aquaculture Development Framework. It will also develop a National Aquatic Animal Health Strategy to protect aquatic biodiversity from potential introduction and translocation of harmful diseases/pathogens.

72. Policy and strategy will be based around the eexpansion of the Community-based Ecosystem-based Approach to Fisheries Management program to strengthen climate change resilience of communities. National coastal fisheries monitoring teams will be set up to assess and monitor on-going programs and the impacts of the program and climate change.

73. Capacity building programs will be undertaken to empower grassroots communities, fishermen and stakeholders involved in the development and production of fisheries resources. This will also include training for packaging, storage, and marketing fisheries products.

74. Focus will be on developing alternative livelihoods, e.g. deployment of Fishing Aggregate Devices (FADs) and post-harvest activities. FADs are also used for management purposes, alleviating fishing pressure from coastal fisheries to offshore areas.

75. The National Government in conjunction with State Governments will explore remedial actions to challenges hindering aquaculture development – identify strategies for success, particularly in the thematic areas: 1) Governance and policy: to address markets and trades; environment, climate change and

investment as it relates to aquaculture development; 2) Capacity building; and 3) Economics.

76. A major cash value resource is trochus shells, a commodity endemic to Yap but which since the 1930s has been progressively introduced to many other locations within FSM. There is one aquaculture operation in Kosrae and potential for other opportunities in all States. Additionally, there are also investment opportunities in the production of black pearl, mangrove crab, sea cucumber, sponges, and ornamental fish.

77. The Exclusive Economic Zone (EEZ) of the FSM covers an area approximately 900,000 square miles across the Western and Central Pacific Ocean and is one of the largest under national jurisdiction. The main oceanic target species are skipjack, yellowfin and bigeye tuna with the vast majority of fishing effort coming from the established distant water fishing nations, the United States, Japan, People's Republic of China, South Korea, and Taiwan.

78. The ports of FSM have different attributes for transshipment of fish. In general, Chuuk has the best anchorage, simply because the lagoon is large. Pohnpei has the best facilities for supplies, service, provisions, and crew rest/recreation. Yap is not favoured because the fishing action is mostly located at considerable distance to the east and the anchorage is small. The harbour at Kosrae is also considered small. In recent years the choice of transshipment has often been between Pohnpei and Majuro in the Marshall Islands, depending on the location of fishing.

79. The Action Plan is supportive of the Pohnpei Port Development Project and will actively seek funds to expedite the project. The project outcome is to enhance the competitiveness and socio economic opportunities in the Pohnpei State and FSM as a whole by improving regional and domestic maritime connectivity. This is to be achieved through reduced trade costs and improved safety for movement of people and goods. The physical infrastructure to be built under the project is to add 175 linear meters of wharf length to the port. The new configuration will accommodate class IV fishing vessels, passenger and cargo vessels, and cruise ships.

80. There are two locally owned fishing companies in FSM, Diving Seagull in Yap (State owned) and Caroline Fisheries in Pohnpei (State is minority partner). Both of these companies make considerable contributions to the FSM economy in terms of employment, foreign exchange earnings from exports, local purchases of goods and services and taxes paid to government. This is on top of their fishing license fees. It is important when FSM considers any increases in fishing license fees it considers the impact on these companies as they have an important role in the domestic economy.

81. The issue with oceanic fisheries in FSM is the failure to date to fully realize the potential benefits associated with the exploitation of available resources. While FSM has enjoyed a reasonably consistent return from receipt of fisheries access fees, attempts to promote returns through infrastructure investment, transshipment, domestic fishing, and value added processing, a vessel servicing have essentially failed to add significant value or return on investment.

82. Key Trade Policy initiatives for the growth sectors include promoting foreign investment in catching and processing fish. The National Government will actively pursue investors in the tuna processing industry. An example of the impact on a community is the Soltuna cannery in Noro, Solomon Islands, which employs 2,000 workers (65 percent women).

83. The World Bank will launch its Pacific Regional Oceanscape Program in FY2015 which will include FSM in the first phase. The project will explore potential for FSM to move up the tuna value chain, so that a greater portion of the overall economic benefits generated by the resource can be captured within the FSM economy.

84. It is important that FSM establishes European Union-recognised Competent Sanitary Authority to regulate exports to EU countries. The regulatory process is required to ensure access to the lucrative European market.

7. Energy

85. Energy is a fundamental building block for a nation in its social and economic development and in enhancing the livelihood and wellbeing of its peoples. Accessible, affordable and sustainable electricity that is environmentally responsible and commercially viable is a high priority for FSM.

86. The major goal of the Energy Policy is ‘to become less dependent on imported fossil fuels by having an increased share of renewable energy sources and having cross-sectorial conservation and efficiency standards in place.’ By 2020, the share of renewable energy sources will be at least 30 percent of total electricity production, while energy efficiency, including a reduction in energy loss, will increase by 50 percent. Total fossil fuel usage by the four State utilities was $22.9 million in FY2013 and thus a reduction of 30 percent for renewable would see foreign exchange savings of around $7 million per annum.

87. The energy policy is accompanied by a National and four State Action Plans that cover energy development programmes as well as the promotion and adoption of energy efficient appliances, energy conservation, and energy awareness campaigns.

88. Implementation of the Energy Policy will contribute towards reduction of the fast-growing fuel import bill, while lowering the resource costs of producing tradable goods. The latter is a key aspect of Government policy to develop private sector–based export development. By working towards a sector wide approach to energy reform and financing, Government will also facilitate the mobilisation and more effective use of external assistance.

89. Commitments and support from Development Partners are in place, giving FSM a positive outlook to achieve its energy target by 2020. Table 2 below provides a summary of medium term donor support to the energy sector.

90. The Yap Renewable Energy Development project aims to reduce fossil fuel dependency in the State through the development of renewable energy and improved supply side energy efficiency of the current grid. The project will include construction of 1.4MW wind power, 300kW grid-connected solar power, and installation of a 1.8MW diesel generator to improve the efficiency of the current grid.

Table 2: Donor Support to the Energy Sector

Value	Year	Project	Donor
$11.2m	2014-2016	Yap Renewable Energy Development Project	ADB
$15m	proposed	Pohnpei Power Sector Development Project	
$19.2m	2015	Proposed budget support modality	EU
$4.0m	2012-2013	FSM PEC Fund Project	Japan
$14.4m	2014-2018	Generators for State Utilities, IDA-16 Allocation	WB
$10m	2016-2017	Renewable energy – Kosrae	JICA

Source: SBOC, Overseas Development Division

91. The World Bank project will increase the available power generation capacity and efficiency of the four state power utilities which will over time lead to more sustainable and affordable electricity tariffs throughout the country.

92. Private participation in the energy sector is virtually non-existent with an effective public-private partnership in expansion and management of energy supply yet to be developed. However, progress has been made on Pohnpei with PetroCorp having installed a 2MW generator which feeds into the State generation system.

6. Information & Communications Technology

93. ICT has been globally acknowledged as an essential tool for sustainable social and economic development. In an information society, distances reduce,

good governance emerges, globalization occurs, corruption reduces and unprecedented opportunities for development of countries and regions are created.

94. The National Information and Communication Technology Policy established an overarching framework to harmonize national priorities through a participatory and inclusive approach.

95. The Government will increase accessibility by maximizing existing resources and sharing ICT access points in public locations such as local government institutions, post offices, health centres, and schools and thus increasing citizens' awareness of and ability to access ICT and e-Government services as these services become available.

96. Following WB and Asian Development Bank, the governments of FSM and Palau are undertaking an FSM-Palau ICT Regional Connectivity Project which will finance investments in key telecommunications infrastructure to provide enhanced connectivity across all four states of FSM and to strengthen the regulatory environment. Project components include: (i) laying a submarine cable system for Yap and Palau; (ii) providing faster and more reliable ICT connectivity for Chuuk and Kosrae; and (iii) financing technical assistance for advisory services to support sector regulation and regulatory capacity development and promoting universal access throughout FSM. The World Bank project is funded by utilising the FSM IDA-17 allocation of $12.4million to leverage a further $38.6million in regional funds.

97. Sustainable development in the FSM has been restricted due to the monopoly in the telecommunications sector, and opening of these markets and advancement of the submarine cable to the states will have a considerable positive impact on the local economies of the FSM. It is anticipated that competition in the market will create downward pressure on the service rates.

8. Fiscal Reform

98. The SDP outlined fiscal policies aimed at supporting growth in the economy which included:

(i) reducing the cost and share of government in the economy to encourage a competitive private sector,

(ii) restructuring and rationalizing the public sector, and

(iii) Maintaining investment levels in infrastructure at healthy levels.

99. Unfortunately, implementation progress has been somewhat limited since FY2004. However, it should be noted that the government share of GDP has

declined from 29.6 percent in FY2004 to 25.8 percent in FY2013, therefore it is reducing its share and direct impact on the economy. This has been a slow structural adjustment to the economy but it is at least heading in the right direction.

100. The SDP envisaged the development of sector strategies and policies in the first 5 years of the Amended Compact. But as can be seen in the list in Appendix D most of these policies were not endorsed until after 2011. Thus FSM is over 5 years behind schedule on policy development and is only now moving into the implementation phase. Key issues for delays were the lack of Amended Compact focus on long-term economic sustainability and the lack of local capacity to formulate policy without external assistance.

101. The SDP has been complimented with more recent State Development Plans for Kosrae and Pohnpei States. Implementation of these development plans and other national sector policy and strategy listed in Appendix D is an implicit component of the 2023 Action Plan. The documents essentially provide key updates of the SDP.

102. Historically, FSM struggled to adjust to the Amended Compact and from FY2004 – FY2008 the consolidated government accounts were in deficit. In more recent times the fiscal balance has moved into surplus and the projection out to FY2023 is for continued strong surpluses at the consolidated level. However, this surplus exists for the National Government and the State Governments will need to maintain strong fiscal discipline in order to ensure they achieve fiscal balance through to FY2023.

103. The National Government surpluses will allow it to achieve two goals. Firstly, it will be able to set aside $15 million per annum into the 2023 Investment Development Fund which will be used to stimulate economic growth. Secondly, the remaining balance will be invested into the FSM Trust Fund to assist with financing the State deficits from FY2024 and beyond.

104. A key challenge in fiscal reform for FSM is that fiscal policy is formulated individually by the national and state governments, with separate expenditure and revenue policies. However, in order to meet the 2023 challenge, all five governments will need to undertake both revenue and expenditure reforms that reflect the nations long term goals and aspirations.

