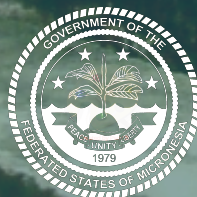


RAPID REPORT

FOR THE UPDATE OF THE
FSM-GCF COUNTRY PROGRAM
MARCH 2022



GREEN
CLIMATE
FUND



FEDERATED STATES OF MICRONESIA
DEPARTMENT OF FINANCE & ADMINISTRATION
NATIONAL DESIGNATED AUTHORITY TO THE GCF

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Prepared by Leah Briones-Johnson, PhD, Country Program Update Consultant, FSM-GCF Readiness Program Phase 2 with the Pacific Community as delivery partner.

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Acronyms and Abbreviations

ADB	Asian Development Bank	M&E/MEL	Monitoring, Evaluation & Learning
AE	Accredited Entity	MCT	Micronesia Conservation Trust
AF	Adaptation Fund	NAP	National Adaptation Plan
CC&SD Council	FSM Climate Change and Sustainable Development Council, now the Council.	NBSAP	FSM National Biodiversity Strategy and Action Plan
CCDRM	FSM Climate Change Disaster Relief Management	NDA	FSM National Designated Authority to the GCF (DoFA)
CCPA	IMF-WB Climate Change Policy Assessment	NDC	Nationally Determined Contribution
Council	FSM Presidential Council on Sustainable Development, formally the CC&SD Council	NGO	Non Governmental Organisation
CP	FSM-GCF Country Program	ODA	FSM Overseas Development Assistance
CPDAE	Community Practice for Direct Access Entities	PACCSAP	Pacific-Australian Climate Change Science and Adaptation Planning
DAE	Direct Access Entity	PIF	Pacific Islands Forum
DECEM	Department of Environment, Climate Change and Emergency Management	PPF	GCF Project Preparation Facility support
DFA	FSM Department of Foreign Affairs	R&D	FSM Department of Resources and Development
DoFA	FSM Department of Finance & Administration	RVA	Rapid Vulnerability Assessment
EDA	GCF Enhanced Direct Access	RMI	Republic of the Marshall Islands
EU	European Union	SAP	GCF Simplified Approval Process
FSM	Federated States of Micronesia	SDG	UN Global Sustainable Development Goals 2030
FSMDB	FSM Development Bank	SDP	FSM Strategic Development Plan
GHG	Greenhouse gas	SIDs	Small Island Developing States
GCF	Green Climate Fund	SPC	Pacific Community, formerly the South Pacific Commission
GDP	Gross Domestic Product	SPREP	Secretariat of the Pacific Environmental Program
GEF	Global Environment Facility	SWOC	Strengths, Weaknesses, Opportunities, & Challenges Analysis
GESI	Gender Equality and Social Inclusion	TC&I	FSM Department of Transportation, Communication & Infrastructure
IDP	FSM Infrastructure Development Plan	TNA	Technology Needs Assessment
IMF	International Monetary Fund	USAID	United States Agency for International Development
IOM	International Organization for Migration	Vital	Vital Energy Group (formerly FSM Petrocorp)
JSAP	Joint State Action Plan for Disaster Risk Management and Climate Change	WB	World Bank



SUMMARY

The FSM's partnership with the Green Climate Fund (GCF) has been fruitful. The GCF has invested USD 27.6 million in the FSM over six years of partnership. Ninety-five percent of this funding was secured in the last four years as a result of a well-implemented FSM Country Program (CP). The CP was endorsed in 2018.

The country-driven approach is heralding a 'paradigm shift' with great strategic value to the FSM. The CP is proving to be a coordinating and consolidating force that is helping to optimise the FSM's capacity to leverage climate finance for its sustainable development agenda. CP implementation is also generating innovative partnerships and financing modalities that enable much-needed augmentation in country capacity to both access and absorb funds. Going forward, CP implementation will improve with the development of a National Adaptation Plan (NAP). The NAP will produce a comprehensive climate finance strategy and provide the evidence base from which project proposals in the CP Pipeline can be better designed, developed and implemented. A proposal for the FSM NAP is currently under review with the GCF.

This Rapid Report provides a situational assessment from which to update the CP. It presents a SWOC analysis, which was validated at States stakeholder workshops. The report was also distributed to other key partners and stakeholders at the national level for comment.

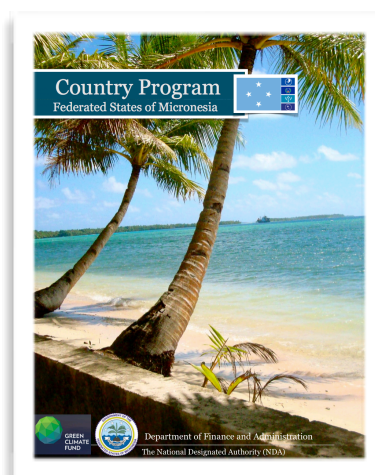
The key recommendations arising from the SWOC analysis are as follows:

- Continue on a 'green growth' sustainable development pathway.
- Strengthen the Presidential Council on Sustainable Development.
- Continue to strengthen the FSM-GCF partnership.
- Build stronger partnerships with Direct Access Entities (DAEs) and Accredited Entities (AEs).
- Focus the CP Pipeline to respond to current limitations in resources and capacity.
- Bolster Overseas Development Assistance (ODA) coordination.
- Facilitate the completion of the NAP.
- Value the FSM's global adaptation and mitigation impact as a Large Ocean State.

INTRODUCTION

This rapid report informs the FSM's first update of its Country Program (CP) with the Green Climate Fund (GCF). The original CP was endorsed in Feb 2018. The expected completion of the updated CP is 30 May 2022.

This report reviews the original CP's implementation. It documents the gains and lessons learnt to date in order to inform the next steps on updating the CP. There are three parts, organised around the two focus areas of climate finance strategy and project/programme priorities for the GCF.¹ The first part provides the background and context on the FSM's climate financing strategy as well as its climate change priorities for GCF support. The second part reviews recent developments and provides an assessment of opportunities and risks, using a SWOC analysis. The last part presents recommendations arising from the analysis and outlines a supporting Workplan with raised climate change ambitions, that will be used to guide the update of the CP.



PART 1

BACKGROUND

In March 2016, the FSM began a partnership with the Green Climate Fund (GCF) to pursue a transformational climate action agenda. It established a National Designated Authority (NDA) with the Department of Finance and Administration (DoFA) and secured funding for the FSM's first GCF Readiness Program,² under which a CP was developed. In late 2018, the FSM secured a second Readiness Program (Phase 2) to support the implementation of the completed CP, including its update. Given the challenges of the pandemic and related containment policies, Phase 2 has been extended to June 2022, with an Updated CP expected to be completed by 30 May 2022. The submission timeline is detailed in the Workplan, in Part 3.

The **Readiness Program** enhances the capacity of governance institutions to fully engage with the GCF.

The Readiness Program is a country-driven initiative that has been helping to prepare the FSM to access GCF funds. It provides a range of support to strengthen institutional capacities, governance mechanisms as well as planning and programming frameworks. The CP provides

¹ These focus areas are identified in the latest GCF Country Program Development Guidance (Jan 2021).

² The duration of the first Readiness Program was from March 2016 to June 2018.

the coordinated, institutional foundation and strategic framework to access GCF support. It ensures that the FSM's pipeline of priority projects and programs align with the Fund's investment criteria. Over the last 6 years of partnership, the GCF has invested USD 27.6m in the FSM. Ninety-five per cent (95%) of this funding was secured after the completion of the FSM CP.

Beyond financing, the Country Program approach is heralding a 'paradigm shift' with great strategic value to the FSM. Through a transparent, country-led process, the FSM CP is helping to bring the nation together to translate Nationally Determined Contributions (NDCs) and adaptation priorities into an actionable investment plan. It importantly goes beyond one-off projects and comprises long-term, strategic investments that link to critical activities in policy and planning, capacity building and stakeholder engagement. It has been an important tool for fostering trust and collaboration among the State and national governments, civil society, communities, private sector, and implementing partners. Guided by national leadership, stakeholders are continuing to work together under 'one plan', assessing progress and sharing lessons learned.

A Country Program is the cornerstone of a country's pipeline to the GCF. It plays a key role in the GCF's investment decision-making process. It is the first stage of the GCF's project and programme cycle, and forms the basis for the development of funding proposals for projects and programmes.

