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Report No: PIDIAF0170

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 10-Jun-2025



BASIC DATA

A. Product Information

Main: Digital Federated States of Micronesia Project (P170718)

Operation ID P170718	Product/Financing Instrument Investment Project Financing (IPF)
Beneficiary Country/Countries Micronesia, Federated States of	Geographical Identifier Micronesia, Federated States of
Practice Area (Lead) Digital Development	
Borrower(s) Federated States of Micronesia	Implementing Agency Department of Finance and Administration, Department of Health and Social Affairs, Department of Transportation Communication and Infrastructure, FSM Telecommunications Cable Corporation, Telecommunication Regulation Authority

Additional Financing Request 1

Estimated Appraisal Date 10-Jun-2025	Estimated Board Date 30-Jun-2025
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Development Objective

Original Development Objective (Approved as part of Approval package on 27-Mar-2020)

To expand access to the internet, promote private sector investment in digital services, and establish the critical foundations for digital government services and the digital economy in the Recipient's territory

Components

- Component 1. National Digital Connectivity Infrastructure
- Component 2. Digital Government Platform
- Component 3. Enabling Environment for Digital Government and Digital Economy
- Component 4. Project Management

COSTS & FINANCING (US\$, Millions)



SUMMARY

	Last Approved	Proposed	
		Addition	Total
Total Operation Cost	30.80	19.00	49.80
Total Financing	30.80	19.00	49.80
Of which IBRD/IDA	30.80	19.00	49.80

FINANCING DETAILS

World Bank Group Financing	Last Approved	Additional Financing	Total
International Development Association (IDA)	30.80	19.00	49.80
IDA Grant	30.80	19.00	49.80

IDA Resources

	Credit	Grant	SML	Guarantee	Total
Micronesia, Federated States of	0.00	19.00	0.00	0.00	19.00
National Performance-Based Allocations (PBA)	0.00	19.00	0.00	0.00	19.00
Total	0.00	19.00	0.00	0.00	19.00

Other Decision (as needed)

B. Introduction and Context

Country Context

- Geography and Demography.** The largest nation in the Micronesian sub-region, the Federated States of Micronesia (FSM), is made up of four semi-autonomous States (Kosrae, Pohnpei, Chuuk, Yap) located between Palau and the Philippines to the west and the Marshall Islands to the east. Although its land area covers just 700 square km, FSM consists of more than 600 islands scattered over an area of about 2.6 million square km, including its Exclusive



Economic Zone.¹ The overall population of FSM is estimated to be 114,164 persons in 2022 (WDI, 2023). Between 2012 and 2022, FSM’s population size declined by about 10 percent, with outbound migration playing a central role (IMF Article IV, 2023; FSM FY22 Economic Statistics²). Citizens of FSM are granted visa-free access to live, work and study in the United States under the provisions of the Compact of Free Associations (Compact), enabling ease of outward migration. The resulting capacity constraint in skilled labor creates overdependency on foreign experts and culminates in limited opportunities for domestic revenue generation and economic growth. FSM has also experienced considerable internal migration across States, mostly from outer islands to the main islands’ urban areas, and especially, to Pohnpei, which hosts the Country’s capital Palikir as individuals are particularly drawn to employment with the National Government. Access to basic services is also generally higher in Pohnpei.

2. **FSM faces significant challenges related to its small size, remoteness, geographical dispersion, environmental fragility and exposure to external shocks.**³ FSM is reported to have the highest estimated rates of poverty among the nine small remote Pacific Island Countries (PIC9) covered in the Regional Partnership Framework (RPF) for FY17 to FY21.⁴ FSM is highly dependent on digital technologies to connect people across vast distances and as the key enabler for economic diversification, to create new income-generating opportunities and improve public and private sector service delivery. Digital connectivity services are essential to improve outcomes for citizens of outer islands, especially access to education, markets and health services. Frequent natural disasters and climate change impose high costs and may even threaten the physical viability of some areas of both the main islands and more remote outer islands. Such events can and do cause severe damage to infrastructure and other economic assets and have adverse economic and social impacts.
3. **Citizens in FSM, especially those who live in outer islands, are extremely vulnerable to extreme climatic risks in the absence of reliable and resilient communications systems.** Digital services are essential to facilitate the deployment of disaster risk monitoring tools and applications that require large volumes of data and provide mechanism for early warning systems and post-disaster communications. When disasters such as typhoons strike, which is becoming more likely and frequent with a changing climate, communications services are the only ‘lifeline’ for outer islanders to coordinate with Government, donors and non-governmental organizations on the scope of impact and the assistance response needed, including food, water, energy supply and other emergency response services. Even without disasters, reliable and secure digital service are crucial for the socio-economic resilience of local communities as the key enabler for economic activities and access to primary public and private sector services.

