

**National Government
Fiscal Year (FY) 2025 Citizens Budget**



Federated States of Micronesia
Department of Finance and Administration
Pohnpei, Palikir

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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 2025 Citizens Budget will continue to be our Nations 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 2025 Appropriation Bill, after approval by Congress and the President's signature, is posted on the Congress website for the public's benefit. However, for many of us, the Appropriation Bill and the budget process that produces it are little understood.

This document aims to present our Budget for fiscal year 2025 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 affordable 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 obtain a growing prosperity today and for the benefit of future generations.

Our budget this year reflects the increase in the new compact that was approved by the United States. Now, the National government has appropriated compact sector operation grants, compact infrastructure sector grants, and compact infrastructure maintenance funds. We have made some fiscal policy changes based on the new compact funding and the domestic sharing revenue to ensure that our budget meet the needs and priorities of our nation.

As public servants, we will always honour the trust that the public gives to Government to use national resources legally and wisely. This Citizens Budget shows 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.



Wesley W. Simina

President of the Federated States of Micronesia

MESSAGE



I am excited to launch our Second 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 keep publishing our 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 2025 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. We would like to include any changes in the future citizen's budget important changes, reforms to the budget process on areas of revenue and management of expenditures.

In the years to come we will build on this our Citizens Budget to continually improve the way budget information is presented to the public. I wish you all well and hope that you will find our Citizens Budget for 2025 interesting and informative.



Rose Nakanaga

Secretary of Finance and Administration

1 INTRODUCTION

1.1 The 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, 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's fiscal year?

The fiscal year starts on 1st October and ends on 30th September. The fiscal year (FY) 2025 refers to 1st October 2024 to 30th September 2025

2.1.4 What is the National Government Budget?

The budget is the national government's financial plan for a fiscal year. It shows the government's revenues and how they will be generated and spent over the fiscal period. The budget is the 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 them in required budget forms to the Budget and Economic Management Division (BEMD) of the Department of Finance and Administration (DoFA), following guidelines and a 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 using, accounting for, 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, allotments 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 the 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.

3 OVERVIEW OF THE FY2025 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. In FY2024 National government has been transferring fifty percent of the actual collection of fishing access fees to the States. Now, the National government burden sharing has increased from its previous years as some of the assistance to the states was appropriated through the FSM Budget.

3.2 Congress's response to National government budgetary pressures

The 2024 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 National Government approved budget, has made some fiscal policy changes by repealing some of the laws that divert some of the revenues into the FSM Trust Fund to be suspended and amending public law 18-57 by retaking 10% of the compact revenue that was given to the States since 2015.

3.3 FY2025 Budget

Table 1 below summarises the FY2025 National Government Budget. The left-hand column shows projected revenues and the right-hand column expenditures for FY2025 approved by Congress and set out in detail in the Public Law 23-121 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 FY2025 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			EXPENDITURES		
		% of Grand Total			% of Grand Total
Tax Revenue	20,000,000	15.9%	Operation Expenditures	53,157,463	42.8%
Fishing Access Fees	34,000,000	27.1%	Grants & Subsidies	13,734,483	11.1%
Corporate Tax	9,000,000	7.2%	CIP	6,043,295	4.9%
Non-Tax	10,545,465	8.4%			
Total Domestic	73,545,465		Total Domestic	72,935,241	
Compact Sector			Compact Sector		
Operation Grants	12,226,712	9.7%	Operation	12,002,371	9.7%
Compact Infrastructure			Compact Infrastructure	29,019,059	23.4%
Grants	29,448,975	23.5%	Compact IMF	10,220,000	8.2%
Compact IMF Grant	10,220,000	8.1%			
Total Compact	51,895,687		Total	51,241,430	
				\$124,176,67	
Grand Total	\$125,441,152	100%	Grand Total	1	100%

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 FY2025 is \$114.9 million. Of this amount, \$63.0million (54.8 percent) comes from domestic revenue. In addition to the domestic revenue, \$51.9million (45.2 percent) is expected from Compact Grants of which 12.0 (10.4 percent) from the

compact sector operation grants, and 39.9 million (34.7 percent) will be transferred directly to the States for Compact infrastructure and Compact infrastructure maintenance fund.

The change to the revenue sharing rules whereby the National Government now gives 50% of fishing access fees to the States prompted an increased focus on prioritisation of expenditures. The projected decline in domestic revenue for FY2025 is shown in Table 2. Factors influencing the revenue shortfall starting in FY2024, in addition to the reduction in fishing access fees available to the National Government are fluctuations in other sources of revenue.