- GCF Country Program Development Guidance, Jan 2021

CURRENT COUNTRY CONTEXT

CLIMATE CHANGE PROFILE

The FSM's climate change profile remains 'highly vulnerable.'³ Climate change impacts continue to negatively affect communities and productivity across the country. With islands located in the 'Typhoon Belt' in the northwestern Pacific ocean, tropical storms are a continuous threat in the FSM. They are causing irreversible coastal erosion, destroying infrastructure, and endangering food and water security through salt water inundation. In 2015, Typhoon Maysak wiped out up to 90% of key agricultural products in Chuuk and Yap. In 2019, Typhoon Wutip caused damage to infrastructure and agricultural production of 30 islands and left over 11,000 people food-insecure.⁴ More recently, Chuuk received disaster emergency aid and has been assessing infrastructure damage as a result of significant salt water intrusion, brought about by a combination of king tides, elevated sea levels and strong northerly winds.⁵

³ For an in-depth discussion, see original CP. Also see The FSM's *First Voluntary National Review on the Implementation of the 2030 Agenda for Sustainable Development*, 2020, pp100-101. Climate change data and projections for the FSM will be updated through the upcoming NAP process.

⁴ International Organisation for Migration (IOM), Typhoon Wutip Destruction, IOM Micronesia Newsletter, July 2018 to April 2019.

⁵ International Organisation for Migration (IOM), Humanitarian Partners Support Emergency Response to King Tide Damage, IOM media release in the Kaselehlle Press, January 18, 2022 Issue.

The increase in the number of very hot days also makes the FSM vulnerable to droughts. In 2016, many parts of the FSM entered into a period of severe drought conditions, with lower than normal rainfall due to El Nino effects. The droughts impacted natural vegetation and resulted in shortages in freshwater supplies, especially in the outer-islands. The drought conditions also depressed sea levels, exposing coral reefs and, together with warmer-than-normal sea surface temperatures, contributed to significant coral bleaching.

The IMF-World Bank CCPA⁶ confirms that disasters such as tropical storms, inundations, and droughts have become more intense and frequent in the FSM, causing severe damages in both main and outer islands.

A further consideration are converging threats, such as a pandemic with climate change. The COVID-19 pandemic has strained emergency preparedness and food security efforts across the FSM's dispersed and isolated population. This portends climate change impacts that could cause similar disruptions to supply chains in the near future. Concurrently, the Pandemic has strained the economy to respond to climate change impacts. The latest IMF assessment shows that while the FSM had relatively high growth and low inflation before the pandemic, real GDP declined by around 1.8 percent in FY2020.⁷ Domestic services activity had contracted, investment projects delayed, and remittances had decreased. Given the persisting uncertainties around containment of COVID-19, real concerns for the FSM economy remain. These concerns are further compounded by the expiration of financial support and public services under the Compact with the United States in 2023. The IMF assessment cautions that climate change-induced natural disasters remains a significant risk to the economy.

The FSM is HIGHLY VULNERABLE

Increases in sea-surface and air temperatures, sea level, ocean acidification.

Increases in the number of very hot days, and the number of extreme rainfall days.

Changes to precipitation and typhoon patterns.

Fewer, but more severe typhoons.

"Developing Countries are already the most vulnerable to the impacts of climate change – are being hardest hit by the economic consequences of the COVID-19 crisis and face a double burden."

- Yannick Glemarec, Executive Director of the GCF

While, the FSM is a low emitter of greenhouse gas emissions, it recognises the importance of every country taking action to reduce its greenhouse gas emissions (GHG) as part of the global effort to limit

⁶ This *Climate Change Policy Assessment (CCPA)* was conducted as an integral part of the IMF's Article IV Consultation with the FSM in 2019. The CCPA is a joint IMF-WB initiative to assist small states to understand and manage the expected economic impact of climate change, while safeguarding long-run fiscal and external sustainability.

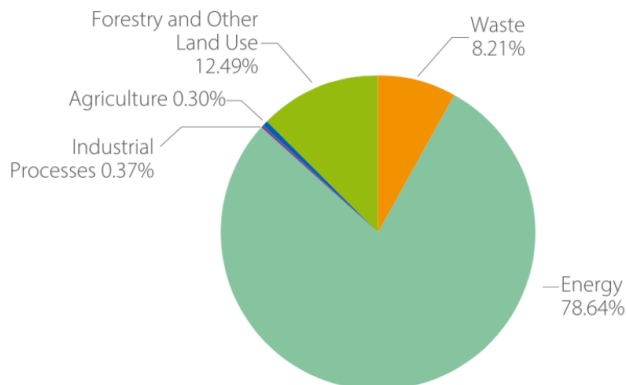
⁷ *IMF Executive Board Concludes 2021 Article IV Consultation with the Federated States of Micronesia*. Nov 2021 (click [here](#) for the Article).

average temperature rise to below 1.5°C. In its *Updated Nationally Determined Contribution*,⁸ the FSM has raised its target to net zero GHG emissions by 2050.⁹

The FSM also recognises that while it remains highly dependent on imported petroleum fuels for both electricity generation and transportation, clean energy underpins sustainable development. This is especially so, considering that energy is the principal source of greenhouse gas emissions in the country (Figure 1)¹⁰. In the last decade, the FSM has benefitted from the substantial interventions in the renewable energy sector by multiple donor partners, particularly by the European Union (EU) which accounts for over 35% of total mitigation funding to the FSM.¹¹ Progress in the energy sector has been considerable with the implementation of extensive renewable energy projects. Over half (56.5%) of CCDRM funding in the FSM has been for mitigation.¹²

Figure 1: Sectoral breakdown of FSM's total GHG emissions in 2000

Source: Foruww and Konno-Anisin, 2010.



The FSM recognizes the humanitarian imperative to achieve net zero greenhouse gas emissions at the global level by 2050. The FSM...recognizes the substantial sustainable development co-benefits that... accompan[ies] such an ambitious undertaking.

- Updated National Contributions of the Federated States of Micronesia for the period through 2030 [Draft], p11.

SUSTAINABLE DEVELOPMENT

The CP is the FSM's first national document to articulate why the classical model of development as economic (or sustained) growth is no longer possible under intensifying climate change. It is also the first official document to coordinate and consolidate the nation's climate change pipeline of endorsed priority projects and programs. To support this ambitious 'paradigm shift', multi-stakeholder meetings were held to validate a whole-of-society sustainable development strategic framework (Annex 1). As expressed in the CP foreword by then President of the FSM:

⁸ Currently in final draft stage: *Updated National Contributions of the Federated States of Micronesia for the period through 2030*.

⁹ From the previous unconditional target of 28 per cent reduction in greenhouse emissions, and conditional target of 35 per cent by the year 2025.

¹⁰ This data source was used in the *FSM Second National Communication to the UNFCCC*, 2015. It is now over a decade old, with the actual data now being over 20 years old. As noted in the SWOC analysis, up-to-date data is a challenge in the FSM. However, the data on the Energy sector seems to have remained true according to the *The Updated NDC Report for the period through 2030 (Final Draft, p12)* : "...petroleum fuels for electricity generation and transportation... are responsible for almost 80% of the FSM's carbon dioxide emissions."

¹¹ For the period 2011 to 2019. See Pacific Community and Pacific Islands Forum Secretariat, *Federated States of Micronesia Climate Change and Disaster Risk Finance Assessment*, 2019, p36.

¹² *ibid.*, p37.



[W]e now have a consolidated framework to develop large scale, cross-sectoral priority projects and programs which can transform our fossil-fuel reliant economy into a 'green economy' that can make our island communities thrive in the face of climate change. This Country Program presents a strategic framework that integrates top-down 'green' infrastructure development with bottom-up social and environmental safeguards from 'green' communities... taking us from a paradigm of 'sustained growth' to 'sustainable growth.'

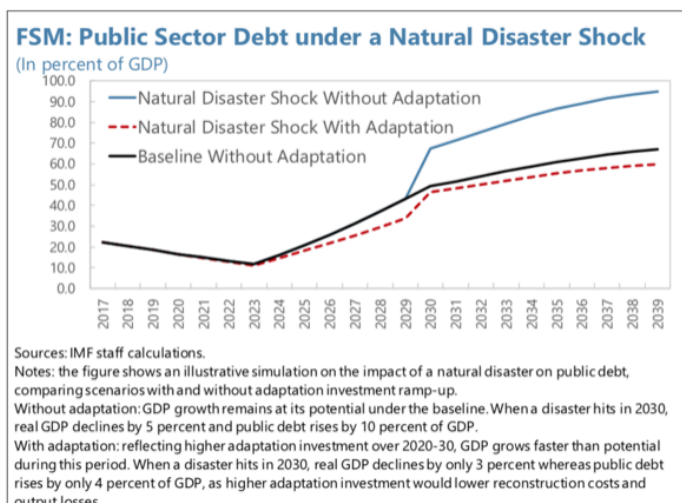
- Former FSM President Peter M. Christian

Through this consolidated and inclusive approach, the CP charts the course for the country to meet most of the goals of the 2030 Sustainable Development Goals (SDGs).¹³

As with many other countries, the FSM's only sustainable option is to pursue a climate-responsive and low carbon development pathway. With climate change and the pandemic emerging as the world's most urgent problems, the global investment landscape is moving towards a green-growth recovery. The IMF FSM Country Report (2019) advises to 'act now' to improve resilience to climate change. Its latest modelling on costs of adaptation, show that with adaptation, GDP grows faster and debt decreases (Figure 2).¹⁴

Climate change is inherently interlinked with sustainable development in the FSM.¹⁵ Due to

Figure 2: Cost and Benefits of Adaptation



Climate change could wipe out up to 18% of GDP off the worldwide economy by 2050 if global temperatures rise by 3.2°C... *The Economics of Climate Change: No Action Not An Option*, published by the Swiss Re Institute, said the forecast is based on temperature increases staying on the current trajectory and Paris Agreement net-zero emission targets not being met.