Revenue

105. Clearly, a major part of fiscal adjustment will need to come from revenue increases in order to avoid seriously jeopardizing the delivery of Government services. Social services in particular are already seriously strained due to the nature of the Amended Compact Funding. FSM has a very low tax to GDP ratio of only 12 percent and this needs to be raised to at least 16 percent, which would

still leave it the lowest in the Pacific. To this end implementation of tax reforms becomes critical.

106. The key objective of the tax reform is to increase budgetary self-reliance and to support private sector development. Introduction of a value added tax and net profits tax, and the creation of a Unified Revenue Authority, are key components of the Action Plan for ensuring long term fiscal sustainability and for improving the business environment.

107. The existing tax system does not support a strong foundation for an elastic source of revenue without distorting economic incentives. Maintaining the status quo will impose a heavier burden on future generations. The tax reform will assist the State Governments in adjusting to the annual decrement of the Amended Compact funding through to FY2023 and will support the private sector through the adoption of a broad based, modern, and non-distorting system.

108. Tax reform has the potential, combined with economic growth, to close the fiscal gap. The impact of the tax reform, based on an economic growth scenario of 2.0 percent per annum, on the State fiscal gap is shown in table 3 below.

Table 3: Tax Reform Impact in 2024 by State ($millions)

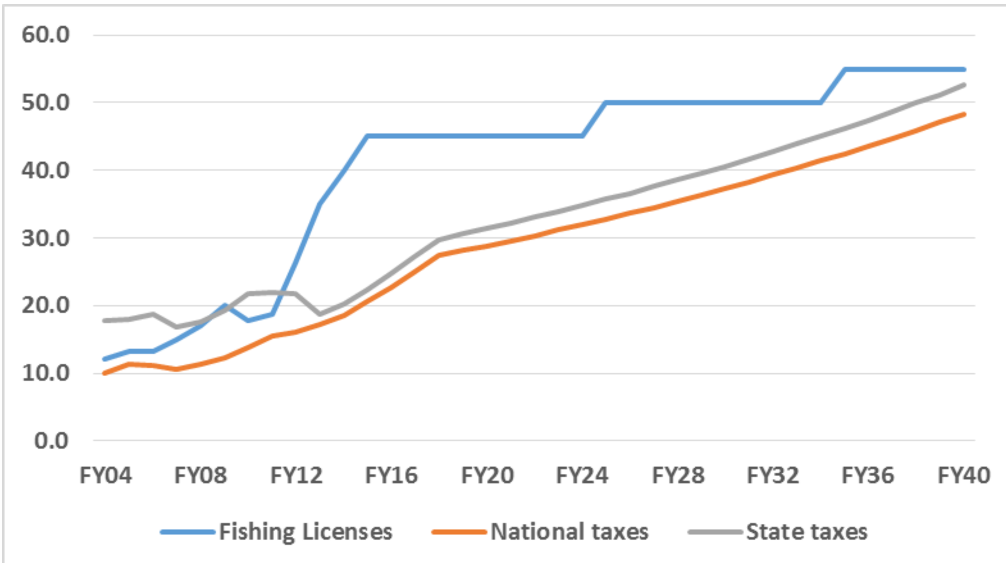
	FY2024 Shortfall	**FY2024 Tax Reform**	**Revised Shortfall**
Chuuk	19.9	2.7	17.2
Kosrae	6.4	0.8	5.6
Pohnpei	10.8	8.5	2.3
Yap	7.1	3.4	3.7
Total	**44.2m**	**15.4m**	**28.8**

109. The fisheries sector is one of the few non-tax revenue sources available to FSM. The FSM is home to one of the largest tuna fisheries in the world and revenue from fisheries has doubled over the last three years as a result of the introduction of the Vessel Day Scheme.

110. The level of public revenues from fishing license fees can be expected to be sustained, provided the resources are managed well and efforts are coordinated across the Pacific region. However, it is important to balance the need for license fees and the impact high fees have on the domestic fishing fleet which contribute significantly to the economy through employment, taxes, and purchases of local goods and services.

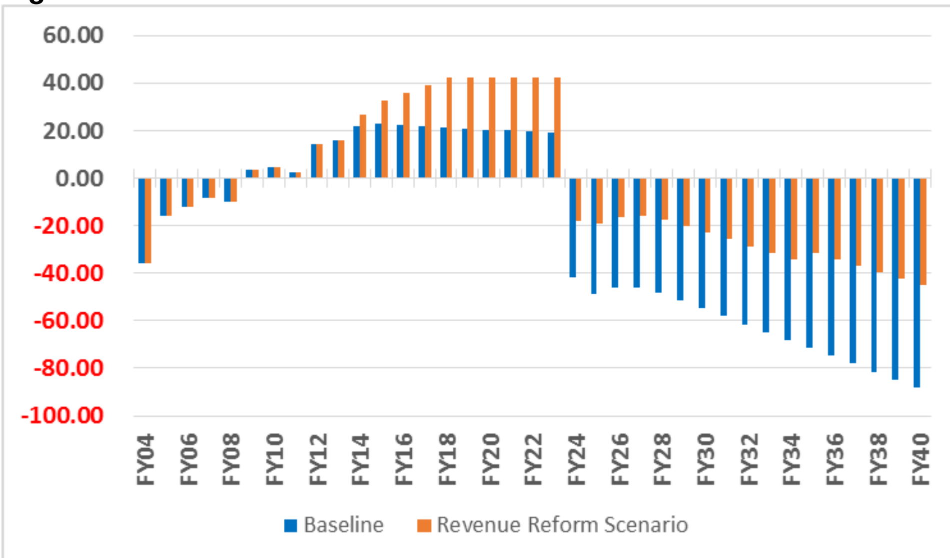
111. Figure 7 below shows the revenue projections for national and state taxes and fishing license fees. The revenue assumptions in the forecasts are that by FY2018 the tax reform is fully implemented and that every 10 years there is an increase in fishing license fees of $5 million. These projections are based on a target of 2 percent real GDP growth per annum.

Figure 7: Tax & Fishing License Projections



112. The impact of tax revenue reforms and negotiated fishing license fee increases on the fiscal balance is shown in figure 8 below. The tax reforms will increase the fiscal surpluses up until FY2023 allowing additional revenue to be invested in the FSM Trust Fund which will result in a greater return from FY2024 onwards to assist funding State deficits. However, revenue reforms alone will not solve the fiscal crisis from FY2024 and beyond.

Figure 8: Fiscal Balance Baseline & Revenue Reform Scenarios



Expenditure

113. The National and State Governments will focus on the continual improvement of public sector productivity through management of public finances. Government's expenditure decisions impact both directly and indirectly on economic activity, and the effectiveness and efficiency with which these expenditure programs are undertaken therefore affects economic performance.

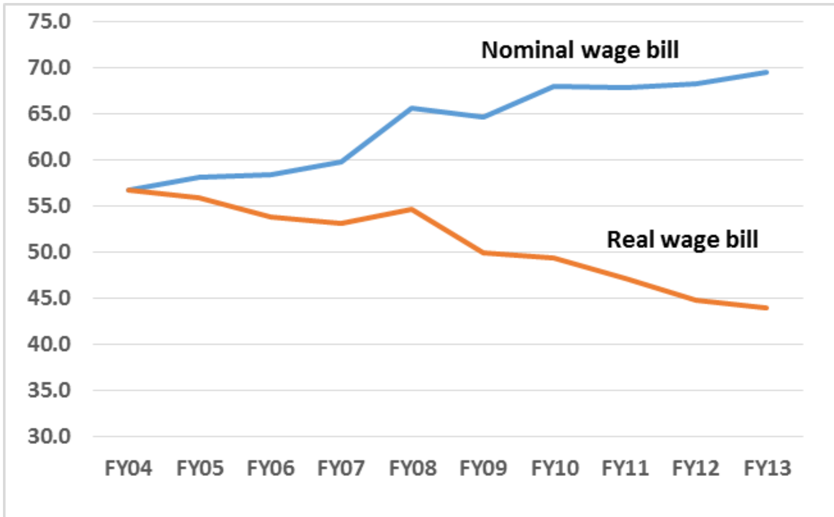
114. Although much has been said and written about the over-inflated wage bill for the National Government, salaries and wages account for approximately 20 percent of recurrent expenditure in the budget. The major issue is that through a decision of Congress salaries have been frozen since 1997. Obviously, given the increase in the cost of living, this is not providing good incentives to the workforce as real wages have declined. Figure 9 below shows the nominal and real wage bill based on deflating using the CPI.

115. As a result of the wage freeze there has been a tendency to inflate professional titles to get staffs on to higher pay-scales. Presently, there are different categories of civil servants that are paid depending on the source of funding or type of contract. Leaving the salary freeze issue unaddressed forces management to look for alternatives to solve the problems thereby creating distortions in the institutional framework.

116. The National Government is undertaking a public administration reform project with the key goal to establish a more efficient, effective, and responsive public administration system. Under this reform it is not only the "salary freeze" that needs to be addressed but other areas to be considered include a functional

and organizational review, staffing number review, and a review of pay structure and staff grading.

Figure 9: Consolidated Nominal & Real Wage Bill ($millions)



117. As much as the size of the national wage bill does not appear to be a problem, it must be noted that for the four States, the problem of the salary bill is much more acute which points to a possible issue in relation to the allocation of overall resources.

118. The rigidness of the Amended Compact grant structures and conformity to Long Term Fiscal Frameworks (LTFF) during budget negotiations is of concern. LTFFs should be considered as rolling fiscal forecasts and not long term fixed budget commitments. States are constantly developing plans and reprioritizing their expenditure needs and should have the ability to manage shifts in budgets (within limits) across sectors. For example, subsequent to the LTFF approval Kosrae State has endorsed its Strategic Development Plan 2013 and this now needs to be reflected in its latest years budgets, but the LTFF is being seen as a fixed expenditure plan.

119. As noted in the FY2012 Economic Review[6], the relatively small adjustment of 2 percent per annum for Amended Compact grants cannot be easily achieved

[6]US Graduate School, FY2012 Economic Review, August 2013

year-to-year on a long-term basis without distorting the delivery of public services or the cost structure of government.

