

ASIAN DEVELOPMENT BANK

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The Federated States of Micronesia

Hardship and Poverty Status Discussion Paper

- A. Assessment of Hardship and Poverty
- B. Strategies for Equitable Growth and
Hardship Alleviation

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ADB TA 6047-REG: National Poverty Reduction Strategies For PDMCs
David Abbott, Development Economist
david@davidabbott.org

To be read in conjunction with ADB report: *Poverty: Is it an Issue in the Pacific?* The intent of the papers is to foster broadly based consultation between the ADB, the Government and civil society for the purpose of developing a supportive and appropriate approach to ensuring equitable growth and poverty reduction in FSM.

The views expressed in this paper are those of the author and do not necessarily reflect the views or policies of the Asian Development Bank or the Government of FSM. The ADB does not guarantee the accuracy of the data presented.

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EXECUTIVE SUMMARY

A. INTRODUCTION

1. Between November 2003 through January 2004 an Assessment of Hardship and Poverty in FSM was undertaken by an ADB regional technical assistance team as part of RETA 6047-REG; National Poverty Reduction Strategies for PDMCs.
2. This assessment included the conduct of a Participatory Assessment of Hardship (PAH) in nine communities in three states, Pohnpei, Chuuk and Yap. The communities selected were chosen to reflect the degree of access to basic services as measured by distance from state/national capitals. Consultations and focus group discussions were held with government representatives, church leaders, women's groups, youth and other community members. Individual consultations were held with selected residents who were deemed to be amongst the most disadvantaged within their communities.
3. The assessment also included a comprehensive quantitative analysis of available hardship/poverty indicators including the calculation of state and national poverty lines, to provide government with a basis for monitoring progress towards the achievement of the Millennium Development Goals (MDGs).

B. SUMMARY OF KEY FINDINGS

i. Economic Overview

4. The FSM economy is notable for two things: (i) aid dependence; and (ii) domination by the public service. It has also performed poorly in recent years. Over the five years 1995 through 1999 the average growth rate was a negative 3.9% per annum as the nation struggled to come to terms with its fiscal problems resulting from the decline in Compact revenues. Since 2000 there has been some modest recovery with annual growth averaging 3.6% per annum.
5. The recent signing of a new Compact has provided support for the economy, albeit at a level that will require the government to exercise strict fiscal discipline if there is not be a return to the crisis situation of the late nineties. The new Compact incorporates stricter rules on accountability and financial management and also requires the government to prepare a Strategic Plan. The structure of the financial package will also require the government to promote growth in the non-government sectors of the economy in order to generate additional domestic revenues.
6. Although average GDP per capita, (US\$2084, 2001/02 in 1998 prices) is high by Pacific regional standards this masks the highly dualistic nature of the FSM economy. Those in formal public sector employment, as well as those living in Kosrae and Yap states, have per capita incomes significantly above those living in the rural areas and outer islands of Pohnpei and Chuuk states. The highly monetised nature of the FSM economy is placing ever greater demands on households for cash resources to buy store goods including food, pay utility bills, transport and make contributions to education, community/social events and donations to the church. Often traditional gifts are no longer adequate by themselves, cash donations or other

cash oriented gifts are also often expected. Frequently even traditional gifts must be purchased by households that no longer have the time or skills to make them for their own needs.

7. The continued migration of people to state capitals and overseas is depopulating some of the outer island and rural parts of the country. It is also increasing the dependency ratios amongst those remaining. At the same time the increasing urban population is generating social tensions and increasing numbers of land-less or land-poor.

8. The perceived weaknesses in governance standards have been amongst the causes of the low rates of growth in the non-government parts of the domestic economy. Potential investors in the private sector have not had confidence in the stability of the government and the regulatory framework. Relatively low rates of growth in the non-government domestic economy, a gradually weakening fiscal position and increasing unemployment are therefore all critical policy issues facing the country.

ii. Participatory Assessment

9. In the traditional and subsistence based parts of FSM society hardship and poverty have not previously been high in the list of national concerns. However the results of the participatory survey and the analysis of the data suggest that both are becoming important daily issues at the household level.

10. Hardship and poverty are multi-dimensional, they are not just concerned about income levels, although these are a key measure. For many people, particularly those unemployed living in both the urban and rural areas, hardship is about poor access to services and opportunities, or of being unable to realise their own potential and aspirations. Even the traditional FSM social structure and associated safety nets are coming under strain as external influences affect attitudes and aspirations.

11. The participatory assessment undertaken by the TA found that all communities acknowledged that hardship was being experienced by many families throughout the country. In the rural areas and the outer islands people found it difficult to earn the cash required to meet the food and living expenses of their families. Many families were living a traditional subsistence lifestyle. In the more urban parts of the country families with low incomes and limited access to subsistence activities found it extremely hard to maintain a satisfactory standard of living. The elderly, widows, single mothers and the mentally and physically handicapped were recognised as being amongst the most disadvantaged in society. There were also concerns for youth and the increasing incidence of drug abuse, teenage pregnancies and petty crime.

12. The PAH identified lack of formal employment and/or other income generating opportunities as amongst the most critical issues for all communities throughout the states surveyed. The perceived poor quality of service delivery, notably education and health services, rather than the lack of adequate basic services was identified as an important cause of hardship in many communities. Lack of facilities for skill and technical training was a particular issue for the youth.

iii. Social Indicators

13. The status of FSM in relation to the MDGs is reported in a series of text boxes throughout the report and in a summary matrix at Figure 2 commencing on page 45.

14. The level of basic literacy is both high and equitably distributed throughout the states and between genders. However there is some evidence that the quality of education, and the consequent attainment level reached by many students, has failed to show any significant improvement in recent years. This despite the stated emphasis on education and the additional resources devoted to the sector. Many communities reported their concerns at the perceived increasing drop-out rates from school, unemployment and "laziness" amongst youth. There is also a perceived lack of opportunities for technical and vocational training for those who are unable to follow an academic path. Thus many students may be failing to achieve their potential. They are thus less likely to be able to share in the opportunities created by development and more likely to experience a life of hardship as a result of their lack of appropriate skills and education.

15. Similarly in health. Whilst many key health indicators have improved in recent years there is concern that the quality of services being delivered, especially in some rural and outer island areas, is relatively poor. The morbidity profile of the population is tending towards non-communicable, lifestyle diseases where strong primary health care, health education and nutrition programmes have an important preventative role to play. Non-communicable diseases and sexually transmitted infections therefore need to be primary targets for health care programmes. Many families identified by communities as being most disadvantaged suffered from sickness or disability.

16. Approximately 50% of the population overall had access to improved water supplies (piped/reticulated system) in 2000. However the rate of coverage varied widely between states, ranging from almost 98% in Kosrae to 25% in the largest state of Chuuk. Access to improved sanitation was much less, averaging only 25% nationally. Coverage ranged from 72% in Kosrae to only 13% in Chuuk.

iv. Incidence of Hardship and Poverty

17. In order to quantify the extent to which households might be experiencing hardship, national and regional poverty lines based on the 1998 Household Income and Expenditure Survey (HIES) have been calculated. (see Section A.II.A.2) This analysis suggests that in 1998 nationally approximately 30% of households had reported incomes below the estimated basic needs poverty line of US\$768 per capita per annum (US\$5693 per household per annum). The highest level of hardship and income poverty is recorded in Chuuk 32.9%, and Pohnpei 29.5%. Households with incomes (cash and non-cash own production) below this level would be likely to experience some degree of financial hardship on a daily or weekly basis. For the 16% of households in Chuuk (one-in-six) and one-in-ten on Pohnpei, which reported per capita annual incomes below the food poverty line of US\$437 per capita per annum, the extent of hardship being experienced would be quite acute.

18. Analysis of the HIES data indicates that the twenty percent (quintile) of households with the lowest incomes receive only 3.6% of total income. In comparison the highest quintile received 55.5% of income, a ratio of 15.4:1. These figures, together with the corresponding Gini coefficient of income inequality, 0.51, suggest that income distribution in FSM is more unequal than in other countries of the region. The clear conclusion is that an increasing number of families and households in FSM are living in conditions of hardship. The issues of hardship and poverty can no longer be ignored.

19. These results do not necessarily imply that people who had incomes or expenditure below the poverty lines were going hungry. It means, rather, that on a day-to-day basis they would

have had insufficient income to meet their average expenditure commitments for a basic diet plus the costs of other essential non-food items. Such families have to make difficult daily choices about expenditure priorities; e.g. purchasing food or meeting social and community obligations or paying power and communications bills. Even those households where the household head is in employment, but earning only a minimum wage in the private sector, could be amongst those experiencing financial hardship in this way. These are commonly termed the "working poor".

20. Thus whilst those in public sector employment may appear to have become better-off there are a growing number of others, particularly amongst the unemployed, youth and the elderly, who are almost certainly becoming worse off. Many youth are finding it difficult to get the sort of jobs to which they now aspire; a traditional village and subsistence agriculture lifestyle no longer has much appeal. Conditions of financial hardship whilst not widespread, are nevertheless, leading to increased social and domestic tensions, rising crime, increasing drug abuse and a deteriorating quality of life for those most affected. These were amongst the concerns of those consulted in the participatory assessment.

C. SUMMARY OF KEY ISSUES AND STRATEGIES

21. The government, both at state and national levels, needs to commit to renewed economic and public sector reform and to improving governance standards. There needs to be recognition of the increasing extent of hardship and poverty throughout the country. More attention needs to be given to addressing the needs of the disadvantaged and those who are being left behind.

22. Amongst the key issues facing FSM in addressing hardship and poverty are the need to:

- improve standards of governance, including transparency and accountability;
- strengthen the institutional and regulatory basis for renewed domestic economic growth and stability;
- ensure fiscal discipline and sound financial management within the framework of Compact II;
- give greater emphasis to promoting private sector investment and employment creation;
- to improve technical and vocational training opportunities in order to meet the skill needs of the private sector and of those who will need lifestyle skills to succeed in the rural economy; and to
- continue to improve the delivery of education, primary health care and health/nutrition education, particularly to those in the more remote islands.

23. These strategies should be implemented with a clear vision, strong leadership and good governance.

24. Compact II calls for a Strategic Development Plan to be formulated to guide the utilisation of Compact resources. The Three Pillars: **Good Governance, Social Development and Equitable, Pro-poor Growth**, of the ADB's Poverty Reduction Strategies provide a framework for such a strategic plan and development programme. The Three Pillars provide the basis for a

comprehensive set of strategies to achieve the joint outcomes of equitable growth and hardship alleviation (SEGHA), (see part **Error! Reference source not found.**, commencing at paragraph 175)

25. Alleviating hardship needs to address both macro and micro level issues. At the macro level, national policy must continue to focus on the broad issues of education and health service delivery and creating an environment conducive to encouraging private sector investment. At the micro level, it is necessary to address the specific needs of individual communities, islands and villages. This means promoting rural enterprise activities, especially in the agriculture sector, to create income generating opportunities as well as meeting particular local social development and infrastructure priorities.

26. In the social area small-scale hardship alleviation projects for improving water supplies, health services, transport and similar small-scale community based projects will be priorities. It also requires government to improve the quality of basic service delivery, through better training of teachers, better staffing of schools and clinics, better maintenance of health and education facilities and infrastructure and improving the availability of essential teaching materials and medical supplies.

27. The potential for a new weakening in the fiscal situation needs careful monitoring to ensure that fiscal discipline is maintained. Renewed economic growth needs to be generated in the domestic economy through an appropriate investment enabling environment and improving governance standards. Growth oriented, employment-creating strategies, need to be implemented to keep the macroeconomic side moving forward.

28. A set of national development strategies will be formulated in the coming months as the National Summit comes to fruition. Policies and strategies to address the emerging issues of hardship and inequality, which are identified in this assessment, need to be incorporated into future strategies and priorities.

A. ASSESSMENT OF HARDSHIP AND POVERTY

II. INTRODUCTION AND BACKGROUND

A. Introduction to Hardship and Poverty

1. Purpose of the Paper

1. A Poverty Partnership Agreement (PPA) between the Government of the Federated States of Micronesia (FSM) and the Asian Development Bank (ADB) was signed on 14 June 2002. This PPA confirms the government's commitment, with support from ADB, to: a) better define and assess the concept of hardship and poverty in FSM; b) monitor progress towards the achievement of the Millenium Development Goals (MDGs); c) design appropriate strategies to reduce hardship and poverty; and d) incorporate these strategies into the country's development plans, consistent with the government's priorities.

2. This Discussion Paper is intended to further this process. It aims to raise awareness of the nature and extent of hardship and poverty in FSM. It is also intended to raise national attention regarding the importance of developing and, more importantly, implementing measures and strategies to help ensure equitable growth and hardship alleviation throughout the country. It brings together an analysis of statistical indicators as well as the findings of a participatory assessment of hardship (PAH), which was undertaken in a selection of communities in three of the four States¹. People/communities were consulted in order to better understand and quantify the inequalities and the extent and perceptions of hardship and poverty in FSM society. The status of achievement of the MDGs is also analysed and reported on. This provides a basis for the government's reporting requirements to the UN system.

3. Key sources of data for the analysis have been the 1994 and 2000 Census and the 1998 Household Income and Expenditure Survey (HIES).

2. Basis for Strategies for Equitable Growth and Hardship Alleviation

4. In the past hardship and poverty have not been seen as critical policy issues in FSM. Whilst there has been a general acceptance that the people might not be well-off in financial or material terms they have, nevertheless, had strong family and community ties which, in the past at least, have provided social safety nets for the most disadvantaged and vulnerable.

5. The assessment now presented highlights the disadvantages suffered by communities in the outer islands and in Chuuk state particularly, in less access to cash agriculture, somewhat poorer schooling and health services and lack of economic opportunities. Communities in these islands are more dependent on their own production and less on formal wage employment.

¹ Owing to elections and other local political considerations it was not possible to include Kosrae in the survey.

Strategies for alleviating these hardships and constraints, developed from the priorities expressed by those who participated in the consultations and who experience the hardships, are suggested to assist policy makers to develop specific sector focussed initiatives to address the issues.

6. There is no single policy or strategy which will provide the complete answer to achieving equitable growth and hardship alleviation. The Three Pillars of the ADB's Poverty Reduction Strategies (PRS):

- **Good Governance**
- **Social Development and**
- **Equitable, Pro-poor Growth**

recognise this and provide the basis for a comprehensive set of strategies to achieve the joint outcomes of equitable growth and hardship alleviation (SEGHA). There must be cooperation and balance between the role of government and the role of markets and the private sector.

7. However the single most important pillar is perhaps the need for good governance.

This includes the need for sound and responsive institutions and processes to deliver quality services to the people. In turn this must be built on strong, visionary leadership and a commitment at the highest levels to give priority to the implementation and achievement of equitable growth strategies. In FSM this is complicated by the multi-layered nature of the National and State systems. The responsible level of government must create an enabling environment conducive to economic growth, whilst the private sector and markets must work to efficiently allocate resources to commercially viable, employment generating, investments.

8. Growth oriented, employment-creating strategies are needed to broaden and deepen the domestic and export oriented part of the economy. This includes the agriculture, fisheries and tourism sectors where considerable potential still exists for additional production. These must be supported by initiatives to improve technical skill levels to meet the demands of private enterprise. If domestic growth can be stimulated then incomes will rise throughout the economy and revenues will be generated to enable more focussed hardship alleviation strategies, at the micro level, to be implemented.

