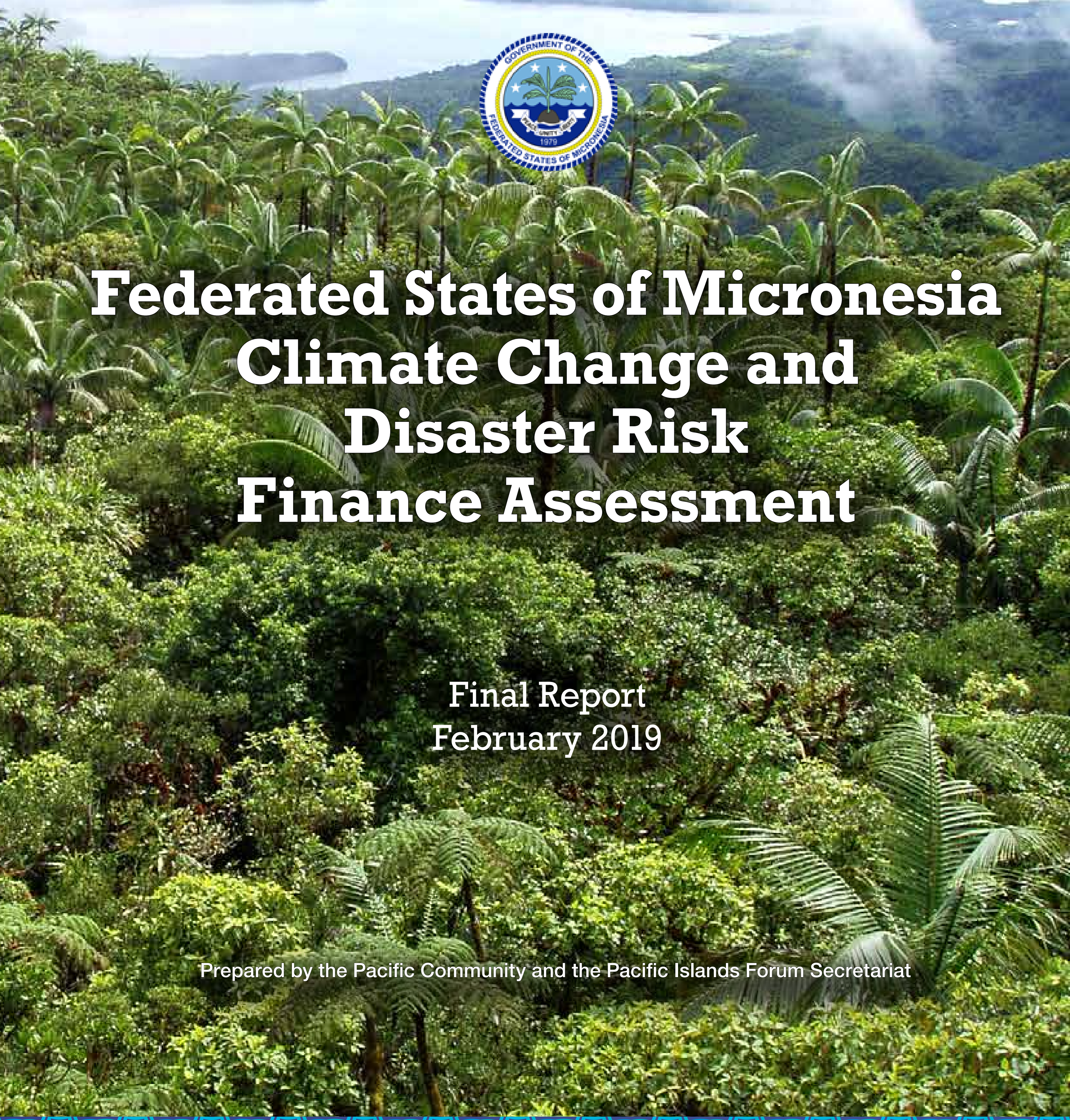

Federated States of Micronesia Climate Change and Disaster Risk Finance Assessment

Final Report
February 2019

Prepared by the Pacific Community and the Pacific Islands Forum Secretariat

PACIFIC ISLANDS FORUM SECRETARIAT
Pacific Community
Communauté du Pacifique
USAID
FROM THE AMERICAN PEOPLE

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Contents

List of Abbreviations and Acronyms

ADB	Asian Development Bank
AF	Adaptation Fund
CBO	community-based organization
CC	climate change
CCDRM	climate change and disaster risk management
COFA	Compact of Free Association
CSO	civil society organization
DECEM	Department of Environment, Climate Change and Emergency Management
DoFA	Department of Finance and Administration
DRM	disaster risk management
EDF	European Development Fund
EPA	Environmental Protection Authority
EU	European Union
FMIS	Financial Management Information System
FSM	Federated States of Micronesia
GAP	Gender Action Plan
GAAP	Generally Accepted Accounting Principles
GCF	Green Climate Fund
GEF	Global Environment Fund
GSI	gender and social inclusion
HFCs	hydrofluocarbons
IDPs	Infrastructure Development Plan
IOM	International Organization for Migration
IVA	Integrated Vulnerability Assessment
INDC	Intended Nationally Determined Contribution
JICA	Japan International Cooperation Agency
JRMN	Joint Resource Management Network
JSAP	Joint State Action Plan
MCT	Micronesia Conservation Trust
MIE	Multilateral Implementing Entity
NAP	National Adaptation Plan
NDA	National Designated Authority
NGO	non-governmental organization
NIE	National Implementing Entity
NSDP	National Strategic Development Plan
ODA	overseas development assistance
PCCFAF	Pacific Climate Change Finance Assessment Framework
PEFA	Public Expenditure and Financial Assessment
PFTAC	Pacific Financial Technical Assistance Centre
PFM	Public Financial Management
PICs	Pacific Island countries
PIFS	Pacific Islands Forum Secretariat
PIGGAREP	Pacific Islands Greenhouse Gas Abatement through Renewable Energy Program
PRC	People's Republic of China
R&D	Department of Resources and Development
RIE	Regional Implementing Entity
SDGs	Sustainable Development Goals
SIDS	small island developing states
SOEs	state-owned enterprises
SOPs	standard operating procedures
SPC	the Pacific Community
SPREP	Secretariat of the Pacific Regional Environment Programme
TNC	The Nature Conservancy
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
US	United States (of America)
USAID	United States Agency for International Development
VP	vice president
WB	World Bank

List of Figures

List of Tables

List of Boxes

Acknowledgements

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- The core team that undertook the assessment and authored this report, including: Exsley Taloiburi (Climate Change Finance Adviser, Pacific Islands Forum Secretariat, PIFS), Lisa Buggy (Climate Change Adviser, the Pacific Community (SPC)/United States Agency for International Development (USAID) Institutional Strengthening for Pacific Island Countries to Adapt to Climate Change (ISACC project), Maire Dwyer (Gender Equality Adviser, SPC North Pacific Office), and Paula Uluinaceva (Public Financial Management and Expenditure Expert, USAID Climate Ready Project). Additional input, review and support was provided by Stephen Boland and Patterson Shed from the USAID Climate Ready Project Office in Pohnpei. Other key members of the multistakeholder team who provided guidance and mentoring include Vuki Buadromo (SPC/USAID ISACC project), Dr Scott Hook (PIFS) and Noa Seru (USAID Climate Ready Project).

- Other Council of Regional Organisations in the Pacific (CROP) agencies, development partners and stakeholders who provided feedback and input into the preliminary findings and draft report, including peer review of the draft report.

Foreword

As a low-lying small island developing state, FSM is on the front line of the devastating impacts of climate change. The geographic distribution of the four states of Micronesia adds an additional challenge in response effort and costs of these impacts to lives, homes and businesses. Addressing climate change through mitigation and adaptation response efforts is not just a national responsibility but a global one and FSM is doing its part.

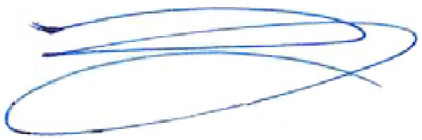
At the international level, the Government of FSM continues to strongly advocate for limiting warming to 1.5 degrees Celsius under the Paris Agreement platform. It is taking the lead in reducing not only our own emissions but emissions globally using the Montreal Protocol and its Kigali Amendment.

At the national and state level, FSM is also slowly progressing in its adaptation and mitigation actions per policy priorities outlined in our Nation Wide Integrated Disaster Risk Management and Climate Change Policy, our National Disaster Response Plan and the Joint State Action Plans. To support efforts, FSM strategically positions itself to better access and manage climate change and disaster financing. The nation is committed to making climate finance an enabler to build resilience and achieve our Nationally Determined Contributions (NDCs) goals. FSM is the fourth country globally and the first country in the Pacific to have developed and endorsed a national Green Climate Fund Country Program. It has also successfully accessed GCF Readiness Funds, project funding from the Adaptation Fund, the Global Environment Facility, as well as funding directly from bilateral partners who are supporting FSM's sustainable development agenda. Challenges remain in our ability to quickly access and secure available financing but we continue to improve on our efforts.

For completion of the FSM Climate Change and Disaster Risk Finance Assessment Report, I wish to thank the assessment team and key partners for undertaking the assessment. I thank especially the stakeholders who shared insights during consultations to form this report.

I present this report and its recommendation to support direct access to international climate finances and to further enhance donor confidence in our systems and aims to achieve our sustainable development agenda into and post-2023.

Kulo, Kalahngan, Kinisou and Kammagar,



Andrew R. Yatilman
Secretary
Department of Environment, Climate Change and Emergency Management
FSM National Government

Executive Summary

Improved access to and management of climate change and disaster risk finance is a key priority for the Government of the Federated States of Micronesia (FSM). This is critical for achieving national and individual state strategic outcomes related to disaster risk management, climate change adaptation and greenhouse gas emissions reduction in the context of resilient and sustainable development for the people of FSM. It is widely recognized that addressing climate change and weather-related disaster events is not just an *environmental* issue, but a key *development* issue for FSM.

The FSM Government has demonstrated its leadership in progressing a number of initiatives and engaging with a range of development partners and regional organizations in order to advance its national priorities. FSM is also showing leadership by encouraging greater ambition and action towards the reduction of greenhouse gas emissions, and advocating for international support for developing countries to achieve their national adaptation priorities, especially through more accessible international financing.

The FSM Climate Change and Disaster Risk Finance Assessment was guided by the Pacific Climate Change Finance Assessment Framework (PCCFAF). This framework has now been applied in nine other Pacific Island countries, and reviews FSM's climate change and disaster risk program of FSM against seven key pillars: i) policies and plans, ii) funding sources, iii) public financial management and expenditure, iv) institutions, v) human capacity, vi) gender and social inclusion, and vii) development effectiveness. For the most part, the assessment has been focused at the national level, while acknowledging that FSM presents unique circumstances within the region, given both its geographic and administrative makeup. Where possible, more specific analysis and recommendations at the state level have been included.

The assessment has identified a number of recommendations for the government, which are summarized below and discussed in detail within the report. A draft Action Plan is also included, providing timeframes and suggested responsibilities and partners for support, as assigned to each recommendation. This is intended to assist the FSM Government in the progression of these recommendations.

Policies and Planning Analysis

1. Update the National Strategic Development Plan to reflect a new context (post Compact funding in 2023) and to identify issues of national significance that are current, including cross-cutting issues such as CCDRM. Utilize the current Sustainable Development Goal (SDG) localization process to inform the basis of this plan.

2. Utilize the SDG process to identify climate change and disaster risk management (CCDRM) indicators that can enable streamlined reporting and monitoring and evaluation of national policy implementation to be undertaken.

3. Develop national mainstreaming guidelines or checklists to assist sectors / line ministries in identifying and operationalizing entry points for CCDRM.

4. Apply for Green Climate Fund (GCF) National Action Plan (NAP) readiness support to develop a more comprehensive adaptation planning process and to ensure that climate financing is being directed to this priority area.

5. Adopt a national standardized risk and vulnerability assessment framework that includes gender, social and cultural indicators, to improve consistency and comprehensiveness of identified priorities.

6. Undertake a review of the Disaster Relief Assistance Act of 1989 to ensure it provides the required and up-to-date legal obligations for disaster prevention, response, recovery and risk reduction.

7. Ensure that Joint State Action Plans (JSAPs) and the Nation Wide Integrated Policy actions are being reflected at the departmental level through their inclusion in corporate and strategic plans and with relevant budget allocations to support these actions. Furthermore, ensure JSAPs are undergoing timely review as stipulated within the individual documents so that they remain current.

Funding Source Analysis

1. Official development assistance (ODA) should host a central depository and/or database of all donor, national and state government climate change programmes and projects with the Department of Finance and Administration's Division of Investment and International Finance providing technical support.

2. Create a more formalized process for documenting and tracking climate change projects and financing across the various agencies. Utilize the Council on Climate Change and Sustainable

Development (CC&SD Council) or the new initiative bringing all financing focal points under the oversight of the Vice President.

3. The FSM national government should recommit to Petro Corp and the FSM Development Bank's pursuit of National Implementing Entity (NIE) accreditation and consider interim options (e.g. existing Regional Implementing Entities and Multilateral Implementing Entities) in the event of protracted delays with accreditation of the state-owned enterprises (SOEs).

4. In conjunction with undertaking the process of seeking accreditation, entities such as Vital (FSM Petrocorp) and FSM Development Bank should also consider developing a project pipeline ready for funding, in alignment with the FSM GCF Country Program.

5. FSM to reaffirm its position on "additionality" of climate finance (and not as a substitute for existing development assistance) and clearly identify its funding of priorities for climate change financial resources through:
    a. enabling sectors such as education, fisheries, tourism and environment;
    b. strengthening governance institutions and building capacity; and
    c. and vulnerable sectors such as health, women, youth and children.

6. The FSM Government should work with donors to develop a medium-term fiscal strategy that is anchored on securing global climate funding and is fully consistent with the 2023 Action Plan and the Infrastructure Development Plan 2025.

Public Financial Management and Expenditure Analysis

1. Assess the adequacy and appropriateness of the FSM fund accounting structure and systems, as potential vehicles for channeling global climate change funds for CCDRM through national and state governments, and non-governmental entities.

2. The endorsed 2017 Public Financial Management (PFM) Roadmap should give added emphasis to the areas highlighted, and those particularly relevant to accessing and utilizing CCDRM funding, including:
    a. budget presentation and documentation – more policy orientation to clarify the linkages of CCDRM policy to resource allocation;
    b. increased accessibility of budget documentation through the Department of Finance and Administration (DoFA) website;
    c. revise and update procurement regulations and its operational mechanisms to internationally accepted standards to generate more donor confidence in the procurement of goods, services and contracts using CCDRM funds;
    d. strengthen internal controls to ensure efficient and accountable use of funds, including updating of financial regulations;
    e. implement new financial management information system to improve data integrity and classification, and reporting standards (i.e. internally for management, in-year budget reporting for executive and Congress, and for better classification of data for policy and programming purposes).

3. Restart the PFM reform coordination mechanism to take stock of the status and progress of the PFM Roadmap deliverables. Develop and endorse a PFM reform communication strategy and a PFM reform capacity building strategy.

4. Develop a PFM Reform Implementation Strategy that is informed by the findings of the Public Expenditure and Financial Assessment (PEFA) and incorporating fiduciary requirement outlined by the Adaptation Fund (AF) and GCF for accreditation.

5. The FSM Government should seek support from the World Bank and the Pacific Financial Technical Assistance Centre (PFTAC) to undertake a Public Investment Management Assessment (PIMA) to complement the PEFA self-assessment so as to better assess FSM's ability to manage the development of public infrastructure including infrastructure challenges presented by CCDRM.

6. Undertake a Specific Disaster Financing Assessment based on lessons learned from the recent experience of Typhoon Maysak and droughts, and make recommendations on appropriate funding structures to deal with disasters in a timely and appropriate manner.

7. Conscious of the existence of the Disaster Relief Fund established under the Disaster Assistance Relief Act (1989) consider the establishment of a government-controled emergency fund that:
   a. maintains a minimum legislated level of resources sufficient to deal with disasters based on input from relevant technical offices;
   b. is sufficiently replenished after major payouts in response to an emergency; and
   c. receives annual appropriation for the maintenance of the real value and any increased vulnerability.

8. Develop and implement regulations to establish disaster-specific special funds at a declaration of emergency, specifically focused on:
   a. receiving cash donations from donors, international agencies (including insurance payouts), private sector and public contributions;
   b. being used specifically for disaster relief and accounted for separately; and
   c. requiring an independent record of disaster-related expenditures and revenues.

9. Develop simplified and harmonized disbursement procedures for state, municipal and community funds for rapid emergency response.

10. Develop and Infrastructure Development Plan that is an integral part of budget formulation, and develop a medium-term public investment plan for budgeting purposes

11. Prioritize climate change adaptation to redress current skew towards climate change mitigation.

12. Engage, coordinate and share information with government-owned commercial entities in policy development and budget formulation. Specifically, establish sector planning and coordination mechanisms with state governments, national and state-owned commercial entities and non-governmental and civil society organizations.

13. Look at the options (and support available) for replicating a similar climate finance analysis at the state government level in order to provide more clarity for each individual state.

Institutional Analysis

1. The important role of the CC&SD Council as a national coordinating mechanism needs to be re-emphasised and the reasons for its recent challenges in attendance and representation identified and addressed. Elevating the chair to the vice president may be one way to do this.

2. Utilize the National Joint Platform to include a standard CCDRM financing component or session to raise awareness on this topic (including national processes for GCF, AF and GEF) and to discuss and share lessons learned regarding ongoing challenges around managing large-scale, multi-sectoral projects. The platform could also be used as a mechanism to undertake a biennial review of the GCF Country Program.

3. Develop information management and dissemination tools within DECEM to improve and streamline the dissemination of FSM's CCDRM activities and include processes to collect and showcase information from each state on the important work taking place at the local level

4. Resourcing state governments is critical, including agencies such as state Environmental Protection Agencies. This should be made a priority in post-2023 planning, as well as in discussions with development partners, with resourcing and institutional strengthening and capacity building required focuses.

5. Resourcing subnational coordination mechanisms to ensure these are active and that they connect with national-level mechanisms is a priority. Similarly, ensuring that existing structures are utilized by new projects and programs to help to sustain and strengthen these existing structures.

6. Look for opportunities to incorporate small grants-based schemes and capacity building mechanisms for subnational organizations, including local NGOs and CSOs in larger project proposals.

7. Determine where NGOs can be further engaged in CCDRM coordination mechanisms, including the Climate Change Country Team and on the CC&SD Council, if possible

8. Explore further opportunities for private sector engagement, utilizing the FSM Chamber of Commerce's representation on the CC&SD Council

9. The current GCF/NDA team in DoFA holds important institutional knowledge and should be retained. Consideration should be given to whether this team is best placed in DECEM or DoFA, and where government resources can best be utilised to support this.

10. DoFA is recommended as a possible GCF NIE. If this is supported by the FSM Government, a GCF self-capacity assessment could be undertaken to identify priority areas to be addressed. Otherwise, consideration of a Climate Finance Unit within DoFA would be recommended, building on Recommendation 9.

Human Capacity Analysis

1. The Climate Change Division of DECEM needs to be adequately resourced so that the division can play an active role in identifying and coordinating local specialists within the government for project development and implementation.

2. Future CCDRM projects accessed by FSM must have an embedded component related to capacity development and the transfer of knowledge. This will ensure that external consultants provide an added value to government.

3. DECEM's Climate Change Division needs to work closely with the state governments to share information regarding funding opportunities in a timely manner, and provide training on understanding climate finance and proposal development.

4. There is a need for a structured arrangement between the national government and donors that provides scholarship opportunities to ensure that opportunities are aligned with the skills shortage of both the national and state governments. This could build on the outcome of the review being undertaken by the Department of Education.

5. The government's engagement with NGOs (e.g. Micronesia Conservation Trust, The Nature Conservancy, and others) should be strengthened, and their presence and experience of working with communities should be capitalized on.

6. The national government should consider including officers from the Department of Finance, Department of Research and Development, civil society and the private sector in national delegations to regional and international climate finance meetings (e.g. United Nations Framework Convention on Climate Change Conference of the Parties negotiations). Funding support for this could be sought from development partners or regional organizations.

Gender and Social Inclusion Analysis

1. DECEM and the National Designated Authority should establish focal points for gender and social inclusion (GSI), and resource their activities, which would include coordinating on best practices, developing guidelines for FSM departments and states, and identifying training needs.

2. DECEM should build knowledge through the inclusion of GSI in the Third National Communication to the UNFCCC

3. The Department of Health and Social Affairs should increase resourcing and expand the role of Social Affairs to lead gender mainstreaming in accordance with FSM's national gender policy.

4. Congress should improve the gender balance in decision-making related to CCDRM, by requiring all government advisory bodies, project steering committees and SOEs to include women, and encourage a similar standard in the states.

5. Congress should introduce mandates for the divisions of infrastructure and internal affairs to better address the needs in the outer islands, including transport, and to support states in increasing the supply of resilient dwellings.

6. The FSM Government should invite Congress to introduce a consistent approach to future resourcing of local NGOs, such as recurrent budget allocations, so they can engage more consistently in CCDRM planning and activities.

7. State governments should introduce and/or strengthen the GSI focal point to include responsibility for mainstreaming

8. CCDRM offices in the states should establish GSI focal points.

9. State governments should consider funding mechanisms that will provide core funding to key local NGOs, support their access to training, pay them for their services, showcase them and scale up their best initiatives, and include them in CCDRM delegations.

10. DECEM, through GSI and CCDRM focal points, should support the development of NGO/CBO CCDRM projects, especially in the outer islands and remote locations.

Development Effectiveness Analysis

1. There will be a growing influx of new players and non-traditional partners wanting to support FSM on CCDRM initiatives. Convening a Climate Finance Forum with the FSM Government and its partners – annually or every two years – will strengthen coordination between the national government and its donors on CCDRM efforts.

2. All CCDRM support should be communicated to the Climate Change Division and DoFA to support budget planning.

3. Having a donor-to-donor coordination mechanism will be useful reducing the duplication of effort in small-sized projects to communities or state governments.

4. Due to FSM's capacity limitations, partners and regional organizations that wish to engage with the national government should consider joint missions and approaches. Missions should not be approved during critical periods of budget planning.

5. The FSM Government could consider updating the priorities identified in the Overseas Development Assistance policy so as to reflect new and emerging priorities of the government, and to develop a strategy for after 2023.

6. There is a need to support dedicated capacity for monitoring and evaluating the effectiveness and impacts of aid, including CCDRM financing.

7. Establishing a more formalized mechanism between the national government and development partners to meet on a regular basis could be beneficial so as to better coordinate support and reporting, especially in the lead up to and after 2023.

Conclusion

The Government of FSM is taking a lead in accessing climate change and disaster risk financing from a diverse range of sources. It is progressing with a number of key initiatives to improve its access to and management of climate finance. As such, FSM has currently positioned itself well, given the expected increase in the volume of climate change and disaster risk finance flowing into the Pacific Islands region. That increase will be accompanied by additional complexity in reporting requirements and the need to coordinate different partners and players wishing to engage with Pacific Island countries. FSM will need to continue to be strategic and should not lose focus of its own national priorities and the aspirations of its citizens when engaging with partners and international agencies regarding climate funds.

The Action Plan table in the following pages can help guide FSM's efforts to improve access to climate change and disaster risk financing from external sources. These recommendations build on existing initiatives and actions already underway or being planned by the FSM government, state governments, NGOs, the private sector and development partners.

FSM Climate Change and Disaster Risk Finance Assessment – Action Plan

Recommendations	Relevant PCCFAF pillar[1,2]	Priority	2019				2020				Indicative outputs	Lead agency	Potential partners
Specific initiatives			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Update the National Strategic Development Plan to reflect a new context and identify issues of current national significance, including cross-cutting issues such as CCDRM	PP, GSI, DE	High									National Strategic Development Plan developed and adopted	CC&SD Council to lead in consultation with all national government departments and state governments	FSM Government to drive with support from ADB, UNDP, bilateral partners
Utilise the ongoing SDG process to identify CCDRM indicators, enabling M&E of national policy implementation and streamlined reporting	PP, DE	Medium									CCDRM indicators identified and adopted as part of national M&E framework	DECEM, with support from R&D	UNDP, SPC, bilateral partners
Develop national mainstreaming guidelines or checklists to assist sectors / line ministries in identifying and operationalizing entry points for CCDRM	PP, I, GSI	High									Guidelines / checklists developed and adopted	DECEM	SPREP, UNDP, SPC, bilateral partners
Apply for GCF NAP readiness support to develop a more comprehensive adaptation planning process and climate finance investment plan for adaptation	PP, FS	High									NAP Readiness support application submitted to GCF	DECEM	SPC, SPREP, UNEP
Adopt a national standardised risk and vulnerability assessment framework, which includes gender, social and cultural indicators, to improve consistency and comprehensiveness of identified priorities.	PP, I, GSI, DE	Medium									National standardized risk and vulnerability assessment framework developed and adopted	DECEM in partnership with DHSA and R&D	SPC, UNDP, USP, SPREP
Undertake a review of the Disaster Relief Assistance Act of 1989 to ensure it is providing required and up to date legal obligations for disaster prevention, response, recovery and risk reduction.	PP, I	Medium									Disaster Relief Assistance Act reviewed and updated as necessary	DECEM	SPC, USAID/IOM, bilateral partners

1 PP – Policy and Planning; I – Institutions; FS – Funding Sources; PFME – Public Financial Management and Expenditure; GSI – Gender and Social Inclusion; HC – Human Capacity; DE – Development Effectiveness

2 Definitions for abbreviations used in this table can be found in the List of Abbreviations at the beginning of this report.