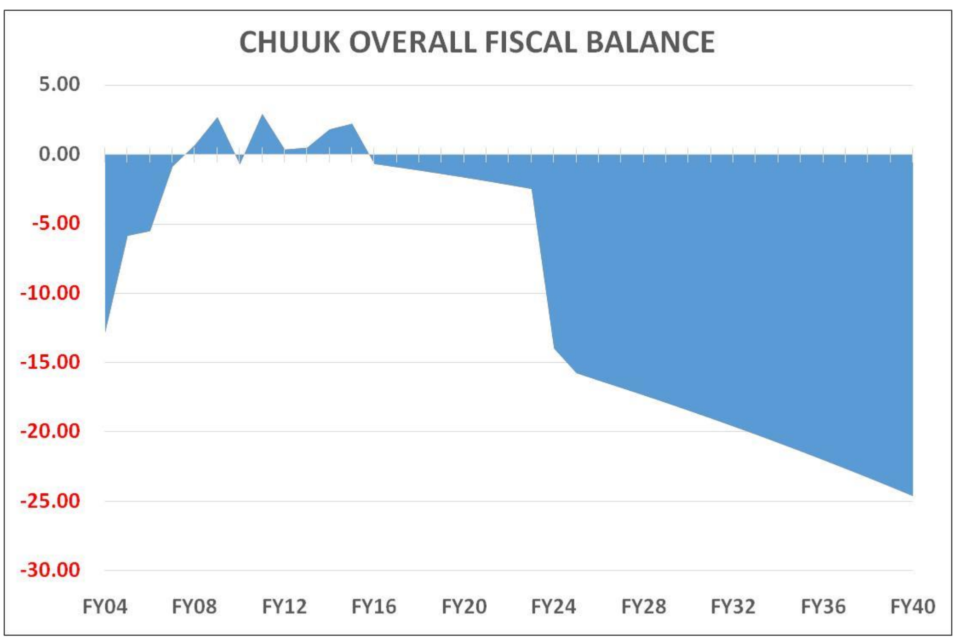
120. The nature of the sectoral grants, funding virtually all of education and health costs and requiring substantial public infrastructure investment, means that any expenditure cutting at the state level must be done on a narrow portion of recurrent public expenditures.

Chuuk State

121. The projected fiscal balance for Chuuk State is shown in figure 10 below. Clearly, Chuuk will face serious fiscal problems in FY2024 and beyond. There is a deeper issue here in that the Chuuk economy is weak and under current conditions it is unlikely to be able to fill this fiscal gap through internal fiscal or economic growth measures. The Chuuk economy has declined by an average -1.6 percent per annum since the beginning of the Amended Compact. Compounding the negative growth rates is the fact that unlike other States, Chuuk does not have any financial reserves to call on.

122. Although domestic revenue as a percentage of total expenditure has increased steadily from 17.3 percent in FY2004 to 23.1 percent in FY2013 it is low compared to Pohnpei which averages 33 percent over the same period.

Figure 10: Chuuk State fiscal balance ($millions)



123. Chuuk State Government salaries and wages as a percent of total expenditure has increased from 40.9% in FY2004 to 54.7% in FY2013, reflecting

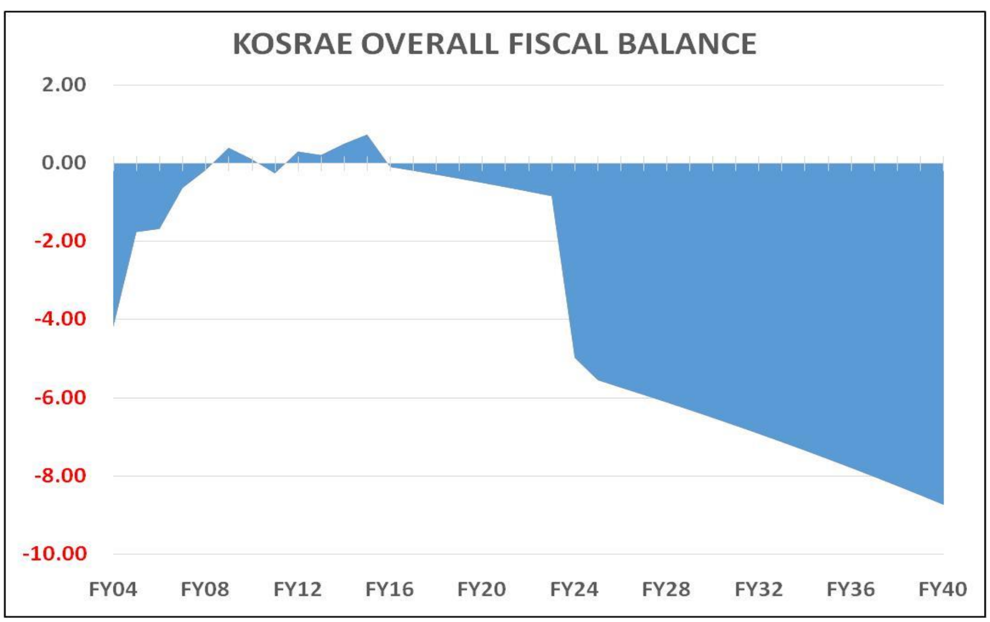
the impact of Amended Compact decrements which are squeezing down goods and services expenditure. This is a common problem with developing countries where government jobs are seen as employment for life and it can be difficult to deal with redundancies and therefore the tendency is to cut expenditure in other areas. However, this cannot continue over the long term as eventually service delivery collapses as funds only cover staff costs and they have no tools to deliver the expected services.

Kosrae State

124. The projected fiscal balance for Kosrae State is shown in figure 11 below. Although significantly lower than the Chuuk level it is still serious in relation to the size of the Kosrae economy. Domestic revenues on Kosrae are just over $2 million annually and thus these revenues will need to triple if the fiscal situation is to be returned to balance in FY2024. Tax reform will result in an increase in domestic revenue but even with 10 percent real GDP growth from now through to FY2023 Kosrae will still face a deficit in FY2024. Thus some form of revenue sharing will be required from the National Government if the State is to maintain its current level of services.

125. GDP growth for Kosrae has declined by 0.7% per annum since the beginning of the Amended Compact. A major issue for Kosrae is the size of the Government sector in the economy, accounting for 40 percent of GDP activity. Salaries and wages expenditure is high representing 53 percent of current expenditure in FY2013. Both these factors suggest the Kosrae economy is in a highly volatile state as it approaches 2023. As with Chuuk State, Kosrae has no significant financial reserves to fall back on.

Figure 11: Kosrae State fiscal balance ($millions)



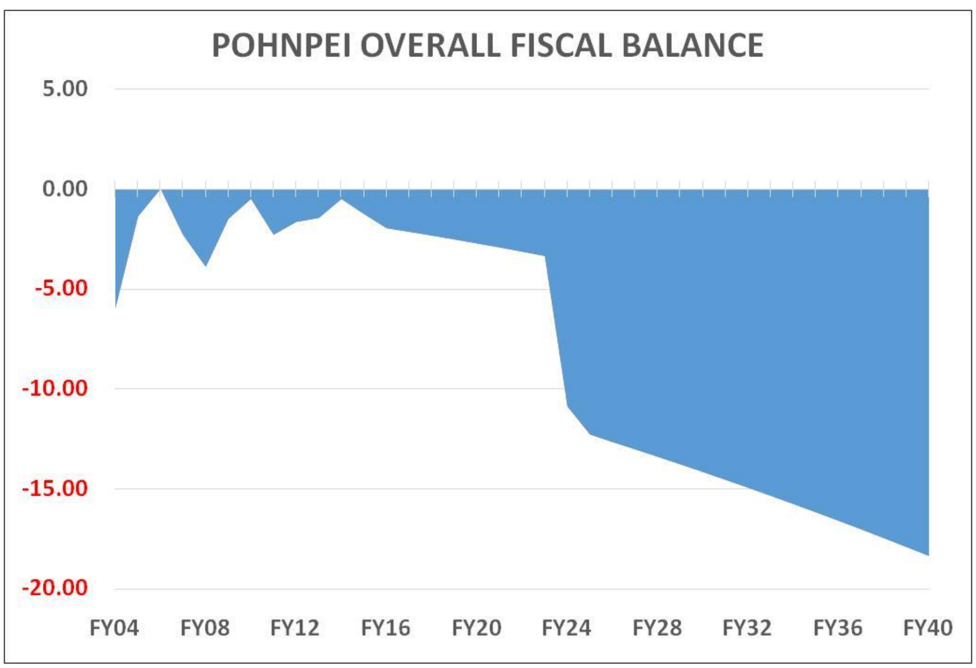
Pohnpei State

126. Pohnpei State has been running deficits since the beginning of the Amended Compact (see Figure 12 below). They have financed these from cash reserves which have declined from $30 million in FY2004 to $15 million in FY2013 and at the current rate they will have no cash reserves remaining by FY2023. This is of serious concern for the State Government.

127. Pohnpei State salaries and wages have increased from 38.3 percent of expenditure in FY2004 to 57.4 percent in FY2013. However, average annual growth in salaries and wages expenditure is only 2.5 percent, less than the CPI growth rate of 5.5 percent, therefore real wages are declining. Total expenditure has remained relatively constant over the last 10 years and thus the salaries and wages increases mean the forced annual decrement is being absorbed by reducing expenditure on goods and services.

128. Pohnpei State has averaged 1 percent real GDP growth since the beginning of the Amended Compact while the other states have had negative growth over the same period. Pohnpei thus has a far better opportunity to achieve the targeted 2 percent real growth rate over the next 10 years. If the State can achieve this and implements tax reforms it will not only begin to build up its cash reserves again but it will also be in a position to manage the fiscal challenge of FY2024.