9. Alleviating hardship and reducing poverty therefore needs to address both macro and micro level issues. At the macro level national policy might focus on the broad issues of health or education service delivery and creating an environment conducive to encouraging private sector investment. At the micro level it is necessary to address the specific needs of individual communities. This means small-scale hardship and poverty alleviation projects for improving water supplies, State level and outer island infrastructure and transport and similar small-scale projects. The perceived needs and priorities of the people in FSM are discussed in Section III.C at paragraph 100.

B. Framework of the Paper

10. The structure of this Assessment is in two parts. This first part of the discussion paper is a broad quantitative and qualitative analysis of the situation in FSM covering the following topics and issues:

Definition of Poverty: There is no official definition of poverty, it can be defined in different ways in different circumstances; this section sets out the broad conceptual definition used in this assessment of hardship and poverty in FSM, and the Pacific in general. It focuses on poverty of opportunity and lack of access to essential services and economic opportunities.

Profile of Socio-Economic Inequality: Measures of the national poverty line and the incidence of poverty, the extent of inequality in income and expenditure, are reported and discussed. Indices of human development and poverty are also reported in an international context.

Population and Household Characteristics: The structure and characteristics of households in the four states, dependency ratios and population issues are described. The extent to which some state level and outer island households are disadvantaged in relation to others in terms of access and economic opportunity is reviewed. These, together with the inequality indicators, highlight the wide variations in hardship and access to services which are experienced between the states.

Participatory Assessment of Hardship: Communities throughout the country were consulted to ascertain their perceptions of hardship and disadvantage and to identify their development needs and priorities. The results of these qualitative consultations are reported and put into a quantitative context.

Governance and Poverty: Assessments of government capacity and performance are used to highlight the ability of the government to address the challenges facing FSM.

Social Development: The availability, accessibility and quality of the education and health services have a direct bearing on the opportunities available to the population. This section sets out the education and health indicators in FSM and the four States.

Gender Issues: This section describes the situation faced by women in FSM. To the extent that they are available statistics on literacy, life expectancy, health and participation are reported at the State level.

The Economy and Growth: The economic structure, macroeconomic features, social expenditures and labour force and employment issues are described at the national and State levels.

Vulnerability Indicators: Vulnerability has several aspects: economic, social and environmental. A summary profile of the vulnerability of FSM to external shocks is presented.

Summary Poverty Profile and Millenium Development Goals (MDGs): The first part of the overall Assessment concludes with a statistical profile of key poverty indicators (Figure 1), a survey of FSM's status in relation to the achievement of the Millenium Development Goals (Figure 2), and a summary matrix of socio-economic issues, causes and opportunities.

11. The second part of the document, commencing at paragraph 175 sets out a set of suggested strategies for equitable growth and hardship alleviation, which could be used as the

basis for the formulation of the national development strategies. The section consists of the following parts:

Key Issue and Strategies: summarises some of the most important poverty related policy issues facing FSM and the individual states:

Country Strategies: The "Country Strategies" section recaps on some of the key issues and sets out policies and strategies that could be adopted to facilitate equitable growth and hardship alleviation through the country.

C. Country Overview

12. The Federated States of Micronesia is a small north Pacific nation made up of four states (Pohnpei, Kosrae, Yap and Chuuk), with a total population of around 108,000 (end 2003 estimate). The country consists of some 607 islands extending 1,800 miles across the archipelago of the Caroline Islands with a total land area of 702 sq. kms. The islands are a mix of coral atolls and hilly volcanic islands. Although fertile these volcanic islands frequently have very limited potential for agricultural development. Less than 16% of Pohnpei, the largest volcanic island is suitable for cultivation. Generally the islands are in pristine condition and surrounded by deep clear water which makes them attractive for diving and marine based niche tourism. The climate is tropical with the high islands experiencing heavy year-round rainfall. Occasional cyclones cause severe damage. The population is predominantly Micronesian with a small number of Polynesians. The social systems of the four states whilst varying in degree of hereditary and hierarchy are all based on the typically Pacific community and family structures seen elsewhere in the region. Yap and Pohnpei are generally regarded as the more hierarchical and hereditary in their traditional leaderships and Kosrae the more egalitarian. Chuuk's generally poor economic performance and low standards of governance reflect its more factional traditional structures.

13. Portuguese navigators arrived in the islands in 1525. They were subsequently occupied by the Spanish who claimed sovereignty until 1899 when they sold all their Pacific Territories to Germany. The German control passed to Japan when Japanese naval squadrons took possession during World War I. Japan maintained control until the USA invaded during World War II. In 1947 the United Nations created the Trust Territory of the Pacific Islands and established the USA as the administering authority. The USA maintained control until 1986 when FSM gained independence under a Compact of Free Association with the USA which allows its citizens to migrate freely to the United States. Under the Compact FSM also enjoys substantial US funding support. Despite, or perhaps because of, the Compact arrangements the *de facto* population growth rate of FSM has fallen sharply since independence.

14. FSM's principal resources are the fish stocks in the country's 2.6 million sq. km. exclusive economic zone. The sustainable yield of these stocks has been estimated to exceed 0.25 million tons per annum. The population density is generally quite low, certainly on the main islands, and there is considerable agricultural and other potential. The human capital is however quite limited with few students proceeding beyond the early years of secondary school and most of those failing to complete tertiary training. The issues facing the nation are not so much the lack of resources, either natural or human, but rather the remoteness of the islands and therefore the difficulty in economically exploiting those resources that are available.

15. In 1999 FSM ranked 7th (out of 12) on the UNDP Pacific Human Development Index (HDI) and 9th on the Human Poverty Index (HPI). It is vulnerable to natural disasters, notably cyclones. The public service dominates the cash economy of each State, with the National government adding to this dominance in Pohnpei. FSM depends greatly on aid, primarily from USA under the Compact. The original Compact funding, with extensions, ended in 2003 but has been replaced by a new agreement which covers a twenty-year period to 2023. As some 50% of recurrent expenditure is still likely to be funded by Compact money, the significant fiscal challenges to come will test FSM's governance.

16. GDP growth has been low. The high disparity between public and private sector wages, together with traditional aversion towards entrepreneurship, constrains private sector development. There is little commercial agriculture and only a handful of primary exports. By Pacific standards, expenditure on health and education is average, but there are urban:rural disparities and other differences both within and between the states.

17. In 2000 some 72% of children were enrolled in secondary school (down from 81.4% in 1994) whilst 90% of recurrent education expenditure was spent on salaries. Lifestyle diseases and conditions, especially diabetes, heart disease and obesity, are emerging as serious health issues. Social service delivery is poor in the outer islands and is likely failing rural women and children in particular. Social and development indicators are generally quite weak in FSM despite the relatively high level of per capita incomes. Chuuk has the weakest indicators, the biggest population and the most serious emerging problems.

D. Existing National Strategies.

18. **There are presently no published National Development Strategies for FSM or for the individual states.** However as with most PDMCs there is a wealth of reports and documentation on the country. The reports emanating from the first and second national economic summits, the latter being held in September 1999, provide a good, if now somewhat outdated, insight into the issues facing FSM.

19. The Second Summit highlighted the critical issues which would soon be upon the nation as the first Compact funding ended and the new arrangements were negotiated. Possible strategies that could have been used to ease the transition between the two Compacts were identified. With the completion of the negotiations and agreement on the new arrangements the reality of the task ahead is now being realised.

20. A Third Summit is being organised to take place at the end of the first quarter of 2004. The present paper will contribute to this process by highlighting critical hardship and poverty related issues for priority concern in the future national strategies.

21. **The lack of a clearly stated national Vision or set of national development strategies is considered to be a serious weakness.** Without the focus that such a Vision and strategies provide there is no framework within which government departments and agencies, or indeed the private sector, can adequately and confidently set their own goals and targets. Part B of this paper provides a suggested medium term strategic framework for discussion.

III. THE HARDSHIP AND POVERTY SITUATION

A. Profile of Socio-economic Inequalities

1. Defining Poverty

22. There is no generally or officially accepted definition of Poverty. **Poverty** means different things to different people, across time and place. This has given rise to much misunderstanding and confusion. Poverty can be viewed in either absolute or relative terms; it may be temporary, e.g. as a result of the destruction of crops etc after a cyclone, or it can be long-term and chronic, e.g. where it might be experienced by a family having no-one in employment or where family members suffer from sickness or disability.

Absolute poverty is where an individual or family is unable to meet basic needs for food, clothing, and shelter, health care or education;

Destitution is the extreme form of absolute poverty, the poorest of the poor;

Relative poverty is experienced by those whose incomes might be sufficient to meet basic needs but which are still below the national "average" or norm.

23. Most international discussions of poverty centre around those in absolute poverty and destitution. This is just one of poverty's manifestations – the most extreme perhaps, and the one which captures media attention – but there are many other ways in which people can be poor or suffering hardship. People can still be reasonably well-fed and moderately healthy, but still live in relative poverty where they suffer varying degrees of hardship. Their incomes might be less than adequate to meet their food and other basic needs. Or they might lack access to basic services, especially health, education and transport, freedom of choice, or socio-economic opportunity.

24. This **Poverty of Opportunity**, e.g. lack of access to basic health and education services, employment opportunities, standards of good governance and equal opportunities across gender and age, is now regarded as just as important in defining the extent of poverty and hardship in a society as is the lack of income. Often the conditions and circumstances giving rise to the poverty of opportunity are the causes of income poverty. Alleviating poverty of opportunity will help to increase incomes and wealth.

25. It has been argued that the basic income definition of poverty might not be appropriate in the Pacific where high levels of subsistence production are present in most economies. In many cases the valuation of subsistence production in the calculation of national income (GDP) is not complete, it is either inadequate or missing entirely. The data which is available (e.g. Census, HIES) is often not fully analysed for its poverty and hardship implications. There might also have been a lack of community participation in the assessment of poverty and hardship in societies and the socio-cultural aspects of poverty and hardship have often been ignored.

26. Through a consultative process involving a **Participatory Assessment of Hardship (PAH)**, (otherwise known as a Participatory Poverty Assessment), local perceptions of poverty and hardship in FSM society have been analysed. The general perceptions are that, indeed, poverty

does not mean starvation and destitution in the FSM context. Poverty is seen more in terms of hardship, poor transport services to some states and to remote outer island communities, lack of access to essential services, especially regular, good quality water and primary health services or poor education. It can mean not having a job or any source of steady income from which to meet the costs of school fees or other important family commitments. Poverty and hardship are therefore issues of sustainable human development as well as income.

27. For the purposes of this assessment of hardship and poverty in FSM and the Pacific generally, the following broad conceptual definition of poverty has been adopted.

Poverty = Hardship

“An Inadequate Level of Sustainable Human Development”, manifested by:

- ***a lack of access to basic services;***
- ***a lack of opportunities to participate fully in the socio-economic life of the community; and***
- ***a lack of adequate resources (including cash) to meet the basic needs of the household or customary obligations to the extended family, village community and/or the church”***

28. The qualitative PAH survey (see Section III.C.1et seq. below) found that many people in the three states surveyed were experiencing hardship. People might be living in either the "urban" or the rural/outer island areas and be experiencing hardship because they lacked access to some essential basic services, or because they did not have jobs and a steady income. High transport costs were of concern for many in the isolated parts of Chuuk and Yap states in particular. These islands have difficulty in getting their produce to market at competitive prices. There were also those who experience hardship because they were sick or disabled, and those who have not had the opportunity for a good or appropriate education to enable them to improve their position in society. All these people suffer hardship and a form of poverty.

29. In this paper the validity of the hardship issues identified in a largely qualitative manner in the PAH have been tested against the latest available indicators of hardship and poverty in society. These have been calculated using data from the 2000 census, recent health and education statistics and other relevant information, including figures from the 1998 HIES. This analysis provides important insights into the levels of access to essential services and the characteristics of households in different parts of the country.

30. There may be discussion in regard to the degree of economic and social inequality in FSM, but there can be no doubt about the reality of inequality. The indicators point to growing levels of economic, social and demographic concern.

2. Income Distribution and Inequality Measures²

31. It is often thought that FSM's complex, community based but nevertheless hierarchical social and cultural systems ensure that all are looked after and that income and wealth are distributed reasonably equitably. Good harvests or fish catches by one family, for example, might be shared with others, who in turn will reciprocate when fortunes are reversed. In the rural areas no-one is perceived to be especially well-off but equally no-one is thought to live in absolute poverty.

32. **However there is evidence that income inequality is perhaps more widespread than generally thought.** The level of economic activity and average income varies widely between the four states. According to the 1998 HIES average household incomes were higher in the two smaller states, Kosrae (US\$15,100) and Yap (US\$13,075), and lower in the other two, Pohnpei (US\$11,783) and Chuuk, the largest state, (US\$9,819). National average household income was measured at US\$11,240, Table 1. The overall ratio of the mean household income of the highest quintile to the lowest quintile was 8.9, with Pohnpei registering the highest ratio at 11.3 and Yap the lowest at 6.7.

Table 1
Average Annual Household Income
By State 1998

US\$ per annum	Highest Quintile Average Income	Average Household Income	Lowest Quintile Average Income
FSM	25,996	11,240	2,923
Yap	26,186	13,075	3,896
Chuuk	21,867	9,819	2,838
Pohnpei	29,215	11,783	2,583
Kosrae	38,385	15,100	3,509

33. Adjusting for the differences in household size between the four states the weekly per capita income and expenditure is shown in Table 2. This shows clearly the extent of inequality particularly between Pohnpei and Chuuk and Kosrae and Yap.

34. **This existence of inequality is supported by the Gini coefficient for FSM which was estimated at 0.51 for income and 0.47 for expenditure. This indicates a moderately high level of inequality,** see Table 3. There was some variation across states however. Lowest levels of income inequality were registered in Chuuk 0.30 and Kosrae (0.46), and highest in Pohnpei and Yap, both 0.48. The Gini coefficients of expenditure showed some marked differences from those for income. Nationally the expenditure Gini was 0.47. For the states Kosrae was lowest on 0.31, followed by Yap 0.42 and Pohnpei 0.44. Surprisingly Chuuk

²² Analysis of income distribution in this section is based on the 1998 HIES data. The data generated by the HIES is not directly comparable to the income data from the census discussed in paragraph 71 *et seq.* below. The census assessed only cash income whilst the HIES attempted to assess both cash and non-cash income and expenditure.

