



# Citizen's Budget 2024



**FSM Department of Finance and  
Administration**



**320-2640**



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## ACRONYMS

BEMD	Budget and Economic Management Division
DoFA	Department of Finance and Administration
EBRC	Executive Budget Review Committee
FSM	Federated States of Micronesia
FY	Fiscal Year
GDP	Gross Domestic Product
SEG	Supplemental Education Grant

## FOREWORD



Our fiscal year 2024 Citizens Budget is the first of its kind for our Nation and a milestone in the implementation of our ongoing Public Financial Management Reform Roadmap 2023-2026. This Citizens Budget is a highlight of our continuous efforts to be more transparent and accountable to the citizens and residents of the Federated States of Micronesia.

The fiscal year 2024 Appropriation Bill after approval by Congress and signature of the President is posted on the Congress website for the benefit of the public. However, for many of us the Appropriation Bill and the budget process that produces it is little understood.

This document aims to present our Budget for fiscal year 2024 in a way that everyone can understand. In crafting the Citizens Budget our first objective is to explain to readers how the budget process works. To this end we prepared a section on "Useful Things to Know" that explains the National Government budget process and the meaning of important terms used in budgeting. We aim to ensure through the budget process that our spending is responsible and linked to the policy priorities of my Administration.

Our second objective is to show how our annual budget is funded and how we spend the money. Our own resources through collection of taxes, fees and duties funds our Budget supplemented by grants and loans from our partners that share our vision of a prosperous and dynamic Nation. The preparation and implementation of our Budget is a collective effort that shows the benefits of working together to achieve growth and prosperity today for the benefit of future generations.

Our budget this year is also unique because it is the first time that the National Government shares 50% of fishing access fees with the States in accordance with the Constitutional Convention and adoption by Congress of the constitutional amendment on revenue sharing. With less revenues available to the National Government for this Budget we have made difficult budgeting choices, while ensuring that our Budget focuses on supporting the unity and prosperity of our Nation.

As public servants we will always honor the trust that the public gives to Government to use national resources legally and wisely. This Citizens Budget shares with you how we plan to use your money for this fiscal year. I encourage everyone to read this Citizens Budget, so as to be informed about our public finances. The careful reader will find much of interest in these pages and I thank all who assisted with its preparation.

A handwritten signature in black ink that reads "Wesley W. Simina". The signature is fluid and cursive.

Wesley W. Simina

President of the Federated States of Micronesia



## MESSAGE



I am excited and pleased to be part of the launch of our first Citizens Budget. Access to timely and easily understood information on the National Government annual budget is essential for promoting transparency and accountability of the Government to the public. The Department of Finance and Administration is fully committed to financial transparency and holding to account National Government use of public funds.

These opening remarks illustrate our objective in publishing this first National Government Citizens Budget. We want everyone to know where Government gets its money from and how it spends that money.

After all the Government is not the owner of public funds because ownership belongs to the public. The public puts its trust in Government to spend public money responsibly in line with financial laws and regulations to achieve the strategic policy goals of this Administration.

The Citizens Budget is simply the Budget approved by Congress for the fiscal year 2024 transformed into text and tables that is designed to make it easy for all to understand.

It is also important to comprehend how the process of preparing, adopting and implementing the budget is carried out. For this reason, we aim at the beginning of the Citizens Budget to explain the key features of the budget process.

In the years to come we will build on this our first Citizens Budget to continually improve the way budget information is presented to the public. In addition to posting the Citizens Budget on our website we will soon publish this English language version into local languages, so that all have equal access to its content.

I wish you all well and hope that you will find our Citizens Budget for 2024 interesting and informative.

A handwritten signature in blue ink, appearing to read 'Rose N. Nakanaga', written over a faint circular stamp.

Rose N. Nakanaga  
Secretary of Finance and Administration

# 1 INTRODUCTION

## 1.1 Important role of the national government in the economy

The National Government of the Federated States of Micronesia (FSM) mobilises domestic revenues and obtains external assistance in the form of grants and borrowings. Some, of these funds are used to support its own operations, but the majority of these local revenues and external funds are passed on by the National Government to the State Governments to support nationwide sustainable development. In these ways the National Government provides about 90 percent of the investment needed to strive towards our strategic goals of inclusive economic growth, fiscal resilience and social protection to those in need when required.

