



Report to the Congress

on the Compacts of Free Association with

**the Federated States of Micronesia (FSM)
and the Republic of the Marshall Islands (RMI)**

For Fiscal Years 2009 and 2010

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Introduction

The United States entered into separate Compacts of Free Association (Compact) with the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) in 1986. The purpose of the Compact was to establish exclusive and mutually beneficial relations with the FSM and the RMI as they emerged from the Trust Territory of the Pacific Islands (TTPI) as independent states. The financial package of the Compact (economic financial assistance and its distribution) was agreed to for 15 years, from fiscal year 1986 to fiscal year 2003, but subject to negotiation for renewal before its expiration.

Approval of the Compact was contained in Public Law 99-239. The Compact set out mutual obligations with regard to governmental, economic, security and defense relations. A key part of the Compact dealt with economic financial assistance the United States was to provide to the FSM and the RMI in exchange for unrestricted exclusive access to their lands and waterways for strategic purposes and denial of such access to other powers. In fiscal years 1986-2003, the United States provided roughly \$1.5 billion to the FSM and \$1.0 billion the RMI. The FSM and the RMI used Compact financial assistance for general government operations, including health and education, economic development, capital improvements and special purposes.

The Compact provided that, starting in 1999, the parties were to start holding talks and negotiate a second and final financial package. The negotiations culminated in separate Amended Compact agreements between the United States and the FSM and the United States and the RMI that became Public Law 108-188, the Compact of Free Association Amendments Act of 2003, on December 17, 2003.

The Amended Compacts provide U.S. financial assistance for a 20-year period that began in fiscal year 2004 and ends in fiscal year 2024. The FSM will receive roughly \$2.1 billion and the RMI \$1.5 billion during the 2004-2024 period under the Amended Compact. Unlike the first financial package of the Compact which provided financial assistance for current consumption and investment, the Amended Compact's financial package includes annual and escalating contributions to two separate trust funds designed to provide annual revenue streams after the annual U.S. financial assistance ends at the end of fiscal year 2023. Through fiscal year 2023, U.S. financial assistance will provide grants for education, health and medical care, private sector growth, the environment, public sector capacity building, and public infrastructure. However, education and health and medical care are the highest priorities.

The Amended Compacts created new accountability requirements for the use and reporting of U.S. financial assistance. One of the requirements of Public Law 108-188 is this report which should include but not be limited to the following:

- (A) general social, political, and economic conditions, including estimates of economic growth, per capita income, and migration rates;
- (B) the use and effectiveness of United States financial, program, and technical assistance;
- (C) the status of economic policy reforms including but not limited to progress toward establishing self-sufficient tax rates;

- (D) the status of the efforts to increase investment including: the rate of infrastructure investment of U.S. financial assistance under the U.S.-FSM Compact and the U.S.-RMI Compact; non-U.S. contributions to the trust funds, and the level of private investment; and
- (E) recommendations on ways to increase the effectiveness of United States assistance and to meet overall economic performance objectives, including, if appropriate, recommendations to Congress to adjust the inflation rate or to adjust the contributions to the Trust Fund based on non-U.S. contributions.

(A) General Social, Political, and Economic Conditions

Section 104(h) of Public Law 108-188 requires the President of the United States to report to the Congress on general social, political, and economic conditions in the FSM and the RMI, including, among other things, estimates of economic growth, per capita income, and migration rates. This reporting requirement has been delegated to the Secretary of the Interior.

Federated States of Micronesia (FSM)

Background

The strategic and economic relationship between the FSM and the United States that dates back to the end of World War II has had three phases: (1) the period from the end of World War II to the end of the TTPI in the 1970s, (2) the Compact of Free Association and its first financial package, 1986-2001 (Compact I),¹ and (3) the Amended Compact and its terminal phase of the financial package, 2004-2024 (Amended Compact).

The TTPI Era

The principal task during the TTPI era (1947-1978) was to put in place a foundation for contemporary institutions of self-government, based largely on the American model of democratic principles and practices. Another part of U.S. commitment to help build basic infrastructure such as roads, ports, airports, power and communication systems, schools and others that would pave the way for economic growth and development and economic and financial self-reliance. Near the end of this period, the FSM, an archipelago in the Central Pacific that stretches 1,700 miles from east to west between Hawaii and Guam evolved into an independent nation in 1979.

The FSM nation evolved from four disparate states (former TTPI districts) that have distinct languages and cultures of their own. At the time of nationhood, all four states had in place basic infrastructure and governing institutions. Also emerging from the new arrangement was a national government, composed of elected leaders from among the four states. Meanwhile, the TTPI districts that became the four new states of the FSM had become increasingly dependent on U.S. financial assistance throughout the TTPI era.

¹ The United States and the FSM and the RMI negotiated the amended Compact in 2002 and 2003, during which U.S. economic financial assistance continued at the 2001 levels.

When the FSM became a nation, it was clear that political independence would not bring about economic and financial self-reliance. The FSM had a long way to go to become self-reliant, if ever. It still needed financial assistance to sustain whatever economy there was on the ground and in the ocean and increase its productive capacity. The only question was what form U.S. financial assistance to the FSM would take. Meanwhile, U.S. strategic interests in the Pacific, particularly in the midst of the Cold War, figured prominently into the talks between the FSM and the United States after the FSM's independence.

Putting regional strategic security issues in a workable policy framework led the United States to seek a mutually beneficial and binding agreement that would accomplish two broad objectives: (1) guarantee the safety and security of the FSM, along with U.S. economic financial assistance to sustain its economy; (2) unrestricted access by the United States to the FSM's lands and waterways for strategic purposes and denial of such an access to other powers, especially those hostile to U.S. interests in the region.

Economic Review Under Compact I

The FSM's population increased 21.8 percent from 87,513 in 1986 to 106,595 in 2001, resulting in an annual growth rate of 1.3 percent. Pohnpei State's gain of 25.9 percent was the highest, followed by 20.4 percent in Chuuk, 19.3 percent in Kosrae and 18.1 percent in Yap.

Just as its population growth by states, the FSM's economic performance during Compact I generated uneven but generally positive results. As measured by total real GDP of the four states put together, the FSM's economy grew 37.2 percent in 1986-2001, or 2.1 percent annually.² However, the four states had different records of growth during the period. Benefitting the most from economic financial assistance during Compact I was Pohnpei, where the FSM's capital is located. Pohnpei's real GDP increased 55.5 percent during 1986-2001 and its per capita real GDP grew 3.0 percent annually. Real GDP growth rates of 2-3 percent annually do not reflect soaring economies, but are quite adequate rates which in most industrial economies are enough to keep unemployment from rising.

Following Pohnpei's record of economic growth during Compact I was Yap which saw its real economic output grow 50.7 percent. Yap's annual growth rate was 2.8 percent. Next in terms of real GDP growth but quite a distant third was Chuuk which saw its real GDP increase 18.9 percent during 1986-2001. Annually, Chuuk's real GDP increased a modest 1.2 percent. Benefitting the least from U.S. financial assistance and other factors influencing economies of the FSM and its four states was Kosrae. Its total real GDP increased 17.4 percent in 1986-2001 and its annual real GDP growth of 1.1 percent was similar to that of Chuuk's.

Real per capita GDP (total real GDP divided by total population) , a rough proxy for productivity and standards of living, tells a similar story. Yap and Pohnpei saw gains in real per capita GDP while Chuuk and Kosrae experienced small losses. In Yap, real per capita GDP increased 1.6 percent a year in 1986-2001. Similarly, Pohnpei's real per capita GDP grew 1.4 percent a year

² Graduate School, *Federated States of Micronesia Fiscal Year 2009 Economic Review*, August 2010, Honolulu, p. S6, and updated tables for the 2010 Economic Review (forthcoming). Graduate School has engaged in this work under a technical assistance contract with the Office of Insular Affairs.

during Compact I. Both Chuuk and Kosrae saw their real per capita GDP decline 0.1 percent a year during the first Compact.

Generally, growth in real per capita output suggests improvements in productivity which lead to higher standards of living. Losses in real per capita GDP suggest the opposite. Strictly, the losses in real per capita GDP in Chuuk and Kosrae were so small that they may have led to insignificant consequences.

For example real per capita GDP (measured in constant 2000 dollars), in Chuuk was \$1,563 in 1986 and \$1,544 in 2001. In Kosrae, real per capita GDP was \$2,348 in 1986 and \$2,310 in 2001. By contrast, real per capita GDP in Yap was \$3,105 in 1986 and \$3,962 in 2001. Yap has had the highest per capita real GDP of the four states of the FSM throughout the Compact period. Real per capita GDP in Pohnpei was \$2,480 in 1986 and \$2,833 in 2001.

Sharp differences in economic performance of the four states of the FSM are explained by a variety of factors such as population and its growth rates, economic structure and productive capacity. All four states have certain elements in common such as small landmasses and populations, isolation and their location in the Central Pacific which is not as widely covered by major transport links as larger markets such as Guam and Hawaii are. Natural and largely unalterable constraints are serious limitations within which the four states of the FSM must live and work. Still, as real per capita GDP growth in the first Compact suggests, the four states have different standards of living. A part of the explanation appears to be population.

FSM Population Estimates

| Year | FSM | Chuuk | Pohnpei | Yap | Kosrae |
|-------------|----------------|---------------|----------------|---------------|---------------|
| 1986 | 87,513 | 44,124 | 27,487 | 9,547 | 6,354 |
| 2001 | 106,595 | 53,118 | 34,620 | 11,277 | 7,581 |
| 2010 | 102,624 | 48,651 | 35,981 | 11,376 | 6,616 |

Source: Graduate School, 2010 data tables.

As measured by population, Chuuk is the FSM's largest state and closest to Guam, a regional destination for tourists from Asia, especially Japan and Korea. However, that proximity appears to have served Chuuk in so far as its residents have moved to Guam and Hawaii in large numbers. As measured by real per capita GDP, Chuuk has been the FSM's poorest state throughout the Compact period and there is little likelihood that its economic future will be much different. In fact, if the trend of the last decade or so is any indication, more people from Chuuk may migrate in search of better living conditions on Guam, in Hawaii and possibly other states.

Economic Review Under the Amended Compact

During the negotiations (2002 and 2003) and the start of the Amended Compact, the FSM's economy lost whatever momentum it had during the first Compact. In 2004-2010, the FSM's real GDP increased only 1.4 percent, or 0.2 percent a year. It turns out that the only state whose real GDP increased in the first six years of the Amended Compact was Pohnpei. Its real output

increased 11.3 percent. Real GDP of the other three states declined during the same period, ranging from a 2.7 percent loss in Yap to 8.0 percent in Chuuk with a 4.8 percent loss in Kosrae in the middle.

FSM GDP Growth (per cent)

| Year | FSM | Chuuk | Pohnpei | Yap | Kosrae |
|------------------|-------------|--------------|----------------|-------------|---------------|
| 1986-2001 | 37.2 | 18.9 | 55.5 | 50.7 | 17.4 |
| 2004-2010 | 1.4 | -8.0 | 11.3 | -2.7 | -4.8 |

Source: Graduate School, 2010 data tables.

Note: In the years 2002 and 2003, the United States and the FSM negotiated terms of the second financial package while Compact assistance continued at the 2001 level.

The causes of unfavorable economic conditions during the Amended Compact in the FSM and its states were detailed in DOI’s first 5-year review of the Amended Compact (2003-2008). Summary of findings from that review are reproduced below:

“The FSM is in a fragile fiscal condition from the effects of the recent worldwide recession, inflation, investment decisions and timing and annual decreases in annual Compact grant assistance. A large public sector-dominated the economy while the private sector was small and operated in an environment often unfriendly to foreign investment. Weak internal fiscal policies and sluggish progress in instituting necessary tax and other reforms also contributed to the situation.

FY 2004 through FY 2008 was a difficult period of adjustment to the new terms and conditions for financial assistance under the Amended Compact. Challenges with communication and coordination between the National Government and the states were barriers to the implementation of the Amended Compact during the five-year reporting period, resulting in the submission of late financial and performance reports or none at all. Financial and performance reporting did not meet the letter and spirit of the Amended Compact and its subsidiary Fiscal Procedures Agreement. Annual budgets generally lacked specific performance objectives, priorities, and targets that linked back to the FSM’s Strategic Development Plan (SDP), which covers the period from FY 2004 through FY 2023. For example, FSM’s Strategic Development Plan states that secondary health care systems (i.e., hospitals/clinics) are receiving approximately 70% of patients that could have been handled at the primary health care level (i.e., local preventive health care centers). However, in the FSM’s annual budget, this was not addressed. Another example, according to the FSM’s SDP, 25% of the health services budget goes to referrals that benefit a small portion of populations. Despite this claim, there was a lack of budgetary proposals to address this issue. In the education sector, budget proposals to target output stated in the Strategic Development Plan on the publication and distribution of curriculum to a 100 %

elementary schools was not addressed. To be certified, all public and non-public school teachers from pre-school through grade 12 must pass the FSM's National Standardized Test for teachers, according to the FSM's own SDP; however budget proposals lacked the link a vision for policy outcomes.

Infrastructure funds remained unspent because of management issues and difficulty in setting priorities for capital investment that took the interests of the nation into consideration rather than the parochial interests of individual states. Land titling problems that existed before the Amended Compact remained unresolved. While there was some improvement in educational and health outcomes, there need to be better results within these sectors.

Development planning, budgeting practices, and performance monitoring by the FSM did not meet the new accountability regimen required by the Amended Compact. Processes and tools need improvement and plans need to be reviewed and updated to be useful. Most significantly, the FSM has not planned ahead for the impact that Compact-mandated decrements to annual financial assistance would have on the Amended Compact's three priority sectors and for support for private sector development, improving the human environment, building capacity in management, accounting, and other critical areas to effective FSM governance.

The Amended Compact sets forth a process for collaborative management of annual allocations and related policy decision-making by the U.S. and the FSM through the Joint Economic Management Committee (JEMCO). It is primarily to that body that this review addresses recommendations to improve the use and effectiveness of the Compact's annual assistance.”

Prospects for Private-Sector and Economic Growth

The FSM faces serious challenges, some of which are embedded in the country's physical attributes and practically unalterable. The country's physical makeup does not support large scale production and distribution activities. Its small and scattered population does not constitute a market large enough to employ technologies that normally take advantage of economies of scale. Its public sector, especially the part that relies on U.S. assistance, is large and difficult to reduce because there are no other jobs. The FSM private sector has traditionally been smaller and lagging and has so far under the Amended Compact shown little prospect for growth. Unless the FSM can significantly increase tax and other revenues through its private sector which will not be easy under any circumstances, U.S. grant assistance reductions necessitate difficult adjustments in state and FSM government budgets every year. These circumstances have made the call for private-sector growth more urgent, but urgency does not appear to be a sufficient condition for change. The answer may be, at least in part, a gradual decline of current standards of living. Another option that to reduces pressures on limited resources is lawful migration to the United States and its territories under the terms of the Compact.

In the FSM, tourism and the fishing industry are about the only realistic options for economic growth in the context of traditional goods-production possibilities. Even there, the possibilities

are limited by the same factors as outlined earlier. To haul large quantities of fresh fish, for example, from the region to Asian markets such as Japan would require runways and commercial aircraft and other means of transport that carry large quantities of perishable products over long distances. Processing some of the fish in the islands so some of the value added stays would require processing facilities, but it is not clear that the Pacific region can support new processing capacity in addition to what is available in American Samoa and elsewhere.

The business climate studies the Asian Development Bank (ADB) has conducted in the Pacific in recent years have particularly been useful in pointing out not only what the business climate issues are, but how to address them so small and isolated economies can be, at least on the basis of some criteria, considered to be in the game. Among ADB's best-know recent business climate studies of the Pacific is *Swimming Against the Tide?* The message of the study is straightforward. It says, "The private sector in the Pacific is handicapped by common problems including a weak macroeconomic environment, poor governance, often political instability, extensive state involvement combined with weak regulations and, underdeveloped financial markets, and a poor legal and investment policy environment for business."³

Views of Regional and Global Organizations

Among regional and global organizations that routinely track economic and financial stability conditions in its member countries is the International Monetary Fund (IMF). The FSM is a member of the IMF and, therefore, the beneficiary of periodic reviews of its economic and financial conditions under the IMF's Article IV Consultations. Under this provision, a team of IMF's economic and financial experts travels to the FSM, conducts research of economic and financial conditions on the ground with a focus on policy making bodies' capacity to manage and resolve economic and financial issues. Article IV consultations reports of its member countries by the IMF are considered to be among the most authoritative sources of information and insight. Executive summary of the IMF's most recent report on the FSM, dated February 2011, is reproduced below:

“EXECUTIVE SUMMARY

Economic environment. The economy has recovered following the stabilization of commodity and food prices. The recovery, however, is mainly supported by public infrastructure projects, and private sector activity remains weak. The fiscal situation has somewhat improved, but spending pressures are building up with elections approaching.

Outlook and risks. While the gradual release of delayed infrastructure grants is expected to stimulate the economy, structural impediments to private sector development and volatile commodity prices could hold back the recovery. Given the lack of private sector initiatives, the planned decrements in Compact grants and continued outward migration, medium-term growth will likely remain weak.

³ Asian Development Bank, *Swimming Against the Tide?* (Pacific Studies Series), 2004, p. xi.

Fiscal sustainability. Achieving long-term budgetary self-reliance has become more challenging after the global crisis. Lower than anticipated returns on the government’s trust fund imply a large projected revenue shortfall in FY2023, when the annual Compact grants are set to expire. Closing this revenue gap would require a medium-term fiscal surplus of about 5¾ percent of GDP.

Fiscal reforms. The tax reform bills have been submitted to the national congress; the technical issues regarding the constitutionality of the bills appear to have been resolved, and support for the tax reform at State level seems strong. Further strengthening of tax administration efforts, personnel training, and public education in parallel with the legislative process carry utmost importance.

Private sector development. Weak private sector development continues to hold back sustainable economic growth. With a number of infrastructure projects completed, reforms to attract foreign direct investment (FDI) could generate significant benefits. The policy priorities would be to relax the restrictive FDI legislation, increase the supply of skilled labor, and accelerate the implementation of pending infrastructure projects.

Financial sector. The banking sector remains liquid, but contributes little to economic growth. Activities by the public development bank and credit unions are currently not regulated and should be brought under the supervision of the Banking Board. Insurance supervision has recently been separated from banking supervision, but its supervisory capacity is inadequate and should be immediately stepped up, particularly in the area of captive insurance.”⁴

Another major international organization with significant economic and financial ties to the FSM is the ADB. The FSM is a member of the ADB and, therefore, entitled to loans and grants for technical assistance. In its most recent statement, the ADB says that, “The Federated States of Micronesia (FSM) has received eight loans for \$75.14 million and \$24.43 million for 42 technical assistance activities, since joining the Asian Development Bank (ADB) in 1990.”⁵

Below is a part of the ADB’s summary statement on the FSM’s economy:

“The FSM economy is dominated by the public sector, which is largely funded by sector grants under the United States (US) Compact of Free Association. Despite significant levels of development assistance, the FSM gross domestic product contracted by 0.1% over 2000–2007. It is estimated that the economy contracted by 0.5% in 2010, and it is expected to grow by another 1.0% in 2011.

⁴ International Monetary Fund (IMF), *Federated States of Micronesia: 2010 Article IV Consultation – Staff Report* (IMF Country Report No. 11/43), February 2011, p. 3.

⁵ Asian Development Bank, *Federated States of Micronesia Fact Sheet*, December 31, 2010, p. 1.

The major long-term challenges to poverty reduction stem from a need to move toward self-sustainability, reduce the country's reliance on foreign assistance, and increase government revenue. The steady decline in grant financial assistance and conditions placed on expenditure of U.S. funds make it imperative for national and state governments to reduce expenditure and increase revenue. Improvements in basic social services continue to be crucial. Private sector-driven, sustainable economic growth and good public sector governance are key to long-term development."⁶

Compact Trust Fund for the People of the FSM

As of 31 August 2011 the total value of the Trust Fund for the People of the FSM is \$210,058,684. This compares to a balance of \$177,198,362 at the end of fiscal year 2010 (ending 9/30/10; audited) and \$138,075,219 for fiscal year 2009 (ending 9/30/09; audited). All figures include contributions, interest and earnings.

U.S. contributions (which represent decrements in Compact Sector Grant funding) to the FSM Compact Trust Fund in 2010 and 2009 were \$21,518,180 and \$20,911,560 respectively. There are not currently any third-party donors to the FSM Compact Trust Fund.

Currently, Trust Fund investments are distributed approximately as follows: U.S. Domestic Equities (28%), Non-U.S. Equities (29%), Fixed Income (11%) and Non-Discretionary Assets (32%) such as other fixed income assets, private real estate, hedge fund and private equity placements.

Although the fund was up about 11.8 percent for the fiscal year as of the end of quarter ending 6/30, it has since lost some of the gain in July, August and expected especially in September due to U.S. and international market volatility.

Republic of the Marshall Islands (RMI)

Background

The RMI and the FSM share some of the basic provisions of the Amended Compact, such as annual grant assistance decrements and the decrement amounts going into their trust funds. Also, the financial package of the Amended Compact is for the same 20-year period ending at the close of fiscal year 2023. In terms of population and economic output, the RMI is not only much smaller than the FSM's but also much less complicated. Still, because its physical attributes are similar to those of the FSM, long-term growth and prosperity challenges the RMI faces are similar to those of its neighbor.

Unlike the FSM, the RMI has a large and powerful national government, coupled with small and less powerful municipal (village) government. The RMI has no states and, therefore, no state government, but the main point of similarity to the FSM is that its public sector is still the dominant source of jobs and income.

⁶ Same as above.