	Average Weekly Per Capita Expenditure		Average Weekly Per Capita Income	
	Lowest Quintile	Average All HH	Lowest Quintile	Average All HH
US\$				
FSM	12.69	28.23	10.85	29.14
Chuuk	11.66	23.65	7.95	22.56
Kosrae	20.44	35.21	9.53	40.94
Pohnpei	11.50	29.75	10.45	33.76
Yap	39.70	43.05	14.42	41.84

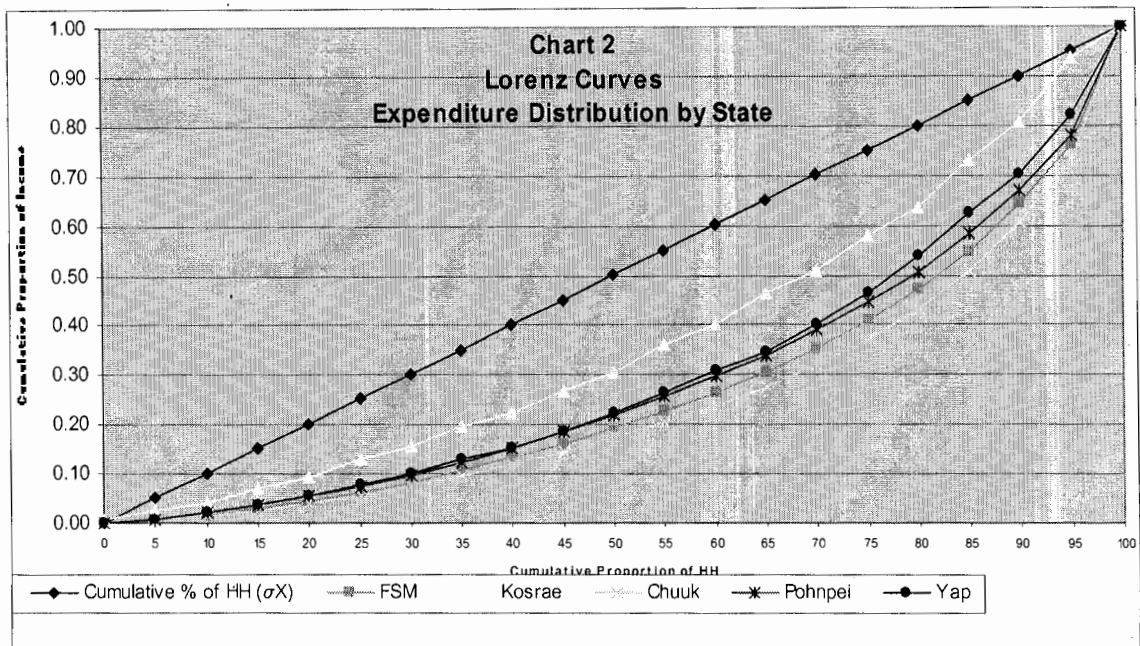
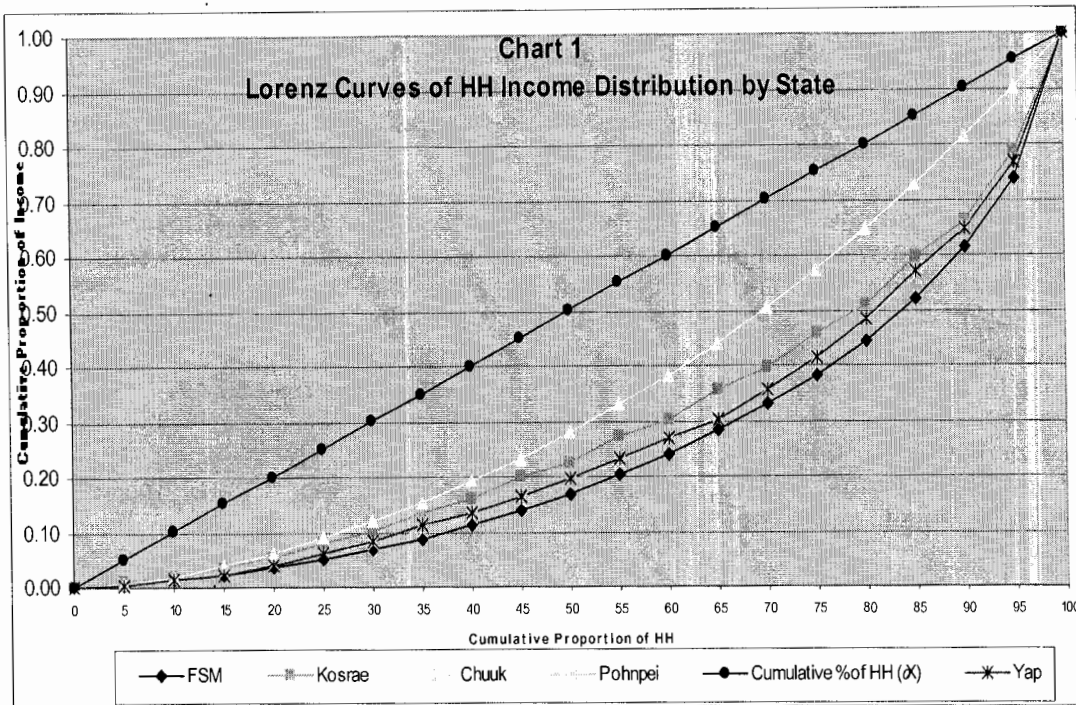
showed the highest expenditure inequality with a coefficient of 0.51. These coefficients are generally somewhat higher than those seen in other Pacific nations, notably in Samoa and Tonga. The Lorenz Curves of income and expenditure by state are shown in Charts 1 & 2.

Table 3
Gini Coefficients
1998 HIES

	Gini Coefficients of Income	Gini Coefficients of Expenditure
FSM	0.51	0.47
Yap	0.48	0.42
Chuuk	0.30	0.51
Pohnpei	0.48	0.44
Kosrae	0.46	0.31

35. According to the 1998 HIES, more than half (53%) of the population had per capita incomes of less than \$1,300, while only 16% had incomes of \$3,000 or over. Amongst the states Chuuk had the largest number of low-income people with 64% having incomes less than \$1,300. In contrast Yap (35%) and Kosrae (40%) were comparatively better off. Pohnpei, being the national capital had the highest proportion (21%) of the population with incomes above \$3,000. Chuuk had the lowest, 8%.

36. Wages and salaries were the most important source of income for people in all states, averaging 46% of total income. This compares to 31.5% of income generated from the value of own production consumed (subsistence agriculture and fishing). In Yap, generally regarded as the most traditional, and rural based state, 41% of income came from subsistence activities compared to 45% from wages and salaries. In Chuuk, the most populous state, and the one with the lowest proportion of those in employment, 35% of income was generated by subsistence activities and 37% from wages and salaries, the lowest of any state. In Pohnpei wages contributed the highest proportion of income, 55%, with Kosrae not far behind at 51%. The contribution of subsistence activities in Pohnpei and Kosrae was 26.5% and 21% respectively.



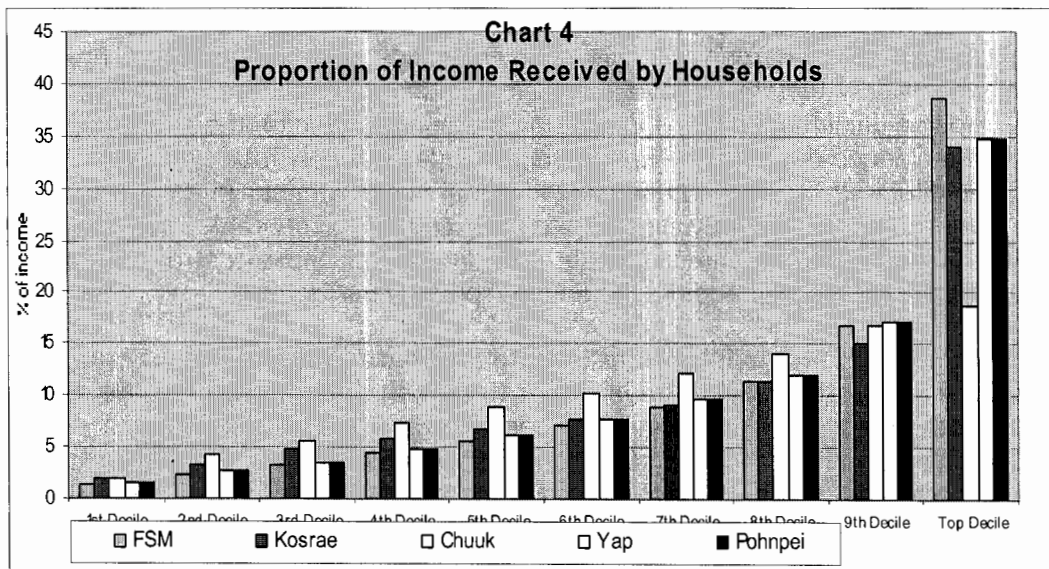
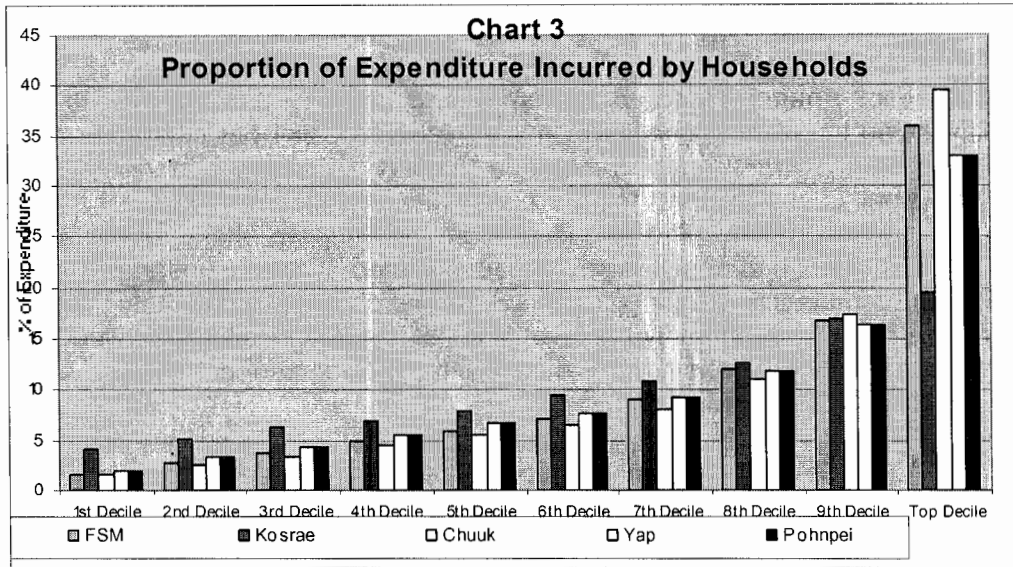
37. The proportion of households from each state making up the lowest and highest income and expenditure quintiles are shown in Table 4. What these figures show is that Chuuk and Pohnpei are over-represented in the lower quintile and under-represented in the top-quintile relative to their share of national population.

38. In national aggregate the lowest quintile received 3.6% of total income, while the top quintile received 52.6%. In line with the implications of the Gini coefficients there was some variation between the states with Kosrae and Chuuk having the lower Gini coefficients showing the share of income of the lowest quintile to be slightly higher, and of the highest quintile slightly lower, than in the other two states, see Table 5. On the expenditure side Chuuk stands out with the lowest quintile incurring 9.3% of expenditure and the highest quintile only 36.4%.

39. Both the income and expenditure Gini coefficients are influenced by the seemingly very high proportions of both income and expenditure which accrue to the highest decile (10%) of households in the states, see Charts 3 & 4.

Proportion of Households by State in Top and Bottom Income and Expenditure Quintiles				
	Expenditure		Income	
	Lowest	Highest	Lowest	Highest
Chuuk	56.0	44.7	56.9	43.5
Kosrae	0.8	8.2	2.0	8.2
Pohnpei	39.1	23.5	35.1	28.2
Yap	4.0	23.5	6.0	20.0
Total	100.0	100.0	100.0	100.0

Proportion of Income/Expenditure Received by Households by State				
1998 HIES				
	Bottom Quintile		Highest Quintile	
	Income	Expenditure	Income	Expenditure
FSM	3.6	4.5	55.5	52.6
Kosrae	5.3	9.3	49.1	36.4
Chuuk	6.2	4.1	35.4	56.8
Pohnpei	4.3	5.5	52.1	49.3
Yap	4.1	5.5	51.6	46.0



3. Minimum Standard of Living Line

40. **The incidence of financial/income hardship and poverty can be measured in two ways.** The MDGs use the internationally recognised value of US\$1 per capita per day in 1993 Purchasing Power Parity (PPP) terms to measure the level of absolute poverty, or a broader measure of US\$2 per capita per day for the comparative incidence of basic needs poverty, across international boundaries. This measure can be used to make direct international comparisons of the incidence of absolute poverty across international boundaries, using US\$ as a benchmark. However it is a relatively crude measure and does not adequately take account of the differing nature of poverty (primarily the level of subsistence agriculture) between the Pacific countries and those of other regions. By this measure the incidence of absolute poverty in MDG terms is very low in FSM, see paragraph 52.

Table 6
Household Food and Non-Food Expenditure Summary
Lowest Quintile

	FSM	Kosrae	Chuuk	Pohnpei	Yap
Average Household Expenditure US\$ per annum	3974	7058	4208	2973	9848
Of which Food %	57	47	59	57	39
Non-Food %	43	53	41	43	61
Own Production % of Total Food Consumed	53	48	42	72	56
Non-Food Exp % of Food Expenditure	76	114	68	75	157
Basic Needs Non-Food Factor	0.756	1.138	0.681	0.745	1.566

41. **National poverty lines measure the incidence of relative poverty within a country.** National poverty lines are calculated for Food Poverty (FPL) and Basic Needs Poverty (BNPL). The FPL gives an indication of the poorest of the poor in society and the BNPL measures the incidence of basic needs hardship. It gives an indication of the number of households (or individuals) who report that they have insufficient income or access to own production, to adequately meet a minimum dietary intake for themselves and/or their families. The BNPL measuring the incidence of basic needs hardship includes not only food but also other essential non-food expenditure which each household/individual needs to incur to have a basic standard of living. Whilst national poverty lines are not directly comparable across international boundaries (each country has different costs and prices etc), the extent of relative poverty in each country can be compared against the national poverty yardsticks.

42. **In the context of FSM it is important to note that hardship and poverty are associated with difficulties in meeting basic-needs rather than with the condition of absolute poverty or lack of food (FPL).** It means that low-income households will experience periodic cash shortages. It means they will face difficult choices on the allocation of their limited resources. It may mean that they are unable to meet all their basic needs commitments. They will experience hardship.

43. **The 1998 Household Income and Expenditure Survey (HIES) provides the only recent and reliable data for hardship/poverty and inequality analysis purposes.** The HIES survey was conducted in mid-1998. The Survey involved a total of 898 households: Of these 414 were from Chuuk, 338 from Pohnpei, 96 from Yap, and 50 from Kosrae. The data on both household income and expenditure has been used to calculate the incidence of hardship or poverty being experienced by families in FSM and the individual states.

44. On the basis of the HIES expenditure data the National FPL for 1998 was estimated at US\$8.40 per capita per week (US\$437 per capita per annum). This was based on the cost of a low-cost minimally nutritious diet, with a daily value of approximately 2220 kcal per adult per day. This diet comprised store goods plus the value of own-production consumed or gifts received. It was derived directly from the expenditure patterns recorded in the HIES³. The diet is designed to estimate the hardship and poverty being experienced by the poorest sections of society, not the average.

Table 7

SUMMARY OF THE POVERTY LINES: Household		
1998 HIES		
US\$ per household per annum	Food Poverty Line	Basic Needs Poverty Line
FSM	3241	5693
Chuuk	3658	6150
Kosrae	3100	6626
Pohnpei	2933	5120
Yap	2626	6738

45. Non-food basic needs estimated from the households with the lowest expenditure. This non-food expenditure is calculated as a proportion of state-by-state as well as lowest quintile of households Kosrae, being equivalent to food expenditure Chuuk at 68.1% and regional standards the non-be considered unusually the other states are broadly elsewhere in the region the variations between the four states are also unusually wide.