- World Economic Forum, June 2021

¹³ See op.cit. *The Updated NDC Report for the period through 2030 (final draft)* for an outline of how NDCs for 2030 and climate change co-benefits align with the SDGs. Also see, op.cit., *First Voluntary National Review on the Implementation of the 2030 Agenda for Sustainable Development*.

¹⁴ IMF Country Report 2019, p12.

¹⁵ op.cit. *First Voluntary National Review on the Implementation of the 2030 Agenda for Sustainable Development*, especially pp18 and 98.

the small size and dispersed geography of its islands, any economic activity or infrastructure development will necessarily have a significant impact on the environment. This is a reality shared among SIDS who are calling for the recognition of climate aid as key to their overall development.¹⁶ It is in this spirit that the Climate Change and Sustainable Development (CC&SD) Council has been aptly re-named as the Presidential Council on Sustainable Development (hereafter the Council).¹⁷

[It] is imperative to establish a coordinating council that addresses all climate change and sustainable development issues.

- FSM Presidential Council on Sustainable Development Executive Order

CLIMATE FINANCE STRATEGY

The 2019 Climate Change Finance Assessment¹⁸ sets out the current climate finance landscape in the FSM. It, too, begins with an acknowledgment that, 'addressing climate change and weather-related disaster events is not just an environmental issue but a key development issue for the FSM.'¹⁹ It notes that the FSM is well-positioned to access the increase in the volume of climate change finance flowing into the Pacific region. It documents how the country has been successful in accessing climate change and disaster risk financing from a diverse range of sources, and how it is also continuing to progress a number of key initiatives to strengthen access and management of climate finance. The Assessment also provides a comprehensive analysis of institutional and capacity challenges as well as a detailed Action Plan for addressing them.

The Assessment identified that the FSM's climate finance institutions are emerging as a direct result of the FSM's partnership with the GCF. These include the establishment of the NDA Readiness Office and the accreditation of the Micronesia Conservation Trust (MCT) as the country's first Direct Access Entity (DAE) to the GCF. It also acknowledged the potential to expand the FSM's

[The] FSM is the first country within the Pacific Islands region...to develop a comprehensive GCF Country Program... [which] identifies...project and program priorities that now form the basis for national engagement with the GCF, accredited entities, and other climate financing institutions and partners.

- Climate Change Finance Assessment 2019, p26.

16 See: *SIDS: A Special Case for Climate Finance and Debt Relief*, UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, July 2021. See also, Green Climate Fund Independent Evaluation Unit (IEU), *Independent Evaluation of the Relevance and Effectiveness of the Green Climate Fund's Investments in Small Island Developing States Final Report*, 2020, p11.

17 In March 2017, The CC&SD Council was established to ensure the implementation of the Climate Change Act and provide leadership and institutional coordination on the mainstreaming of climate change into policies and actions across all sectors and initiatives in the country.

18 The full name of the assessment is Federated States of Micronesia Climate Change and Disaster Risk Finance Assessment, completed under a partnership with the PIFS, SPC and USAID, in February 2019.

19 *ibid.*, p1.

‘direct’ access to climate finance across a number of other actors, including the national government with DoFA, the private sector with the Vital Energy Group, and the banking sector with the FSM Development Bank (FSMDB).

Significantly, the Assessment acknowledged the GCF Readiness team as ‘an important institutional structure’ that can play an increasingly strategic role in FSM’s post-2023 fiscal planning, and highlighted the team’s significant work in raising the profile of climate financing in the FSM. Similarly, the IMF-WB CCPA identified the FSM-GCF CP Pipeline as providing the ‘clearest indication of adaptation spending requirements’ in the FSM.²⁰

Both the Assessment and the CCPA note the need for a NAP to fill a critical gap in the FSM’s current policy framework on national adaptation priorities. They encourage the FSM to develop a NAP which would enable a comprehensive climate financing strategy that includes updated priority adaptation actions, beyond those listed in the CP pipeline. Both assessments further note that a NAP is a critical and necessary tool for the country to help manage the post-Compact fiscal scenario and shore up access to anticipated increases in global climate funds, beyond the GCF. In working closely with DECEM, the NDA has recently facilitated the submission of a proposal for the development of the NAP under the GCF Readiness support for Adaptation Planning (discussed further in Part 2). The NAP will build on the recommendations of the assessments and strengthen the FSM’s capacity to meet emerging GCF requirements on a more focused and viable climate finance strategy (also further discussed in Part 2).

Fiscal challenge forecast after 2023: the overall balance to turn from a surplus of around 4.5 percent of GDP in 2023 to a deficit of 4.5 percent of GDP in 2024.

-The IMF FSM Country Report 2019 (p.4)

In the current context of the FSM, climate finance is largely provided by donors. The overseas development assistance (ODA) Office therefore plays a central role in the development of the climate finance strategy. The Assessment identified the political imperative from donors to coordinate under an updated ODA policy (and corresponding strategies), especially considering the projected shortfall in funding post 2023. By the same token, ODA is central to the success of the CP not only in institutional coordination and endorsement processes of priorities, but also to its costing strategy for the co-financing of pipeline projects (discussed in Part 2). The original CP highlighted ODA under the enabling pillar of ‘capacity’, and called for the NAP process to include capacity-strengthening of the ODA office to coordinate climate funds with other development funds.²¹ Along with the increasing availability of climate

²⁰ Op.cit., CCPA, p28.

²¹ Op.cit., CP, p59.

Political support for [an updated] ODA policy was identified by donors as a critical element to ensure that donors align their support to national priorities listed in the policy.

- Climate Change Finance Assessment 2019, p 93.

funds, there is also an increasing array of ODA grants and concessional lending instruments from bilateral and multilateral donors.

The NDA Readiness Program has been careful to ensure that State focal points for the NDA are those in charge of ODA at the state level. Moreover, the ODA Office has been strategically placed to act as the Secretariat for the Council. The Council was established in 2017 as part of the approval and endorsement process of priorities in the CP. A main function of the Council is to address the dispersed responsibilities for climate finance across national government agencies (see Box 1) by acting as the coordinating body for climate funds in the country. The Council's additional roles are discussed further in Part 2.

Box 1: FSM National Government Agencies with Climate Finance Responsibilities

FSM Department of Finance & Administration (DoFA)	The Secretary is the NDA and the Focal Point for the Green Climate Fund (GCF).
Department of Environment and Climate Emergency Management (DECEM)	Focal point for the Global Environment Facility (GEF). Key partner for all adaptation related priority projects in the GCF CP Pipeline.
Department of Foreign Affairs (DFA))	The Focal Point for the Adaptation Fund (AF).
Overseas Development Assistance Office (ODA)	The Administrator is the 'National Authorizing Officer' for EU Funding. Key partner for all ODA priority projects in the GCF CP Pipeline.
Department of Transportation Communication & Infrastructure (TC&I)	Key partner for all infrastructure related priority projects in the GCF CP Pipeline.
Resources & Development (R&D)	Key partner for priority projects on Food & Water Security, Energy, Tourism Development, Terrestrial and Marine Conservation, and Biodiversity in the GCF CP Pipeline.

PROJECT/PROGRAM PRIORITIES FOR THE GCF (AND OTHER DONORS)

The CP is based on endorsed priority projects planned under the Joint State Action Plans for Disaster Risk Management and Climate Change (JSAPs), Infrastructure Development Plans (IDPs) and ODA Priorities. These were channelled through the biennial ODA Priorities submission process for 2016 to 2018. This submission process ensures country ownership and alignment from State governments to national government, then from national government to international donors (such as the GCF).²² In order to turn

²² For details, see CP, pp36-8.

these numerous and fragmented priority projects²³ into large scale, transformative projects commensurate with the GCF's ambitious mandate, the CP undertook a consolidation process that produced thirteen projects (see Annex 2). The combined estimated cost of the pipeline is over USD 1 billion, over seven years.²⁴

The costing strategy for the pipeline takes into account GCF's funding focus on climate change projects as different from development projects, and therefore includes co-financing. The large scale and financing amount of the CP pipeline may look overly ambitious. However, when understood as a flexible, phased and co-financed initiative, it can be more accurately seen as fair and actionable, especially in light of the FSM's significant sustainable development challenges and urgent climate change adaptation needs.

