

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Federated States of Micronesia	Project Title:	Health Expenditure and Livelihoods Support Program
Lending/Financing Modality:	Countercyclical Support Facility: COVID-19 Pandemic Response Option	Department/Division:	Pacific Department Social Sectors and Public Sector Management Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY
Poverty targeting: general intervention
A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy The Health Expenditure and Livelihoods Support (HEALS) program aligns with the Federated State of Micronesia’s (FSM’s) development plan. The FSM Strategic Development Plan (2004–2023) with emphasis on key sectors such as private sector, agriculture, fisheries, tourism, environment, health, education and gender aims to achieve poverty reduction, economic growth and self-reliance and sharing of benefits on an equitable basis. ^a By supporting the government’s comprehensive coronavirus disease (COVID-19) response package, the program helps expand social safety nets through delivery of social assistance to poor and vulnerable groups, formal and informal workers. These interventions are designed to minimize the number of individuals and households who may slip into hardship and vulnerability as a result of international border closures and contraction in economic activity. The program is fully aligned with the focus of Pacific Approach 2016–2020, ADB’s country partnership strategy for the 11 smaller Pacific developing member countries including FSM, on addressing vulnerabilities to external shocks. ^b
B. Results from the Poverty and Social Analysis during PPTA or Due Diligence
<p>1. Key poverty and social issues. FSM has one of the highest estimated rates of poverty in the Pacific with 41% of its population struggling to meet basic needs and 10% living below the food poverty line.^c Of the 193 member states, the FSM ranked 135th on the United Nations Development Programme’s human development index for 2019.^d Poverty incidence is higher and more severe in Chuuk and Pohnpei compared to Yap and Kosrae. Both Chuuk and Pohnpei account for around 86% of the total population below the national poverty line. The impacts of COVID-19 to the economy poses higher risks of poverty increase and heightened vulnerability among marginalized groups. The government estimates job losses of 2,750 as a result of the pandemic, representing a 17% drop from FY2019 levels. The vast majority of job loss is concentrated in the private sector where poverty rate is already higher than public sector prior to COVID-19. Highest poverty incidence is also more evident in informal economy which could be further aggravated by a prolonged pandemic. An estimated 40% of the labor force belong to subsistence or informal economy. Twenty percent of all households rely on remittances as the main source of income, which are at risk of declining. Impacts of reduced incomes on poverty suggest that expected poverty gains from 41% in 2014 to 34.5% in 2019 will be undermined. While the majority of agriculture are for subsistence and local sales, small-scale export of local crops such as betel nuts are affected by air travel suspension. Lower agricultural demands from hotels and businesses and slowdown of small-scale fishing caused immediate loss of income. Low-income households spend more than half of their income on food especially in Yap and Chuuk. Disruption on food supply and likely increase in prices due to the pandemic will therefore disproportionately impact low income households. Existing pre-conditions associated with the high incidence of noncommunicable disease that accounts for 75% of all-cause mortality in FSM, increases its population’s susceptibility to severe illness and heightened mortality rate if exposed to COVID-19 infection. The potential for a COVID-19 outbreak will even be more challenging for those living in communal and informal settlements which are densely populated and have poor access to basic services, such as healthcare, and water and sanitation facilities, as well as difficulty in practicing social distancing</p> <p>2. Beneficiaries. The program will benefit a large segment of FSM’s population, including: (i) affected businesses including micro, small and medium enterprises with 50% mandatory loan allocation to women-owned businesses that have been heavily hit by the pandemic; (ii) migrant workers affected by COVID-19, low income and women-headed households and those outside of the formal economy without any alternative sources of income; and (iii) vulnerable groups such as people with disability, children and older people at risk of losing access to essential social and health services and inadequate food supply.</p> <p>3. Impact channels. Impact channels include: (i) wage subsidies, interest payment relief on business loans, social security and gross revenue rebates to affected tourism business; (ii) wage subsidies to migrant workers; (iii) concessional loans to micro, small and medium enterprises; (iv) provision of social assistance, medical waiver and cash relief to poor and low income households and vulnerable groups; (vii) grant to Nongovernmental organization (NGOs)/civil society organization (CSO) to strengthen community awareness on COVID-19 and other community-based responses; and (viii) one-off cash relief to stranded citizens in COVID-19 jurisdictions.</p> <p>4. Other social and poverty issues. The program does not directly address other social and poverty issues in FSM, including risks associated with a high incidence of noncommunicable diseases with 75% of all deaths related to noncommunicable diseases in the country.</p> <p>5. Design features. Key pro-poor design features of the government’s stimulus package include: (i) a one-time \$500 base payment per poor and low-income households with additional payment of \$500 for women-headed households or households with elderly, people with disability and dependent children; (ii) small grants of \$50,000 for NGOs/ CSOs for community-based responses to COVID-19; (iii) \$2 million worth of food production assistance, such as distribution of</p>