SUMMARY OF THE POVERTY LINES: Per Capita		
1998 HIES		
US\$ per capita per annum	Food Poverty Line	Basic Needs Poverty Line
FSM	437.00	767.58
Chuuk	437.00	734.75
Kosrae	437.00	934.21
Pohnpei	437.00	762.75
Yap	437.00	1121.27

expenditure has been estimated from the lowest 20% of basic needs expenditure is food expenditure on a national basis and is shown needs expenditure of the was highest in Yap and 157% and 114% of weekly respectively, and lowest in Pohnpei at 74.5%. By food factor for Yap would high. Whilst the figures for in line with factors seen

46. Nationally own production accounted for about half of household food consumption by low-income households. Own production was highest in Pohnpei, 71.6%, and lowest, somewhat surprisingly, in Chuuk, 42.3%. In contrast with experience seen elsewhere in the region the proportion of own food consumed was higher amongst average income/expenditure households than amongst low-income households. In Chuuk, for example, 61% of all food consumed in households with average incomes/expenditure came from own production. In Yap the proportion was 85.9% amongst average income households but only 56% amongst low-income households.

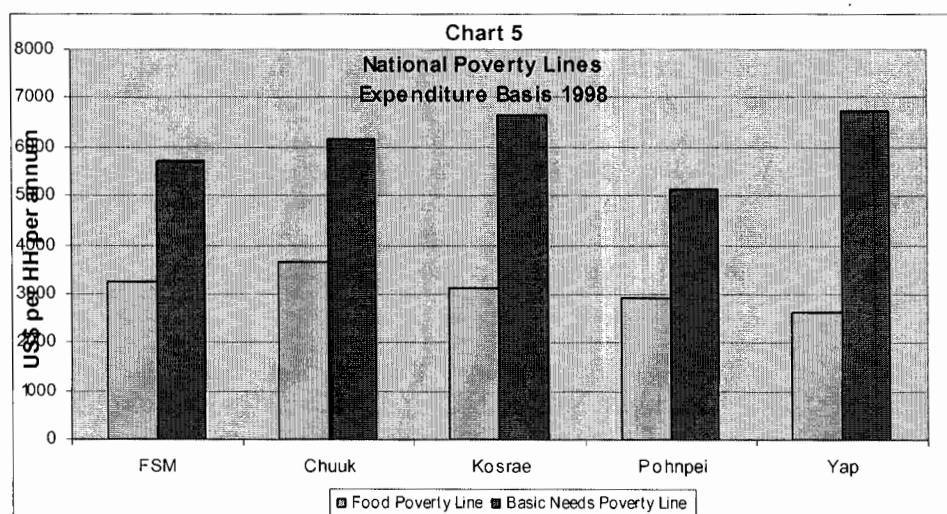
47. On the basis of the foregoing assumptions the national Basic Needs Poverty Line (BNPL) for FSM for 1998, has been estimated at US\$5693 per household per annum (US\$768 per capita) - see Table 7. For Yap and Kosrae, with their higher levels of non-food expenditure, the BNPL has been estimated at an annual household expenditure of US\$6738 (US\$1121 per capita) and US\$6626 (US\$934 per capita) respectively. In Pohnpei and Chuuk the BNPL figures were estimated at US\$5120 (US\$763 per capita) and US\$6150 (US\$735 per capita) respectively. This suggests that a household in Yap would need to incur some 30% more expenditure (cash or own production) to meet basic needs than a household in Pohnpei. In per capita terms the difference is even wider at 50%.

³ ADB TA-3258 Strengthening the National Statistical System, September 2000

48. From these poverty lines it is estimated that 27.9% of all households had reported expenditure, and 30% reported incomes, below the basic needs poverty line level - see Table 8. Extreme hardship, measured as those families with average per capita expenditure less than the FPL level, was experienced by an average of one-in-nine families, 11.2%. In the states 32.9% and 15.6% of households in Chuuk reported expenditure less than the BNPL and FPL respectively. For Pohnpei the respective BNPL and FPL incidence levels were 29.5% and 10.8%. In contrast in Kosrae no households had reported expenditure below the FPL level and only 12.3% reported expenditure less than the BNPL. In Yap the respective figures were 2.8% and 14.4% respectively.

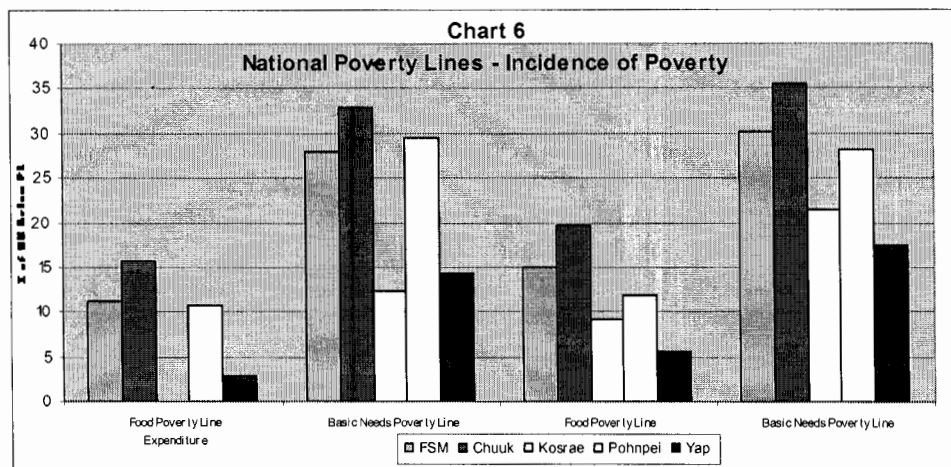
Table 8
FSM INCIDENCE OF POVERTY
(Head Count Index - HH with inc/exp below PL levels)
1998 HIES

	Expenditure		Income	
	Food Poverty Line	Basic Needs Poverty Line	Food Poverty Line	Basic Needs Poverty Line
FSM	11.2	27.9	15.1	30.1
Chuuk	15.6	32.9	19.7	35.6
Kosrae	0.0	12.3	9.2	21.5
Pohnpei	10.8	29.5	11.9	28.2
Yap	2.8	14.4	5.6	17.5



49. Taking reported income as the benchmark, nationally the incidence of basic needs hardship was measured at 30.1%. At the state level the highest degree of financial hardship in meeting basic needs, as measured by household income, was experienced by households in Chuuk 35.6%, and the least by households in Yap and Kosrae 17.5% and 21.5% respectively. In terms of extreme income hardship, having income less than the FPL level, was reported by one-in-seven (15.1%) of households. In the states the greatest degree of extreme hardship in

meeting basic food needs would seem to have been experienced by households in Chuuk 19.7% and Pohnpei 11.9%, and the least by households in Yap 5.6% and Kosrae 9.2%.



50. In aggregate around one-third of all households throughout the country are estimated to experience periodic difficulties in meeting their daily costs-of-living for both food and other essential expenditure. Chuuk and Pohnpei, the larger of the states are also those experiencing the greatest degree of hardship. The least amount of basic needs hardship would seem to be experienced by households in smaller states of Yap and Kosrae. It might be argued that the higher standards of governance in the two smaller states have been instrumental in helping to ensure the lower levels of hardship.

51. Households primarily engaged in the informal sector revealed a higher incidence of poverty compared to those with employees in the public or private sectors. However, as in other countries, having formal sector employment does not necessarily mean that families or individuals can escape poverty. According to the data at least 20% of all employed persons were classed as working poor. This affects those in low-wage rate personal services industries in particular, and can be especially relevant for single mothers and/or single income families.

MDG Box 1 Millennium Development Goals		
Goal 1: Eradicate extreme poverty and hunger		
Target 1 Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	Indicators Proportion of population below national basic needs poverty line (expenditure 1998) Poverty gap ratio [incidence x depth of poverty) Share of poorest quintile in national consumption (H20/L20)	Performance National 27.9 Yap 14.4 Chuuk 32.9 Pohnpei 29.5 Kosrae 12.3 0.51 (1998) L20 3.6 H20 55.5 (1998 HIES)
Target 2 Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Prevalence of underweight children (under 5 yrs of age) Proportion of population below minimum level of dietary energy consumption	15.0 (1997) No data

52. Poverty incidence was significantly higher among household heads that had only completed elementary education (44%) compared to college educated (11%). Female-headed households also registered higher incidence of poverty at 38%, as compared to male-headed households at 32%. The poverty gap ratio is computed at 0.51. This means that on average, the poor in FSM need to double their income to be able to cross the poverty line. Despite the apparently high level of GDP per capita the incidence of income poverty in FSM is more prevalent than in many other regional countries. The US dollar, high cost structure of the FSM economy places significant hardship burdens on those who are not in the government sectors.

53. The internationally quoted measure or benchmark for absolute income poverty is US\$1 per capita per day in 1993 Purchasing Power Parity (PPP) terms⁴. For 1998 it is estimated that the PPP value of US\$1 per day would still have been equivalent to US\$1 per day, in FSM⁵ - there having been no material difference in the inflation rates between the USA and FSM over the 1993 to 1998 period. The 1998 HIES data indicates that nationally only about 5.2% of households had per capita expenditure of less than this level. At the higher level of US\$2 per capita per day, the corresponding figure would have been 19.7%

54. **The results do not imply that people who had expenditure below the national poverty line are necessarily going hungry.** It certainly does not mean that they are experiencing absolute poverty or destitution. It means, rather, that they have insufficient income/expenditure to meet the average daily expenditure requirements for a basic minimum diet plus the costs of other essential non-food items. It means that they are being faced with difficult choices about what to spend their limited cash resources on. Should they pay school fees so that children do not miss school, should they buy food for the family or send their children to school with no lunch, should they meet their community obligations or pay their power or water bills. They may be making up the shortfalls by additional own-produce consumption, by borrowing from others or by going without either food or other essentials from day-to-day. In some cases undoubtedly there might be hunger, or at best poor nutrition, but certainly there will be hardship.

4. Human Development Progress Indices⁶

55. **With a Pacific Human Development Index (HDI) of 0.569, FSM ranked 7th (from 6th in 1994) among the 12 PDMCs.** This was calculated from a composite measure of life expectancy at birth of 65.7 years, adult literacy rate of 71%, combined gross enrollment ratio of 71%, and real GDP per capita of US\$2,070.

56. **A Pacific Human Poverty Index (HPI) of 26.7 ranked FSM 9th in terms of poverty among the 12 PDMCs.** This reflects a composite of people not expected to survive to age 40 (11%); illiterate adults (29%); underweight children under 5 (15%); and people without access to safe water (56%) or health services (25%). The low-ranking status of FSM in the Pacific largely

⁴ In 1999 it was estimated that globally 23% of the world's population had consumption levels less than US\$1 per day and almost 55% less than US\$2 per day in 1993 PPP terms.

⁵ Purchasing Power Parity of US\$1 per day in 1993 prices adjusted to FSM 1998 prices. Given by the formula: PPP = US\$ Exchange Rate in 1993 (= 1) * (1998 US CPI/1993 US CPI) / (1998 FSM CPI/1993 FSM CPI).

⁶ The UNDP PHDR HDI and HPI indicators are expected to be updated in the near future using the latest available data. The 1999 rankings are therefore subject to revision and the indicators used may differ from those quoted elsewhere in this paper.

reflects the failure to provide adequate social services to the rural and outer islands, caused by the disproportionate share of resources captured by public servants as salaries.

B. Population and Household Characteristics

1. Population Size and Structure

57. **From having one of the fastest growing populations, an average of 2.6% per annum in the period from 1970 to 1994, FSM had one of lowest, 0.25% pa, in the most recent inter-censal period 1994 – 2000.** Between these two censuses the population increased from 105,506 to only 107,008. The crude birth rate was estimated at 29.1 per thousand population indicating a high rate of out-migration.

58. **Chuuk has the largest population, 50.1% of the total, followed by Pohnpei, 32.2%, with Yap and Kosrae having 10.5% and 7.2% respectively.** Although Chuuk has half the population it has only around 18% of the total land area, thus the population density, at 421 per km², is significantly higher than in the others states, (Yap 93.4 per km², Pohnpei 95.0 per km², and Kosrae 68.7 per km²).

59. Despite the apparent high out-migration rate of those in the 15 – 24 year age group the age profile continues to be highly skewed towards a young population with about 60% of the population aged less than 25 years in 2000. Approximately half of the 2000 population lived in Chuuk (53,595). Pohnpei accounted for a further 32.2%, whilst Yap and Kosrae comprised 10.5% and 7.2% of the total respectively. The proportion of the population in each state has remained relatively unchanged for more than two-decades. FSM has not therefore seen the same degree of rapid urbanisation of many of the other Pacific nations. The state structure has contributed to this and has resulted in overseas migration, as oppose to internal migration, being the primary safety-valve. It is estimated that about 1,500 – 1,800 people emigrate annually. Major destinations are Guam, the Commonwealth of the Northern Mariana Islands, Hawaii and the US mainland.

- The population of the outer islands is about 18,000 persons (17%). These people tend to be amongst the most disadvantaged with poor access to both education and health services. A further 7,000 outer islanders have settled on either Pohnpei or Weno, the State capital of Chuuk. These migrants might often be landless and are frequently amongst the poorest in urban areas.

2. Dependency Ratio

60. **The national dependency ratio was 0.85 in 2000** — meaning every 100 working adults (15 to 60 years old) had to support 85 persons who were either under 15 or over 60. This level is typical of the mid-range levels for PDMCs. Between the states the ratio varies from 0.75 in Yap to 0.86 in Chuuk. The lack of any marked difference in the dependency ratios between the urban and rural areas is also unusual for the Pacific nations.

- The proportion of the population below 15 years was 40.3% (ranging from 36.4 in Yap to 41.1% in Chuuk) and those above 60 years comprised 5.3%, (ranging 6.6% in Yap and 5.0% in Pohnpei). Youth (15 – 24 years) comprised 21.4% of the population, (range 20.1% Kosrae and 21.7% in Chuuk). This age group showed an annual average decline of 0.8% in the inter-censal

period, reflecting the high out-migration rates. The 2000 national median age was 18.9 years, (range 20.9 years in Yap and 18.5 years in Chuuk), up from 18.6 years in 1994.

3. Household Characteristics

61. Households and Housing: Data on household characteristics is taken from the 1994 and 2000 Census, supplemented by the 1998 HIES. The 2000 census enumerated 15,273 occupied households, of which 44.4% were on Chuuk, 35.8% on Pohnpei and 12.9% and 6.9% on Yap and Kosrae respectively. Nationally average household size was 6.8 persons, with a range between the states from 5.5 in Yap, 6.1 in Pohnpei, to 7.1 and 7.7 in Kosrae and Chuuk respectively⁷. Nationally there were 4,215 households (26.8%) having nine or more members.

62. Nationally 30% of all houses were reportedly constructed since 1993, with 8.8% having been built prior to 1969. Kosrae, at 37.7% had the highest proportion of post 1993 houses and Pohnpei, 29.3%, the least. Pohnpei had the highest proportion of pre-1969 housing stock, 13.2%, and Kosrae the lowest 2.9%.