Co-financing arrangements along with improved **government fiscal revenue-making** and more effective use...of...**Compact and non-Compact grants** is expected to cover the gaps in total financing. Improved fiscal management can ensure that surplus (primarily from fishing fees and corporate tax earnings) is used to invest in adaptation and green growth efforts. Improved access to Compact grants will see a rise in capital grants, particularly around the \$150 million worth of infrastructure grants in the coming years. Improved access to non-Compact grants is possible through improved **coordination of** Overseas Development Assistance (**ODA**).

- FSM-GCF Country Program 2018, p39

In the four years since the completion of the CP, one out of the thirteen projects has received GCF funding approval: the *Food Security Project SAP020*.²⁵ One project has been redirected for funding by another

The Food Security Project is the GCF's first single-country project in the FSM, and its first project with the Micronesia Conservation Trust. It represents a milestone in delivering rapid financial support for building Climate Change adaptation and engages a wide spectrum of stakeholders at the Government, academic, and household levels.

- FSM Government Information Services

Donor (the ADB): *The FSM Renewable Energy Investment Program*. Three have been re-consolidated and merged into a new project: *Increasing Resilience to the Health Risks of Climate Change in the Federated States of Micronesia*. Components of some of the other projects may have already received funding by other donors, though this is yet to be confirmed. Others have not moved at all (see Annex 2).

²³ Prior to consolidation, there were 100 project concepts across the JSAPs, 211 project concepts in the IDPs, and 14 ODA Priorities. For details see CP, p36.

²⁴ The total in Annex 2 corrects the total in the original CP, where Chuuk's project was counted twice.

²⁵ This project was modified to remove the water security component. See Annex 1.

There are a number of reinforcing reasons for the static status of these projects. First, the process to develop ideas into concrete proposals to the GCF standard is highly complex, requiring significant effort and funding. Second, there is a limited pool of project development technical capacity in the FSM, especially at the State level, and especially for large scale projects. Third, there is both a limited number of, and limited access to, Accredited Entities (AEs) and DAEs in the FSM. AEs are either not available or hesitant to focus their resources on a GCF project while DAEs encounter challenges with proposal development and approval processes.²⁶ Finally, the CP pipeline is proving to be too broad for the limited capacities and resources at the NDA and States level to administer, with 10 out of the 13 projects being of medium to large scale in size.

In an attempt to overcome some of these challenges, the Readiness program facilitated projects development workshops at the States level to re-structure their pipeline projects and fit them into the more streamlined GCF Simplified Approval Process (SAP) modality (discussed further in Part 2).²⁷ However, these have also remained static, mainly due to the greater structural and capacity constraints mentioned above. A number of other compounding challenges are discussed in the SWOC analysis in Part 2.

The GCF has since responded to some of these challenges with an improved suite of support within the GCF Readiness program. These are discussed in Part 2.

PART 2

RECENT DEVELOPMENTS

READINESS PROGRAM PHASE 2

In collaboration with partners, the NDA Readiness team has demonstrated effective implementation of the CP in a number of ways:

1. Advancing the FSM's climate financing strategy by supporting a proposal to fund the development of a NAP, using GCF Readiness funding. The completed proposal was submitted to the GCF on 23 February 2022, with SPREP as the AE.

2. Securing a number of projects and proposal preparations for GCF funding approval, one of which was

What does the Readiness Program do?

- Capacity Building
- Strategic Frameworks
- NAP & Adaption Planning Processes
- Pipeline Development
- Knowledge Sharing & Learning

²⁶ Only around 20% of GCF-approved projects have gone through DAEs. See, *Three ways to improve direct access to the Green Climate Fund*, World Resource Institute, Mar 2021. For an example of the FSM's first hand experience, see "FSM Experiences with the GCF Review process proving to be much more difficult than anticipated for a Simplified Approval Process (SAP)", in the FSM NDA Office Newsletter, Vol.5 ,Issue 3, Sep 2020.

²⁷ See Annex 4 for a list of these projects.

in the CP pipeline of priority projects. See Annex 3.

3. Supporting the successful accreditation of the Micronesia Conservation Trust (MCT) as a DAE. Also, of the SPC as both a DAE and AE.

4. 'Sharing and learning' of activities relevant to CP implementation and emerging GCF processes, particularly through regular stakeholder workshops and quarterly Newsletters.

The Readiness team has also effectively applied the CP Strategic Framework to support the development of emerging national priorities, such as the *Adapting Tuna-dependent Pacific Island Communities and Economies to Climate Change Project*, for which it provided a No Objection Letter in Feb 2022. It has also supported knowledge-sharing at a regional and global level through its involvement with a number of Readiness proposals for DAEs. Further, it is helping to augment the capacity of these DAEs to develop pipeline projects for the FSM in the future. These are a strategic use of Readiness funds because they contribute to the leveraging of funds for greater climate impacts (see Annex 3).

In order to better respond to the unique needs of SIDs, the GCF's Readiness and Preparatory Support Programme is now providing a flexible range of capacity development support. The NDA team made strategic use of some of these new developments. It used the Simplified Approval Process (SAP) and Enhanced Direct Access (EDA) modalities to move two projects and two project preparation proposals through to 'approval' with the MCT and SPC (see Annex 3). The NDA team has also been pleased by the GCF's rapid tranche process on the SPC-EDA on-granting mechanism project. The GCF transferred the first tranche of funding a little over a month after Board approval, making it the fastest GCF project to be implemented so far. The project moved from proposal submission to implementation in under eight months.

SAP: This modality is for low risk projects under USD 10 million. This is the modality under which the MCT *Climate Resilient Food Security for Farming Households across the FSM Project* was submitted and approved.

EDA: is a dedicated access window for GCF's DAEs, providing opportunities to move beyond the financing of individual projects towards a programmatic approach. For example, by establishing a dedicated facility to fund small-scale community projects. This is the modality under which The SPC *Climate Change Adaptation Solutions for Local Authorities in the Federated States of Micronesia Project* was submitted and approved.

In addition, the GCF Readiness Program now offers access to short term technical assistance for DAEs as well as assistance for Concept Note development. This is welcome support to help move the priorities in the updated CP. It has also embarked on a multi-year readiness program to better facilitate medium to long term strategies as well as longer term commitments for CP implementation. The NDA has begun

work on a multi-year proposal and hopes to make submission before the end of Readiness 2 to help keep the momentum in CP implementation.

CLIMATE FINANCE STRATEGY

A number of new developments in the CP's three enabling pillars of leadership, coordination and capacity, have underpinned CP implementation over the last four years.

Leadership: The start of CP implementation in 2018 coincided with the last year of the previous Administration, and the resulting change of administration impacted on the ability of the Council to meet. In 2019, the FSM had a new Administration under H.E. David W. Panuelo as its ninth President. The Council was recently revived with a new Executive Order and a new name (as mentioned above, the Presidential Council on Sustainable Development). Its first meeting was held on 21 February 2022. A main role of the Council is to ensure the implementation of the Climate Change Act by providing leadership and institutional coordination on the mainstreaming of climate change into policies and actions across all sectors and initiatives in the country. Another main role is to ensure that the CP is fully implemented and remains appropriately funded. A particularly urgent undertaking in this area, will be to confirm the institutionalisation of the functions of the NDA Office and its State focal points into the FSM national government budget, thus lessening reliance on GCF Readiness and other external funding, of an increasingly necessary government function.

In 2019, the FSM was the first Pacific island country to receive an IMF-World Bank CCPA. This was conducted alongside the Article IV consultation, which communicated the urgency and centrality of climate finance to the FSM Leadership.²⁸

Coordination: The re-invigoration of the Council process will improve coordination. This is complemented by the elevation, in 2018, of the Office of Emergency and Environmental Management to the Department of Environment, Climate Change and Emergency Management (DECEM). As the Climate Change focal point for the country, the DECEM plays a central role in coordination. In addition, the ODA office is currently finalising the endorsement process of the FSM's 2020 priorities, revamping its ODA database of projects and donors, and coordinating a Development Partners Forum to be held in June/July of 2022. As discussed earlier, a well-functioning ODA office is critical for donor coordination which would enable the FSM to maximise co-financing opportunities of CP priorities while also preventing duplication of initiatives.