Recommendations	Relevant PCCFAF pillar[1,2]	Priority	2019				2020				Indicative outputs	Lead agency	Potential partners
Specific initiatives			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Reflect JSAPs and the Nation Wide Integrated Policy actions in departmental strategic plans with relevant budget allocations.	PP, FS, PFME	High									JSAP and Nation Wide Policy actions reflected in departmental strategic plans	DECEM in partnership with all national government departments and state governments	FSM Government to drive, ADB, UNDP
Undertake timely review and update of JSAPs, as stipulated within the individual documents, so they remain current.	PP	Medium									JSAPs reviewed and updated as per stipulated timeframe	State governments	SPC, SPREP, IOM, EU
Establish central depository/ database of all donor, national and state government CC programs and projects	FS, DE	High									Central depository/ database established and populated	Office of ODA, supported by Division of Investment and International Finance, DECEM, CC&SD Council and State Governments	SPC, bilateral partners, ADB, EU
Create a formalized process for documenting and tracking CC projects and financing across all national government agencies	FS, DE	High									Formal process adopted and operationalized	CC&SD Council, supported by DoFA, ODA, Foreign Affairs and DECEM	FSM Government to drive with support from ADB, bilateral partners
Entities seeking GCF accreditation to consider the development of a project pipeline ready for funding, in alignment with the FSM GCF Country Program	FS, PP	High									Project pipelines developed	FSMDB and Vital (FSM Petrocorp), supported by NDA/ GCF Office	Bilateral partners, GCF, USAID Climate Ready
Develop a medium-term fiscal strategy, consistent with the 2023 Action Plan and Infrastructure Development Plan of 2025	FS, PFME	Medium									Medium-term fiscal strategy developed and adopted	DoFA	ADB, WB, EU Bilateral partners
Undertake assessment of FSM fund accounting structure and systems to ensure adequacy for channelling global climate change funds	PFME, FS	Medium									Assessment of FSM fund accounting structure and systems completed and recommendations made	DoFA	ADB, PFTAC, WB, EU
Prioritize PFM Roadmap activities (see full details in Chapter 4. Recommendations) relevant to accessing and utilising CCDRM funding	PFME, FS	High									CCDRM related funding activities prioritized within PFM Roadmap	DoFA	FSM Government to drive

Recommendations	Relevant PCCFAF pillar[1,2]	Priority	2019				2020				Indicative outputs	Lead agency	Potential partners
Specific initiatives			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Restart the PFM Reform Coordination mechanism to stocktake progress of the PFM Roadmap deliverables	PFME	High									PFM Reform Coordination mechanism re-established	DoFA	ADB, WB, PFTAC, EU
Develop and endorse a PFM reform communication strategy and a PFM reform capacity building strategy	PFME	Medium									PFM reform communication strategy and capacity building strategy developed and adopted	DoFA	ADB, PFTAC, WB, EU
Develop a PFM Reform Implementation Strategy	PFME	High									PFM reform implementation strategy developed	DoFA	ADB, PFTAC, WB, EU
Upgrade DoFA website to ensure timely publication of budget information including budget strategy, policies and appropriations	PFME	High									Budget information published on website in timely and accurate manner	DoFA	ADB, PFTAC, WB, EU
Complete a PIMA to complement the PEFA self-assessment	PFME	Medium									PIMA completed with recommendations	DoFA	PFTAC, WB
Undertake a specific Disaster Financing Assessment and include recommendations on appropriate funding structures to support disaster relief	PFME, FS, I	High									Disaster Financing Assessment completed with recommendations	DoFA in partnership with DECEM	WB, EU, SPC USAID/IOM, ADB
Assess the need for establishment of a government-controled Emergency Fund	PFME, FS, I	High									Emergency Fund needs assessment completed	DoFA and DECEM in consultation with state governments	FSM Government to drive
Develop and implement regulations to establish disaster-specific special funds at a declaration of emergency	PFME, FS	Medium									Regulations adopted	DoFA and DECEM in consultation with all state governments	ADB, WB, EU
Develop simplified and harmonized disbursement procedures to state, municipal and community level of funds for rapid emergency response	PFME, I, PP	Medium									Disbursement procedures developed and operationalized	DoFA and DECEM in consultation with all state governments	ADB, WB, EU

Recommendations	Relevant PCCFAF pillar[1,2]	Priority	2019				2020				Indicative outputs	Lead agency	Potential partners
Specific initiatives			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Develop a medium-term public investment plan for budgeting purposes	PFME	High									Medium-term public investment plan developed and adopted	DoFA	ADB, WB, EU, PFTAC
Establish sector planning and coordination mechanisms with state governments, national and state-owned commercial entities and NGOs/CSOs	PFME, I	Medium									Sector planning coordination mechanisms established and operational	DoFA to lead, in partnership with all national government departments, state governments and non-state partners	FSM Government to drive
Undertake climate finance analyses at the state government level, to provide clarity and decision-making support	PFME, FS	Medium									Climate finance analysis completed in four states	State governments	Bilateral partners, PIFs, EU, ADB, WB, SPC, PFTAC
Identify and address challenges of attendance at CC&SD Council meetings and possibly elevate chair to VP	I	High									Improved attendance at CC&SD meetings. VP to appointed Chair	DECEM with VP	FSM Government to drive
Include a climate finance session as a standard component of the bi-annual National Joint Platform and utilise for GCF Country Program review	I, PP	Low									Climate finance session incorporated into Joint National Platform program for 2020	DECEM	FSM to drive, with support of development partners
Develop information sharing processes within DECEM to assist with collecting and showcasing information from the States on local level CCDRM work	I	High									Information processes established	DECEM in partnership with State Governments	FSM Government to drive
Prioritise resourcing of State Governments and agencies including state-based EPAs (especially within post-2023 planning) and support institutional strengthening and capacity building initiatives for these institutions	I, HC	High									State governments effectively resourced and undergone capacity building	State governments	Bilateral partners, SPC, MCT, SPREP, UNDP, EU

Recommendations	Relevant PCCFAF pillar[1,2]	Priority	2019				2020				Indicative outputs	Lead agency	Potential partners
Specific initiatives			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Utilise existing coordination mechanisms (CCCT and JRMN) and ensure these are appropriately resourced	I, DE	Medium									Existing CCDRM coordination mechanisms supported with necessary resources	DECEM	Bilateral partners, SPC, SPREP, EU, UNDP
Build in small grants-based schemes and capacity building mechanisms for subnational organizations into larger project proposals as a standard component	I, HC	Medium									Project proposals contain small grants-based schemes and capacity building component for subnational organizations	DECEM, R&D	FSM to drive, with support of development partners
Identify where NGOs can be engaged and represented on existing CCDRM coordination mechanisms	I, DE	Medium									Opportunities for NGO engagement in CCDRM coordination mechanisms identified	DECEM	FSM Government to drive, with support from local NGOs
Assess opportunities for further private sector engagement in CCDRM, utilising the FSM Chamber of Commerce	I, DE	Low									Opportunities for private sector identified	DECEM in partnership with FSM CoC	FSM Government to drive, SPC, UNDP, PIFs
Identify where the GCF/NDA team is best placed longer term and dedicate government resources to sustaining this office/function (possibly as a Climate Finance Unit within DoFA)	I	High									GCF/NDA office is supported as a longer term government office	DoFA in partnership with DECEM	FSM Government to drive, GCF
Consider DoFA as a possible GCF NIE and undertake a GCF self-capacity assessment to identify priority gaps	I, PFME	Medium									GCF self-capacity assessment completed for DoFA	DoFA with support of GCF/NDA Office	FSM Government to drive, GCF
Ensure CC Division of DECEM is adequately resourced	HC, I	High									Organizational chart confirmed and identified positions supported by national budget	DECEM	FSM Government to drive
Embed a component related to capacity development and transfer of knowledge in all future CCDRM projects accessed by FSM	HC	High									CCDRM projects under development incorporate capacity development component	DECEM	FSM Government to drive, in partnership with all development partners

Recommendations	Relevant PCCFAF pillar[1,2]	Priority	2019				2020				Indicative outputs	Lead agency	Potential partners
Specific initiatives			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
CC Division within DECEM to work closely with state governments to share information on funding opportunities and provide training on climate finance and proposal development	HC, I	High									Information sharing process established and training opportunities identified	DECEM and state governments	PIFS, SPC, bilateral partners, EU, UNDP, MCT
Establish more structured arrangement between government and donors to ensure scholarship opportunities align to skills shortages in national and state governments	HC, DE	Medium									Formalized process established for development of donor-funded scholarships	DECEM, Office of Personnel, Foreign Affairs and State Governments	Bilateral partners including Japan, Australia, US
Strengthen engagement with NGOs and capitalize on presence within and experience of working with communities	HC, I, GSI	High									NGO engagement strengthened	DECEM	Local NGOs, MCT, TNC, state-based NGOs and CBOs
Include officers from DoFA, R&D, civil society and private sector in FSM national delegations to regional and international climate finance meetings	HC, I	Medium									FSM national delegation includes representatives from non-traditional agencies	DECEM	Bilateral partners
Establish focal points for GSI and resourcing of activities	GSI, HC, I	High									GSI focal points established and resourcing dedicated to support activities	DECEM with support of DHSA and GCF/ NDA team	SPC, bilateral partners
Inclusion of GSI in the Third National Communication	GSI, PP	High									Third National Communication developed with strong GSI component	DECEM with support from DHSA	FSM Government to drive
Resourcing committed for Social Affairs to lead gender mainstreaming in accordance with the FSM national gender policy	GSI	High									Additional resourcing committed through budget process	DHSA	FSM Government to drive

Recommendations	Relevant PCCFAF pillar[1,2]	Priority	2019				2020				Indicative outputs	Lead agency	Potential partners
Specific initiatives			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Congress to require all government advisory bodies, project steering committees and SOEs to include women and encourage a similar standard in states	GSI, I	High									Guidelines developed and adopted for inclusion of women on all advisory bodies etc	Congress with the support of DHSA	FSM Government to drive
Congress to introduce mandates for the divisions of infrastructure and internal affairs to better address needs in outer islands, including transport and support the states to increase the supply of resilient dwellings	GSI, PP	Medium									Mandates developed and adopted	Congress with divisions of infrastructure and internal affairs	FSM Government to drive
Congress to introduce a consistent approach to resourcing of local NGOs such as recurrent budget allocations enabling more consistent engagement in CCDRM planning and activities	GSI, PFME, I	Medium									Guidelines for resourcing local NGOs developed and adopted	Congress with the support of DHSA and DECEM	FSM Government to drive
States to introduce/strengthen GSI focal point within state government to include responsibility for mainstreaming	GSI	High									GSI focal points established / strengthened	State Governments with support from DHSA and DECEM	State Governments to drive, SPC, bilateral partners
Existing CCDRM offices within state governments establish GSI focal points	GSI, I	High									GSI focal points established in state-based CCDRM offices	State governments with support from DHSA and DECEM	State Governments to drive
State governments to consider funding mechanisms that will provide core funding to key local NGOs and support their access to training, provide fee for services, showcase and scale-up best initiatives and include them in delegations on CCDRM	GSI	Medium									Funding mechanisms for local NGOs established	State governments	MCT, TNC, SPC, bilateral partners
DECEM, through GSI and CCDRM focal points support the development of NGO/CBO projects, especially in the outer islands and remote locations	GSI, HC	Medium									NGO/CBO projects developed with GSI components	DECEM in partnership with DHSA	Local NGOs and CBOs, MCT, TNC, SPC

Recommendations	Relevant PCCFAF pillar[1,2]	Priority	2019				2020				Indicative outputs	Lead agency	Potential partners
Specific initiatives			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Convene a climate finance forum between the Government and its partners annually or every 2 years – could also be held in conjunction with the Joint National Platform	DE, I	Low									Climate finance forum convened	DECEM	FSM Government to drive with support from development partners
Establish donor-to-donor coordination mechanisms	DE, I	Medium									Donor-to-donor coordination mechanism established and operational	Foreign Affairs	Development partners based in FSM
Establish guidelines for partners and regional organizations that encourage joint missions where possible and stipulate mission-free periods during critical periods of budget planning	DE	High									Guidelines established and disseminated to development partners	Office of ODA in partnership with Foreign Affairs	FSM Government to drive
Update priorities identified in ODA Policy to reflect new and emerging priorities of government and develop roadmap / strategy targeted towards post-2023	DE, PP	High									ODA policy priorities updated and roadmap developed and adopted	Office of ODA in partnership with all national government departments and State Governments	UNDP, PIFS, SPC, bilateral partners
Support dedicated capacity in relevant Departments, for M&E of effectiveness and impacts of aid, including CCDRM financing	DE, HC, FS	Medium									M&E positions identified and established	Office of ODA, DECEM, FSM Personnel Office	FSM Government to drive
Establish a formalised mechanism for government and development partners to meet on a regular basis	DE	High									Formalised coordination mechanism established and first meeting conducted	Office of ODA in partnership with Foreign Affairs	FSM Government to drive with support of bilateral partners

1. Introduction

1.1 Why is This Assessment Important to the Federated States of Micronesia?

Improved access to, and management of, climate change and disaster risk finance is a key priority for the Government of the Federated States of Micronesia (FSM). This is critical for achieving national and state strategic outcomes related to disaster risk management, climate change adaptation, and greenhouse gas emissions reduction in the context of resilient and sustainable development for the people of FSM. Nevertheless, as a small island developing state (SIDS), FSM faces a number of challenges, including limited human capacity within key institutions to absorb and manage increasingly large and complex projects and the associated reporting requirements; and information sharing and coordination across a unique geographic and administrative makeup.

Despite this, the FSM Government has demonstrated its leadership in progressing a number of initiatives and engaging with a range of development partners and regional organizations in order to advance its national priorities. FSM is the first Pacific Island country (PIC) to have developed its Green Climate Fund (GCF) Country Program, and the Micronesian Conservation Trust (MCT) has already gained direct access accreditation as a Regional Implementing Entity to the GCF. National and state priorities have been defined in a number of policies and plans, including the Joint State Action Plans for Disaster Risk Management and Climate Change, and these also assist FSM with strategically engaging with its partners. This is particularly important in the context of the expiry of the United States Compact of Free Association fiscal support at the end of 2023.

This assessment will complement FSM's efforts to:

- gain clarity on its national climate change and disaster risk finance landscape;
- identify who the key partners are;
- manage and up-scale climate change and disaster risk finance;
- take stock of, update and strengthen current policies and plans, institutions and public financial management systems; and
- make informed decisions for budget planning prioritization and effective coordination.

1.2 FSM's Unique Context

The Pacific Climate Change Finance Assessment Framework (PCCFAF) was developed in 2013, as a methodology specifically tailored to consider the context and common challenges of the Pacific Islands region. Nevertheless, FSM has a unique context within the region, given both its geographic and administrative makeup. FSM is composed of four semi-autonomous island states: Yap, Chuuk, Pohnpei and Kosrae, with a total combined land area of 271 square miles.[3] FSM occupies more than one million square miles of the Pacific Ocean, extending 1,700 miles from west (Yap) to east (Kosrae), and this presents a number of logistical and administrative challenges.

Yap, at the far western end of FSM, is made up of 4 separate islands and 134 atoll islands and has a total land area of 46 square miles. Chuuk consists of 7 main islands, 24 low atoll islands, and dozens of tiny coral islands that lie outside the lagoon. The total land area of Chuuk is 49 square miles, and its lagoon is nearly 25 miles in diameter and 300 feet deep. Pohnpei's combined land area is 133 square miles, and Pohnpei Island accounts for 130 square miles, while its numerous other islands and islets make up the rest. Kosrae, which is at the far eastern end of FSM, occupies a land area of 42 square miles and is surrounded by a fringing reef with no outer islands.

FSM has three branches of government at the national level: the executive, legislative and judicial. Each state has its own distinctive cultural traditions and languages, as well as significant cultural differences. Executive power at the national level resides with the President and the Cabinet, while legislative power resides in the Congress. The judiciary is independent of the executive and the legislature. The government structure at the national level operates under the mandate of the FSM Constitution and Declaration of Rights, which is similar to the United States Bill of Rights. However, FSM's states operate under their own constitutions and the three branches of the government (executive, legislative, judicial) include governors elected to a four-year term, elected legislature, and their own state court.[4] State governments establish their own laws, which may sometimes be in conflict with laws at the national level. Government structures at the municipal level vary from state to state.. In addition, the

3 1 square mile is equivalent to 2.6 square kilometers. Imperial measurements are used as the formal measurement system within FSM.

4 In Yap, traditional leaders make up a fourth branch of government.

FSM Constitution contains requirements to recognize the integration of the traditional political system into the modern government system. In the context of climate change and the environment, most land and all nearshore marine resources are under the ambit of the individual state governments, as are health, education, roads, water and power utilities. The FSM Government oversees distant water activities (beyond 12 nautical miles), foreign affairs and immigration.

Similar to its Pacific Island neighbours, the Republic of Palau and the Republic of the Marshall Islands, FSM has signed a Compact of Free Association (COFA) with the United States (US), which provides, among other things, economic assistance, including eligibility for certain US federal programs. Renegotiations in 2003 brought about amendments to COFA provisions, most notably economic provisions. The US has committed to extending economic assistance annually to FSM for a period of 20 years. Annual mandatory financial assistance to FSM will now expire in 2023 and be replaced by a general trust fund that was established in 2003. US assistance to FSM during this time has targeted certain sectors, including health, education and infrastructure. Additional areas of special need have included private sector development, capacity building and the environment. However, it is likely that direct budget support received from the trust account interest from 2023 onwards will entail a significant reduction in what is currently being received through COFA; hence, the need for identifying supplementary financial assistance mechanisms.

Noting the challenges these issues present to FSM, this Climate Change and Disaster Risk Finance Assessment has also attempted to reflect a state-based perspective, as per consultations undertaken with representatives from Chuuk, Kosrae and Yap who travelled to Pohnpei. Furthermore, this assessment and its recommendations have taken into consideration the change in fiscal arrangements at the end of 2023, and it is envisaged that this assessment can also be utilized in the necessary planning processes that will take place prior to the end of COFA in 2023.

1.3 Scope of this Assessment

The FSM Climate Change and Disaster Risk Finance Assessment was guided by PCCFAF, and involved the review of FSM's climate change and disaster risk finance program against seven pillars: i) policies and plans, ii) funding sources, iii) public financial management and expenditure, iv) institutions, v) human capacity, vi) gender and social inclusion, and vii) development effectiveness.

FSM is the ninth PIC to undergo a climate change and disaster risk finance assessment. PCCFAF has already been applied in Nauru (2012), Republic of the Marshall Islands (2014), Tonga (2015), Solomon Islands (2016), and Palau (2017), while a complementary framework led by the United Nations Development Programme (UNDP), known as the Climate Public Expenditure and Institutional Review, was undertaken for Samoa (2012), Fiji (2014) and Vanuatu (2014).

1.4 How Information was Collected and Analyzed

This FSM assessment is based on:

- a review of available information on policies, plans, reports, budgets, studies, programs, projects, national statements and submissions, and approaches of FSM and key development partners;
- face-to-face email and phone consultations with national government officials, state government officials, bilateral and multilateral development partners, training and research institutions, private sector, and civil society groups (e.g. non-governmental organizations and community representatives); and
- consultations that were undertaken with stakeholders at the national level in Pohnpei and with key representatives from the state governments of Pohnpei, Yap, Chuuk and Kosrae who travelled to Pohnpei.

The assessment also builds on relevant findings of previous studies undertaken in FSM, including the 2016 Public Expenditure and Financial Accountability Self-Assessment, and the 2016 Rapid Vulnerability Assessment Report completed by the GCF readiness team within the Department of Finance and Administration.

A joint assessment team, comprising the Pacific Islands Forum Secretariat (PIFS), the Pacific Community (SPC)/US Agency for International Development (USAID) project Institutional Strengthening in Pacific Island Countries to Adapt to Climate Change (or ISACC), SPC's Social Development Programme and the USAID Climate Ready Project, undertook missions to FSM in January and April 2018 to gather information and consult with in-country stakeholders. The full assessment was undertaken from 29 January to 9 February 2018. Information gathered was validated, coded, analyzed, and specific reports developed by key partners on each aspect of the assessment. A follow-up mission to present and validate the preliminary findings was conducted from 16 to 20 April 2018. A list of stakeholders who were consulted is included as Appendix 1.

1.5 Principles of Ownership and Inclusive Participation

This assessment would not be effective without country ownership and inclusive participation. Ownership of the assessment report by the FSM Government is critical, and was facilitated through national workshops for representatives of government (national and state) and non-governmental stakeholders to provide input and validate the assessment's preliminary findings. Adequate opportunity was also given for stakeholders to provide feedback on the draft assessment report. To ensure that stakeholder participation extended beyond the traditional climate change and disaster management ministries and bureaus, consultations were also undertaken with civil society groups, private sector and community representatives.

1.6 Structure of this Report

The chapters in this report are structured according to PCCFAF's seven pillars. The opportunities for improvement are interlinked and are thus relevant across the different chapters.

A summary of the opportunities for improvement and recommendations are included at the beginning of this report. A general conclusion appears at the end of the report in Chapter 9.

2. Policies and Planning Analysis

2.1 FSM's International Position on Climate Change and Disaster Risk Management

FSM is a signatory to the United Nations Framework Convention on Climate Change (UNFCCC), and submitted its Second National Communication in 2016. This national communication provides a comprehensive look at the vulnerabilities and likely impacts of climate change within FSM. The Third National Communication is pending development. This will provide an opportunity to showcase FSM's recent progress on climate change-related implementation; strategic access to financing; and an increased focus on social components such as gender and social inclusion (GSI) issues (see further analysis and recommendations in Chapter 7). FSM ratified the Paris Agreement and submitted its Intended Nationally Determined Contribution in November 2015. Through this contribution, FSM commits to "unconditionally reduce by 2025 28% its GHG [greenhouse gas] emissions below emissions in year 2000" (FSM Government n.d.).

FSM is encouraging greater ambition and action towards the reduction of greenhouse gas emissions. FSM was one of the first three countries globally to ratify the Kigali Amendment to the Montreal

Protocol. With 24 states having now ratified this agreement, it has entered into force, requiring all parties to phase down hydrofluocarbons (HFCs) by more than 80% over the next 30 years. This could avoid up to 0.5⁰C of global warming by 2100. FSM has introduced a national action plan and phase-down targets for HFCs over the next 30 years. Training customs officials, industry personnel and businesses will enhance their understanding of FSM's obligations and the necessary actions to achieve these national targets. FSM, along with its neighbours Palau and the Marshall Islands, is leading the Pacific on this issue.

FSM is also a signatory to the Sendai Framework for Disaster Risk Reduction 2015–2030 and its predecessor document the Hyogo Framework for Action 2005–2015. At the regional level, FSM (as part of the Forum Leaders' meeting) has endorsed the Framework for Resilient Development in the Pacific. FSM had already taken the lead on moving towards an integrated approach towards climate change and disaster risk management, as advocated for in the Framework. This is evident in FSM's institutional arrangements for climate change and disaster risk management (CCDRM, see Chapter 5) and in the development of the 2013 Nation Wide Integrated Disaster Risk Management and Climate Change Policy and the Joint State Action Plans (JSAPs), discussed in the section below.

2.2 National CCDRM Policies and Plans

FSM has developed a relatively strong policy landscape for climate change and disaster risk management (CCDRM) at both the national and state level. Importantly, FSM is taking the lead in developing integrated policies, combining both climate change and disaster risk management issues, and working towards mainstreaming these issues across sectors. There is also a strong recognition and understanding at the national level that addressing climate change and weather-related disaster events is not just an environmental issue but a key development issue for FSM.

Figure 1 outlines some of the key policies and plans related to CCDRM that are in place at both the national and state level.

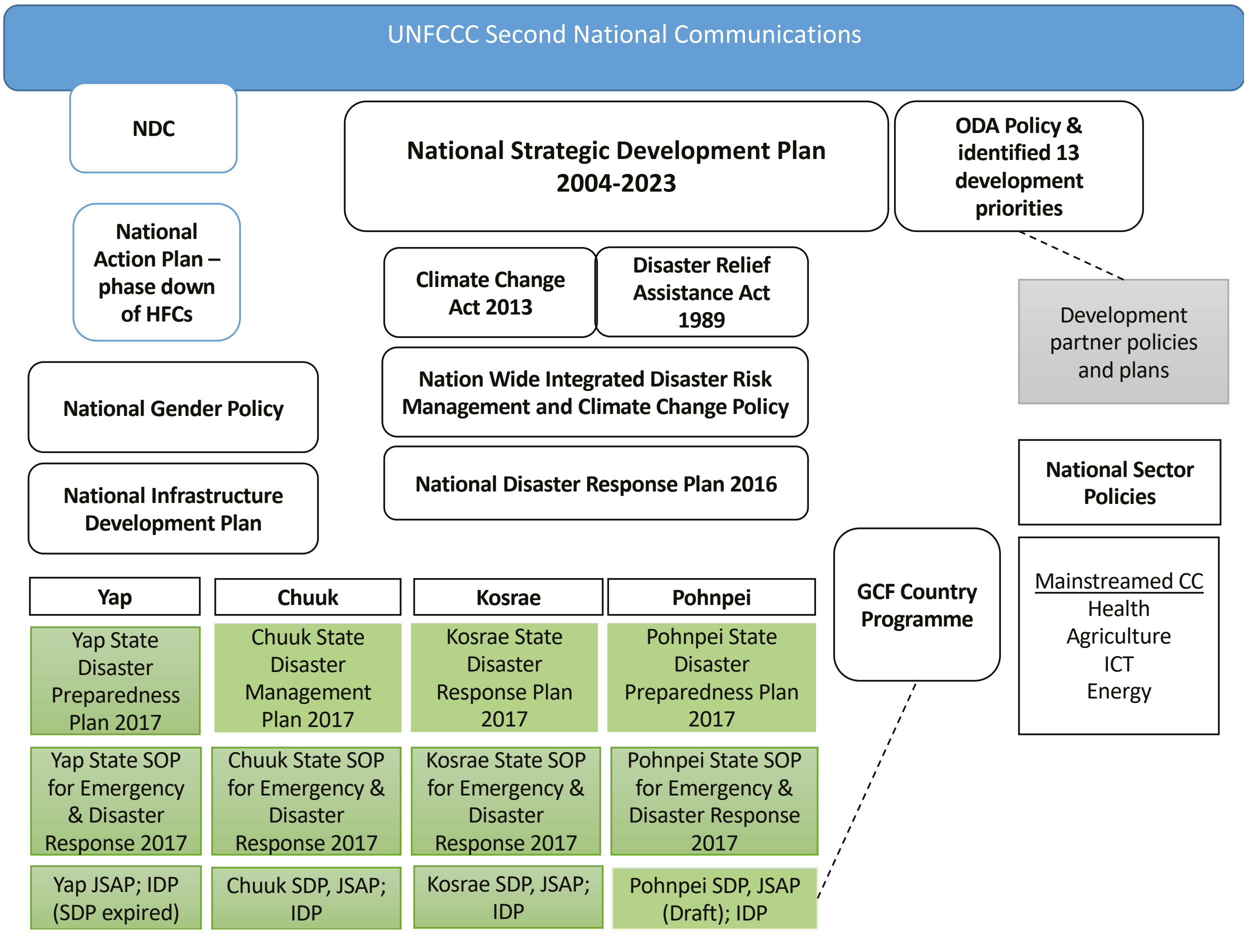


Figure 1. Federated States of Micronesia climate change disaster risk management policy landscape.[5]

2.2.1 National Strategic Development Plan 2004–2023

The development of FSM's National Strategic Development Plan (NSDP) began in 2003 and was part of the requirements for the amended COFA with the US. As such, it is a 20-year plan to ensure that all sectors in FSM are part of the financing arrangements with the US. Given the age of the plan, it is notable that Chapter 7 on the environment makes a number of references to climate change, including within the following strategic goals:

- Strategic Goal 1: To mainstream environmental considerations, including climate change, in national policy and planning as well as economic development activities (p. 287); and
- Strategic Goal 3: Reduce energy use and convert to renewable energy sources to minimize emission of greenhouse gases (p. 298).

5 Refer to the List of Abbreviations and Acronyms at the beginning of this report for definitions of acronyms used within this figure.

Strategic Goal 1 is reiterated in the Nation Wide Integrated Nation Wide Integrated Disaster Risk Management and Climate Change Policy, and mandated through the Climate Change Act 2013, as per details in the following sections. These strategic goals are supported by a number of identified activities and actions throughout Chapter 7 of FSM's NSDP, which explicitly address the issue of climate change. Natural hazards are also mentioned throughout the same chapter, but mainly in regards to preparing for and responding to "pollution emergencies".

A number of stakeholders have commented that FSM's NSDP is too broad and is somewhat outdated in terms of articulating focused and current national issues of significance. Furthermore, a number of sector policies and priority development areas have since been identified, which supersede this. Given that the current COFA funding arrangement with the US is due to end in 2023, it may be timely to update the NSDP.[6] There is currently a process underway of adapting the global Sustainable Development Goals to the FSM context (known as an SDG localization process). This is being undertaken by the FSM Government, with the support of the United Nations, through FSM's Department of Resources and Development. This work provides a key opportunity to develop a new national sustainable development plan that is more focused on current sustainable development priorities, including cross-cutting issues such as CCDRM. The process will also identify localized indicators for the SDGs. This will be an important component for a new NSDP, and will assist in streamlining reporting. Furthermore, this process can identify relevant indicators for CCDRM, which will assist with the monitoring and evaluation of the national CCDRM policy and JSAPs (see next section).

2.2.2 Nation Wide Integrated Disaster Risk Management and Climate Change Policy

The Nation Wide Integrated Disaster Risk Management and Climate Change Policy was endorsed in 2013 and forms the basis of FSM's CCDRM framework at the national level. The policy is aligned with the NSDP, and sets out a number of broad strategic outcomes and strategic objectives related to CCDRM. The overarching goal of the policy is to:

> Promote development that proactively integrates the management of disaster and climate related hazards by investing in disaster risk management, climate change adaptation and greenhouse gas emissions reduction in pursuit of a safe, resilient and sustainable future for our country.

The policy presents a broad basis for guiding FSM's national CCDRM priority focus areas, including the goals and objectives to be achieved. It does not, however, include any specific action plan for achieving the stated objectives, or any associated costings. More specific and tangible actions are presented in a number of other policies and plans that are aligned with this document, including state-level policies such as each state's disaster management plan and JSAP. This reflects the unique context of FSM, with the implementation of relevant activities being undertaken largely at the state level and by state-based actors. The Nation Wide Integrated Policy does provide an overview of the institutional arrangements for implementing the policy, highlighting the cross-cutting nature of disaster and climate risk management, and the role of national and subnational government organizations as well as non-state actors. Nevertheless, without any monitoring and evaluation framework, including indicators, measuring the implementation progress of this policy is currently a challenge, with implications for reporting achievements at the international level.

6 This recommendation has been added to the Action Plan, with a suggestion to be led by the CC&SD Council. It should also be noted that the lack of a central planning agency presents a challenge for FSM in this regard.

2.2.3 National Disaster Response Plan 2016

The 2016 National Disaster Response Plan provides a comprehensive plan for FSM for disaster risk management. It was updated in 2016, as part of a systematic process to ensure that a current and comprehensive disaster risk management policy and planning framework for FSM was in place. As such, all state-based plans and standard operating procedures have also been updated in order to be in line with this plan (discussed in section 2.5). Specifically, the National Disaster Response Plan outlines the institutional arrangements for responding to emergency and disaster events within the country, as well as the operational procedures. It takes a holistic approach, outlining the roles of all relevant actors, at all levels, from national through to the local or municipal level. The plan is based on a model of disaster management being everyone's business, and with a focus on creating capacity for self-help, as detailed in the model below. The plan has a required review period of five years.

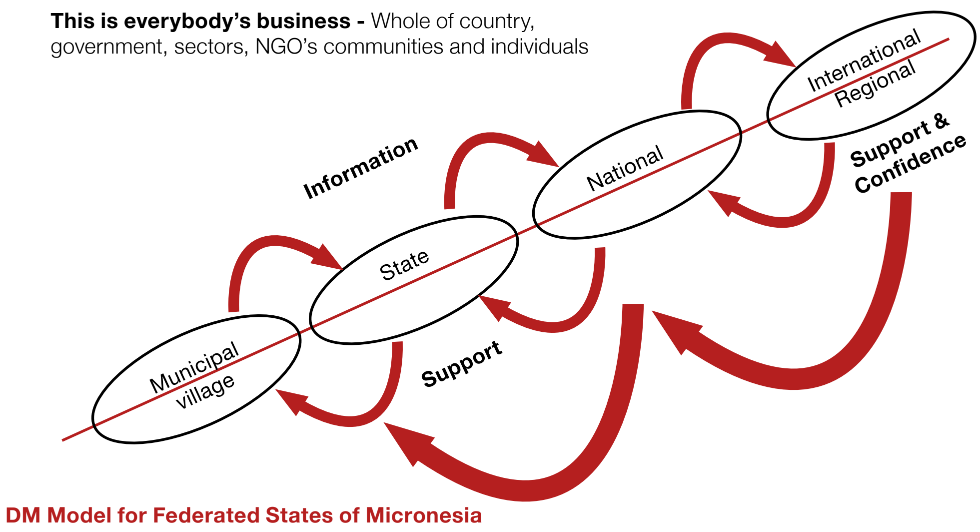


Figure 2. The Federated States of Micronesia disaster management model.[7]
Source: FSM Government 2016

2.2.4 Current policy gaps

While the Nation Wide Integrated Policy outlines five broad strategic objectives related to climate change adaptation, FSM's current national policy framework presents a gap in terms of articulating key national adaptation priorities. Nevertheless, FSM is looking at commencing the process to develop a National Adaptation Plan (NAP). This would assist in the identification of medium and long-term adaptation needs, as well as strategies and programmes to address these. This would also provide a key component of informing a comprehensive climate financing strategy for FSM, given current impacts of climate change on small island nations. Having an NAP in place may also help to address the current imbalance of external financing, with a majority of this going towards mitigation activities (see Chapter 3).

7 Refer to the List of Abbreviations and Acronyms at the beginning of this report for definitions of acronyms used within this figure.