63. The housing stock in FSM is predominantly constructed of imported materials. In 2000 concrete or metal accounted for 87.4% of all roofing material, a slight decline from the 91.1% reported in 1994. Only in Yap, 22.0% (unchanged from 1994), and Pohnpei, 16.2% (up from 10.5% in 1994) were other roofing materials significant. Metal and concrete were also the dominant materials for wall construction, 68.4% in 2000, down slightly from 72.0 % in 1994. Across the states Pohnpei's reliance on these materials actually declined from 78.6% in 1994 to 69.3% in 2000, whilst in Kosrae the use of metal and concrete increased from 63.5% to 69%. In Chuuk approximately one-third of households used other materials across both years. Nationally just under two-thirds of houses had concrete floors, with the lowest proportion being in Yap, 51.2%, but still up from 43.6% in 1994, and the Kosrae being the highest, averaging 94% over the two years.

64. **Utilities:** In 2000 electricity (all sources) was available to 53.6% of households (1994 50.6%), with the lowest availability being in Chuuk, 32.6% (1994 35.1%) and the highest in Kosrae, 100% (1994 93.6%). In Pohnpei coverage increased from 61.8% in 1994 to 67.9% in 2000, and in Yap from 52.9% to 58.5% over the same period. Coverage in Chuuk is constrained by the more dispersed and inaccessible structure of the island geography and population. In 2000 only 18% of Chuuk's households were paying electricity bills compared to about two-thirds of Pohnpei households and 91% of those on Kosrae.

65. There are three relevant MDGs to household characteristics; use of solid fuels, water and sanitation. In some countries the extensive use of solid fuels indicates a high level of environmental degradation. In the Pacific Islands, and FSM in particular, the continued use of solid fuels is more an indication of either traditional preference, or more importantly, an indication of inability to afford more efficient types of fuel. In MDG Box 2 the three indicators point clearly to Chuuk the poorest of the four states having the highest usage of solid fuels, and

⁷ These household sizes are slightly different from those estimated by the HIES and used in the poverty line calculations: national average 7.4, Kosrae 7.1, Chuuk 8.4, Pohnpei 6.7 and Yap 6.0.

the lowest proportions of households with access to either improved water or sanitation facilities.

MDG Box 2 Millennium Development Goals		
Goal 7: Ensure environmental sustainability		
Target 8 Integrate the principles of sustainable development into country policies	Indicator 29. Proportion of population using solid fuels <i>(Ask Kim of definition)</i>	Performance National 77.6 Yap 63.6 Chuuk 88.9 Pohnpei 74.4 Kosrae * 16.6 (2000 census)
Target 10 Halve, by 2015, the proportion of people without sustainable access to safe drinking water	Indicators 30. Proportion of population with sustainable access to an improved water source	Performance National 50.0 Yap 53.2 Chuuk 24.8 Pohnpei 69.4 Kosrae 97.6 (2000 census)
Target 11 By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	31. Proportion of people with access to improved sanitation 32. Proportion of people with access to secure tenure	Performance National 25.2 Yap 23.8 Chuuk 13.3 Pohnpei 31.4 Kosrae 72.4 (2000 census) 94

66. Access to piped water broadly follows the pattern of access to power. In 2000 half of all households had access to a piped supply, however this varied at the state level from a low of 25% in Chuuk to a high of 97.6% in Kosrae. In Pohnpei the rate was 69.4% and in Yap 57.2%. The public water supply system was only significant in Pohnpei, serving 30.2% of households, and to a lesser extent in Yap, 12.0% of households. In Chuuk and Kosrae the public system was virtually non-existent, serving less than 1% of households in both states. Additional communal systems served

21.9% of Pohnpei households and 18.9% of those in Yap. Overall 82.5% and 73.2% of Chuuk and Kosrae households respectively relied on own-catchments/tanks. Only one-third of households in Yap and Pohnpei paid water bills, and in Chuuk and Kosrae the proportion was only 0.7% (down from 6.0% and 5.7% respectively in 1994).

67. The poor access of states other than Pohnpei, to improved water supplies from public or communal reticulated systems, is reflected in the 82.5% of households in Chuuk, (up from 69.3% in 1994), which relied on catchments, tanks and drums for their primary source of drinking water. For the other states the proportions were 73.2% of households in Kosrae, (up from 57.1% in 1994) and Yap 58.4%, almost unchanged since 1994. In Pohnpei in contrast only 22.2% relied on catchments etc, an unchanged level from 1994.

68. The 2000 census records that only 25% of households used improved methods of sewage disposal (public sewage system, septic tanks or cesspools). The census notes that whilst the high proportion, 75%, using other methods was down from the 92% in 1980, it was nevertheless a deterioration from the 72.4% recorded in 1994. The Census reports states that "this number is still large enough to raise concern, especially regarding health and environmental issues"⁸. There are indeed wide differences in access to improved sanitation between the states. Only in Kosrae where 72.4% of households had improved sanitation and just 8.3% were without any toilet facilities at all could the situation be regarded as satisfactory. In the other states, particularly Chuuk and Yap, access to improved sanitation is extremely low. In Chuuk only

⁸ Federated states of Micronesia, 2000 Population and Housing Census Report, Division of Statistics, Department of Economic Affairs, FSM National government, May 2002 (page 123)

13.3% of households had improved sewage disposal, and 65.9% reported having no toilet at all. In Yap 23.8% had an improved sewage system, whilst 71.1% reported no toilet facilities. In Pohnpei the comparable figures were 31.4% with improved sewage systems and 47.6% without any toilets. Poor access to sanitation is mirrored by poor access to household bathing facilities. Kosrae, where 90% of households have either an indoor or outdoor bathroom, has by far the best level of access. At the other end of scale, almost two-thirds of Chuuk households, 47.3% of those in Yap and even 40.5% of those in Pohnpei, reported having no bathroom facilities in 2000.

69. The apparent poor state of access to improved water and sanitation facilities in three of the four states suggests that this should be one primary area for attention in national development strategies to alleviate hardship.

70. Although, as noted above, electric power was available to more than half of all households in all states except Chuuk, in line with other part of the Pacific region preferred cooking methods in FSM appear to be wood and kerosene. Indeed only in Kosrae, where 73.6% of households reported using kerosene, was this fuel preferred to wood. In the other states 63.6% of households in Yap, 74.4% of those in Pohnpei and fully 88.9% of those in Chuuk reported using either a fired wood stove or open fire.

MDG Box 3		
Millennium Development Goals		
Goal 8: Develop a Global Partnership for Development		
Target 18	Indicators	Performance
In co-operation with the private sector, make available the benefits of new technologies, especially information and communications	47. Telephone lines per 1,000 people	28.5% HH with telephone 2000

71. Transportation: The dispersed geography of Chuuk no doubt contributes to the low level of vehicle ownership (15.2% of households) and relatively high level of boat ownership, 32.5% compared to the other states. In Kosrae 65.4% of households owned at least one vehicle in

2000, but only 15.9% owned a boat. Pohnpei recorded 49.2% of households with a vehicle and 15.3% with a boat. Yap, perhaps the most traditional of the states recorded 44.5% of households with at least one vehicle and 29.3% of households with at least one boat.

72. Incomes: Since 1994 household incomes have been measured three times; in the census of 1994 and 2000 and in the 1998 HIES. The census concentrated on an assessment of cash incomes only, whilst the HIES also sought data on non-cash income and gifts of goods and services. As a consequence the data does not present a wholly consistent series. Changes over time are therefore assessed from the census figures of 1994 and 2000, whilst composition of income and expenditure is assessed from the HIES of 1998, see Section III.A.2 above.

73. The indicators of inter-state household access to services and asset ownership described above are broadly reflected in cash income levels as reported by the two censuses. Nationally between 1994 and 2000 average household cash income (of those households recording such income) increased by a total of 3.5%, from \$8,645 to \$8,944 (all in current prices). In Kosrae 97.4% of households reported being in receipt of a cash income in 2000 (94.1% in 1994), compared to a low of 77.7% of households in Yap (74.1% in 1994). Chuuk and Pohnpei reported 91.5% (1994 69.2%) and 90% (1994 69%) of households receiving cash incomes

respectively. Nationally some 10.5% of households reported not being in receipt of any cash income, down from just over one-quarter in 1994.

74. Amongst the states Kosrae and Yap recorded the greatest increases in average household incomes of 28.1% and 24.7% respectively. Household cash incomes in Kosrae were above the national averages in both years, 12% above in 1994 (\$9,686) and 39% above (\$12,407) in 2000. In Yap the average income rose from being 4% below the national average in 1994 (\$8,298) to 16% above (\$10,344) in 2000. Over the period average household cash incomes recorded a decline of 9.4% in Pohnpei, falling from 44% above the national average in 1994 to only 26% above in 2000. In Chuuk the average household cash income rose by 13.8% over the 1994 – 2000 period, but at \$6195 was still only 69% of the national average, up though from 63% of the 1994 national average.

75. At the individual level all states recorded increases in the number of people receiving cash income between 1994 and 2000. Nationally the proportion of the labour force in receipt of cash income increased from just over one-third in 1994 to just over one-half (53.6%) in 2000. The average number of income earners per household rose from 1.9 to 2.4. However the per capita income of those in receipt of some cash income declined from \$4740 in 1994 to \$3943 in 2000.

76. The largest increase in numbers receiving incomes occurred in Chuuk where 60.4% of the labour force reported some cash income in 2000, up from only 31.9% in 1994. The number of income earners per household in Chuuk rose from 1.9 in 1994 to 3.0 in 2000. Income per capita declined however by one-quarter from \$2875 to \$, being equal to only about 54% of the national average level. Consistent with their generally better performance in other indicators, Yap and Kosrae both recorded increases in per capita income levels. In Yap 45.5% of the labour force received income in 2000, up from 37.9% in 1994, in Kosrae the comparable figures were 50.5% and 48.3% respectively. Income earners per household rose from 1.8 to 2.1 in Yap but actually declined from 2.3 to 2.2 in Kosrae over the 1994 – 2000 period. Over the same period average per capita incomes rose by 4.3% in Yap, to \$5016, and by 18.3%, to \$5625 in Kosrae. The highest per capita incomes, in both years, were received by those in Pohnpei, \$7,174 in 1994 and \$6,793 in 2000, with the number of earners per household rising from 1.7 to 1.9.

77. Thus despite, by Pacific regional standards, having a high per capita GDP and income levels, the indicators of access to basic utilities and services are relatively poor in FSM, and are particularly weak in Chuuk state. Households in Chuuk are certainly disadvantaged by the dispersed geography of the state compared to the others where single islands dominate. However the fact that Kosrae, a single island with a small population, has the best level of access to power, water and sanitation suggests that if individual islands within Chuuk state were tacked the conditions for the people could be improved significantly. Vision, leadership and good governance are critical factors in setting prioritised development strategies at the state levels to address the disadvantages and hardship faced by the people. These are discussed in more detail later in this paper.

C. Participatory Assessment of Hardship and Poverty

1. Introduction and Objectives

78. **The perceptions of the people are an important indicator of the extent of hardship and poverty being experienced in society.** The needs, aspirations and priorities of the people should therefore be a valuable guide to emerging policy issues and to the setting of national development priorities and strategies. Frequently however the views of the people are often not sought or are overlooked by policy makers.

79. In order to address this issue a Participatory Assessment of Hardship, (PAH), (otherwise known as a Participatory Poverty Assessment (PPA), was undertaken in three states of FSM, Yap, Chuuk and Pohnpei. The PAH sought to obtain information on the needs, perceptions and aspirations of communities living in different states and in different parts of the country, each with differing levels of access to services and opportunities. The objective being to provide some qualitative guidelines to assist in the development of national and community focussed strategies for equitable growth and hardship alleviation. State governments in consultation with the team selected the survey sites, see PAH Box 1.

80. **Particular attention was given to the views and needs of the disadvantaged and poor themselves.** A total of nine communities were involved in the PAH which was undertaken in November 2003 through January 2004. Communities were selected in three of the four states of the country. The communities were selected to provide a broad cross section of representation

Level of Access	Chuuk	Pohnpei	Yap
Most Access	Wichap	Pohnrakiet	Madrich
Moderate Access	Fefan	Nanpahlap	Riken
Least Access	Polle	Mwoakilla	Rumung

and differing levels of access to basic services and infrastructure. In addition to community-based consultations and focus groups, there was wide consultation with government

representatives, state and national, and non-government and community-based organizations. A team of local facilitators trained under the TA led the consultations. Approximately 30/40 persons were consulted in each community including traditional leaders/elders, church, youth and women's groups. State level workshops were held in each state and a national workshop was also held to discuss the findings. Altogether more than 500 - 600 people were involved in the consultations, approximately 0.5 - 0.6%% of the total population.

81. It is important to note that the PAH is not intended to be a statistically rigorous assessment. It is a qualitative survey of perceptions and views of community groups and leaders and individuals. These views and perceptions, whilst reflecting the particular circumstances of that community, also provide valuable insights which have much wider implications and relevance.

82. **The key objectives of the PAH were to identify:**

- community perceptions of the existence of poverty/hardship;
- definitions of poverty and hardship including characteristics and causes in the FSM/state context;
- perceived trends of hardship in the last five years;

- people who were suffering from extreme hardship in their communities;
- community issues and priorities to improve their standard of living;
- community awareness of government and non-government initiatives to address causes of hardship;
- current and previous community initiatives to address hardship; and,
- community willingness and possible role to participate in future hardship reduction initiatives.

2. Characteristics and Causes of Hardship and Poverty

83. Individuals and communities consulted during the PAH defined well-being as having regular income and basic needs such as house, food, clothing; access to quality basic services and infrastructure; ability to fulfill traditional obligations; and a happy, healthy family based on Christian values. Communities had similar definitions for poverty and hardship.

84. Poverty was defined as "having nothing" – without money or food, with poor housing and lack of traditional land or fishing resources. Poor education, poor health (mental and physical) as well as limited access to basic services such as education and health, and with no-one to rely on were also cited as primary causes of serious poverty. Disunity in the community was also an important contributing issue.

85. Hardship was commonly defined as inability to meet the family's basic needs and traditional obligations as well as being dependent on parents, relatives, and others for food, shelter, and money. This was most noticeable among young people and families, and the elderly. Increasing drug and alcohol abuse was also significant for the young. Lastly, hardship was defined as having little land or other traditional resources and no job or income source. Although a number of communities stated that poverty existed in FSM, in terms of lack of access to opportunities and services, land and income; poverty in terms of food was perceived to be not applicable. It was generally agreed that all people had access to food. Thus most communities consulted were in agreement that hardship was the appropriate terminology to describe the condition in the country.

86. Poverty was seen by people to be more permanent while hardship was a condition perceived to be temporary particularly in the context of income, e.g., "having money today and none tomorrow", and natural disasters, e.g. devastation of properties during cyclone season. These terms were used to describe people's situation in both "urban", rural and in outer island communities. The primary causes of hardship and poverty identified in each of the states is summarised in PAH Box 2.

PAH Box 2 Causes of Hardship and Poverty (Macro)			
Location	Chuuk	Pohnpei	Yap
• Lack of basic services (water, power, poor health & communication facilities, poor education, no road)	√	√	
• Lack of personal motivation	√		√
• Idle land, lack of farming/fishing equipment		√	√
• No job/skills/education, unemployment	√	√	√
• Lack of price control	√		
• Sickness & mental illness, poor nutrition, physical disabilities	√	√	√
• Alcohol & drug abuse	√	√	√
• Natural disasters		√	√
• Restrictions on females for higher education			√
• Taking care of children & grandchildren			√
• Opposition of elders to access services/infra			√
• No spouse			√
• Not listening to parents			√
• Corruption, incompetent leadership, lack of cooperation between people & community leadership	√		
• Weakening traditions and customs	√		
• Prejudice/feeling of inferiority		√	

87. The identified causes of hardship and poverty were similar across all communities and are a clear reflection of the PAH communities' definition of hardship. The primary cause of hardship for all islands communities was the lack of income and/or limited income opportunities to meet individual needs (and wants) such as food, land, house, education, and money. Low income was itself due to lack of employment opportunities and to limited marketing opportunities, access to skills, and capital in the rural areas and outer islands.