Capacity: The accreditation of the MCT in 2017 and SPC in 2019, raised the capacity of the country to successfully access GCF funding. The MCT secured the *Climate Resilient Food Security for Farming Households Project SAP020* as well as the approval for a Concept Note and PPF proposal for a regional EDA covering the FSM, RMI and Palau. Similarly, the SPC secured the *Climate Change Adaptation Solutions for Local Authorities Project FP169* as well as approval of a PPF proposal for a SAP on increasing the resilience to health risks of climate change in the FSM (see Annex 3). The NDA is providing continued

²⁸ op.cit. IMF Country Report, 2019.

support in facilitating the accreditation of two other nominated national entities, Vital and the FSMDB, to eventually enable them to develop and implement their own pipeline of projects for GCF funding.

The USAID Climate Ready program²⁹ has proven to be a particularly effective capacity-building mechanism that has supported the proposals for the above projects as well as the accreditation process for the MCT, FSMDB and Vital. In addition, it has provided assistance in a range of initiatives, including delivery of trainings for communities and government staff on projects preparation and management; the development of the NDA's National Climate Change Communications Strategy; and the production of the FSM Climate Change and Disaster Risk Finance Assessment.³⁰

New partnerships with other DAEs and AEs mentioned earlier, such as the partnership with SPREP on the NAP project, is also increasing the country's capacity to access funds.

The NAP itself will be a particularly crucial process to help the country systematically address critical capacity issues (discussed in the SWOC below). It is urgently needed for other equally important reasons. First, and as discussed in Part 1, given the relative focus on financing mitigation in the FSM, it will help to better balance external financing towards adaptation activities. This is important because, as a low emitter, the FSM's immediate needs are less in mitigation, and more in adaptation. Indeed, climate change impacts are already being felt in communities and in the economy.³¹ Second, the NAP process will facilitate the much-needed update of the JSAPs. As the identified priority activities in the JSAPs directly feed into the CP pipeline, the updates will ensure that the latest and most accurate information are informing the proposal development process for the pipeline projects. Third, the NAP will provide the framework to assess and prioritise adaptation options along with a medium-term fiscal strategy to access global climate funding. This information is particularly important in developing a CP that can present a more focused climate finance strategy to help both the FSM and the GCF better target climate investments.³²

What will the NAP do for the CP?

- Provide an overarching, comprehensive financing strategy for the prioritisation process and development of project/program proposals in the Pipeline.
- Provide up-to-date evidence base for the design of project/program proposals in the Pipeline.

Since the last CP, a number of other plans related to climate change have been initiated, are near completion or finalised. The update of the IDPs beyond 2025 are already underway for the states of Yap,

²⁹ The program is due to end in November 2022. In the event that it is not extended, it is believed that there will be some type of follow-up project with similar objectives, funded by USAID.

³⁰ See *NDA Newsletter Mar 2021* for the full list of the USAID Climate Ready achievements.

³¹ op.cit, *Finance Assessment*, p32.

³² The latest *GCF Country Program Development Guidance* specifically require these information. Even beyond the GCF, the information will also be useful for other, complementing Donors.

Chuuk and Kosrae. Pohnpei State is expected to begin their update later in the year. In 2021, a working group was formed to develop a National Building Code with close guidance from the Pacific Region Infrastructure Facility on the risks and management of sea level rise. Both the FSM Gender Policy and the Master Energy Plan were completed in 2018. The preparation of the Updated FSM NDC report is currently in progress, although it must be noted that a full costing of NDCs implementation has not yet been included in the update process. The Third National Communication and First Biennial Update Report (TNC/BUR) is also in progress. Vulnerability assessments and a technology needs assessment (TNA) is being carried out as part of the TNC/BUR process, with the Gender Analysis and Gender Action Plan having already been completed in 2020.

PROJECT/PROGRAM PRIORITIES

The current status of priority projects along with newly emerged priorities since the last CP, is set out in Annex 3. The two approved projects and the project preparation proposal for *Increasing Resilience to the Health Risks of Climate Change* brings high adaptive capacity value to the FSM. The NDA team has strategically combined them to respond to the most urgent adaptation needs of food and water security and health resilience; all three complement each other (see Annex 3). Notably, it coordinated with the Adaptation Fund (AF) on the development of the *Food Security Project SAP020*. Existing AF funding in the FSM was already targeted to 'water security', thus the 'water' component of the original project was removed. Moreover, the projects help to bring balance by concentrating efforts at the social and community level amidst the bigger infrastructure projects which are currently being rolled out with the ADB and WB partners.

For the update of the CP, the GCF has new requirements for presentation of a country's pipeline. They include:

1. A soft limit of up to five country-specific priority projects to be submitted during the four years of the GCF's programming cycle. The next funding window will be from years 2024 to 2027. As the updated CP will be completed this year, this gives projects/program proposals at least a year to be developed. These five country-specific priority projects are to include proposals already submitted to the GCF with no-objection letters issued by the NDA. The *Increasing resilience to the Health risks of Climate Change Project* falls under this category .

2. In addition to the five country-specific priority projects and programmes, the CP can include regional or multi-country programmes of which the country

What does a Country Program do?

- Articulates NAP and other long term strategies
- Coordinates multi-stakeholder involvement
- Lists prioritized projects
- Identifies financing partners
- Identifies implementing agencies
- Identifies capacity building needs

is a participant, and which are initiated by GCF Accredited Entities.³³ For the FSM, this presently includes four projects: the *Vaka Motu Sea Sustainable Project*, the *Community-Based Interventions for Reducing Vulnerability to Climate Change in Northern Pacific Small Island Vulnerable States Project*, the *FSM Renewable Energy Development Project (as part of the ADB Pacific Renewable Energy Program)*, and the *Adapting Tuna-dependent Pacific Island communities and economies to Climate Change Project*.

3. Further, in addition to the five country-specific priorities and the multi-country programmes, a country can include a phased programmatic approach to longer-term, multi-stage investments to transform a sector or region of the country. This option is not presently viable for the FSM given the outdated JSAPs and the absence of a NAP, and is thus best pursued during the three-year process of developing the FSM NAP.

4. The country is also encouraged to indicate key priority areas where they would consider proposals from the GCF's accredited entities, particularly to assist private sector-focused accredited entities to bring forward project or programme ideas or concepts for the consideration by the NDA. The viability of these projects can again be assessed under the NAP process, and when Vital and the FSMDB are accredited.³⁴

These new requirements are positive developments because it helps focus the FSM and Accredited Entities on capacity and resources needs, thus enabling the GCF to optimise assistance, especially for the deployment of readiness and project preparation resources to support concept note and funding proposal development.

Part 3 details the suggested actions towards ensuring that the updated pipeline fits these new requirements. To inform further action, it is first helpful to analyse the strengths, weaknesses, challenges as well as opportunities of CP implementation to date.

OPPORTUNITIES AND RISKS

Strengths, Weaknesses, Opportunities, Challenges (SWOC) Analysis

A situational or SWOC analysis of the original CP's implementation enables the development of a solid strategy for its update. It will provide clarity on the internal and external factors that affect CP implementation. As per the SWOC table on the next page, the analysis is organised around the two focus areas of climate finance strategy and project/programme priorities. The analysis was validated and enhanced with the States stakeholders in a series of workshops as part of the CP update process.³⁵

³³ These can also include prospective entities seeking accreditation.

³⁴ A key deliverable in the NAP proposal is an Options Paper and an Action Plan for private sector engagement at State and National levels.

³⁵ Yap State Workshop: 3 to 4 Feb, 2022. Chuuk State Workshop 24 to 25 Feb, 2022. Kosrae State Workshop 28 Feb to 1 Mar, 2022. Pohnpei State targeted workshop meeting 17 to 18 Mar, 2022. See also Annex 4.