Accessing the dedicated NAP support facility from the Green Climate Fund (GCF) provides an opportunity for FSM to apply for up to USD 3 million in funding to develop an NAP. Given that FSM has existing JSAPs, a national adaptation process should build from these and not duplicate the work already done in developing these plans. It should also be noted that this is more than just a stand-alone national plan, and should incorporate a systematic approach to adaptation planning at all levels. A key component of this should include identifying priority areas of vulnerability, as well as existing adaptive capacity. Given that most risk and vulnerability assessments are currently being undertaken within specific projects, FSM may want to also consider, as part of the NAP process, developing a national integrated vulnerability assessment framework. This could help standardize the process and create consistency in reporting. The inclusion of gender, social and cultural indicators within this would also be recommended. The Micronesia Conservation Trust (MCT) and The Nature Conservancy (TNC) have developed a climate change toolkit offering a standardized methodology for addressing vulnerability and adaptation participatory assessment research and planning, which could be utilized as the basis for a set of guidelines adopted by the national and state governments. Similarly, a regional Integrated Vulnerability Assessment (IVA) framework has been developed by the University of the South Pacific. This IVA framework is currently being utilized by a number of PICs (including Fiji, Kiribati and Vanuatu) to develop a locally contextualized vulnerability and adaptation database that would collate data collected from various projects. The IVA also presents a flexible assessment framework that can be used as a standardized tool by projects and partners to continually feed into a national database.

2.2.5 Climate finance planning

FSM is thinking strategically about its climate finance planning, which is identified as a key strategic objective for the enabling environment in the Nation Wide Integrated Policy. The undertaking of this assessment is a key component of this. The National Designated Authority/GCF readiness team (within the Department of Finance and Administration) has been providing strategic support to the national government (see further discussion in Chapter 5). The 2016 Rapid Vulnerability Assessment Report undertaken by the GCF team identified a number of recommendations that are supported and built on by this finance assessment. Of note, FSM is the first country within the Pacific Islands region (and only the fourth country globally) to develop a comprehensive GCF Country Program, which was endorsed by the President in early 2018. The priority projects identified in this Country Program are aligned with existing Infrastructure Development Plans and JSAPs, building on bottom-up consultations on key areas of priority for communities and states. The GCF Country Program identifies a number of project and program priorities that now form the basis for national engagement with the GCF, accredited entities, and other climate financing institutions and partners. Project development workshops, building on the identified priorities within the GCF Country Program have been undertaken in each FSM state, with 9 of the 13 identified projects being state-based.

2.3 National Legislation for CCDRM

Climate legislation is becoming more common throughout the region and FSM was one of the first countries to introduce climate change legislation at the national level. The national Climate Change Act 2013 (Public Law 18-34) outlines the legal obligations for implementing the provisions of the Nation Wide Integrated Policy across agencies, including the role of the mandated coordinating body, the Department of Environment, Climate Change and Emergency Management (DECEM, formerly the Office of Environment and Emergency Management, or OEEM). More on these institutional arrangements is provided in Chapter 5. Despite being otherwise fairly brief, FSM's Climate Change Act does mandate mainstreaming of climate change into other sectors. This is an important legal component, and is key to ensuring consistent cross-sectoral recognition and action to address climate change and its impacts.

DECEM is mandated to report on the progress of this sectoral mainstreaming on an annual basis. A first report was provided to Congress in 2013 and a number of gaps and challenges highlighted within this are still relevant. Based on consultations with DECEM representatives as part of this assessment, climate change has currently been mainstreamed into agriculture, energy, ICT and health policies to date. No further reports have been provided to Congress since 2013.

The Disaster Relief Assistance Act of 1989 is the legislation currently covering the disaster management component. Given the age of this legislation, and with the recent establishment of DECEM, it would be timely to review and update this Act. Updated legislation should reflect the current thinking around disaster management, as reflected in the Sendai Framework at the international level, including all components of preparedness, response, recovery and risk reduction. As FSM has moved towards shared responsibility of disaster management and climate change, this mandate across DECEM and other agencies should also be reflected. Updated legislation should also provide the legal mandate for enforcement mechanisms that are in place, such as standard operating procedures (SOPs) for emergency and disaster response at the national and state level.

2.4 Mainstreaming CCDRM into Sectoral Policies and Plans

Energy, ICT, health and agriculture are the current sectors where climate change issues have started to be mainstreamed at the national level. The 2010 Energy Policy and its associated action plan make only limited reference to climate change. However, the premise of the policy is for increasing renewable energy, energy conservation and efficiency, which align with overarching climate change mitigation goals. An energy master plan has recently been completed with the support of the Asian Development Bank, which should build on this previous policy as well as FSM's nationally determined contribution. Given the large focus on energy within FSM's external financing, it will be important to review the current areas of focus and external support and ensure the new master plan articulates short, medium and longer-term priorities and with more emphasis on climate change and disaster risk management issues, including climate-proofing energy infrastructure.

The Federated States of Micronesia Agriculture Policy 2012–2016 makes a number of references to climate change and the impacts on the agriculture sector, as well as including a specific development outcome that focuses on enhancing environmental services and sector resilience to natural disasters and climate change. This policy is now due to be updated, which presents a key opportunity for looking at the challenges, lessons and areas for improvement, in terms of mainstreaming cross-cutting issues such as CCDRM into the sector. This process could also provide input into the development of national mainstreaming guidelines to support other sectors in the mainstreaming process (see below). For example, the National Tourism Policy 2015 makes only limited mention of climate change as a key threat to the tourism industry. As a key industry for both contribution to and impact from climate change, more detailed exploration of climate change as an issue for tourism – and identifying policy objectives and tangible actions to be undertaken within the sector – is needed.

Unique to the Pacific Islands region, FSM has developed a National Climate Change and Health Action Plan. Developed in 2012, with support from the World Health Organization, this action plan details climate-sensitive health risks in FSM, along with related climate change and health needs and adaptation strategies. While being quite comprehensive, it is unclear whether any progress-reporting has been undertaken on this plan since its development. Furthermore, there did not seem to be broad knowledge of this plan, even within the Department of Health. It should be noted that the assessment team did not consult with the representative from the Environmental Health Division, whom it is believed is the focal point for this action plan. The document also indicates updating on an annual basis, although there is no evidence that this is occurring.

Finally, the Department of Transport, Communication and Infrastructure has developed a Climate Adaptation Guide for Infrastructure; however, a copy of this was not provided to the assessment team for review. Feedback provided during the assessment indicated that there was little consultation on this guide and that it needs much improvement (e.g. the inclusion of climate proofing requirements). It would also be of benefit for any climate proofing codes to also be applicable to private buildings, given that part of climate change and disaster costs that FSM will incur may also come from impacts on private buildings.

The above brief analysis highlights some of the key challenges with regards to mainstreaming. Mainstreaming is not just about the development of a policy or the inclusion of climate change-related wording within an existing policy or action plan. Effective mainstreaming can be quite challenging and requires a number of components to be achieved. Figure 3 depicts one possible way to conceptualize mainstreaming and the necessary building blocks. Given the importance of this process – and that this is a legal requirement at the national level – the development of national mainstreaming guidelines (or checklists) may assist in supporting sectors and relevant line ministries to identify entry points and how best to operationalize the different mainstreaming building blocks. This set of guidelines could also provide indicators for DECEM in tracking mainstreaming progress. Consideration should also be given to how gender and social inclusion components could also be included within this. Furthermore, greater communication and awareness of climate change issues, through the promotion of reports such as this finance assessment, as well as other mechanisms recommended in this report, may also help to build increasing political will to drive effective mainstreaming.

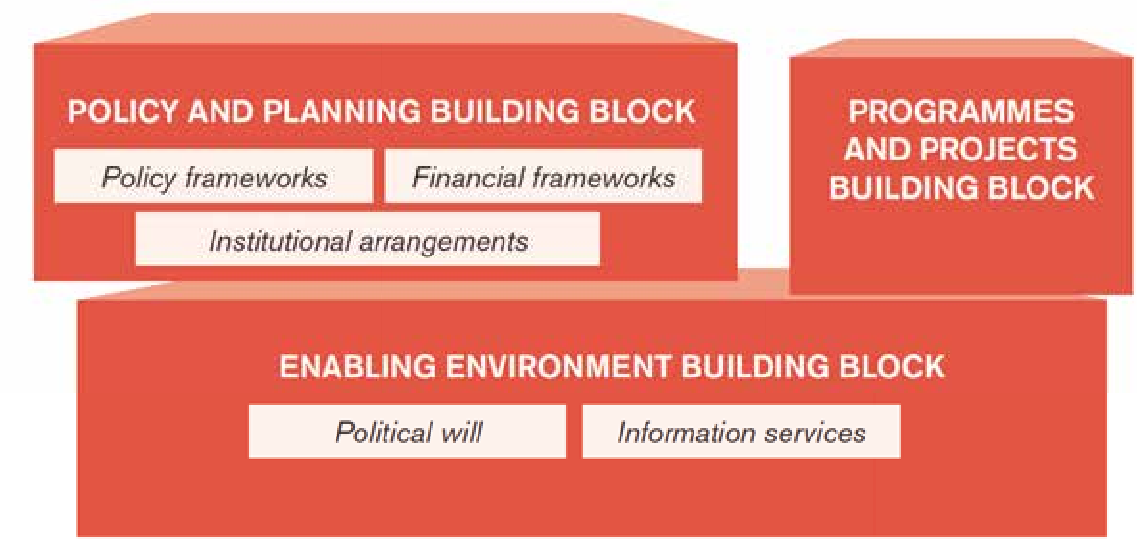


Figure 3. Building blocks for climate change mainstreaming.
Source: Pervin et al. 2013

2.5 State-based Policies and Planning for CCDRM

FSM's four states play an integral role in the implementation of climate change and disaster risk activities in the country, and a comprehensive set of state-based policies has been developed to support this work. While every effort has been made to accurately reflect the current policy and planning landscape at the state level, the assessment team was not able to travel to Chuuk, Kosrae or Yap to undertake in-depth consultations. Furthermore, while this section provides a general analysis relevant to all states, it is also noted that the context is different within each state.

Table 1 provides an overview of the key CCDRM-related policies and plans currently in place in each state.

Table 1. State-based climate change and disaster risk management policies and plans.

	Sustainable Development Plan	Infrastructure Development Plan	Joint State Action Plan	Disaster Management Plan and SOP	Other
Yap	X (Currently using national SDP)	√	√	√	Economic Development Plan
Kosrae	√	√	√	√	State land-use plan Legislation requiring climate proofing
Pohnpei	√	√	√	√	
Chuuk	√	√	√	√	

State-based JSAPs provide comprehensive documents at the state level to guide CCDRM activities and priorities. These have also fed into project prioritization for the GCF Country Program. Each state JSAP includes a detailed activity matrix broken down by sector, along with costing estimates for the identified priority actions. Each JSAP also details a monitoring and evaluation process that includes reporting on a quarterly basis in alignment with the budget process. However, it is unclear whether this quarterly reporting is being undertaken. No monitoring and evaluation reports were received by the assessment team and some states have only recently endorsed their JSAP. Furthermore, none of the JSAPs currently have a defined monitoring and evaluation framework, including measurable indicators. The JSAPs were developed through a consultative process and they detail the linkages to other policies and plans at both the state and national level.

A key intention highlighted in the JSAPs is that the issues related to CCDRM, as detailed in the priority actions of the JSAPs, also need to be formally mainstreamed and incorporated into state and national sustainable development strategies, sectoral and corporate plans, and budgets. This is an important recognition but it also presents a key challenge in terms of effectively operationalizing these plans. The analysis of mainstreaming presented in the previous section can also be applied at the state level.

With the support of partners, the states have also undertaken recent updates to all state-based disaster policies and plans. All four states now have an updated State Disaster Response and Preparedness Plan, aligned with the 2016 National Disaster Response Plan. Furthermore, standard operating procedures for emergency and disaster response are in place for each state. Work is also currently being undertaken to develop a standard template for community-based disaster management plans, which will help with community response planning.

In the post-2023 context, and with the existing compact funding arrangements coming to an end, there may be an opportunity for states to be more flexible in determining their priority areas for budgeting. As such, the current CCDRM policy and planning frameworks provide a basis for thinking strategically about directing future domestic and external finance to these priority actions, and should be utilized to inform state-based budgeting processes.

2.6 Policy and Planning Challenges

Clear articulation of a country's CCDRM priorities will strengthen the ability to develop effective projects and programs and to better direct limited resources. FSM has made significant progress in developing a comprehensive policy landscape at both the national and state level. Nevertheless, ensuring effective implementation of these policies is often the greater challenge, especially for small island developing states (SIDS) facing issues of human capacity and staff shortages within key government departments. This challenge was reiterated by one assessment participant who noted the issue of keeping policies and plans "alive" and not just ending up as another report on a shelf.

At the domestic level, this requires operationalizing these policies by ensuring priority actions are reflected in departmental strategic plans of relevant agencies, as well as in agency budgets. However, it is also recognized that while states are currently supporting CCDRM initiatives, the estimated costings for required actions far outweigh current domestic budgets. As such, the importance of mainstreaming and creating a cohesive CCDRM policy narrative throughout all sectors – and linking this with FSM's articulated Overseas Development Assistance priorities – is also key for FSM, moving into a post-2023 context. Further development effectiveness recommendations are provided in Chapter 8. Furthermore, ensuring the timely review and updating of JSAPs will also be necessary to ensure these remain current and that priority actions are supported, both by state government agencies and relevant development partners.

2.7 Recommendations

FSM has established a comprehensive policy framework at both the national and state level with regards to climate change and disaster risk management. The following recommendations build on those also identified in the Rapid Vulnerability Assessment Report compiled by the FSM GCF readiness team, and intend to support the effective implementation of already well-defined priority actions.

1. Update the National Strategic Development Plan to reflect a new context (post Compact funding in 2023) and to identify issues of national significance that are current, including cross-cutting issues such as CCDRM. Utilize the current SDG localization process to inform the basis of this plan.

2. Utilize the SDG process to identify CCDRM indicators that can enable streamlined reporting and monitoring and evaluation of national policy implementation to be undertaken.

3. Develop national mainstreaming guidelines or checklists to assist sectors and line ministries in identifying and operationalizing entry points for CCDRM.

4. Apply for GCF NAP readiness support to develop a more comprehensive adaptation planning process and to ensure that climate financing is being directed to this priority area.

5. Adopt a national standardized risk and vulnerability assessment framework that includes gender, social and cultural indicators, to improve consistency and comprehensiveness of identified priorities.

6. Undertake a review of the Disaster Relief Assistance Act of 1989 to ensure it provides the required and up-to-date legal obligations for disaster prevention, response, recovery and risk reduction.

7. Ensure JSAPs and the Nation Wide Integrated Policy actions are being reflected at the departmental level through their inclusion in corporate and strategic plans and with relevant budget allocations to support these actions. Furthermore, ensure JSAPs are undergoing timely review as stipulated within the individual documents so that they remain current.

3. Funding Source Analysis

3.1 Introduction

Improved access to finance is critical to FSM's ability to adapt to the adverse impacts of climate change and disasters. Although positive progress has been taken in terms of FSM's access to international climate change and disaster risk finance, many challenges still remain, some of which are attributed to the global funding architecture, the complexity of which presents significant challenges to SIDS such as FSM.

This chapter will assess the progress that FSM has made in accessing the variety of funding options available to address CCDRM issues. In FSM, as in the rest of the Pacific, little distinction is made between development and CCDRM because these two are seen as inextricably linked; therefore, the review will take a broad perspective to the available funding sources.

3.2 Scope and Definition of CCDRM and Analysis Methodology

What exactly constitutes "climate finance" remains to be clarified and accepted as an internationally agreed on definition. Generally, the term is understood to mean funding for activities that reduce the current level of greenhouse gas emissions to the atmosphere (mitigation) and for activities that increase the resilience of communities, economies and ecosystems to the impacts of climate change (adaptation). See Box 1.

Box 1. Definitions from the Pacific Climate Change Portal

Climate change mitigation: Efforts to reduce the levels of greenhouse gases in the atmosphere, either by limiting the sources or by enhancing the sinks. Examples include using fossil fuels more efficiently, switching to renewable energy sources such as solar energy and hydropower, and expanding forests and other sinks to remove greater amounts of carbon dioxide from the atmosphere.

Climate change adaptation: Making changes in order to reduce the vulnerability of a community, society or system to the negative effects of climate change or make the most of potential positive effects. It includes building skills and knowledge as well as making practical changes such as strengthening coastal infrastructure, adjusting farming systems, and improving water management.

Disaster risk management: The systematic process of using policies, plans, organizations, and operational skills, capacities and actions to lessen the adverse impacts of hazards, as well as the possibility of a disaster.

Source: SPREP 2018

In practice many of the activities designed to address climate change are not being undertaken specifically for that purpose, but in fact serve other primary policy objectives, which also generate secondary benefits that address climate change mitigation or adaptation issues simultaneously. In these cases, differentiating between "climate change finance" and finance for activities that have a secondary climate change benefit can be somewhat arbitrary, and different donors and recipients have tended to take different approaches; in other words, there is no uniform method that defines exactly what kind of funded activities constitute "climate change and disaster risk finance".

In FSM, the terms "disaster risk management" and "disaster risk reduction" are relatively defined, whereby most disaster funding has been generally defined as management through the provision of relief and reconstruction assistance following Typhoon Maysak in 2015.

3.3 External Sources of Funding for FSM for CCDRM Projects

The US is the main source of bilateral financing to FSM given the strong historical links between the two countries. The US provides funding through a range of channels, most notably through the Compact of Free Association (COFA). Significant funding, however, is also available through FSM's access to federal grants from the US Government, and assistance provided by the US Agency for International Development (USAID) and its executing and/or implementing agencies. There are two federal grants directly related to CCDRM: the Federal Emergency Management Agency (FEMA) and the National Weather Service (NWS). FEMA assistance is currently being provided through USAID but post-2023 disaster assistance will only be accessible through USAID's Office of Foreign Disaster Assistance, like any other foreign country. Meanwhile it is anticipated that NWS assistance will continue.

The Government of Japan is another major bilateral partner to FSM, in view of its historical links and geographical proximity. Japan provides support both through its bilateral programs such as the grassroots grant from the embassy, larger-scale infrastructure grants, technical cooperation implemented by the Japan International Cooperation Agency (JICA), and regional programs through multilateral agencies such as the Asian Development Bank (ADB) and regional bodies such as the Secretariat of the Pacific Regional Environment Programme (SPREP) and PIFS.

Other major partners include the European Union (EU) through its European Development Fund, which is a significant source of climate change financing, with major projects in renewable energy, improved water catchment, and disaster risk reduction measures. The World Bank (WB), ADB and the United Nations Development Programme (UNDP) are other major multilateral sources of funding to FSM. These partners' interventions are guided by their respective country partnership strategies with FSM, with each having its specific areas of focus covering a wider scope beyond just CCDRM according to their comparative advantages and preferred modalities. ADB, EU, UNDP and WB are all accredited, multilateral implementing entities of financing mechanisms, including GCF and the Adaptation Fund.

The People's Republic of China (PRC) is becoming increasingly influential in FSM and while the PRC is a significant donor, its climate change-related assistance is mostly confined to responses to recent natural disasters. The Australian Government – through its Department of Foreign Affairs and Trade (DFAT) – is another major source of bilateral climate change finance assistance. PRC provides its funding assistance directly, whereas Australia provides most of its funding assistance through regional and subregional programs executed by ADB and regional agencies.

The three major regional organizations that undertake work in climate change financing are PIFS, SPREP, and the Pacific Community (SPC). These organizations are not strictly funding sources, but play an important role in channelling global climate change finance to FSM from (usually) bilateral and multilateral sources. For example, Germany's aid agency program is often implemented in partnership with regional implementing entities or other contracted organizations. SPREP has Regional Implementing Entity status with the GCF and Adaptation Fund, and is implementing the UNDP and DFAT-funded Pacific Adaptation to Climate Change project (previously, the Pacific Islands Green House Gas Abatement through Renewable Energy Project). SPC provides assistance under the EU's Global Climate Change Alliance, and is in the process of applying for GCF accreditation. It is also a delivery partner for FSM's GCF readiness support.

In discussing external sources of funding, it is also pertinent to discuss potential implications on the fiscal gap expected from the post-2023 Compact scenario, where an annual financing gap of about USD 41 million, or 35–45% of current national government expenditure levels, is anticipated. External funding sources, especially the increasing level of global climate funds being pledged by and made available from donors will have a central place in the discussion of FSM's future development and its financing requirements.

3.4 How Much Funding has been Accessed by FSM?

For this report's purpose, the assessment collated information for the years 2011–2018 for all projects that were considered to have been directly (fully) or to some extent (using the PCCFAF assessment's weighted index) addressing CCDRM issues. For this section, the report uses mostly data collected from donor sources, and from executing and implementing agencies that were or are directly engaged at the project level.8 Data collected from the government is used for cross-referencing only. It captures the estimated value of each project identified through the various sources as being completed (or implemented to some extent) within the eight-year (2011–2018) time frame. Each project value was then ascribed the CCDRM-weighted index assessed, as appropriate, given the project's objectives and description of activities (see Table 2). Appendix 2 contains a detailed outline of the CCDRM-weighted methodology and assumptions while Table 2 gives a brief summary of the weighting categories and rationale.

Table 2. Pacific Climate Change Finance Assessment Framework weighting index.

Relevance	Rationale
High – 80%	Clear primary objective of delivering specific outcomes that improve climate resilience or contribute to mitigation
Medium – 50%	Either secondary objectives related to climate resilience or contributing to mitigation, or mixed programs with a range of activities that are not easily separated but include some that promote climate resilience and mitigation
Low – 20%	Activities that display attributes where indirect mitigation and adaptation benefits may arise
Marginal – 5%	Activities that have only very indirect or theoretical links to climate resilience.

Profile features were also added to the matrix of projects based on the information collated and methodology applied. The primary objective of the analysis was to identify the variety of funding sources FSM has accessed in order to address its CCDRM objectives, and the approximate amount of these sources that directly address CCDRM. The analysis also seeks to identify the extent to which this assistance is captured in FSM's national budget and financial system. Furthermore, it allowed the assessment to highlight the key underlying features of the assessed projects.

Annex 3 contains the project list that was profiled according to the key attributes used for this assessment.

8 Where possible, cross-referencing of data with the government were done only with ministries that had access to information in their records. There was no central depository of information, which should normally capture all or most sources of funding data.

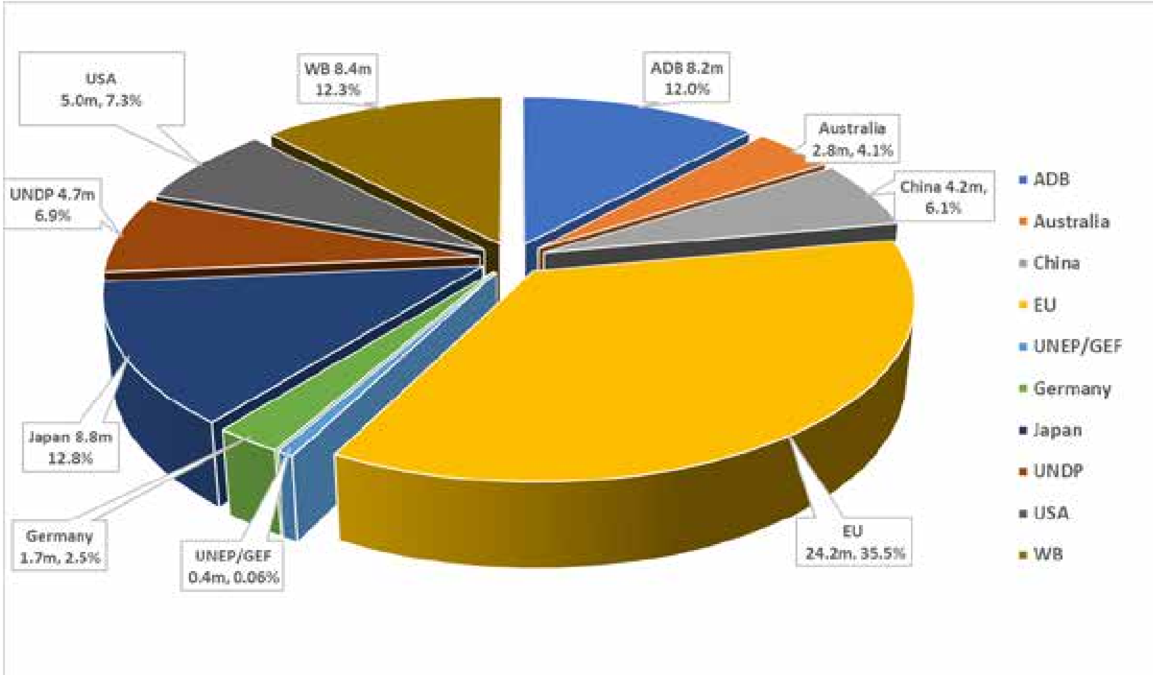


Figure 4. Donor composition of total sources of climate change, disaster risk management funding - weighted 2011 – current (amounts in USD millions).

The EU is the biggest external source of funding for FSM at USD 24.2 million or 36% of total sources. This is mainly due to its substantial interventions in the last 5 to 10 years in the renewable energy sector. WB, ADB and the Government of Japan are the next biggest funding sources because of their substantive investments in FSM utility infrastructure in the specific sectors of energy, transport, water and sanitation and telecommunications. UNDP, US, China and Australia follow.

3.4.1 Amount of funding accessed by donor-type sources – bilateral vs multilateral

The main sources of funding came from bilateral (67%) and multilateral (33%) sources. With more resources being pledged, committed and channelled through multilateral sources at the global level, countries such as FSM will be keen to increase their access to these additional sources. This is also the case for other countries in the region whereby bilateral sources tend to dominate a country's funding sources, mainly due to longstanding relationships with and the presence of these bilateral sources. However, more effort will be required by FSM to increase its access to these additional or new multilateral sources, especially to address its institutional and technical capacity constraints. There are more opportunities for accessing "additionality" of funding from multilateral sources for climate change funds than it is with bilateral sources, especially given the looming expiration of the major source of bilateral funding (i.e. COFA) in the near future.

It is worth noting that of the total CCDRM-weighted funding sources, meagre amounts (0.4%) had activities related to capacity building and technical support for policy development. Policy development, budget and planning is a particularly weak point in the US freely associated states, and is a common objection of multilaterals in their engagement with these countries. This is often manifested in low implementation performance whereby, for instance, bottlenecks in the budget and procurement point back to bad planning and coordination.

3.4.2 Breakdown between adaptation, mitigation, disaster risk reduction and disaster risk management

From 2011 until now, the composition of CCDRM funding accessed by FSM has been largely for mitigation (56.5%), followed by adaptation (27.7%), disaster risk management (10%) and disaster risk reduction (5.8%). In the Pacific Islands region, this composition is unique to FSM, with climate change mitigation accounting for the majority of funding, due to the extensive renewable energy projects that have been undertaken in the last eight years. This composition is not in line with the expectations of SIDS, which advocate that the key priority is adaptation (because of the fact that they are already experiencing the impacts of climate change) rather than mitigation (because their contributions to global greenhouse gas emissions are negligible).

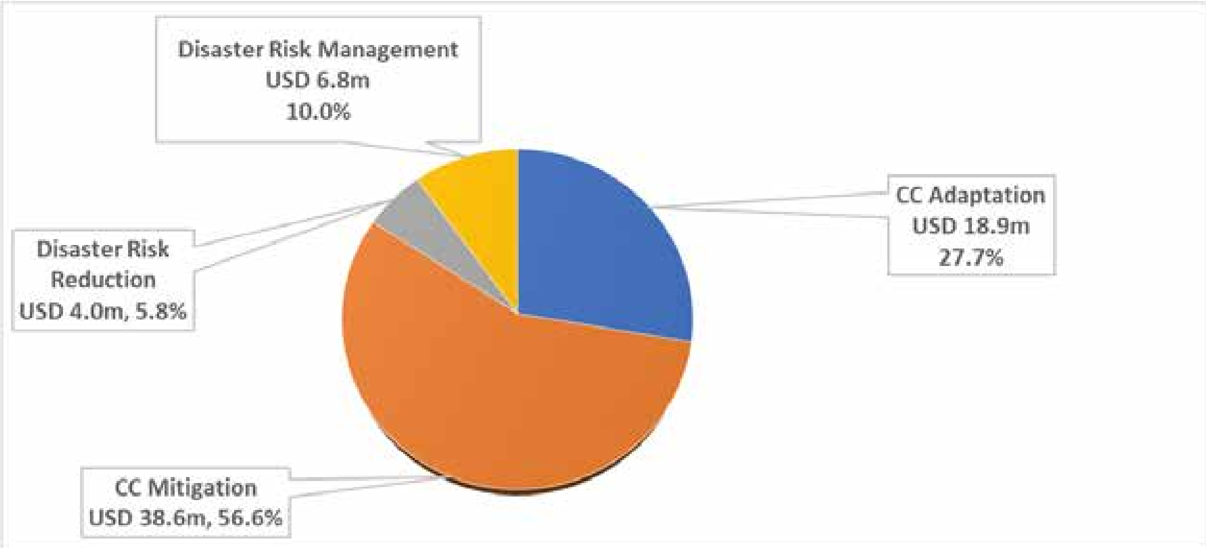


Figure 5. Climate change and disaster risk management (CCDRM) funding composition (weighted).

3.4.3 Sectoral distribution

Overall, the sectoral distribution of the total estimated funding sources for the years 2011–2018 was dominated by programmes in the utility infrastructure-related sectors (including renewable energy, non-renewable energy, aviation and maritime transport, and water and sanitation), totalling 62.5%, followed by the combined CCDRM projects (29.7%). The balance of funding was directed towards projects with a multisector focus (3.7%), environment (1%), and other sectors (see Fig. 3). In this sectoral classification, it is interesting to note that the social sector and institutional or governance sectors have received very marginal support from the funding sources collated. Even after considering the error margin of omissions and overlaps inherent in the methodology used in this analysis, the relative lack of access to funding by the "soft" sectors – economic governance (0.4%), education (0.1%) and gender and social inclusion (0.01%) – is obvious, and indicates a low emphasis on these assessed projects on activities that build social infrastructure and service delivery, good governance and institutional capacity.

