

FEDERATED STATES OF MICRONESIA

Capital:	Pohnpei
Land Area (km²)	700
Sea Area/EEZ (million km²)	2.9
Islands (No.)	607
Population (No.)	118,100 (2000)
Annual Growth (%)	1.9
Density (inhabitants/km²)	168
Rural Population (% of total population)	73
GDP (US\$ million)	210.6 (1996)
Agricultural GDP (% of total GDP)	3 (1996)
GDP per caput (US\$)	1,928 (1996)
Currency:	United States Dollar

A. General

The FSM is the largest and most diverse part of the greater Micronesian region and is comprised of four States, which are, in geographic sequence from west to east, Yap, Chuuk, Pohnpei and Kosrae. All but Kosrae State include more than one island and each State has considerable autonomy within the Federation. The total landmass is 438 square miles (702 km²), with a declared EEZ covering over 1 million square miles (16 million km²). The FSM comprises 607 islands with land elevation ranging from sea level to 791m.

Rainfall is extremely high on the high volcanic islands of Kosrae, Pohnpei and Chuuk and can exceed 400 inches a year. The region is affected by storms and typhoons that are generally more severe in the western islands, and by periods of drought and excessive rainfall associated with the “El Nino”. In recent years, the droughts of 1982-1983 and 1997-1998 were especially severe with groundwater sources greatly reduced, agricultural systems damaged and coral bleaching events recorded.

The FSM is a young independent nation, having signed with the United States, a Compact of Free Association in 1986, thereby terminating its UN trusteeship under the US. The Compact treaty established a special relationship with the US providing economic assistance.

The indigenous population is Micronesian with most of the people residing on the main islands of the State capitals. The 2000 census preliminary count of the population is 107,000, half of which are younger than 20 years of age.

Estimates of GDP performance indicate that since 1987 the economy has grown by an average annual rate of 2.5 per cent. Economic performance of each State varied over the period 1987-1999 with GDP growing at an annual rate of 0.3 per cent for Chuuk State, 2.5 per cent for Kosrae State and 3.6 per cent for the States of Pohnpei and Yap.

The FSM is exceptionally vulnerable to natural disasters and its remoteness from major trading markets greatly impedes the nation’s potential to economically compete regionally and internationally. The majority of households are dependent on subsistence living. Traditional

resource utilisation practices and community management regimes are eroding which has a direct negative on the health of the nation's environment.

B. The Agricultural Sector: Constraints and Strategic Options

Agriculture and the Economy: Agriculture is the most important primary activity in the nation because of its contribution to employment, wage income, export earnings, and subsistence production. Agricultural activities provide over 60% of the food consumed, and employ almost 50% of the labour force on a full-time or seasonal basis. Government services dominate the economy. Agriculture, fisheries and tourism sectors are recognised as providing the long-term growth potential and comparative advantage of the FSM. Thus the major economic challenge facing the FSM is to assist in the building and developing an environment conducive to private sector growth.

Copra remains the ubiquitous cash crop throughout the FSM, but production has decreased substantially due to low prices for copra coupled with increasing sterility of the coconut palms. Primary industrial processing occurs on Pohnpei, Chuuk and Yap. Ponape Coconut Products, Inc. continues to develop a number of coconut oil products including laundry soap, shampoo, body and hair oil, cooking oil, liquid soap and suntan oil. Some high quality charcoal is also being produced from coconut shell on Pohnpei as a by-product of the coconut oil industry. The copra processing plant on Chuuk manufactures laundry soap and plans to produce a similar variety of products as the Pohnpei plant in the near future.

Pepper (*piper nigrum*) is being industrially processed and packaged on Pohnpei to supply both the local tourist market and export markets. White pepper is being produced as a cottage industry, and is primarily sold locally to tourists. A small kimchee factory operates on Pohnpei using locally grown cucumber and head cabbage. Yap processes fiber from coconut husks into brooms, brushes, ropes and mats. Also in Yap, a small abattoir has been established, capable of slaughtering animals for the local market.

Land Use, Farming Systems and Institutions: Farming is mainly on a subsistence level. The principal agricultural crops are coconuts, bananas, betel nuts, cassava and sweet potatoes. White pepper corns are produced on Pohnpei. With one exception, fully commercial agriculture does not exist. On Pohnpei, a commercial pepper farm has been started with extensive cropping of about 100 acres targeted for production over the next five years. In Kosrae, citrus is a significant cash crop with limes and tangerines being exported. Periodically, Yap exports bananas, other vegetables, fruits and betel nut to Guam and Palau.