The RMI's other big difference from the FSM and one of its key economic strengths is hosting a U.S. army base, U.S. Army Kwajalein Atoll (USAKA). The main asset of the base, the Ronald Reagan Ballistic Missile Defense Test Site (Reagan Test Site, RTS), is a large income source for the RMI. The base employs a relatively large number of RMI residents and pays annual impact payments to landowners on Kwajalein Atoll. The 978 employees of USAKA in 2010 represented 9.3 percent of RMI's total employment.

Economic Review of the RMI in Compact I

Unlike the FSM which has consistent and detailed population, employment and GDP data going back to the beginning of Compact I, the RMI's detailed population, employment and GDP data go back only to 1997. However, GDP, real GDP and population data without any sector details go back to the beginning of Compact I. One reason for gaps in macroeconomic and other aggregate data is that the RMI's economic and other statistics were put together by different providers at different times. In the late 1980s and early 1990s, economic advisers from the ADB helped put the data together. In the 1990s, the RMI reorganized its economic statistics function into a new Economic, Planning, Policy and Statistics Office (EPPSO) which started to put the figures together along with more details on population and employment. Since mid-2000s, Graduate School has helped EPPSO put its national income accounts together in the same manner it does for the FSM through a technical assistance program of OIA.

During Compact I (1986-2001), the RMI's population increased 26.6 percent from 39,844 to 50,440. Annually, the population growth rate was a modest 1.6 percent during that period. Real GDP increased 37.5 percent from \$92.8 million in 1986 to \$127.6 million in 2001. The annual growth rate of 2.1 percent in real GDP during that period was the same as in the FSM. Per capita real GDP increased 8.6 percent from \$2,329 in 1986 to \$2,530 in 2001. Annually, real per capita GDP increased only 0.6 percent during Compact I. GDP growth and population growth rates during Compact I were uneven from year to year and period to period, but turned out to be favorable, especially for a small economy that has very loose links to the rest of the world. As in the FSM, the public sector drove the economy.

Economic Review Under the Amended Compact

Economic performance during the Amended Compact maintained a pattern similar to that of Compact I. Real GDP increased 1.6 percent annually (as compared to 2.1 percent in Compact I), but real per capita GDP growth increased to 0.8 percent in the Amended Compact from 0.6 percent in Compact I. The main reason for the small gain in real per capita GDP appears to be a slower population growth rate, rather than an increase in productivity. Population in the RMI was an estimated 52,371 in 2010, as compared to 50,211 in 2004 resulting in an annual growth rate of only 0.7 percent. That was almost half of the growth rate in Compact I.

As in Compact I, the public sector provided most of the economic value and jobs, especially in the beginning of the Amended Compact. In 2004, the first year of the Amended Compact, the public sector's share of GDP was 45.6 percent. In 2010, it was down to 40.9 percent. In 2004, the private sector's contribution to GDP was 44.3 percent. In 2010, it was up to 49.0 percent.

The switch in strength from public sector to the private sector has been too slow to constitute a secular trend, but that such a switch has occurred at all is a move in a favorable direction. With a history of a strong and powerful central government, the RMI's switch to reliance on the private sector needs to be watched with enthusiasm.

Looking at employment data, the relative shares of private and public sector do not show the same movements as those of GDP shares. Employment in both private and public sectors increased during the Amended Compact, but the public sector remained to be dominant. In 2004, private sector employment was 41.3 percent of total; it was up to 43.7 percent in 2010. In 2004, public sector accounted for 46.5 percent of total employment; it represented 48.1 percent in 2010. Employment share of the public sector not only increased from 2004 to 2010, it also remained higher than the private sector's share. One conclusion from the GDP and employment shares of public and private sectors may be that the public sector (excluding USAKA) is likely to remain the dominant force in the absence of serious reform.

Prospects for Private-Sector and Economic Growth

In light of the enduring constraints of small landmass, isolation and lack of minerals and other resources typical of land-based economies and, the RMI's economic and financial outlook remains somewhat uncertain. As records of recent past show, progress toward reducing the public sector and increasing the private sector has been haphazard and slow. This is likely to be the case in the years ahead. Still, areas of growth are, for now, fishing and fish processing and tourism. The RMI and other Pacific economies have been selling fishing rights to foreign fleets for decades, but they receive modest sums of money and almost no local value added other than purchase of fuel and supplies from local vendors. There have been anecdotal reports of fishing fleets avoiding buying fuels in the local markets because of high prices.

Production of copra, the dried white flesh of a coconut, continues. However, its relative share as a part of the local production economy will continue to decline as other activities present more attractive options, especially to those with education and skills.

Tourism holds some potential, particularly in specialty areas such as diving, sports fishing and other forms of recreational activities, such as boating, that take advantage of the Pacific Ocean. There may be cruise ship possibilities in the future. Business and government travelers provide another market.

Migration to the United States and its territories will most likely continue in the years ahead, especially if local economic conditions do not improve. Among the peculiarities of island economies in the Pacific, as elsewhere, is that they cannot benefit from trade in goods as large economies can. Instead, they engage in trade in labor, but it usually takes place in one direction, from the islands, especially to developed economies where there may be better work and study opportunities. The phenomenon often labeled "brain drain," the flight of motivated and skilled labor to advanced economies, is a natural extension of the principle of trade that happens to involve people.

Views of Regional and Global Organizations

As with the FSM, the IMF produces regular economic reports on the RMI and its economic and financial outlook. The IMF's most recent report on the RMI was posted on the web in February 2010 and its executive summary is reproduced below:

“EXECUTIVE SUMMARY

Economic and political environment. The commodity and food prices boom took a sharp toll on the economy and led in 2008 to the first recession in 10 years. The political environment remains difficult. In October of 2009, the third government in as many years took office. Achieving consensus on important fiscal reforms remains difficult.

Outlook and risks. The economy is on a path to recovery, but the cresting of foreign grants, which fueled domestic demand in the past, will slow down the underlying growth momentum. Risks to the economic outlook are tilted to the downside. The economy's high import dependence means that fluctuations in commodity prices pose a substantial risk to real incomes and additional donor assistance is more difficult to secure than in the past.

Fiscal sustainability. Achieving long-term budgetary self-reliance and sustained growth have become more challenging after the global crisis. Under current projections, weakened growth prospects and lower than anticipated asset values in the government's trust fund imply a large projected revenue shortfall in 2024, when the grant based public funding scheme expires. Closing this revenue gap requires a medium-term fiscal adjustment to a 5 percent of GDP surplus.

Fiscal and growth enhancing reforms. A comprehensive public sector modernization program that builds on local reform initiatives could secure fiscal sustainability and unlock growth in the private sector. Its key elements are: (i) achieving lasting fiscal surpluses to replenish the trust fund to provide long-term fiscal revenue; (ii) modernizing the public sector

through civil service, tax, and state owned enterprise reform; (iii) and enabling private sector growth through improved infrastructure services and better access to commercial bank loans.

Banking sector. The banking system remains profitable, but contributes little to economic growth. The vast majority of private lending is directed to consumers and rising household debt needs to be carefully monitored. Activities by the public development bank are currently not regulated and should be brought under the supervision of the Banking Commission.”⁷

The RMI is also a member of the ADB which routinely produces reports and commentary on the economic and financial conditions of member countries. Below is a statement from the ADB’s Fact Sheet on the RMI’s economic conditions:

“The Republic of the Marshall Islands joined the Asian Development Bank (ADB) in 1990. Since then, ADB has approved 13 loans for \$87.63 million, 48 technical assistance projects for \$19.58 million, and one grant for \$1.76 million. ADB loans have supported development of the education, fisheries, health, water, and transport sectors, and assisted public sector reform and structural adjustment. One loan assisted typhoon emergency rehabilitation. The technical assistance program has also covered a wide range of sectors and issues, including support for ADB loans, capacity building in development banking, tourism management, environmental protection, and the formation of economic policy. The program has also helped privatize state-owned enterprises, develop the private sector, and reform the civil service.

However, the development of the Marshall Islands has continued to be affected by external shocks of the global economic downturn and unprecedented food and fuel price rises. Economic output stagnated with no growth in the nation’s gross domestic product (GDP) in 2009. The fiscal position worsened significantly due to the combined impact of tax exemptions for diesel and basic food imports the government granted in 2008 to alleviate the effects of the global downturn; job cuts at the local United States (US) military base; and a continued weakness in expenditure control, particularly with respect to the public service wage bill and subsidies to state-owned enterprises. Gross official reserves, as of September 2009, were equal to 0.3 months of imports. This has left no room for the Marshall Islands to respond to further external shocks.

⁷ IMF, *Republic of the Marshall Islands: 2009 Article IV Consultation—Staff Report*, February 2010, p. 3.

The Marshall Islands receives bilateral grant assistance averaging \$70 million annually, or 45% of GDP and 70% of fiscal revenues. The US is the Marshall Islands' main development partner. Japan and Taipei, China are also donors, as is the European Union. The US and the Marshall Islands signed a 20-year agreement, known as the Compact of Free Association, that came into effect on 1 May 2004, under which the government receives annual grant payments and access to federal support programs.

The ADB–Marshall Islands partnership is further consolidated by the Marshall Islands' clearance of arrears with ADB in March 2009. This and subsequent payment performance are clearly indicative of the government's firm commitment to ADB as a key partner for the country's socioeconomic development.

The government has undertaken a number of new initiatives to facilitate public sector reform and put the Marshall Islands on a path of fiscal prudence, economic stability, and sustainable growth. The Comprehensive Adjustment Program advisory group and the Tax and Revenue Reform and Modernization Commission were established by the government to improve the fiscal position.”⁸

Compact Trust Fund for the People of the RMI

As of 30 September 2011, the total value of the Trust Fund for the People of the RMI is \$125,258,590. This compares to a balance of \$112,794,544 at the end of the last completed fiscal year 2010 (ending 9/30/10; audited) and \$90,451,765 at the end of fiscal year 2009 (ending 9/30/09; audited). All figures include contributions, interest and earnings.

U.S. contributions (which represent decrements in Compact Sector Grant funding) to the RMI Compact Trust Fund in 2010 and 2009 were respectively \$11,132,214 and \$10,784,291. The Government of the Republic of China (Taiwan) contributed \$2,400,000 in both 2010 and 2009.

Currently, Trust Fund investments are distributed approximately as follows: U.S. Public Equities (42%), International Equities (24%), Fixed Income (28%), and Real Estate (5%).

Although the fund was up about 12.2% for the fiscal year as of the end of the quarter ending 6/30, it has lost much of that gain in July, August and September due to U.S. and international market volatility.

Migration from the Freely Associated States

Migration from the freely associated states (FASs) to the United States and its territories began after the Compact took effect in 1986. However, it did not get much attention until recently, when Hawaii, Guam and Commonwealth of the Northern Mariana Islands (CNMI) raised concerns about the costs of public services for Micronesian migrants. These concerns became

⁸ ADB, *Marshall Islands Fact Sheet*, December 31, 2010, p. 1.

the basis of funding to these jurisdictions that is a part of Public Law 108-188. Based on data the Census Bureau collected for the 2008 enumeration of Micronesians under the Compact, there were 32,635 Micronesians in Guam, CNMI, Hawaii and American Samoa, with the following distributions:

| | |
|----------------|--------|
| Hawaii | 12,215 |
| Guam | 18,305 |
| CNMI | 2,100 |
| American Samoa | 15 |
| ===== | |
| Total | 32,635 |

(Note: migrants to mainland United States have not been enumerated, but may be expected to equal, even exceed those in the island areas.)

(B) Use and Effectiveness of U.S. Financial, Program and Technical Assistance Funds

Summary of Compact Grants to the FSM and the RMI for FY09 and FY10

The Office of Insular Affairs has had difficulty with measuring the overall effectiveness of financial assistance to the FSM and the RMI which stems from the absence of verifiable, current and complete data from the FSM and RMI governments, and impedes our ability to monitor economic and financial performance on a recurrent basis. As we near the 10th year of the Compact, the FSM continues to have difficulty correlating budgets to national strategic outcomes. Most FSM budgets continue to lack quantifiable annual performance targets. Since 2006, OIA has been contracting the USDA Graduate School to provide statistical and economic reporting of key indicators in the FSM and the RMI to aid JEMCO and their annual and mid-year meetings on their budgets.

In fiscal years 2009 and 2010, the United States Department of the Interior managed in excess of \$335M in Compact sector grant funds for the FSM and the RMI. For fiscal years 2009 and 2010, the RMI received an inflation-adjusted amount of \$130,548,000 while the FSM inflation-adjusted portion was \$205,177,000. An additional \$665,000 was also provided to the U.S. 9th Circuit Court for FSM and RMI judicial training.

Summary of 2009 and 2010 Compact Allocations to the FSM and the RMI
(inflation adusted, in thousands)

| FSM | 2009 | 2010 |
|---|-------------|-------------|
| Section 211 Sector Grants | \$ 81,556 | \$ 80,986 |
| Audit Grant Section 212(b) | \$ 500 | \$ 500 |
| Trust Fund Section 215 | \$ 20,334 | \$ 21,300 |
| Total FSM Compact | \$ 102,390 | \$ 102,787 |
| | | |
| RMI | 2009 | 2010 |
| Section 211 Sector Grants | \$ 36,137 | \$ 35,723 |
| Audit Grant Section 213(b) | \$ 500 | \$ 500 |
| Trust Fund Sec.216 (a) and (c) | \$ 10,498 | \$ 11,094 |
| Kwajalein Impact Sec.212 | \$ 16,577 | \$ 16,641 |
| Enewetak | \$ 1,437 | \$ 1,442 |
| Total RMI Compact | \$ 65,148 | \$ 65,400 |
| | | |
| Compact Other | | |
| Compact Impact Sec.104(e) (affected juris.) | \$ 30,000 | \$ 30,000 |
| Judicial Training | \$ 332 | \$ 333 |
| Disaster Assistance Emergency Fund | \$ 456 | \$ 0 |
| Total Compact Other | \$ 30,788 | \$ 30,333 |

Purposes of Sector Grants

As mandated by the Amended Compacts, funding for both countries continued to target a limited array of government sectors and, within those sectors, only specific aims to achieve enhanced accountability, safeguard the effective use of funds, and strengthen the foundation needed for economic stability and future growth:

Education: Education sector grants are to support and improve the educational systems of the governments and develop the human and material resources necessary for the two governments to perform these services. The Amended Compacts require that funding allocations emphasize: (1) the advancement of a quality basic education system by increasing primary and secondary student achievement as measured by performance standards and assessments appropriate to the two countries; (2) the provision of secondary education or vocational training to qualified students; (3) the improvement of management and accountability within the educational systems; and (4) raising the level of staff quality and improving the relevance of education to the needs of the economy.

Health: Health sector grants are to support and improve the delivery of preventive, curative, and environmental health care, and develop the human and material resources necessary for the two governments to provide health services. The sector's priority is the establishment of sustainable funding mechanisms for operating community-based

systems with emphasis on prevention, primary care, mental health and substance abuse prevention, and the operation of hospitals and dispensaries (clinics) to provide secondary care at appropriate levels and reduce reliance on medical referrals abroad.

Public Infrastructure: The highest priority funding uses for grants in this area are for primary and secondary education capital projects and projects that directly affect health and safety, including water and wastewater projects, solid waste disposal projects, and health care facilities. Secondary priorities are projects related to economic growth and development. Examples include airport and seaport improvements, roads, sea walls, and energy development that cannot be funded through existing rate structures.

Private-Sector Development: Private-sector development grants support the efforts of the two governments to attract new foreign investment and increase indigenous business activity by revitalizing the commercial environment; ensuring fair and equitable application of the law, promoting adherence to core labor standards, and maintaining progress toward the privatization of state-owned and partially state-owned enterprises, and, engaging in other reforms. Grant priorities include advancing the private development of fisheries, tourism, and agriculture; employing new telecommunication technologies, and, analyzing and developing new systems, laws, regulations, and policies that foster private sector development, and to develop business and entrepreneurial skills.

Public-Sector Capacity Building (PSCB): Public-sector capacity building grants are to support efforts of the two governments to build effective, accountable, and transparent national and local governments and other public sector institutions and systems. Funding priorities are to improve economic planning, financial management, auditing, law enforcement, immigration controls, the judiciary, and the compilation and analysis of appropriate statistical indicators. The goal is to ensure that both governments have the means to carry out essential functions and fill essential positions with qualified personnel.

Environment: Environment sector grants support government efforts to protect the countries' land and marine environment and to conserve and achieve the sustainable use of natural resources. Allowable activities include the ongoing development, adoption and enforcement of policies, laws and regulations; the reduction and prevention of environmental pollution and degradation; the protection of biological diversity; the establishment of conservation areas; environmental infrastructure planning, design construction and operation; interaction and cooperation with nongovernmental organizations; the promotion of increased environmental awareness; and, the promotion of increased citizen involvement in conservation.

In addition to the sector grants described above, Supplemental Education Grants (SEGs), first funded in fiscal year 2005, support the educational objectives of each government's Development Plan. The SEGs replace certain categorical grants previously provided by the Departments of Labor, Health and Human Services, and Education for which the FSM and RMI were eligible. Different from sector grants, the SEGs are subject to an annual appropriation from the U.S. Congress. These adjunctive grants do not supplant basic sector grant funding; nor do they satisfy the priorities mandated by the Amended Compacts.

Beginning in fiscal year 2009, both (SEG) and Compact Education Sector (ES) funds for the FSM and the RMI began simultaneously on October 1. In FY 2010, both ES and SEG ran simultaneously for a twelve month grant period. This has enabled both the FSM and the RMI Ministries of Education to do systematic year-by-year planning without the interference of staggered funding periods from varying supportive sources.

Other - Compact Impact

Under Section 104(e) of Title One of the Amended Compacts of Free Association, the U.S. allows for \$30 million in grants through the year 2023 to the jurisdictions of the State of Hawaii, Guam, the Commonwealth of the Northern Mariana Islands (CNMI) and American Samoa in what is called Compact Impact Financial assistance assistance to compensate for increased demands placed on health , educational or other services due to the residence of qualified non-immigrants from the Marshall Islands, Micronesia and Palau. The \$30 million is distributed on a ratio allocation based on enumerations conducted every 5 years. In 2012, the \$30 million will be reduced by \$341,000 and the distribution adjusted accordingly, in order to fund the next U.S. Census Bureau enumeration.

In 2009 American Samoa received \$15,000, Guam received \$14,242,000 Hawaii received \$10,571,000 and the Northern Mariana Islands received \$5,172,000. In 2010, American Samoa received \$14,000, Guam \$16,827,000, Hawaii \$11,229,000 and the Northern Mariana Islands \$1,930,000.

FSM Compact Sector Grant Allocations, FY2009

| | Education | Health | Capacity Building | Private Sector | Environment | Infrastructure |
|------------------|---------------------|---------------------|--------------------------|-----------------------|--------------------|-----------------------|
| FSMNG | \$603,240 | \$789,832 | \$100,000 | \$0 | \$0 | TBD |
| COM ₁ | \$3,800,000 | - | - | - | - | TBD |
| Chuuk | \$11,002,820 | \$8,638,311 | \$202,000 | \$498,758 | \$100,063 | TBD |
| Kosrae | \$2,613,160 | \$2,423,963 | \$333,605 | \$410,749 | \$0 | TBD |
| Pohnpei | \$7,643,352 | \$6,149,401 | \$191,470 | \$0 | \$203,346 | TBD |
| Yap | \$4,204,851 | \$3,476,336 | \$641,081 | \$857,162 | \$282,249 | TBD |
| Totals | \$29,867,423 | \$21,477,843 | \$1,468,156 | \$1,766,669 | \$585,658 | \$24,338,784 |

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FSM Sector Grant Allocations, FY2010

| | Education | Health | Capacity Building | Private Sector | Environment | Infrastructure |
|------------------|---------------------|---------------------|--------------------|--------------------|--------------------|---------------------|
| FSMNG | \$603,240 | \$845,334 | \$493,140 | \$0 | \$0 | TBD |
| COM ₁ | \$3,800,000 | - | - | - | - | TBD |
| Chuuk | \$10,047,249 | \$8,977,642 | \$1,098,200 | \$764,679 | \$690,096 | TBD |
| Kosrae | \$2,524,286 | \$2,217,716 | \$406,048 | \$687,760 | \$253,342 | TBD |
| Pohnpei | \$7,599,557 | \$5,853,231 | \$451,739 | \$0 | \$315,589 | TBD |
| Yap | \$4,199,923 | \$3,113,946 | \$438,689 | \$881,199 | \$320,482 | TBD |
| Totals | \$28,774,255 | \$21,007,869 | \$2,887,816 | \$2,333,638 | \$1,579,509 | \$24,303,552 |

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FSM Health Sector, FY2009

To the FSM's credit, the health directors unanimously agreed in 2004 to measure overall performance under the Amended Compact by tracking fourteen data sets that tie back to the country's strategic national plan. They also identified performance targets thought to be achievable at the end of the first five years of financial assistance, a review slated to occur sometime in FY 2010. At that time, targets will be re-set and indicators substituted if necessary for the remaining three five-year intervals.