A substantial part of funding for infrastructure utilities went to renewable energy initiatives under EU, ADB and Japan, with funding accounting for 45% (or USD 30.5 million) of total infrastructure funding. These monies entailed renewable energy projects, including Pacific Islands Greenhouse Gas Abatement through Renewable Energy Program (PIGGAREP) and its subsequent phases in all four states. There is potential for state-owned enterprises in climate adaptation and mitigation projects. Current efforts by Vital (FSM Petrocorp) and FSM Development Bank to obtain accreditation as national implementing entities for the Green Climate Fund (GCF) will augur well in this regard. Climate financing is effectively a subsidy to help kick-start some of these initiatives (and make them economically viable) currently being planned such as copra production in the four states for biofuel by Petro Corp, and climate proofing designs for the residential housing market by FSM Development Bank.[9] Multilateral and regional implementing entities such as ADB and SPREP should ramp up their technical assistance facilities to assess and advise on the feasibility and scope of these private-sector-led CCDRM-oriented programs.

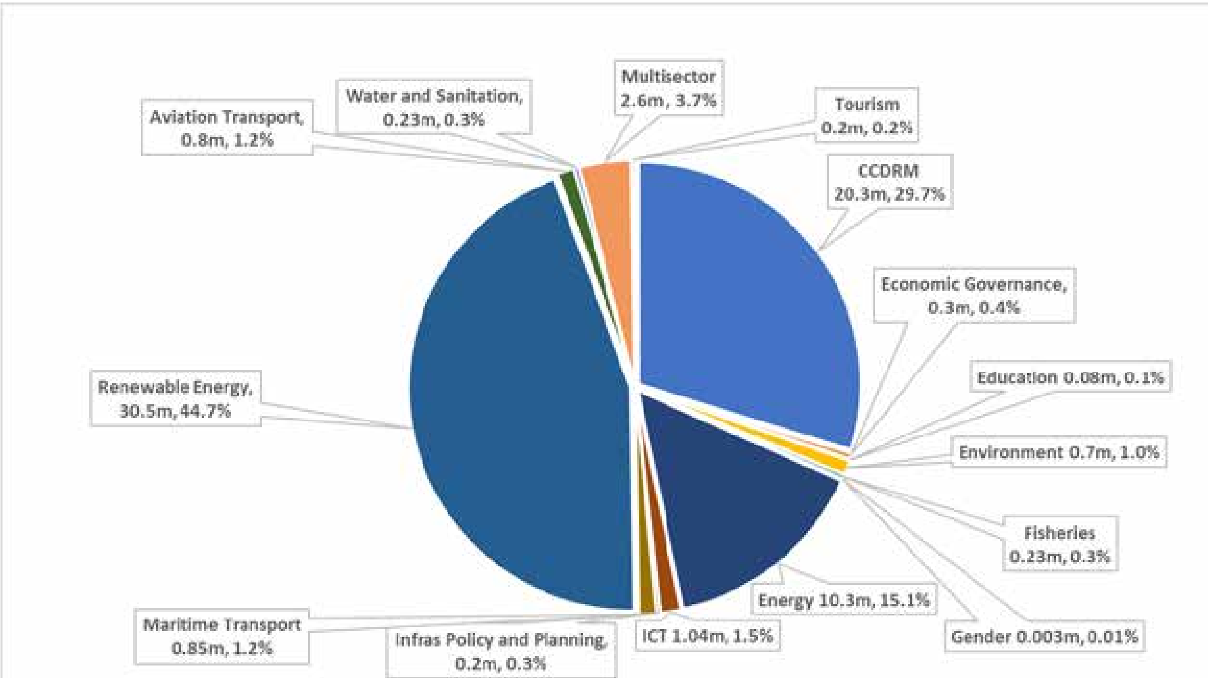


Figure 6. Sectoral distribution of climate change and disaster risk management (CCDRM) funding 2011–2018 (amounts in USD millions).

9 Lending for housing loans has consistently comprised 2% of total lending approvals in the last three years (as per FSM Annual Reports 2015–2017).

3.4.4 Projects reflected in the national budget

In total, 84 projects were analyzed with an estimated total funding of USD 68.3 million. Of this, USD 41.6 million (or 60.9%) was identified as project funding provided directly to executing and implementing agencies (government entities and non-governmental or civil society organizations) and was not reflected or channelled through the national government's budgeting and financial system. The balance of USD 26.7 million (or 39.1%) went through the government budget system (Fig. 7).

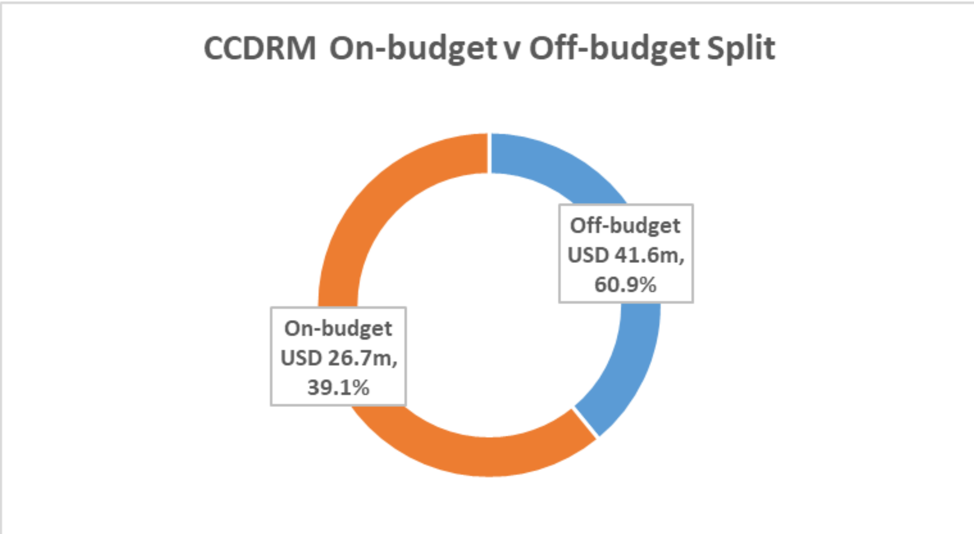


Figure 7. Modality of funding support (on-budget, off-budget), 2011–2018.

For a small country such as FSM, with its geographic spread, the scattering of projects and the bulk of these being off-budget, poses a number of challenges. Specifically, it restricts the government's ability to have good oversight, monitoring and evaluation of these projects, which would otherwise allow the FSM national government to allocate its budget resources more efficiently where it would be most needed i.e. to complement and/or supplement CCDRM project resources and generate more optimal outcomes). It is also a lost opportunity to the donors and implementing agencies (e.g. non-governmental organizations, line ministries, private sector) as their effort is not reported or acknowledged by the government.

It is important to note that non-governmental organizations (NGOs) have been operating rather well outside government systems and in fact do play a more complementary role in that regard in having funds flowing directly to their network at the implementation level. A case in point is Micronesia Conservation Trust (MCT), which is an accredited entity to the AF (projects up to USD 1.0 million) and GCF (projects up to USD 10.0 million). This presents a significant opportunity for the FSM Government to tap into GCF and related government funding. MCT has already accessed AF and, as an accredited entity, it opens up scope for more funding being sourced from GCF.

For this assessment it is also important to consider the funding sources pillar in the context of FSM's post-Compact fiscal scenario, and to thoroughly examine the opportunities and challenges that the anticipated increase in global climate funding presents.

3.5 Recommendations

1. Official development assistance should host a central depository and/or database of all donor, national and state government climate change programs and projects, with the Division of Investment and International Finance of DoFA providing technical support.

2. Create a more formalized process for documenting and tracking climate change projects and financing across the various agencies. Utilize the CC&SD Council or the new initiative bringing all financing focal points under the oversight of the Vice President.

3. The FSM national government should recommit to Petro Corp and the FSM Development Bank's pursuit of National Implementing Entity (NIE) accreditation and consider interim options (e.g. existing Regional Implementing Entities and Multilateral Implementing Entities) in the event of protracted delays with accreditation of the state-owned enterprises (SOEs).

4. In conjunction with undertaking the process of seeking accreditation, entities such as Vital (FSM Petrocorp) and FSM Development Bank should also consider developing a project pipeline that is ready for funding, in alignment with the FSM GCF Country Program.

5. FSM Government should reaffirm its position on "additionality" of climate finance (and not as a substitute for existing development assistance) and clearly identify its funding priorities for climate change financial resources through:
   a. enabling sectors such as education, fisheries, tourism and environment;
   b. strengthening governance institutions and building capacity; and
   c. vulnerable sectors such as health, women, youth and children.

6. The FSM Government should work with donors to develop a medium-term fiscal strategy that is anchored on securing global climate funding and is fully consistent with the 2023 Action Plan and the Infrastructure Development Plan 2025.

4. Public Financial Management and Expenditure Analysis

This first part of this chapter presents an overview of the importance of public financial management (PFM) systems, and assesses the status of FSM's PFM system. It also provides commentary on the FSM public expenditure and financial assessment (PEFA) self-assessment conducted in November 2016, and highlights the issues that need to be considered further to strengthen PFM in FSM with a view to efficiently and effectively manage climate finance.

The second part presents an analysis of FSM's revenue and expenditure trends and the implications in terms of the government's overall financial position; trends in public expenditures generally and specifically in relation to CCDRM; and sources and uses of FSM's financial resources. This part also touches briefly on the implications of the end of COFA and its associated economic assistance after 2023.

While the analysis tends to focus at the national level, it also draws upon, where possible, the PFM and budget experience at the state level, given the significance of state government finances. This helps to provide feedback on how the national and state PFM systems can best interact to develop appropriate ways that the nation can access and manage climate finance to address CCDRM challenges. A general analysis at the state level is provided in section 4.2.5, however it is also acknowledged that the context within each state is different and that this analysis has not been able to go into depth for each individual state.

4.1 Public Financial Management

4.1.1 The importance of PFM and country systems to CCDRM finance

A strong PFM system provides the institutional framework to ensure that FSM will:

- continue to have enough revenue and other sources of funds to support its operations, deliver essential services to the people, and invest in economic and social services, and infrastructure development;
- allocate public resources according to policies and priorities, including CCDRM;
- monitor the use of public resources; and
- be accountable and transparent in the use of public resources.

The objective of this PFM analysis is to look at the systems through a CCDRM lens. In most ways this will not deviate much from a standard analysis of the PFM system but will, most notably, have emphasis on FSM's ability to access and effectively use many of the global climate funding sources under the global climate finance architecture. Given that FSM may not necessarily seek direct access accreditation of a national ministry (see Chapter 5 for further discussion), having strong PFM systems will build donor and bilateral partner confidence in the system, especially in terms of moving towards more direct budget support for FSM after 2023.

PFM is often seen to be predominantly the responsibility of a country's Ministry of Finance, and not the other arms of executive governments. This is a misconception because PFM systems provide structure, rules, processes and systems that enable public resources to be used effectively and efficiently by all arms of government in pursuit of its policy goals and objectives through the delivery of public services.

In view of its importance to the delivery of government services and the achievement of development outcomes, significant attention and resources are being devoted to strengthening PFM systems in developing countries worldwide. With the substantial overseas development assistance funding flows that are starting to come from the global climate finance architecture, PFM is the central pillar of the enabling structure that will allow these funding flows to translate into increased resilience to the impacts of climate change and disasters. Furthermore, transparent and efficient PFM systems will also secure the confidence of taxpayers and recipient and donor governments.

Some of the specific reasons that strong PFM is important for CCDRM are that it can facilitate:

- Increased access to CCDRM finances – countries with strong PFM systems tend to attract greater access to funds, even though those countries may not have the greatest CCDRM needs.
- Direct access to global climate funds – Funds such as the Adaptation Fund (AF) and the Green Climate Fund (GCF) set stringent fiduciary requirements for achieving direct access through NIE status, which requires strong PFM systems.
- Strong PFM systems will increase the potential to explore options whereby CCDRM funding can be accessed through a variety of modalities, including general or sector budget support, trust funds, direct access and targeted funds.

While the ultimate goal with respect to CCDRM and PFM systems is to seek direct access to global funds such as the AF and GCF, it should be noted that access to CCDRM finance is only a means to the end of achieving better CCDRM outcomes through delivery of services and programs to support national objectives.

4.1.2 The PFM system in FSM

The PFM system in FSM is unique in that it constitutes the FSM national government, with the autonomous extension of the sovereign state governments of Pohnpei, Chuuk, Kosrae and Yap. Each state has its own legislative arm to pass legislation, including appropriations, for the purpose of the respective state governments to deliver public services.

The Department of Finance and Administration (DoFA) within FSM's national government is responsible for economic and financial policy and strategic advice, as well as financial services for the national government. DoFA consists of five divisions including Treasury, Customs and Taxes, Investment and International Finance, Budget and Economic Management. Its stated mission is to promote accountability and transparency in service delivery to the people of Micronesia through the establishment and implementation of sound public financial management systems, standards, policies, and procedures (FSM DoFA 2018).

FSM's National Congress enacts the budget by passing specific departmental appropriations. Supplementary appropriations can also be made for operating and capital purposes depending on the demands on the government and its evolving priorities during the fiscal year. Budget control is maintained at the departmental level and budget revisions within departments – due to program changes – can be effected by department heads who have the authority to reprogram up to 10% within their department. The president also has the ability to reprogram up to 10% across departments, with the exception being that nothing can be reprogramed in or out of personnel. All annual appropriations lapse at the end of the fiscal year unless otherwise specified by law; for example, section 9 of the Appropriation Law stipulates that the Capital Investment Program has no lapse date.

Like similar government systems (as former US territories) in the North Pacific, FSM employs encumbrance or commitment accounting. For budgeting purposes, the commitments are considered expenditures when incurred, but in terms of generally accepted accounting principles, encumbrances are reserved at the end of the financial year and not accounted for as expenses or liabilities but re-appropriated the following year to settle the outstanding amounts of expenditures incurred from the previous year that are yet to be paid out.

The government budget system at its highest level is structured by the source of funding. The budget is presented and accounted for according to the fund, with the largest funds being the Compact Funds and the General Fund (consolidated domestic revenue). Federal grants provided by the US Government are also significant, and these are accounted for according to individual grants. Figure 8 gives a snapshot of the FSM Government's revenue and fund structure.

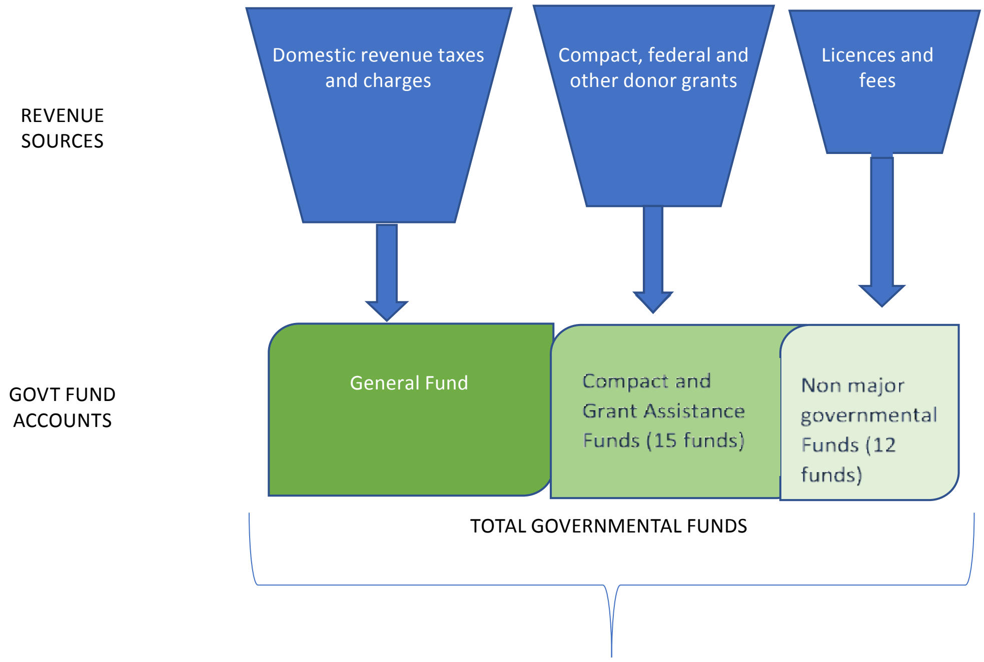


Figure 8. Revenue and fund structure of the Federated States of Micronesia Government.

Budget documents do not fully aggregate all public resources dedicated to achieving sector objectives that may benefit from funding across a range of these funds. For example, each department's spending is split between the general fund, the Compact Education Grant, federal grants and other grants. This presents a rather scattered impression of how funding flows according to the government's policy priorities for a sector or subsector, and can limit the government's ability to articulate and link its sector policy objectives to the achievement of outcomes and outputs at the various layers of government. This in turn affects the government's ability to monitor and evaluate progress, and subsequently the performance and accountability of those directly responsible for implementation and delivery. In this scenario, the implementation and coordination of climate change-funded projects with other climate-related, government-funded programs or projects will not be as effective because those other projects are likely to have been developed and designed separately or in isolation under their own grant funding arrangements.

For FSM, this issue is mirrored across all four state governments because they basically subscribe to the similar appropriation laws and federal fund accounting systems as the national government, but with their respective autonomous powers. However, a strength of this fund accounting system of public finance is that it provides the structure and legacy systems that allow separate funding flows to come into the government's total funding system, albeit with strong fiduciary controls and requirements. This, therefore, presents the opportunity to further explore the degree to which some of the unused or underutilized Compact and federal grants accounts are rigorous enough or can be strengthened to meet the fiduciary requirements of global climate funds such as AF and GCF.

4.1.3 Public Expenditure and Financial Accountability Framework

International financial institutions and development agencies use the Public Expenditure and Financial Accountability (PEFA) framework as the methodology for assessing PEFA's performance to measure a country's progress over time under its PFM system. PEFA assessments report on quantitative indicators derived from data and information drawn from the country itself to provide a snapshot of PFM performance at a specific point in time using a methodology that can be replicated in successive assessments, thus allowing changes to be tracked over time.

The 2016 PEFA framework assessed PFM performance with respect to 94 dimensions across 31 indicators in seven broad areas (pillars) of activity. These pillars pertain to: i) budget reliability; ii) transparency of public finances; iii) management of assets and liabilities; iv) policy-based fiscal strategy and budgeting; v) predictability and control in budget execution; vi) accounting and reporting; and vii) external scrutiny and audit.

The PEFA framework can be used by countries that are seeking National Implementing Entity accreditation as a reference guide to gauge their standing against PFM requirements for obtaining access to the AF and GCF. The similarities are shown in Table 3 with the common areas between the PEFA performance indicators and the fiduciary requirements of the major climate funds shaded in the same colors.

Table 3. Public expenditure and financial accountability performance indicators (2016) and basic fiduciary criteria for direct access to the Adaptation Fund and Green Climate Fund.

PEFA PIs	Adaptation Fund	Green Climate Fund
PEFA (2016) PFM Performance Indicators	**National Implementing Entity (NIE) criteria for direct access to Adaptation Fund**	**Proposed Accreditation Framework for direct access to GCF1**
1. Budget Reliability Aggregate expenditure outturn, expenditure composition outturn, revenue outturn **2. Transparency of Public Finances** Budget classification, Budget documentation, Central government operations outside financial reports, Transfers to sub-national governments, performance information for service delivery **3. Management of assets and liabilities** Fiscal risk reporting, public investment management, public asset management, debt management **4. Policy-based fiscal strategy and budgeting** Macroeconomic and fiscal forecasting, fiscal strategy, medium-term perspective in expenditure budgeting, budget preparation, legislative scrutiny of budgets **5. Predictability and control in budget execution** Revenue administration, accounting for revenue, predictability of in-year resource allocation, expenditure arrears, payroll controls, procurement, internal controls on non-salary expenditure, internal audit **6. Accounting and reporting** Financial data integrity, in-year budget reports, annual financial reports **7. External scrutiny and audit** External audit, legislative scrutiny of audit reports	**2. Financial Management and Integrity** • Legal status • Financial statements and audit requirements • Internal control framework • Preparation of business plans and budgets **3. Institutional Capacity** • Procurement • Project preparation and approval • Project implementation planning and quality-at-entry review • Project monitoring and evaluation • Project closure and final evaluation **4. Transparency, Self-investigative powers, and Anti-corruption** • Handling financial mismanagement and other malpractices	**1. Key administrative and financial capacities** • General management and administrative capacities • Financial management and accounting • Internal and external audit • Control frameworks • Procurement **2. Transparency and accountability** • Disclosure of conflicts of interest • Code of ethics • Capacity to prevent or deal with financial mismanagement and other forms of malpractice • Investigations **3. Project management** • Project preparation and appraisal (from concept to full funding proposal) • Project implementation, oversight and control • Monitoring and evaluation • Project-at-risk systems and related project risk management capabilities

As the internationally accepted and adopted PFM assessment framework, PEFA has broad implications beyond merely the ability to access global climate change financing. It also assesses the ability of a country to effectively use the increasing array of ODA grants and concessional lending instruments advocated by bilateral and multilateral funding sources. This is all the more important given the fiscal challenges facing small vulnerable countries in the region, such as FSM. Improvements in PFM will be critical to FSM when dealing with the expected changes in Compact funding after 2023.

It must also be noted that PEFA is a government-led process but can be driven more by local input and perspectives, with less technical support from agencies such as the Pacific Financial Technical Assistance Centre, which conducts the assessment. The last FSM national government PEFA was a self-assessment undertaken in late 2016, and there are now efforts to seek PEFA assessment of state government PFM systems. This should identify capacity gaps that exist between national and state government PFM systems. In the long run, it will also help with the national government's intention to harmonize systems between the two levels of government.[10]

The development of the WB's Public Investment Management Assessment (PIMA) framework might provide an even more relevant assessment of a country's standing vis-à-vis fiduciary requirements for accreditation. There may be some value in the FSM Government undertaking such an assessment, which would be valuable in assessing the ability of FSM to manage public investments in general and also provide an insight into the nation's ability to better manage climate finance.

For the purpose of this chapter, the 2016 self-assessment PEFA will be used to assess the state of FSM's PFM system and provide observations on which areas could be improved as part of its reform efforts. In this regard, the PFM analysis will look at the seven pillars and the gist of the 2016 PEFA report findings and provide commentaries on PFM performance and status (FSM DOFA 2016)

10 As per consultations in April 2018 with Honourable Secretary, Department of Finance and Administration, FSM

4.1.3.1 Pillar 1: Budget credibility

The three dimensions of budget credibility are: aggregate expenditure outturn, expenditure composition outturn, and aggregate revenue outturn. The 2016 PEFA ratings are shown in Table 4.

Table 4. 2016 Public expenditure and financial accountability ratings – budget credibility.

Dimension	Score	Justification in PEFA report	Assessment comments
1.1 Aggregate expenditure outturn	A	Two out of 3 years are within the 95-105 percent range. FY2015 98.3% FY2014 94.1% FY2013 95.3%	*This is a remarkable performance for FSM but more information is needed to further verify whether or not this captures all expenditures in their budget e.g. capital, and all grant-funded expenditures.*
1.2 Aggregate expenditure composition	D+	The variance in expenditure composition by administrative classification was more than 10% in two of the last 3 years, whilst for economic classification it was more than 20%. There was no contingency budgeting in FSM.	*This shows a below par performance which points to two factors on two levels: policies and laws that govern the movement of appropriations within each entity; and effectiveness of the instruments of control at administrative level.*
1.3 Aggregate revenue out-turn	D	The variance in revenue outturn and revenue composition outturn was more than is required to score a C.	*Authorities rightly pointed to the highly unexpected increases in certain major components of revenue like fishing as the main reason, due to use of recently introduced VDS fees.*

Overall, FSM performs reasonably well on this PEFA pillar, but the assessment's two main concerns were: i) there should be full data capture to ensure completeness of measuring performance in terms of the discipline of aggregate expenditures; and ii) the effectiveness of policies and rules in expenditure management and the movement of funds within stipulated appropriation levels. A relatively minor concern pertains to revenue forecasts, which the authorities should be able to improve on after the benefit of few years of experience with recently increasing revenue lines (i.e. fisheries).

4.1.3.2 Pillar 2: Comprehensiveness and transparency

This pillar examines the performance of FSM's PFM system in relation to whether information on PFM is comprehensive, consistent and accessible to users. This is achieved through comprehensive budget classification, the transparency of all government revenue and expenditure, including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation. Table 5 captures the main dimensional indicators of this PEFA pillar.

Table 5. 2016 Public expenditure and financial accountability ratings – comprehensiveness and transparency.

Dimension	Score	Justification in PEFA report	Assessment comments
2.1 Budget Classification	C	No functional classification but only economic and administrative	*No budget documents were presented except for the Congress appropriation bills publicly available. This assessment could not verify these self-assessed ratings.*
2.2 Budget Documentation	B	Fulfils 7 elements including at least 3 basic elements- (i) fiscal forecast; (ii) previous year's outturn; (iii) current budget presented same as the budget proposal format; (iv) aggregated data according to the main heads of classifications	*No budget documents were presented except for the Congress appropriation bills publicly available. This assessment could not verify these self-assessed ratings.*
2.3 Central Government Operations outside financial operations	A	Audited Annual financial reports fully captures all operations in compliance with GASB and GAAP.	*Agree. FSM fully complies with GAAP and GASB standards as required under Compact Trust.*
2.4 Transfers to sub-national governments			
2.5 Performance information for service delivery	B	Referred to previous budget documentation.	*No budget documents were presented except for the Congress appropriation bills publicly available. This assessment could not verify these self-assessed ratings.*
2.6 Public access to fiscal information	A	Information is published annually in the Compact Annual Report on policy or program objectives, key performance indicators for outputs to be produced or the outcomes planned for key departments, predominantly health and education.	*Only ex-post fiscal information was fully captured in the audited financial statements. The assessment did not receive or could not access these documents.*

In general, reporting and transparency perform very well due to the legacy of Compact Trust Agreement requirements, the Governmental Accounting Standards Board, and General Accepted Accounting Standards. The current modality of this technical support includes full preparation of government financial accounts and reports, and its external audit. The FSM Government should assess its in-house ability to continue this and the resourcing it provides through the budget.

The assessment was unable to access documents that were referred to as underpinning the self-assessed ratings done for dimension 2.3–2.6 in Table 5. There appears to be a lack of documentation to clarify the policy and strategies that shape the budget and the assumptions underlying the fiscal parameters and projections. Ministerial portfolios could be presented in a manner more consistent with internationally accepted standards of classification. The status quo will seriously restrict any government intention to highlight the focus of its policy on climate change and development goals more generally.

The lack of a website that presents the most basic of PFM and fiscal information for the national government is also of concern. While the Department of Finance and Administration (DoFA) has a website, there is little in the way of PFM or budget information on it. Given this is the single most important policy document of the national government, this raises questions about the public's awareness of the FSM Government's actions to address climate change issues and development challenges in general.

The inclusion of this information and its availability publicly, will enhance the transparency of the national government's stated policy intentions, which it can hold itself accountable for. It will also enable it track and attribute performance for the delivery of targeted outputs and services to the department, division or unit directly responsible. This will provide the framework for mobilizing resources for climate change funding and monitoring and tracking of its implementation. In this context, climate change and disaster risk interventions are mainstreamed into the government's implementation machinery as specific outputs or services that are expected to be delivered.

4.1.3.3 Pillar 3: Management of assets and liabilities

Effective management of assets and liabilities ensures that: i) risks are adequately identified and monitored; ii) public investments are acquired transparently and provide value-for-money; iii) financial investments offer appropriate returns; iv) asset maintenance is well planned; and v) asset disposal follows clear rules. It also ensures that debt service costs are minimized and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

Table 6. 2016 Public expenditure and financial accountability ratings – management of assets and liabilities.

Dimension	Score	Justification in PEFA report	Assessment comments
3.1 Fiscal risk reporting	B+	On the strength of its audited financial statements most risks are adequately captured, except for contingencies which are neither reported in budget nor financial statements.	*The fiscal risks of state owned enterprises need to be better captured i.e. not only the explicit contingencies but also the implicit ones. This can pose a big fiscal risk on national and state governments.*
3.2 Public investment management	C+	Economic analyses, prioritization and projections are made during budget preparations.	*No formal mechanisms in place to ensure rigor and structure in the processes.*
3.3 Public asset management	B+	There are established authorities responsible for various categories of financial assets but this is lacking for non-financial assets. Asset disposal is vested with Secretary of Finance according to procedures.	*Financial assets are formally and fully documented but no proper rules in place and existing rules and procedures are outdated.*
3.4 Debt Management	B	Recording, reconciling, reporting and approval of debt transactions are well established in rules and procedure and in practice.	*Formal debt management strategy does not exist and can be used as policy tool to guide and instill more rigor in debt management practices.*

The main weaknesses in this pillar include the lack of: i) reporting of contingent fiscal risk by state owned enterprises (SOEs); ii) rigor and formal mechanisms in analyses, prioritization and projections of public investments; iii) management of non-financial assets and its disposal; and iv) formal debt management strategy.

4.1.3.4 Pillar 4: Policy-based budgeting

This pillar assesses whether the fiscal strategy and the budget have been prepared in line with government fiscal policies, strategic plans, and well-backed macroeconomic and fiscal projections. Macroeconomic forecasts and fiscal policies are vital components of aggregate fiscal discipline because they are the basis for decisions on the level and composition of revenue and expenditure needed to achieve the government's fiscal objectives. Strategic planning and fiscal projections provide a valuable tool for managing revenue and expenditure, vis-à-vis the achievement of complex and often conflicting sets of policy objectives. Table 7 provides the performance and assessment of key dimensional indicators.

Table 7. 2016 Public expenditure and financial accountability ratings – policy-based budgeting.