<p>seeds and planting materials, fishing equipment to community groups including agricultural producers and farming associations; (iv) electricity subsidy allowance amounting to \$100 cashpower card to women-headed households and households with disabled members and distribution of solar lamps for these households in the outer islands not connected to the grid; (v) medical waiver to persons with disability, elderly and gender-based violence (GBV) and sexual violence survivors; (vi) provision of items and medication for the clinical management of rape and intimate partner violence in community health centers; (vii) a one-off payment of \$1,000 per individual or \$1,500 per family for those who have been stranded abroad due to COVID-19; and (viii) \$500 one-off payment to all FSM students studying overseas affected by COVID-19. The HEALS design and monitoring framework contains target numbers of beneficiaries for each component of the program.</p>
<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <p>1. Impact channels of the policy reforms. Support from the program allows the government's stimulus package to provide income transfers to affected formal and informal workers and vulnerable groups who are at risk of heightened vulnerability from economic, social and health impacts due to COVID-19. These affected groups do not have access to immediate income replacement make them prone to negative coping mechanisms such as selling their assets and incurring debts to support their basic needs.</p> <p>2. Impacts of policy reforms on vulnerable groups. The program helps compensate for sudden losses in income that will allow large segments of the population to avoid looming risks of falling into hardship and vulnerability.</p> <p>3. Systemic changes expected from policy reforms. FSM can minimize economic contractions and losses in per capita incomes through the programs that have set in place. This will allow the country to quickly get back on track toward achieving Sustainable Development Goal Target 1.2: Reduce poverty by half according to national definitions by 2030.</p>
<p style="text-align: center;">II. PARTICIPATION AND EMPOWERING THE POOR</p>
<p>1. Participatory approaches and project activities. The stimulus packages will include community-based interventions that will facilitate consultations with community members to be led by CSOs. The involvement of state and municipalities will require community involvement in distributing assistance to beneficiaries.</p> <p>2. Civil society organizations. Government agencies such as Department of Finance and Administration, Department of Health and Social Affairs and Department of Resources and Development will work with CSOs to implement community-based COVID-19 responses through direct grants to NGOs/CSOs and food security assistance to community groups involved in agriculture and fisheries including poor and vulnerable households.</p> <p>3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input checked="" type="checkbox"/> Information gathering and sharing (M) <input checked="" type="checkbox"/> Consultation (M) <input checked="" type="checkbox"/> Collaboration (L) <input type="checkbox"/> Partnership (NA)</p> <p>4. Participation plan.</p> <p><input type="checkbox"/> Yes. <input checked="" type="checkbox"/> No. Civil society participation will be undertaken during implementation.</p>
<p style="text-align: center;">III. GENDER AND DEVELOPMENT</p> <p>Gender mainstreaming category: effective gender mainstreaming</p>
<p>A. Key issues. Women are at increased risk of infection due to their roles as frontline health workers and carers. Indirect health risks include worsening health outcomes for women and girls as a result of essential services, such as maternal and reproductive health, being deprioritized as a result of COVID-19 and women and girls not presenting to health services because of concerns of being infected by COVID-19. While the maternal mortality rate in FSM has fallen significantly, it is still relatively high (88) and this crisis may undermine the progress made to date. Socioeconomic impacts include increased poverty as a result of loss of income. Women's labor force participation is lower than men's (49.3% vs 66.1%) and women are less represented in the paid workforce and often in jobs at lower levels and with comparatively lower pay. Whilst there are no formal statistics, many women are employed in travel and tourism related industries and many women owned micro and small enterprises are already being impacted by restrictions of movement and the economic slowdown. Women-headed households (19.8%) face increased risk of poverty. Before the COVID-19 crisis, 50% of women-headed households were below the poverty line compared to 38.9% of male-headed households. COVID-19 is likely to put additional stress on women-headed households who may have a reduction of income, including from decreases in remittances, and increased caring responsibilities. Finally, existing prevalence data indicates that one in three women in FSM have experienced GBV in their lifetime and this is likely to increase.</p>
<p>B. Key actions</p> <p><input type="checkbox"/> Gender action plan <input checked="" type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure</p> <p>The program is classified 'effective gender mainstreaming.' The program includes a number of proactive gender measures to reduce key negative impacts of COVID-19 and to support women and girls' health and economic empowerment in the immediate and medium term. To support women employees and women-owned businesses, schemes include: The Tourism Mitigation Fund (TMF) stimulus cheque to support all tourism related businesses to maintain employees and pay salaries, including 418 women (out of 863 employees); the TMF debt relief to support 14 women-owned tourism businesses; and the TMF unemployed migrant workers scheme to support 43 women migrant workers in the tourism sector who have become unemployed as a result of COVID-19. In addition, loans (with competitive rates and no interest for 12 months) will be offered to micro and small enterprises, with a target of 100 women-owned enterprises. There are also a number of schemes to support vulnerable groups, including low-income households and female-headed households: The cash transfer scheme will target low income households with an additional payment for all female-headed households and households with additional caring responsibilities such as children and elderly. An electricity subsidy allowance will also be given to low-income households and all female-headed households. A food security program will provide seeds, materials and tools and will prioritize low income and female-</p>