Sectoral and Institutional Context

4. **Digital technologies play a key role to connect people across vast distances, create new income-generating opportunities and provide access to public and private sector services.** However, access to high-speed Internet is still

¹ An Exclusive Economic Zone is a sea zone prescribed by the United Nations Convention on the Law of the Sea (UNCLOS) over which a state has special rights regarding the exploration and use of marine resources, including energy production from water and wind.

² FSM FY22 Economic Statistics published by the US Graduate School in March 2024 is available at: <https://pitiviti.org/fsm>

³ Systematic Country Diagnostic, Report No. 102803, World Bank, January 20, 2016.

⁴ Household income and expenditure survey, 2013/14, Regional Partnership Framework for Kiribati, Republic of Nauru, Republic Of The Marshall Islands, Federated States of Micronesia, Republic Of Palau, Independent State Of Samoa, Kingdom Of Tonga, Tuvalu, and Vanuatu (PIC9), World Bank, 2016.



limited, due to inadequate connectivity infrastructure, poor service quality and high prices, which is constraining the ability of individuals and business to unlock the full potential of a digital economy. The submarine cable systems connecting the states are only one part of the challenge of delivering broadband services. Terrestrial fixed and wireless services, sometimes referred to as middle and last mile services, are also needed to connect users to the Internet. Poor network performance significantly constrains the ability of FSM to rollout out digital services, create new income-generating opportunities and provide access to public and private sector service. While survey data for FSM is limited, FSM typically ranks among the lowest globally for provision of online services, telecommunication connectivity and human capacity.

5. **Government recognizes the importance of digital government and that the foundations for this are not yet in place in FSM.** A holistic “whole of government” approach is proposed to establish common standards and provide access to shared services across all five governments (National and four State governments). However, significant efforts are needed to establish the critical foundations and platforms to deliver prioritized digital services to citizens and residents. Most government transactional services, for example, obtaining birth, marriage and death certificates, registering a business, or paying taxes, are still manual and paper based. Little work has been undertaken to digitize internal government document flows. There is no standard document management system nor standard government email, and the development of information systems has so far been fragmented at the department/agency levels both at the National and state government. Government departments have only limited access to IT resources. Most departments have a website, but content is very limited, often outdated, and there is no common standard/look and feel. There are no data management or data protection standards in place. Transactional online services are not available and there is no digital payments platform for government services.
6. **Digital identity and digital payments are essential for the efficient delivery of services, including development of the digital economy.** People without an effective means to prove their identity or make payments online face significant barriers accessing education, financial services, healthcare, social welfare benefits, and participating in economic development and civic engagement. Inclusive, trusted and universal identification systems are pre-requisites for social inclusion. As such, digital identification serves, as a key enabler of government services in the economy, are critically important for eradicating poverty and achieving a broad range of development outcomes. This is also an important opportunity to address and remedy inequalities associated with access and use of government services and economic engagement. In situations where women are marginalized from leadership and decision-making roles, and therefore have less engagement with government platforms, an inclusive identification system will be a necessary first step in helping to remedy these inequalities.
7. **An integrated Government digital platform will need to be developed to consolidate multiple independent systems.** As part of the development of the Digital Government Strategic Framework, Government will identify how to consolidate systems and the highest priority frontline digital services that could be deployed in the next 2-3 years. Business registration, land registration, social systems, taxation and education, for example, are not accessible online. The interface between these existing systems will need to be developed, particularly around common standards and coding to promote interoperability between datasets, in addition to the Government ICT architecture to support the more widespread and systematic rollout of digital services. Such architecture would provide common enablers needed by most electronic and mobile services such as identity authentication, business authentication, digital ID integration, content management, electronic payment services, data services, notification services etc. Using such enabling tools,



Government departments could potentially save 30-40 percent of the time needed for online service implementation and could reduce their overall ICT cost by 20-30 percent, based on experiences in other countries. As part of the development of the Digital Government Strategic Framework, Government will identify its highest priority frontline services that could be deployed in the next 2-3 years.