The scorecard below shows changes from the FY 2004 baseline for each state and the FSM overall, for the fourteen (14) areas selected by the health departments:



Health Outcome Measures - Federated States of Micronesia

1. Decentralize primary care services - number of encounters provided in homes and dispensaries will increase 20% by 2010 (2004 Baseline)

red (decline)

yellow (no - little improvement)

green (show improvement)

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 |
|---------|---------|---------|---------|---------|--------|
| FSM | 145,442 | 153,705 | 136,180 | 130,452 | 74,800 |
| Kosrae | 2,580 | 2,579 | 2,247 | 2,479 | 3,013 |
| Yap | 17,899 | 13,936 | 19,921 | 19,593 | 20,501 |
| Pohnpei | 76,276 | 75,228 | 50,811 | 54,176 | 21,232 |
| Chuuk | 48,687 | 61,962 | 63,201 | 54,204 | 30,054 |

2. Decentralize primary care services - number patient encounters at hospitals'

clinics will decrease by 10% by 2010 (2004 Baseline)

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 | |
|----------------------------------|---------|--------|---------|---------|---------|--------|
| red (decline) | FSM | 90,273 | 127,608 | 104,439 | 118,209 | 61,173 |
| yellow (no - little improvement) | Kosrae | 15,357 | 15,383 | 17,401 | 20,909 | 16,856 |
| green (show improvement) | Yap | 18,400 | 23,020 | 18,968 | 18,045 | 12,989 |
| | Pohnpei | 28,622 | 40,627 | 19,502 | 35,652 | 17,023 |
| | Chuuk | 27,894 | 48,578 | 48,568 | 43,603 | 14,305 |

3. Immunization coverage of 2 year old children is increased to not less than 90%

by year 2010.

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 | |
|----------------------------------|---------|-------|-------|--------|-------|---------|
| red (decline) | FSM | 83% | 83% | 66% | 69% | 63% |
| yellow (no - little improvement) | Kosrae | 98% | 90% | 79.00% | 99% | 100.00% |
| green (show improvement) | Yap | 79% | 74% | 89% | 94% | 96.00% |
| | Pohnpei | 79% | 83% | 81.00% | 80% | 54.00% |
| | Chuuk | 80% | 93% | 54% | 50% | 57% |

4. Essential drugs and supplies available (indicators: ORS, combo OCP, Amox, IV

chloramphenicol, glyburide, atanol, HCTZ, all in stock 80% of days)

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 | |
|----------------------------------|---------|-------|-------|--------|-------|------|
| red (decline) | FSM | 63% | 65% | 54% | 65% | 71% |
| yellow (no - little improvement) | Kosrae | 53% | 50% | 85% | 50% | 60% |
| green (show improvement) | Yap | 87% | 83% | 45% | 83% | 90% |
| | Pohnpei | 30% | 100% | 71.40% | 100% | 100% |
| | Chuuk | 83% | 28% | 15% | 28% | 35% |

5. Bio-medical equipment is functional (indicator: Na+ K+ ALT, Bili, Creatinin, All available 80% of days

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 | |
|----------------------------------|---------|-------|-------|-------|-------|------|
| red (decline) | FSM | 72% | 87% | 77% | 87% | 79% |
| yellow (no - little improvement) | Kosrae | 75% | 93% | 99% | 80% | 75% |
| green (show improvement) | Yap | 75% | 61% | 100% | 97% | 100% |
| | Pohnpei | 95% | 95% | 80% | 83% | 80% |
| | Chuuk | 80% | 23% | 29% | 72% | 60% |

6. The average length of hospital stay is less than 7 days for each State Hospital by 2010 (2004 Baseline).

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 | |
|----------------------------------|---------|----------|-----------|----------|-----------|-----------|
| red (decline) | FSM | 6 days | 6 days | 5.4 days | 6 days | 6.1days |
| yellow (no - little improvement) | Kosrae | 7 days | 8.9 days | 8 days | 6 days | 6.03 days |
| green (show improvement) | Yap | 7.7 days | 5 days | 5 days | 6 days | 6.4 days |
| | Pohnpei | 5 days | 4.24 days | 3.7 days | 6 days | 6 days |
| | Chuuk | 5 days | 5 days | 5 days | 6.71 days | 6 days |

7. Infant Mortality rate is reduced to less than 16/1000 by 2010 (2004 Baseline).

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 | |
|----------------------------------|---------|-----------|-----------|-----------|-----------|------------|
| red (decline) | FSM | 19/1000 | 17/1000 | 13/1000 | 21.1/1000 | 17.04/1000 |
| yellow (no - little improvement) | Kosrae | 12/1000 | 10.7/1000 | 6/1000 | 0/1000 | 18/1000 |
| green (show improvement) | Yap | 26/1000 | 19/1000 | 22.4/1000 | 33.2/1000 | 19.3/1000 |
| | Pohnpei | 17.9/1000 | 6.5/1000 | 4.4/1000 | 12.4/1000 | 1.06/1000 |
| | Chuuk | 20/1000 | 22/1000 | 18/1000 | 28.5/1000 | 29.3/1000 |

8. Mental illness is reduced (Indicator: Rate of completed suicide reduced to 10% by

2010 (2004 Baseline). (# of complete suicides / FSM or State - Population Estimates and Projection)

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 |
|----------------------------------|------------|-----------|------------|-----------|-----------|
| FSM | 17/107,785 | 7/107,885 | 16/107,965 | 7/108,031 | 1/108,026 |
| red (decline) | | | | | |
| Kosrae | 5/7,926 | 2/7,988 | 0/8,048 | 1/8,119 | 0/8,183 |
| yellow (no - little improvement) | | | | | |
| Yap | 5/11,533 | 3/11,595 | 2/11,647 | 0/11,697 | 0/11,736 |
| green (show improvement) | | | | | |
| Pohnpei | 3/34,824 | 2/34,860 | 13/34,889 | 5/34,901 | 1/34,886 |
| Chuuk | 4/53,502 | 0/53,442 | 1/53,381 | 1/53,314 | 0/53,221 |

9. The number of individuals enrolled under a health insurance plan is increased 10%

by 2010 (2004 Baseline)

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 |
|----------------------------------|--------|--------|--------|--------|--------|
| FSM | 20,617 | 18,779 | 20,758 | 21,716 | 20,735 |
| red (decline) | | | | | |
| Kosrae | 3,583 | 3,346 | 3,474 | 3,643 | 3,498 |
| yellow (no - little improvement) | | | | | |
| Yap | 1,720 | 1,594 | 1,645 | 1,833 | 1,995 |
| green (show improvement) | | | | | |
| Pohnpei | 12,351 | 11,531 | 13,630 | 14,250 | 13,293 |
| Chuuk | 15,364 | 15,787 | 24,588 | 25,829 | 15,679 |
| | | | | FSM04 | FSM05 |

10. Off-island medical referrals cost in all states reduce to less than 10% of total

health sector expenditures (2004 Baseline)

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 |
|----------------------------------|-------|--------|--------|-------|-------|
| FSM | 12% | 9.40% | 10% | 8% | 8% |
| red (decline) | | | | | |
| Kosrae | 8% | 5% | 5% | 5% | 5% |
| yellow (no - little improvement) | | | | | |
| Yap | 6% | 4% | 5% | 4% | 10% |
| green (show improvement) | | | | | |
| Pohnpei | 21% | 13.50% | 13.50% | 5% | 6% |
| Chuuk | 14% | 15% | 16% | 17% | 11% |

| | |
|--|--|
| 11. At least 70% of 3rd graders received sealant by 2010 (2005 Baseline) | |
|--|--|

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 | |
|----------------------------------|---------|-------|--------|-------|--------|-----|
| red (decline) | FSM | 58% | 61.00% | 71% | 69.00% | 44% |
| yellow (no - little improvement) | Kosrae | 58% | 89% | 97% | 89% | 96% |
| green (show improvement) | Yap | 43% | 26.00% | 100% | 77% | 54% |
| | Pohnpei | 98% | 100% | 100% | 53% | 38% |
| | Chuuk | 33% | 28.00% | 25% | 58.20% | 25% |

| | |
|---|--|
| 12. Reduce incidence of diarrheal diseases by 10% by 2010 (2005 Baseline) | |
|---|--|

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 | |
|----------------------------------|---------|-------|-------|-------|-------|-------|
| red (decline) | FSM | 5,051 | 4,291 | 4,047 | 5,645 | 4,778 |
| yellow (no - little improvement) | Kosrae | 220 | 179 | 622 | 380 | 641 |
| green (show improvement) | Yap | 881 | 1,149 | 1,002 | 1,571 | 1,251 |
| | Pohnpei | 2,389 | 1,244 | 1,433 | 2,400 | 1,569 |
| | Chuuk | 1,561 | 1,719 | 990 | 1,294 | 1,317 |

| | |
|--|--|
| 13. NCD Control (Indicator: Reduce the incidence of diabetic hospitalization by 10% in 2010 (2005 Baseline)) | |
|--|--|

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 | |
|----------------------------------|---------|-------|-------|-------|-------|-------|
| red (decline) | FSM | 664 | 953 | 1,089 | 1,186 | 1,127 |
| yellow (no - little improvement) | Kosrae | 43 | 107 | 157 | 236 | 178 |
| green (show improvement) | Yap | 72 | 253 | 191 | 307 | 204 |
| | Pohnpei | 298 | 484 | 563 | 388 | 515 |
| | Chuuk | 251 | 109 | 178 | 255 | 230 |

14. Quality Assurance Systems Functioning (Indicator: Quarterly audits and improvement plans, based on written policy and procedure standards are produced for the following areas in each state hospital -wards, OPD, medical staff, x-ray, laboratory, dental, public health).

| | FSM04 | FSM05 | FSM06 | FSM07 | FSM08 |
|----------------------------------|---|--|---|-------------------------------------|---|
| red (decline) | FSM estab- lished in 1 states 25% | estab- lished in 2 states 50% | Only 1 state fully functional 25% | 3 states Not fully functional | 3 states not fully Functional |
| yellow (no - little improvement) | Kosrae | Established Not fully operational | Established Not fully operational 60% | partially functional | Established Not fully operational |
| green (show improvement) | Yap | Standard in place except Dental/PH | functioning | functioning | Functional |
| | Pohnpei NR | partially established | not fully functioning | partially functioning | partially functional |
| | Chuuk NR | Not estab- lished | Not fully functioning | partially established | partially established |

The four States and the National Government still lack a common understanding of data collection methods, computation of rates, and measurements. The departments intend to work toward improvement in FY 2010.

Decrement Planning Missing

Compact grants throughout the Federated States of Micronesia (FSM) have grown in significance, and not just in terms of increasing dollars dedicated to health care and improving outcomes. U.S. Federal financing maintains nearly all daily activities of the country's state health departments, dispensaries and hospitals and now threatens to become unmanageable at current levels. Subsidizing even a portion of the health bill has become all but unaffordable to the country's four state governments.

Dependence on support from U.S. Department of Health and Human Services (HHS) grants and cooperative agreements also places the FSM at a similar budgetary precipice. HHS resources, not local appropriations, have been the mainstay for all public health programs and for the community health centers of Yap and Pohnpei, with the Compact providing stopgap help. Targeted assistance has been available from the World Health Organization, the United Nations Family Planning Agency, the South Pacific Community and other international donors but at comparatively much smaller amounts.

Any interruption in or diminution of Compact or U.S. Federal grant support could have calamitous results. Almost no National or state revenue has found its way back to the state health departments of Chuuk, Kosrae, Pohnpei and Yap. These departments command little budgetary legislative attention despite being the only delivery arms for public health, primary care and secondary medical services in the FSM, and referral points for non-insured patients needing out-of-country tertiary care. The National Department of Health and Social Affairs (HSA Division of Health) a recipient of Compact support, has fared better in terms of garnering appropriations from the FSM Congress but has no direct role in direct health care.

Each hospital has established special accounts for user fee receipts and capitation or fee for service payments from MiCare, the FSM National's health care insurance provider, but the balances are nowhere near the amount needed to offset general operating expenditures. The accounts have functioned instead as a small cushion for emergency purchases of drugs or other expenses that fall outside the Compact's authorized purpose. Unless the health departments begin receiving a share of supplemental general revenue support from state governments, can capture fees that approach the real cost of providing health care and can begin to aggressively reassess services for spending efficiencies, reliance on Compact funding and Federal grant support will be a double-edged sword.

Redressing Prior Deficiencies

From 2004 to 2009, Compact Health Sector funding increased by \$5,564,753. The growth benefited health departments in a way that garners little attention and deserves more emphasis; that is, higher levels of funding at the start of FY 2004 provided the means by which the states could begin to redress the impact of cost-cutting measures imposed during the waning step down period of the original Compact. These measures took a heavy toll in terms of exacerbating tenuous staffing patterns and sliding employee morale. Equally if not more important were the across-the-board step down cuts that reduced the states' ability to purchase enough medicines to fill patient needs (at hospitals and at outlying dispensaries), purchase biomedical equipment to

replace aging or non-functional inventories and pay local and off-island vendors and contractors. During this period, communities regularly complained of poor medical facilities and inadequate care.

While the growth in financial support is impressive and certainly has had restorative benefit, the amount of money going to pass-through purposes such as solid waste management inflates the total. In FY 2009, the pass-through distorted the average budgetary growth rate of 4%.

Not all of the states fared well under FSM deliberations and proposals on how much money should go to health. Although funding for direct health expenditures increased, it has not kept pace with the inflationary costs accompanying the provision of care. Medical supplies, pharmaceuticals, equipment, freight and energy costs have all spiraled upward at an alarming rate during the same period. After five years of catch up, the departments saw falling or flattening budgetary levels in 2009, which made it difficult to do little more than maintain restored service levels.

Over time, approximately 47% of total direct health care delivery dollars has gone to salaries, fringe benefits, overtime, and standby pay for the nation's 956 health employees. Selective salary adjustments for doctors, nurses, and certain categories of paraprofessionals have been necessary for recruitment and retention. Even then, the FSM's health workers have the dubious distinction of being the lowest paid among its Compact nation contemporaries.

Approximately 37% of grant funding has been consumed for "other current expenses" (OCE) such as communication, fuel for vehicles and backup generators, offices supplies and materials, printing, utilities, medical supplies and pharmaceuticals. In-house repair and maintenance, items sorely needed but neglected in all the states, did not receive assistance from the country's mandatory infrastructure maintenance fund. Instead, these shoestring expenses have been an OCE line item carved out by foregoing travel (less than 2.4% of total spending) and other less critical recurring costs. Similarly, fixed asset purchases to replace broken and outmoded equipment and patient furniture have been carve outs or, as happened in 2008, mandated in JEMCO's grant allocation. Redirecting resources to program priorities too often have had to take a back seat to OCE shortfalls.

Funding Health Infrastructure Development

Despite the fact that health facilities throughout the FSM are old and urgently need repair, renovation and reconstruction attention, infrastructure development has been slow to take shape. Internal decision-making and process issues overshadowed need, as has land titling problems. State deposits of maintenance improvement fund matching monies have been equally sluggish and therefore unavailable to hospitals. Dispensary upgrades and repairs still need front-burner attention.

Significant advances to move health infrastructure projects forward did occur in 2009. Kosrae is in the final consultation stages for a new hospital. A formal assessment of repair and renovation needs of Chuuk Hospital will begin shortly and outer island health dispensaries have been

included as priority projects. Design planning for Yap State's hospital redevelopment is underway as well as for a new public health facility in Pohnpei.

FY2010 FSM Health Sector

The FSM Department of Health and Social Affairs presented the following status report to JEMCO on fourteen health indicators from 2004 to 2010:

The document presented as follows the status of the Federated States of Micronesia's Fourteen Health Indicators for annual monitoring through the Department of Health and Social Affairs in-collaboration with the four-state departments of health services. The data presented in this report covered a period from 2004-2010. However, the specific purpose is to present the current data/updates of 2010.

| |
|--|
| I. Federated States of Micronesia, National Health Indicators |
|--|

There are fourteen (14) national health indicators selected and agreed upon for annual monitoring and reporting. These fourteen health indicators measured health statuses, availability of essential drugs, health care utilizations (patient encounters), and functionality of bio-medical equipment including quality assurance in each state hospital.

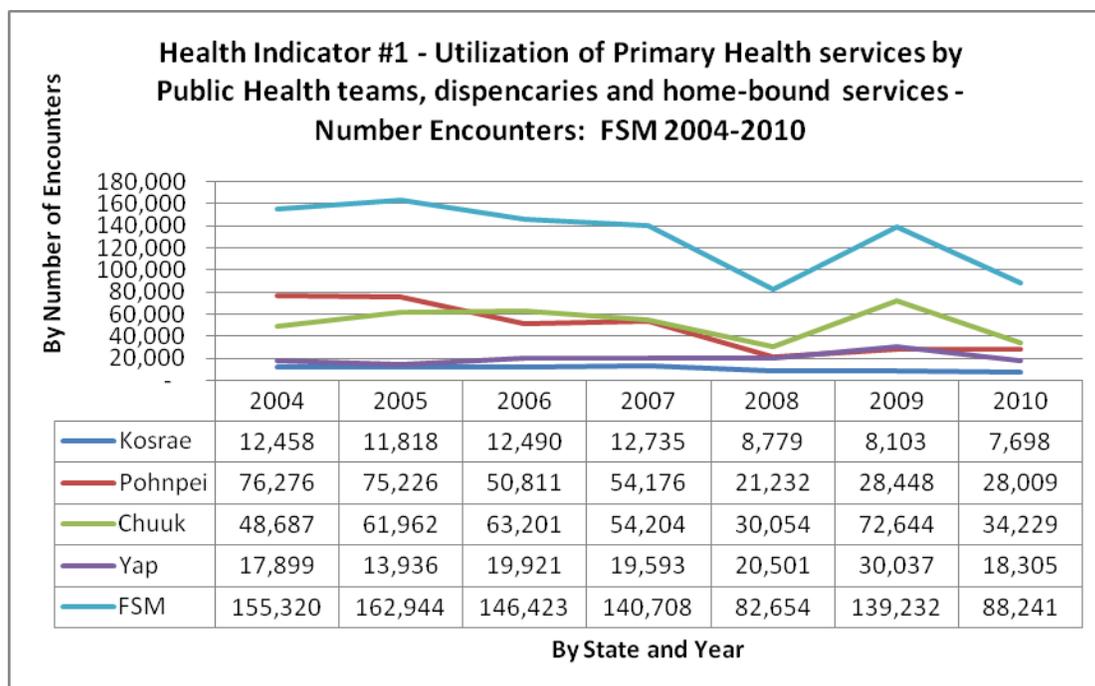
Table 18

Health Outcome Measures - Federated States of Micronesia

1. Decentralize primary care services - number of encounters provided in homes and dispensaries will increase 20% by 2010 (2004 Baseline)

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|---------|--------|--------|---------|--------|
| 2004 | 155,320 | 48,687 | 12,458 | 76,276 | 17,899 |
| 2005 | 162,944 | 61,962 | 11,818 | 75,226 | 13,936 |
| 2006 | 146,423 | 63,201 | 12,490 | 50,811 | 19,921 |
| 2007 | 140,708 | 54,204 | 12,735 | 54,176 | 19,593 |
| 2008 | 82,654 | 30,054 | 8,779 | 21,232 | 20,501 |
| 2009 | 139,232 | 72,644 | 8,103 | 28,448 | 30,037 |
| 2010 | 88,241 | 34,229 | 7,698 | 28,009 | 18,305 |

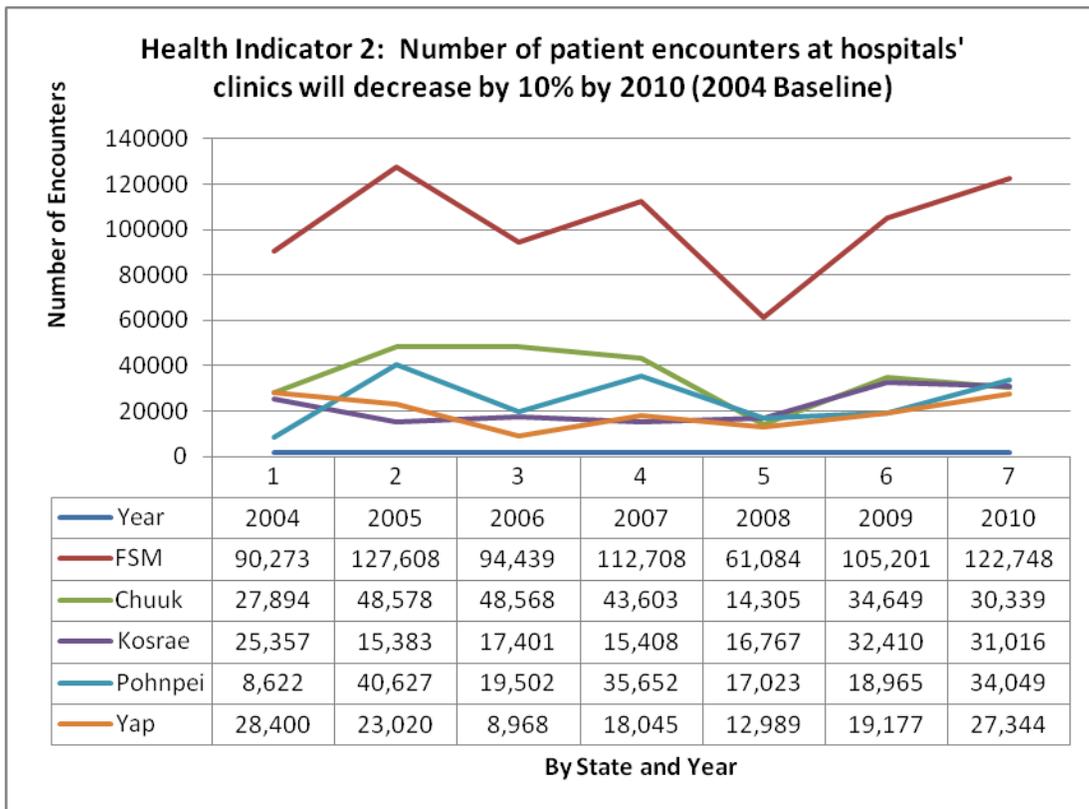
Number of people seen at homes and in dispensaries decrease in 2010 due in part of out-migration from OI to State centers and out of country out-migration. However, remaining population continued utilizing OI dispensaries and services provided by public health teams on periodic basis. Out of stock supplies in dispensaries; improper recording and reporting of home-bound encounters are some of the contributing factors in placing this health indicator in **Red Condition** (needs improvement).