Figure 12: Pohnpei State fiscal balance ($millions)

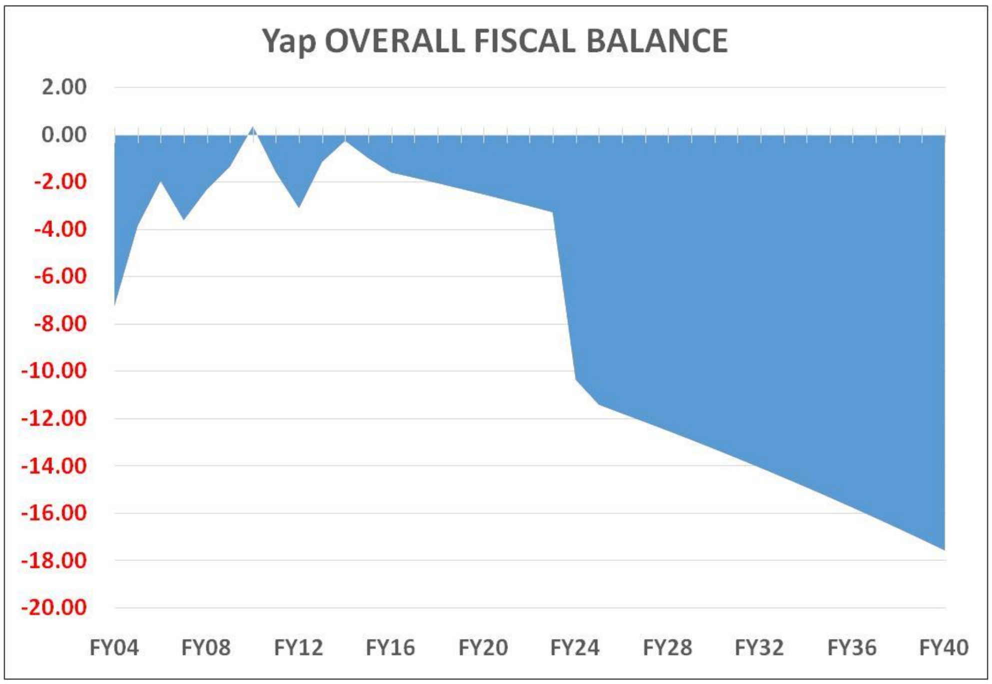


Yap State

129. Yap State has also been running deficits since the beginning of the Amended Compact but unlike the other States Yap has considerable financial reserves. The issue for Yap is that its economy has averaged -0.7 percent per annum average growth since the beginning of the Amended Compact. Domestic revenue in Yap has fluctuated annually and implementation of the tax reforms would see the State move into fiscal surplus for the remaining years of the Amended Compact.

130. Although salaries and wages have grown by 3.8% per annum since the beginning of the Amended Compact, this rate is still below the inflation rate of 5.5 percent per annum since FY2004.

Figure 13: Yap State fiscal balance ($millions)



Fiscal Summary

131. A key policy issue for the 2023 Action Plan is for the National and State Governments to limit expenditure growth to 2 percent per annum over the medium to long term. This will allow expenditure to keep track of inflation levels and will also see total expenditure of government continue to decline as a proportion of GDP. The tax effort in FSM is very low and tax reforms are required in the medium term to lift the tax to GDP ratio to at least 16 percent.

132. The right balance needs to be struck between revenue enhancing measures and revenue sharing. The National Government when considering any revenue sharing with the States must first ensure the States have taken appropriate measures, such as enabling tax reform legislation, improvements to the investment environment, and expenditure reforms, to ensure revenue sharing is part of the solution, and not a stop gap approach.

9. Regulatory Reform

133. The achievement of the required economic growth to meet the key fiscal challenge in 2024 depends upon a complex array of economic and social drivers. Establishing the underlying conditions and context for FSM to flourish is, therefore, a critical step. An improved enabling environment for economic growth will be achieved through the FSM commitment to economic reform and the provision of an environment to support open, outward-oriented and private sector led development.

134. Sharing information with the public and enhancing fiscal transparency are key efforts of this Action Plan. The main components of fiscal transparency include:

(i) development of clear roles, responsibilities, structures and functions of Government,

(ii) public availability of fiscal information at clearly specified times,

(iii) an open budget process covering preparation, execution, and reporting, and

(iv) Assurance of integrity in the quality of information through independent assessment.

135. The 2023 Planning Committee is informed of the impediments for FSM in creating an enabling environment as outlined in the World Bank's report on ease of doing business. The Report[7] places FSM at 150th out of 184 countries globally and the poorest performer in the Pacific. Specific issues for the FSM include dealing with insolvency, contract enforcement, investor protection, access to

[7]World Bank. Doing Business Report, 2013

credit, property rights, and business start-up challenges. Structural reforms are also needed in the areas of land leases and foreign investment.

136. Government support to the private sector will be limited to facilitation, coordination, information dissemination, and broad-based advisory and training services. Support for entrepreneurial development and export promotion will be extended to all entrepreneurs including small and micro-enterprises.

137. The National Government will focus on ddiversifying trading partners and seeking preferential market access opportunities, this includes (pursuing negotiations for the Economic Partnership Agreement with the European Union for fish products, Pacific Agreement on Closer Economic Relations with Australia and New Zealand for human resources development, investment, and labour mobility).

138. Upcoming support from the IFC will include providing assistance on improving contract enforcement, insolvency practice, and legal safeguards for minority shareholders, trade logistics and access to credit.

139. The State Governors have requested technical assistance from the National Government to expedite land survey and boundary identification in the States, and assist in identification of specific areas suitable for business investment.

140. The establishment of the captive insurance market has been a successful initiative. Other initiatives include development of legal framework for Deep Sea Mining of FSM non-living resources and development of legal framework for Protection of FSM genetic resources and associated traditional knowledge-Intellectual Property Rights.

141. Enhancing investor protection by establishing time standards for the National and State Courts; establishing alternative dispute resolutions through mediators; and posting relevant State Courts' decisions on the FSM Supreme Court website are initiatives already underway. The FSM Supreme Court has also developed a model time standard that will be reviewed and considered by the Justices of the Court. The FSM Supreme Court has been uploading relevant State Courts' decisions on its website but is in need of upgrading its information technology capacity.

142. Kosrae State is currently utilizing mediators in resolving selected dispute cases, but there is a need for periodic training. Chuuk and Pohnpei States have undergone initial training of potential mediators and follow-up training should be undertaken.

143. A project proposal has been submitted for consideration by the Congress for the review of the Small Business Development Center's capacity, institutional

arrangements and sustainability, with a view to determine their capacity to design and deliver support services to the private sector.

144. Yap State is a good example of transparency in investment. It has implemented a simple business licensing system that treats domestic and foreign businesses alike, consistent with best practice. Apart from simple municipal level licensing, there are no restrictions on enterprises of any size. This model should be replicated in the other States.

145. A Review has been conducted of the legal framework establishing the Registrar of Corporations under the Department of Justice and draft amendments developed are currently being reviewed by the Department of Justice. It is proposed that the register be brought back under the Department of R&D to cover investment regulation.

10. Land Reform

146. Land in FSM is managed under a complex mix of modern and traditional systems. Land is intricately connected to people's perception of inheritance and community, thus needs to be tackled with a long-term perspective. The majority of transactions for commercial ventures transpire with survey, titling and documentation completed under modern land management institutions. Chuuk is an exception, due to long-standing unresolved disputes between individuals and clan groups. Disputes also arise periodically in the other states and can often take an inordinately long period of time to resolve.

147. In Kosrae, Chuuk and Yap land rights may be legally sold to FSM citizens but in Pohnpei land can only be sold to Pohnpeians'. The FSM Constitutions forbids the ownership of land by foreigners, but they are permitted to lease land. Multiple ownership of land still exists throughout the FSM—requiring the consensus of families, clans and traditional leaders for leases and development. This can present a constraint to development depending on the ability to achieve consensus.

148. In all states the market for land is characterized by few transactions, limited market information, no formal mechanisms for public dissemination of market transaction data, and price demands from (often multiple) landowners. As a result of these conditions, together with prevailing cultural factors influencing the perceived value of land, it can be said that transactions are only partially influenced by economic market forces and the potential productive value of land. Distortions and rigidities in land market transactions will be difficult to reduce and change will undoubtedly be gradual. A focus on public education and information dissemination may result in accelerating this process. It is important that the

current program of surveying and recording land titles of land available for development in the states is completed.

149. Improvements in mortgage laws, leasehold mortgages, and land management in general require actions within each state. Chuuk State has taken action by passing leasehold mortgage law but has not yet promulgated regulations to implement the law.

150. The extent to which land can be leveraged and mortgaged is important for increasing productive activity and incomes. Land assets that become locked outside the modern market economy cannot be leveraged or redeployed for production. The overall effect is that many landowners are asset rich and income poor.

11. Public Financial Management Roadmap

151. Public Financial Management (PFM) involves the efficient and effective management of the collection and expenditure of government funds. Effective PFM is central to creating a relationship of mutual trust and shared consensus between government and citizens.

152. The PFM system determines how money enters the government system and how it is used for the benefit of the population. It covers all elements of a country's budget process, from decisions in Congress to the purchase of supplies for rural services. It covers planning, collection, spending, reporting and audit, and involves systems and staff in every agency of government.

153. The PFM system is important for the monitoring and evaluation of public sector policies and projects. Policy makers need to understand the cost of the policies they adopt, for planning and evaluation purposes.

154. Strong PFM systems also enable development partners to deliver more financial assistance through government systems. Actions to improve PFM systems provide development partners the confidence to increasingly channel their assistance through the budget while minimizing fiduciary risk.

155. The National Government recently developed a PFM Roadmap to improve the quality of PFM through a rational approach to reforms. The Roadmap sets out to achieve improved transparency in accounting for public funds and increased availability of information on Government's annual budgets and financial statements.

156. The National Government will implement the PFM Reform Program in the coming three years. Capacity building and supporting institutional, policy and legislative changes are key components of the Roadmap.

12. Statistics

157. A key issue for FSM is the poor state of its statistical system. Improving the reliability, coverage, and timeliness of economic statistics will better guide policy-making. Efforts are being undertaken by SBOC to improve data collection and management, including efforts to release quarterly CPI data and upgrade its website. In particular, it is crucial to collect and consolidate fiscal data across national and state governments in a timely manner.

158. The FSM GDP system is due for a major overhaul and the timing is ideal to transform production of national accounts statistics to FSM national staff. The HIES is due for completion in FY2015 and this should be followed up with the incorporation of data into the national accounts and CPI. Other statistical series such as the balance of payments and tourism statistics need to be produced on a regular basis.

IV. FINANCING THE 2023 ACTION PLAN

159. In order for the 2023 Planning Committee to have a credible '2023 Action Plan' it must take into consideration how it will finance the Plan. If the FSM Government is to stimulate the private sector it must address some of the issues with regards to access to finance.

1. 2023 Investment Development Fund

160. The key financing component of the Action Plan is the 2023 Investment Development Fund (hereafter the 2023 Fund). The primary purpose of the 2023 Fund is to provide equity capital to private sector investments that have potential to create employment opportunities for FSM citizens and generate new inflow of revenue to the FSM economy. The 2023 Fund will not replace loan financing by financial institutions but will provide leveraging to compliment it.