## 1.2 Purpose of this citizens budget

The purpose of this first Citizens Budget is to make the National Government Budget understandable to the public and make the Budget globally available through the Department of Finance and Administration website. This first Citizens Budget aims to explain how the Budget is prepared, approved and implemented. Also, where funds for the Budget come from and what these funds are spent on and how the mechanisms in place ensure that money spent is only on items approved in the Budget.

# 2 USEFUL THINGS TO KNOW

This section explains some basic budgeting concepts through questions and answers.

## 2.1 Basic concepts in budgeting frequently asked questions

### 2.1.1 What is government budgeting?

Government budgeting is the critical exercise of allocating revenues and other funds such as grants and borrowings to attain the economic and strategic goals of our country. It entails the management of government expenditures in such a way that will create the most economic impact from the production and delivery of goods and services while supporting a balanced fiscal position.

### 2.1.2 Why is government budgeting important?

Government budgeting is important because it enables the government to plan and manage its financial resources to support the implementation of various programs and projects that best promote the development of our country. Through the Budget, the government can prioritize and put into action its plans, programs and policies within the constraints of its financial capability as dictated by economic conditions.

### 2.1.3 What is the National Government fiscal year?

The fiscal year starts 1<sup>st</sup> October and ends 30<sup>th</sup> September. The fiscal year (FY) 2024 refers to 1<sup>st</sup> October 2023 to 30<sup>th</sup> September 2024

### 2.1.4 What is the National Government Budget?

The budget is the financial plan of the National Government for a fiscal year, which shows what its revenues are, and how they will be generated and spent over the fiscal period. The budget is the National Government's key instrument for promoting its socio-economic objectives for the benefit of all citizens and residents.



### **2.1.5 What is the legal basis for the National Government budget?**

Pursuant to Section 2, Article XII, of the FSM Constitution and Section 103, Chapter 1, Title 55 of the FSM Code, the President is required to submit annually to Congress a Recommended National Government Budget. By law the budget presented to Congress must be a balanced budget with revenues equal to expenditures.

### **2.1.6 How is the National Government Budget approved?**

Only Congress can authorize the National Government Budget. The Congress reviews the Recommended Budget and can amend the Recommended Budget in any of its aspects including approval of a budget that does not balance. Once Congress adopts the Budget, the President signs the budget into law by means of an Appropriation Bill.

### **2.1.7 How is the National Government Budget prepared?**

Departments, Agencies and Offices prepare their proposed budgets for the succeeding year and submit these proposals contained in required budget forms to the Budget and Economic Management Division (BEMD) of the Department of Finance and Administration (DoFA) following guidelines and timetable issued by the President.

Department, Agencies and Offices justify details of their proposed budgets before BEMD technical review panels followed by hearings of the Executive Budget Review Committee (EBRC) chaired by the Vice President. After EBRC budget hearings the BEMD consolidates proposed budgets of Departments, Agencies and Offices for inclusion in the President's recommended budget for submission to Congress.

### **2.1.8 What law governs the use of National Government budget funds?**

The Financial Management Act 1979, Budget Procedures Act 1981 and Financial Management Regulations 2021 are key legislation setting out the basic rules for the mobilisation, use, accounting and reporting of National Government funds.

### **2.1.9 How is the budget implemented?**

Budget implementation starts with the release of funds by the DoFA to the Departments, Agencies and Offices of the National Government. To accelerate the implementation of government programs and projects and ensure the judicious use of budgeted government funds, the allotment system is based on individual agency requests. This, is a policy-driven system that standardizes the release of funds across all Departments, Agencies and Offices in line with specific policy initiatives of the government.

### **2.1.10 What is the difference between appropriation and allotment?**

Appropriation refers to an authorization made by law directing payment out of government funds, under specified conditions or for specific purposes. On the other hand, allotment is an authorization issued by the DoFA to an implementing agency to incur obligations for specified amounts contained in a legislative appropriation.

### **2.1.11 How to distinguish obligations from disbursements?**

Obligations are liabilities legally incurred and committed to be paid for by the government either immediately or in the future. Disbursements refer to the actual withdrawal of money from the National Treasury due to the payment of budgetary obligations.

### **2.1.12 Why are adjustments made to the budget during implementation?**

Adjustments are made on the budget even during implementation primarily because of the following:

1. **Enactment of new laws** - Within the fiscal year, new legislations with corresponding identified new revenue sources are passed which necessitate adjustments in the budget.
2. **Adjustments in macroeconomic parameters**- The macroeconomic targets considered in the budget are periodically reviewed and updated to reflect the impact of recent developments in the projected performance of the national economy and on the set fiscal program for the year.
3. **Change in resources availabilities**- Budget adjustments are undertaken when additional resources become available such as proceeds from newly negotiated loans and grants. Corresponding budget adjustments are also made when resources generation falls below or rises above the targets.