2. Decentralize primary care services - number of patient encounters at hospitals' clinics will decrease by 10% by 2010 (2004 Baseline)

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|---------|--------|--------|---------|--------|
| 2004 | 90,273 | 27,894 | 25,357 | 8,622 | 28,400 |
| 2005 | 127,608 | 48,578 | 15,383 | 40,627 | 23,020 |
| 2006 | 94,439 | 48,568 | 17,401 | 19,502 | 8,968 |
| 2007 | 112,708 | 43,603 | 15,408 | 35,652 | 18,045 |
| 2008 | 61,084 | 14,305 | 16,767 | 17,023 | 12,989 |
| 2009 | 105,201 | 34,649 | 32,410 | 18,965 | 19,177 |
| 2010 | 122,748 | 30,339 | 31,016 | 34,049 | 27,344 |

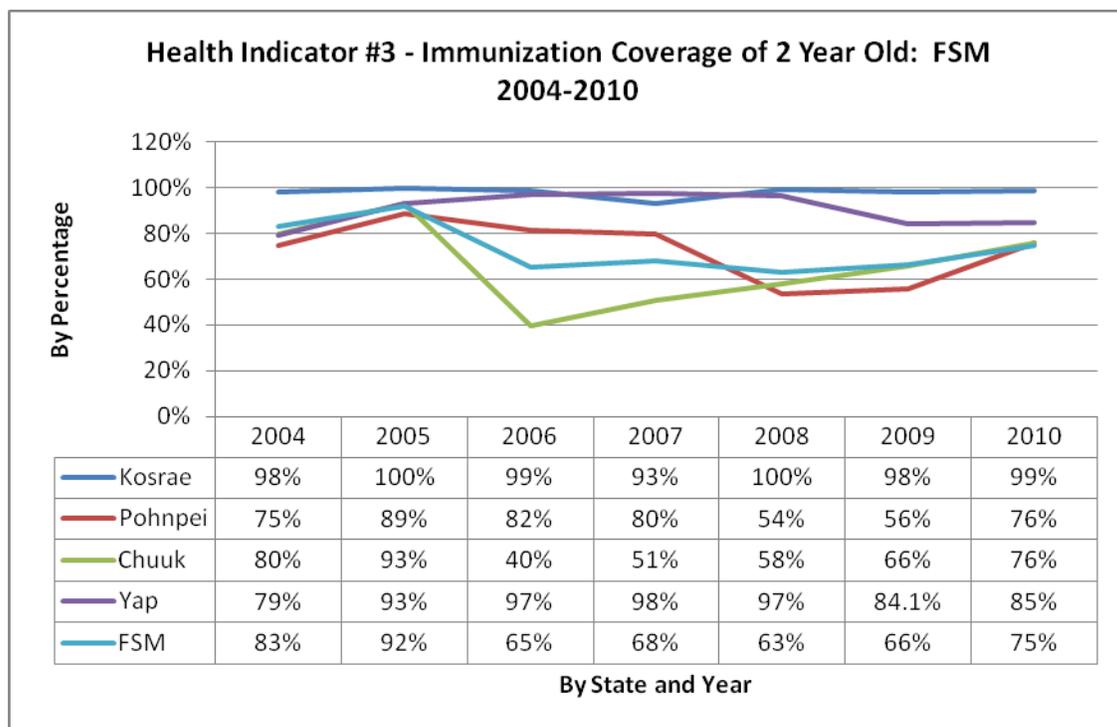
Encounters at state hospitals' clinics increased in 2010, probably in some cases, due to closed-out of some dispensaries and health clinics, including out of stock medications. Patients still prefer to utilize the hospital clinics than the dispensaries and health posts. Patients prefer to be seen by a physician rather than a health assistant. This indicator is in **Red Condition**.



3. Immunization coverage of 2 year old children is increased to not less than 90% by year 2010 (2004 Baseline).

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|--------|-------|--------|---------|-----|
| 2004 | 83% | 80% | 98% | 75% | 79% |
| 2005 | 83% | 93% | 90% | 83% | 74% |
| 2006 | 66% | 54% | 79.00% | 81.40% | 89% |
| 2007 | 69% | 50% | 99% | 80% | 94% |
| 2008 | 63.40% | 58% | 100% | 53.70% | 98% |
| 2009 | 81.00% | 68% | 97% | 76.00% | 84% |
| 2010 | 75% | 69% | 99% | 76% | 85% |

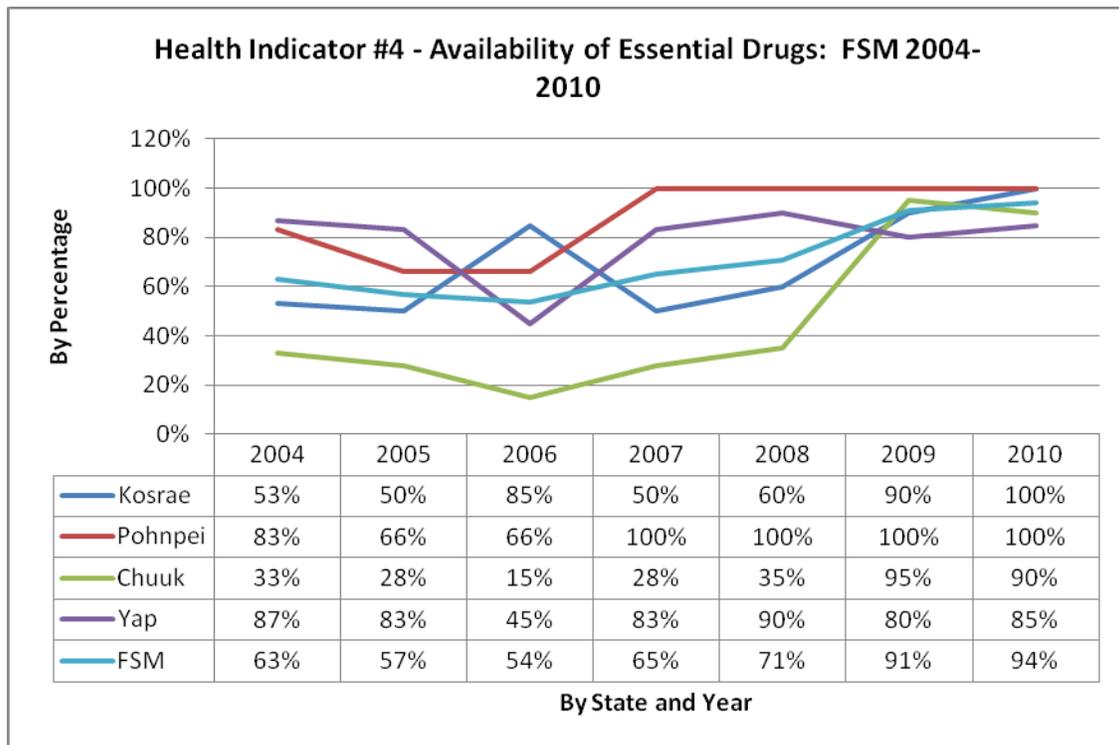
The overall immunization coverage in 2010 was low from the desire goal as normal operation was interrupted with an additional antigen of which tend to pull down the coverage level. Transportation to outer-island still poses problem with outreach campaigns. This indicator is in **Red Condition** (needs improvement)



4. Essential drugs and supplies available (indicators: ORS, combo OCP, Amox, IV, chloramphenicol, glyburide, ethanol, HCTZ, all in stocked 80% of days.

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|-----|-------|--------|---------|-----|
| 2004 | 63% | 33% | 53% | 83% | 87% |
| 2005 | 57% | 28% | 50% | 66% | 83% |
| 2006 | 54% | 15% | 85% | 66% | 45% |
| 2007 | 65% | 28% | 50% | 100% | 83% |
| 2008 | 71% | 35% | 60% | 100% | 90% |
| 2009 | 91% | 95% | 90% | 100% | 80% |
| 2010 | 94% | 90% | 100% | 100% | 85% |

Most essential drugs were made available in most states as noted from states' data. Most states, however, experienced delayed in acquiring these essential drugs due to long procurement processes and price quotes. All states performed well on this health indicator. This indicator is considered in **Yellow Condition**

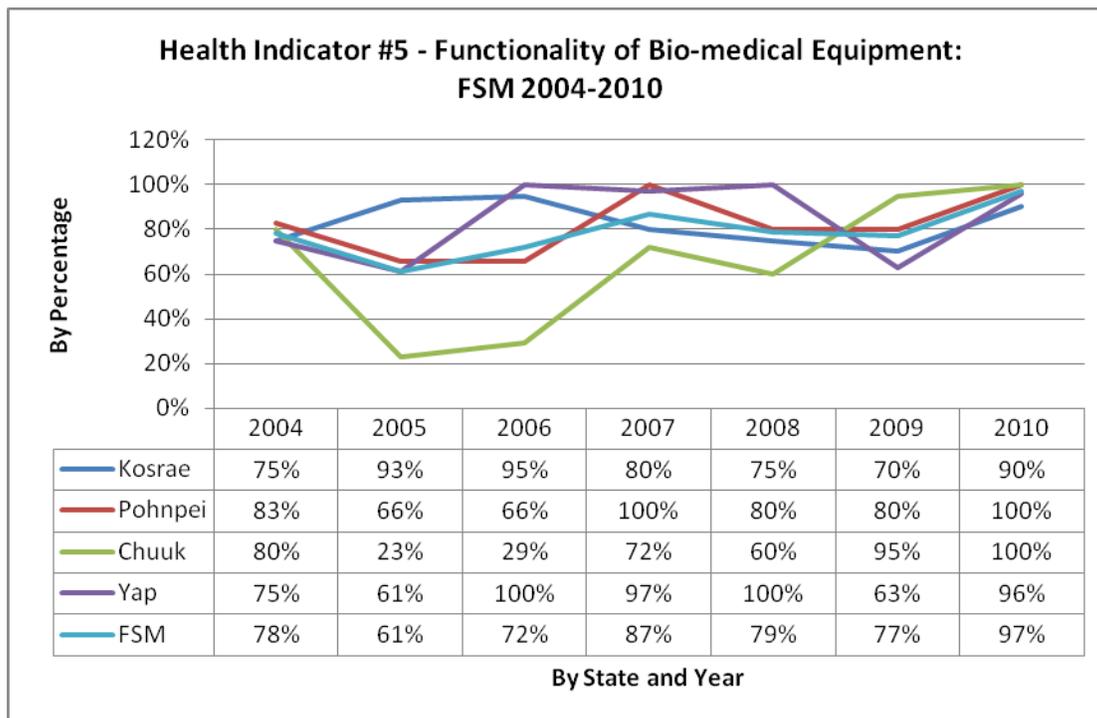


5. Bio-medical equipment is functional (indicator: Na+ K+ ALT, Bili, Creatinin, All available 80% of days

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|-----|-------|--------|---------|------|
| 2004 | 78% | 80% | 75% | 83% | 75% |
| 2005 | 61% | 23% | 93% | 66% | 61% |
| 2006 | 72% | 29% | 95% | 66% | 100% |
| 2007 | 87% | 72% | 80% | 100% | 97% |
| 2008 | 79% | 60% | 75% | 80% | 100% |
| 2009 | 77% | 95% | 70% | 80% | 63% |
| 2010 | 97% | 100% | 90% | 100% | 96% |

Comments:

With the exception of Kosrae State, most states seem to be performed satisfactory in providing support services to both medical and public health units. The problem, however, had to do with procurement of medical supplies needed. The process took so long in acquiring price quotes. Kosrae's x-ray and ultra-sound machines were inoperable due to imaging problem. This indicator is considered as satisfactory. **Green Condition**

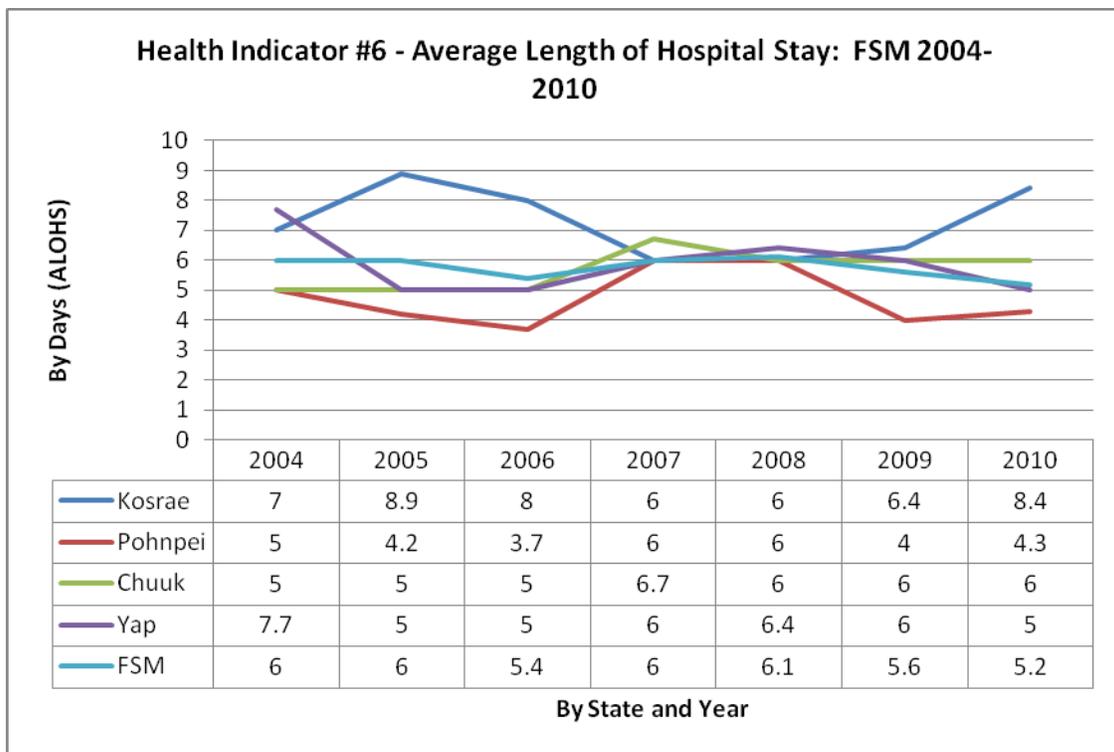


6. The average length of hospital stay is less than 7 days for each State Hospital by 2010 (2004 Baseline)

This indicator seems to maintain the same number of days in previous year. NCD cases, mainly diabetes, continued to stay

longer in hospitals than any other illnesses. **Green Condition.**

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|-----|-------|--------|---------|-----|
| 2004 | 6 | 5 | 7 | 5 | 7.7 |
| 2005 | 6 | 5 | 8.9 | 4.24 | 5 |
| 2006 | 5.4 | 5 | 8 | 3.7 | 5 |
| 2007 | 6 | 6.71 | 6 | 6 | 6 |
| 2008 | 6.1 | 6 | 6.03 | 6 | 6.4 |
| 2009 | 5.6 | 6 | 6.4 | 4 | 6 |
| 2010 | 5.2 | 6 | 5.4 | 4.3 | 5 |



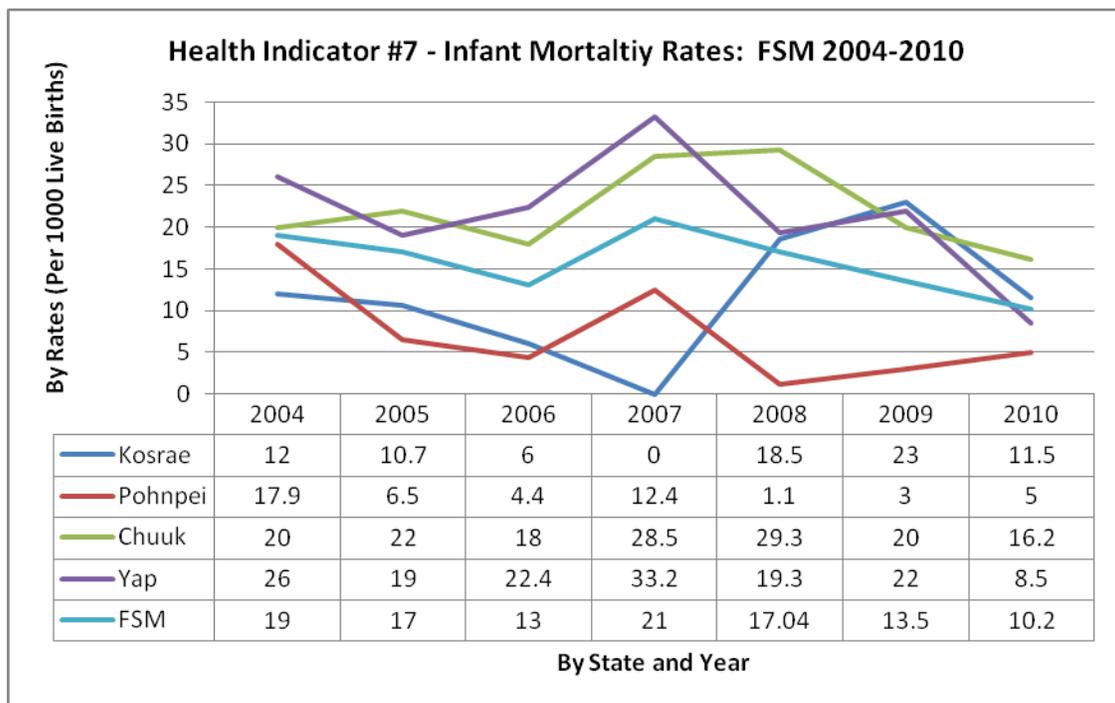
7. Infant Mortality Rate is reduced to less than 16/1000 by 2010 (2004 Baseline)

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|-------|-------|--------|---------|------|
| 2004 | 19 | 20 | 12 | 17.9 | 26 |
| 2005 | 17 | 22 | 10.7 | 6.5 | 19 |
| 2006 | 13 | 18 | 6 | 4.4 | 22.4 |
| 2007 | 21 | 28.5 | 0 | 12.4 | 33.2 |
| 2008 | 17.04 | 29.3 | 18.5 | 1.06 | 19.3 |
| 2009 | 13.5 | 20 | 23 | 3 | 22 |
| 2010 | 10.2 | 16.2 | 11.5 | 5 | 8.5 |

Comments: FSM IMR recorded at 10.2 per 1000 live births in 2010. Numbers of infant deaths are hospitals' reported deaths.