STRENGTHS		WEAKNESSES	
CC Finance Strategy	CP Pipeline	CC Finance Strategy	CP Pipeline
<p>The FSM as a Large Ocean State - with great carbon sink potential of global significance.</p> <p>Favourable climate finance global landscape.</p> <p>Stable political system and economy to date; increases climate finance investors confidence.</p> <p>Increasing political will, institutional coherence and existing partnerships on finance access; amongst national, States, NGOs, CSOs, Private Sector actors.</p> <p>Established and endorsed plans for priority projects in adaption and mitigation with the IDPs and JSAPs.</p> <p>Experience and achievements gained under NDA Readiness programs 1 and 2; currently applying for multi-year Readiness 3.</p> <p>NDA is closely engaged with ODA Office at the national level; State focal points are ODA offices or equivalent.</p> <p>Completed/updated Country Program (CP) for the GCF.</p> <p>Responsive partnership with the GCF.</p> <p>Experienced with other complementing CC funds (GEF, AF, EU, WB, ADB)</p> <p>Potential support from other development partners (Bilateral donors, WB, ADB)</p>	<p>Helpful NDA Readiness program; two GCF projects approved; advancing other national and regional initiatives; on track with CP implementation and update.</p> <p>Effective DAE NGO - MCT; technical capacity at NGO level to develop and implement projects.</p> <p>Effective regional DAE/AE - SPC.</p> <p>Experience with EDA financing approval process (through the project with SPC); type of on-granting financing mechanisms seems to attract higher chances of GCF approval.</p> <p>Effective partnership with USAID Climate Ready program.</p> <p>Established and endorsed plans for priority projects in adaption and mitigation with the IDPs and JSAPs.</p> <p>Established access mechanism through the completed CP; existing processes in projects identification and prioritization.</p> <p>Traditional, effective adaptation practices.</p>	<p>Decentralised Federal system of government results in limited communication/coordination between the Federal and State governments.</p> <p>Uncertain FSM economic status post 2023.</p> <p>Limited capacity at National and the States level (both technical and staffing); more severe at the States level.</p> <p>Low capacity at the NDA office; no positions are permanently funded. State focal points are not full time positions.</p> <p>Limited absorptive capacity.</p> <p>States are not experienced or equipped to receive and absorb increasing levels of climate finance.</p> <p>Limited compliance to the ODA Policy and limited capacity in ODA coordination.</p> <p>Limited private sector to mobilise financial resources and leverage financing.</p> <p>Absence of a National Adaptation Plan; no overarching national climate finance strategy nor States-based climate finance strategies.</p> <p>Most policies and plans remain outdated or non-existent (e.g. National Water Policy).</p>	<p>Limited communication/coordination between the Federal and State governments.</p> <p>Most projects are too broad in scope relative to the current limited capacities to develop them.</p> <p>Limited staffing and technical capacity to develop and implement large scale and state-level projects.</p> <p>Limited to no experience with working with AEs.</p> <p>Limited access to and/or availability of AEs.</p> <p>Limited NDA capacity to provide full support to States/focal points on developing priorities.</p> <p>Limited capacity in ODA coordination to timely inform projects development and implementation.</p> <p>Protracted review process/timing from projects development to implementation (with around 2 to 3 years for projects development).</p> <p>Reports on completed projects are not always documented or easily accessible.</p> <p>Absence of a National Adaptation Plan (NAP); lack of up-to-date evidence basis.</p> <p>Limited, out-of-date, fragmented and inaccessible climate change data (including baseline date, socio-economic data).</p> <p>Most policies and plans remain outdated or non-existent (e.g. National Water Policy).</p> <p>Remote and dispersed context of islands: logistical challenges at implementation, especially to outer-islands.</p> <p>Limited private sector to mobilise technical and technological capabilities.</p>
OPPORTUNITIES		CHALLENGES	
CC Finance Strategy	CP Pipeline	CC Finance Strategy	CP Pipeline
<p>Post 2023 Compact negotiations include stronger support for CC response.</p> <p>Completion of the NAP to maximise climate finance access.</p> <p>Update of the ODA Policy and revitalised Donor coordination.</p> <p>New and stronger partnerships for increasing cofinancing opportunities; UN multi country office (UNDP), USAID, ADB, WB.</p> <p>DAE accreditation of FSM DoFA, Vital, FSMDB.</p> <p>Increased, tailored support at the strategic level from the GCF as a result of the 2020 SIDs IEU report findings.</p> <p>High level dialogues more accurately reflect the FSM's large ocean state identity.</p> <p>Geopolitical restructuring in the Pacific.</p> <p>States to improve communications and relationship with the National Government given that the National Government is the bridge to access opportunities with global funds and international partners.</p>	<p>Increased co-financing opportunities under a new, negotiated Compact.</p> <p>Completion of the NAP to address data, capacity and technological capabilities issues.</p> <p>New partnerships to increase access to AEs; UN multi country office (UNDP), ADB, WB.</p> <p>DAE accreditation of FSM DoFA, Vital, FSMDB.</p> <p>Increased, tailored support at the projects level from the GCF as a result of the 2020 SIDs IEU report findings.</p> <p>Established and endorsed plans for priority projects in adaption and mitigation with the IDPs and JSAPs.</p> <p>Increased NDA support as a result of increased assistance available under a multi-year Readiness 3 Program.</p> <p>Experience gained with EDA proposal and projects could lead to more EDA- approved projects in future iterations of the pipeline.</p> <p>Successful past and existing climate change projects to build on/scale up.</p> <p>Improved two-way communications between the NDA and States.</p> <p>Dedicated, full time staffing for NDA Readiness and Country Program implementation at States level.</p> <p>Increased employment opportunities; can also build local capacity.</p> <p>Increased resilience for communities.</p>	<p>Small island state identity; global misperception of the FSM and other island nations as 'small' i.e. insignificant players in global-level solutions for adaptation and mitigation.</p> <p>Limited understanding in the GCF of the development-climate change as well as adaptation-mitigation linkages for SIDs.</p> <p>Limited understanding in the GCF of effective traditional adaptation practices in the islands; mainly due to perception that they are 'non-scientific'.</p> <p>Climate finance has seen an increase in the form of loans rather than grants.</p> <p>The GCF is a new and politically-determined fund.</p> <p>Donor/co-financing coordination; some donor organisations may not be ready or open to work with the GCF.</p> <p>Uncertain post 2023 economy.</p> <p>Geopolitical restructuring in the Pacific.</p> <p>Slow pace and processes in accessing finance amidst escalating adverse CC events.</p> <p>Change of Administrations/ low staff retention in national and state government departments;; loss of institutional knowledge.</p> <p>Small States - Big Funds: Adjusting the financial management capacity at States level to receive and absorb increasing levels of climate finance.</p> <p>Continuation of Covid pandemic, natural disasters or similar regional/global disruptions.</p>	<p>Focus the CP Pipeline to match current limited capacities and resources at the States and national (NDA) level.</p> <p>Adverse CC consequences happen faster than projects are approved and implemented.</p> <p>Cumbersome, fast-changing GCF review and approval processes.</p> <p>Limited understanding in the GCF of the climate change-development interlinkage in the SIDs context; and on effective traditional adaptation practices in the islands, mainly due to perception that they are 'non-scientific'.</p> <p>Access to technical assistance: limited pool available to work in the FSM (remote, 'hardship' post); lengthy process for securing technical assistance; high costs.</p> <p>Getting more entities accredited; limited numbers, availability and capacity of entities (e.g. not many are Category A or are available to work in the FSM)</p> <p>Limitations of current entities (e.g. MCT is only 'Micro/Category C'; SPC Small/Category B)</p> <p>Worsening absorptive capacity at State and national levels due to increased outmigration and limited training available (dearth in the education system in the climate change and development field).</p> <p>Change of Administrations at State level can affect priorities.</p> <p>Availability and accessibility of data and reports on completed projects.</p> <p>Remote and dispersed context of islands: Traditional, cultural values and practices in outer-islands difficult to incorporate into project design; logistical challenges at implementation, especially to outer-islands.</p> <p>Continuation of pandemic, natural disasters or similar regional/global disruptions.</p>

Analysis: When considering the external pressures on the FSM, the situation is precarious. This is particularly so when we look at the advent of climate change-induced disasters, geopolitical restructuring in the Pacific, the unforeseeable effects of the pandemic and other global instability as well as the uncertain economic conditions after 2023. As discussed in Part 1, the global landscape is favourable to climate finance. This can hopefully offset the uncertainties surrounding the economy and the country's capacity to thrive in the face of climate change. In order to fully take advantage of this opportunity, however, there are many challenges to overcome, internally. Foremost is the capacity limitation in the FSM which presents a double challenge, especially for the CP pipeline; first, limited technical capacity to develop and manage projects, and second, limited staffing and absorptive capacity to implement large scale, transformative projects and programs.

These internal limitations have been well-documented across national planning initiatives over the years, and are becoming increasingly urgent to address in the face of climate change and other external pressures. In response, the FSM has made considerable effort to improve internal coordination in order to position itself for climate finance success (discussed in Part 1). Its partnership with the GCF is particularly proving instrumental in paving the road for turning these efforts into action. The guidance of a CP is a strength, especially when this country-driven approach has already resulted in initiatives and projects worth around USD 26 million in only four years of CP implementation. Moreover, its responsive partnership with the GCF is facilitating innovative partnerships and financing modalities that enable the much-needed augmentation in capacity. In addition, the GCF's ready support for the development of a NAP will enable the development of an overarching climate finance strategy for the FSM and progress capacity building in the country, including improved capabilities in data collection and take-up of technological opportunities.