	FY2022	FY2023	FY2024	FY2025
	Audited	Un-audited	Actual	Projection
Tax Revenue	10,800,000	9,817,706	19,250,000	20,000,000
Fishing Access Fees	73,021,600	71,813,898	34,500,000	34,000,000
Corporate tax	59,163,531	24,000,000	9,000,000	9,000,000
Subtotal Domestic Revenue	142,985,131	105,631,604	62,750,000	63,000,000
Compact Grant	1,000,000	1,000,000	1,000,000	51,895,687
Supplemental Education Grant	1,612,620	1,612,592	1,612,592	0
US Federal & Other Grants	6,860,380	7,555,744	7,769,537	0
Subtotal Grants	9,473,000	10,168,336	10,382,129	51,895,687
Total Revenue	152,458,131	115,799,940	73,132,129	114,895,687

3.5 Operating Expenditure

Table 3, below, budget by component unit, shows that the operating expenditure of the National Government budgeted at \$57.7 million an increase of 9.7 percent over the approved budget for FY2024. The bulk of the increase under the operations budget reflects primarily the establishment of an embassy in Geneva and the setting up of a pension plan for national government employees, the need for professional experts under PMU to speed up the coordination of projects, and increased domestic travel to the States. 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

	FY2024	FY2025	
	Budget	Budget	Growth
Executive	33,400,114	35,097,619	5.1%
Legislature	7,312,294	9,099,066	24.4%
Judiciary	2,343,712	2,709,509	15.6%
Public Auditor	1,309,577	1,510,851	15.4%
Other Agencies	3,423,359	3,951,922	15.4%
Special Programs	658,592	788,496	19.7%
Total Expenditure	48,447,648	53,157,463	9.7%

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 the National Government. Highlighted below in Table 4 are the major components of the items under the Grants and Subsidies portion of the budget. The availability of revenues for FY2025 has returned to its previous numbers, which is reflected in Table 4. National Scholarships return to its previous level of \$3.0 million. Staff housing and aid to non-public schools return to their relative spending levels, while single audits increase significantly, reflecting the changing in Audit firm. Others include a number of spending items of which the largest items are Fuelling and Provisions of National Vessels \$1,345,830, FSM Social Security \$2,000,000, Disaster Relieve Emergency Fund Sector Grant and Matching of \$1,000,000, NORMA-WPFC Tuna Commission Membership fee of \$806,201, and General Election for \$505,537 all of which are essential activities.

Table 4: Grants & Subsidies major expenditures

	FY2021	FY2022	FY2023	FY2024	FY2025
National Scholarship	3,000,000	3,000,000	3,000,000	500,000	3,000,000
FSM Capital Energy/Utilities	600,000	600,000	600,000	150,000	474,000
Aid to Non-public Schools	1,000,000	1,000,000	1,000,000	250,000	900,000
Staff Housing	785,000	750,000	750,000	750,000	772,500
MLFC Loan	260,000	260,000	260,000	130,000	260,000
MLSC	250,000	250,000	250,000	50,000	150,000
Single Audit	490,000	490,000	460,000	100,000	1,565,948
National Merit Scholarship	300,000	275,000	275,000	137,500	275,000
Recruitment & Repatriation	223,218	223,218	223,218	53,226	106,452
Others	11,741,098	11,401,415	10,268,373	2,006,406	9,388,749
Total	18,649,316	18,249,633	17,086,591	4,127,132	16,892,649

Source: FSM Congress Public Laws

3.7 Capital Investments

The focus area of the FY2025 Capital Investment part of the budget is funding 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, FSM National Government Facility improvements, Infrastructure Maintenance Fund, FSM Public Health Initiatives, Anti-Human Trafficking Enforcement Campaign and Investigation, Victims Shelter and Services and Patrol Boat Maintenance and dry-docking of National Government vessels. All of which are essential to the further development and protection of our Nation.

Table 5: Capital Investment Program main projects

	FY2021	FY2022	FY2023	FY2024	FY2025
College of Micronesia	2,800,000	3,000,000	3,000,000	2,000,000	4,018,539
Fisheries Maritime Institute	875,611	919,392	965,735	471,572	850,000
Human Resource Development	530,740	869,364	132,080	0	1,831,677
Others	10,674,022	7,114,948	5,549,258	1,613,522	5,193,295
Total	14,880,373	11,903,704	9,647,073	4,085,094	11,893,511

3.8 Compact Sector

As a result of the new Compact, there is an increase in compact education sector allocation in FY2025. For FY2025 the compact sector grants will be utilized to continue these funding priorities.

Table 6: Compact Sector Education Grant

Program	Operational
College of Micronesia	\$4,018,539
School Accreditation	863,200
Curriculum Minimum Standard Program	968,477
Total	\$5,850,216

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 Economic Outlook

Looking ahead, the economy is expected to benefit from continued infrastructure projects funded by the World Bank and Asian Development Bank, as well as increased inflow of compact funding from the new compact and wage increases at the state and national levels. In the medium term, economic growth is projected to stabilize around 2.3 percent, although continued emigration to the U.S. could slow this growth. Inflation is anticipated to align with U.S. levels, settling around 2.0 percent.

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 to continue to provide effective governance, strong leadership, and consistent support to our citizens. Working closely with Congress and the States, it is our collective responsibility as leaders of our Nation. To ensure sustainable and inclusive growth, structural reforms are more crucial than ever. Strengthening the quality, stability, and resilience of public finance operations is essential. In January 2023, we launched the Public Financial Management Reform Roadmap 2023-2026 to guide our efforts in addressing existing gaps, enhancing current arrangements, and eliminating shortcomings. It will be crucial now to strongly implement ongoing infrastructure projects funded by our development partners and our own budgets while waiting for initiatives in the productive sectors of tourism, fisheries, and agriculture to start bearing fruits.

4 ACKNOWLEDGEMENTS

As this is our Second National Government Citizens Budget FY2025 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.

Secretary

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