Outer islands, in most case, are not included (dispensary reporting). Infant deaths are under-reported. In 2010 most infant deaths

are due to pre-mature births (prematurity). Based on these data, this indicator is considered in **Green Condition.**

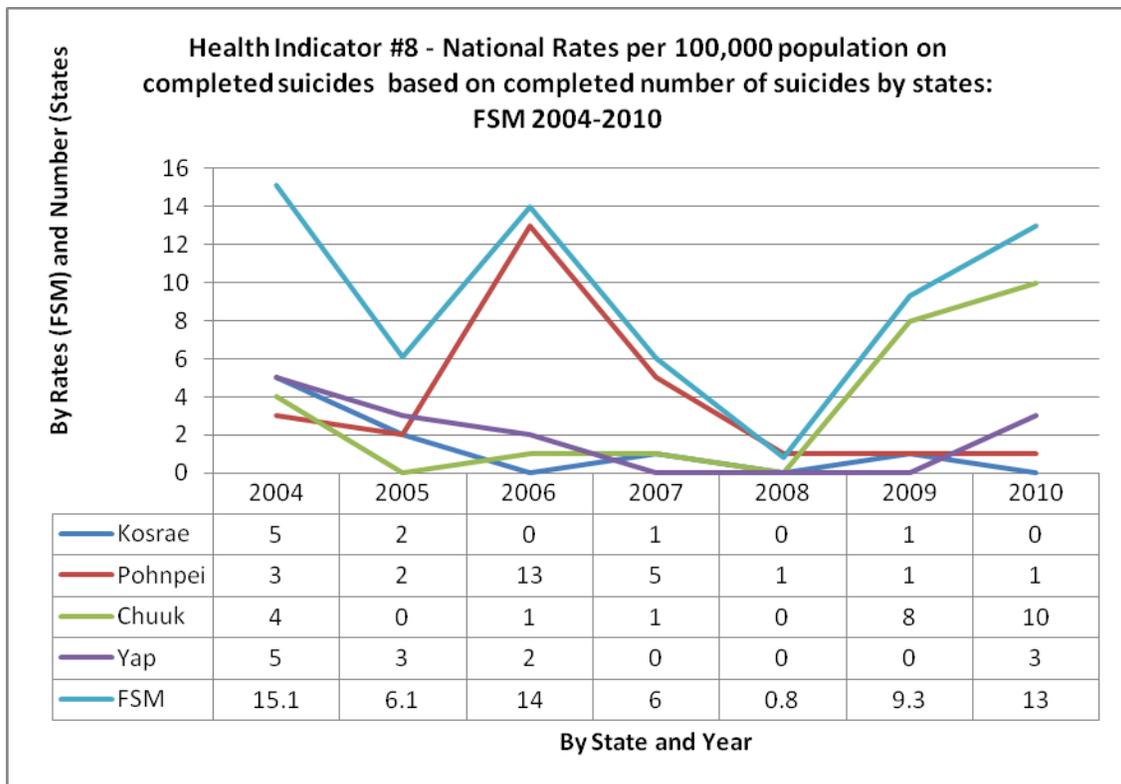


8. Mental illness is reduced (Indicator: Rate of completed suicide reduced to 10% by 2010 (2004 Baseline))
**(States are number of completed suicides and FSM is based on rates-
total number each year by mid-year project population)**

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|-------------|-------|--------|---------|-----|
| 2004 | 15.1/100000 | 4 | 5 | 3 | 5 |
| 2005 | 6.1/100,000 | 0 | 2 | 2 | 3 |
| 2006 | 14/100000 | 1 | 0 | 13 | 2 |
| 2007 | 6/100000 | 1 | 1 | 5 | 0 |
| 2008 | 0.8/100000 | 0 | 0 | 1 | 0 |
| 2009 | 9.3/100,000 | 8 | 1 | 1 | 0 |
| 2010 | 13/100,000 | 10 | 0 | 1 | 3 |

The suicide rate has increased due to the increased in number of completed suicide in Chuuk. Whereas, Yap and Pohnpei reported 3 and 1 respectively in 2010 in causing the spike. Suicide, whether attempted and completed is still a major

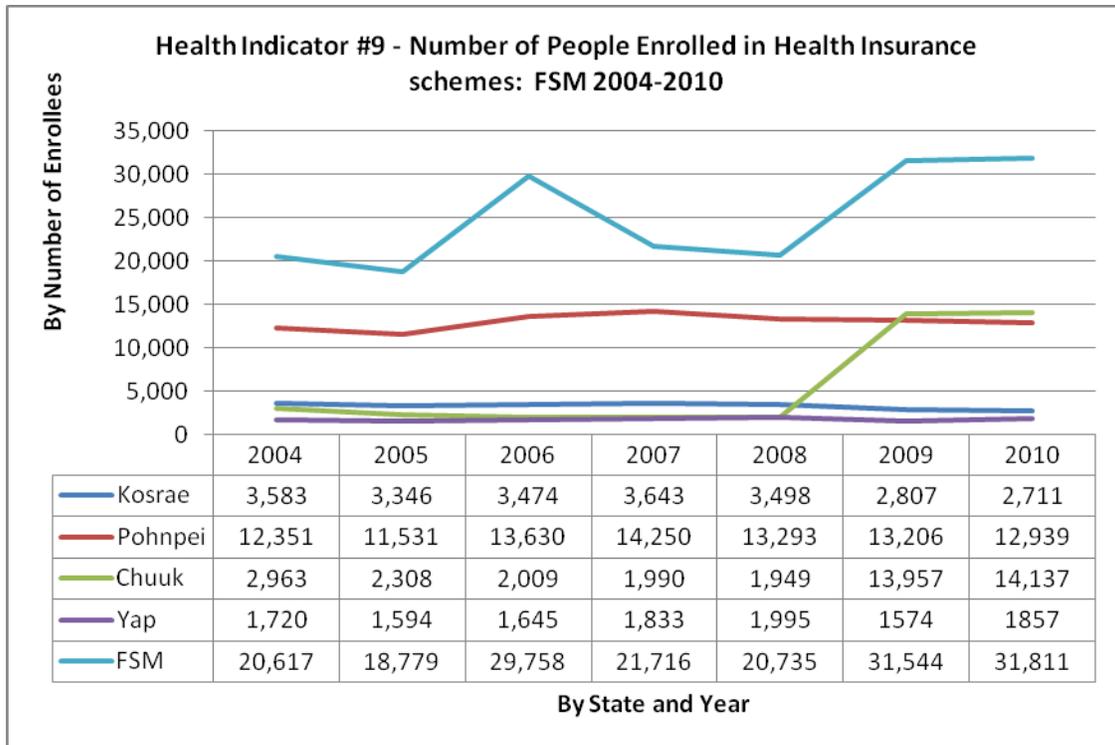
public health issue in the FSM due in part of socio-economic conditions. Based on the increased in number and rate, this health indicator is **in Red Condition**.



9. The number of individuals enrolled under a health insurance plan is increased 10% by 2010 (2004 Baseline)

These data include both MiCare and Chuuk Health Plan enrollees. As noted at the bottom, a total of 167 enrollees is considered as out-of-country. This total number is included in the total figure for FSM 2010.

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|--------|--------|--------|---------|-------|
| 2004 | 20,617 | 2,963 | 3,583 | 12,351 | 1,720 |
| 2005 | 18,779 | 2,308 | 3,346 | 11,531 | 1,594 |
| 2006 | 29,758 | 2,009 | 3,474 | 13,630 | 1,645 |
| 2007 | 21,716 | 1,990 | 3,643 | 14,250 | 1,833 |
| 2008 | 20,735 | 1,949 | 3,498 | 13,293 | 1,995 |
| 2009 | 31,544 | 13,957 | 2,807 | 13,206 | 1,574 |
| 2010 | 31,811 | 14,137 | 2,711 | 12,939 | 1,857 |

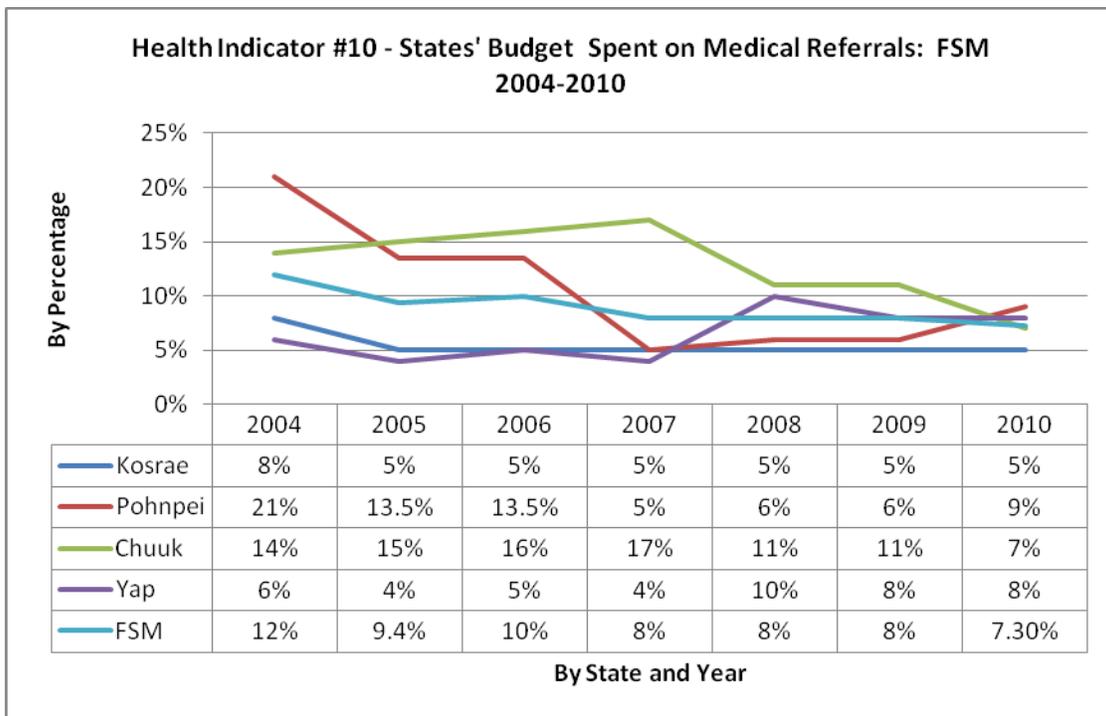


10. Off-island medical referral costs in all states reduce to less than 10% of total health sector expenditures (2004 Baseline)

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|-------|-------|--------|---------|-----|
| 2004 | 12% | 14% | 8% | 21% | 6% |
| 2005 | 9.40% | 15% | 5% | 13.50% | 4% |
| 2006 | 10% | 16% | 5% | 13.50% | 5% |
| 2007 | 8% | 17% | 5% | 5% | 4% |
| 2008 | 8% | 11% | 5% | 6% | 10% |
| 2009 | 8% | 11% | 5% | 6% | 8% |
| 2010 | 7.3% | 7% | 5% | 9% | 8% |

Based on these data all states performed satisfactorily in maintaining their off-island medical referral costs to less than 10% of their

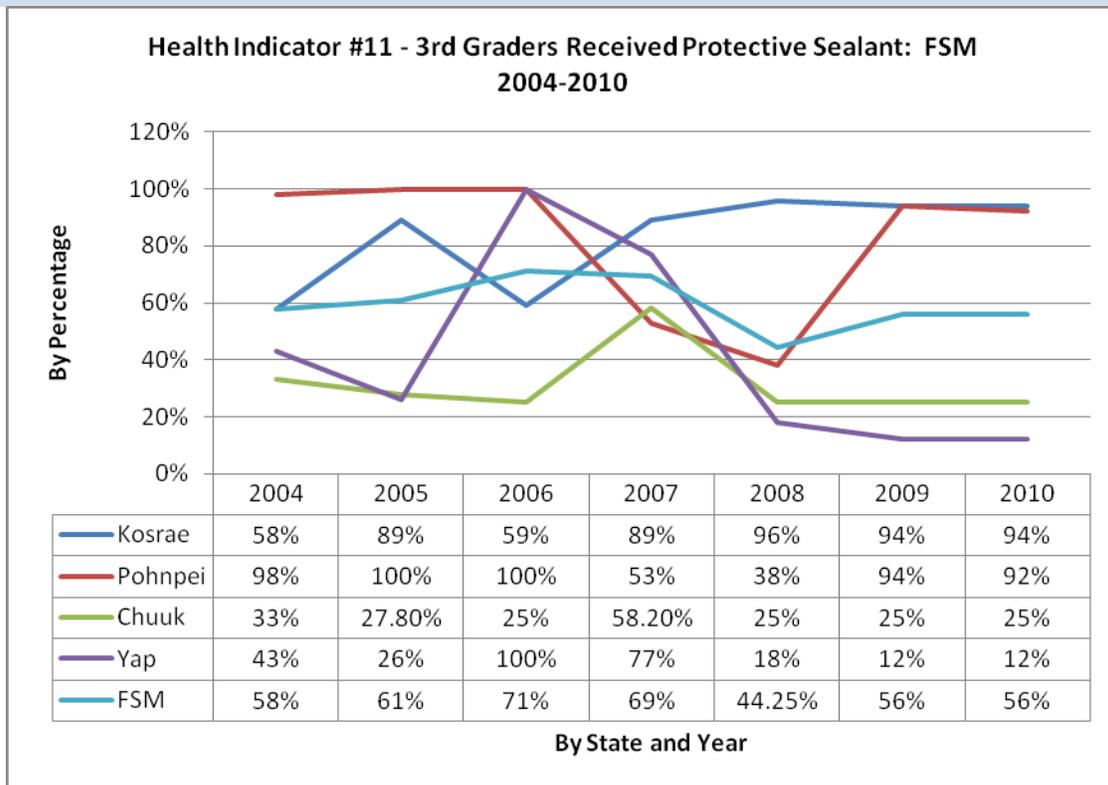
Health sector budget. This indicator is in **Green Condition.**



11. AT least 70% of 3rd graders received sealant by 2010 (2004 Baseline)

Low coverage was noted for this indicator due to insufficient dental supplies and lack of transportation to do on-site (school outreach) treatment. MCH (Oral Health) needs to work with schools system in improving this indicator as this indicator is in **Red Condition**.

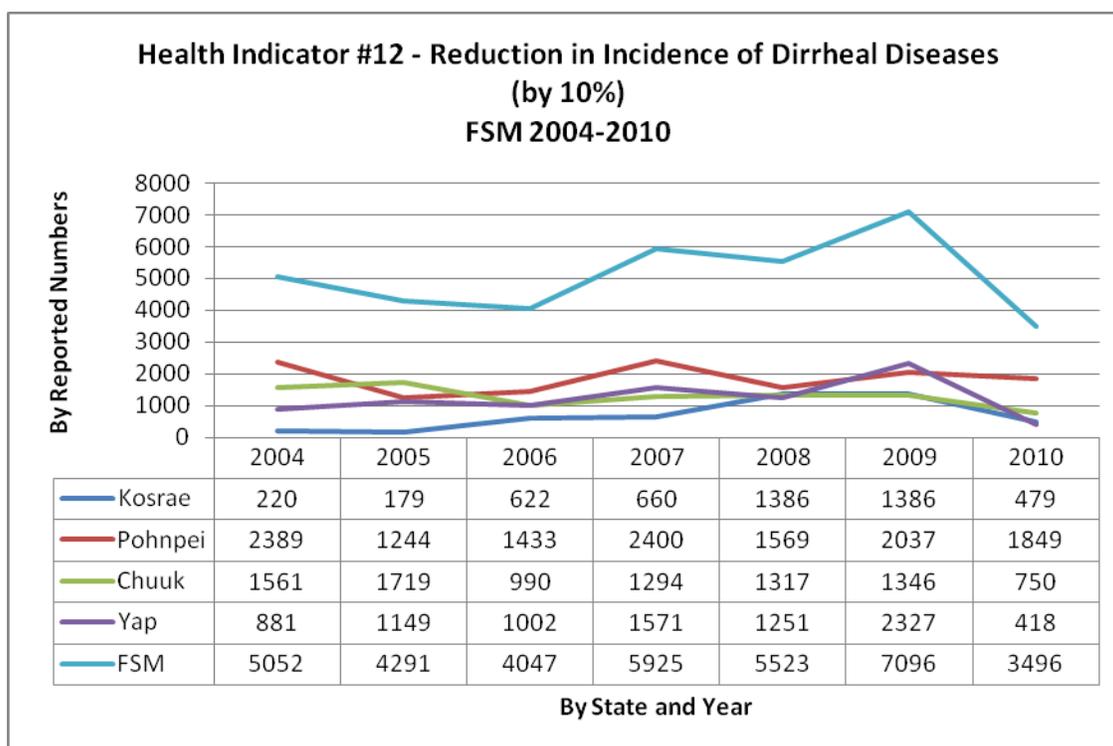
| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|--------|--------|--------|---------|--------|
| 2004 | 58% | 33% | 58% | 98% | 43% |
| 2005 | 61% | 27.80% | 89% | 100% | 26.00% |
| 2006 | 71% | 25% | 59% | 100% | 100% |
| 2007 | 69.3 | 58.20% | 89% | 53% | 77% |
| 2008 | 44.25% | 25% | 96% | 38% | 18% |
| 2009 | 56% | 25% | 94% | 94% | 12% |
| 2010 | 56% | 25% | 94% | 92% | 12% |



12. Reduce incidence of diarrheal diseases by 10% by 2010 (2004 Baseline)

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|-------|-------|--------|---------|-------|
| 2004 | 5,052 | 1,561 | 220 | 2,389 | 881 |
| 2005 | 4,291 | 1,719 | 179 | 1,244 | 1,149 |
| 2006 | 4,047 | 990 | 622 | 1,433 | 1,002 |
| 2007 | 5,925 | 1,294 | 660 | 2,400 | 1,571 |
| 2008 | 5,523 | 1,317 | 1,386 | 1,569 | 1,251 |
| 2009 | 7,096 | 1,346 | 1,386 | 2,037 | 2,327 |
| 2010 | 3,496 | 750 | 479 | 1,849 | 418 |

Although decreased in terms of reported number, diarrhea and gastroenteritis still common and prevalence is high, especially among children. Timely data inputting by medical record technicians and vital statisticians needs to be improved to prevent back-logging of health data. This is a problem in many of the states. This indicator is placed in **Yellow Condition**

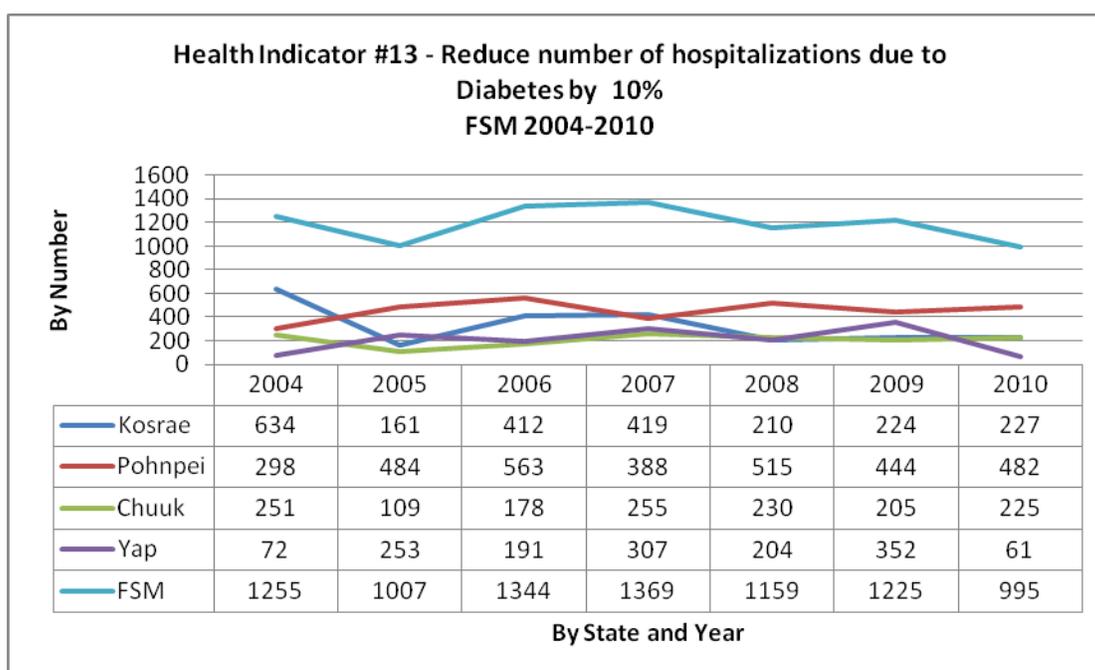


13. NCD Control (Indicator: Reduce the incidence of diabetic hospitalization by 10% in 2010 (2004 Baseline))

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|-------|-------|--------|---------|-----|
| 2004 | 1,255 | 251 | 634 | 298 | 72 |
| 2005 | 1,007 | 109 | 161 | 484 | 253 |
| 2006 | 1,344 | 178 | 412 | 563 | 191 |
| 2007 | 1,369 | 255 | 419 | 388 | 307 |
| 2008 | 1,159 | 230 | 210 | 515 | 204 |
| 2009 | 1,225 | 205 | 224 | 444 | 352 |
| 2010 | 995 | 225 | 227 | 482 | 61 |

There has been a sharp reduction on number of diabetes cases noted in Yap while the rest of the states have seen increases with

their diabetes hospitalizations as compare to previous year. Diabetes is still a big public health and medical problem in all states. Reporting is one of the problem with this indicator as there is no central registry, but to rely on encounters (INPAT) from the HIS. This indicator is also in **Yellow Condition**.



14. Quality Assurance Systems Functioning (Indicator: Quarterly audits and improvement plans, based on written policy and

procedure standards are produced for the following areas in each state hospital – (wards, OPD, medical staff, x-ray, lab, dental public health)

Comments: There are some types of QA measures in placed in all state hospitals.

Some are fully functioning in certain units or divisions in the hospitals.

| Year | FSM | Chuuk | Kosrae | Pohnpei | Yap |
|------|-------------|-------|-------------|---------|-------------|
| 2004 | Not | NFF | Established | PF | NFF |
| 2005 | | NFF | PF | PF | NFF |
| 2006 | fully | NFF | PF | PF | Functioning |
| 2007 | | NFF | PF | PF | Functioning |
| 2008 | functioning | NFF | PF | PF | Functioning |
| 2009 | | PF | PF | PF | Functioning |
| 2010 | PF | PF | PF | PF | Functioning |

Quality Assurance needs to be fully operational in all public hospitals. This health indicator is in VERY BIG Red Condition.

The health directors revised and refined the health sector’s fourteen indicators on June 29, 2010, as shown below. The changes take effect in FY 2011.

1. Primary health care services: The number of encounters for primary health care services offered in community and dispensary settings where applicable, will increase by 20% by 2015 (proxy indicator).
2. Primary health care services: The number of encounters for primary care in hospital clinics will decrease by 10% by 2010 (proxy indicator).
3. Immunization coverage of 2 year old children will reach 90% by 2015.
4. Drugs considered essential will be available and stocked 80% of days (list revised; new baseline 2009). (“Essential” is defined minimally as the following classes of drugs: antihypertensives, IV antibiotics, oral antibiotics, antihelmets, analgesics, antipyretics, hypoglycemics, and Vitamins.)
5. Biomedical equipment in hospitals is functional 80% of days (list revised; new baseline 2009). (“Biomedical equipment” is defined minimally as CBC, chemistry, x-ray, EKG, and ultrasound.)
6. The Average Length of Hospital Stay is reduced to less than 7 days by 2015.
7. The Infant Mortality Rate is reduced to less than 16/1000 by 2015.
8. Mental illness: The rate of suicide is reduced to less than 10% by 2015 (proxy indicator).
9. The percentage of the population enrolled in a health insurance plan will increase by 10% by 2015. (“Enrollment” is defined as the percentage of population participating in any health insurance plan.)
10. The cost of off-island medical referral is reduced to less than 8% of total health expenditures.
11. At least 70% of third grade children receive sealants by 2015.

12. The incidence of diarrheal diseases among 0-5 year old children will be reduced by 10% by 2015.
13. NCD control: The incidence of diabetic related hospitalization will be reduced by 10% by 2015 (proxy indicator).
14. Quality assurance: Audits are conducted for all functional units of a health department at least quarterly (proxy indicator).

*Baselines remain at 2004 unless otherwise noted.