8. **The legal and regulatory enabling environment needs to be developed to support the rollout of digital government service and online transactions.** FSM does not currently have the laws needed to support electronic transactions or to regulate privacy, data protection, cybersecurity or cybercrimes. As Internet use increases, Government will increasingly grapple with digital content and data governance-related issues, including cyber security, cybercrimes, data protection, data privacy, especially for vulnerable groups, including women and children. Data governance is an immediate policy priority. Reforms are needed to accelerate digital transformation and put in place data protection safeguards to strengthen privacy, prevent the misuse of data and give people in FSM the trust and confidence to access digital government services and participate in the digital economy. The absence of legislation or an adequate policy framework for cyber safety and harmful digital communications has also been identified as a matter of specific community concern impacting on the physical and mental health and safety of women and girls. Legislative reforms to address harmful digital communications, alongside targeted awareness activities to bridge knowledge gaps at a community level, is a critical priority.
9. **Safety online is a major concern in FSM, particularly for women.**⁵ Women experience the internet differently to men. International studies have found that women are more concerned about privacy risks online than men and are more likely to keep their profiles private and delete unwanted contacts. Women also represent the vast majority of victims of stalking and cyberstalking, are far more likely to be sexually harassed online and more likely to describe these interactions as extremely upsetting. Younger women are acutely vulnerable to sexual coercion and trafficking, which may present an additional vulnerability online. Stakeholder, citizen engagement and community consultations during 2019 confirmed the relevance of these issues in FSM—there is a demonstrable gap in how women and men experience the internet. Policies and legislative responses to regulate harmful digital content are important to ensure that women in FSM feel safe online and are not discouraged (whether from personal experience or community pressure) from participating online.

C. Proposed Development Objective(s)

Original Development Objective

To expand access to the internet, promote private sector investment in digital services, and establish the critical founda for digital government services and the digital economy in the Recipient’s territory

Current Development Objective

No change.

⁵ See Annex 2: Gender Assessment of Project Appraisal Document, which based information from: desk-based document review including gender literature, regional policy and guidance notes and international best practice standards; and stakeholder and community consultations and focus groups discussions conducted in September 2019, including with representatives of National and State government, women’s organizations and community members.



Proposed New Development Objective

Not applicable.

D. Project Description

10. *A proposed AF and restructuring will provide US\$19 million equivalent to scale-up investments and close cost overruns for existing activities.* The AF will include financing to cover: (i) US\$1.3 million of currency losses⁶ due to unfavorable changes in the SDR to US\$ exchange rate; (ii) US\$11.7 million of projected cost overruns⁷ identified through the preparation of the detailed designs and ongoing implementation costs to ensure that the Project meets the PDO;⁸ (iii) US\$5.5 million of additional investments at an advanced state of readiness for implementation for digital government infrastructure and support implementation of the legal and regulatory enabling environment for digital services; and (iv) US\$0.5 million of additional project management support.
11. *Additional investments that are considered under the AF include those that are complementary to the existing project scope and could be implemented expeditiously by the implementing agencies.* Investments have been identified based on their level of “readiness” including the availability of detailed designs, the availability of environmental and social (E&S) documents/assessments, and the associated risks being similar to those identified during the preparation of the Project.⁹ Such investments include: (i) beginning the second phase rollout digital platforms by the Digital FSM Office (DFO), which would include digitization and moving more government services online; (ii) enhanced capacity building and technical assistance for the DFO, including support for the DFO for cybersecurity; and (iii) support operationalizing proposed legislative reforms for the Cybercrimes, Electronic Transactions, Cybersecurity and Personal Data Protection reform
- **Component 1. National Digital Connectivity Infrastructure** (original US\$15 million equivalent, additional financing US\$11 million equivalent - total US\$26 million equivalent). This component supports the development of climate and disaster resilient national digital connectivity infrastructure. The activities are designed to maximize benefits for public institutions, private sector businesses and to leverage the private sector to address bottlenecks within different parts of the digital connectivity value chain which have the largest impact on costs, competitiveness and reliability of internet connectivity, including in remote underserved areas and on outer islands. The component aims to improve the conditions and readiness for private sector investment by lowering the capital costs of entry and reducing investment risk. Attributable directly to Project activities, telecommunication services are improving, and prices are decreasing. Access to broadband services is now available to everyone throughout FSM. The use of broadband connectivity is also increasing in the Outer Islands connecting whole communities to the internet for the first time. Major construction activities for the fiber-to-the-premises (FTTP) rollout have begun in Yap, Kosrae and Pohnpei states. The first customers in Kosrae, including the Governor’s Office and State High School, are now connected to the FTTP network. The AF will close cost-overruns and help shorten the length of time required for