Dimension	Score	Justification in PEFA report	Assessment comments
4.1 Macro-economic and fiscal forecasting	C	Government prepares forecasts for the budget year and next two years. Likewise forecasts with underlying assumptions are included in budget documents. Macrofiscal forecasts are only qualitative.	***Documents not made available nor accessible publicly. Scope and quality and of forecasts to be assessed.***
4.2 Fiscal strategy	C	Government prepares estimates of the fiscal impact, has a fiscal strategy and prepares an internal report on progress made against fiscal strategy.	***Only fiscal strategy is submitted to Congress, other reports are not submitted nor made public. Policy content and relevance of these documents have not been verified nor assessed.***
4.3 Medium-perspective in expenditure budgeting	D+	Annual budget presents 1+2-year forecast. Only fiscal ceilings for year 1 approved by government. Only some medium-term strategies are done by some departments. No explanation of variation in basis of estimates from previous years.	***There is no formal policy to guide this medium-term planning mechanisms. Budget settings are largely annual based.***
4.4 Budget preparation process	A	Very clear budget process articulated in budget circular and budget always submitted to Congress within stipulated timeframe.	***No formal evidence provided but verbally verified by relevant stakeholders within and external.*** ***Policy content and relevance of these documents have not been verified nor assessed.***
4.5 Legislative scrutiny of budgets	A	Clear rules exist in legislature which is comprehensive, timely and rigid.	***Evidenced by Congressional rules on budget proceedings.***

Medium-term perspectives on macrofiscal forecasting are not being clearly translated into final budget documents, which leads to the emphasis on annualized budget settings in the process. This is testimony to the lack of capacity in budget and policy planning in DoFA, which would be the central focal point for all macro-fiscal information. It would also be the authority on the analysis of such information, and the link with all relevant sector departments and information-generating agencies such as statistics, ODA and others. It should also be noted that with the non-availability of formal documentation, the assessment has not been able to assess the policy content of the budget formulation phase of the financial cycle.

4.1.3.5 Pillar 5: Predictability and control in budget execution

Predictable and controlled budget execution is necessary to ensure that revenue is collected and resources are allocated and used as intended by the government and approved by the legislature. Effective management of policy and program implementation requires predictability in the availability of resources when they are needed, and control to ensure that policies, regulations and laws are complied with during the process of budget execution.

Table 8. 2016 Public expenditure and financial accountability ratings – budget execution.

Dimension	Score	Justification in PEFA report	Assessment comments
5.1 Revenue administration	B	Rights and obligations are communicated and taxpayers are consulted. There is audit function for risk and investigations. Monitoring of stock of arrears is minimal if not non-existent.	*Capacity to monitor stock of arrears to be assessed and strengthened. Arrears should be accurately valued and profiled. Level of arrears appears to be relatively high so proper capabilities to be put in place to reduce the stock progressively.*
5.2 Accounting for revenue	B+	Collection, reconciliation and deposits done on daily basis and transferred to General Fund. Assessment and arrears not reconciled.	*Reconciliation of assessment with arrears to be made progressively between assessment points, collection agencies and Treasury.*
5.3 Predictability of in-year resource allocation	C+	No single account but all fund accounts reconciled monthly. Cash budget used, and quarterly warrants used based on 20%-30% limit/quarter.	*Fund accounting makes it difficult to have single Treasury account. Regular reconciliation of all fund accounts should be strictly enforced on a weekly basis.*
5.4 Expenditure arrears	D+	Estimated between 6%-10% of total expenditures but no monitoring of unpaid invoices.	*New FMIS should include capability to provide arrears report on weekly basis. Strategy can be put in place to effectively clear arrears on a progressive basis.*
5.5 Payroll controls	C+	No integration between payroll and personnel records only six months reconciliation.	*Integration of payroll with HR modules should be priority in new FMIS configuration.*
5.6 Procurement	C+	Treasury maintains complete records. 80% of procurement were done on competitive method. Legal framework exists but no independent body for redress.	*Compliance appears to be non-existent so issue of concern with effectiveness of procurement regime in relation to value for money, transparency and economy.*
5.7 Internal controls on non-salary expenditure	A	Segregation but no documentation, expenditure control based on cashflow limits and payments compliant.	*Compliance of expenditure payments against rules and procedures should also be enforced as first line of control before cashflow limits*
5.8 Internal audit	N/A	Non-existent	*Should be made a priority, because by its absence it brings to question all the above ratings.*

In view of the assessments made above, it is imperative that the Treasury works on incorporating these findings in the next iteration of its PFM Reform Roadmap. These operational initiatives are fundamental to the efficiency of operations in the Treasury and its ability to safeguard the quality and integrity of expenditures and revenue administration.

Priorities include: i) conducting an assessment of the procurement system's robustness; ii) assessing the adequacy and effectiveness of all existing financial instruments (e.g. regulations, rules and instructions) of internal control; iii) managing the stock of revenue and expenditure arrears; iv) interfacing and/or integrating the new Financial Management Information System (FMIS) with revenue systems, human resources and procurement.

4.1.3.6 Pillar 6: Accounting, recording and reporting

This pillar assesses the extent to which accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management and reporting needs. Timely, relevant and reliable financial information is required to support fiscal and budget management and decision-making processes.

Table 9. 2016 Public expenditure and financial accountability ratings – accounting, recording and reporting.

Dimension	Score	Justification in PEFA report	Assessment comments
6.1 Financial data integrity	B+	Bank reconciliation done monthly. Monthly suspense account not maintained. Data integrity ensured.	*Reconciliation to be done weekly and suspense account maintained.*
6.2 In-year budget reports	D	Not produced	*Build capability in FMIS, scope processes and assign responsibilities to dedicated staff in Budget and Treasury.*
6.3 Annual financial reports	B+	No reconciled cashflow but submitted on time and fully compliant with standards.	*Continue working on issues highlighted by auditor in audited financial statements.*

It is recommended that DoFA work on the above areas to further strengthen financial data integrity, build in-year budgeting capability and improve reconciliation of cash flow for auditing purposes. In this regard, the reform work being pursued to harmonize state government financial systems with the national government's financial management information system will significantly improve the quality and integrity of data.

Ex-post audit coverage is comprehensive and the unqualified status of reports every year attests to good accounting and recording practices in the Treasury Division of DoFA. The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) Standards, rendering them well as the official accounts of government finances. While beyond the remit of this assessment, it would be advisable to assess the sustainability of technical and human capacity within treasury divisions and the audit office, including its ability to perform more of its own audits, investigations and other non-statutory audits.

4.1.3.7 *Pillar 7: External scrutiny and audit*

This pillar assesses whether: i) public finances are independently reviewed, and ii) there is external follow up on implementing recommendations for improvement by the executive. Effective external audit and scrutiny by the legislature are enabling factors for holding the government's executive branch accountable for its fiscal and expenditure policies and their implementation.

Table 10. 2016 Public expenditure and financial accountability ratings – external scrutiny and audit.

Dimension	Score	Justification in PEFA report	Assessment comments
7.1 External audit	C+	Audit always done within scope, timeline and according to prescribed standards. Follow up of audit findings is operationalized. Budget of SAI is subject to legislature.	*Independence of most SAIs in the region are ultimately subject to resourcing decisions of executive and legislature*
7.2 Legislative scrutiny of audit reports	D	Legislature not consistent in approach nor inclusive and provide no recommendations.	*Procedures guiding the workings of the relevant legislative committee(s) could be relooked at.*

The Legislature should play a more structured role in the scrutiny of the budget and external audit reports, the efficacy of which still needs to be assessed. Furthermore, limited information was received to specify what and how exactly the audit review committee currently operates. While the systematic implementation and monitoring of internal and external audit recommendations is in place, some review of the procedures guiding the work of the relevant legislative committees may be warranted to so that there can be more rigorous and methodical scrutiny of audited reports.

4.1.3.8 *Overall PEFA commentary*

In summary, this 2016 PEFA self-assessment was a positive move in the right direction for the FSM Government. It helped inform the development of the PFM Reform Roadmap (2017–2020), which focuses on areas that were in need of improvement and which were rated with a C or D. In the absence of a rigorous peer review of the self-assessment, some key areas that were given ratings of B or better should be given a more rigorous assessment and considered as priorities for action in the roadmap.

- **Budget presentation and documentation.** Policy and strategy to be presented more clearly and with a stronger link to budget resourcing and the publication of more documentation on the DoFA website.
- **Fiscal contingency reporting.** All fiscal contingency risks should be fully captured as with government-owned entities.
- **Asset and debt management.** Formal policy and rules need to better guide decision-making.
- **Budget preparation.** Budget preparation should be more transparent and inclusive.
- **Legislative scrutiny.** Revise rules and instil more rigor to strengthen scrutiny.

4.1.4 PFM in a time of emergency

A key aspect of this assessment is to examine the capability of government to manage disaster risks from pre-emptive stages (risk reduction) to preparation, to relief and mitigation. Small island Pacific nations are very susceptible to natural disasters and FSM is no exception. Typhoons are seasonal in FSM and the island nation has had its share of them in recent years. According to the International Monetary Fund, in 2015 Typhoon Maysak caused severe damage in FSM, especially in Chuuk and Yap, costing USD 21.9 million (6% of gross domestic product [GDP] or 28% of national government spending) in relief and recovery assistance alone. Of this, USAID provided USD 13 million (4% of GDP) and the national government USD 6.4 million (2% of GDP) (IMF 2017). The magnitude of these costs for a small economy such as FSM presents a stark illustration of the importance of having a robust PFM system. Its absorptive capacity and its ability to efficiently allocate and utilize public resources in a transparent and prudent manner is paramount.

In this regard, FSM's fund accounting structure provided the mechanism to expedite the release of donor funds through US federal grant mechanisms.[11] It is, however, essential to examine other funding options that can more efficiently disburse disaster relief support, given the magnitude of funding required to be mobilized. Regional facilities such as the Pacific Catastrophe Risk Assessment and Financing Initiative provide a framework that is already working. It could, however, be enhanced to increase its viability and robustness as a mechanism to efficiently provide funds for disaster relief and management in countries such as FSM.

Like many other Pacific Island countries, FSM is extremely prone to climate-induced natural disasters. Because of the geographical distribution of islands across a wide expanse of ocean, climate-related disasters in FSM are sometimes isolated to one or two states, or even to smaller regions within states, leaving other parts of the nation unaffected. Droughts and typhoons are among the most common climate-related disasters in the country although flooding and landslides associated with heavy and sustained rainfall are also experienced in the higher islands.

Funding to deal with the impacts of these disasters is limited and often restricted in the immediate aftermath of some disasters, especially sudden onset disasters[12] such as typhoons and floods. Slower onset disasters, such as drought, often allow more time to identify funding and accommodate responses.

Typhoon Maysak had a significant impact on FSM, particularly Chuuk and Yap states, eliciting substantial responses from bilateral partners to address recovery and reconstruction. In addition, droughts on the outer islands of Yap, Chuuk and Pohnpei have highlighted the issues surrounding water security and the need for contingency plans to be in place to allow for timely response.

Financial mechanisms to deal with responses are rudimentary and limit the ability to respond quickly to a disaster, potentially resulting in loss of life. As mentioned above the main sources of assistance available for responding to disasters are from the US COFA.

11 As per consultations with staff members of the Treasury, Department of Finance and Administration, April 2018.

12 A sudden onset disaster is one triggered by a hazardous event that emerges quickly or unexpectedly. A sudden onset disaster could be associated with, for example, an earthquake or flash flood. A slow onset disaster is defined as one that emerges gradually over time. Slow-onset disasters could be associated with drought, desertification and sea-level rise (UNISDR 2017).

4.1.4.1 Disaster provisions in the Compact of Free Association

The 2003 revision of economic assistance of COFA includes two specific provisions that relate to disaster. The first is the existence of the Disaster Assistance Emergency Fund, which is a fund set up with annual contributions under section 211 (d) of COFA, which provides for USD 200,000 matched by an FSM national government contribution of the same amount. In September 2017, the fund had a balance of USD 3.2 million, and would have grown to USD 3.6 million with the contribution of an additional USD 400,000 during fiscal year (FY) 2018. This fund was established to rapidly respond to disasters on the declaration of an emergency by the President of FSM, allowing immediate access to USD 50,000. A presidential declaration also triggers the formation of the National Disaster Committee (NDC). Funds beyond USD 50,000 can be accessed through a more rigorous assessment and verification process involving the NDC team.

The second provision is outlined in section 105 (f) (1) (a) (iii) and provides for longer-term response to disasters. This provision relates to when FSM requests the president of the US make an emergency or disaster declaration, which if done, federal agencies including FEMA, DHS and USAID jointly assess the damage caused by the emergency or disaster; and prepare a reconstruction plan that includes an estimate of the total amount of federal resources that are needed for reconstruction.

Based on this, an inter-agency agreement is signed between these agencies and funds are transferred to USAID in order to fund reconstruction activities.

4.1.4.2 Disaster Relief Fund

In addition to these provisions, the government has also made a provision under the Disaster Relief Assistance Act of 1989 for the establishment of a Disaster Relief Fund. section 705 (7) of the Act states that:

> In the event of a threatened or existing disaster, the President may provide immediate assistance from the Disaster Relief Fund, to save lives, preserve property, and protect public health and safety. The President may provide such assistance by directing national government agencies to:
>
> a) give technical assistance and provide advisors to affected states;
>
> b) lend equipment, supplies, facilities, and personnel to affected States; and
>
> c) perform on public or private lands or waters emergency services needed to save lives, preserve property, and protect public health and safety.

The exact use of this fund is somewhat unclear because it is not reported in the recent annual audit reports for the national government (although there was a brief mention in 2017). Discussions with the Department of Environment, Climate Change and Emergency Management (DECEM) indicate that this fund was used to consolidate donations from development partners to address recovery and rehabilitation after Typhoon Maysak and the drought that followed.

A full review of the disaster financing should be undertaken to determine the best funding arrangements to address emergency situations. Case studies on the funding of the recovery and rehabilitation efforts after Typhoon Maysak would likely provide useful lessons on how best to establish a robust framework for funding emergency situations, especially those that are climate related.

The government should also look closely into joining regional insurance discussions on and efforts to deal with climate-related disasters, such as the Pacific Island Climate Change Insurance Facility, which has been discussed at the 2018 Forum Economic Minister Meetings and will be discussed at the 2018 Pacific Islands Forum Leaders Meeting.

4.1.4.3 Post-2023 arrangements

Among the major changes in the post-Compact arrangements after FY2023 are changes to arrangements surrounding disaster support. A recent Government Accountability Office study on arrangements after FY2023 outlines the expected new provisions for FSM accessing emergency funding from the US (GAO 2018). In this report it states that:

> FEMA funds will no longer be available for this purpose once the agreements end; however, USAID will be able to provide foreign disaster assistance funding to the FSM and RMI under the same terms as it provides this assistance to other countries." (GAO 2018:70)

This means that FEMA will no longer have the authority to provide emergency assistance directly to FSM, or to provide funding through USAID for disasters. Instead, FSM will receive assistance from USAID through its Office of Foreign Disaster Assistance (OFDA) on the same terms as any other foreign countries. USAID has recently established a permanent OFDA representative for the subregion at the US Embassy in the Marshall Islands, possibly as a precursor to this transition. This makes the establishment of a more robust and domestically controlled emergency funding arrangement more urgent for FSM.

4.1.4.4 Recommendations

Given that climate-related disasters are likely to become more common in the future as the impacts of climate change increase the intensity and regularity of disasters, and the impending end of COFA assistance, the FSM Government should consider the following.

1) Undertaking a specific disaster financing assessment based on lessons learned from the recent experience of Typhoon Maysak and droughts, and make recommendations on appropriate funding structures to deal with disasters in a timely and appropriate manner.
2) Conscious of the existence of the Disaster Relief Fund, established under the Disaster Assistance Relief Act (1989), the national government should consider establishing a government controlled Emergency Fund that:
    a. maintains a minimum legislated level of resources sufficient to deal with disasters based on input from relevant technical offices;
    b. is replenished sufficiently in years after major payouts in response to an emergency; and
    c. receives annual appropriation for the maintenance of the real value and any increased vulnerability.
3) Development and implementation of regulations to establish disaster-specific special funds at a declaration of emergency:
    a. to receive cash donations from donors, international agencies (including insurance payouts), private sector and public contributions;
    b. to be used specifically for disaster relief and accounted for separately; and
    c. requiring independent record of disaster-related expenditure and revenues.

4) Develop simplified and harmonized disbursement procedures to state, municipal and community fund levels for rapid emergency response.

4.2 Expenditure Analysis

4.2.1 Aggregate revenue and expenditure trends

The analysis in this section is based on actual expenditures drawn from the FSM audited financial statements for years 2012 to 2016. The statements are taken from published sources that are in accordance with relevant GAAP and GASB standards, and as such, provide a verifiable account of the data sources. Expenditures related to CCDRM were based on the assessment of the functions and programs within each budgeted entity or ministry and the extent to which these were related to CCDRM using the adopted weighting methodology. Actual expenditure data have been used in this analysis.

4.2.2 Revenue

FSM's operating revenue base comprises mainly domestic and grant sources. Domestic sources include taxes, fees and charges, licenses and permits, and other sources. Grant sources include COFA, US federal grants and other sources. It is important to note that although not officially recognized as such, these grant sources are in effect budget support modalities of ODA, which are part of the consolidated pool of funds comprising the General Fund, Compact Fund and other specific funds that are part of operational cash accounts.

Table 11. Sources of revenue for the FSM government.

Sources of revenue	(USD millions) 2012	2013	2014	2015	2016
Domestic					
Taxes	$ 15.9	$ 17.0	$ 40.0	$ 17.0	$ 19.8
Fishing rights	$ 26.4	$ 35.0	$ 47.5	$ 65.2	$ 63.4
Interest and dividends	$ 0.5	$ 0.3	$ 0.5	$ 0.3	$ 0.6
Fees and charges	$ 3.7	$ 2.9	$ 2.5	$ 6.1	$ 3.2
Net change in fair value of investments	$ 3.0	$ 3.0	$ 6.9	-$ 1.9	$ 11.0
MiCare reimbursible	$ 0.2	$ 0.3	$ 0.2	$ 0.2	$ 0.4
Other	$ 1.1	$ 1.2	$ 1.3	$ 1.1	$ 3.0
	$ 50.9	*$ 59.8*	*$ 98.9*	*$ 88.0*	*$ 101.5*
External grants					
Federal and other donor grants	$ 41.3	$ 24.6	$ 16.4	$ 12.0	$ 29.8
Compact funding	$ 30.2	$ 19.2	$ 6.0	$ 8.6	$ 8.1
	$ 71.5	*$ 43.8*	*$ 22.5*	*$ 20.6*	*$ 38.0*
Grand total	***$ 122.4***	***$ 103.7***	***$ 121.3***	***$ 108.6***	***$ 139.4***

Source: Data aggregated from the FSM national government audited financial statements, 2012–2017.

Table 11 shows the composition of the mainstream revenue sources that finance FSM's expenditures. It is particularly important to note the shift in composition from external to domestic sources from 2012 onwards, with domestic revenue sources prominently making up the bulk of the sources of revenue from 2013 to 2016, largely as a result of the growth in fishing access fees. This is likely to be the projected composition in the medium term.

Fishing revenue has increased from USD 6.4 million in 2012 to USD 63.4 million in 2016, or 52% to 63% of domestic revenue during those years, respectively. The collection of taxes went up 135% from USD 17.0 million in 2013 to USD 40.0 million in 2014, on the back of a one-off payment from an offshore corporate tax-paying entity. Otherwise, taxes showed marginal increases during the period 2012–2017 except for the sharp increase in corporate taxes in 2014, before dropping to normal in 2015. The smaller components largely maintain their collections nominally with a few one-offs during the period. Overall, domestic revenue looks to be steadily increasing on the back of fishing revenue alone, which makes the national government highly dependent on that source as the biggest and most increasing contributor to domestic revenue sources.

Over the years, grant and Compact sources have decreased from 58% of total revenue in 2012 to around 27% in 2016. This reflected the National Congress' resolution to increase allocations from Compact grants to the states, thus significantly reducing national government allocations. This decline in COFA funding has been replaced by national government local revenue funding, allowing the freed up Compact funding to be distributed to the states (Government of FSM 2017). This was also in response to the decline in state government domestic revenue as shown in Figure 9.

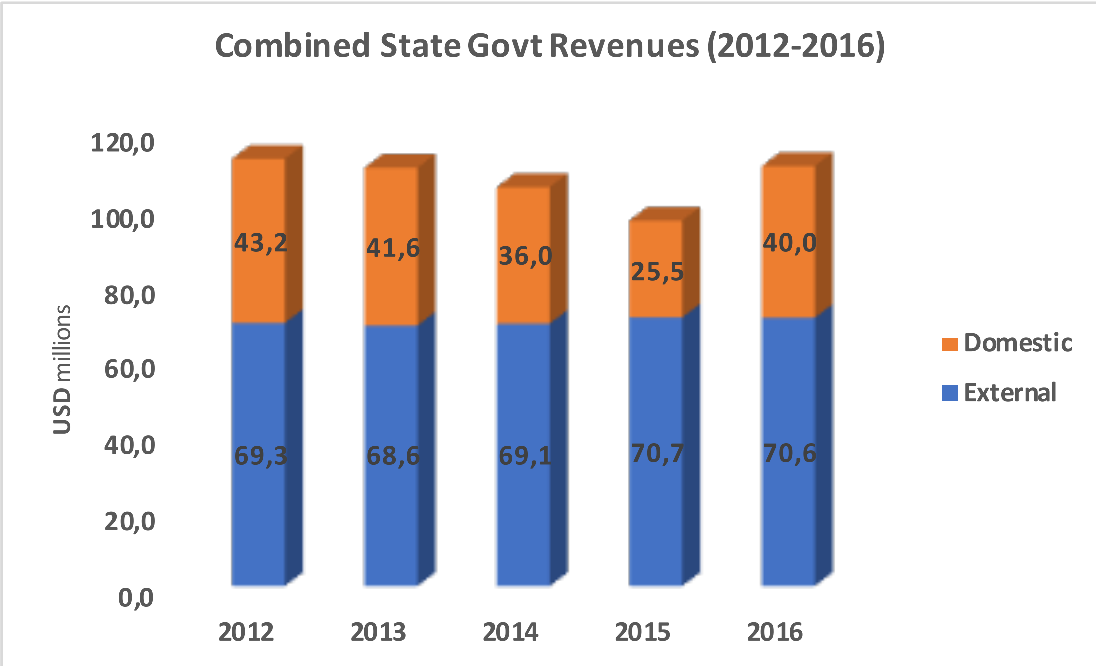


Figure 9. Combined state government revenues 2012–2016.
Source: Data from Pohnpei, Chuuk, Kosrae and Yap state governments audited financial reports, 2012–2016.

In this context, the discussion on the expected fiscal gap looming after 2023 is very pertinent. Under the amended Compact Trust agreement, the US has provided assistance on a sector grant basis for a period of 20 years. Each year, beginning in 2004, the US has provided "tagged" budget support to FSM to incrementally increase the value that is expected to be USD 92 million (adjusted annually for inflation) in 2023, following which the annual returns from the Trust Fund is expected to meet the cessation of this grant from the US. At the current trajectory, a shortfall of USD 41 million is expected, according to a 2018 analysis by a Honolulu-based organization, and this will lead to serious cutbacks in essential services and development infrastructure if not addressed (Piti-Viti 2018).

Global CCDRM-related funds, therefore, present a major viable option to bridge this substantive financing gap, especially with respect to addressing the infrastructure financing gap that is expected in FSM. As an isolated and vulnerable island nation, FSM's long-term infrastructure needs are mostly CCDRM-oriented. FSM will also require resources to support the enabling governance environment and plug any ensuing financing gap for essential services, especially those targeted at gender and the marginalized.

4.2.3 Expenditure

On the expenditure side, the components of FSM's total expenditures for the five-year period of 2012-2016 are shown in Table 12.

Table 12. Federated States of Micronesia Expenditures for 2012–2016.

		(USD millions)									
Expenditure Components			2012		2013		2014		2015		2016
Recurrent		$	**50.5**	$	**65.9**	$	**58.3**	$	**56.3**	$	**69.1**
of which:	*Personnel*		*17.1*		*16.6*		*15.7*		*16.7*		*19.3*
	Non-personnel recurrent		*33.4*		*49.2*		*42.6*		*39.6*		*49.7*
Capital		$	**60.0**	$	**22.7**	$	**13.0**	$	**18.5**	$	**32.6**
of which:	*Legislative minor capital projects*		*3.5*		*6.8*		*8.0*		*7.6*		*11.0*
	Major capital projects		*56.5*		*16.0*		*5.0*		*10.9*		*21.6*
Debt Servicing			**2.0**		**2.6**		**2.3**		**2.7**		**2.0**
		$	**112.5**	$	**91.3**	$	**73.6**	$	**77.5**	$	**103.6**

It is noted that total recurrent expenditures have shown a sharp increase, from USD 33.4 million in 2013 to USD 49.7 million in 2016, stemming from spikes in non-personnel recurrent expenditures and supported by the revenue increases mentioned above.[13] Capital expenditures showed a substantial decrease from 2012 solely because of the reduction in major capital projects. This was due to the turnover of major building and infrastructure projects to the beneficiary states after completion of airport improvement program. Capital expenditures increased again by almost 80% from USD 18.5 million in 2015 to USD 32.6 million in 2016 as the national government assumed major capital infrastructure works again, after the freezing of Compact infrastructure grants. Overall, the key trends are the: i) increasing domestic component of government's revenue base mainly due to fisheries revenue; ii) increasing recurrent expenditure component of total expenditures; and iii) significantly decreasing but fluctuating levels of capital expenditures. This was largely attributed to the low implementation capacity and land tenure issues, which led to a significant decrease in Compact grant funding, hence the consecutive contractions in the economy from 2012 to 2014 (IMF 2015, 2017).

In view of these trends, a key point to note here is the need to ensure a sufficient level of capital infrastructure spending, and increase the efficiency of its recurrent expenditures in order to sustain the demands of a recovering vulnerable economy. This is in line with the government's 2023 Action Plan strategy to maintain stability which includes, inter alia (Government of FSM 2014):

- Clear the infrastructure backlog of USD 126 million by spending FY2016–FY2019 to stimulate the economy;
- Increase Tax/GDP ratio increases from 12% (baseline) graduating to 16% by FY2018;
- Fishing license fees are stepped up by USD 5 million every 10 years;

13 They are showing up as recurrent in the financial reports and was not possible to get break down of this data to determine the actual recurrent versus capital component.

- Recurrent expenditure growth of 2% per annum, in line with projected inflation to maintain current service levels; and

- Fiscal balance from FY2015 onwards allows USD 15 million to be transferred annually to the 2023 Investment Development Fund and USD 15 million to the FSM Trust Fund.

It is, therefore, quite essential that FSM, in conjunction with the US, coordinate its efforts to increase access to global climate change and disaster risk financing, as a means of addressing the expected revenue shortfalls and meeting the challenges imposed by climate change and disasters. Figure 10 shows the total expenditure by funding sources over the years.

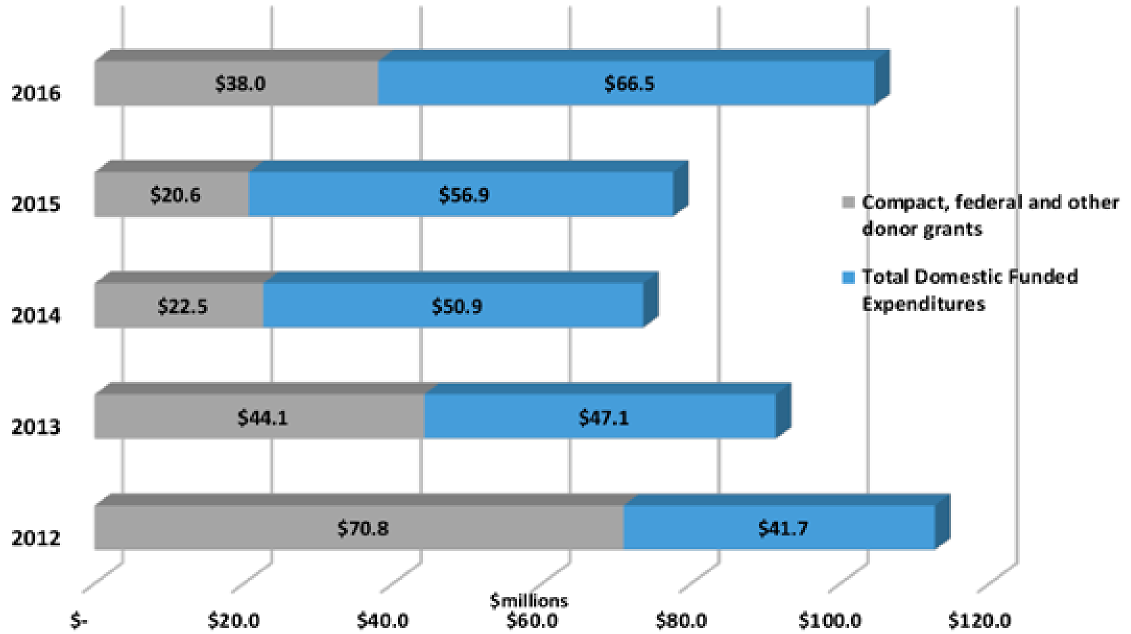
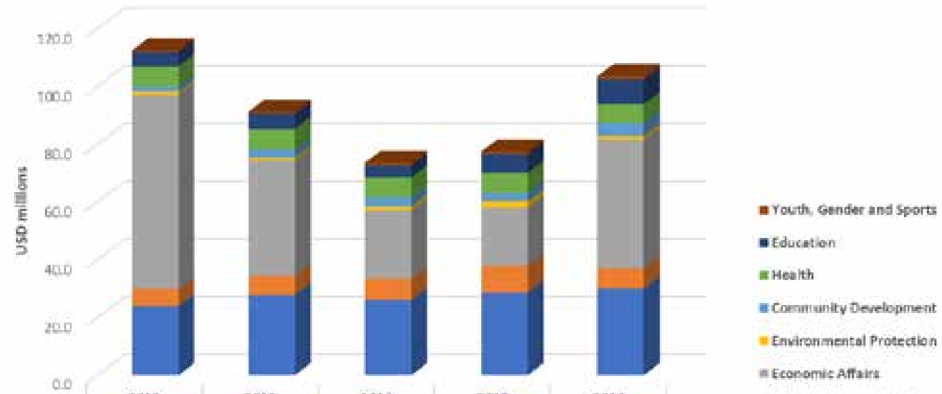


Figure 10. FSM total expenditure by funding sources.