FSM Education Sector, FY2009 and FY2010

Education Sector Allocations by State

| | FY09 Funding | FY10 Funding |
|-----------------------|---------------------|---------------------|
| FSM Nat'l Government | \$603,240 | \$603,240 |
| College of Micronesia | \$3,800,000 | \$3,800,000 |
| Chuuk State | \$11,002,820 | \$10,047,249 |
| Kosrae State | \$2,613,160 | \$2,524,286 |
| Pohnpei State | \$7,643,352 | \$7,599,557 |
| Yap State | \$4,204,851 | \$4,199,923 |
| Total | \$29,867,423 | \$28,774,255 |

Languages

There are more than a dozen languages spoken in the FSM; each State chooses the primary language of instruction. For example, although Ngatikese, Kapingi, Mokilese, Chuukese, Yapese, and Kosraen are spoken on Pohnpei, Pohnpeian is the language of instruction in the early grades of public elementary school. Yap State offers instruction in Yapese, Woleaian, and Ulithian, the three major languages in that State. As a result of the multiplicity of languages in any given State, the language of instruction is already a second language for many FSM students. English is introduced in grade three and expected to be the language of instruction by grade seven. However, this is seldom the case. Private schools, in contrast, tend to use English as the language of instruction consistently from first grade onwards.

Administration

The FSM system of education is decentralized, with the primary responsibilities residing with the State Departments of Education. The FSM National Department of Education (NDOE) was set up as a separate national government department in 2009. It has yet to define itself in terms of leadership for the States. However, the NDOE has revised standards-based assessments of English and math for grades 4, 6, 8, 10, and 12. As of FY 2010, standardized tests were administered and resulting data enables valid cross-State comparisons of student achievement. The NDOE, however, lacks personnel and travel resources to administer the tests to all FSM schools.

State Administrations are led by politically appointed Directors of Education. Because of the election cycle, leadership was relatively stable throughout FY 2009 and 2010. However, with

new elections come changes in educational administration and the possibility of shifts in program focus.

Elementary

Public education is mandated from ages 6 to 14 throughout FSM. This translates, typically, to grades one through eight. Most school buildings, therefore, consist of classrooms for grades 1 through 8. On Pohnpei, the addition of Kindergarten or Early Childhood Education (ECE) as it is locally called, has strained classroom availability. Chuuk and Kosrae are moving in the same direction, so the same lack of facilities can be anticipated. Yap continues to run ECE on the model formerly funded through Head Start and so maintains separate facilities for pre-grade 1 educational activities.

Math, Science, English Language Arts, and Social Studies comprise the standard curriculum. Each State has its own program of local language and culture instruction. Extracurricular activities, i.e. sports or clubs, are available on an ad-hoc basis depending on the availability of staff willing to take on additional responsibilities.

Secondary

High school attendance is limited by the capacity of available facilities. All States are endeavoring to provide universal secondary education, but not all can afford to build, equip and staff the schools to accommodate the numbers of graduating eighth grade students. High school education, therefore, is generally controlled by an entrance test. There is no fixed “passing” score, however. Entrance is provided to the extent that space is available.

The high school curriculum has an academic focus. Vocational courses are available as electives. Because of the military build-up on Guam, all States are in the process of creating vocational tracks that lead to diplomas. Using the programmatic flexibility provided through the Supplemental Education Grant (SEG), Pohnpei and Chuuk State Departments of Education developed formal agreements with Guam vocational training facilities. The intention is to enhance local training resources so that more FSM and RMI citizens can prepare for the job opportunities opening as a result of the Guam military build-up. SEG program funds were used to enable 40 Kosraean young men and 30 Chuukese to complete programs at the Center for Micronesian Empowerment on Guam and obtain jobs in construction trades.

The direction of FSM school systems toward universal early childhood education and high school access for all students constitutes a worthy educational objective. However, in combination with the move toward providing ancillary services like transportation and food, the sustainability of such a comprehensive system of education is questionable given current funding resources. This will become an increasingly serious issue as Compact decrements are no longer offset by inflation adjustments.

Post-secondary

There is one post-secondary institution in the FSM, the College of Micronesia. It offers Associate degrees in a limited number of fields. Recently, an affiliation with the University of Guam has enabled some students to pursue a Bachelor's degree at COM. The institution is under accreditation pressure largely because of its 5-Campus policy. The College operates a separate campus in each of the four FSM States in addition to the "flagship" national campus on Pohnpei. The ability to sustain the arrangement for the long term is questionable.

Grant period alignment

Notable improvements were made in fiscal and operational processes because the Office of Insular Affairs (OIA) was able to align the period of performance for SEG and Compact Education Sector (ES) grants. In prior years, SEG started late and extended beyond the Sector fiscal year, complicating fiscal and program operations. Beginning in FY '09, both SEG and ES began simultaneously on October 1. In FY 2010, both ES and SEG will run simultaneously for a twelve-month grant period.

Better Planning

OIA's technical assistance in educational planning is showing results. After reviewing annual plans in June 2009, the U.S. Department of Education stated that planning documents from the FSM were clearer and more informative than in the past.

Improved Performance Indicator Data

FSM compiled important accountability data in 2009 and was able to track them nationally. Newly developed assessments aligned to curriculum were administered in the FSM that, for the first time, provided reliable and valid baseline data on student achievement. The National Student Test (NST) report culminates several years of data system development and capacity building for data input and analysis. Reporting on the new assessments and other measures, the FSM submitted its first complete set of test data for the education sector in 2009. However, aggregate student achievement data, that is, the combined scores of students across FSM on the NST, does not show improvement from 2009 to 2010. Individual State data is more optimistic, with the exception of Chuuk.

More certified teachers

A positive trend is indicated by data submitted in 2009 showing the number of certified primary and secondary level teachers is increasing. However, an unacceptable proportion of the teaching corps still has no qualification higher than a high school diploma. Lack of certified teachers remains a serious problem.

As teacher certification is an important step toward improving the quality of teaching, OIA recommended that JEMCO restrict compact-p-financial assistance salaries to certified teachers in FY 2010 for FSM. Specifically, OIA proposed a grant condition that any teacher receiving salary

through the Compact must have at least an Associate Degree or be enrolled in an academic program leading to such a degree. JEMCO accepted the suggestion and instituted it as a grant condition starting in FY 2010. As a result, most teachers who lacked the requisite degree have since engaged in coursework, primarily through the College of Micronesia. For the most part, Kosrae and Pohnpei have achieved the FSM mandate for all teachers to have at least an AA degree. Chuuk and Yap still have significant numbers of teachers who lack the required degree. The second quarter FY10 meeting of FSM Chief State School Officers passed a resolution outlining steps for certification, placing the responsibility for meeting the requirement on the teachers themselves.

Textbook availability

Textbooks are more evident in classrooms, although there is still improvement needed to reach the goal of full coverage; i.e., one text per student in four core content areas. The fourth quarter 2009 meeting of FSM Chief State School Officers in Chuuk passed a resolution endorsing the continuation of the Education Sector grant condition requiring a set-aside of funding for textbooks, with the addition of language that would enable flexibility in spending once the target goal has been met. Unfortunately, uncertainty on the procedural issue of how FSM would raise the issue at JEMCO was not resolved. As a result, the 2010 JEMCO did not entertain the issue and, as a result, funding for textbooks has declined.

Technology planning

The planning, use, and budgeting for educational technology have been haphazard and uncoordinated. A considerable amount of money is budgeted annually for computers without any direction for their use. Similarly, other donor nations have been installing solar panels on outer-island schools, yet the systems have no plan on what to do with them. Further complicating technology use, internet access remains limited, slow, and expensive. OIA recommended that JEMCO require comprehensive technology plans be developed in FY 2010. The recommendation was instituted as a grant condition and as a result the FSM National Department of Education contracted the College of Micronesia to lead a series of planning workshops that resulted in a workable plan for each State.

Chuuk

The Chuuk State Department of Education in the FSM is unquestionably the most challenged education system in the U.S.-affiliated Pacific. Chuuk was the sole State in FSM which neglected to enforce the minimum AA degree requirement for teachers. Data show that 8th and 12th grade completion rates lag significantly behind the other States. Facilities continue to deteriorate as land issues stymie renovation and construction. A 2009 report by the Chuuk Department of Health indicated 91 of 98 schools lacked sanitary toilets and 50 schools lack adequate drinking water.

OIA recommended that JEMCO set up a multi-agency task force to provide technical assistance to Chuuk DOE in FY 2010. While the system remains problematic, positive advances occurred as a result of the attention focused on Chuuk in 2010. A new Director of Education assumed control and hired a group of knowledgeable consultants to develop a reform plan for education in

Chuuk. The Reform Plan contains organizational streamlining, communication and logistical improvements between the central office and the widely dispersed schools, teacher incentives and discipline measures, and decentralization to regional offices for more immediate supervision and response. The primary expectation for FY 2011 is that the system will weed out unqualified teachers and have a fully qualified teacher corps for the start of the subsequent school year.

Limited resources

Impacting the sustainability of education systems are efforts in the states to implement school feeding programs and transportation. These ancillary services are not being supported through local funds, although they are initiated through local legislatures. Food and transportation are expensive, and tend to take a disproportionate amount of money away from basic classroom teaching. OIA will continue to work closely with FSM and RMI education systems to focus Compact and SEG dollars on instruction.

FSM Public Sector Infrastructure, FY2009 and FY2010

The JEMCO allocated a total amount of approximately \$48 million for the Public Sector Infrastructure Sector during Fiscal Years 2009 and 2010. The Office of Insular Affairs, in combination with previous year unobligated balances, awarded Public Infrastructure Sector Grants to the FSM totaling approximately \$58.3 million during this time period for the construction of the following projects:

1. Kolonia/Madolenihmw Elementary School-Pohnpei State
2. Nanpei Memorial High School – Pohnpei State
3. College of Micronesia Campus Center and Classrooms – Yap State
4. Weno Road Civil Works Phase 1 – Chuuk State
5. Early Childhood Education Center – Yap State
6. Matching for Asian Development Bank Omnibus Water Projects
7. Matching for FAA Airport Improvement Projects
8. Sapwalap, Saladak, and Nett Elementary Schools – Pohnpei State
9. Installation of Hospital Emergency Generator Transfer Switch – Pohnpei State
10. Yap State Infrastructure Maintenance Fund

Additionally, in November of 2009, the FSM was provided with a \$9.2 million Public Infrastructure Sector Grant for design, preparation of bid documents and preliminary engineering reports for the following:

1. Early Childhood Education Classrooms – Pohnpei State
2. Yap High School Vocational Education Building – Yap State
3. PICS High School Library/Classroom Building – Pohnpei State
4. Yap High School Classroom Building – Yap State
5. Madolenihmw High School Library/Classroom Building – Pohnpei State
6. Nanpei Memorial High School Library/Classroom Building – Pohnpei State
7. Chuuk State Hospital Renovation – Chuuk State
8. Dispensaries (13) – Chuuk State

9. Community Correctional Facility – Kosrae State
10. Primary Health Care Facility – Pohnpei State
11. Weno Road Phase 2 – Chuuk State
12. Tamilang Elementary School – Yap State
13. New Hospital – Kosrae State
14. Kinakapw to Lehn Diadi Water line – Pohnpei State
15. Sekere to Nanpei Memorial High School Water line – Pohnpei State
16. Lelu Water System – Kosrae State
17. Kolonia to Palikir Sewer System Expansion – Pohnpei State
18. Kolonia to U Sewer System Expansion – Pohnpei State
19. Bridge Replacement – Yap State
20. Closure and Relocation of Public Solid Waste Disposal Site – Pohnpei State

Execution of design contracts for the above-listed projects with professional design firms was hampered by the FSM Congress's failure to appropriate the awarded \$9.2 million grant in a timely manner.

While nascent progress was made during Fiscal Years 2009 and 2010, implementation of Compact public sector infrastructure assistance by the FSM continued to be, as in previous years, beset by problems caused by the FSM's refusal to budget for and hire a cadre of experienced professional technical staff at its Program Management Unit (PMU). The PMU is responsible for, on behalf of the Government of the FSM, management and implementation of public sector infrastructure projects funded by Compact assistance. The hire of such core staff is necessary for efficient and effective management of Compact infrastructure assistance.

In May of 2010, the FSM hired a professional firm to provide "staff augmentation" at the PMU. Utilizing an independent professional firm that is not otherwise engaged in either design or construction management was identified by the FSM as a necessary temporary measure to meet the needs for professional services within the PMU but it was also recognized that this was not a desirable or cost-effective long-term solution to core professional service requirements.

The JEMCO, at its September 2010 annual meeting, suspended approval of design work for College of Micronesia projects. At the time of the JEMCO resolution, the College was developing a strategic restructuring plan that would have an impact upon future system-wide campus facility needs.

The JEMCO also passed a resolution at its September 2010 annual meeting directing the Office of Insular Affairs (OIA) to request the U.S. Army Corps of Engineers to undertake an assessment of the current capability of the FSM PMU to administer Compact Public Infrastructure Sector grants. The assessment was to consider alternative project administration structures and provide specific recommendations that would optimally lead to contract administration system improvements. The U.S. Army Corps of Engineers was also requested to analyze the current capability of the FSM PMU in administering the funding received by the FSM under the Public Infrastructure Sector. The Army Corps of Engineers scheduled to undertake the assessment during February 2011.



Madolenihmw High School, Pohnpei



Kolonias Elementary School, Pohnpei



Nanpei Memorial High School, Pohnpei



College of Micronesia, Yap



Weno Water, Sewer, Drainage and Road Project (Phase 1), Chuuk

FSM Private Sector Development Allocations, FY2009 and FY2010

| | FY09 Funding | FY10 Funding |
|----------------------|---------------------|---------------------|
| FSM Nat'l Government | \$0 | \$0 |
| Chuuk State | \$756,179 | \$764,679 |
| Kosrae State | \$799,956 | \$687,760 |
| Pohnpei State | \$0 | \$0 |
| Yap State | \$917,162 | \$881,199 |
| Total | \$2,473,297 | \$2,333,638 |

Private Sector Development Allocation Uses To-Date

1) Visitor Industry

Visitor Bureaus – efforts that result in visitor growth have a direct impact on economic growth. Those efforts should be facilitated, although perhaps more focus is needed. There should be efforts to develop synergy among the efforts of the four state visitor bureaus rather than each one functioning independently. The visitor bureaus' principal efforts to increase visitor totals have included:

- Publication of brochures and other promotional material
- Appearances at trade shows in Japan, the US and elsewhere to attract visitors
- Maintaining websites for the same purpose
- Community outreach cleanups
- Collection and analysis of terrorism data
- Local product development for sale

2) Small Business Development

The Small Business Development Centers in Chuuk, Yap and Kosrae provide an incubation service to fledgling businesses. This includes:

- provision of free or low-cost retail space;
- training in day-to-day business practices
- expertise to be able to consult prospective and current businesses in the development of medium-term business plans

3) Land Grant Program

The Land Grant Program in Chuuk offers training in sewing and culinary arts.

4) Exports

There has been some progress in exporting local products, especially to the Asian market. Successful types of exports have included trochus and sea cucumber. These activities have produced substantial, although sporadic, income to local business, or to joint ventures with Asian partners. Attempts have been made to export mangrove crabs but there is a lack of expertise to make the project successful. Other potential exports include virgin coconut oil, clams and

oysters. There is also a great potential for exporting fruit and vegetables to Guam as the Guam buildup occurs. Another is the operation of a high quality bottled water plant in Kosrae. There have also been attempts to export between states in the FSM. Products have included beetle nut and kava. Kosrae has established an Export Council to coordinate production, marketing and transportation of its exports. A similar entity is needed on a nation-wide basis.

5) Import Substitution

The subsistence agriculture and fisheries work has included provision of training to individuals. One notable use has been the operation of the Plant Propagation Lab in Kosrae to develop new strains of edible plants and to provide growth stock to Kosrae and to the other states. Village distribution centers have been set up in Kosrae. The Yap Department of Agriculture is in the process of turning much of its operations over to the Yap Farmers Coop. The Chuuk SBDC sponsors a daily farmers/small business market; however, it is not possible at this time to measure the impact of these import substitution efforts.

6) Land-use

Land management offices have been funded in all states. The reason for this funding is twofold:

- first to provide land which has been surveyed and registered in order to promote the development of private sector businesses;
- second to verify public land leases to provide a framework for enabling public infrastructure projects.

Funding History, Private Sector Development, FSM

| | FSMNG | Chuuk | Kosrae | Pohnpei | Yap | Totals |
|------|-----------|-------------|-----------|-----------|-------------|-------------|
| 2004 | \$513,091 | \$1,338,874 | \$795,261 | \$525,423 | \$613,470 | \$3,786,119 |
| 2005 | \$0 | \$1,403,876 | \$988,025 | \$657,602 | \$989,407 | \$4,038,910 |
| 2006 | \$0 | \$1,498,616 | \$606,029 | \$887,817 | \$1,046,701 | \$4,039,163 |
| 2007 | \$25,000 | \$831,359 | \$414,199 | \$499,854 | \$509,184 | \$2,279,596 |
| 2008 | \$50,000 | \$914,373 | \$567,101 | \$143,754 | \$832,217 | \$2,506,345 |
| 2009 | \$0 | \$756,179 | \$799,956 | \$0 | \$917,162 | \$2,473,297 |
| 2010 | \$0 | \$764,679 | \$687,760 | \$0 | \$881,199 | \$2,333,638 |

Breakdown of Private Sector Development FY10 Activities by State

Chuuk:

| | |
|----------------------------------|------------------|
| Agriculture | \$292,230 |
| Marine Resources | \$ 74,833 |
| Chuuk Visitor's Bureau | \$168,501 |
| Small Business Dev. Center | \$133,115 |
| College of Micronesia Land Grant | \$ 96,000 |
| Total | \$764,679 |

Kosrae:

| | |
|--------------------------------|------------------|
| Kosrae Visitors Bureau (KVB) | \$112,440 |
| Small Business Dev. Center | \$ 54,877 |
| Resources and Economic Affairs | \$520,443 |
| Total | \$687,760 |

Yap:

| | |
|----------------------------|------------------|
| Small Business Dev. Center | \$223,056 |
| Yap Visitors Bureau | \$285,764 |
| Resources and Development | \$372,379 |
| Total | \$881,199 |

Issues in Private Sector Development

1) Current Status

As of FY10, the uses of the Private Sector Development grant cited above are commendable and all activities funded under this grant are based on performance based projects which will be used to monitor the uses of the grant.

Subsistence farming, subsistence fishing, and subsistence business development (SBDCs) are not going to have a great impact on economic growth, but also should not be abandoned in the economic environment of the FSM. Continued support is appropriate. There is an obvious need to enable thoughtful and timely emphasis on import substitution during these times of very high prices for fuel for fishing and for imported food products such as rice and canned fish and meat.

Consideration should be given to moving the addressing sustainability of subsistence farming and subsistence fishing to the education sector.

2) Geographical Challenges to the Private Sector

The FSM is situated in an area of the world which faces substantial problems of transportation. This requires great difficulty in controlling or even accessing transportation for bringing imports into, and exports out of, the country. There is an obvious need in the private sector for expertise in production, marketing, and transportation of exports and imports.

3) Sector planning

During the first six years of the Amended Compact, there has been no overall comprehensive plan for achieving sector-wide or even individual state goals on these issues. There is a great need to develop an overall project plan/timetable which will, in approximately five years, provide for the organizations, facilities, personnel, synergy and expertise needed for sustaining and growing the private sector. Twice (\$25,000 in FY07 and \$50,000 in FY08) the U.S. has given the National Government funding to create such a plan. None has been received even though the funds were expended in FY08/09. The only document received from the FSM has been a thirty-page discussion of the difficulty of producing a framework.

FSM Environment Sector Allocations for FY2009 and FY2010

| | FY09 Funding | FY10 Funding |
|-------------------------|---------------------|---------------------|
| FSM National Government | \$0 | \$0 |
| Chuuk State | \$542,656 | \$690,096 |
| Kosrae State | \$271,354 | \$253,343 |
| Pohnpei State | \$404,195 | \$315,589 |
| Yap State | \$292,249 | \$320,482 |
| Total | \$1,510,454 | \$1,579,510 |

Environment Sector Allocation Uses to-date

The principal use of the grant to-date has been to fund the operations of the state environmental protection agencies, or equivalent offices. Unfortunately those offices lack the authority, the expertise and the facilities to control the environmental issues which should be addressed. Much of their work has been spent on issuing permits for landfills and other earth-moving projects. However, those offices have also provided the emphasis for major work on solid waste facilities in Yap and Kosrae. Plans for similar work in Chuuk and Pohnpei have been developed and initial funding for the solid waste facility in Chuuk has been made available. Also all four states' agencies have been certified for testing water quality by the US EPA, and testing has commenced.

Non-EPA activities have included:

- funding for operations of solid waste facilities in Pohnpei, Kosrae and Yap;
- historical preservation efforts in Pohnpei and Yap to restore and preserve villages and other structures for practical as well as tourism purposes;
- projects in all states to restore or increase agricultural, forest and marine resources;
- monitoring of coral reefs;
- and publication of biological and climate change studies.