### **2.1.13 What mechanisms ensure that funds have been properly allocated and spent?**

Procedures are set in place to monitor and evaluate the performance and cost effectiveness of Departments, Agencies and Offices. Budget accountability takes the form of management's review of actual performance or work accomplishment in relation to planned work targets of the Departments, Agencies and Offices vis-à-vis the financial resources made available.

Also, detailed examinations of each Department, Agency and Office book of accounts are undertaken by the National Public Auditor to ensure that all expenses have been disbursed in accordance with accounting regulations and the purpose(s) for which the funds have been authorized. The audit reports of the National Public Auditor are available to the public online at the National Public Auditor website.

### **2.1.14 What is the implication of population growth on expenditure?**

Growth in population means higher expenditure requirements for government because of more demand for services. Population growth is specifically important in projecting population-based expenditures like education, health and other social services.

### **2.1.15 Does the Government review its financial management to see how it could improve its service to the public?**

Recently DoFA led a comprehensive nationwide review of public financial management operations. This led to the preparation of a Public Financial Management Reform Roadmap 2023-2026 that sets out ongoing and planned improvement measures with implementation responsibilities for National Government, State Governments and Municipalities. The PFM Reform Roadmap is available to read online or download at:<https://dofa.gov.fm/>

## **3 OVERVIEW OF THE FY2024 NATIONAL GOVERNMENT BUDGET**

### **3.1 Changes to national government revenue sharing with the states**

Following a Constitutional Convention in 2023 a subsequent referendum voted for a constitutional amendment on changes to revenue sharing from the National Government to the four State Governments. This constitutional amendment was approved by Congress in September 2023.



This amendment provides for the National Government to give 50% of annual fishing access fees to the States. Previously, National Government retained 100% of fishing fees, but automatically transferred 20% of the amount to the FSM Trust Fund together with 50% of corporate taxes.

### 3.2 Congress response to national government budgetary pressures

The 2023 Amended Compact includes various new compliance requirements and enhanced performance and financial reporting on infrastructure projects along with the hiring of a third party for the reporting. The extra costs associated with these infrastructure reporting and compliance requirements will be borne by the National Government.

Congress mindful of budgetary pressures on the operations of the National Government approved that the automatic sweep by National Government of 20% of the fishing fees and 50% of domestic revenue from businesses to the FSM Trust Fund be suspended, although Congress can still make appropriations to the FSM Trust Fund as revenue allows.

### 3.3 FY2024 Budget

Table 1 below summarises the FY2024 National Government Budget. The left-hand column shows projected revenues and the right-hand column expenditures for FY2024 approved by Congress and set out in detail in the Public Law 23-24 commonly referred to as the Appropriation Bill.

As noted above, as required by our Constitution the Recommended Budget the President submits to Congress must balance meaning that estimated revenues must equal estimated expenditures. As provided by our Constitution the Congress has the authority to change any aspect of the Recommended Budget and is not required to approve a balanced budget.

As shown in Table 1, for FY2024 Congress approved budget expenditures are less than anticipated revenues. This shows that Congress exercised its oversight role by not approving all recommended expenditures. This could be due to a number of factors. Perhaps, identification of some recommended expenditures that Congress considered not fully aligned to the strategic goals of our Nation.

**Table 1: Budget at a Glance**

REVENUE BY FUND SOURCE		% of Grand Total	EXPENDITURES		% of Grand Total
Tax Revenue	10,150,000	14.9%	Operation Expenditures	48,457,648	75.2%
Fishing Access Fees	35,000,000	51.7%	Grants & Subsidies	4,127,132	6.4%
Corporate Tax	9,000,000	13.2%	CIP	1,839,072	2.8%
Non-Tax	3,532,174	5.2%			
<b>Subtotal</b>	<b>57,682,174</b>		<b>Subtotal</b>	<b>54,423,852</b>	
Compact Sector	1,000,000	1.4%	Compact Sector	1,000,000	1.5%
SEG	1,246,072	1.8%	SEG	1,246,072	1.9%
<b>Total</b>	<b>59,928,246</b>		<b>Total</b>	<b>56,669,874</b>	
Federal and other Foreign Assistance	\$7,769,537	11.4%	Federal and other Foreign Assistance	\$7,769,537	12.0%
<b>Grand Total</b>	<b>\$67,697,783</b>	<b>100%</b>	<b>Grand Total</b>	<b>\$64,439,411</b>	<b>100%</b>