Livestock production is increasingly important throughout the FSM, particularly poultry, eggs and pork. Goats are becoming increasingly important in some areas, with goat meat production in Pohnpei doubling over recent years. Insignificant numbers of large ruminants continue to be raised, with 120 head of cattle and 70 head of buffalo in Pohnpei. There are also a few head of cattle in Kosrae and buffalo in Chuuk.

Each state in the FSM has extensive forest cover, with tropical rainforest being the predominant forest type. Significant areas of mangroves are also present. On the low atoll islands, and the literal slopes of the high islands, the forest cover is better described as an agro-forestry complex with a scattered secondary forest on long-fallow within the traditional gardening system. Timber is cut for subsistence farmsteads for construction and firewood. Mangrove timber is used for handicrafts.

The ocean is undoubtedly the country's most important resource. FSM's exclusive economic zone covers some 2.6 million square kilometers of ocean, which contain the world's most productive tuna fishing grounds. The approximate market value per year of tuna harvested within the nation is about US\$200 million. Present marine resource use consists of inshore fisheries (those taking place in mangroves, reef areas, and lagoons), nearshore and bottom fisheries and offshore fisheries (mainly for tuna). Subsistence fishers make the greatest use of inshore resources and artisanal fishers concentrate on nearshore and bottom resources.

The large number of islands scattered over a huge ocean, makes provision of adequate inter-island air and sea transport a major challenge. Air and sea transport in and out of the country is also difficult limiting opportunities for export. There is generally limited understanding and experience with business concepts and practices. The labour force lack job skills needed to support economic development.

Strategic Options. The sectors, which seem to offer the most potential for near-term income generation are fisheries and tourism. Agriculture has potential, particularly for intra-FSM trade, but the small land area suitable for agriculture limits large-scale farming for export. The FSM collects substantial revenue from licensing foreign vessels for tuna fishing in FSM's Exclusive Economic Zone. More recently, additional earnings have begun to grow as FSM's Fishing Corporation and the Yap Fishing Corporation have initiated their own fishing operations together with onshore processing. Farming of giant clams and other marine products has been instituted. Various plans to establish canneries have been discussed, and will be pressed. Tourism, also, has seen significant increases in recent years. A number of new, small hotels have opened in Pohnpei, Yap and Kosrae with support facilities for diving and other tourist activities. Provided the challenges of limitations in air transportation, land-use issues and competition with other island destinations, can be overcome, increased tourism would enhance demand for locally produced foods.

C. Project Interventions: Income Generation Activities

I. Fruit and Root Crop Development in Kosrae

Demand for root crop and fruit planting material has been increasing in Kosrae as a considerable number of farmers are changing from subsistence to semi-commercial production, motivated by demand from other states as well as locally and for export.

The project will use the Micronesia Plant Propagation Research Centre (MPPRC) to propagate fruit and root crop planting material for planting by farmers. The MPPRC has, for several years, been propagating banana seedlings and more recently, Soft-Taro and several types of citrus. Plans are afoot to also propagate sakau (kava) and betle nuts for export. At the present time, the facility does not produce to capacity. The Department of Agriculture, Land and Fisheries will assist farmers in the distribution of planting material, provide farm equipment services, training on technical matters and promote farming (particularly organic) in Kosrae.

The crops that will be propagated will include, among others: bananas, soft-taro, giant taro, yam, citrus, betle nuts and sakau. The seedlings and planting material propagated will be distributed for growing in Kosrae and in other states if requested.

The local contribution includes: local staff supervising the project, training facilities and office for project staff.

Success Indicators

- Increased supplies of fruits and root crops seedlings for Kosrae and other states;
- Increased export potential;
- Increased supply of local fruits and root crops for household consumption; and
- Provide incentive to farmers to increase semi-commercial farming.

II. Development of Banana Production in Chuuk State

Bananas are an important food crop in Chuuk as in other tropical areas. The crop can be easily grown and has good local marketing potential as well as for export to other states of FSM and further abroad.

The project will construct a greenhouse and acquire material, supplies and necessary tools for propagating planting material. The project will also fund a co-ordinator and staff for the project, provide support for the preparation of land for production and production inputs as well as aid in distribution of the planting material.

Local contribution include: labour force for construction work; storage of project supplies and equipment; maintenance cost after three years; replacement costs; and land security.

Success Indicators

- Increased fruit seedlings and planting material;
- Increased expected productivity from seedlings and planting material;
- Increased availability of fruits for local and export markets, thus reducing dependency on imports;
- Increased employment opportunity in the farming sector;
- Increased agricultural marketing within the country.