88. Overall, the identified causes of hardship in the main island areas were similar to those identified in the outer islands particularly on the main issues of low income, limited access to quality basic services and infrastructure, unplanned family, and burdensome traditional obligations. The findings of the PAH noted a high dependence on cash income even by outer island communities. Basic needs and access to services such as education, power and communications all require cash expenditure. Poor diets and bad nutrition (excess of carbohydrates, fats and sugar) are leading to increasing ill-health and indirectly to hardship for many families.

89. In assessing people's perceptions of hardship and their needs and priorities for improvements it is important to understand the difference between what is desired and what is tolerated. Families and individuals will tolerate poor services when they have no other choice. They cope with their circumstances. However as better services are provided, as they have been in many areas of the country, then communities desire those standards to be maintained.

If they fail to be so, then tolerance of a return to poorer standards of services is lowered. This presents a challenge for state governments to ensure that adequate operation and maintenance skills and resources are made available to sustain past infrastructure and service investments.

3. Who are the Most Disadvantaged?

90. Traditional social structures and hierarchies exist in all states. Each has its own particular systems but all are based on communities and traditional leaders. Although the structures are hierarchical, there are strong social support systems in place that generally ensure the welfare of those who are in need. During the PAH consultations, however, there was an indication that this extended family and community support system is weakening due to the increasing pressures exerted on limited household resources by the growing numbers of family dependents. As a result, a number of individuals and families were facing increasingly poorer economic prospects and declining living standards placing them in more extreme hardship than the rest of the community.

91. Those people identified to be in particular hardship by their communities are summarised in PAH Box 3 and included:

- women (widows, single mothers) without regular income,
- youth who have dropped-out or left school at primary or before finishing secondary level,
- families without regular income and having "too many children" and poor housing, and
- those people who are "lazy" and always drinking "sakau", sickly people, landless, disabled, old without regular income and children to rely on, and widowers.

PAH Box 3 Communities' Most Disadvantaged	
•	Unemployed & landless
•	Children: children without parents
•	Youth: uneducated, those who did not finish college, teenage couples w/o means to raise own children
•	Women: widows, single mothers without income source
•	Men: widowers, elderly without support
•	People: "own nothing", w/o education or skills, without support from relatives, low caste
•	Families: large families with little or no land (settlers)

4. Causes of Hardship and Poverty Among Community Groups

92. Box PAH 4 provides a summary of the different forms of hardship and their causes as experienced by disadvantaged groups within poor communities in FSM.

PAH Box 4 Characteristics and Causes of Poverty By Community Group		
Group	Characteristics	Causes
Children	Poor education	<ul style="list-style-type: none"> • Left school early due to low aptitude, peer influence - "education not a priority", and low income parents • "Not listening to parents" • Poor teaching standards • Laziness, lack of motivation
	Poor parenting	<ul style="list-style-type: none"> • Parental neglect, separated and absentee parents
	Poor nutrition and health	<ul style="list-style-type: none"> • Poor nutrition • Overcrowding in houses

Youth	Very limited income opportunities Poor education	<ul style="list-style-type: none"> • Leaving school early • Lacks qualification/unskilled • Limited local employment opportunities
	Unemployment	<ul style="list-style-type: none"> • Lack of fishing/farming equipment in family
	Too dependent on parents and relatives	<ul style="list-style-type: none"> • "Laziness" of the individual and mothers to encourage school attendance • Inability to make own decisions • Landlessness • Early marriages with no means to support family
	Poor parenting	<ul style="list-style-type: none"> • Parental neglect, separated and absentee parents (e.g., overseas) • Poorly educated parents
	Lack of discipline	<ul style="list-style-type: none"> • Parental neglect, negative influence of "westernisation" • Drug and alcohol abuse • Teenage pregnancies
	Alcohol and drug abuse Teenage pregnancies	<ul style="list-style-type: none"> • "Western influence", parental neglect • Wrong decisions • Limited sports and recreational facilities
	Disorganized	<ul style="list-style-type: none"> • Without commitment to organize own program
Women	Under considerable stress in providing for family's needs	<ul style="list-style-type: none"> • Low income and prejudice in employment • Limited educational qualification • Have too many children, lack of family planning • Inaccessible markets to sell handicrafts for income • Teenage pregnancies, abandonment and left as single parents • Poor access to basic services • High cost of goods and services • Too much time spent at bingo and community/social functions
	Over dependence on husbands, parents, & relatives	<ul style="list-style-type: none"> • Limited income • Limited skills and educational qualification • Low self-esteem
	Domestic violence	<ul style="list-style-type: none"> • Drug, sakau and alcohol abuse among by husbands • Overcrowded households, limited income, extra- marital affairs • Vulnerability to STIs
Elderly, Mentally challenged and Physically handicapped	Lack of care and regular financial support	<ul style="list-style-type: none"> • Too old and infirm to work, lack of income • Migration of children to the state/national capital or overseas; changing attitude/concept of family by younger generation; lack of income source by children • Too many commitments
	Dependent on relatives for financial support and care	<ul style="list-style-type: none"> • Unable to look after themselves due to poor health or poor education • Limited facilities dedicated to these group • Limited education and opportunities to find employment

5. Where Do Most Disadvantaged People Live?

93. The majority of PAH respondents were in agreement that disadvantaged people were present in urban, rural and outer island communities throughout all states. Access to basic services particularly their distance from the capital, quality of education and health services, access to water and power supply as well as access to income opportunities such as jobs and markets were the main indicators used by communities to rate the level of hardship or quality of life in all sample sites.

6. Trends of Hardship

94. Community perceptions of the trends in hardship being experienced were mixed. Where new infrastructure or basic services had been provided communities saw this as a positive sign

that their conditions of living were improving. Where there was community cooperation and harmony and/or strong church oriented programmes this was also seen as a positive sign. However in most communities in all three states the general perception was of some deterioration in the quality of services and standards of living.

95. Concern was noted regarding the monetisation/westernisation of societies and in the consequent changing attitudes toward sharing and caring. Many communities reported a weakening in the traditional social safety net due to the increased cost of living and the seeming lower value of incomes. Moreover, many communities consulted also stated that relatives, church, and government put considerable pressure on the people, particularly in contributing for family/community functions, church donations, and government taxes on goods and services.

96. Furthermore, communities stated that youth involvement in drugs was increasing, most notably in marijuana and sakau and that petty theft was also becoming more common in communities.

7. Coping Strategies

97. Communities that have experienced hardship and difficult living conditions over long periods tend to regard these as the norm. Indeed communities and individuals develop coping strategies that become the traditional subsistence lifestyle. Water has to be boiled, children and families walk to the school, clinic or market. Lack of power, poor sanitation, poor health and poor education are often present and this often condemns families to a continuing life of hardship as they are unable to break free from their disadvantage. These conditions are most often experienced by communities with the least-access to services, normally those in the outer islands. All communities consulted had developed coping strategies to deal with the particular disadvantages suffered in their localities.

8. Gender Relations

98. All communities consulted in the PAH were in agreement that the situation of women had improved in the last five years. This had been due to increased access to education, being more organised to participate in community development activities, increasing community recognition of women's contributions in community decision-making as well as the appointment of women to a few senior positions and election as councilors. There was also a perception that men were now giving women a greater level of responsibility for decision making in the home. These were all seen as contributing to women's increasing participation in governance at the national level. However some communities expressed their view that this trend needed to go further to bring about better standards of governance.

9. Community Awareness

99. Communities in all states were generally unaware of any development initiatives presently being undertaken by government or donors in their communities. There was more awareness of community-based and some NGO programmes which targeted the specific needs of the people. These projects included water supplies, seawalls, community clean-ups, counseling for youth, church pastoral activities and general community activities.

10. Priorities and Capacity Building Needs of the People

100. The community priorities for hardship and poverty alleviation follow directly from the causes and characteristics of hardship and poverty outlined in the foregoing paragraphs. They are primarily focussed at the micro-level. These are summarised in PAH Box 5. Priorities for the people target interventions that impact on the individual, family and the community, helping them to overcome hardships that are experienced on an every-day basis. The highest priorities are for increased employment and income generating opportunities.

101. The capacity building needs that were identified also reflect community aspirations for greater skills and knowledge to deal with day-to-day circumstances and to help them achieve greater material and social well-being. Hardship and poverty alleviation therefore requires a balance between macro and micro-level interventions. The macro-level needs to focus on the creation of employment and other income generating opportunities, whilst at the micro-level, support needs to be provided for improvements to basic services and community level infrastructure.

D. Governance and Poverty

102. **Governance:** FSM is a democratic republic with a government system modeled on the USA presidential system. It is a federation of four states: Kosrae, Pohnpei, Chuuk and Yap. Each state has its own government and municipal authorities. There is also a national government located at Palikir on Pohnpei. Chuuk has a two-tier government while the others are each served by a single house. The national legislature (Congress) is elected every five years for a fixed term. The President is elected from within the Congress by the vote of the members of Congress. By convention the Presidency and Vice-Presidency is rotated between the four states. The executive head of FSM is the President who selects a Cabinet based on merit. The Congress has the right of veto over the President's selections for Cabinet. National and state public officials are appointed through an open and competitive selection process. The four states follow

PAH Box 5	
Summary of Community Priorities	
<ul style="list-style-type: none"> • Improve/maintain quality of basic services and infrastructure • Expand income earning opportunities • Improve transport services and market access • Provide more opportunities for technical and vocational training for boys and girls • Provide sports and recreational facilities for the youth • Reduce drug and alcohol abuse • Provide better family health and family planning advice services and advice • Improve standards of governance (honesty, transparency and accountability) 	
Identified Capacity Building Needs	
<ul style="list-style-type: none"> • Gardening skills for food security and better nutrition • Home economics skills for improved health and nutrition, including water safety • Domestic skills, including sewing, budgeting and handicraft making • Business skills to assist in income earning activities • Vocational and other skills training (carpentry, mechanics) to help in income generation • Parenting skills, counseling and guidance • Leadership, organisation, management, and family life skills 	

broadly similar processes with the main exception being that the people elect the Governor rather than the state legislature.

103. **In total there are six legislatures and five executive governments serving a total population of less than 110,000 people.** FSM thus has the most complex government system of any PDMC. This complexity makes governance a critical issue for the country and, not surprisingly, the quality of governance varies markedly amongst the states. In recent years it has ranged from an almost complete lack of accountability (typified by Chuuk state) through to a reasonably well-managed system (Yap). The level of public official and representative probity also varies considerably.

104. **Participation:** If anything FSM has too much participation. In addition to the six legislatures, five executives and many municipal level authorities, the traditional system of chiefs, leaders and community consultation processes continues to have significant role throughout much of FSM.

105. Thus the overall complexity of the government system, the lack of an adequate number of well-qualified and motivated staff and the continuing flows of Compact funds have all conspired to generate a degree of complacency reducing the standards of governance and encouraging their wasteful use of resources. It is also unfortunate that the largest state has also been the poorest performer in both economic and governance terms.

106. **There are no clearly documented national development strategies or priorities.** Two National Summits, in 1995 and 1999, discussed many of the critical issues and a third summit is planned for early 2004. The national government needs to provide visionary leadership to the states. It needs to set a broad national strategic framework with a clear Vision and focussed set of desired Strategic Outcomes. This should be used to guide the development of State level strategies to address the specific needs and priorities of each of the states and of the most disadvantaged in each state. The key development and poverty indicators suggest that despite the substantial funds which were provided under the first Compact there have been serious weaknesses and inefficiencies in the delivery of services to the people.

107. **Rule-of-Law:** There are some differences between the states but in general the rule-of-law is respected throughout FSM. The legal system protects the rights of individuals, groups and corporations. The judiciary is independent and the legal system is also based upon the USA system. To date the FSM has not suffered from any significant civil and social disorder. However the need for greater fiscal discipline, unless coupled with serious efforts to promote greater private sector development, could lead to increasing hardship and poverty. This in turn could conceivably lead to deteriorating social conditions.

108. **Enforceable Private Rights:** Traditionally private rights have been fairly much limited to the right to cultivate specified areas, harvest certain trees and build on an allotted piece of ground. The rights are often over-lapping with different families having specified rights over the same property. The concept of exclusive private rights is somewhat foreign to Micronesian culture. However the right to control private property is fundamental to the development of an effective private sector and since private sector investment is important to growth these issues must be addressed.

109. **Equity of Distribution:** Since independence the primary method of distribution has been through employment in the public sector. The public sector dominates employment in FSM and accounts for around 70% of wage and salary positions. The other main source of employment is in the retail and services sector, which provides goods and services to the government and its employees. These wages and salaries are distributed widely throughout the FSM community via the kinship links.

E. The Economy and Growth

1. Macro-Economic Structure and Performance

Macro-economic Overview

110. **The FSM economy is notable for two things: (i) aid dependence; and (ii) domination by the public service.** It has also performed poorly in recent years. Over the five years 1995 through 1999 the average growth rate was a negative 3.9% per annum as the nation struggled to come to terms with its fiscal problems resulting from the decline in Compact revenues. Since 2000 there has been some modest recovery with annual growth averaging 3.6% per annum. The challenge for the coming years will be to sustain that growth through private sector investment as the fiscal situation adjusts to the new Compact funding level.

Fiscal Situation

111. **Public Expenditure:** In 1995 the public sector contributed about 40% of GDP. By 2002 this had declined to 35.7%. Public sector expenditure is largely funded from the funds provided under the Compact of Free Association. These Compact funds have consistently financed some two-thirds of budget expenditure and in recent years have been equivalent to just under 50% of GDP. While the Public Sector Reform program has helped reduce the size of government it has fallen some way short of bringing about a major restructuring the economy.

112. Government budget projections for FY 2003 show domestic revenues accounting for 37% of recurrent government expenditure, down from 44% in 1994, with Compact funds accounting for the balance. Projections also indicate a current budget balance compared to an average deficit of 3% of GDP between 1999 and 2002. The share of government revenue in FY 2002 from fisheries access fees was 24%, down from 38% in 1994, highlighting the important but declining contribution made to the national economy by the fisheries sector.

113. The adjustment to the new level of Compact funds will require additional fiscal measures that will likely impact significantly and potentially quickly on living standards. Without serious attention to improving financial management, cost effectiveness and the efficiency of service delivery the poor and disadvantaged will suffer declining education and health services, while the marginally poor will experience a further decrease in their living standards.

Sectoral Performance

114. The share of government, national, state and municipalities, in GDP fell from an average of 33.6% in 1990 – 1992 to 27.8% over the 2000 – 2002 period. Between the same periods the share of public enterprises in GDP rose from 3.1% to 7.0%. Thus overall the public sector's share of national product was virtually unchanged over the decade. The subsistence sector

contributed a consistent 15% to GDP throughout the period. Such growth as there was came from the enterprise sector (private, financial and non-profits) which increased their share of GDP from an average of 34% of GDP in the three years 1990 – 92 to an average of 36% between 2000 – 02.