The breakdown of FSM national government sector expenditures is as shown in Figure 11.



	2012	2013	2014	2015	2016
Youth, Gender and Sports	0.5	0.7	0.8	0.8	1.2
Education	5.0	5.3	4.2	6.7	8.6
Health	7.0	7.2	7.0	6.8	6.5
Community Development	1.7	2.7	3.2	3.0	4.5
Environmental Protection	1.0	0.9	1.2	2.2	1.2
Economic Affairs	67.3	39.8	23.8	20.2	44.6
Public Order and Safety	6.0	6.9	7.4	9.1	7.0
General Public Service	23.9	27.7	26.1	28.7	30.0

Figure 11. Sector breakdown of total FSM national government expenditures.

Economic affairs and general public service were the major sectors that benefitted from the national expenditures in the 2012–2016 period, hovering between 60% and 80% of total expenditures. Economic affairs comprised the bulk of this because it included the greatest spending ministries looking after infrastructure, transport, communications, and resources and development. The next most prominent sectors included the general public service (which comprised the legislature and the administrative ministries of the executive arm of government including finance), health, education and public order and safety (including justice and police). Community development started gaining prominence in the least spending sectors due to legislative projects that were aimed at minor infrastructure and construction initiatives at community level.

4.2.4 FSM CCDRM-related expenditures

The application of the weighted index to all budget entities, departments and divisions involved in CCDRM-related activities showed that out of the total FSM national expenditures for the period 2012–2016 of USD 458.4 million, only USD 23.7 million (6.3%) were estimated to be used for CCDRM purposes.[14] The composition of CCDRM components were split as shown in Figure 12.

14 Climate change and disaster risk management includes domestic funded recurrent and capital, and externally funded capital expenditures. The assessment was not able to extract "externally funded recurrent" because the structure of source reports did not break down externally funded recurrent at division or unit level within each ministry or department.

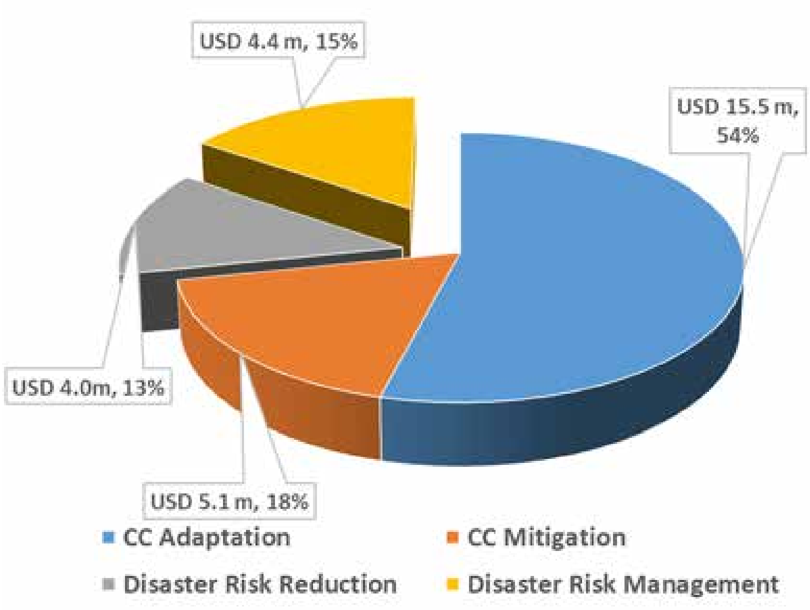


Figure 12: Climate change and disaster risk management (CCDRM) components of total CCDRM-related expenditures, 2012–2016.

The composition of these CCDRM-related expenditures according to sector is shown in Figure 13. The predominantly funded sectors continue to be economic affairs and general public service because they constitute the greatest spending ministries.

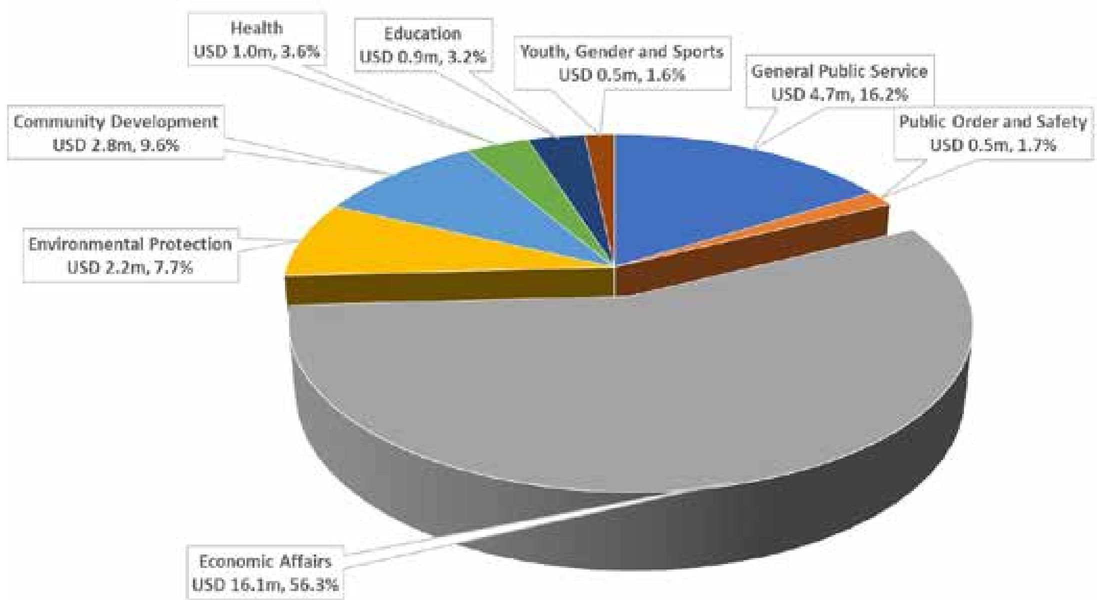


Figure 13. Sector breakdown of total climate change and disaster risk management (CCDRM)-related expenditures, 2012–2016.

Of these sectors, those directly contributing to CCDRM activities are those that have a weighting of 50% and above; while those indirectly contributing are weighted as 20% and below according to the weighting methodology. In this context, economic affairs and environmental protection would constitute most of the direct activities. However, this does not diminish the value of the role of lesser funded sectors and the ministries that comprise them. In fact, the distribution of these resources as shown, points to the need to assess whether more resources to these peripheral sectors might generate more impact in regards to climate change mitigation and adaptation, and disaster risk management.

The other important part of total resource flows that needs to be considered is the flow of resources to and from the private sector (including government-owned commercial entities) in relation to CCDRM activities. The main entities in this regard are Vital (FSM Petrocorp), FSM Development Bank, and the state-owned utility companies. The information would help identify the proportion of their spending in infrastructure or capital formation projects that relate to CCDRM. This is an area that can explored further and may require a separate exercise.

4.2.5 State government budgets and CCDRM expenditure

In assessing national government expenditures, it is important to consider an overview of state government expenditures to provide a more complete snapshot of FSM's national and state government finances. The data for this aspect are drawn from audited state government financial reports within the five-year period of 2012–2016, as with the national government. The source of these financial data are also individual financial statements for each state and not the consolidated reports of national and state governments. Therefore, this aspect looks at the financial trends and compositions of state governments as separate state entities outside the national government, and does not eliminate intragovernmental transactions between national and state governments.

Figure 14 shows the composition of expenditures according to external (Compact and grant assistance) and domestical sources of each state governments for the five-year period cumulatively.

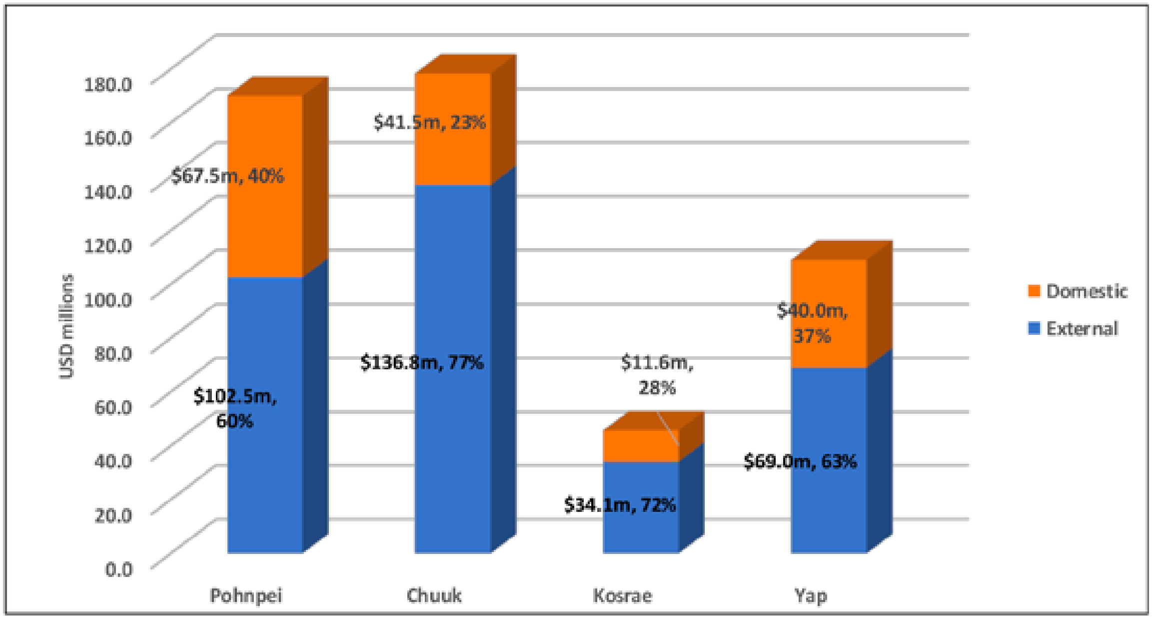
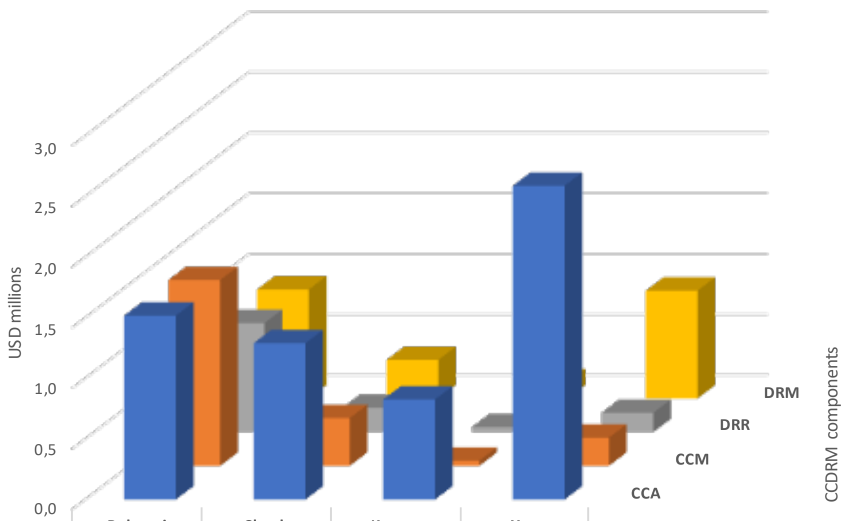


Figure 14. FSM state governments expenditure composition, 2012–2016.
Source: Pohnpei, Chuuk, Kosrae and Yap state government audited financial reports.

It is noted that the composition of expenditures according to external and domestic sources varies from around 75:25 for Chuuk, to 60:40 for Pohnpei and Yap. The point here is that the ability of each state government to sustain its own current and future levels of expenditures, particularly given the expected reduction in external sources, will be fundamental in the negotiations after 2023.

The assessment also applied the CCDRM weighting methodology to each state government expenditures, as shown in Figure 15.



	Pohnpei	Chuuk	Kosrae	Yap
CCA	1,5	1,3	0,8	2,6
CCM	1,5	0,4	0,04	0,2
DRR	0,9	0,2	0,04	0,2
DRM	0,9	0,3	0,1	0,9

Figure 15. FSM state governments' climate change and disaster risk management (CCDRM)-weighted expenditure composition, 2012–2016.

The assessment reveals that the state governments of Pohnpei and Yap spent relatively more on CCDRM-related purposes in the five years – around 2.9% and 3.5% of total expenditures, respectively – than Chuuk and Kosrae, 1.2% and 2.3%, respectively. This was largely due to the significant levels of expenditures by Pohnpei and Yap on public infrastructure, utilities, public safety and emergency management.

The varying levels of estimated spending on CCDRM weighted purposes relative to total expenditures can be attributed to the domestic financing abilities of the states. It is noted that the higher (CCDRM) spending state (Pohnpei and Yap) governments also have more of their total expenditures funded from domestic sources at around 40%, compared to about 25% for Chuuk and Kosrae (see Fig. 14).

The above observation does not take into account each state's vulnerability to climate change and disaster, but is, rather, based on expenditure sources alone. It does however highlight the issue of budget constraints faced by state governments and higher priorities than CCDRM when it comes to domestically sourced expenditures. Unfortunately, resourcing issues prevented a full analysis to be undertaken at the state level. However, given the importance of climate financing for supporting the implementation of activities on the ground at the state level, potential resourcing and partners should be considered in undertaking a similar climate finance analysis for each state, as a decision-making tool.

4.3 Recommendations

1. Assess the adequacy and appropriateness of the FSM fund accounting structure and systems, as potential vehicles for channeling global climate change funds for CCDRM through national and state governments, and non-governmental entities.

2. The endorsed 2017 PFM Roadmap should give added emphasis to the areas highlighted, and those particularly relevant to accessing and utilizing CCDRM funding, including:
   a. budget presentation and documentation – more policy orientation to clarify the linkages of CCDRM policy to resource allocation;
   b. increased accessibility of budget documentation through DoFA's website;
   c. revise and update procurement regulations and its operational mechanisms to internationally accepted standards to generate more donor confidence in the procurement of goods, services and contracts using CCDRM funds;
   d. strengthen internal controls to ensure efficient and accountable use of funds, including updating of financial regulations;
   e. implement new financial management information system to improve data integrity and classification, and reporting standards (i.e. internally for management, in-year budget reporting for executive and Congress, and for better classification of data for policy and programming purposes).

3. Restart the PFM reform coordination mechanism to take stock of the status and progress of the PFM Roadmap deliverables. Develop and endorse a PFM reform communication strategy and a PFM reform capacity building strategy.

4. Develop a PFM reform implementation strategy that is informed by the findings of the PEFA assessments and incorporates fiduciary requirements outlined by AF and GCF for accreditation.

5. The FSM Government should seek support from WF and PFTAC to undertake a Public Investment Management Assessment to complement the PEFA self-assessment so as to better assess FSM's ability to manage the development of public infrastructure, including infrastructure challenges presented by CCDRM.

PFM in a time of emergency recommendations

6. Undertake a specific disaster financing assessment based on lessons learned from the recent experience of Typhoon Maysak and droughts, and make recommendations on appropriate funding structures to deal with disasters in a timely and appropriate manner.

7. Conscious of the existence of the Disaster Relief Fund established under the Disaster Assistance Relief Act (1989) consider the establishment of a government-controled emergency fund that:
   a. maintains a minimum legislated level of resources sufficient to deal with disasters based on input from relevant technical offices;
   b. is sufficiently replenished after major payouts in response to an emergency; and
   c. receives annual appropriation for the maintenance of the real value and any increased vulnerability.

8. Develop and implement regulations to establish disaster-specific special funds at a declaration of emergency, specifically focused on:
    a. receiving cash donations from donors, international agencies (including insurance payouts), private sector and public contributions;
    b. being used specifically for disaster relief and accounted for separately; and
    c. requiring an independent record of disaster-related expenditures and revenues.

9. Develop simplified and harmonized disbursement procedures for state, municipal and community funds for rapid emergency response.

Expenditure analysis recommendations

10. Develop an Infrastructure Development Plan that is an integral part of budget formulation, and develop a medium-term public investment plan for budgeting purposes.

11. Prioritize climate change adaptation to redress the current skew towards climate change mitigation.

12. Engage, coordinate and share information with government-owned commercial entities in policy development and budget formulation. Specifically, establish sector planning and coordination mechanisms with state governments, national and state-owned commercial entities and non-governmental and civil society organizations.

13. Look at the options (and support available) for replicating a similar climate finance analysis at the state government level in order to provide more clarity for each individual state.

5. Institutional Analysis

Both national and state government agencies play key roles in coordinating and implementing CCDRM activities in FSM. This section provides an overview of the institutional arrangements and key recommendations for areas that could be strengthened in the future.

5.1 National Institutions for CCDRM

5.1.1 The Department of Environment, Climate Change and Emergency Management

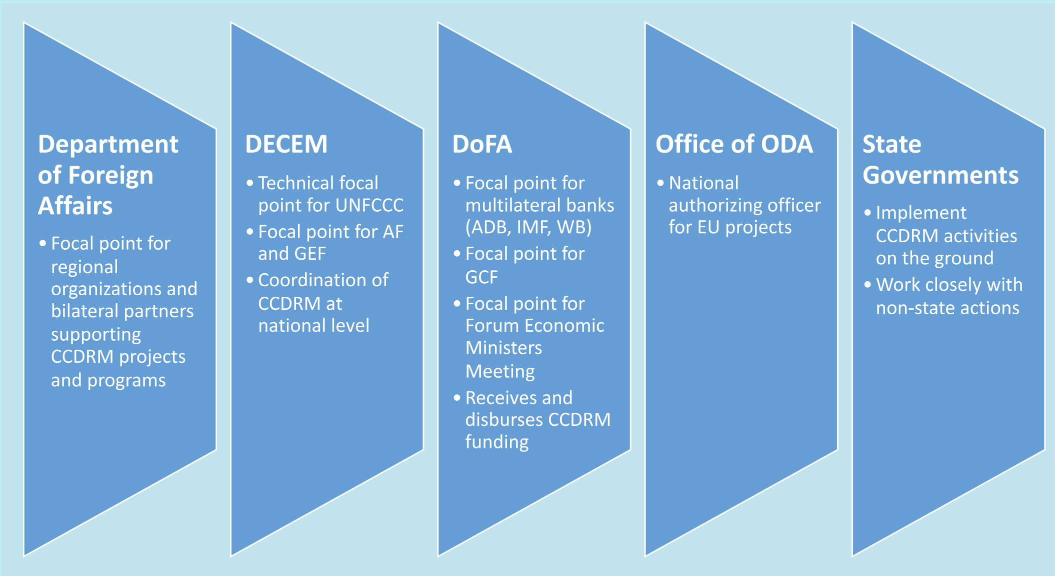
The lead agency for CCDRM activities at the national level is DECEM. Formerly known as the Office of Environment and Emergency Management (OEEM), the Government of FSM gave top priority to CCDRM issues by raising the status of OEEM as an office to a department in late 2017. The department now hosts a specific Climate Change Division, alongside the previously existing Emergency Management Division and Environment Division. OEEM (now DECEM) was mandated by the 2013 Climate Change Act as the central coordinating agency at the national level for all government climate change activities. DECEM works in close coordination with a number of line ministries, including the Department of Resources and Development and the Department of Transport, Communication and Infrastructure, in the implementation of CCDRM-related activities.

The Emergency Management Division of DECEM also exists as the technical coordination point for disaster management, including disaster risk reduction. The National Emergency Operations Centre is managed by the Emergency Management Division and is responsible for preparedness and operational response arrangements at the national level, and for supporting state level arrangements. A comprehensive outline of FSM's institutional arrangements for disaster management at the national, state and community level are provided in the FSM National Disaster Response Plan 2016, as well as corresponding plans at the state level.

5.1.2 Coordination of CCDRM

The Nation Wide Integrated Policy for Climate Change and Disaster Risk Management recognizes the cross-cutting nature of CCDRM and the role and responsibility shared among the government, private sector, civil society and communities in this regard. In addition to the key role of DECEM, Box 2 provides an overview of some of the other government institutions and their associated roles in CCDRM. Despite moving towards an integrated approach in the policy and technical aspects of CCDRM, it is evident that climate financing has been split across a number of national organizations, posing complications for coordination.

Box 2. Functions of FSM national and state government institutions.



It is acknowledged that institutional coordination in FSM can be particularly challenging, compared with other PICs, and this may have ramifications, especially for new development partners and projects that are not familiar with the FSM context. In an attempt to address this fragmentation, an executive order released by the president in August 2018 has initiated a process to consolidate the roles of all national designated authorities (NDAs) under the vice president. It will be applied to all international finance organizations (e.g. IMF, WB and ADB) and funds such as the AF, GCF and GEF. This is understood mainly as a process to assist in streamlining all communication through the vice president and is uncertain as to exactly how it will be operationalized.

Furthermore, a number of coordination mechanisms have been established to address fragmentation issues. At the legislative level, the Congress Climate Change Committee has been established as a high-level body to raise awareness on technical issues of climate change for consideration by Congress. Furthermore, the Council on Climate Change and Sustainable Development (CC&SD Council) was recently established to act as an overarching coordination body that represents all agencies within the FSM national government. The interim chair to date has been the Director of OEEM (now Secretary of DECEM), with the longer-term goal for this position to be decided by members and rotated among them. Members of the council include department heads, or their designated representatives (not lower than assistant secretary or director) of all national government departments, as well as the FSM Association of the Chamber of Commerce. At this point, state governments are not represented on the council.

The Council has faced a number of challenges since its establishment, especially in ensuring that it meets regularly and with the appropriate representation from members. The Council and its associated steering committee have each met only once since April 2017. In the future, and in the context of the increasing focus on large-scale, multi-sector projects and proposed development, the CC&SD Council and its associated steering committee needs to work more effectively, and this starts with meeting more regularly. This is particularly the case in terms of increasing the awareness and engagement of sectors such as education and health in CCDRM activities and the development of multisectoral project proposals. Furthermore, the CC&SD Council can play a key role in bringing together the focal points outlined in Box 2, to align project development and share lessons learned. As such, there needs to be a re-emphasis at the national level on the role of the Council to ensure appropriate representation and well-attended meetings. Elevating the chair to the vice president may be one option to support this, in alignment with the executive order regarding the focal points detailed above.

Working across national and state levels are the Climate Change Country Team and the Joint Resource Management Network, representing the climate change and disaster management sectors, respectively. The Climate Change Country Team has previously acted as the steering committee for large national climate change-related projects, such as the Global Climate Change Alliance and, currently, the SPREP-implemented Adaptation Fund project. Its members include state government focal points and focal points within national agencies. To ensure more consistency in its work, the budget for DECEM has set aside resources for the Climate Change Country Team to meet on a more regular basis. This will be an important technical coordinating mechanism, as FSM starts to manage an increasing number of large-scale projects and to share lessons learned on these. By dedicating specific resources to this coordination mechanism, DECEM recognizes the importance of the role this group plays and the need to ensure it is sustained. Consideration should also be made to including NGOs, CSOs and private sector representatives on this team to provide a broader stakeholder perspective and as a mechanism to strengthen coordination and information sharing with NGOs. Furthermore, mechanisms to feed information up into the CC&SD Council should also be considered, given the broader representation on these technical coordinating bodies.

Similarly, the Joint Resource Management Network (JRMN) has recently been re-established to provide a technical coordinating body at both the state and national level for disaster risk management work. This network incorporates all stakeholders involved in disaster response and management, which has allowed for a better understanding of the resources and assistance available for disaster preparedness and response within FSM. Members of JRMN include NGOs, national and state government agencies, and the private sector, with the Assistant Secretary for Emergency Management at DECEM coordinating at the national level.

5.1.3 CCDRM information dissemination

In line with the move towards integrating CCDRM, FSM hosted its first Joint National Platform for disaster, environment and climate change in 2016, with the second meeting held in September 2018. This platform brings together all relevant stakeholders across national and state government to discuss CCDRM and environmental issues of priority for FSM. In the future, this platform will be a key opportunity to bring increased awareness to, and make progress with, climate change financing. A specific climate finance session could be incorporated as a standard component to increase understanding of this topic (including national processes for GCF, AF and GEF) and discuss some of the ongoing challenges around managing large-scale projects. The platform could also be a mechanism to review progress on, and undertake mandated updates to, the GCF Country Program, on a bi-annual basis.

FSM does not have a central mechanism for the collection and dissemination of CCDRM-related information. With the creation of DECEM and its resourcing over the medium term, consideration should be given to the best tools and processes to streamline the dissemination of information on CCDRM, including climate change financing issues, to all stakeholders. A number of initiatives are already in the pipeline, with the support of partners, including a GIS and environmental data management system, a national climate change portal, and national information knowledge management and communications strategies. The development of these tools and processes should also take into consideration how to collect and showcase the important work being done on the ground within each of the states.

5.2 State Government Institutions

While DECEM plays a largely facilitative role at the national level, implementation of climate change-related activities and projects is mainly the responsibility of state governments and their relevant agencies. Nevertheless, both financing and human capacity at the state level present a number of challenges to effectively progressing sustainable climate change-related work, especially at the local and community level. Three states only have one dedicated disaster officer within the government, and no climate change-specific personnel. Chuuk is the only exception, with the state government recently dedicating a portion of its budget to hire two additional personnel, including a climate change focal point. Recent changes to funding for state government environmental protection agencies may also exacerbate this issue and are of particular concern given the key role these agencies play. The need to properly resource state governments and their agencies is critical to FSM effectively addressing climate change and disaster issues, and this needs to be prioritized, especially in the context of post-2023 planning. Opportunities to help support institutional strengthening and improve budget formulation and management for state governments are also key priorities. Determining how individual projects and development partners can support capacity building at the state level should be part of ongoing discussions, and the existing JSAPs can help to strategically prioritize resources (through domestic budgets and external assistance).

State governments also have a number of coordination mechanisms in place for CCDRM, including a Governor's Disaster Committee for each state, NDC working groups, JRMN and Climate Change Country team focal points. Individual projects frequently establish steering committees at the state level; for example, the Technical Advisory Committees of the current Ridge to Reef Project. A challenge for FSM, and across the Pacific region, is ensuring appropriate resourcing of these subnational coordination groups and committees to ensure they continue to play a sustained and active role. Utilising existing committees, rather than creating new ones, is also recommended so as to reduce duplication and to continue strengthening local institutional structures already in place.

5.3 Non-State Actors

International, regional and local NGOs based within each state play a significant role in terms of implementing CCDRM activities on the ground. Continuing to finance these organizations and the work they do, often in partnership with Government agencies, is also critical for ensuring CCDRM activities are community-based and community led. A strong focus across the region is ensuring climate financing can be channeled down to these agencies, on the ground. However, institutional capacity of local NGOs and CSOs to manage increased financial flows continues to be a challenge. Building in grant-based schemes, in conjunction with project and finance management capacity building, as part of larger projects (through GCF or bilaterally) should be prioritized. Both MCT and TNC are actively involved in supporting the capacity building of local NGOs, with MCT developing a regional project proposal (covering FSM, the Marshall Islands and Palau) to focus on readiness of subnational organizations. This is an important area of work and presents another opportunity for FSM to showcase its progress to the region. Nevertheless, FSM's current climate change coordination mechanisms appear to lack the involvement of the NGO sector, and this creates a challenge for ensuring an understanding within the government of the good work currently being undertaken. Further consideration of how NGOs may be engaged in the CC&SD council or its steering committee or the Climate Change Country Team could be timely, especially given MCT's role as an NIE to GCF.

At present, there is limited engagement of the private sector in CCDRM activities, and is largely confined to private sector support in disaster relief activities (and participation within the JRMN) and minimal subcontracting and service provision for infrastructure-related projects. This is largely due to the overall context of a very constrained development environment for the private sector within FSM. Nevertheless, private sector engagement could be explored further, especially as the FSM Chamber of Commerce is a designated member of the CC&SD Council, presenting a unique opportunity to discuss and identify entry points for the private sector in ongoing activities, as well as the development of new projects and proposals. The GCF Country Program also provides more detail on the private sector within FSM and relevant areas of private sector engagement relevant to the priority areas identified for financing.

5.4 Climate Finance Institutions

5.4.1 Department of Finance and Administration

Currently the National Designated Authority (NDA) for the Green Climate Fund (GCF) is the Secretary of DoFA. To support the NDA, a GCF team has been established within DoFA under a GCF Readiness Grant, with the Pacific Community (SPC) as the delivery partner. This team has undertaken significant work to raise the profile of climate financing in FSM over the past few years, including the development of FSM's GCF Country Program. One of the major challenges this team faces is moving the GCF Country Program into concrete project proposals with identified and committed implementing entities. This highlights the complexity of this process and the need for a long-term dedicated team to continue the momentum around this work.

This team is an important institutional structure supporting FSM's climate financing and could play an increasingly strategic role, especially with regards to providing input into post-2023 finance planning. Given that funding for this team is currently time bound, institutionalizing this office into the FSM Government administration (with dedicated recurrent resources) should be a consideration. If the team remains with DoFA, ensuring a dedicated budget through the department to maintain a small team, should be considered. Moreover, with the formalization of DECEM, and dedicated resourcing for positions in this new structure, the role currently being undertaken by this team may be absorbed by new positions within DECEM. This decision may also be influenced by DoFA becoming a National Implementing Entity (NIE), as discussed in the following section.

5.4.2 National Implementing Entities

FSM has made noticeable progress in identifying appropriate entities to become NIEs and also in the progression towards accreditation of these. FSM hosts one of the first accredited entities in the region, with the Micronesia Conservation Trust (MCT) awarded Regional Implementing Entity (RIE) status by GCF in July 2017. MCT has been accredited for micro projects (up to USD 10 million) for basic project management and grant award fiduciary standards and at a Category C status for environmental and social risk (the lowest level). MCT provides an excellent case study, not only for the region, but also globally, with small NGOs intending to strategically utilize their accredited entity status to help continue building the capacity of other national partner organizations, including local NGOs and CSOs (see Box 3). MCT is also thinking strategically about how it can provide the best support to FSM and the identified priority areas (as per the GCF Country Program) without compromising its strengths as a small, regionally based organization.