### 3.4 Domestic revenues and external grants

The National Government funds the Budget by collection of local taxes and generous assistance from the United States under the Compact of Free Association and US federal and other foreign assistance. As shown in Table 1, above, the total revenue estimate for FY2024 is \$67.6 million. Of

this amount, \$59.9 million (88.5 percent) comes from domestic revenue. In addition to the domestic revenue, \$7.7 million (11.4 percent) is expected from U.S Federal grants and from other external grants and \$2.2 million (3.3 percent) from the amended Compact and Supplemental Education Grant (SEG).

The change to the revenue sharing rules whereby National Government now gives 50% of fishing access fees to the States prompted an increased focus on prioritisation of expenditures. The projected decline in revenue for FY2024 is shown in Table 2. Factors influencing the revenue shortfall in addition to the reduction in fishing access fees available to the National Government are fluctuations in other sources of revenue. This challenge is one every country faces and the National Government is continually striving to improve its capability in this area.

<b>Table 2: Revenue by Fund Source</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>
	<b>Un-audited</b>	<b>Actual</b>	<b>Estimate</b>	<b>Projection</b>
Tax Revenue	12,199,516	10,800,000	9,817,706	10,150,000
Fishing Access Fees	69,000,000	67,000,000	63,000,000	35,000,000
Corporate tax	12,366,628	11,000,000	13,000,000	9,000,000
<b>Subtotal Domestic Revenue</b>	<b>93,566,144</b>	<b>88,800,000</b>	<b>85,817,706</b>	<b>54,150,000</b>
Compact Grant	1,000,000	1,000,000	1,000,000	1,000,000
Supplemental Education Grant	1,612,592	1,612,620	1,612,592	1,246,172
US Federal & Other Grants	64,517,890	6,860,380	7,555,744	7,769,537
<b>Subtotal Grants</b>	<b>67,130,482</b>	<b>9,473,000</b>	<b>10,168,336</b>	<b>10,015,709</b>
<b>Total Revenue</b>	<b>160,696,626</b>	<b>98,273,000</b>	<b>95,986,042</b>	<b>64,165,709</b>

### 3.5 Operating Expenditure

Table 3, below, budget by component unit, shows that operating expenditure of the National Government is budgeted at \$33.4 million an increase of 15.5 percent over the approved budget for FY2023. The increase under the operations budget reflects primarily a modest upturn in mandated travel due to the return of open borders following the end of restrictions due to Covid-19. The ongoing development of local capabilities also requires overseas travel, so that National Government staff can take advantage of professional training. In order to further expand their own knowledge and skills for the benefit of the public that the National Government serves.

**Table 3: Domestically Funded Operations Budget by Component Unit**

	<b>FY2023</b>	<b>FY2024</b>	<b>Growth</b>
	<b>Budget</b>	<b>Budget</b>	
Executive	28,916,569	33,400,114	15.5%
Legislature	7,226,703	7,312,294	1.3%
Judiciary	2,337,510	2,343,712	0.2%
Public Auditor	1,056,485	1,309,577	24.0%
Other Agencies	3,210,335	3,423,359	6.9%
Special Programs	637,778	658,592	3.2%
<b>Total Expenditure</b>	<b>43,385,380</b>	<b>48,457,648</b>	<b>11.7%</b>

### 3.6 Grants and Subsidies

The Budget for grants, subsidies and contributions captures several programs and initiatives including national scholarships, staff housing and utility costs for National Government. Highlighted



below in Table 4 are the major components of the items under the Grants and Subsidies portion of the budget. The reduced availability of revenues for FY2024 is reflected in Table 4. National Scholarships retains its importance, but suffers a reduction from \$3.0 million in FY2023 to \$0.5million in FY2024. Staff housing maintains relative spending levels, while aid to non-public schools is significantly reduced. Others includes a number of spending items of which the largest items are Fuelling and Provisions of National Vessels \$672,915, FSM Social Security \$500,000 and Joint Committee of Compact Review and Planning \$335,991 all of which are essential activities.