The challenges can seem insurmountable when, on the one hand, the pace in accessing finance is slow relative to escalating adverse climate change conditions, and on the other, climate change consequences can happen faster than projects are approved and implemented. It seems therefore that the best option is to grow the nation's strengths by continuing to build partnerships that help position the country to take advantage of the 'green' resilient opportunities ahead. Bolstering ODA coordination is critical to optimise the FSM's ability to fully finance these opportunities into action.

A particularly promising opportunity is a paradigm shift that re-positions the FSM as a Large Ocean State.³⁶ This is perhaps its greatest strength. The FSM's climate impact on a global level should be understood not as a SIDS but as a Large Ocean State.³⁷ Even though the FSM has a relatively small

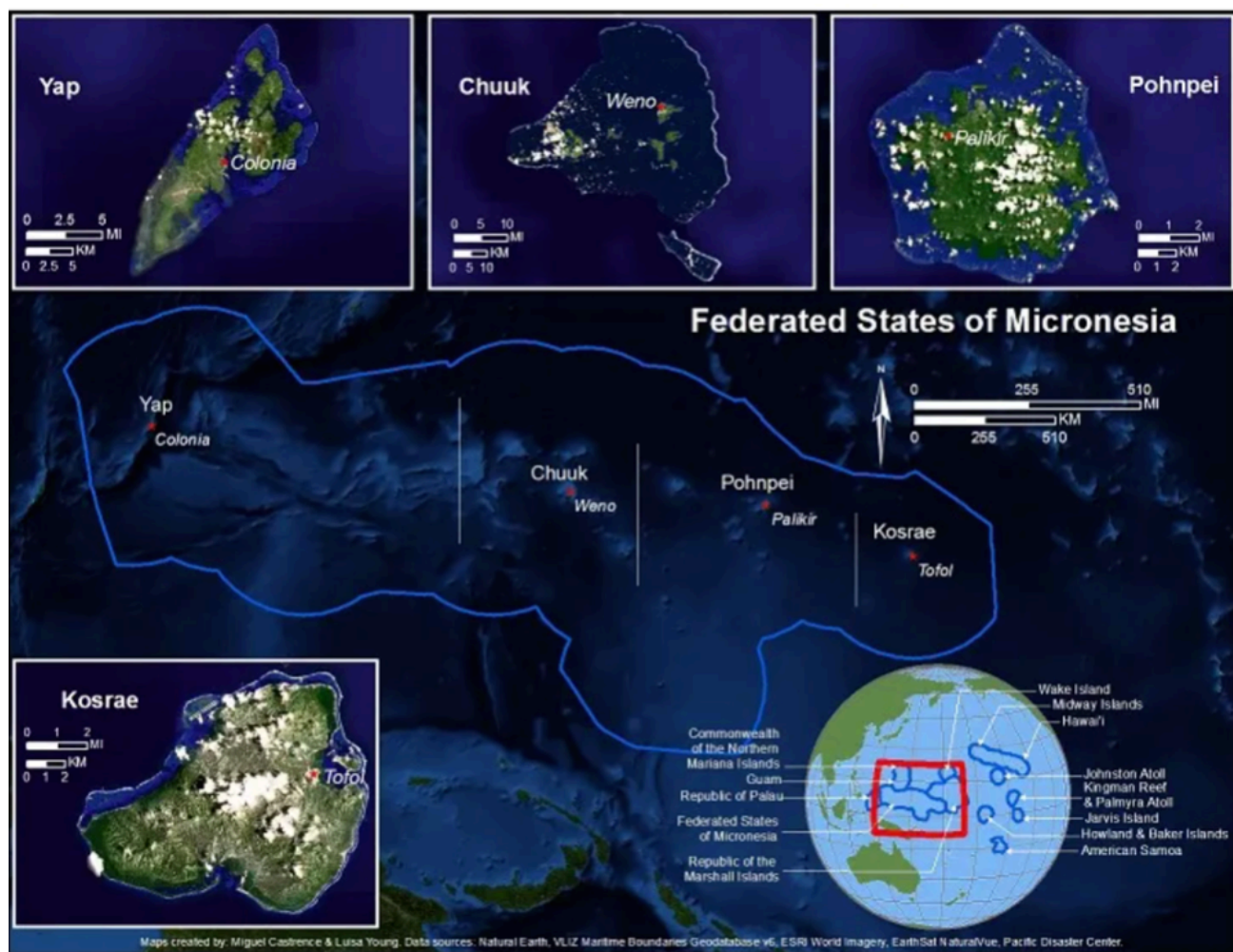
A Large Ocean State

If the FSM's EEZ were a physical land mass, it would make the FSM the 8th largest country in the world, almost the size of India. When you include the FSM's involvement in the Micronesia Challenge, the area expands to over double that size (6.7m sqkm, or more than 20% of the Pacific Island region).

³⁶ While still in development, the term 'Large Ocean States' is gaining popularity to more accurately represent the characterisation of island developing States in the international arena from a deficit-based model to a strengths-based approach. SIDS are custodians of 15 of the 50 largest exclusive economic zones in the world and represent almost 20 per cent of UN membership. See CP, fn 12.

³⁷ President's Foreword in the CP.

population, its people are the custodians of a large ocean estate with tremendous ecological, but also potential financial, significance. Its marine and terrestrial resources are the foundation of the country's long-term economic self-sufficiency. Since around 60% of the population depends on subsistence livelihoods, protecting its ecosystems is crucial to sustaining the country's rich ethno-biological traditions while improving quality of life.³⁸ At the same time, if the FSM successfully gains global recognition as a Large Ocean State, its role in the global ecosystem would be properly valued.



Source: pacificrisa.org

This paradigm shift presents a win-win situation across mitigation and adaptation goals: it could open up financial opportunities in carbon sequestration and storage capabilities while generating ecosystem services through the very protection of endangered global resources.³⁹

³⁸ SPREP, *Federated States of Micronesia National Environment Management Strategy 2019-2023*, p2.

³⁹ Some discussions in the FSM are already emerging towards a clearer understanding on the mitigation components of ocean-based adaptation actions such as with Marine Protected Areas, Large Fisheries Conservation and Protection of Large Ocean Mammals. See *Third National Communication/ Biennial Report to the UNFCCC Workshop Report*, September 2021.

Coastal ecosystem services have been estimated to be worth over US\$25,000 billion annually...[e]cosystem based management and adaptation options...can both reduce and mitigate climate change, increase food security, benefit health and subsequent productivity and generate jobs and business...protection and restoration of our ocean's blue carbon sinks, provides one of the strongest win-win mitigation efforts known today.

- Blue Carbon Rapid Assessment Response Report, United Nations Environmental Program, 2009, p7.

PART 3

WAY FORWARD

Recommendations

On balance, there are great opportunities in climate finance that the FSM can pursue, even in the face of great internal and external challenges. The following are recommendations from the above analysis.

1. On Climate Finance Strategy:

- 1.1 Continue on a 'green growth' sustainable development pathway.
- 1.2 Strengthen the capacity of the Council.
- 1.3 Continue to strengthen the FSM-GCF partnership through the Readiness program.
- 1.4 Facilitate the completion of the NAP proposal and project.
- 1.5 Help ensure that NDC implementation is fully costed.
- 1.6 Support the Recommendations and Action Plan set out in the *FSM Climate Change and Disaster Risk Finance Assessment 2019*.
- 1.7 Support Overseas Development Assistance (ODA) coordination.
- 1.8 Value the FSM's global adaptation and mitigation impacts as a Large Ocean State.

2. On the CP Pipeline:

- 2.1 Build stronger partnerships with DAEs, AEs and other supporting teams, such as with the USAID Climate Ready project and their successors.
- 2.2 Focus the current Pipeline to be commensurate with the FSM's currently limited capacities and resources as well as with current availability and capacities of DAEs and AEs.

2.3 Continue to progress the accreditation of the FSMDB and Vital to boost private sector engagement in the banking and energy sector, respectively.

2.4 Optimise the chances of Pipeline projects being co-financed by other development partners, or funded beyond the GCF, through ODA processes such as the Development Partners Forum.

With the support of community leaders, key government departments, partners and stakeholders in the FSM, the Readiness team will ensure that the Updated CP takes into account the weaknesses and challenges presented by the current situation. At the same time, in conscientiously adopting the recommendations above, it will build on current strengths and gains to realise the opportunities ahead.

The FSM Readiness Program

The NDA Readiness team will:

- Submit a proposal for a multi-year Readiness Program with the GCF;
- Facilitate the CP update and its implementation;
- Launch the CP M&E;
- Submit CP M&E Report at the second meeting of the Council in May/June 2022;
- Facilitate the submission of the NAP proposal to the GCF;
- Support DAEs, including helping to progress the accreditation of Vital and the FSMDB;
- Seek ongoing FSM government funding for the NDA Office to ensure continuity post GCF Readiness support;
- Support the NDC update due for submission to the COP27 on December 2022;
- Continuously improve communications with stakeholders.