Box 3. Micronesia Conservation Trust – Focusing on institutional strengthening

Established in 2002 as the first conservation trust fund in the region, the Micronesia Conservation Trust (MCT) has always focused on grant-making. It currently serves as a pertinent case study for the Pacific Islands region as a model for channeling funds to local-level organizations. A number of lessons have emerged from MCT's experiences, including the capacity constraints that many local organizations have in terms of managing donor finances. MCT also focuses on capacity building by supporting financial and project management capacity of NGOs throughout the region.

As an accredited entity to both the Adaptation Fund (for projects up to USD 1 million) and the Green Climate Fund, MCT continues to focus on institutional strengthening for local organizations. A recent submission to the Adaptation Fund has been approved for USD 970,000. Outcome 3 of this project is to build community-level adaptive capacity to climate change with a focus on protected area networks, enforcement training and a small grants scheme to support ecosystem-based actions. Furthermore, two projects are currently being developed for submission to the Green Climate Fund. One of these focuses solely on preparing the enabling environment and building the organizational capacity for implementing and executing agencies in FSM. The project proposal will include capacity building in financial and project management for local organizations, as well as a small grants scheme.

At the time of the assessment, the FSM Development Bank had submitted its documentation for application to the GCF Secretariat, having already undertaken a gap assessment with PriceWaterhouseCoopers (PwC) in 2016, out of which an action plan was also developed by PwC. As highlighted in the chapter on gender and social inclusion, the FSM Development Bank, if successful as an NIE, could potentially play a key role in supporting an increased focus on climate resilient housing through dedicated initiatives.

Similarly, FSM PetroCorp is undertaking preliminary steps at the national level to address initial feedback from GCF regarding the organization's current activities. A bill has been submitted by PetroCorp to Congress to formalize PetroCorp's shift to renewable energy and sustainable agricultural development. Based on this process, which may also include a name change in the future, PetroCorp felt confident that it would be able to start progressing its application for accreditation in the near future.

An entity that was not largely discussed in the assessment consultations but could be considered is Department of Finance and Administration (DoFA). The benefit of DoFA becoming an NIE would be having a national entity taking ownership of progressing priority projects identified in the GCF Country Program. Given that DoFA is currently the NDA, this may require it to be shifted to DECEM, which may also help to streamline these financing focal points (AF, GEF and GCF). This may also play a role in the long-term future of this team (i.e. to be housed within and financed by DECEM). Given the work being done with PFM at the national level, undertaking a GCF self-assessment should be considered for DoFA in order to provide an indication of what gaps exist and what may be required over the medium term, if there is support for this initiative. If a decision is made not to pursue accreditation for DoFA, establishing a more permanent climate finance unit should be considered. As mentioned, this should build on the current GCF team, but as a more sustainable government-funded unit.

One consideration for a small country such as FSM is what the value would be of having several NIEs. As mentioned in Chapter 4, ensuring that each entity also prepares a project framework that is aligned with the FSM GCF Country Program will in turn ensure that the accreditation process is forward looking and strategic. Identifying where strategic proposal priorities are and which entity will be best placed to deliver them is particularly important. Furthermore, a continuing challenge for FSM and its states (as with other SIDS) is how to effectively manage significantly larger projects in the future (supported by GCF and other large multilateral funds), given the current human capacity and issues of absorptive capacity within institutions. Capacity challenges associated with managing increased levels of financing and reporting requirements are particularly pertinent for smaller organizations and overloaded public sector entities. As such, there is a continuing role for a variety of stakeholders to play in supporting countries such as FSM in delivering their CCDRM priorities, including an appropriate mix of financing from both multilateral funds and bilateral partners.

5.5 Recommendations

1. The important role of the CC&SD Council as a national coordinating body needs to be re-emphasized to department secretaries and political leaders, and the reasons for its recent challenges in attendance and representation identified and addressed. Elevating the chair to the vice president may be one way to do this.

2. Utilize the National Joint Platform to include a standard CCDRM financing component or session to raise awareness on this topic (including national processes for GCF, AF and GEF) and to discuss and share lessons learned regarding ongoing challenges around managing large-scale, multisectoral projects. The platform could also be used as a mechanism to undertake a biennial review of the GCF Country Program.

3. Develop information management and dissemination tools within DECEM to improve the streamline dissemination of FSM's CCDRM activities and include processes to collect and showcase information from each state on the important work taking place at the local level.

4. Resourcing state governments is critical, including agencies such as state EPAs. This should be made a priority in post-2023 planning, as well as in discussions with development partners, with resourcing and institutional strengthening and capacity building required focuses.

5. Resourcing subnational coordination mechanisms to ensure these are active and that they connect with national-level mechanisms is a priority. Similarly, ensuring that existing structures are utilized by new projects and programs to help sustain and strengthen these existing structures.

6. Look for opportunities to incorporate small grants-based schemes and capacity building mechanisms for subnational organizations, including local NGOs and CSOs in larger project proposals.

7. Determine where NGOs can further engage in CCDRM coordination mechanisms, including the Climate Change Country Team and on the CC&SD Council, if possible.

8. Explore further opportunities for private sector engagement utilizing the FSM Chamber of Commerce's representation on the CC&SD Council.

9. The current GCF/NDA team in DoFA holds important institutional knowledge and should be retained. Consideration should be given to whether this team is best placed in DECEM or DoFA, and where government resources can best be utilized to support this.

10. DoFA is recommended as a possible GCF NIE. If this is supported by the FSM Government, a GCF self-capacity assessment could be undertaken to identify priority areas to be addressed. Otherwise, consideration of a Climate Finance Unit within DoFA should be recommended, building on Recommendation 9.

6 Human Capacity Analysis

6.1 The Role of Human Capacity in CCDRM Finance

The human capacity analysis assesses: i) the capability of individuals to implement and manage a country's climate change and disaster risk management programs and projects; ii) attitudes, knowledge, behaviour and actions; and iii) how a country cultivates awareness, understanding and skills of its human resources.

It is important to note that this section focuses on FSM's human capacity to access and manage climate finance, rather than the broader issues of human capacity in relation to climate change, disaster risk management and development. While these aspects are hugely important, they are beyond the scope of this study.

Human capacity is important for climate change and disaster risk finance because it is not just a matter of obtaining financial resources – it is also how FSM uses the funding. Accessing climate change and disaster risk finance is a resource-intensive activity; therefore, potential recipients of international aid may miss out on receiving aid for which they are eligible, because they do not have sufficient and appropriately skilled human resources to engage with donors, in international advocacy, to write proposals, or manage contracts. Once the funding is received, the recipient of climate and disaster risk financing has administrative and reporting obligations to the donor(s). If the recipient has insufficient resources to manage this reporting, it may act as a disincentive to donors who have their own reporting requirements to fulfill. Aside from meeting the administrative and reporting requirements of a grant, actual implementation of donor-funded climate change and disaster risk financing projects requires capacity both in numbers and technical skill. A donor may view a recipient's lack of capacity to successfully implement a project and achieve the desired outcomes in a timely manner as a disincentive to invest. Then, at the national and state level of FSM's climate change and disaster risk management (CCDRM) program, there also needs to be capacity to coordinate, plan and prioritize individual projects and/or grants so that the financing that has been received is used efficiently and contributes to the overall objectives of the CCDRM program of both FSM and the donor. Human capacity is important for carrying out the full cycle of a climate change and disaster risk management grant (see Fig. 13) and maintaining a good reputation with donors as a low risk, good investment. The capacity of the recipient may also influence the modality by which the donor chooses to provide aid. For example, if the recipient is considered to not have sufficient capacity, then donors may limit their assistance to project-based or in-kind contribution, rather than more flexible modalities such as budget assistance.

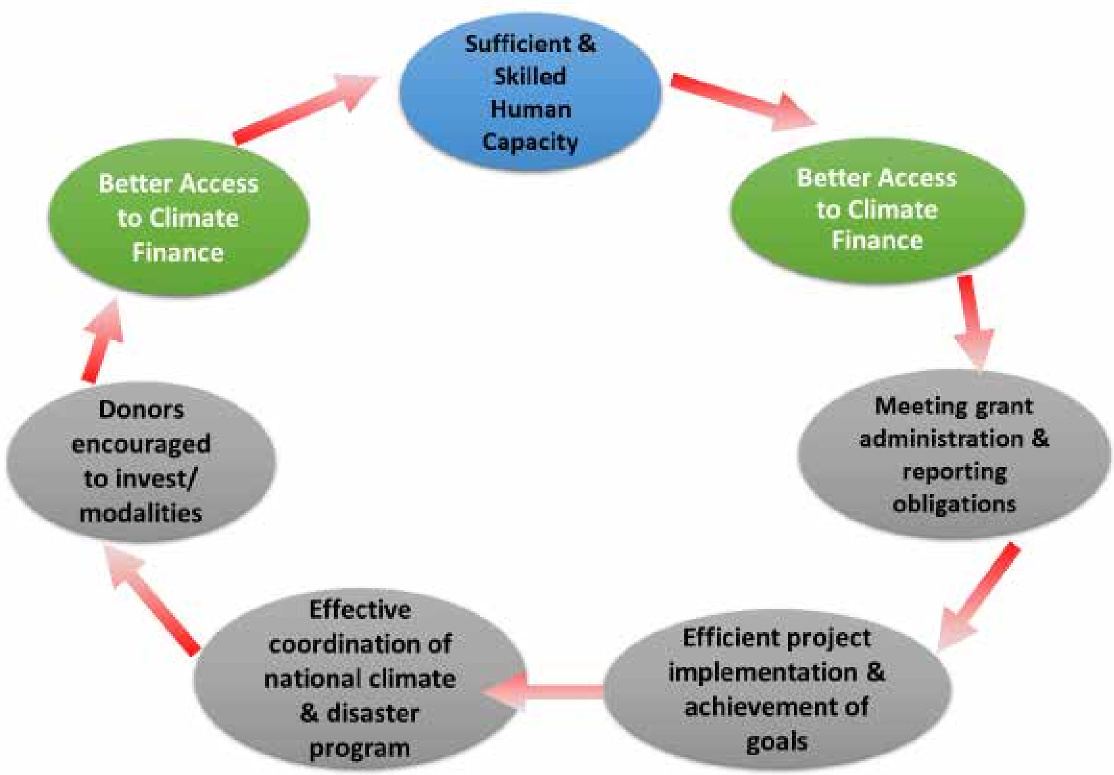


Figure 16. Typical cycle of a climate change and disaster risk management grant.

6.2 Existing Human Capacity in FSM

6.2.1 Status of existing human capacity – national and state level

The national government has taken steps to strengthen its national response to climate change and disaster risk management with the recent establishment of a dedicated Department for Environment, Climate Change and Emergency Management (DECEM). Once the approved positions for the new Climate Change Unit are recruited, the government is likely to be in a better position to access climate change and disaster risk financing. At present, the national and state governments are not sufficiently capacitated to access and manage international CCDRM finance compared with other PICs. Although there are around 600 public servants at the national level in FSM, only a few are dedicated to climate change, climate finance and disaster risk management, while many others are difficult to identify because they have multiple roles and only contribute to CCDRM occasionally or part time. In addition, staff time is not always clearly presented in budget actuals.

Boosting staff numbers within DECEM will improve national coordination with other departments, the states and partner organizations. At present, the core capacity in DECEM to deal with climate change and disaster risk management includes the Secretary and Assistant Secretary for Disaster Risk Management, and the Assistant Secretary for Environment. Core support for climate finance is primarily the GCF National Designated Authority (NDA) team (one full-time staff) within DoFA. Through a GCF Readiness Program, DoFA recruited two full-time consultants, but the funding has ended and only one position has been absorbed through the national budget. Ideally, the positions should be institutionalized and mainstreamed into the national budget. Most of the technical expertise related to energy, agriculture and food security, water, infrastructure and transport, marine resources and private sector engagement exist within the Department of Resources and Development. The coordination of technical expertise within this department is minimal. National coordinating mechanisms do exist but could be strengthened.

While there is an understanding of the procedures for accessing global climate funds such as GCF by the NDA Readiness Program team within DoFA and the climate change team within DECEM, this knowledge base is limited in other technical line departments. For example, it took more than a year for the Department of Resources and Development to draft a funding proposal to be submitted to the Global Environment Facility (GEF) because there was no technical capacity to write a proposal. The Department of Resources and Development previously hired consultants to do grant writing. The issue is also attributed to a fragmentation of focal points for different international funding mechanisms that do not often share information. For instance, the NDA for GCF is the Secretary of DoFA, the designated authority for the Adaptation Fund is the Secretary of Foreign Affairs, and the focal point for GEF is DECEM. There was a recent executive order to amalgamate the focal points under the oversight of the Office of the Vice President, but it is unclear how this will be implemented so as to limit political influence on the roles and responsibilities of the funding focal points.

All four states have limited capacity to effectively engage with the national government and donors regarding climate change and disaster risk financing. Only Yap has a dedicated grant writer in the Office of Planning and Budget. Kosrae used to have a grant writing officer but not anymore. There are no dedicated climate change officers at the state level, although some of these responsibilities have been undertaken by disaster management officers who are present in all four states. Kosrae has two staff members (director and officer) within its Disaster and Emergency Centre. All four states also have staffing within their respective Environmental Protection Authorities (EPA) but the future of these EPA positions are at stake, with some indication that the 2018/2019 US budget grant support to the state EPAs could be reduced.

At the community level, there is limited awareness of funding opportunities for climate change activities or how to write a good proposal for small grants such as the UNDP Small Grants Program, or small grant programs run by MCT, the Japanese Grassroot Program, the Australian Embassy Direct Aid Program, the US Department of Agriculture Rural Development Program and others. For example, most of the 185 schools that exist throughout FSM have school implementation teams that may be eligible to apply for some of these small grants programmes. However, there is a need for capacity building and training in the area of writing proposals for small grants, which could be used for developing and implementing these school implementation plans, especially with a focus on disaster and climate resilience activities. Limited capacity is attributed to the under-utilization of the UNDP Small Grants Program as FSM is still in its GEF5 cycle, and GEF6 funds are waiting to be drawn down. It is interesting to note that humanitarian organizations such as the Red Cross have a dedicated sustainable financing officer. In terms of private sector engagement, there has been little support or few capacity building opportunities, although small businesses assist with post-disaster relief efforts.

In Yap, the role of the traditional council of chiefs and the women's association is critical in contributing to legislation development. For example, when legislation is endorsed by the state legislators, it is then forwarded for review to the traditional council of chiefs to determine if there is any conflict with the local culture. Only if the chiefs endorse the legislation will the legislation be forwarded to the state governor for approval. Similarly, the Yap Women's Association is consulted on legislation and government expenditures related to women. Therefore, capacity is critical for these types of arrangements to ensure they have basic knowledge about the impact of climate change and disaster on their legislation.

Capacity building and training on understanding climate change and climate finance opportunities and writing grant proposals is a priority that DECEM and DoFA, with the support of other departments and donors, should seriously consider. This is important to technical line departments at the national level, state governments, NGOs, CSOs and and the private sector (e.g. Chamber of Commerce). A number of departments, NGOs and partners such as the International Organization for Migration, with support from the Australian Government Department of Foreign Affairs and Trade and USAID, are already carrying out a range of capacity building initiatives on CCDRM at the state and community level throughout FSM.

6.2.2 Use of existing human capacity

DECEM has a number of established and project-funded positions. DECEM is expected to recruit additional new positions over the next few months after the recent approval by Congress of a new organizational structure. The SPC/USAID project Institutional Strengthening in Pacific Island Countries to Adapt to Climate Change and the UNDP Ridge to Reef projects are also placing funded positions within DECEM.

Currently, the main climate finance expertise that exists within the national government are positions funded under the GCF Readiness Program; but at the time of the assessment, there was no certainty as to whether the positions would be retained (one position ended in July 2018). The Department of Resources and Development has significant technical expertise in key areas such as energy, agriculture food security, water, transport and infrastructure, and marine resources, but their understanding of the different requirements of global climate funds is limited.

At the state level, most do not have dedicated climate change officers, except disaster officers and GCF focal points. As discussed above, the state governments are constrained by several issues, including finance cuts from the US government to FSM state EPA offices. There is limited capacity in grants writing and pursuing international climate finance. Despite significant consultations undertaken with the states in the development and implementation of the GCF Country Program, state government representatives identified the lack of timely information-sharing by the national government on key funding sources and opportunities as a continuing challenge.

For FSM, capacity limitations and the associated problems with coordinating and planning for climate change initiatives is not necessarily a reflection that climate change is not being given adequate consideration, but more of an overall lack of capacity within throughout the entire government. Multiple roles are being held by key decision-makers and implementers. Climate change is a priority, but so are many other important issues such as disaster management, education and health. This makes it very difficult to give climate change the attention and focus it needs. These identified capacity limitations all make it challenging for FSM to address the elements of climate change finance.

Consultations identified that there is limited ability to build and sustain local capacity in a manner that is consistent and builds corporate knowledge. There is a current reliance on expatriate capacity for many higher-level skills in the climate change sector. This has been attributed to the slow building of local human capacity, and the less attractive pull factors to working locally and on climate change policy. There is high staff turnover due to higher remuneration being offered by other agencies and the private sector in combination with government salary levels having been frozen for the last 20 years.

6.3 Development and Management of Human Capacity

6.3.1 Human capacity development activities

The issue of capacity is not unrecognized in FSM, with many development partners directing effort into improving the capacity situation in general as well as for climate change specifically. For instance, the FSM Congress has recently approved the recruitment of new positions to boost staff numbers within DECEM. The SPC/USAID ISACC and UNDP Ridge to Reef projects have national coordinators within DECEM.

At the policy level, the issue of human capacity development is guided by the Public Service System Act and the Public Service System Regulations, which is currently being reviewed through ADB support. There is also a pending President’s Order for the Office of Personnel to be an autonomous agency under the president’s office (a similar arrangement exists in Kiribati). FSM’s state governments also have their own human resources and personnel departments. Although there is a freeze on public service salary increases, government incentives include housing allowance, life insurance (67% from the government, 33% from the employee), 108 hours/year leave, six weeks of maternity leave, and five-days of paternity leave. There are 12 pay levels and 8 steps, which is currently being reviewed with ADB support to a new and proposed 42 pay levels and 7 steps. A bill is expected to be drafted in 2018 to progress this initiative and to unfreeze salaries. There is also a capacity building roadmap developed for the FSM national government, indicating the priority areas for personnel development across government.

In order to create new positions, the recruiting department must submit a request to the Office of Personnel. The request is then forwarded to the president and later to Congress. Once approved by Congress, the position can be advertised. Externally funded positions do not require congressional approval; however, the salary package should be harmonized with nationally funded positions to ensure sustainability and likely absorption by the government. Annually, departments submit their training needs to the Office of Personnel. However, for 2018, the Congress did not appropriate any budget for training (usually around USD 100,000/year) to the Office of Personnel. Despite this, several donors have offered short- and long-term (scholarship) training opportunities to FSM public servants and citizens, and the Department of Education is undertaking a review of country needs and scholarship priorities.

Unlike in other Pacific Island nations, there is no shortage of short-term training and long-term scholarship opportunities in FSM. These are offered by the governments of China, Japan, Australia and US, which provide scholarships in various areas of focus and at both undergraduate and postgraduate levels.

China is the largest provider of scholarships to FSM citizens. In 2017, around 33 national scholarships were offered. This is in addition to a Chinese provincial scholarship program for study in China (10 scholarships/year over a five-year period). Scholarships are allocated on a competitive basis with no indicative cap per state. Australia provides around four undergraduate scholarships and one postgraduate scholarship per year for FSM. The US Government supports the International Visitor Leadership Program for increasing the skills of FSM public servants and funding opportunities to study at the East-West Center in Hawaii. Japan, through its Japan International Cooperation Agency, provides around 12 volunteers throughout FSM, and scholarship opportunities for study at universities in Japan. Applicants are required to sit an exam, and mathematics has been a key challenge for FSM students. In 2017, only one student was successful. In 2017, around 10–20 secondary school students went on a short visit to Japan. Public servants were also supported to attend a tsunami conference in Okinawa. The Government of Japan is now working with universities such as the Okinawa University to have flexible entry requirements for their postgraduate programs for FSM students. Unfortunately, there is no structured arrangement between the national government and scholarship providers to ensure scholarships address the skills shortage in FSM. The scholarships are usually not restricted to specific fields or sectors, and are up to individual student interest. There is also difficulty in attracting applications for scholarships in universities in the South Pacific.

In addition to traditional donors, other agencies and programs are also offering scholarships and capacity development initiatives in areas relevant to climate change and disaster risk management. The Department of Education's science curriculum covers aspects related to climate change. It also has an evacuation plan for schools, which is used by states and IOM for training and drills. The Micronesian Conservation Trust (MCT) is working with SPC under the 11th EDF program, which is focusing on sustainable energy. MCT's component will include training of approximately 10 FSM women in solar engineering through the Barefoot College's "Women as Solar Engineers" program. Based in India, the Barefoot College trains women with little or no formal education who are from rural and remote communities to become solar engineers through a six-month training program. MCT offers Masters or Doctorate scholarships (two per year worth USD 30,000 per student) on climate change and conservation with Sophia University in Japan or the East-West Center in Hawaii. Yap also has its own scholarships funded through the Yap Trust Fund, and there is a Yap Community Action Program that assists communities with protecting marine areas and developing food and water security.

The International Organization on Migration (IOM) has delivered a range of capacity building activities with support from the Government of Australia and USAID. Since 2012, IOM has been implementing the Climate Adaptation, Disaster Risk Reduction, and Education (CADRE) program, reaching around 10,000 school children in the Micronesian region (FSM, Palau and the Marshall Islands). CADRE, with funding from Australia, includes curriculum development on climate change adaptation and disaster risk reduction. CADRE+ (with recent funding from USAID/Office of Foreign Disaster Assistance) is supporting community-level capacity building, disaster committees and disaster plans. In addition, IOM is implementing the PREPARE Program, which works with the FSM national government and all four FSM state governments on disaster preparedness and response capabilities and mechanisms. A women's project looks at the impacts of disasters on women and girls. IOM is also rolling out a module on traditional growing and food preparation techniques to FSM communities.

6.3.2 Role of training providers

The College of Micronesia (COM) plays a key role in training FSM citizens in sectors that are relevant to climate change issues. The National Institute for Food and Agriculture, which is part of COM, undertakes research on salt-tolerant crops, promotes concrete taro patches and provides capacity building in agriculture. However, there is only one agent reaching out to communities to support inter-cropping. Training is needed for extension agents.

The National Institute for Food and Agriculture also offers Certificate and Bachelor of Agriculture programs, and receives an annual subsidy from the national government to pay teachers (USD 3–4 million/year, the total for all teachers) and has an existing MOU with the Pohnpei State Department of Resources and Development on land grant programs. This relationship between the national government and COM could be further strengthened to expand courses on include climate change and climate change financing, disaster risk management, and other climate-related classes. This is useful because the College has campuses in all four states (two in Yap, one in Pohnpei, one in Chuuk and one in Kosrae). There is also an opportunity for the College to connect and collaborate with other Pacific Island educational and training institutions. The US Government Pell Grants provide a key role in providing funding for students to pay for their tuition and undertake studies, including on climate change.

Both the FSM Development Bank and Vital (FSM Petrocorp) are building their internal capacity so as to access climate finance for FSM by exploring national implementing entity accreditation. The FSM Development Bank intends to set up a Development Finance Institute to provide capacity building programs and scholarships in areas related to climate change and sustainable development. The Vital Group is funding the Vital Annual Scholarship in partnership with the Rotary Club of Pohnpei. These initiatives would benefit from a partnership with the College.

6.4 Recommendations

1. The Climate Change Division of DECEM needs to be adequately resourced so that the division can play an active role in identifying and coordinating local specialists within the government for project development and implementation.

2. Future CCDRM projects accessed by FSM must have an embedded component related to capacity development and the transfer of knowledge. This will ensure that external consultants provide an added value to government.

3. DECEM's Climate Change Division needs to work closely with the state governments to share information regarding funding opportunities in a timely manner, and provide training on understanding climate finance and proposal development.

4. There is a need for a structured arrangement between the national government and donors that provides scholarship opportunities to ensure that opportunities are aligned with the skills shortage of both the national and state governments. This could build on the outcome of the review being undertaken by the Department of Education.

5. The government's engagement with NGOs (e.g. MCT, TNC and others) should be strengthened, and their presence and experience of working with communities should be capitalized on.

6. The national government should consider including officers from the Department of Finance, Department of Research and Development, civil society and the private sector in national delegations to regional and international climate finance meetings (e.g. United Nations Framework Convention on Climate Change Conference of the Parties negotiations). Funding support for this could be sought from development partners or regional organizations.

7. Gender and Social Inclusion Analysis

7.1 The Imperative for Gender and Social Inclusion Analysis and Existing Human Capacity in FSM

Gender equality and social inclusion (GSI) is one of seven pillars of the Pacific Climate Change Finance Assessment Framework (PCCFAF). Gender equality means that women and men, and boys and girls have equal conditions, treatment, and opportunities for realizing their potential. Social inclusion is all people taking part in, and benefiting from, society with "no one left behind".

Culture, tradition and norms influence the degree of inequality in a society, and impact on participation and decision-making, as well as access to resources. A person's gender, age, education, social status and disability, impact on roles, skills and vulnerability to disaster and climate change, as does where they live and work. To illustrate, there is substantial evidence that women are more likely to die in disasters than men. In the 2013 tsunamis in Samoa and Tonga, around 70% of those who died were female (Government of Tonga 2013).

The extent of women and youth engagement, together with the inclusion of people with disabilities, rural communities, children and adolescents, and other marginalized groups, shows a country's commitment to maximizing the potential of its population. Exclusion, on the other hand, contributes to impoverishment and lost productivity. Moreover, a gender-sensitive and inclusive approach to climate change and disaster risk management (CCDRM) will support "buy in" to climate resilient development.

When CCDRM is blind to population impacts, inequalities and vulnerabilities are likely to increase. Systematic approaches that include gender equality and social inclusion in CCDRM projects will improve the efficiency and effectiveness of programming and contribute to sustainable development.

7.1.1 Gender in global climate change finance structures

The Paris Agreement stated that in climate change actions, "parties should be guided by respect for human rights, gender equality and the empowerment of women" and follow "a country-driven, gender-responsive, participatory and fully transparent approach". Increasingly, global CCDRM policy and financing institutions and other donors are requiring gender and social inclusion considerations in structures, plans and programming. The inclusion of GSI in the PCCFAF recognizes this.

Achieving minimum standards, via environmental and social safeguards, is critical to sustainable development and avoiding harm to ecosystems and populations. Such safeguards typically require protection of indigenous peoples' culture and practices, including the production of cultural goods and services, heritage sites and intangible cultural heritage, and the engagement of indigenous people and cultural custodians in CCDRM.

In November 2017, the first ever UNFCCC Gender Action Plan (GAP) was adopted at COP23. Five priority areas were defined as critical to achieving gender objectives:

1) Capacity building, knowledge sharing and communication
2) Gender balance, participation and women's leadership
3) Coherence consistent implementation of gender-related mandates and activities
4) Gender-responsive implementation and means of implementation
5) Monitoring and reporting.

7.2 Mainstreaming Gender and Social Inclusion of Other Marginalized Groups

7.2.1 The assessment framework

This assessment methodology is aligned with the principles and policies of gender frameworks in global financing institutions, and contains the following dimensions:

- **Commitment and accountability:** Gender and social inclusion aspects of policies and plans (UNFCCC GAP B)
- **Comprehensiveness, scope and coverage:** how well GSI has been integrated into design, delivery and evaluation of CCDRM projects (UNFCCC GAP C,D and E)

- **Resource allocation:** the extent to which marginalized groups benefit equitably from funded adaptation, mitigation and DRM and resilience activities (UNFCCC GAP E)

- **Competencies and capacity:** where are the GSI capacities, and what are the gaps in skills and knowledge? (UNFCCC GAP A).

7.2.2 Country overview

In FSM, social indicators such as life expectancy and education are improving, as is access to electricity and clean water. However, women still have little input into political decision-making, have significantly lower labor force participation than do men, and one in four partnered women have experienced partner violence over the previous year. Moreover, there are significant differences in the extent of gender equality and social inclusion in each state (Table 13).

Table 13. Socioeconomic indicators in FSM's four states.

Socioeconomic indicator	Chuuk	Kosrae	Pohnpei	Yap	FSM
Male labor force participation (United Nations Convention of the Elimination of all Forms of Discrimination Against Women (CEDAW) 2015)	62.7%	62.9%	70.3%	69.1%	66.1%
Female labor force participation	43.3%	43.6%	49.9%	65.7%	48.4%
% of population aged 25+ who are high school graduates (UN CEDAW 2015)	27.9%	55.3%	35.1%	59.3%	36.2%
Poverty rates (FSM 2013/14 Household Income and Expenditure Survey)	46%	21%	39%	39%	41%
Number of women in legislature or congress (as of May 18)	1	0	1	0	0
% partnered women who experienced partner violence in previous 12 months (FSM Demographic and Health Survey 2014)	42.6%	24.3%	13.5%	15.1%	24.1%
Households with electricity (Castalia Ltd. 2018)	30%	98%	94%	85%	67%

7.2.3 Commitment and accountability: GSI aspects of policies and plans

A national development strategy indicates the importance a government places on gender and social inclusion (GSI). The FSM National Development Strategy 2004–2023, in its second volume, sets ambitious goals within the gender matrix for women's advancement, gender mainstreaming, strengthened women's programing, strengthened youth organizations, programming and leadership, establishing social protection and social services for the elderly, and addressing the economic, political, social and legal needs of people with disabilities and those with special needs. Building on the ratification of the UN Convention on the Rights of Child in 1993, the Convention on the Elimination of all Forms of Discrimination against Women (CEDAW) was ratified in 2004, and the Convention on the Rights of Persons with Disabilities in 2017. FSM has also committed to gender responsive policies and programs.