161. The 2023 Fund will target projects which will have a wide impact on the economy. Investments in the range of $100,000 - $5 million will be eligible for the 2023 Fund. For smaller size investments there are a number of other sources of funding, such as the commercial banks, the FSM Development Bank (FSMDB), micro-finance facilities, small business schemes, etc.

162. The 2023 Fund will have an independent Board of Directors who will be responsible for the approval of projects. The Board will be responsible for setting the policy objectives and ensuring it is managed in accordance with the law.

163. The 2023 Fund will enter into a contractual arrangement with the FSMDB covering all aspects of operations including day to day management. A key role for the FSM Development Bank will be to undertake financial monitoring and to provide business management mentoring where it is deemed appropriate for a project. Key attention will be paid to assisting with the financial management of a company if required and quarterly reporting to the 2023 Fund Board on progress of the equity investment will be mandatory.

164. The 2023 Fund will take a "patient capital" approach. This reflects the purpose of the 2023 Fund, which is to stimulate economic growth in the FSM and this cannot be achieved overnight. The 2023 Fund is focused on employment and economic activity and not looking to get an immediate return in itself. The return on investment by the 2023 Fund is therefore not the highest priority, but the return to the people of FSM through economic growth is.

165. As the 2023 Fund is a key financing component of the 2023 Action Plan, the National Government will appropriate $15 million annually to this 2023 Fund

for economic development projects. The National Government will also pursue other sources of finance for the 2023 Fund.

2. Foreign Direct Investment

166. The potential for private sector development sufficient to support a growing economy will be reliant upon securing an improved environment for domestic and foreign investment in the FSM. Currently, there is considerable variability across the four states on policy and infrastructure factors affecting investment decisions. An important consideration for investors is the regulatory environment and how this will affect the ability to realize an acceptable return.

167. All four states exhibit some degree of protective attitudes toward foreign investment. Past policies and regulations for foreign investment applications required lengthy, case-by-case review, and lacked transparency. This approach toward foreign investment arose from the prevailing desire to protect local jobs, business opportunities, incomes, and resources, but limits the attractiveness of the FSM as an investment location.

168. The feelings within communities toward protecting local interests and opportunities will not disappear easily. Quality investors, who are bringing their own capital, will not be attracted to an environment where they face an uneven playing field, or worse, a non-transparent risk of discretionary bureaucratic intervention.

169. The Symposium on Investment Facilitation in May 2013 aimed to identify solutions to facilitate investment in the FSM and implementation modalities with the ultimate objective of achieving economic growth and sustainable development. It proposed a new approach to investment promotion, including establishing an Investment Promotion Agency at the national level to act as a One-Stop-Shop to handle foreign investment.

170. A new FSM Foreign Investment Guide has been drafted. State investment laws and regulations are being collected for posting on the R&D website once it is reactivated.

171. In 2015, technical assistance from the IFC-World Bank Group will review all investment and other relevant laws in the FSM to identify areas of discrepancies and prepare draft amendments based on best practice and standards set in the national law. A review will also be undertaken to strengthen the Intellectual Property Rights Regime and the enforcement agencies.

3. FSM Development Bank

172. Since its creation in 1979, the FSMDB has gone through certain structural reforms to achieve a higher level of efficiency and effectiveness as an independent financial institution in the FSM, conducting its activities within the framework of the National and State governments' general economic development plans, policies and priorities.

173. In its Mission Statement the FSMDB states that it "actively promotes the growth of micro, small and medium enterprises in the Federates States of Micronesia and supports programs designed to help business achieve greater efficiency in their operations". It further notes the policies of the FSMDB are constantly aligned with the overall socio-economic goals of the nation and it continues to coordinate closely with the governments and community leaders in defining its strategic directions.

174. As part of the 2023 Action Plan the FSMDB will undergo policy reviews which will be aimed at reverting back to a focus on development lending rather than its current commercial lending focus. In particular, it will re-evaluate its lending policies to small businesses.

175. Recently, FSMDB created a new position Business Development Officer/Senior Vice President. The position is based on the need for the bank and its clients to take a more proactive role in ensuring business success. The Officer will be responsible for generating new prospects, developing businesses through the bank's clients and establishing relationships for the bank. The role will include strengthening entrepreneurs' capacity to formulate fundable business projects.

176. The FSMDB has also recently established a Development and Finance Institute to provide and facilitate training support within the purview of the functions and mandate of the bank. The FSMDB recognizes the need for entrepreneurs to understand and acquire skills and knowledge to develop and sustain their businesses. The institute will be a center for development initiatives and the venue of training for management and technical training of clients and staff of the bank and other stakeholders in the FSM.

3. Overseas Development Assistance

177. Implementation of economic expansion and fiscal stabilization measures will require carefully coordinated and prioritized deployment of both domestic and externally-sourced resources. Historically, Overseas Development Assistance (ODA) in the FSM has been poorly aligned with strategic needs and failed to promote self-reliance. Armed with this Action Plan, and in conjunction with

complementary initiatives such as the rollout of public financial management reforms and implementation of the ODA Policy, the FSM is positioning itself to focus on the levers of economic growth.

178. The endorsement of ODA priorities will be used to direct allocations to those activities that are deemed most urgent and crucial. Alignment between the process for identifying official ODA requests and the budget cycle will help to ensure that ODA resourcing is met with adequate local implementation capacity.

179. Regular dialogue between the FSM Government and development partners, combined with biennial Development Partner Forums must be maintained to review progress and ensure that support for economic advancement is adequately reflected in the suite of ODA programs. A commitment will be sought from development partners to focus assistance on economic prosperity as the only viable path to greater self-reliance.

180. While the financing of initiatives is undeniably crucial to kick starting economic development, the provision of specialized technical assistance is equally important, especially during the early stages of strategy implementation. Hence, the FSM will request development partners to prioritize deployment of technical assistance toward support of the strategies referenced herein, involving a conscious focus on initiatives leading to long-term economic growth.

181. Budget support as a delivery modality is a stated goal of the FSM and, as agreed in 2011 in Busan, the preferred modality of many development partners. This form of support affords the FSM the flexibility to align external resourcing with domestic priorities, including 2023 strategies.

182. Financial and technical support to expedite public administration and financial management reforms is a priority for the FSM and participation in this process is requested from a wide range of development partners. In anticipation of a transition to sector budget support modalities, the FSM will position itself to adopt sector-wide approaches, beginning with the energy sector.

4. Public Projects

183. The Action Plan focuses on a unified nation that focuses on the fundamental goal of economic and financial independence. The National Government sees a clear opportunity for public projects to compliment what is being developed under the Action Plan and for these projects to play a vital role in stimulating the economy.

184. Of the recently appropriated $5.1m in projects an analysis suggests that only 41% of what is being spent on public projects will have a positive economic impact in the States. Infrastructure projects clearly assist in facilitating private

sector growth while other projects have been noted that would be anticipated to create private sector employment and contribute growth.

185. It is these types of economic and infrastructure projects that the National Government sees as key contributors to the Action Plan as we lead up to 2023 and beyond.

Table 4: Analysis of 5.1m Public Projects, FY2014

	Economic	**Infrastructure**	**Social**	**Government**
Chuuk	25.9%	5.3%	52.2%	16.6%
Kosrae	4.7%	17.3%	49.3%	29.3%
Pohnpei	2.1%	55.0%	9.8%	33.1%
Yap	49.3%	10.7%	30.0%	10.0%
Total	**19.4%**	**22.0%**	**36.5%**	**22.2%**

186. It should be noted that projects classified as “social” do not necessarily refer to social development projects as in reality many of these projects involve a simple handout of cash or goods to households.

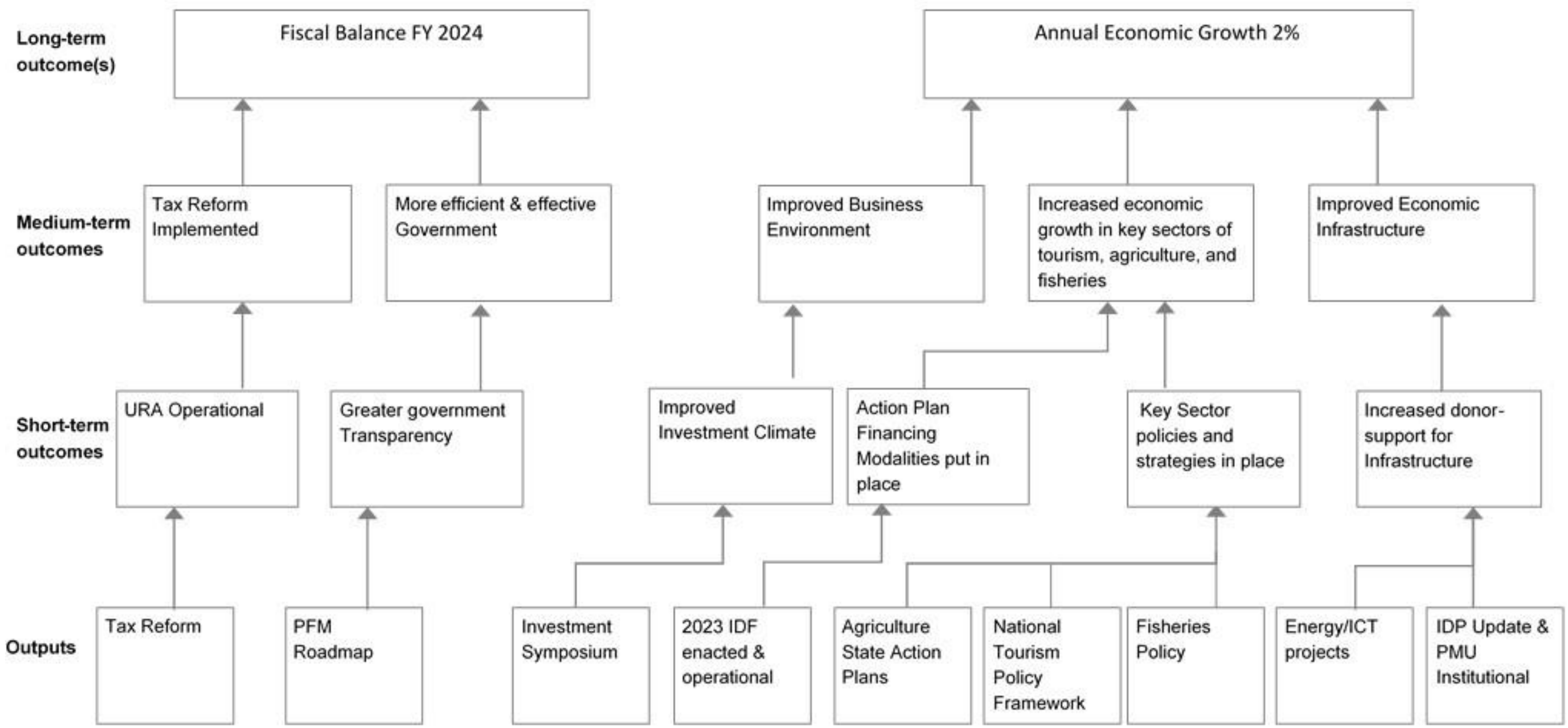
187. National Government staffs are working on further analysis of current and past projects and their possible impacts in order that we can understand how they can contribute to the 2023 Action Plan economic growth strategy in the most effective way possible.