⁶ As of March 5, 2025.

⁷ This is based on the Financing Plan dated March 5, 2025.

⁸ The cost overruns are associated with the COVID-19 pandemic which closed the country’s border for almost three years, and led to implementation delays and increased the unit costs of critical labor and materials. Opposition from FSM Telecommunications Corporation (FSMTC) also limited sharing of resources and technical capabilities which increased startup costs on the FSM Open Access Entity (OAE).

⁹ Using the Systematic Operations Risk-Rating Tool (SORT).



FTTP rollout, ensuring that the rollout is completed by the revised project closing date. All materials and civil works equipment for the FTTP rollout have been procured, shipped and staged in Yap, Pohnpei and Kosrae. Deployment plans have been prepared and approved. Project management, site supervisors and workers who will support the fiber rollout have been hired and are ready to start work.

- **Component 2. Digital Government Platform** (original US\$6.5 million equivalent, additional financing US\$5.5 million equivalent — total US\$12 million equivalent). This component supports a program of activities designed to develop the Recipient’s National and State governments’ digital capabilities. It finances a range of interventions and investments beginning with the development and implementation of a nationwide Digital Government Strategic Framework (DGSF). The Digital FSM Office (DFO) has been established, the Digital Government Strategy have been adopted, key enablers for digital services and rollout of two pilot services are under implementation. Under the AF, besides addressing cost-overruns, this component is being scaled up to support the Government’s major objective of digitizing government services, as well as centralizing the delivery of services through a single national government portal for digital public services, building on the achievements of the parent project. It will provide additional financing to strengthen the country’s Digital Public Infrastructure (DPI) to enable and facilitate the delivery of additional end-to-end digital services. Scaled up activities will also finance (i) the development and implementation of an interoperability framework and government digital business architecture, (ii) the scale up of the current digital identity and authentication frameworks; and (iii) continuation of work to develop a robust digital payment’s platform, including digitalization and strengthening of treasury functions within the Department of Finance and Administration (DOFA) in close collaboration with the investments under the World Bank- financed Strengthening Public Financial Management II Project (P181237).
- **Component 3. Enabling Environment for Digital Government and Digital Economy** (original US\$3 million equivalent, additional financing US\$2 million equivalent — total US\$5 million equivalent). This component supports the carrying out a program of activities designed to strengthen the Recipient’s enabling environment for digital government and the digital economy. It also provides support to traditional regulatory priorities for the telecommunications sector, particularly to promote investment, technological innovation and evolution, and the long-term interests of users of digital services. In addition, support to the National Government Gender Development Office is being provided to ensure they have the relevant skills and resources to provide guidance on gender dimensions to be considered in the development of the DGSF and the roll out of new services—particularly to monitor and proactively support steps to maintain equity of access to digital services by gender. Four new laws have been submitted to Congress for consideration and are planned for discussion in the next regular/special session. The law reform proposes new executive responsibilities for personal data protection, electronic transactions and Digital ID, cybersecurity and cybercrime. The AF will provide technical assistance, institutional strengthening and training to support the intended operationalization of these reforms which are foundational to the development of a digital economy.
- **Component 4. Project Management** (original US\$6.3 million equivalent, additional financing US\$0.5 million equivalent — total US\$6.9 million equivalent). This component supports the Project Implementation Unit (sub-component 4a) which is responsible for overall Project management and coordination of the Project, and the Central Implementation Unit (sub-component 4b) which is responsible for fiduciary and operational support for all World Bank projects in FSM. The AF will support project management and other activities (under the Project



Implementation Unit, sub-component 4a) during the 12-month extension to project closing date.