115. **The agriculture sector is mainly subsistence agriculture.** Commercial agriculture provided only 1% of GDP in 1996 (the latest year for which economic sector aggregates are available), compared to 17% for subsistence agriculture. This weak performance is due in part to non-viable government investments in large-scale agriculture, lack of market responsiveness by producers (reflecting a significant degree of risk), and inefficient practices in the coconut industry.

External Sector

116. **The flow of Compact funds has enabled FSM to run a large and consistent deficit on its external account.** The average annual deficit on the trade balance amounted to about 40% of GDP each year between 1994 and 2002. Excluding official transfers under the Compact the current account was also in annual deficit by about 40% of GDP over the same period. With Compact funds averaging just under 30% of GDP, the overall balance fluctuated widely between a high of plus 11.2% of GDP in 1995 to a low of minus 10.6% of GDP in 1997. More recently the overall deficit was estimated at 7.9% of GDP in 2001, and a forecast surplus of 3.9% of GDP in 2002.

Prices and Inflation

117. **Inflation has been trending downwards.** The CPI increased at around 4% in 1995-1996, reducing to 3% in 1997-1998, and to 2.6 per cent in 1999. Between 2000 and 2001 the rate averaged 1.9% but is estimated to have fallen to zero in 2002. As the US dollar is the currency, and most imports are from the US, inflation can be expected to track inflation in the US. The use of the US\$ also effectively eliminates the possibility of using monetary policy as a tool of economic management.

External Debt

118. External debt servicing obligations were relatively high in the early 1990s but have recently declined to more sustainable levels. At its peak in 1993 external debt was equivalent to 69% of GDP, and debt service accounted for 86% of export earnings. External borrowing accounted for an average of almost 50% of GDP in the period 1995-1999, but since 2000 has averaged only 25% of GDP. Debt servicing costs are estimated to have fallen below 10% of export earnings in FY 2002/03.

Private Sector Development

119. **Private Investment:** Private sector investment is very limited and likely to remain so. Investment and job growth have been affected by the generally poor and often volatile economic performance. The small size of the economy, the remoteness of the islands and the limited natural resource base are all additional impediments to the development of the private sector. Another major impediment is a land tenure system that makes the private ownership and transfer of land difficult. Of particular note in relation to this is the prohibition on foreign ownership of land. This prohibition extends to the Bank of FSM that has a foreign shareholder

with a minority interest in the bank. The prohibition prevents the bank from taking a charge over land and thereby limits its capacity to fund private investment. There has also been uncertainty over the consistency and transparency of investment policies, particularly in relation to SOEs and other politically connected enterprises. Opportunities for private sector development have therefore been limited. Notwithstanding these constraints the main private sector activity has been in fishing, banking, retail and wholesale trade and transport. There has also been some limited investment in tourism.

120. Even once investment decisions have been made private companies must cope with a complex range of national and state level regulations and controls. Approval processes also involve a high level of discretionary powers. These add to the costs and difficulties of doing business in FSM and are yet another impediment to further private investment. Recent studies by FIAS and other agencies have recommended streamlining the regulatory systems to create a more open and transparent investment and business environment. Implementation of recommendations in this area would be an important step in helping to create an environment conducive to investment and employment creation. It would thus contribute to meeting one of the key priorities of the people for more economic opportunities.

121. Government has sought to promote commercial/industrial development through state enterprises, notably fishing ventures. Almost without exception these have either failed or only been sustained through considerable subsidies. Potentially successful private sector ventures have been damaged or hindered by government interference, direct competition, excessive regulation and the lack of a genuinely supportive and consistent policy environment.

122. Wage differentials remain a critical labour market issue. In recent years average public sector wages have consistently been about double those of the private sector. This is a strong disincentive to participate in the private sector and indicates the share of resources captured by public servants at the expense of growth and social investment. This big differential impacts adversely on the cost structure of private sector enterprises, deters private investment, increases economic inefficiencies and makes domestic enterprises less able to compete in international markets, including for tourism. The high cost structure in the FSM economy and the lack of a monetary policy instrument for economic management are important constraints for the development of FSM.

123. Joining PICTA, and PACER, (and perhaps ultimately WTO), will require FSM to reform its tax and tariff systems and its regulatory environment. Accession to these various international agreements will serve as a catalyst for change. And whilst the required structural reforms will be welcome it will, nevertheless, be important that implementation is well managed to minimise any adverse short-term impact on low income groups.

124. From the social perspective there are also problems with society's attitude to success. The culture of FSM discourages people from standing out, it is considered far more acceptable to be poor and at one with the community, than being well off and appearing to be above the rest. This communal pressure is a powerful disincentive to individual achievement.

125. **Effective Markets:** It has also given rise to one notable difference between FSM and most of the other PDMCs, that is the absence of roadside local produce vendors. Traditionally people would have been embarrassed at having to sell things thereby indicating their apparent poverty. This attitude appears to be changing and there has been an increase in the number of

small roadside stalls and shops being established. Thus although the culture of business is not well entrenched and few understand the nature of the production and marketing process, this is changing. The reality of increasing hardship and poverty is fostering the development of hidden entrepreneurial spirit. The legal framework and government systems are in place to underpin a market system and it is developing slowly. The issue has been more social and cultural than legal or economic. Efforts are being made to further promote small business development through entrepreneur training programs and the Bank funded Private Sector Development Project⁹.

2. Access to Credit

126. The poor economic performance and weak fiscal situation has been reflected in the steady decline of commercial bank credit over the seven years 1995 - 2002. The closure of the Bank of Hawaii and the suspension of consumer lending in Chuuk were also major factors in the fall in bank lending. Further, the banking system is constrained by the difficulties of ensuring adequate security for loans, including on land. Between 1993 and 1995 domestic lending averaged around US\$55 million per annum. By the end of 2002 this had declined to US\$35 million and to only US\$26 million in mid-2003. In the mid-1990s the banking system's ratio of domestic assets to foreign held assets was 45%:55%. By end 2002 the ratio had fallen to 25%:75%. The weak state of the credit market is a major constraint to the development of the domestic private sector.

127. Since 2000 FSM Development Bank (FSMDB) has been lending an average of around \$5 million per annum. In 2002 the bank made a total of 89 loans, of which three were to the agriculture sector compared to seven loans made in 2001. Just over half the loans (47) in 2002 were made for commercial projects, 20 for fishing and nine for manufacturing. Although there were only four tourism loans these accounted for one-third of loans by value. A similar pattern of lending occurred in 2001. Six loans to tourism (3.7% of total loans) accounted for 42% of loans by value.

128. Since its inception approximately one-quarter of all FSMDB's loans have been to the agriculture sector however this has been equivalent to only 2.6% of lending by value. As at end 2002 the agriculture sector accounted for only 1% of the gross loan portfolio, the largest sectors in the portfolio were fisheries (30%) and tourism (46%). In addition to the main FSMDB lending there is a separate Kosrae Agriculture Loan Programme which has made 191 small loans, for value of \$0.1 million, to farmers in that state.

129. The FSMDB's 2002 annual report notes that historically agriculture loans have performed poorly. The bank cites a number of reasons for the failure of agriculture ventures including; lack of training in agro-business, difficulties of transport and market access, and lack of technical support services to the sector. It also notes the problems which might be attributed to the traditional subsistence way of farming being incompatible with a commercial venture. These constraints present major challenges for the state and national governments if they are to provide income generating opportunities for the people in the rural areas.

⁹ Loan 1874 FSM Private Sector Development Project

130. In contrast to agriculture, small-scale fisheries projects have been more successful. The 2002 report notes that the fisheries Community Outreach Programme has been successful in stimulating a number of viable projects particularly in the rural and outer island areas. However here also many constraints are experienced in terms of costs, markets and transport in particular.

131. Access to credit from FSMDB is available in all four states and the distribution of loans indicates that approximately 30% of all loans by number and value went to Chuuk. Kosrae received 24% of loans by number but only 8.4% by value, conversely Yap received only 9.5% by number but 20.4% by value.

3. Labor Force and Employment

132. According to the 2000 census the Labour Force Participation Rate (LFPR) rose from 43.6% in 1994 to 58.6% in 2000. The LFPRs varied considerably between the states with a high of 72% in Yap and a low of 48% in Kosrae. The LFPRs for Chuuk and Pohnpei were about on the national average of around 58%. The high LFPR figure for Yap reflects the high level of traditional involvement of females in subsistence agriculture activities.

133. Generally the LFPR for females was lower than for males, 50% compared to 67% at the national level. The gap in LFPR between males and females did however narrow between 1994 to 2000 from a ratio of 1.9 to 1.3. The major difference being in the extent of formal employment where males were twice as likely to be in jobs than females. About 29% of males were recorded as being in formal employment compared to 15% of females. However about 24% of both males and females were recorded as being engaged in agricultural activities.

134. **Formal Employment:** Of the 37,414 in the labour force, (out of total working age population of 63,836 in 2000), 78% were classified as employed, of these 47.8% were reportedly in formal employment and 52.2% were engaged in farming and/or fishing. The majority (70%) of this latter category were only engaged in subsistence activities, whilst the remaining 30% were "market oriented" farmers or fishermen. The census report notes that the numbers of the working age population engaged in formal employment declined by 3% between the two census dates, from 24% to 22%. The report comments that "this suggests a lack of opportunity for formal employment in the FSM economy".

135. Yap (35.9%) and Kosrae (31.7%) had the highest rates of formal employment in the working age population, although they had the lowest absolute numbers, 2,570 and 1,468 respectively reflecting their small populations. Pohnpei had the highest number in formal employment, 5,375, and the next highest proportional level, 26.3%. Chuuk with the largest total population had the second largest number in employment, 4,456, this represented by far the smallest proportion of the working age group, only 14.4%.

136. Agriculture and fisheries activities were most important in Yap, 33.5% of the working age engaged, and in both Pohnpei 26.3% and Chuuk 23.5%. In Kosrae, in contrast, only 8.6% of the working age population claimed to be engaged in any form of agriculture or fishing activities, whilst a full 51.8% reported being "Not in the Labour Force". This latter figure compared with 42% claiming no economic activity in both Pohnpei and Chuuk and 27.7% in Yap.

137. The FSM Social Security Administration (SSA) maintains records of employment relating to members contributing to the social security scheme. SSA records indicate that there was no increase in formal employment between 1994 and 2002, the numbers being constant at around 15,700. Within this total however the number of government (national, state, and municipalities) employees declined from 7,812 in 1994 to an estimated 6,656 in 2002. Those employed in public enterprises increased in number from 791 in 1994 to 950 in 2002. Thus the numbers employed in the private sector increased from around 7,200 in 1994 to about 8,000 in 2002. This increase in private sector employment reflects the growth in the sector as described above.

138. **Subsistence:** In 2000 the census recorded 16.6% of the working age population engaged in subsistence activities, up from 9.9% in 1994. For males the rate was 15.2%, not much changed from the 13.2% recorded in 1994. For females however the 2000 rate was 18.1% almost three-times the 6.4% recorded in 1994. The female rate of engagement in subsistence increased particularly in Yap, up to 38.5% in 2000 from 22.9% in 1994, in Chuuk 5.2% in 1994 to 15.3% in 2000 and in Pohnpei, up from 3.3% to 18.1% over the same period. In both years the rate of female subsistence activity in Kosrae was very low, 1.1% in 1994 and 3.7% in 2000.

139. In aggregate only 4.3% of the working age population in Yap was engaged in subsistence, with another 4.3% being market oriented farmers. It is however interesting that Kosrae also had the highest proportion of the working age population not in the labour force, 51.8%, which might suggest some definitional issues in the census. Chuuk had the lowest proportion engaged in formal work, only 14.4%, and the second highest rate of those not in the labour force, 42.4%. It had the highest rate of unemployment, 19.2%, more than double any of the other states.

140. The importance of educational attainment in relation to employment prospects and economic opportunity is reflected in the fact that 80% of the males and 86% of the females engaged in subsistence agriculture had either no education or had failed to complete high school.

141. **Unemployment** was estimated at 22% in 2000, up from 16.2% in 1994. The unemployment rate for females has been consistently above that for men. In 2000 the female rate was 23.8% compared to 20.7% for men. It is however noticeable that the rate for men doubled from 10.7% to 20.7% between 1994 and 2000.

MDG Box 4 Millennium Development Goals		
Goal 8: Develop a Global Partnership for Development		
Target 16 In co-operation with developing countries, develop and implement strategies for decent and productive work for youth	Indicators 45. Unemployment rate of 15-24 year olds	Performance National 45.3 Male 35.0 Female 35.7 Yap 7.1 Chuuk 50.1 Pohnpei 21.8 Kosrae 38.5
Target 17 In co-operation with the pharmaceutical companies provide access to affordable essential drugs	Indicators 46. Proportion of population with access to affordable essential drugs	Performance Estimated > 90%, access to free health service available throughout the country

Unemployment rates are highest in the youth age group (15 – 24 years) being 35% in 2000, virtually unchanged from the 1994 level. In 2000 the rate for young males was 35% compared to only 25% in 1994. In contrast the rate for young females was 35.7% in 2000, down from 45.3% in 1994, see MDG Box 4.

142. Amongst the states Yap had the lowest unemployment rates in both 1994 and 2000, 9.9% and 4.1% respectively, reflecting the high level of subsistence activity in the traditional economy. At the other end of the scale Chuuk had the highest rates in both years, 19.9% and 34.2% in 1994 and 2000 respectively. In the youth age group the unemployment rate was 50% in Chuuk, significantly above the rate of 38.5% in Kosrae which was the next highest. Between the two census points the youth unemployment rate fell in all other states except Chuuk. Since Chuuk is the most populous state this would seem to be a worrying trend suggesting that many social and welfare issues are likely to appear in the coming years as these unemployed youth grow older. The realisation that employment is one of the essentials for avoiding hardship and poverty is seen in the almost tripling between the two census points in the number of Chuukese who indicated that they were actively looking for work.

143. The high and rising levels of youth unemployment are powerful indicators of the potential for hardship and poverty developing and bringing with it social tensions. The need to find productive work and economic opportunities for youth, in both the formal and informal sectors of the economy must be a core priority of strategies for equitable growth and hardship alleviation.

F. Vulnerability Indicators

1. Indices

144. While FSM is not ranked on the composite vulnerability index for small island states, in the 1999 PHDR, FSM was ranked highly vulnerable to 4 out of 7 relevant types of climatic disaster—namely: tsunamis, landslides, drought and coastal flooding. It was also ranked as medium in terms of exposure to cyclones. Coastal flooding is highly relevant in a scenario of rising sea levels.

145. Ensuring sustainable development and reducing environmental degradation are part of the MDGs. Data on the environmental MDGs, see MDG Box 5, are generally weak. Environmental sustainability is also seen in relation to access to improved water supplies, sanitation and reductions in the use of solid fuels. These are discussed in the section on household characteristics above and in MDG Box 2.

2. Economic Vulnerability

MDG Box 5 Millennium Development Goals		
Goal 7: Ensure environmental sustainability		
Target 9	Indicators	Performance
Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources	25. Proportion of land area covered by forest	21.7 (check the yearbook >)
	26. Land area protected to maintain biological diversity	No data available
	27. GDP per unit of energy use (as proxy for energy efficiency)	No data available
	28. Carbon dioxide emissions (kg per capita)	1,312 (1996 UNFCCC)

146. FSM has a limited range of natural resources and is vulnerable to external factors. Whilst the fiscal situation is underpinned by the Compact domestic revenues from fishing licences and the value of exports are dependent on weather, fish catches and international demand for tuna.