Funding History, Environment Sector, FSM

| | FSMNG | Chuuk | Kosrae | Pohnpei | Yap | Totals |
|------|-----------|-----------|-----------|-----------|-----------|-------------|
| 2004 | \$79,477 | \$378,394 | \$302,523 | \$666,944 | \$595,854 | \$2,023,192 |
| 2005 | \$111,421 | \$502,499 | \$296,592 | \$688,181 | \$791,258 | \$2,389,951 |
| 2006 | \$0 | \$798,428 | \$335,240 | \$665,807 | \$337,977 | \$2,137,452 |
| 2007 | \$25,000 | \$747,259 | \$149,277 | \$630,544 | \$574,834 | \$2,126,914 |
| 2008 | \$50,000 | \$717,042 | \$220,165 | \$481,576 | \$421,160 | \$1,889,943 |
| 2009 | \$0 | \$542,656 | \$271,354 | \$404,195 | \$292,249 | \$1,510,454 |
| 2010 | \$0 | \$690,096 | \$253,343 | \$315,589 | \$320,482 | \$1,579,510 |

Breakdown of Environment Sector FY10 Activities by State

Chuuk:

| | |
|---------------------------------|------------------|
| Environmental Protection Agency | \$385,243 |
| Agriculture | \$145,202 |
| Marine Resources | \$159,651 |
| Total | \$690,096 |

Kosrae:

| | |
|---------------------------------------|------------------|
| Resource Management Authority (KIRMA) | \$204,843 |
| Dept. of Transportation | \$ 48,500 |
| Total | \$253,343 |

Pohnpei State:

| | |
|---------------------------------|------------------|
| Environmental Protection Agency | \$315,589 |
| Total | \$315,589 |

Yap State:

| | |
|---------------------------------|------------------|
| Environmental Protection Agency | \$127,600 |
| Resources and Development | \$123,149 |
| YAPCAP (non-profit ngo) | \$ 69,733 |
| Total | \$320,482 |

Issues in the Environment Sector

1) Current status

As of FY10, the uses of the Environment grant cited above are commendable and all activities funded under this grant are based on performance-based projects which will be used to monitor the uses of the grant.

The FSM faces unresolved issues in environmental management including potable drinking water, wastewater, solid waste disposal and recycling of metals and plastics in addition to the conservation of resources. There have been attempts during the first six years to address these issues, with some of the states able to accomplish slightly more than others. This includes the attempts at water testing above as well as recycling projects in all states. Existing NGOs, such as the Micronesian Conservation Trust and the Nature Conservancy have concentrated to-date on conservation of resources – a commendable but limited focus. This has allowed Compact funds to be used for the environmental management issues cited above.

2) Planning

During the first six years of the Amended Compact, the FSM operated under no overall comprehensive plan for achieving nation-wide, or even state goals on these issues. There has been a need to develop/refine an overall project plan/timetable which would, possibly in a five-year perspective, provide for the organizations, facilities, personnel, synergy and expertise needed for sustaining the environment at levels to be agreed upon.

Twice, funds from the Environment Sector grant were given (\$25,000 in FY07 and \$50,000 in FY08) to create such a plan. No plan from the FSM was ever received as of October 1, 2009, and the FSM national government never provided an explanation for the lack of a product even though the funds were expended in FY08/09. Such a delay in producing a plan could be seen as an overall leadership in this sector by the FSM. It is important to note that, with help from the U.S. EPA, Region IX, during the period from July 2008 to September 2009, a draft plan was developed for all four states.

An Office of Environment and Emergency Management was established in 2007; however there has been no contact between that office and the OIA Honolulu Field Office. It is not funded by the sector grant, since no request has ever been presented to JEMCO for that purpose. This has led to a lack of coordination of state efforts in critical areas such as recycling of metals and plastics.

3) Monitoring of Grants

A problem with monitoring these grants is that much of the activities are located in remote areas not able to be accessed during a short visit.

FSM Public Sector Capacity Building (PCSB) Allocations, FY2009 and FY2010

| | FY09 Funding | FY10 Funding |
|-------------------------|---------------------|---------------------|
| FSM National Government | \$681,057 | \$493,140 |
| Chuuk State | \$362,750 | \$1,098,200 |
| Kosrae State | \$478,605 | \$406,048 |
| Pohnpei State | \$511,869 | \$451,739 |
| Yap State | \$849,727 | \$438,689 |
| Total | \$2,884,008 | \$2,887,816 |

PSCB Allocation Uses To-Date

During the first five years of the Amended Compact, the principal use of this grant was to fund activities which did not conform to the intended uses of this grant. This was allowed beginning in FY04 due to a mutual agreement calling for a ceiling on those non-conforming uses which would be reduced by 20% each year for five years. That phase-out schedule allowed for this sector ended at the beginning of FY09.

Non-conforming uses included the funding of the finance, budget and personnel functions in all state governments. Kosrae, Chuuk and Yap have also used this grant to fund their public safety functions.

As of FY09, the principal conforming uses of this grant were to fund various training activities as well as the operations of the public auditor offices in each state. Other conforming uses have included the operations of the Compact Funds Control Commission (CFCC) and the FSM Public Auditor's branch office in Chuuk. Another was the hiring of accounting advisors for both the governments and various component units. Other legal training has also been funded in Kosrae and Chuuk.

Starting in FY07 a drastic need to improve the public safety function in all governments was addressed by the creation of a police academy in Pohnpei for the use of all governments. Results have been excellent and continued funding has been requested and provided during FY09 and FY10.

During the first six years of the Amended Compact, there has been no overall comprehensive plan for achieving sector-wide or even individual state goals on these issues. However the commitment to support the finance/audit functions has had substantial results, producing a number of clean audit opinions and an absence of questioned costs in the states of Pohnpei, Yap and Kosrae. Some progress has been evident lately In Chuuk State with the presence of the CFCC for Compact sector monitoring and the provision of advisers to the finance function. The National Government remains a problem.

Funding History, PSCB Sector, FSM

| | FSMNG | Chuuk | Kosrae | Pohnpei | Yap | Totals |
|------|-------------|-------------|-------------|-------------|-------------|--------------|
| 2004 | \$4,287,697 | \$2,853,813 | \$1,013,866 | \$1,676,163 | \$1,831,307 | \$11,662,846 |
| 2005 | \$608,028 | \$3,001,410 | \$1,113,866 | \$1,542,488 | \$1,520,446 | \$7,786,238 |
| 2006 | \$0 | \$2,724,099 | \$1,346,976 | \$759,254 | \$1,345,585 | \$6,175,914 |
| 2007 | \$473,238 | \$2,950,592 | \$1,231,867 | \$729,991 | \$435,957 | \$5,821,648 |
| 2008 | \$3,305,686 | \$1,034,122 | \$1,534,009 | \$709,883 | \$621,722 | \$7,205,422 |
| 2009 | \$681,057 | \$362,750 | \$478,605 | \$511,869 | \$849,727 | \$2,884,008 |
| 2010 | \$493,140 | \$1,098,200 | \$406,048 | \$451,739 | \$438,689 | \$2,887,816 |

Breakdown of PSCB FY10 Activities by State

FSM National Government:

| | |
|------------------------|------------------|
| Finance Advisors | \$209,750 |
| Public Auditor – NG | \$109,033 |
| Public Auditor – Chuuk | \$174,357 |
| State Total | \$493,140 |

Chuuk:

| | |
|---------------------------|--------------------|
| AG Staff Training | \$139,000 |
| Police Training | \$ 64,000 |
| Public Service Commission | <u>\$138,000</u> |
| PSCB Subtotal | \$341,000 |
| CFCC Operations | \$420,000 |
| Component Unit Assistance | \$337,200 |
| State Total | \$1,098,200 |

Kosrae:

| | |
|----------------------------|------------------|
| AG's Office | \$ 84,429 |
| Administration and Finance | \$188,677 |
| Public Auditor | \$132,942 |
| State Total | \$406,048 |

Pohnpei:

| | |
|--------------------|------------------|
| Financial Advisors | \$ 74,584 |
| Training | \$133,671 |
| Public Auditor | \$243,484 |
| State Total | \$451,739 |

| | | |
|-----|---------------------------|------------------|
| Yap | | |
| | Planning and Budget | \$ 35,300 |
| | OAS Training | \$156,083 |
| | AG Police Training | \$ 48,040 |
| | PWandT Emergency Training | \$ 23,000 |
| | Public Auditor | \$176,266 |
| | State Total | \$438,689 |

Issues in the PSCB Sector

1) Current Status

As of FY10, the uses of the PSCB grant cited above are commendable and all activities funded under this grant are based on performance based projects which will be used to monitor the uses of the grant.

Five years ago a plan was developed to improve public sector capacity building in the FSM. Some of that plan has been loosely moved forward funded mostly by OIA technical assistance: the installation of the uniform Financial Management Information System (FMIS), the clean-up of all accounts in advance of both audits and the new system, accounting advisors, the beginning of internal control audits, document imaging and resolution of audit findings. There has been progress resulting in improved audits and partial installation of the FMIS system. Starting in FY08, funding for these efforts shifted from OIA technical assistance to the PSCB grant.

2) Needed Activities

There remain great needs for improvement in Chuuk and the FSM National Government finance functions. Across the FSM, the public utility entities are in a state of crisis. There are also problems with some other component units. The public safety and legal systems continue to need support. This is especially true in Chuuk where the police function is very ineffective

3) Current Difficulties

The PSCB grant has also funded activities in areas such as performance reporting, economic data analysis and tax reform. However the results for those activities have been questionable. Any future funding requests in these areas should be evaluated very carefully. The lack of performance reporting for the activities funded by PSCB Compact Sector Grant is an issue which remains to be addressed with the National Government.

Republic of the Marshall Islands (RMI) Compact Sector Grant Funding

RMI Compact Grant Funding, FY2009

| Sector | Amount |
|--------------------------------|---------------------|
| Education | \$12,457,410 |
| Health | \$7,404,620 |
| Capacity Building | \$425,000 |
| Infrastructure | \$16,999,495 |
| Total | \$37,286,525 |
| | |
| Ebeye Special Needs | \$3,536,134 |
| Kwajalein Environmental Impact | \$236,735 |
| Total | \$3,772,869 |

RMI Compact Grant Funding, FY2010

| Sector | Amount |
|--------------------------------|---------------------|
| Education | \$11,600,728 |
| Health | \$7,159,858 |
| Capacity Building | \$413,380 |
| Infrastructure | \$11,189,235 |
| Total | \$30,363,201 |
| | |
| Ebeye Special Needs | \$3,451,055 |
| Kwajalein Environmental Impact | \$230,202 |
| Total | \$3,681,257 |

RMI Health Sector, FY2009

By FY 2009, the Compact Health Sector grant had grown in size by \$1,510,172, to \$7,404,620. These basic funds accounted for about 33% of the Ministry of Health's total budget in comparison to an estimated 14% from annual general fund appropriations. (With Ebeye Special Needs factored into the budget, Compact resources rose to just less than fifty percent.) The remaining operating inputs came from two special Ministry of Health revenue accounts and U.S. Federal grants. Funding for the Majuro Atoll Waste Corporation (\$300,000) was an add-on in FY 2009.

Federal grant assistance from the US Department of Health and Human Services accounted for approximately 15% of the Ministry's budget, supporting a range of public health programs and provided primary care services via the Ebeye Community Health Center. Very little Compact funding went to supplement these relatively modest public health program budgets.

Friable Finances Had Widespread Consequences

The upward trend in Compact financial assistance for health from FY 2004 to FY 2009 is deceptive. Conventional wisdom says that the \$1.5 million increase should have supported the initiation of program and service enhancements, more attention to facilities maintenance and medical equipment upgrades, and a demonstrable reduction in staffing shortages. It did not.

Ebeye Special Needs (ESN) health funding increased from \$1 million in 2004 to approximately \$1.7 million in 2009. While the Compact envisioned this annual financial assistance as support for the special needs of Ebeye and Marshallese communities within Kwajalein Atoll, the money mostly financed the regular operations of Ebeye Hospital. Using ESN dollars in this manner has defeated the purpose of earmarking extra support to address pressing health problems of the Kwajalein Atoll community.

Grant increases in both Majuro and Ebeye did not result in measurable operational and service gains. The Ministry of Health had other fundamental needs: it used its money to restore and maintain basic services that it scaled back during the waning years of the first Compact financial period, and to pay for rising annual inflationary costs not factored in budget proposals. Major medical equipment acquisition and facility repairs in this context were unaffordable.

The Ministry of Health's FY 2009 portfolio actually manifested critical operating budget shortfalls. The budget circular put out by the GRMI asked the sector to maintain its FY 2008 ceiling even though it was widely assumed that rapidly escalating utility and other rising direct and indirect costs would take a toll on the Ministry's ability to keep services and programs at prior year levels. The instability of local revenues supporting health added to the bleak financial outlook. With the Compact grant directed primarily to personnel salaries and utility payments, the Government's strategy to freeze general fund spending early in the fiscal year affected the Ministry's ability to procure services and supplies in a timely manner.

Planning for the reconstruction of Majuro Hospital progressed slowly. Forecasted increases in staffing, equipment, and maintenance costs in particular loom on the horizon. Financial sustainability and the attainment of cost-dependent improvements were issues that the Ministry of Health needed but failed to address.

Quantitative evidence of improved primary care services in the outer islands and in Majuro was not available to corroborate the Ministry of Health's far reaching reorganization that took effect at the start of FY 2008. In the absence of specific yardsticks to guide periodic assessments, administrators relied on their instincts and time-insensitive measures of health status improvements.

The Ministry's talent pool for planning and evaluation was too thin to support any consistent evaluation of health status, current and future system performance needs, or the prevalence of risk factors and emerging hazards on a regular basis. Its 2007 Annual Report, expected to be released on or about the end of the fiscal year, was pulled abruptly because data contained therein was considered outdated and unreliable. Although aware of the problem, senior Ministry

officials seemed hard pressed to come up with a workable long-term way to create core expertise. New hiring, the common go-to solution for systemic problems, was unaffordable.

Planning to cope with the decrease in Compact annual assistance was similarly weak. Despite understanding that dollar-for-dollar competition for support (all revenue) and *a decrease in annual base Compact money for health are inevitable*, the Ministry of Health did not have a process to institute budgetary tradeoffs to achieve the greatest good. Without this attention, service and program levels will be static or deteriorate, leaving the Ministry flat-footed and unable to respond to pressing primary care problems in the outer islands and on Majuro and Ebeye.

Health Status and High Risk

The epidemiologic pattern of chronic and infectious diseases continued to manifest in the RMI and this placed a tremendous burden on the health care system. Even without the benefit of recalculated disease prevalence and incidence rates, morbidity and mortality data showed an obvious mixing of conditions.

Diarrheal disease remained a major reason for outpatient visits and hospitalization alongside diabetes mellitus (type 2). With population density estimated at 742 people per square mile and crowded living conditions in the urban centers of Majuro and Ebeye, inadequate sanitation and the lack of potable water supplies added to the risk of disease transmission

The Ministry of Health reported its overall national immunization rate for children below two years old as 83%, an increase over the previous year's rate of 79%. It also reported better coverage in the urban centers and only half of all children under two as immunized in the outer islands. EPPSO disputed the accuracy of these rates. It disclosed that immunization coverage rates for children under two were at least 30% lower in select outer island groups than the Ministry reported. In August 2009, an UN Volunteer – MDG Specialist reviewed data from the Ministry's maternal and child health program and found that his recalculated immunization coverage rates ranged from 48% to 67% for Majuro, percentages that were at wide variance from the 80% to 90% rates computed by the health department.

In late 2009, a case of multi-drug tuberculosis (MDR-TB) surfaced. This was not the first time multi-drug resistant tuberculosis had been seen in the RMI but it was the first time that the Ministry of Health acknowledged its presence and asked for investigative help from the Centers for Disease Control and Prevention. The findings of the investigation were as astounding as they were serious: the team identified ten (10) cases and over 200 close contacts. With additional rigorous contact tracing yet to be done and spotty drug compliance histories for primary tuberculosis, the numbers in fact may climb.

Treating MDR-TB and improving the nation's tuberculosis control and management infrastructure will require an infusion of human, medical, and financial resources that the RMI cannot itself afford. Drug treatment for one case alone would cost about \$275,000. In late FY 2009, JEMFAC approved the allocation of Compact funds to deal effectively with the outbreak.

Non-communicable diseases attributable to changing lifestyles were leading causes of morbidity and death in the RMI. Diabetes particularly had an ominous prominence and exacted a heavy toll. Diabetic complications (repeated infections, amputations, retinal deterioration, kidney failure, and associated cardiovascular conditions) were commonplace and accounted for approximately 75% of all hospital admissions and cost the RMI an estimated \$4million/year to treat. The prevalence of the disease in the population rose from 192/10,000 in 2004 to 324/10,000 in 2009. End stage renal disease consistently placed among the leading five causes of death.

RMI Health Sector, FY2010

Evidence-Based Health Sector Performance

The Ministry of Health produced its first health performance matrix for JEMFAC's review in the run-up to FY 2010. The data covered the years 2004 to 2008, covered twenty-four outcomes or over-arching measures (OAM), and attempted to track progress in improving the health status of residents:

| OAM | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---------------------|---------------------|---------------------|---------------------|-------|
| 1. Increase Immunization Coverage to 95% by 2015 for 2 yr. olds Linked to Outputs 1.1.1, 2.1.1 6.1.3 <ul style="list-style-type: none"> ▪ % BCG ▪ % OPV (3 doses) ▪ % DPT (3 doses) ▪ % HEP (3 doses) ▪ % HIB (3 doses) ▪ % MMR (2 doses) | 56% | 60% | 72% | 79% | 83% |
| 2. Increase % of total immunization coverage levels for adolescent and adults to 95% by 2015 Linked to Outputs 1.1.1, 2.1.1 and 6.1.3 <ul style="list-style-type: none"> ▪ HPV ▪ Flu ▪ Tetanus | | | | | |
| | HPV started in 2008 | 152 |
| | 5,000 | 5,000 | 5,000 | 5,000 | 8,000 |
| | | 1,567 | 1,080 | 1,152 | 1,501 |
| 3. Maintain maternal mortality ratio at | 0 | 0 | 8 | 0 | 0 |

| | | | | | |
|---|--|--|-------|-------|-------|
| <1/100000 by 2015 (MDG) Linked to Outputs 1.1.3, 2.1.8, 6.1.5 | | | | | |
| 4. Reduce infant mortality rate by 50% from 2004-2015 (MDG)/1000 live birth Linked to Outputs 1.1.3, 2.1.8, 6.1.5 | 30 | 36 | 24 | 32 | 31 |
| 5. Reduce child mortality rate by 60% from 2004 to 2015 (MDG)*100000 Linked to Outputs 1.1.3, 2.1.8, 6.1.5 | 20 child death (Projected Population provided by EPPSO don't have the demographics in age distribution) | 19 child death (Projected Population provided by EPPSO don't have the demographics in age distribution) | 101 | 105 | 69 |
| 6. Reduce the Prevalence of NCD by 10% by 2015 (100,000) Linked to Outputs 1.2.1, 2.1.6, 6.1.10 | | | | | |
| Diabetes | 2,187 | 3,433 | 4,523 | 5,915 | 6,856 |
| Hypertension | 1,590 | 1,551 | 2462 | 2535 | 2309 |
| CVD (IHD) and Strokes | 5,347 | 5,774 | 6,256 | 6,848 | 7268 |
| Obesity | 2498 | 1776 | 1544 | | |
| 7. Reduce the prevalence of diabetes by 16% by 2015 Linked to Outputs 1.2.1, 2.1.6, 6.1.10 | 2,136 | 3,214 | 4,523 | 5,810 | 6,856 |
| 8. Reduce Diabetes Related Cause of Death (Mortality Rate by 10%) Linked to Outputs 1.2.1, 2.1.6, 6.1.10 | 44 | 58 | 68 | 61 | 69 |
| 9. Reduce the Prevalence of Cancers by 2015 by 16% per 100000 Population Linked to Outputs 1.1.2, 6.1.13, 2.2.2 | 63 | 120 | 171 | 208 | 274 |
| <i>Cervical Cancers/100,000 Population</i> | 27 cases (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 29 cases (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 226 | 237 | 248 |
| <i>Pulmonary Cancers/Lung</i> | 14 | 19 | 21 | 21 | 23 |

| | | | | | |
|---|---|---|-------|-------|-------|
| Buccal and Naso-Pharyngeal | 12 | 21 | 25 | 31 | 40 |
| Breast Cancer | 26 | 31 | 42 | 42 | 45 |
| Liver Cancer associated with HBV | 22 | 23 | 23 | 27 | 28 |
| Thyroid | 18 | 23 | 25 | 34 | 38 |
| Urinary tract malignancies | 10 | 10 | 14 | 17 | 23 |
| Gastro intestinal malignancy | 4 | 0 | 2 | 2 | 4 |
| Prostate | 4 cases (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 4 cases (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 19 | 25 | 37 |
| 10. Reduce the mortality rate for TB to <1/100000 by 2015 <i>Linked to Outputs 2.1.3, 1.1.4, 6.1.6</i> | 10 | 12 | 17 | 10 | 13 |
| 11. Reduce the Prevalence of TB to <1/100000 by 2015 | 215 | 299 | 273 | 328 | 271 |
| 12. Eliminate Leprosy by 2010 to <1/100000 (Country Goal) <i>Linked to Outputs 2.1.3, 1.1.4, 6.1.6</i> | 67 | 109 | 84 | 121 | 88 |
| 13. Reduce the Prevalence of teenage pregnancy by 75% by 2015 Per 100,000 <i>Linked to Outputs 1.1.3, 2.1.8, 6.1.5 (15-49 female)</i> | 264 (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 299 (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 4,165 | 4,320 | 3,940 |
| 14. Reduce the Prevalence of HIV/STI in age 15-49yrs to <1/100000 by 2015 <i>Linked to Outputs 1.1.6, 2.1.5, 6.1.11</i> | | | | | |
| HIV | 1 (Projected Population) | 3 (Projected Population) | 8 | 8 | 12 |

| | | | | | |
|--|---|---|--------------------------------|--------------------------------|--------------------------------|
| | provided by EPPSO don't have the demographics in age and sex distribution) | provided by EPPSO don't have the demographics in age and sex distribution) | | | |
| Syphilis | 156 (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 297 (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 1152 | 1,061 | 1,161 |
| Gonorrhea | 24 (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 32 (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 113 | 97 | 96 |
| Chlamydia | 97 (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 297 (Projected Population provided by EPPSO don't have the demographics in age and sex distribution) | 673 | 105 | 258 |
| Trichomonas | | | | | |
| 15. Reduce the Diseases Specific Mortality rate from Malnutrition by 100% from 2004 to 2015 Linked to Outputs 1.1.3, 2.1.7, 6.1.8, 6.1.9 | 5 | 8 | 14 | 11 | 8 |
| 16. Eliminate the prevalence of malnutrition in children < 5 years old from 2004 to 2015 per 100,000 | 2080(Majuro & Ebeye Hospital) | 1,661(Majuro & Ebeye Hospital) | 1,998(Majuro & Ebeye Hospital) | 2,581(Majuro & Ebeye Hospital) | 3,317(Majuro & Ebeye Hospital) |
| 17. Reduce the prevalence of water borne diseases by 2015 - Non-infective Diseases - Infective reportable diseases | 3094 (Majuro & Ebeye Hospital) | 3389(Majuro & Ebeye Hospital) | 3915(Majuro & Ebeye Hospital) | 3036(Majuro & Ebeye Hospital) | 3401(Majuro & Ebeye Hospital) |

| | | | | | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Linked to Outputs 2.2.1, 1.2.1, & 1.2.2 & 3.1.1& 3.1.3, 6.1.9 | | | | | |
| 18. Reduce the Prevalence of Acute Rheumatic (Valvular) Heart Diseases to 1/100000 by 2015 Linked to Outputs 1.2.1, 2.1.6, 6.1.10 | 1,177(Majuro & Ebeye Hospital) | 1,318(Majuro & Ebeye Hospital) | 1,436(Majuro & Ebeye Hospital) | 1,595(Majuro & Ebeye Hospital) | 1,736(Majuro & Ebeye Hospital) |
| 19. Reduce cases of suicide by half by 2015 Linked to Outputs 2.1.2, 1.1.2., 1.2.1, 6.1.4 | 34 | 21 | 18 | 22 | 26 |
| 20. Reduce the average length of hospital stay (days) | 6 | 6 | 5 | 6 | 6 |
| 21. Improve access to dental services | 592 (Majuro Dental) | 1,673 students (Majuro Dental) | 929 students (Majuro Dental) | 1,199 students(Majuro Dental) | 1520 students (Majuro Dental) |
| 22. Decrease in number of referrals | 95 | 121 | 120 | 124 | 139 |
| 23. Reduce the incidence of alcohol and substance related injuries Liver Cancer Alcohol Abuse Cases | 17 18 (Majuro Hospital) | 11 7 (Majuro Hospital) | 12 5 (Majuro Hospital) | 14 9 (Majuro Hospital) | 15 9 (Majuro Hospital) |
| 24. Health Awareness activities conducted | | | | | |
| 25. Disease Surveillance (lab services) Linked to Outputs 3.1.3 | 272,875 tests | 197,905 tests | 210,317 tests | 264,252 tests | 250,168 tests |
| School based Health Public on Ebeye | | | | | |

The Ministry's matrix finally corrected a longstanding issue of too many missing data holes that made the determination of annual performance progress onerous. Still unanswered were questions of why certain combined information (Majuro/Ebeye) was not reported annually; how the Ministry used performance data in budget decision making; and why outside-of-department surveys and assessments produced different numbers.