APPENDIXES

Appendix A: 2023 Action Plan Results Framework

Results Diagram

Goal of the Activity: economic advancement, budgetary self-reliance, and economic self-sufficiency of the FSM people



Results Measurement Table

Results	Indicators	Baseline Information & Targets	Methodology & Data Sources
Long-Term Outcomes (5+ years)			
Fiscal stability	Fiscal balance	Baseline: FY2024 forecast -41.3m Target: FY2024 Fiscal balance	Source: Audited Government Accounts
economic growth	Real GDP	Baseline: average -0.1% per annum first 10 years Amended Compact Target: average 2.0% per annum remaining Amended Compact	Source: Statistics Office GDP estimates
Medium-Term Outcomes (1-5 years)			
Tax Reform implemented	Tax to GDP ratio	Baseline: 12% Target: 16%	Source: Audited Government Accounts
More efficient & effective Government			
Improved business environment	Ease of Doing Business	Baseline: ranked 150th Target: rank 120th	Source: World Bank Ease of Doing Business Report
Increased economic growth in key sectors	# of tourist arrivals Fishing exports Agriculture imports	Baseline: Target: 16,000 (2017) Baseline: Target: Baseline: Target:	Source: Statistics Office tourism data
Improved Economic Infrastructure	Grant Arrears	Baseline: 0 Target: $100M of arrears spent on economic infrastructure	Source: SBOC, Annual Compact Reports
Short-Term Outcomes (0-1 year)			

Results	Indicators	Baseline Information & Targets	Methodology & Data Sources
URA Operating effectively		Baseline: CTA collects tax Target: URA FSM tax collector	Source: URA Audited Accounts
Greater Government Transparency	Economic & Fiscal Update Debt Policy & fiscal responsibility indicators	Baseline: not published previously Target: March 2015 Baseline: not published previously Target: March 2015	Source: SBOC publication Source: DoFA publication
Improved Investment Climate	Foreign Investment Guide Integrated Foreign Investment Laws	Baseline: not published previously Target: December 2014 Baseline: 5 diverse investment laws Target: December 2015	Source: R&D publication Source:
Action Plan Financing Modalities in Place	2023 Fund Act 2023 Appropriation	Baseline: 0 Target: 2015 Baseline: 0 Target: $15m in FY2015	Source: Congress Act Source: Congress Act
Key Sector Policy & Action Plans in place	Develop a National Tourism Policy including State Investment Plans	Baseline: 0 Target: May 2015	Source: R&D publication Source:
Increased donor support for infrastructure	Infrastructure Development Plan updated PMU enhancement Plan	Baseline: 2004 – 2023 Plan Target: May 2015 Baseline: 0 Target: $15m in FY2015	

Appendix B: Government Fiscal Tables

Table 1: Consolidated Government Finances ($millions)

Item	FY2009	FY2010	FY2011	FY2012	FY2013
Revenue	**182.8**	**200.3**	**201.0**	**215.2**	**196.1**
Domestic revenue	59.1	63.6	64.1	74.6	84.3
Tax revenue	31.6	35.6	37.3	38.0	38.2
National taxes	12.3	13.8	15.5	16.0	17.3
State taxes	19.3	21.7	21.9	21.9	20.9
Non-tax revenue	27.5	28.0	26.8	36.6	46.1
Grants	123.7	136.7	136.8	140.6	111.7
Current	84.6	86.1	84.0	82.0	80.4
Compact	54.7	54.1	55.0	54.5	52.2
SEG	11.2	11.8	11.7	10.6	10.2
Federal & other	18.5	20.0	17.2	16.9	17.4
Capital	39.1	50.7	52.8	58.6	31.3
Compact	7.5	16.3	19.2	28.5	16.5
US Federal	31.6	34.3	33.6	30.1	14.7
Expenditure	**177.2**	**197.9**	**200.9**	**211.5**	**186.7**
Current expenditure	131.8	136.8	139.1	144.2	144.1
Wages & salaries	64.7	68.0	68.0	68.3	69.7
Other goods and services	61.4	62.1	63.7	69.2	68.3
Interest, subsidies, & grants	5.8	6.6	7.4	6.7	6.0
Public Projects	2.4	3.0	3.9	3.5	6.8
Capital expenditure	43.0	58.2	57.8	63.8	35.9
Overall fiscal balance	**5.6**	**2.4**	**0.1**	**3.7**	**9.4**

Source: FSM Annual Audit Reports

Table 2: National Government Finances ($millions)

Item	FY2009	FY2010	FY2011	FY2012	FY2013
Revenue	**89.2**	**104.2**	**102.6**	**118.9**	**100.3**
Domestic revenue	35.8	36.2	37.5	37.5	56.4
Tax revenue	12.3	13.8	15.5	16.0	17.3
FSM revenue sharing:	12.0	13.4	15.1	15.7	16.8
Gross receipts tax	3.9	4.1	4.5	4.9	4.5
Import tax	4.6	5.0	4.7	4.4	4.0
Income tax	3.5	4.3	5.9	6.5	8.3
Other tax (license and permits)	0.3	0.5	0.4	0.3	0.5
Non-tax revenue	23.5	22.4	22.0	31.5	39.1
Grants	53.4	68.0	65.2	71.5	43.8
Expenditure	**84.1**	**101.3**	**101.4**	**111.0**	**89.1**
Current expenditure	43.1	45.6	44.0	49.6	49.5
Wages & salaries	17.0	18.0	17.9	18.5	18.2
Other goods and services	24.6	24.8	23.8	28.9	29.3
Interest, subsidies, & grants	1.5	3.8	2.3	2.2	2.0
Capital expenditure	38.6	51.8	53.6	58.0	32.8
Public Projects	2.4	3.0	3.9	3.5	6.8
Overall fiscal balance	**5.1**	**2.9**	**1.2**	**7.9**	**11.2**

Source: FSM National Government Annual Audit Reports

Table 3: Chuuk State Finances ($millions)

Item	FY2009	FY2010	FY2011	FY2012	FY2013
Revenue	**31.2**	**32.6**	**36.9**	**34.3**	**34.1**
Domestic revenue	5.4	7.2	8.4	8.3	7.8
Tax revenue	4.6	6.1	6.5	6.7	6.6
FSM revenue sharing:	2.7	3.4	3.1	3.2	3.0
Gross receipts tax	0.7	1.2	1.1	1.2	0.9
Import tax	1.0	1.2	1.1	1.1	1.2
Income tax	0.9	1.1	1.0	0.9	1.0
State tax	1.6	2.1	2.7	2.7	2.6
Other tax (license and permits)	0.3	0.5	0.7	0.9	0.9
Non-tax revenue	0.8	1.1	1.9	1.6	1.2
Grants	25.7	25.4	28.5	26.0	26.4
Expenditure	**28.3**	**33.1**	**34.0**	**33.9**	**33.6**
Current expenditure	26.7	30.8	32.2	32.7	32.0
Wages & salaries	15.9	17.6	17.9	17.2	18.4
Other goods and services	10.4	12.2	12.1	14.8	13.2
Interest, subsidies, & grants	0.4	1.1	2.2	0.8	0.5
Capital expenditure	1.6	2.3	1.8	1.2	1.6
Overall fiscal balance	**2.9**	**-0.5**	**3.0**	**0.4**	**0.5**

Source: Chuuk Annual Audit Reports

Table 4: Kosrae State Finances ($millions)

Item	FY2009	FY2010	FY2011	FY2012	FY2013
Revenue	**11.4**	**10.9**	**10.1**	**10.8**	**10.8**
Domestic revenue	2.5	2.7	2.3	2.5	2.2
Tax revenue	1.6	1.4	1.6	1.9	1.5
FSM revenue sharing:	1.0	1.0	1.3	1.4	1.1
Gross receipts tax	0.3	0.3	0.5	0.7	0.4
Import tax	0.4	0.3	0.4	0.4	0.3
Income tax	0.3	0.3	0.3	0.4	0.3
State tax	0.5	0.4	0.4	0.5	0.4
Other tax (license and permits)	0.0	0.0	0.0	0.0	0.0
Non-tax revenue	0.9	1.3	0.7	0.6	0.7
Grants	8.9	8.2	7.8	8.3	8.6
Expenditure	**11.0**	**10.8**	**10.4**	**10.5**	**10.6**
Current expenditure	10.8	10.3	9.8	9.8	10.2
Wages & salaries	5.3	5.2	5.1	5.3	5.7
Other goods and services	5.4	5.0	4.6	4.4	4.4
Interest, subsidies, & grants	0.1	0.1	0.1	0.2	0.2
Capital expenditure	0.3	0.5	0.6	0.7	0.4
Overall fiscal balance	**0.4**	**0.1**	**-0.3**	**0.3**	**0.2**

Source: Kosrae Annual Audit Reports

Table 5: Pohnpei State Finances ($millions)