**Table 4: Grants & Subsidies major expenditures**

	FY2020	FY2021	FY2022	FY2023	FY2024
National Scholarship	3,000,000	3,000,000	3,000,000	3,000,000	500,000
FSM Capital Energy/Utilities	600,000	600,000	600,000	600,000	150,000
Aid to Non-public Schools	800,000	1,000,000	1,000,000	1,000,000	250,000
Staff Housing	660,000	785,000	750,000	750,000	750,000
MLFC Loan	260,000	260,000	260,000	260,000	130,000
MLSC	250,000	250,000	250,000	250,000	50,000
Single Audit	460,000	490,000	490,000	460,000	100,000
National Merit Scholarship	275,000	300,000	275,000	275,000	137,500
Recruitment & Repatriation	223,218	223,218	223,218	223,218	53,226
Others	10,265,512	11,741,098	11,401,415	10,268,373	2,006,406
<b>Total</b>	<b>16,793,730</b>	<b>18,649,316</b>	<b>18,249,633</b>	<b>17,086,591</b>	<b>4,127,132</b>

Source: FSM Congress Public Laws

### 3.7 Capital Investments

The focus area of the FY2024 Capital Investment part of the budget is funding for our education programs and further developing local fisheries capabilities. With these investments, our Nation will continue to improve our human resource skills and ensure that both social and economic services continue to be provided throughout the States.

The category Others includes a number of important activities including the National Computer Network, Anti-Human Trafficking Enforcement Campaign and Investigation, Victims Shelter and Services and Patrol Boat Maintenance. All of which are essential to the further development and protection of our Nation.

**Table 5: Capital Investment Program main projects**

	FY2020	FY2021	FY2022	FY2023	FY2024
College of Micronesia	3,050,000	2,800,000	3,000,000	3,000,000	2,000,000
Fisheries Maritime Institute	575,611	875,611	919,392	965,735	471,572
Human Resource Development	849,170	530,740	869,364	132,080	0
Others	10,024,545	10,674,022	7,114,948	5,549,258	1,613,522
<b>Total</b>	<b>14,449,326</b>	<b>14,880,373</b>	<b>11,903,704</b>	<b>9,647,073</b>	<b>4,085,094</b>

### 3.8 Compact Sector

Annually, the National Government receives three allocations from the Supplementary Education Grant (SEG): for National Department of Education project, the College of Micronesia, and the teacher principal training academy. For FY2024 the project funds will be utilized to continue these funding priorities.

**Table 6: Supplemental Education Grant**

<b>Program</b>	<b>Operational</b>
College of Micronesia – Operation	689,948
NDOE Year 3 Project (SEG or Successor Program)	556,074
<b>Total</b>	<b>1,246,022</b>

These investments will support our goals of developing competent and skilled people to support the private sector and the professional development of our government workforce.

### **3.9 Recent Developments and Economic Outlook**

Our economy has recovered rapidly from the combined negative effects on the global economy of COVID-19 containment measures, lifted in August 2022, disruption to worldwide supply chains and the Russia invasion of Ukraine, which further disturbed international trade and pushed up global prices. Our GDP, a measure of economic growth, declined by 3.2 percent in 2020 and 1.2 percent in 2021 but in 2022 our economy began to recover and this is expected to continue with growth in 2023 estimated at 2 percent rising to 4 percent by 2025.

<b>Item</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>
Constant price GDP	-3.20%	-1.20%	-0.70%	2.00%	3.20%	4.00%
Fiscal Balance to GDP	6.10%	3.00%	17.20%	10.10%	9.80%	6.70%
Consumer Price Index	2.00%	5.90%	6.90%	4.00%	3.00%	2.00%

The sustained focus of the National Government on promoting the private sector as the driving force of our economy will continue to be underpinned by promoting strategic investments in transport, communications, fisheries, agriculture and tourism. In parallel the National Government will continue to further improve the effectiveness and efficiency of its programs and projects to maximise public value for money.

### **3.10 Striving for Sustainable Inclusive Economic Growth and Greater Resilience**

It is the task of the National Government that we continue to provide effective governance, strong leadership and consistent support to our citizens. Working closely with the Congress and the States it is our collective responsibility as leaders of our Nation. Our needs as a small island developing state will always be more than our resources and our geographic remoteness, capacity constraints and our increased exposure to natural hazards due to ongoing climate change makes us vulnerable. As a Nation we must continue to work together to build our resilience to ensure that what we do with our limited resources can deliver lasting benefits to all of our citizens, present and future generations.

## **4 ACKNOWLEDGEMENTS**

As this is our first National Government Citizens Budget FY2024 we would very much like to obtain feedback from you the public on the content and look of this publication. We hope that you have enjoyed reading this publication and that you know more about our Budget than you did previously.

**Please contact the following with comments and suggestions.**



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