The data generally leaves little doubt that the Marshall Islands' health system carries a high chronic and infectious disease burden, but the extent to which the information data reported by the Ministry reflects *actual* status needs further investigation.

Which Takes Precedence?

Many of the RMI's health problems, whether infectious or chronic, lend themselves to less costly non-communicable disease prevention and control interventions. This approach would be in keeping with the Ministry of Health's stated mission to provide "a primary health care program to improve health status and build the capacity of each community, family and individual to care for their own health. However, the Ministry has been unable to find successful ways to realign its services and programs to strengthen preventive and primary care, and shift emphasis away from secondary and tertiary care. The RMI's population continued to require a higher level of sick care.

To meet the need for sick care, the RMI consciously chose to upgrade its secondary care facilities in Majuro and Ebeye. With these upgrades has come a concomitant need to improve the quality and breadth of hospital services and this, in turn, has fed the need for more money for acute care.

Performance Budgeting Improvements Disguised Actual Performance

One of the more significant improvements was the Ministry's implementation of performance-based budgeting to improve decision-making, performance appraisals, increased accountability among managers, and service delivery. Helped by consultants, the Ministry also undertook costing exercises to determine actual costs of inpatient care and certain diseases. The effort seemed more a paper exercise than signaling a fundamental shift in day-to-day performance. Arbitrary funding ceilings rather than performance continued to drive all allocations and planning. The movement of funds from program to program came from the need for money to maintain all services rather than the Ministry priorities. Unplanned costs continued.

The Ministry attempted to shift resources from secondary and tertiary care to preventive health and primary care by giving greater attention to health centers in the outer islands and centralizing the procurement of equipment, drugs, and medical supplies. These changes did not have the intended consequence. Very little attention was given to the need to make hard tradeoffs in order to balance the budget.

Medical referral management underwent important changes as well but this too has had unintended consequences. On the plus side, the Ministry continued to refine its agreements with Manila health care centers and stateside care providers and pharmacies to manage program costs. However, while spending per patient has become more efficient, it sent more patients out for tertiary and/or specialized care, particularly to the Philippines, driving up overall costs. The increase in referrals was not necessarily the function of a sicker population but because there were persistent and very avoidable gaps in maintaining laboratory and radiologic supplies and equipment.

FY2009 and FY2010 Education, RMI

In fiscal years 2009 and 2010 in the RMI, the total education sector grant allocations stand at \$12,457,410 and \$11,600,728 respectively.

Grant period alignment

Notable improvements were made in fiscal and operational processes because OIA was able to align the period of performance for Supplemental Education Grant (SEG) and the Compact Education Sector (ES) grant. In prior years, SEG started late and extended beyond the Sector fiscal year, complicating fiscal and program operations. Beginning in FY '09, both SEG and ES began simultaneously on October 1. In FY 2010, both ES and SEG ran simultaneously for a twelve month grant period. This has enabled the RMI Ministry of Education (MOE) to do systematic year-by-year planning without the interference of staggered funding periods from varying supportive sources.

Incomplete teacher certification processes

An unacceptable proportion of the teaching corps still has no qualification higher than a high school diploma. Lack of certified teachers remains a serious problem. Teacher certification is an important step toward improving the quality of teaching, therefore, OIA recommended that JEMFAC restrict compact-financial assistance salaries to certified teachers in FY 2010. The RMI Government resisted the suggestion, citing inadequate teacher demographic data and lack of policies mandating more than a high school diploma as a teaching credential. To address the issue, the MOE was directed to develop a comprehensive data base of teachers and their qualifications and to revise certification policies. Efforts to achieve these objectives were well underway, though not complete, by the end of FY 2010.

Lack of broad-based improvement in student achievement

It is not surprising that student test scores remain stagnant at a low level since the quality of teaching has not improved. Until teaching improves, learning is not likely to improve either.

There are, however, pockets of success among the schools in RMI. Noticeably, those schools that showed most academic improvement in 2009 and 2010 are those that have instituted strong parental involvement programs. A parent involvement project that is unique to the Marshall Islands has been underway for a number of years, under the auspices of federal grant funding awarded to Pacific Resources for Education and Learning, a non-profit educational agency based in Honolulu. The program has designed culturally appropriate mechanisms for Marshallese parents to approach and partner with American-style schooling.

More textbooks available now, but perhaps not in the future

Another favorable instructional trend is that better materials for teachers became available in 2009 and 2010. The RMI school system purchased and distributed new textbooks for core subjects to most elementary and secondary schools. However, a trend is developing to shift textbook purchase from Compact to Supplemental Education Grant (SEG) funding. Because SEG is not figured into trust fund contributions for long range sustainability, the practice of buying textbooks with SEG funding may well compromise the Ministry's ability to purchase textbooks post-Compact.

Simultaneous innovation and lack of initiative in vocational/technical education

Using the programmatic flexibility provided through SEG, the Ministry of Education transfers \$425,000 annually to the National Training Council (NTC). The NTC is responsible for vocational/technical training and has launched several successful initiatives. Among the most promising is the “ABC Toolbox” a ten-week residential program for high school drop-outs. Students have shown remarkable progress in math and English language skills. Most have completed a high school equivalency diploma and many have gone on to employment or further education at the College of the Marshall Islands (CMI). Data from the program have been used to support an application to the College accrediting agency to enable the College to institutionalize the program using PELL funding. If the application is successful, and all indications are that it will be, the pattern of using the Ministry of Education SEG money to initiate an activity that can be transferred to another agency is an encouraging model for program sustainability.

In contrast, vocational/technical education efforts within the Ministry of Education have been unsuccessful. VocEd is minimally available at the high schools, with no comprehensive or consistent program. For example, the small engine repair shop at Marshall Islands High School has one lawn mower available for its practicum. Vocational offerings are determined not by any curriculum but by the availability of teachers in a skill area. Carpentry is offered if a carpenter is available and willing to teach, etc.

The National Vocational Technical Institute (NVTI) is a vocational school in name only. In practice, it has become a high school preparatory program for those students who do not meet the cut-off point on the annual high school entrance test. Class offerings are limited to remedial math and English. NVTI has become jokingly referred to as “No Vocational Training Included.”

GRMI has resisted grant conditions to force an evaluation and development of a comprehensive vocational/technical program. They can block any conditions through the agreement with the US that all decisions must be unanimous. Rather, the GRMI has promised to direct the MOE to take a serious look at revising voc/tech policies. By the end of FY 2010, no broad based initiative had been undertaken, although the MOE has initiated talks with CMI and NTC.

Technology planning underway

The planning, use, and budgeting for educational technology had been haphazard and uncoordinated. A considerable amount of money is budgeted annually for computers without any direction for their use. Similarly, other donor nations have been installing solar panels on outer-island schools, yet the MOE had no plan on what to do with them. Further complicating technology use, internet access remains limited, slow, and expensive.

OIA recommended that JEMFAC require a comprehensive technology plan be developed in FY 2010. JEMFAC passed such a resolution and as a result, technology planning was done in 2010 and steps have been taken to institute policies and teacher training in the use of educational technology. The steps taken proved timely given that a fiber optic cable is expected to link Kwajalein and Majuro to Guam in FY 2011, promising high speed internet for schools and

students. The technology plan will enable the Ministry to take advantage of the improvement in internet access.

Limited resources

Impacting the sustainability of the education system are efforts to implement school feeding programs and transportation. These ancillary services are not being supported through local funds, although they are initiated through the local legislature. Food and transportation are expensive, and tend to take a disproportionate amount of money away from basic classroom teaching.

In FY 10, the Ministry of Education deleted its food program from the budget. It was a painful decision, but rapidly increasing food costs and stagnant resources made it necessary. However, the government budget review committee, an entity independent of the Ministry of Education, reinstated the line item for food, causing the MOE to revise its program of work for the year. A compromise agreement was made that FY 10 would be the final year to include funding for food and that efforts would be initiated to find alternative sources in subsequent years.

RMI Public Sector Infrastructure, FY2009 and FY2010

The Public Sector Infrastructure sector grant is the most visible component of the Amended Compact and one of its priorities along with the health and education sectors. The importance of public infrastructure was noted by the U.S. Congress, which mandated in the Amended Compact Act that at least 30% of annual Compact funding should be dedicated to infrastructure.

The JEMFAC allocated a total of approximately \$21.3 million for the Public Sector Infrastructure Sector during Fiscal Years 2009 and 2010. Use of Public Sector Infrastructure Grant funds by the RMI has been well planned, professionally managed, and addresses negotiated priority sectors (health and education).

Projects funded by the \$21.3 million in FY09 and FY10 include:

1. Outer Island Schools
2. Solid Waste Disposal Site Improvements
3. Dispensary Renovations through the Infrastructure Maintenance Fund
4. Overhaul and Maintenance of Power Generation
5. Emergency Renovations – Capitol Building Complex
6. College of Micronesia Classroom Construction
7. Fiber Optic Cable Equipment
8. Project Management Support

Education has been identified by the RMI as one of its top priorities under the Compact, as amended. The Compact-funded infrastructure projects have provided new classrooms for Marshallese children in Majuro and in some of the outer islands since 2004. The result of the RMI's efforts is that about 200 classrooms from 40 public schools have been newly constructed or repaired using Compact infrastructure funds, thus significantly improving the learning environment of many students in the Marshall Islands. With an annual average of 13,000

students attending 82 public schools, about 60% of all students are now enjoying their new classrooms, complete school furniture, good administration buildings, improved cafeterias, comfortable dormitories, standard recreational facilities, working toilet facilities, better libraries, and upgraded science and computer labs. The development achieved to date has tremendously improved the overall system and provides Marshallese children with better access to education than ever before. These improved learning facilities are just part of our joint effort with the RMI to improve the quality of education for all Marshallese students.

Recently completed construction projects include Aur Elementary School, Tabal, Aur Elementary School, Mili Elementary School, Delap Elementary School, Laura High School, and Uliga Elementary School Renovations at Assumption School.

Ongoing construction projects include Enewetak Elementary School, Lukoj, Arno Elementary School, Longar, Arno elementary School, Ollet, Maloelap Elementary School, Jang, Maloelap Elementary School, Utrik Elementary School, Jabwor, Jaluit Elementary School, Woja, Ailinglaplap Elementary School, Ajeltake Elementary School (Kindergarten), Northern Islands High School Science and Computer Lab, and Jaluit High School Science and Computer Lab. Other classrooms and school facilities have been previously completed in Majuro, Wotje, and Jaluit using Compact infrastructure funds.

In FY 2010 the Government of the Republic of the Marshall Islands (GRMI) allocated an additional \$3,329,773 to continue the construction of elementary schools in the outer islands. The Uliga Elementary School, Ebeye Public Elementary School, Kwajalein Atoll High School and the remainder of the outer island schools requiring immediate renovation or repairs will soon be completed or near completion by the end of Fiscal Year 2012 subject to securing land leases. Thereafter, the schools' capital needs would mainly be maintenance.

Funding for the Ebeye Elementary School and Kwajalein Atoll High School infrastructure project was allocated in FY 2005 and FY 2006 but because of land lease issues on Ebeye and Guegeegue, these projects have been indefinitely held up. Funding for these projects was subsequently reprogrammed to other education infrastructure projects that were ready to proceed. New funding for Ebeye Elementary School and Kwajalein Atoll High School will be made available once the land lease issues have been resolved.

The College of the Marshall Islands (CMI) embarked upon a Facilities Master Plan for the College in FY 2007. CMI received a five-year funding commitment from the GRMI in order to make this Facilities Master Plan a reality. The GRMI and JEMFAC agreed to provide \$5 million annually over a five year period, a total of \$25 million, from the Compact Infrastructure Grant to fund the CMI Facilities Master Plan. As of March 2010, almost \$16.7 million has been expended for infrastructure projects at CMI.

Four major contracts, the Dormitory, Classroom Buildings 1 and 2 and the Energy Center and Maintenance Building have been handed over to CMI. One of the 2 saltwater wells is providing cooling water to Classroom Building 2. The Campus Transformer and the Campus Switchboard have been energized and Solar Power Phase 1 is operating efficiently. The Campus generator is now in place in the Maintenance Building but plenum and dampers supply problems have delayed its commissioning. Classroom Building 3 Phase 1 (counselors' offices) has been

completed and work is 90% completed on the services duct between Classroom Building 2 and the Energy Center. The Human Resources and Procurement Office contract has been completed and the building is now occupied.

The new Administration Building, Classroom Building 3 Phase 2, and Solar Stage 2 were placed on hold because of the PII Protest and subsequent lawsuit. The lawsuit was settled out of court and after a subsequent re-bidding of the Administration Building, the project was awarded to Anil Developments Inc. Classroom Building 3 Phase 2 was also re-bid and Anil Developments Inc. won that bid too.

Work on the sea defenses, in anticipation of the January 2010 projected 15-year high tides, was completed on schedule. These flood prevention/wave protection measures have withstood the 15-year high tides experienced in January and all subsequent higher than usual high tides that hit Majuro Atoll in February and March of 2010. No flooding or damage was experienced. The CMI Facilities Master Plan is currently on schedule to be completed by the end of FY 2011.

The RMI has met matching requirements for the Infrastructure Maintenance Fund and, from Fiscal Year 2004-2010 has contributed approximately \$4.3 million of non-Compact matching funds to the Amended Compact contribution of \$4.3 million.



Project Dedication Sign, Delap Elementary School



Delap Elementary School, Phases 1 and 2



Ajeltake Kindergarten Classroom Building

Summary of DOI Discretionary Grants to the FSM and the RMI

The FSM and the RMI received significant financial, program, and technical assistance support from the United States Government in fiscal years 2009 and 2010. The Amended Compacts provide the largest proportion of assistance through sector grants, trust fund transfers and other support, but the two governments also receive annual program support from a variety of Federal agencies. In addition to administering Compact funds, the United States Department of the Interior continues to provide discretionary grants for technical assistance, operations and maintenance of public infrastructure, and protection of coral reefs. Listed in the table below are the amounts awarded to the FSM and the RMI in DOI discretionary grant funding.

| FSM | 2009 | 2010 |
|----------------|-------------|-------------|
| OMIP | \$604,500 | \$268,000 |
| TA | \$497,800 | \$10,000 |
| Coral Reef | \$300,000 | \$195,000 |
| RMI | 2009 | 2010 |
| OMIP | \$250,000 | \$340,000 |
| TA | \$396,794 | \$1,228,435 |
| 4 Atoll Health | \$984,000 | \$985,235 |
| Coral Reef | \$60,000 | \$49,000 |

Other cross-cutting Technical Assistance programs under which the FSM and the RMI also receive benefits include programs such as the USDA Graduate School PITIVITI program, Micronesian Center for Sustainable Future, Close-Up Foundation, Junior Statesman and the Prior Service Benefits program.

Federated States of Micronesia

In fiscal years 2009 and 2010, OIA provided \$507,800 in Technical Assistance grants awarded which included assistance for the FSM's 2010 Census, feasibility study on network, fraud prevention outreach, training for the Office of the Public Auditor, a survey and mapping project, workforce training, participation in the All Islands Tax Administration Association and a passport issuance system. From the Coral Reef Grant Initiatives, the FSM was awarded in FY09 and FY10 grants totaling \$495,000 for the Micronesia Conservation Trust and the Pacific Islands Marine Protected Areas Community (PIMPAC) activities towards coral reef conservation. Maintenance Assistance Funding provided to the FSM in FY09 and FY10 totaled \$872,500.

Republic of the Marshall Islands

In fiscal years 2009 and 2010, the OIA provided \$590,000 in Operations and Maintenance grant funding primarily for the Majuro Atoll Waste Company, utility training and solar energy projects for Utrik Atoll. OIA's Coral Reef Initiative provide \$109,000 in FY09 and FY10 primarily for Community Resource Management Surveys on their coral reefs. Through Technical Assistance, \$1,625,229 was provided for FY09 and FY10 in addition to \$985,235 for the Four Atolls Health Program in 2010 and \$984,000 in FY09.

Recommendations

- 1) The Joint Management Committee (JEMCO) of the FSM and the Joint Economic Management and Financial Accountability Committee (JEMFAC) of the RMI should take actions to ensure that the FSM and the RMI can address long-term fiscal planning issues and manage the impact of annual decrements in Amended Compact grant assistance, especially with regard to the priority sectors of education, health, and public sector infrastructure development.
- 2) The United States and the FSM and the United States and the RMI should collaborate in examining the projected income from the Trust Funds for the People of the Federated States of Micronesia and the People of the Republic of the Marshall Islands after 2023, and explore options that may assist the Funds to increase their projected values within acceptable boundaries of risk.
- 3) JEMCO and JEMFAC should adopt allocation policies and grant conditions that leverage Amended Compact assistance to improve performance with regard to education, health, infrastructure maintenance, environment, private sector development and public sector capacity building.
- 4) JEMCO and JEMFAC should ensure that annual sector grant allocations follow a well-defined annual budget plan developed by the FSM and the RMI that have specific benchmark information and annual performance targets that link back to their strategic development plans.
- 5) The United States and the FSM and the United States and the RMI should hold regular policy consultations on critical economic and financial issues and reform strategies to promote growth of the private sector, including: (a) an equitable and efficient tax system; (b) a reduction of public wage and subsidy expenditures; (c) privatization and reform of state-owned enterprises; (d) modernization of the land tenure and titling systems; (e) liberalization of foreign investment laws; (f) improvement in data collection and planning capacities; and (g) establishment of a program for regular maintenance of public infrastructure.
- 6) One avenue for the exchange recommended in No. 5 above is to extend the annual JEMCO and JEMFAC meetings to allow representatives from the United States and FSM and RMI time to review the year's economic and financial developments and discuss future remedial steps. Mid-year JEMCO and JEMFAC meetings for policy consultations that pinpoint strengths and weaknesses and develop mutual strategies for future improvement might be useful.
- 7) JEMCO and JEMFAC should find ways, within their capacities to manage allocations and allocation policies, to encourage implementation of comprehensive sector-wide public enterprise reform efforts, including privatization and elimination of inefficient governmental subsidies.

- 8) Pursuant to Public Law 108-188, the U.S. Department of Education should continue to seek the appropriation of the authorized amounts of the Supplemental Education Grant, including the inflation adjustment.
- 9) The FSM and the RMI should request, and JEMCO and JEMFAC should allocate, more public sector capacity building assistance so that there is, for example, sufficient in-country expertise to generate economic and other data and statistical reports. In the case of capacity building in education and health, JEMCO and JEMFAC should ensure that sufficient annual grant funding is earmarked to improve data, planning, and policy analysis competencies.
- 10) The United States should continue provide technical assistance when the FSM and the RMI articulate critical needs that cannot be addressed through the annual grant assistance process.