Existing and Proposed Additional Financing (US\$ million)

<i>Component and Subcomponent</i>	<i>Original Allocation</i>	<i>Proposed AF and Restructuring</i>	<i>Total</i>
Component 1: National Digital Connectivity Infrastructure	15.0	11.0	26.0
Component 2: Digital Government Platform	6.5	5.5	12.0
Component 3: Enabling Environment for Digital Government and Digital Economy	3.0	2.0	5.0
Component 4: Project Management	6.3	0.5	6.8
<i>4a. Project Implementation Unit (included under component 4 costs)</i>	<i>1.3</i>	<i>0.5</i>	<i>1.8</i>
<i>4b. Central Implementation Unit (included under component 4 costs)</i>	<i>5.0</i>	<i>-</i>	<i>5.0</i>
Total	30.8	19.0	49.8

Legal Operational Policies

Policies	Triggered?
	Current
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

As the activities under the AF project are the continued/same types of activities under the original project, the environmental and social risks and impacts remain the same as the original project, i.e. the overall environmental and social risks level remain as Moderate, and the existing environmental and social instruments (ESMP, SEP, and LMP) remain valid and fit the purpose.

E. Implementation

Institutional and Implementation Arrangements

- 12. The proposed Additional Financing does not impact the fiduciary or other implementation arrangements. The existing implementing entities of Department of Transportation, Communications and Infrastructure (DTCI), Open Access Entity (OAE), Telecommunications Regulation Authority (TRA), and Department of Health and Social Affairs (DHSA) will remain as the implementing agencies for all Project activities, including those activities added as part of the proposed AF.
- 13. The lead implementing agency for the Project remains DTCI which oversees the implementation of all components. FSM Telecommunications Cable Corporation will continue to implement Component 1. DTCI will continue to



implement Components 2, 3(a), 3(b) and 4(a). TRA will continue to implement Component 3(c). The National Gender Development Office of DHSA, which is responsible for gender issues for the National government, will continue to implement Component 3(d). DoFA will continue to implement Component 4(b). DTCl and the National Gender Development Office will continue to coordinate and work closely with the National government DOJ regarding policy and legal and regulatory reforms. Implementation Agreements have been entered into between the National and State governments to establish a Project Steering Committee and set out the roles, responsibilities and accountabilities of the National and State governments during Project implementation. Implementing Agencies are supported by the Central Implementation Unit (CIU) in the areas of financial management, procurement, safeguards monitoring and evaluation and communications.

CONTACT POINT

World Bank

James L. Neumann

Senior Digital Specialist

Toufiq Ahmed

Operations Officer

Borrower/Client/Recipient

Federated States of Micronesia

Rose Nakanaga

Secretary, Department of Finance and Administration

rose.nakanaga@dofa.gov.fm

Implementing Agencies

Department of Finance and Administration

Rose Nakanaga

Secretary, Department of Finance and Administration

rose.nakanaga@dofa.gov.fm

Department of Health and Social Affairs

Marcus Samo

Secretary

msamo@fsmhealth.fm

Department of Transportation Communication and Infrastructure

Carlson Apis



Secretary
carl@tci.gov.fm

Ashika Raj
Project Manager, FSM Connectivity and Digital FSM Projects
ashika.raj@tci.gov.fm

Edward Albert
Chief Digital Information Officer and Assistant Secretary, DTCl
edward.albert@tci.gov.fm

FSM Telecommunications Cable Corporation

Gordon Segal
Chief Executive Officer
gsegal@fsmcable.com

Telecommunication Regulation Authority

Takuro Akinaga
Chief Executive
takuro.akinaga@tra.fm

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	James L. Neumann, Toufiq Ahmed
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Approved By

Practice Manager/Manager:	Mahesh Uttamchandani	22-May-2025
Country Director:	Naveed Hassan Naqvi	10-Jun-2025