Overall, policies are strengthening in the GSI area. For example, a national gender policy was endorsed by the president in early 2018 and its implementation will incorporate high-level accountability along with designated gender focal points in every FSM department. In addition, a youth policy was recently revised. However, laws and services in relation to social matters are largely the responsibility of the states and need development and funding. Through to 2023, FSM education and health services will be supported by US funding through the Compact of Free Association, at which point a trust fund will supply a lower level of funding. The education and health sectors include services for students with disabilities. Outside of these two sectors, there are few state-initiated policies and social services (see Table 13).

The semi-autonomous nature of FSM's states, and the strength of traditional leadership in most states, means that FSM's national and state governments are practiced in consultation with each other, especially on matters relating to land and resource use. All states have women's councils or associations, but the extent to which their voice is sought out beyond traditional "women's domains" varies. The same is true for youth and disability organizations. State and FSM governments also vary in consultation practices, and the extent to which they engage with and fund NGOs (Table 14).

Table 14. FSM national and state laws and services that promote gender equality and social inclusion (GSI).

	Chuuk	Kosrae	Pohnpei	Yap	FSM
No. staff responsible for GSI policy and programs	One in governor's office	No visible focal point	Social services Team of 3 in health:	At least 3 staff	3 staff plus one external advisor (social affairs DHSA)
Domestic violence laws	No	Yes	Yes	No	
Accessibility law	No	Yes	Yes	Yes	
Social services provided in addition to health and education	Some federal programs and others accessed to provide support to states, typically through education and health services. No state social programs such as victim support or child protection services. Personal loans for housing through FSM Development Bank, United States Department of Agriculture rural development and housing authorities. Variable levels of program activity by NGOs in different states.				
Financial support for NGOs	Several NGOs have accessed funding for buildings. Yap state provides funding support for key NGOs. Congress initiates FSM government grants to NGOs.				
Engagement with civil society or traditional leadership	Not systematic	Annual, broad-based engagement	Regular consultation with traditional leaders	Traditional leader councils have veto rights	Departments have varying models for engaging with states

GSI is not widely included in policies, including those pertaining to CCDRM. However, GSI is more commonly included in newer national and state policies. As an example, the more recent Joint State Action Plans (JSAPs) on CCDRM are stronger on GSI issues. Chuuk's JSAP includes strong messaging on consulting the community, preventing violence against women in disasters, and building community resilience. A recent FSM study provides a baseline on the impacts of disasters on the health and safety of women and girls as well as recommendations on gender-responsive practices and greater women's participation (IOM 2018). The FSM's GCF Country Program also includes a detailed analysis of GSI issues (FSM DoFA 2017). Social considerations are found in high-level policies on CCDRM, fisheries and agriculture, at both the national and state level. However, the potential of women, youth and people with disabilities, and the importance of their participation is not generally highlighted.

7.2.4 Comprehensiveness, scope and coverage

The integration of cross-cutting issues into projects, also including the environment and CCDRM, is in its infancy in FSM. As an example, the 2023 Action Plan (Government of FSM 2014) focuses on economic growth without these broader considerations. The greater focus on CCDRM, including the JSAPs, and the consultative process used to develop the FSM GCF Country Program, has heightened awareness of the breadth of issues that need consideration within CCDRM. This is reinforced by the national gender policy, which prioritizes CCDRM as a gender mainstreaming activity, and a gender development officer is now engaged in this sector. There is a focus on gender balance in CCDRM training, but not yet in decision-making structures. As noted in the analysis of current expenditures on CCDRM, very little is spent on activities that build social infrastructure and service delivery, good governance and institutional capacity.

As noted in the Chapter 5 on institutions, NGO and community projects are vital to the ecosystem of resilient communities and to learning how to incorporate GSI in planning (e.g. through community participation techniques). The Micronesia Conservation Trust (MCT), a subregional NGO in operation since 2002, is a key asset for FSM. It promotes conservation, climate resilience and sustainable livelihoods, and distributes around USD 1.4 million in grants each year. Its funding and other activities will grow with its accreditation to the Adaptation Fund and also as an implementing entity for the GCF.

Part of grant access criteria for the Global Environment Facility (GEF) Small Grants Program (SGP), available to NGOs, is to consider social inclusion, including women and people with disabilities. However, as noted in Chapter 6, GEF SGP struggles to get suitable applications, is behind on expenditures, and registered community organizations are relatively few and often fragile, with many appearing to rely solely on project funding, suspending operations when funding ceases.

Links between policies and many grant-funded, CCDRM-related projects are relatively weak. As noted in the Chapter 3 on funding sources, an estimated 60.9% of CCDRM-related project funding comes from outside the FSM budget.

7.2.5 Resource allocation

The Green Climate Fund expects the projects it funds to ensure marginalised groups benefit equitably from funded adaptation, mitigation and disaster risk management and resilience activities. There is no measurement of expenditure on GSI within CCDRM projects. Budgetary commitments to the social sector are low in both FSM and its states, and many social policies lack adequate resources for implementation. CCDRM expenditure on the social sector is also minimal, as noted in Chapter 4. As GSI is included more in policies, expenditure can be expected to increase. Working against this, however, is the declining revenue for the states where social activities are typically funded, while FSM revenue increases.

Policy gaps that could exacerbate vulnerabilities include:

- The lack of an effective passenger and freight transport system to the outer islands, meaning FSM is likely to face further migration of outer island populations to main population centers and to the US.

- Poor-quality housing, particularly in low-lying areas, is an area of vulnerability. Housing loans exist, but there is no facility to assist people with designing and building climate-proof housing or demonstrate low cost possibilities. This means no facility to re-build houses following disasters, or train people in building, including traditional building techniques in order to climate-proof dwellings. Prioritizing this area could also help increase housing standards generally.

Improved donor and FSM/state coordination would enable the scaling up of successful adaptation and mitigation projects such as adaptive gardens, dry litter piggeries, and mangrove rehabilitation.

7.2.6 Human capacity and technical expertise for GSI

The resources (both human and financial) devoted to GSI are very small at both the national and state level. In addition, community-based organizations (CBOs) are lean, often fragile, and rely on project funding. Hence, there is an absence in many states of an appropriate agency where projects or programs can be based. This issue is highlighted in the recent baseline assessment of services to support victims of gender-based violence (Pacific Women 2018). Programs that work at the community level are important ways of including women, youth and other groups in local governance, program management and implementation. These projects, in turn, can strengthen the capacity of women and men to participate in decision-making and build collective knowledge on GSI and CCDRM. This limited capacity also means it is challenging for the GSI sector to engage in social and gender analysis in CCDRM. CCDRM policies and discussions need to be more people-focused to enable engagement.

All four states have established umbrella-chartered organizations[15] for women and youth, and all but Chuuk for disability. While several of these have accessed state and/or donor support for buildings, most have little in the way of regular income, and few, if any, paid staff outside those employed on projects. With the exception of Yap State, Congress and legislatures do not apply consistent criteria to support NGOs. Among the most active groups is the Chuuk Women's Council, which has maintained an active base through sequential programs that support women, girls and families.

MCT and The Nature Conservancy offer capacity building training and MCT is likely to further strengthen its capacity through work on the forthcoming Adaptation Fund and Green Climate Fund projects. Strengthening NGOs and CBOs is also a priority of the national association of NGOs (FANGO), which has recently been revived and is being supported through the Pacific Island Association of NGOs (PIANGO).

15 Umbrella-chartered organizations function as overarching membership organizations for other informal and smaller women and youth groups or organizations. The umbrella organization assists with the dissemination of information and provides representation as needed.

7.3 Opportunities for the Integration of Gender and Social Inclusion into CCDRM

Over the last two years, FSM has taken positive steps to integrate GSI into CCDRM and prepare itself to access a wider range of climate-related finance to address its vast mitigation and adaptation needs. The elevation of DECEM, the development of the GCF Country Program and the national gender policy, and the strengthened international and donor expectations, will lead to greater attention to GSI within CCDRM. Coordination and consultation challenges are large, and both national and state institutions can build from their experience in consulting traditional leaders and communities.

At the national level, there is an opportunity for better coordination, building knowledge, and improving the use of social data in relation to CCDRM, including improved assessments of outer island vulnerabilities, and cultural impacts. Strengthening GSI in CCDRM will require leadership from the Social Affairs Division of the Department of Health and Social Affairs, which is responsible for gender, youth and disability issues. The introduction of GSI focal points within climate change and social sector agencies will assist in using the small GSI resource base most effectively. Improved resourcing, along with coordination mechanisms, will enable GSI specialists to attend more to GSI in CCDRM. As yet, there has been little integration of climate change and environmental research, and gender and human rights into CCDRM reporting, although there is an opportunity to include GSI in the Third National Communication to UNFCCC. The FSM Government could also take the lead in ensuring gender balance in decision-making.

Similarly, in the states, there is a need to strengthen coordination across the few available GSI and CCDRM resources, and engage more effectively with NGOs and CBOs, including their activities within broader state plans, as is occurring with JSAPs. Joint tasks could include awareness raising, education and building knowledge. Action to build climate resilient housing would need to occur at the state level and there is potential to include this under a GCF infrastructure project. This could be a private sector project involving all of the states under GCF, and could involve a self-build component.

7.4 Recommendations

National leadership

1. DECEM and the National Designated Authority should establish focal points for GSI, and resource their activities, which would include coordinating on best practices, developing guidelines for FSM departments and states, and identifying training needs.
2. DECEM should build knowledge through the inclusion of GSI in the Third National Communication to the UNFCCC.
3. The Department of Health and Social Affairs should increase resourcing and expand the role of Social Affairs to lead gender mainstreaming in accordance with FSM's national gender policy.
4. Congress should improve the gender balance in decision-making related to CCDRM, by requiring all government advisory bodies, project steering committees and state-owned enterprises (SOEs) to include women, and encourage a similar standard in the states.
5. Congress should introduce mandates for the divisions of infrastructure and internal affairs to better address the needs in the outer islands, including transport, and to support states in increasing the supply of resilient dwellings.
6. The FSM government should invite Congress to introduce a consistent approach to future resourcing of local NGOs, such as recurrent budget allocations, so they can engage more consistently in CCDRM planning and activities.

State leadership and local level resilience

7. State governments should introduce and/or strengthen the GSI focal point to include responsibility for mainstreaming.
8. CCDRM offices in the states should establish GSI focal points
9. State governments should consider funding mechanisms that will provide core funding to key local NGOs, support their access to training, pay them for their services, showcase them and scale up their best initiatives, and include them in CCDRM delegations.
10. DECEM, through GSI and CCDRM focal points, should support the development of NGO/CBO CCDRM projects, especially in the outer islands and remote locations.

8. Development Effectiveness

The development effectiveness analysis evaluates the linkages between climate change and broader development effectiveness efforts. In line with globally accepted principles of development effectiveness, it considers issues such as ownership, leadership, alignment, harmonization, and managing for results and mutual accountability (see Fig. 17).

Figure 17. The key foundations of Development Effectiveness.

While the negative impacts of climate change and disasters have the potential to amplify existing development challenges, it also attracts substantial financing. The response to climate change and disaster risk management could propagate an increase in the number of projects and programmes, which could potentially risk greater fragmentation of aid delivery. The principles of development effectiveness and the need to ensure that aid is delivered in an effective way that maximizes impact and achieves value for money remain relevant and central to climate change response.

8.1 Ownership and Leadership

In FSM, significant progress has been made in strengthening national institutions and policies for improved development effectiveness. The FSM Government is exerting greater ownership and leadership, as evidenced in the renewed focus on the range of national plans and policies relevant to CCDRM and development. It is important to underscore that FSM is quite advanced with the range of plans and policies that are in place compared with many other Pacific Island countries that were previously assessed.

The FSM Government has demonstrated regional and international leadership on climate change issues. FSM is the first Pacific Island country to develop a Green Climate Fund Country Program, and one of first few country parties globally to ratify the Paris Agreement (in September 2016). The government is also a regional and international champion for the Kigali Amendment to the Montreal Protocol in 2015 to phase out hydrofluorocarbons.

Technical cooperation through the provision of technical assistance and aid in-kind remains a key feature of development assistance in FSM, owing to the limited capacity that FSM has. Linking climate change and disaster risk finance more strongly with broader national development and infrastructure plans, and strengthening the focus on co-development benefits would empower the government to take on greater ownership and leadership.

8.2 Alignment and Harmonization

Acknowledging the high transaction costs associated with individual project support, there has been a shift towards more programmatic approaches and the use of local country systems. This can be seen in the increased use of national development plans and sectoral strategies to inform aid spending, and the provision of more flexible modalities such as budget support. Predictability of climate finance is an important aspect of development effectiveness because it allows countries to plan for and manage fluctuations in aid. This aspect is still somewhat problematic in FSM and there is scope for further improvement.

At present, a national Overseas Development Assistance (ODA) policy has been drafted through a bottom up approach with support from the Government of Australia.16 The draft policy, which was endorsed by all state legislators, identified eight state priorities and six national priorities for a two-year period. The draft ODA policy has yet to receive formal endorsement by the national administration, however. A development partners' forum, which was intended to take place in mid-2018, did not eventuate. Political support for the ODA policy was identified by donors as a critical element to ensure that donors align their support to national priorities listed in the policy.

16 A draft policy has been endorsed by all four state legislators.

Given the policy is yet to be endorsed by the national administration, this has an impact on the level of alignment between donor priorities and the priorities outlined in the draft policy. The European Union has linked its EDF11 priorities to the draft policy. China has been very flexible in supporting newer emerging priorities of the national government (shipping and aviation), while both the Government of Australia and the Asian Development Bank have taken a six-year programmatic approach to improve the quality of education in FSM (funding equivalent to USD 2.4 million over six years), with some alignment to the draft policy.

With support from the FSM Congress, an ODA database was developed although it has yet to be finalized. Recognizing that the two-year time frame for the draft ODA policy has lapsed, and that some priorities may have been addressed already through project interventions or incorporated in the GCF Country Program, there is value in updating the policy and its priorities to capture the emerging needs of the current FSM Government. Some donors have also identified the importance of updating the ODA policy and corresponding strategies in the lead up to and after 2023, noting the projected shortfall in funding.

There is evidence that different donor requirements or conditions have led to aid fragmentation in FSM. Therefore, convening the proposed Development Partners Forum as soon as possible to discuss issues related to streamlined and simplified reporting templates would be beneficial.

8.3 Managing for Results and Mutual Accountability

Managing for results and accountability is a grey area in most Pacific Island countries, including FSM. The existence of policy matrices such as those for the provision of budget support encourages high-level outcome reporting, but the monitoring of development results remains weak and experiences vary across sectors. Improving both government and donor coordination can be inferred from efforts such as stakeholder forums, thematic groups, joint work planning and programming, and joint analytical and monitoring missions. Supporting and enabling a flexible range of modalities and institutions, including civil society and the private sector, allows for a wider resource pool, which can perform different functions and respond better to country needs.

There is currently no formal coordination mechanism for donors to ensure the sharing of lessons learned from project implementation, co-financing, and limiting duplication of effort. Having a donor-to-donor coordination meeting has been acknowledged by some donors as a useful exercise. This is a mechanism that the United Nations Development Programme has been supporting through the Development Partners on Climate Change in Fiji, and which could be replicated in FSM. Regardless, the FSM Government has regular bilateral engagements and consultations with donors working in the country, and Deputy Heads of Missions also meet on a fortnightly basis.

The consultations noted the lack of mutually agreed on indicators and capacity to manage results in FSM. As such, the monitoring and evaluation of tangible impacts of climate change and disaster risk interventions is a challenge. The Sustainable Development Programme 2004–2023 is relevant to the localization process for the Sustainable Development Goals. The FSM Government could consider the development of a medium-term development plan (e.g. five years) to allow for ease of monitoring and developing a resource framework.

Furthermore, in-country missions by development partners are largely uncoordinated and joint missions are rare. This places a significant burden on staff time at the country level. For example, the assessment noted that there were 45–50 US Government grant components supporting FSM in different sectors. Most times, the US Embassy in FSM is not even aware of US agencies visiting with the intent to monitor the progress of interventions. This is not unusual given how much the US Government is doing in FSM. The US Embassy is working on a list of different US Government grant components working in FSM.

8.4 Recommendations

1. There will be a growing influx of new players and non-traditional partners wanting to support FSM on CCDRM initiatives. Convening a Climate Finance Forum with the FSM Government and its partners – annually or every two years – will strengthen coordination between the national government and its donors on CCDRM efforts.

2. All CCDRM support should be communicated to the Climate Change Division within DECEM and DoFA to support budget planning.

3. Having a donor-to-donor coordination mechanism will be useful for reducing the duplication of effort in projects in small-sized projects to communities or state governments.

4. Due to FSM's capacity limitations, partners and regional organizations that wish to engage with the national government should consider joint missions and approaches. Missions should not be approved during critical periods of budget planning.

5. The FSM Government could consider updating the priorities identified in the Overseas Development Assistance policy so as to reflect new and emerging priorities of the government, and to develop a strategy for after 2023.

6. There is a need to support dedicated capacity for monitoring and evaluating the effectiveness and impacts of aid, including CCDRM financing.

7. Establishing a more formalized mechanism between the national government and development partners to meet on a regular basis could be beneficial so as to better coordinate support and reporting, especially in the lead up to and after 2023.

9. Conclusion

The Government of FSM is taking a lead in accessing climate change and disaster risk financing from a diverse range of sources. It is progressing with a number of key initiatives to improve its access to and management of climate finance, including funding proposal development focused on the FSM GCF Country Program, and pursuing public financial management reforms. However, a greater focus on increasing support for adaptation priorities may be necessary.

As such, FSM has currently positioned itself well, given the expected increase in the volume of climate change and disaster risk finance flowing into the Pacific Islands region. That increase will be accompanied by additional complexity in reporting requirements and the need to coordinate different partners and players wishing to engage with PICs. FSM will need to continue to be strategic and should not lose focus of its own national priorities and the aspirations of its citizens when engaging with partners and international agencies regarding climate funds.

Strategic consideration for the role of climate finance after 2023 should play a part in the ongoing discussions around FSM's development and financing requirements. Strengthening the areas detailed in this report will also assist with improving general donor confidence in utilizing local systems, thereby supporting the achievement of national sustainable development objectives in general. Continued efforts towards improved coordination, information sharing and capacity building will further enable this. Furthermore, remaining flexible with its options for accessing CCDRM finance (e.g. budget support, programmatic project approaches, national climate funds, and others) will also put FSM in a good position to maximize the benefits of different funding mechanisms.

This assessment facilitates a comprehensive, consultative, and validated baseline of information on the current national climate change and disaster risk finance landscape in FSM, which can inform future policy decisions. It also provides opportunities to strengthen country systems, policies and plans, institutions and human capacity to effectively access and manage climate finance and other donor funds. It is envisaged that the recommendations presented here will be used as an entry point for ongoing discussions with regional organizations, development partners and multilateral funds in terms of priority areas of support.

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Appendices

Appendix 1. List of Stakeholders Consulted

Stakeholders Introductory Workshop – 31 January 2018 at 9.00am (Central Facilities Building, Palikir)				
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1	Pius Talimeisei	Office of Planning and Budget, Yap	piustalim@yahoo.com	M
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Appendix 2. Pacific Climate Change Finance Assessment Framework Methodology and Assumptions

Much of the quantitative analysis in this assessment has relied on a range of assumptions and methodologies to help quantify the amount and shape of the climate change and disaster risk finance that has been received by the Federated States of Micronesia (FSM) and how this has been applied to achieve the government's climate change and disaster risk management (CCDRM) objectives.

The quantitative analysis is confined to two chapters – Chapter 3: Funding Source Analysis and Chapter 4: PFM and Expenditure Analysis. In the later of these two chapters the analysis was largely confined to section 4.2 Expenditure Analysis.

Funding Source Analysis

The funding source analysis used the following sources to compile a list of climate-related projects. The list of key CCDRM projects is attached in Appendix 3. The main sources used to compile the table are listed below:

- Federated States of Micronesia Budget – information extracted from the budget documents.
- Stakeholder discussions and interviews – in discussions with stakeholders a number of projects were identified that were not reflected in the budget. Where projects were relevant, the assessment team sought more detailed information such as project documents.
- Development partner interviews and discussions – the assessment team met with all the major development partners for discussions on their CCDRM related development assistance. Written documentation was sought in order to confirm discussions where possible.
- Development partner information – most development partners and multilateral funds have detailed information on their programs and projects listed on their websites. The assessment team spent considerable time collecting and confirming information on climate-related development assistance and was often cross-checking information with another source.
- Information from the Pacific Climate Change Portal.

This FSM assessment estimated the volume of climate change and disaster risk reduction/management related spending by weighting individual projects according to the proportion of expenditure considered relevant to CCDRM from a scale of 0–100%. The weighting followed the Pacific Climate Change Finance Assessment Framework (PCCFAF 2013) and the Climate Public Expenditure and Institutional Review (2012) guidelines. These guidelines are replicated in the table below. The table provides ranges of weightings for projects, which allow for more accuracy than the PCCFAF methodology – but this creates an additional problem given that this can involve more subjectivity. The list of key CCDRM projects is attached in Appendix 3 where projects are identified with a national allocation that is weighted according to these criteria.

Classification of climate change and disaster risk reduction/management related activities

High Relevance	Rationale	Clear primary objective for delivering specific outcomes that improve climate resilience or contribute to mitigation
Weighting of 80%	Examples	• Energy mitigation (e.g. renewables, energy efficiency) • Disaster risk reduction and disaster management capacity • The additional costs of changing the design of a program to improve climate resilience (e.g. extra costs of climate proofing infrastructure, beyond routine maintenance or rehabilitation) • Anything that responds to recent drought, cyclone or flooding, because it will have added benefits for future extreme events • Relocating villages to give protection against cyclones/rising sea-level • Healthcare for climate sensitive diseases • Building institutional capacity to plan and manage climate change, including early warning and monitoring • Raising awareness about climate change • Anything meeting the criteria of climate change funds (e.g. GCF, GEF etc)
Medium Relevance	**Rationale**	**Either (i) secondary objectives related to building climate resilience or contributing to mitigation, or (ii) mixed programs with a range of activities that are not easily separated but include at least some that promote climate resilience or mitigation**
Weighting of 50%	Examples	• Forestry and agroforestry that is primarily motivated by economic or conservation objectives, because this will have some mitigation effect • Water storage, water efficiency and irrigation that is primarily motivated by improved livelihoods because this will also provide protection against drought • Biodiversity and conservation – unless explicitly aimed at increasing resilience of ecosystems to climate change (or mitigation) • Ecotourism, because it encourages communities to put a value of ecosystems and raises awareness of the impact of climate change • Livelihood and social protection programs – motivated by poverty reduction, but build household reserves and assets, and reduce vulnerability. This will include programs to promote economic growth, including vocational training, financial services and the maintenance, and improvement of economic infrastructure such as roads and railways

Low Relevance	Rationale	Activities that display attributes where indirect adaptation and mitigation benefits may arise
Weighting of 25%	Examples	• Water quality – unless the improvements in water quality aim to reduce problems from extreme rainfall events, in which case the relevance would be high • General livelihoods – motivated by poverty reduction, but build household reserves and assets, and reduce vulnerability in areas of low climate change vulnerability • General planning capacity – either at national or local levels, unless it is explicitly linked to climate change, in which case it would be high • Livelihood and social protection programs – motivated by poverty reduction, but build household reserves and assets, and reduce vulnerability. This will include programs to promote economic growth, including vocational training, financial services and the maintenance, and improvement of economic infrastructure such as roads and railways
Marginal Relevance		**Activities that have only very indirect and theoretical links to climate resilience**
Weighting of 5%	Examples	• Short-term programs (including humanitarian relief) • The replacement element of any reconstruction investment separating out the additional climate element as high relevance. • Education and health that do not have an explicit climate change element

As a consequence of no central repository of knowledge about the development program, the associated weightings are based on the information gathered from the sources identified by the assessment team.

The timeframe used for identifying projects was 2011–2018, which covered a period of eight years. In some cases, projects will have experienced some spending outside of this period, though the expectation is that this spending will not be significant in most cases.

The funding analysis focused on current or completed projects (i.e. projects completed in the 2011 to 2018 timeframe and still current at the time of writing). It was not possible to estimate spending by financial year, even when projects grants were reflected in the government budget. So the total amount of projects is assessed in the analysis rather than any attempt to assess annual spending.

It must be noted that given the approach taken to identifying projects, the analysis cannot guarantee that it provides a comprehensive coverage of all projects that are relevant to addressing the government's CCDRM objectives. However, this analysis provides the most comprehensive assessment of this type (so far attempted) and can provide a starting point for ongoing tracking of climate change and disaster risk finance in FSM.

Expenditure (Budget) Analysis

The expenditure analysis takes a different approach by looking at spending in the FSM's national annual budget. The analysis seeks to quantify the priority the government places on climate change and disaster risk reduction/management as reflected in budgetary allocations in its annual budget. The analysis is somewhat limited by the lack of easily accessible historical data, especially on actual outcomes against budgeted allocations. As such the analysis focuses on the publicly available budget allocations for the five years, between financial years of 2012 and 2016.

The FSM Government budget provides only limited policy detail in publicly available information. In order to estimate the amounts of spending that would be relevant to climate change and disaster risk management, the assessment team adopted a simple approach. The assessment team classified the proportion of a department or bureau's expenditure allocation as CCDRM, based on the estimated proportion of time staff members in the relevant ministry or program are estimated to dedicate to CCDRM activities. The rationale behind this is that spending in many of the relevant departments is dominated by salaried expenditure; thereby the proportion of time dedicated to CCDRM activities could be used as a proxy for proportion of budget relevant to CCDRM activities.

Some areas of spending have an obvious relevance to meeting the CCDRM objectives of the Government. These programs include the Department of Environment, Climate Change and Emergency Management, the Department of Resources and Development, the Department of Finance and Administration (the GCF/NDA team) and the Department of Transportation, Communication and Infrastructure. However, it is also clear from discussions with other departments that many other, often less obvious, programs in Government address CCDRM related issues.

In analysing FSM's budgets, it is assumed that CCDRM objectives are addressed in a broad range of Government programs from education and health, to Department of Justice. Climate-related activities also occur in Government agencies that support the economic sectors.

While the CPEIR and PCCFAF methodologies inform the analysis, sometimes they do not easily translate to programs in the budget, which is why the aforementioned approach was used to determine weightings of programs within the budget. The weightings range from 80% for agencies such as DECEM and 5% for some of the programs within the Department of Education. Many programs are considered to have no CCDRM relevance.

Where CCDRM related projects are listed in the Funding Source Analysis, they have the same weightings in the Expenditure Analysis of the budget. Weightings are conservative and may understate the true CCDRM relevance of some programs. A more accurate assessment would involve more detailed consultation with line ministries and bureaus.

Appendix 3. List of Selected Climate Change and Disaster Risk Management Projects Assessed

Project Name	CCDRM Weighting	Relevance	Total Cost USD	Weighted Cost USD	Timeframe (2011-onwards)	Principal Funding Source	Bilateral or Multilateral	Sector
Enabling Ecosystem Based Adaptation in Micronesia and Melanesia	100%	High	$1,271,740	$1,271,740	2012-2015	Germany	Bilateral	CCDRM
Pacific - Australia Climate Change Science and Adaptation Planning Project	100%	High	$1,641,026	$1,641,026	2012-2013	Australia	Bilateral	CCDRM
Global Climate Change Alliance: Pacific Small Island States	100%	High	$1,583,333	$1,583,333	2011-2014	European Union	Bilateral	CCDRM
Building Safety and Resilience in the Pacific	100%	High	$1,034,667	$1,034,667	2010 - 2018	European Union	Bilateral	CCDRM
Mitigating the Effects of El Nino-related Drought	100%	High	$1,416,667	$1,416,667	2016	United States	Bilateral	CCDRM
Building Disaster Management Capacity	80%	High	$1,480,000	$1,184,000	2013-2016	United States	Bilateral	CCDRM
North Pacific ACP Renewable Energy and Energy Efficiency Project (North REEEP)	80%	High	$10,000,000	$8,000,000	2011-2014	European Union	Bilateral	Renewable Energy

Pohnpei Power Sector Development Project - Lending	80%	High	$14,100,000	$11,280,000	2012 -2014	European Union	Bilateral	Renewable Energy
Yap Renewable Energy Development Project - Lending	80%	High	$9,040,000	$7,232,000	2012-2013	ADB	Multilateral	Renewable Energy
ACP-EU Building Safety & Resilience in the Pacific	80%	High	$2,016,928	$1,613,543	2013-2018	European Union	Bilateral	CCDRM
Energy Sector Development Program	50%	Medium	$14,400,000	$7,200,000	2014	World Bank	Multilateral	Energy
Climate and Oceans Support Program in the Pacific	50%	Medium	$1,863,905	$931,953	2012-2018	Australia	Bilateral	Environment
The Project for Power Sector Improvement for the State of Kosrae/2016.4	20%	Low	$14,846,154	$2,969,231	2016-2017	Japan	Bilateral	Energy
China's development assistance to FSM	20%	Low	$12,800,000	$2,560,000	2015 - 2017	China	Bilateral	Multisector
Basic Education Assessment Project	5%	Marginal	$1,500,000	$75,000	2016	ADB	Multilateral	Education

Project Name	CCDRM Weighting	Relevance	Total Cost USD	Weighted Cost USD	Timeframe (2011-onwards)	Principal Funding Source	Bilateral or Multilateral	Sector
Kosrae Water Supply Rehabilitation Program	5%	Marginal	$2,000,000	$100,000	2014	ADB	Multilateral	Water and Sanitation
Leveraging the Economic Growth Potential of Sustainable Tourism - Lending	5%	Marginal	$3,000,000	$150,000	2015	ADB	Multilateral	Tourism
Pacific Regional Oceanscape Project	5%	Marginal	$3,000,000	$150,000	2015	World Bank	Multilateral	Fisheries
Improvement of Pohnpei International Airport	5%	Marginal	$16,869,231	$843,462	2015	Japan	Bilateral	Aviation Transport