<p>headed households. Actions to prevent and respond to GBV include procurement of necessary items for the clinical management of rape and intimate partner violence for eight health settings across all states; piloting a new GBV hotline in Pohnpei; establishing GBV referral pathways in all states; and a medical waiver for survivors of GBV on items not currently free at the point of delivery (e.g., transport to clinics, medication, physiotherapy). Women's health is further supported by ringfencing budget maternal, child and reproductive health services and investing in providing quality decentralized services so that women and girls do not need to travel to a hospital and put themselves at increased risk of COVID-19 infection (in the event that there are cases of COVID-19 in FSM in the future). Finally, the small grants scheme for COVID-19 prevention or preparedness will support women's organizations and all proposals will be assessed on gender equality criteria.</p>	
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES	
A. Involuntary Resettlement	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Key impacts. The program will not have any civil works and cause any involuntary resettlement impacts.</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other Actions.</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Combined resettlement and indigenous peoples plan</p> <p><input type="checkbox"/> Resettlement framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p>	
B. Indigenous Peoples	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Key impacts. None. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If yes, briefly describe the process and outcomes of ascertaining that such support exists.</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other actions.</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</p> <p><input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</p> <p><input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p>	

V. ADDRESSING OTHER SOCIAL RISKS	
A. Risks in the Labor Market	
<p>1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).</p> <p><input checked="" type="checkbox"/> unemployment (H) <input checked="" type="checkbox"/> underemployment (H) <input checked="" type="checkbox"/> retrenchment (H) <input checked="" type="checkbox"/> core labor standards (L)</p> <p>2. Labor market impact. The program helps reduce labor risks from unemployment (and resulting poverty) through wage subsidy assistance to affected businesses and migrant workers.</p>	
B. Affordability	
Electricity subsidies to help maintain affordability of services by women-headed households and people with disability.	
C. Communicable Diseases and Other Social Risks	
<p>1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input type="checkbox"/> Communicable diseases (NA) <input type="checkbox"/> Human trafficking (NA)</p> <p><input type="checkbox"/> Others (please specify) _____</p> <p>2. Risks to people in project area. None.</p>	
VI. MONITORING AND EVALUATION	
<p>1. Targets and indicators. Targets for all the program beneficiaries including poor households and vulnerable groups—including specific targets for women—are included in the design and monitoring framework and gender monitoring matrix.</p> <p>2. Required human resources. A program steering committee including key officials from national and state governments to provide oversight and monitoring of the implementation and distribution of social assistance, A One ADB Team with multidisciplinary expertise collaborated closely in designing the HEALS program.</p> <p>3. Information in the project administration manual. Not applicable.</p> <p>4. Monitoring tools. Government reports on beneficiaries reached by HEALS. The project steering committee will be responsible for overall reporting with inputs from key government agencies identified under the program.</p>	

^a Federated States of Micronesia (FSM). 2003. *FSM Strategic Development Plan (2004–2023)*. Palikir.

^b ADB. 2016. *Pacific Approach, 2016-2020*. Manila.

^c Government of the FSM and World Bank. 2017. *Poverty Profile of the Federated States of Micronesia*. Palikir.

^d United Nations. *FSM Human Development Indicators*. (accessed 22 June 2020).