Item	FY2009	FY2010	FY2011	FY2012	FY2013
Revenue	**30.6**	**31.9**	**31.0**	**32.4**	**30.9**
Domestic revenue	10.1	11.6	11.1	11.0	11.1
Tax revenue	9.4	10.1	10.1	9.9	9.3
FSM revenue sharing:	6.3	6.8	6.8	6.9	6.3
Gross receipts tax	1.9	2.1	2.2	2.2	2.3
Import tax	2.2	2.8	2.6	2.7	2.0
Income tax	2.1	2.0	2.0	1.9	2.1
State tax	2.7	3.0	3.1	2.9	2.6
Other tax (license and permits)	0.2	0.3	0.2	0.1	0.4
Non-tax revenue	0.7	1.5	1.0	1.1	1.8
Grants	20.5	20.2	19.9	21.4	19.8
Expenditure	**32.1**	**32.3**	**33.3**	**34.0**	**32.3**
Current expenditure	30.9	31.7	32.4	33.0	31.8
Wages & salaries	18.1	18.6	18.2	18.4	18.5
Other goods and services	9.9	10.2	11.5	11.7	10.4
Interest, subsidies, & grants	2.9	2.9	2.7	2.9	2.9
Capital expenditure	1.2	0.6	0.9	1.0	0.5
Overall fiscal balance	**-1.5**	**-0.5**	**-2.3**	**-1.6**	**-1.4**

Source: Pohnpei Annual Audit Reports

Table 6: Yap State Finances ($millions)

Item	FY2009	FY2010	FY2011	FY2012	FY2013
Revenue	**20.9**	**21.3**	**20.7**	**19.6**	**21.9**
Domestic revenue	5.2	5.8	4.9	5.4	6.9
Tax revenue	3.7	4.1	3.6	3.5	3.5
FSM revenue sharing:	2.2	2.7	2.3	2.1	2.3
Gross receipts tax	0.9	1.2	0.7	0.8	0.7
Import tax	1.0	0.8	1.0	0.8	1.0
Income tax	0.4	0.7	0.5	0.6	0.6
State tax	1.4	1.3	1.2	1.2	1.0
Other tax (license and permits)	0.1	0.1	0.1	0.1	0.1
Non-tax revenue	1.5	1.7	1.3	1.9	3.4
Grants	15.7	15.5	15.8	14.3	15.0
Expenditure	**22.3**	**21.0**	**22.3**	**22.7**	**23.1**
Current expenditure	20.4	20.6	21.0	19.2	20.6
Wages & salaries	8.4	8.7	9.0	8.9	9.0
Other goods and services	11.1	9.9	11.8	9.6	11.1
Interest, subsidies, & grants	0.9	0.5	0.2	0.7	0.5
Capital expenditure	1.9	2.0	1.3	3.5	2.5
Overall fiscal balance	**-1.3**	**0.4**	**-1.6**	**-3.1**	**-1.1**

Source: Yap Annual Audit Reports

Appendix C: 2023 Investment Development Fund

Basic Concept

The 2023 Action Plan has a focus on economic development and fiscal sustainability. In order for the 2023 Planning Committee to have a credible Plan it must take into consideration how it will finance the Plan. If the FSM Government is to ignite the private sector it must address some of the issues with regards to how to provide access to finance. As a key component of the Plan the government is creating an investment fund to be known as the 2023 Investment Development Fund (hereafter the "Fund").

The Fund constitutes one component of the package of reforms under the 2023 Action Plan. Tax reform, public financial management reform (e.g. accounting systems and debt management) and public administration reform (e.g. structure and payroll), as well as regulatory reforms (e.g. foreign investment) are all components of the 2023 Action Plan. The Action Plan will have greater success if the full packages of reforms are introduced along with the key drivers for private sector led economic growth. The Fund and an acceleration of implementation of the infrastructure grant arrears are seen as the stimulators for a revitalized economy.

The Fund has been designed taking into account a 2013 study on equity investment in the Pacific and the lessons learned from recent and current private equity funds and facilities in the Pacific over the last twenty years (including Kula Funds I/II, the Enterprise Challenge Fund and private equity funds in PNG, Fiji and Samoa).

The Fund will be established and managed in accordance with public law to be enacted by Congress.

Purpose and Objective of the Fund

The primary purpose of the Fund is to provide equity capital to private sector investments that have potential to create employment opportunities for FSM citizens and generate new inflow of revenue to the FSM economy.

The Fund will not replace loan financing by financial institutions but will target to compliment it by assisting projects leveraging additional funds. For example, where a company has a project they wish to get financed by a bank but cannot meet the loan conditions such as a satisfactory debt to equity ratio the Fund may provide the additional equity finance to access the loan.

Suppose a company wishes to take out a $3 million loan and the banks require the company to have capital of $600,000 to secure the loan, but the company only has $300,000 of its own financing, If the project is seen as viable then the Fund will supply the additional $300,000 in equity so that the company can access the finance from the bank. This equity from the Fund will leverage greater financing from the banks and investors allowing for a greater impact on the economy resulting in a positive contribution to GDP growth.

The Fund could also be a source of financing for FSM Development Bank when they do not have enough capital to finance a loan for a viable project. In this case the Fund would lend directly to the FSM Development Bank who would then lend to the project. A loan to the Bank is capped at 50 percent of the value of a project and it is a source of financing as a last resort for the Bank. The Bank must consider all other primary sources of financing first before approaching the Fund.

The Fund will target projects which will have a wide impact on the economy. Investments in the range of $100,000 - $5 million will be eligible for the Fund.

As part of the 2023 Action Plan the FSM Development Bank will undergo administrative and policy reforms which will be aimed at reverting back to a focus on development lending rather than its current commercial lending focus and improve the turnaround time of processing loan applications. This will particularly assist the private sector with regards to access for financing for smaller scale projects below the limits of the Fund.

Special Preference of the Fund

Private investments in the tourism, fisheries, agriculture, and renewable energy sectors will be accorded special preference by the Fund as these sectors constitute the priority sectors of the FSM.

However, this does not exclude proposals from any other sector. Such other investment proposals will be considered based on the merits of the proposals.

Governance of the Fund

The Fund will have its own Board of Directors who will be responsible for the approval of projects utilizing the Fund. The Board will consist of five members including a Chairman. The members of the Board will be appointed by the President with the advice and consent of Congress.

The Board members will be carefully selected for their successful business experience, understanding of finance and the FSM economy, and analytical ability to judge projects for their viability and impact on the economy. It is preferred that that board member must have to at least a 4-year college degree in finance, business or economics.

Persons would be considered ineligible for the Board if they are convicted of a felony. They also cannot be considered if they have been convicted of an offence involving moral turpitude, meaning conduct that is considered contrary to community standards of justice, honesty or good morals. A person also does not qualify if they have previously petitioned a court to be declared a bankrupt or has a significant involvement in a company that went bankrupt. Additionally project proposals are ineligible if they are deemed illegal or if their activities are detrimental to the environment.

Conflict of interest will also be a key determinant of a person's eligibility to become a Board member.

The Board will be responsible for setting the policy objectives of the Fund and ensuring it is managed in accordance with the law. The Board will have final approval on a project wishing to access the Fund.

Management & Administration

The Fund will be managed and administered by the FSM Development Bank. The Board of the Fund will enter into a contractual arrangement with the Development Bank covering all aspects of operations including day to day management of the Fund.

The Development Bank will be responsible for ensuring they have highly qualified staff dedicated to the Fund to ensure proposals are analysed in a timely manner and that proficient advice is given to the Board on the merits of a project proposal.

A role for the FSM Development Bank will be to undertake financial monitoring and to provide business management mentoring where it is deemed appropriate for a project. Attention will be paid to assisting with the financial management of the company if required and quarterly reporting to the Fund Board on progress of the Fund investment will be required.

The cost for the management contract of the Fund will be charged against the earnings of the Fund. The administrative costs shall not exceed $500,000 per annum. The FSM Development Bank will submit an annual budget for approval by the Board of the Fund. It is envisaged that the contract will involve a retainer for the basic management of the Fund plus an allowance that would cover the cost of analyzing each proposal to the Fund. Such costs may vary between projects based on their complexity.

If necessary, procurement of additional technical experts for a project the Development Bank would first require approval of the Board before incurring any additional cost.

The FSM Development Bank will provide an annual Report to the Board. This report will include the annual financial statements which will be independently audited. It will also contain an operational report for the year including number of projects submitted and approved and the impact these have had on the economy in terms of jobs created and impact on the balance of payments.

The annual Report, once approved by the Board of Directors will be transmitted to the President and Congress and will also be subject to public dissemination.

Eligibility for the Fund

The Fund is designed to undertake equity positions in private corporations. It therefore cannot fund a sole proprietor directly. Any sole proprietor with a viable project would be expected to register as a private corporation, which could be a project specific corporation, in order for the Fund to invest in the project.

The Fund will be limited to a maximum of 45 percent equity in any project. It is important that the Fund does not become the majority owner of a project as the Fund is about assisting other peoples' viable business projects, and not undertaking projects of its own.

Eligibility exists for private foreign corporations to access the Fund but they will be a preference of last resort, with first preference given to private domestic corporations and joint venture corporations.

The main objective of the Fund is to stimulate private sector led economic activity. As such projects that create employment and have a positive effect on the balance of payments are being targeted. In regards to the balance of payments projects could involve exports of goods or services or they could involve import substitution. For example, a renewable energy project would be seen as positive on the balance of payments as it would reduce fuel imports.

The Board will appoint a qualified representative to sit as a member of the board of the private corporation. This will allow for the hands on monitoring of the Project. This person must avoid any conflict of interest in regard to their appointment and if such conflict arises they must disclose this to the Fund Board and administrator immediately.

All projects will be required to report quarterly to the Board of the Fund to ensure the projects maintain their eligibility for the Fund. The FSM Development Bank will be responsible for quarterly reporting to the Fund Board on the status of its investments.

Investments by the Fund

The Fund will take a "patient capital" approach. This reflects the purpose of the Fund, which is to stimulate economic growth in the FSM and this cannot be achieved overnight. The Fund is focused on employment and economic activity and not looking to get an immediate return in itself. The return on investment by the Fund is therefore not the highest priority, but the return to the people of FSM through economic growth is.

Upon signing up of an agreement to invest in a project the Board of Directors will take due care as to the security of the investment. In some cases the Board may require first preference as a shareholder or impose conditions as to what might constitute a default on a project and thus trigger the Funds withdrawal and the repayment of investment.

The Fund will also be looking at a maximum 10 year investment in a project. However, each project will have its own conditions with regards to an agreed exit strategy, negotiated with the private corporation owners at the time of investment by the Fund. This exit strategy would agree on conditions and a time frame for the buyback of shares by the owners either at a given point in time or over a period of time, which would not normally be more than 10 years.