147. The new Compact arrangements are intended to provide a stable level of annual grant funding in real terms over the twenty years commencing 2004. During this time a Trust Fund will be established and built up, such that returns from the Trust Fund will be expected to replace the annual grants beyond the first twenty years. Although the annual grants will underpin the budget it will be necessary for the government to actively promote private sector development in order to generate additional growth in the economy. The budget, and the economy as a whole, will therefore remain vulnerable to external influences.

148. The country imports a high proportion of its food, most of its building materials and all its fuel, equipment and machinery. It is therefore vulnerable to external price events, notably fluctuations in oil prices, and also to international shipping and air services and freight rates.

149. Domestic employment in the non-government sectors is likely to be vulnerable to the general tightening in the fiscal situation which will occur as the new Compact becomes effective. Any decline in employment will cause an increase in hardship and poverty amongst those whose jobs are lost. There are no government funded welfare programmes for those who are disadvantaged or vulnerable. The SSA operates a provident fund type social security system for those who contribute during employment.

150. **Declining food security is becoming a vulnerability issue.** The increasing monetisation of the economy is changing the lifestyle pattern of many people. As the outer island populations age, young people leave and the dependency ratios rise, there is a loss of traditional subsistence skills. The PAH highlighted the concerns of many older people that the youth are no longer interested in fishing or tending plantations. This they believe is leading to a loss of food security which, in the event of some interruption to shipping services or supplies, could prove critical in isolated communities.

151. **FSM citizens have free access to the United States for jobs and education.** As a result, more than an estimated 1,500 people migrate annually to Guam, Hawaii and the US mainland. However, unlike other Pacific countries with large diaspora, remittance flows are not presently a big part of the economy.

3. Environmental Vulnerability

152. **There are environmental issues to be confronted:** (i) inadequate waste management services; and (ii) continuing loss of both marine and land-based bio-diversity. Area-specific environmental problems include: over-cultivation and erosion on sloping lands in Pohnpei; reef damage due to dynamite fishing and cyanide poisoning in Chuuk; coastal pollution as a result of land reclamation in all States. Moreover, the potential to pollute the water lens is high. Dumping of agriculture chemicals and motor oils are serious public health issues.

153. **Growth of low quality "squatter settlements", waste management and water supply are becoming important issues for Pohnpei.** These poor quality housing developments have the potential to create health and other related social problems.

G. Social Development

1. Social Environment

154. **Strong and closely-knit kinship ties characterize the Micronesian social system.** This approach has enabled the Micronesians survive in a difficult environment. The traditional culture of the people of FSM was a mixture of hereditary leadership and meritocracy. While the basis of this culture remains its substance has been eroded during the period under foreign rule and, more recently, since the introduction of democracy.

155. To understand the social environment in FSM it is necessary to consider the history of the country. The culture in FSM has been profoundly influenced by over 400 years of contact and occupation rule by foreign powers. Spanish and Portuguese explorers made the first European contact in the early sixteenth century. The Spanish established small settlements throughout the islands in the mid nineteenth century and then sold their colony to the Germans in 1899. The Japanese took over at the outbreak of World War I. They remained in control until the end of World War II. The Japanese developed the islands as an outpost of Japan with the local population being physically segregated from the Japanese and treated as a convenient source of casual labor. Few received any significant education and even those that were lucky enough to get schooling could not go beyond learning a trade. After the Second World War the USA took over the administration of the islands as trust territory of the United Nations.

156. In 1986 FSM received full independence under a Compact of Free Association with the United States of America. Throughout most of the 140 years before independence the people of FSM were virtually second-class citizens in their own country. Even since receiving independence they have remained highly dependent on external support, this long-term domination has stifled initiative.

2. Education

157. **The 2000 census records literacy rates of 92% for both males and females (aged 10+ years), a slight decline from the 1994 level of 94%.** In both census years the highest rates of literacy, both male and female, were recorded in the 20 – 44 year age groups. Female literacy falls quite sharply above this age level reflecting the previous lower levels of female enrolment. The apparent decline in the literacy rates of the younger age groups points a worrying fall in education standards. Amongst the states Kosrae and Pohnpei had the highest literacy rates, 99.4% and 95.8% respectively in 2000. As in so many other indicators Chuuk lags behind with an average rate of 89.3%, and an even lower rate of 88.5% for the 10 – 14 year age group, (down from 91.5% in 1994).

158. **At the Elementary (Primary) level Gross Enrolment Rates (GER) are reasonably satisfactory**, being 92.3% nationally and 91.7% and 92.9% for boys and girls respectively. However all these rates are down at least one percentage point from the 1994 levels. At High School the GER were for both boys and girls and have deteriorated further. In 2000 the national High School GER was 72.3%, down from 81.4% in 1994. For boys the decline was a full ten percentage points to 68.1% from 78.4%. For girls the decline was less, to 76.7% from 84.7%, but a significant decline none-the-less. Up to age 13 enrolments rates have been fairly steady indicating a relatively low drop-out rate at the primary level. At High School drop out rates rise dramatically. From an enrolment rate of around 75% at 14 years the rate falls to less than one-third by age 18. Amongst the states Kosrae appears to have had consistently higher enrolment rates across all age groups, whilst Chuuk and Pohnpei have lagged behind, especially in the secondary age groups.

159. Although the preceding indicators point to a disappointing level of performance in the education system there have nevertheless, been some general improvements. Over the twenty year period from 1980 to 2000, the number of people (age + 25 years) with no schooling halved from 24.8% to 12.3%, this rate of improvement was common to both boys and girls. At the High School level girls out-performed boys significantly. The number of girls completing high school increasing from 12.0% to 30.3% over the period compared to an increase from 22.5% to 34.4% for boys. At college level the number of girls completing increased from 3.4% in 1980 to 12.7% in 2000 but was still only half the rate for boys of 24.4% in the latter year.

160. Attainment levels for the 25 + age groups indicated in the states (census 2000) follows the pattern seen elsewhere. Kosrae and Yap lead the way at all levels of attainment above primary with Pohnpei in third and Chuuk bringing up the rear. All states are roughly equal in the level of attainment at primary level but beyond this the differences widen rapidly. By the end of high school Yap 58.8% and Kosrae 47.9% are well ahead of Pohnpei 34.2% and Chuuk 30.4%. At college level Kosrae and Yap were 19.8% and 15.5% respectively with Pohnpei close at 13.4%. Chuuk by this stage has fallen well behind with an attainment level of only 7.9%. Adding to the concern in relation to Chuuk is the fact that the level of attainment appears to be falling in that state whilst it has either improved or at least not become any worse in the others.

161. The complex education structure in the country, being in theory regulated and monitored

MDG Box 6		
Millennium Development Goals		
Goal 2: Achieve universal primary education		
Target 3 Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	Indicators:	
	6. Gross enrolment ratio in primary, secondary and tertiary education	Primary 92.3 Male 91.7 Female 92.9 Secondary 72.3 Male 68.1 Female 76.7 (Census 2000)
	7. Proportion of pupils starting grade 1 who reach grade 5	
	8. Literacy rate of 15-24 year olds	National 95.0 Male 94.2 Female 96.0 (Census 2000)

by the national government, but in practice being the operational responsibility of the individual states, and in some states by a third, local-level, Board of Education, has led to a low level of efficiency in the education system. These inefficiencies appear to impact most on those in remote islands, especially in Chuuk. Addressing the

weak institutional structure, lack of strong and clear direction from the regulating and coordinating authorities needs to be at the centre of both national and state level education

strategies. As the ADB noted in the 1996 Economic Report¹⁰ there are four critical areas for attention: development of personnel capacity (which includes teacher quality as well as policy, administrative and managerial capacities); developing facilities and other educational resources; developing appropriate administrative policy structures; and developing adequate administrative and organisational systems. These recommendations hold just as true in 2003 as they did seven years ago.

162. **Access to technical and vocational training is widely recognised as an vital ingredient of hardship alleviation for those in the rural/outer island areas.** These are the areas where traditional and subsistence lifestyles are likely to continue to predominate for many of the people. However in FSM, as in many other PDMCs the level of access to such education and training is in practice very low. In 2000 only 10.6% of the 15+ years population had completed some technical or vocational training. Amongst the 15 – 24 year age group the rate of completion was only 3.7%, down from 5.4% for the same age group in 1994. In 2000, those over 35 years indicated that an average of about 18% had completed some such training. These figures suggest quite clearly that the level of access to technical and vocational training has worsened in recent years. This apparent decline in access is another worrying indicator and trend for the FSM education system and gives rise to further concerns for the development if increasing levels of hardship and poverty in the future. An increasing number of people with little or no education or skill has potentially serious implications for social and welfare policies.

163. **Expenditure on education (national and state) was equivalent to 9.6% of GDP and accounted for 17.6% of the total national current budget in FY2002.** At the state level however, there were wide differences in the proportion of the current budget allocated to education. Pohnpei (35.6%) and Kosrae (31.6%) allocated the greatest amounts to the sector, whilst Chuuk (21.3%) and Yap (17.0%) the lowest. Salaries absorb around 90% of the education budget. Overall per capita/pupil expenditure amounted to \$693 in FY2002. Ratios of teachers to pupils are adequate but the apparent low levels of expenditure on school operations, maintenance and materials suggest that the efficiency of the teaching and learning process is poor.

3. Primary Health and Nutrition

MDG Box 7 Millennium Development Goals		
Goal 4: Reduce Child Mortality		
Target 5 Reduce by 2/3 between 1990 and 2015, the under-five mortality rate	Indicators 13. Under-five mortality rate (per '000 live births) 14. Infant mortality rate (per '000 live births) 15. Proportion of 1 year old children immunized against measles	Performance (2000) 12 40 83 (1994)

164. **Patterns of disease in FSM are changing.** Hypertension/heart disease and cancer deaths increased by 20% and 17%, respectively, between 1991-1996. Fifty percent of the population over 45 years suffers have been reported as suffering from hypertension.

¹⁰ Federated States of Micronesia 1996 Economic Report, ADB Pacific Studies Series, March 1997.

Obesity is also a reported problem, with 80% of the population aged between 35 and 64 years of age being overweight.

165. **Immunization rates vary between states.** Over 60% of 2 year olds are reportedly immunized in Chuuk and Pohnpei, but an estimated 15% of immunizations are ineffective due to “cold chain” failures. This means a high proportion of children are susceptible to these preventable diseases. The infant mortality rate is high (40) compared to most other PDMCs, and the child mortality rate is 12.

MDG Box 8 Millennium Development Goals		
Goal 5: Improve Maternal Health		
Target 6 Reduce by ¼, between 1990 and 2015, the maternal mortality ratio	Indicators 16. Maternal mortality ratio (per 100,000 live births)	Performance 274 (1999)
	17. Proportion of births attended by skilled health personnel	92.8 (1999)

*Direct cause
Deaths after
Exclude 42
days*

166. **The population per doctor is relatively low at a national average of 2,277.** However as with many other PDMCs the outer islands have much reduced access to doctors and nurses.

167. **Health expenditure at 5.4% of GDP in FY 2002 was low by regional standards.** Health expenditure as a percentage of total current expenditure was around 10%. As with education Pohnpei (18.7%) and Kosrae (15.4%) allocated the greatest amounts to health services. Chuuk (12.6%) and Yap (11.7%), the least. Overall per capita expenditure on health services averaged US\$116 in FY2002.

168. Public servants are obliged to hold health insurance. The majority of health care is financed by Compact money, but many people consulted during the PAH people regard the health service as inadequate. To improve the standards of health services in the face of the tightening fiscal situation under the new Compact will present a major challenge to all the state governments. Care will be required to ensure that services to the disadvantaged in the more remote locations are maintained.

MDG Box 9 Millennium Development Goals		
Goal 6: Combat HIV/AIDS, malaria and other diseases		
Target 7 Have halted by 2015, and begun to reverse, the spread of HIV/AIDS	Indicators 18. HIV prevalence among 15-24 year old pregnant women 19. Contraceptive prevalence rate 20. Number of children orphaned by HIV/AIDS	Performance Nil 45 (1998) Nil
Target 8 Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases	21. Prevalence and death rates associated with malaria (per 100,000) 22. Proportion of population in malaria risk areas using effective malaria prevention and treatment measures 23. Prevalence and death rates associated with tuberculosis 24. Proportion of TB cases detected and cured under DOTS	Malaria is not endemic in FSM Prevalence 78 Death rate 17 No data available

H. Gender Issues

169. **Data on maternal mortality is weak but the most recent indicators suggest that it could have been as high as 561 deaths per 100,000 live births in 1997 – 98 and 274 in 1999.** This would make it amongst the highest rates of any

PDMC and a serious health issue for rural women. The total fertility rate is 4.4 and the contraceptive prevalence rate is reported as 45%.

170. Whilst in general there is gender equality in education the PAH reported that in some particular islands a level of discrimination still existed. This was reported to be the case in some of the remoter, and more traditional, outer islands of Yap state. This was reported as a real hardship issue for women in these areas.

MDG Box 10 Millennium Development Goals		
Goal 3: Promote gender equality and empower women		
Target	Indicators	Performance (2000)
4 Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015	9. Ratio of girls to boys in primary, secondary and tertiary education	Primary 0.93 Secondary 1.04 College 1.07
	10. Ratio of literate females to males of 15-24 year olds	1.02 (2000)
	11. Share of women in wage employment in the non-agricultural sector	33.1
	12. Proportion of seats held by women in national parliament	0

171. According to the census in 2000, 42% of those in paid employment were women, up from 35% in 1994. In the higher income levels (>\$20,000) females accounted for 22% of employment in 2000, up from only 18% in 1994. The median income level for females in employment was however only \$918 in 2000, down from \$1910 in 1994.

This compares with the median male income level of \$2044 in 2000 and \$3050 in 1994. In 2000 just over half (55%) of all females reported incomes of less than \$999 per annum compared to only 37% of males.

172. Women are significantly under-represented in managerial positions (15% of the total) and there are no women in parliament in the FSM. While there are no formal constraints on opportunity in practice the structure of both society and the economy are important factors. Change inevitably affects the opportunities available to individuals and communities. Under the traditional system the control of resources varied but overall there was a balance between the role of women and that of men. As the economy has become increasingly monetised the balance of power has shifted away from traditional systems and women towards men, particularly those men in government and positions of power. In a spatial sense it has also shifted in favour of the national centre of power, Pohnpei, and the main centres in each of the states. The consequence is that women and outer islanders have fewer opportunities.

I. SUMMARY POVERTY PROFILE, AND MDG PROGRESS

173. Figure 1 presents a summary of the key poverty indicators discussed in the previous sections.

174. Figure 2 presents a summary of FSM's progress to date towards the achievement of the MDG Goals and Targets. This matrix provides a framework around which FSM's MDG report to the UN General Assembly can be compiled.

49. Part B of the document presents a set of targeted strategies for equitable growth and hardship alleviation based on the analysis contained in the first part of this document. These issues and strategies are grouped according to the three pillars of ADB's poverty reduction strategy – governance, social development and pro-poor sustainable economic growth. They are designed to assist government in focussing attention on important issues of hardship and poverty in the context of the National Summit planned for early 2004.