Applying for the Fund

Applicants must submit to the FSM Development Bank a complete business proposal along with a request for funding from the Fund. The Fund dedicated staff of the Development Bank shall conduct the evaluation process and make its recommendation to the Board of Directors of the Fund. The FSM Development Bank shall do its best to complete its review of completed application to the Fund within 60 days of receiving an application. The Board of Directors may consult other stakeholders or seek technical assistance of professionals to help in their decision making. The review process shall consider the proposals positive impact on the economy of the FSM and the particular State if the project is State-specific using the following criteria:

a) Number of jobs to be created;

b) The economic and social effect of the project ;

c) Impact on the balance of payments position of the FSM;

d) The commercial viability of the project

A Board member must immediately declare to other Board members any conflict of interest that they may have with any given project and excuse themselves from any involvement in the assessment of that particular project.

The Fund has a minimum investment level of $100,000 as it is designed to look at projects that can have a significant economic impact. Historical reviews of past funds in the Pacific found that when a minimum investment level was not stated or the level was too low, the fund would suffer from excessive administrative over burden. The cost of managing the fund becomes excessive and the Board gets bogged down considering numerous small projects. This was considered a key determinant for a number of historical funds failing in the Pacific. This is a risk also for trying to get quality directors for the Board as they will not want to be taking up vast amounts of their time looking at hundreds of small projects.

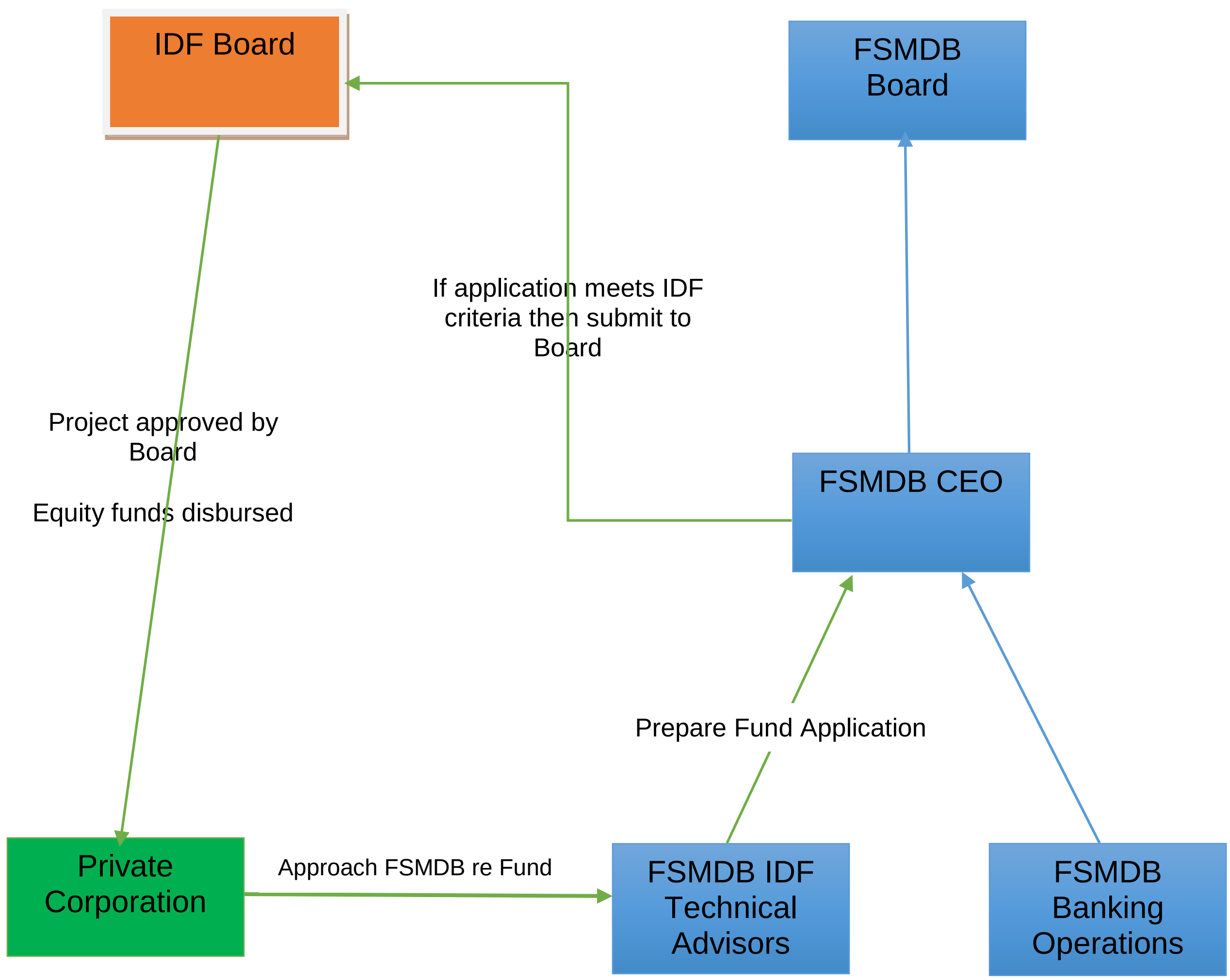
Financing of the Fund

As noted above the Fund is a key financing component of the 2023 Action Plan. The National Government will appropriate $15 million annually to this Fund for economic development projects. The FSM National Government will also pursue other sources of finance for the Fund.

By FY2023 the IDF will have exited from most of its first round of successful investments and these funds will go back into the Fund pool for further investment. By FY2024 there will not be a need for any new investments into the Fund as it will be assumed to be self-financing.

The FSM Development Bank will be responsible for managing the Fund money in a fiscally responsible manner while at the same time ensuring funds are readily available for any approved project by the Board.

Flow diagram of Application Process



Appendix D: References

FSM Policy Documents

Strategic Development Plan (SDP) 2004-2023

The FSM Trade Policy, Department of Resources & Development, January 2011,

FSM National Export Strategy, Department of Resources & Development, November 2012,

Draft National Tourism Development Strategy, FSM, 2015 – 2019, Department of Resources & Development, May 2014,

FSM: National Tourism Sector Development Framework and State Government Tourism Investment Plans, Department of Resources & Development, November 2014

Agriculture Policy (2012)

Energy Policy (2012)

Fisheries Policy drafted??

Tuna Fisheries Development Policy Implementation Framework??

Information, Communities and Technology Policy (2012)

Nation Wide Integrated Disaster Risk Management and Climate Change Policy (2013)

Foreign Investment Guide (2014)

Kosrae State Strategic Development Plan, 2014 - 2023

Pohnpei State Strategic Development Plan

Pohnpei State Agriculture Strategic Action Plan, 2011 – 2015

Yap State Five Year Tourism Development Plan, 2013-2017

FSM Aquaculture Strategy

Public Financial Management Roadmap, SBOC, October 2014

Other Documents

Peter Wilson, March 2007, A Tuna Industry in Micronesia, Micronesian Counselor

United States Government Accountability Office, June 2007, Compacts of Free Association, Trust Funds for Micronesia and the Marshall Islands May Not Provide Sustainable Income

FSM-SPC Joint Country Strategy, October 2011 Report

NIWA, November 2013, Kosrae Shoreline Management Plan

ADE, June 2014, Eligibility Assessment for Energy Sector Reform Contracts in FSM

US Office of Insular Affairs, 2012, Report to Congress on the First 5-Year Review of the Compact of Free Association with the Federated States of Micronesia (FSM)

National Oceanic Resource Management Authority Annual Report FY 2010-2011, December 2011 Report

Fiscal Year 2012 Economic Review, US Graduate School, August 2013

US 5-Year Review of the Amended Compact, OIA, November 2011

Appendix E: 2023 Planning Committee Terms of Reference

Name: 2023 Planning Committee for the FSM

Members:
- FSM President
- Chuuk State Governor
- Kosrae State Governor
- Pohnpei State Governor
- Yap State Governor

Goals

The 2023 Planning Committee shall develop a **Comprehensive Action Plan** in addressing the fiscal and economic challenges leading up to and post 2023 within a year or as soon as practical.

Deliverables

(1) Assessment of the nature and magnitude of the financial situation of the FSM Governments in the post 2023 era—such assessment will identify the expected budgetary shortfall;

(2) Identification of different alternatives and funding scenarios for addressing the projected budgetary shortfall; The Secretariat shall undertake to develop a **macroeconomic framework**. Such macroeconomic framework is a tool necessary for deriving Items (1) and (2). Such tool will also inform the Committee's deliberations on an appropriate long-term fiscal strategy.

(3) An Action Plan for addressing the financial shortfall in 2024 and beyond;
Such action plan shall be comprehensive, realistic, credible, integrated, time-bound and cost. The Committee's Action Plan shall include a long-term fiscal reform strategy (focusing on the budget) and a long-term sustainable growth strategy (focusing on growing private sector growth).

The long-term fiscal reform strategy should strike an appropriate balance between expenditure reduction and revenue enhancing measures. It shall also strike the right balance between the need to preserve assets for future generation, current developments needs such as infrastructure, and short-term growth implications of fiscal reforms.

(4) The Committee shall undertake to raise awareness of its Action Plan with all stakeholders including the whole leadership at the National and State levels and the public.

Resources and Budget

Travel and operational costs for the Committee and secretariat including engagement of expertise shall be borne by the National Government. Each member of the Committee shall be supported by staffs of the Government which they represent. To support the Committee's work FSM Congress appropriated an amount of $150,000. The Office of SBOC is the secretariat to the Committee and may request other Departments and Offices of the National Government and the States Governments to assist as needed. The secretariat is working with key development partners to secure technical expertise to support the Committee's work including that of a macroeconomist, sector specialists, and development planner.

Governance

The Committee was established by Executive Order No. 40. Committee decisions shall be made by consensus of all members. The Committee shall hold regular meetings at intervals not to exceed every three months, or as may be called by the Chairman. If a Committee member is unable to join any meeting, that Committee member shall provide written notification of his designated representative.

Key Relationships

The 2023 Planning Committee Action Plan should incorporate the States Long Term Fiscal Framework, the Tax Reform Program Plan, the National Trade Facilitation Committee's Plans and Initiatives, and other policy coordinating initiatives across the FSM. The 2023 Planning Committee will present its findings and recommendations to the State National Leadership Conference (SNLC) for consideration and adoption after twelve months. Once endorsed by the leadership, the action plan will be shared at the Development Partners Forum planned for late 2014.