The CP Update

The Consultant engaged for the update of the CP will:

- Support the Readiness work outlined above.
- Engage stakeholders in the update process.
- Respond to the requirements outlined in the latest GCF CP Guidance, particularly regarding climate finance strategy, programming priorities and multi-stakeholder engagement process.
- Review the CP Pipeline with the States and national governments through workshops and follow-up communications.
- Articulate the modular model of the consolidated projects/programs in the CP Pipeline to respond to changes or new and emerging priorities; the projects/programs may be modified by size, type, funding (e.g. modalities, co-financing) and by the status of endorsed activities/projects within the JSAPs, ODA and IDPs (i.e. already funded, canceled, amended and so on).

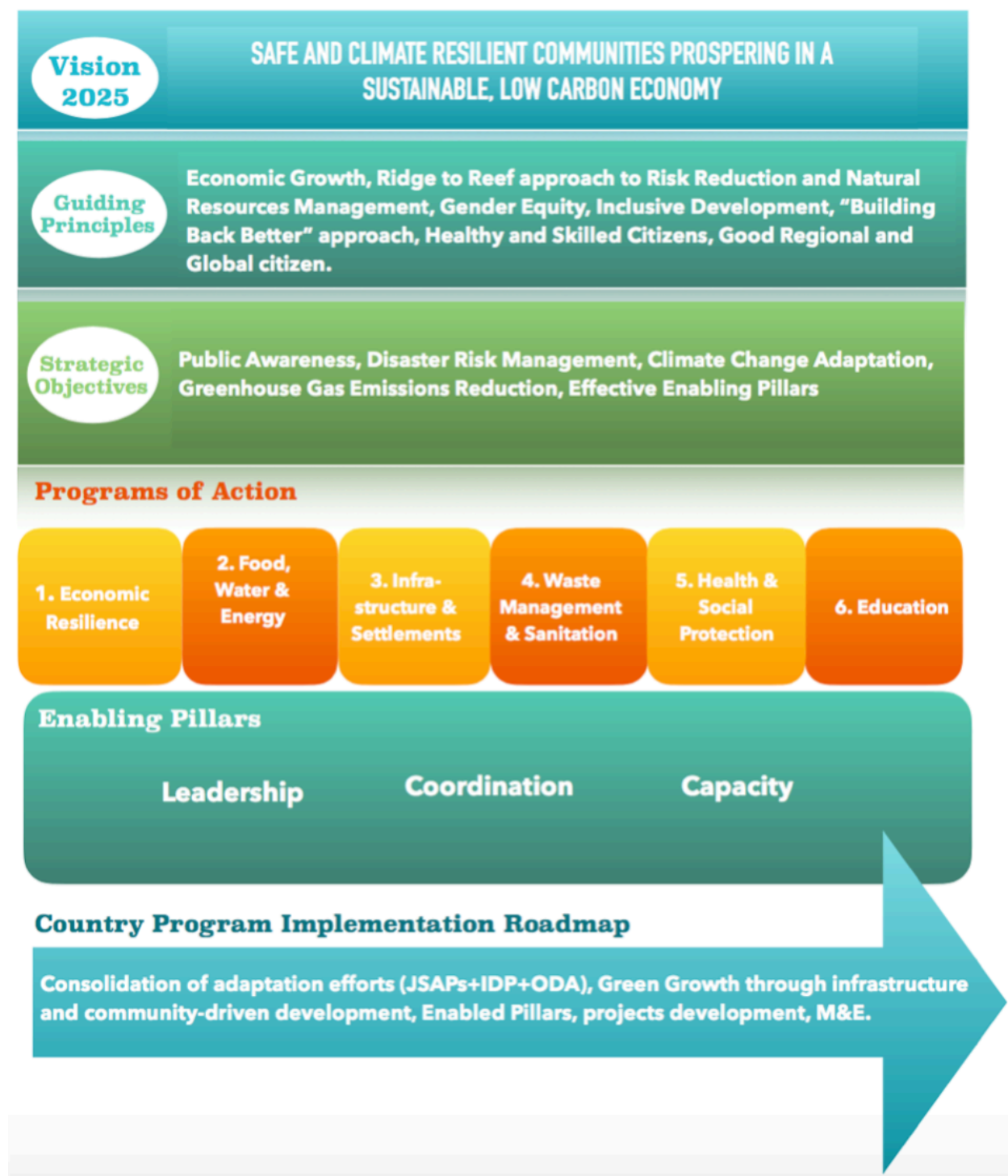
- identify the full range of DAEs and AEs to maximise the development of the FSM's programming priorities, and to ensure alignment between the updated CP and entity work programmes, as well as complementarity between entities based on their respective capabilities.
- identify how the GCF can build on the ongoing work of other development partners in the country for the purposes of co-financing and support delivery that complements those of other partners.
- identify human resources development and capacity building requirements.
- review and improve approval processes in the CP e.g. Eligibility Assessment (EA) Forms.
- review and improve CP implementation processes e.g. M&E.

CP Update Workplan

The completed Updated CP draft is expected to be available for nation-wide review by 15 April 2022, after which it will be submitted to the Council for endorsement. The final document will then be submitted to the GCF for a vetting process, which can take up to six weeks. Herein is a Workplan covering the work that needs to be accomplished for the CP update.

FSM-GCF Country Program Update Workplan January to June 2022								
	Tasks	Who:	Jan	Feb	Mar	April	May	June
1	READINESS							
1.1	Submit a proposal for a multi-year Readiness Program with the GCF	NDA Office						
1.2	Facilitate the Update of the CP	NDA Office						
1.3	Launch the CP M&E	CP Update Consultant+ NDA Office						
1.4	Facilitate the submission of the NAP proposal	NDA Office						
1.5	Support DAEs/ progress the accreditation of Vital and the FSMDB.	NDA Office						
1.6	Ensure communications with stakeholders.	NDA Office						
1.7	Support meeting of the Council and submit CP M&E Report	NDA Office						
1.8	Seek ongoing FSM government support for the NDA Office	NDA Office						
1.9	Support the NDC update	NDA Office						
2	PRIORITY PROJECTS/PROGRAMS PIPELINE							
2.1	National and States priority projects selection (5 country-specific projects)	CP Update Consultant						
2.2	Complete 1-2 page summary with Theory of Change for the Priorities List	CP Update Consultant + States and National						
2.3	Create 'In Line' (to Priorities) List	CP Update Consultant						
2.4	Articulate the modular model of the CP Pipeline, and provide CP Projects Consolidation Spreadsheet tool to States	CP Update Consultant						
3	COUNTRY PROGRAM							
3.1	Submit Consultant Workplan for CP Update	CP Update Consultant	1					
3.2	Submit Rapid Report on Situational Analysis	CP Update Consultant	27					
3.3	Support the Readiness work above	CP Update Consultant						
3.4	Submit finalise Rapid Report with comments from key stakeholders and States workshops to the NDA	CP Update Consultant + Key stakeholders + States			23			
3.5	CP update validation workshops with States and nation-wide (5 in total)	CP Update Consultant + NDA Office		Yap: 3-4, Chuuk: 24-25, Kosrae: 28-1 Mar	Pohnpei:17-18 NW: 30-31			
3.6	Circulate CP draft for NDA + nation-wide + GCF regional team review (2 wks for review comments).	CP Update Consultant + Stakeholders				15 to 30		
3.7	Finalise draft for submission to the Council (1 wk for Council to provide review comments).	CP Update Consultant					15	
3.8	Submit Final Updated CP to the Council and the GCF	CP Update Consultant + NDA Office						30

Annex 1: The FSM Sustainable Development Strategic Framework



Annex 2: Current status of priority projects in the FSM Country Program

Jurisdiction	Consolidated Projects	Estimated Cost	Status
Nationwide	1. FSM Food and Water Security Program	\$10,000,000	APPROVED. The Project was modified to remove the water component.
	2. FSM Renewable Energy Investment Program	\$125,000,000	Redirected for funding with the ADB; all components may have already been funded. To be confirmed.
	3. FSM National College Resilient Infrastructure Development Program	\$63,838,000	STATIC; some components may already be funded. To be confirmed.
	4. Nation-wide Climate Change and Disaster Risk Management Coordination and Communications Program	\$43,284,549	STATIC; some components may already be funded. To be confirmed.
	Total:	\$242,122,549	
Yap State	1. Resilient Transport and Private Sector Development in the main and outer-islands of Yap Program	\$92,660,703	STATIC; some components may already be funded. To be confirmed.
	2. Yap Renewable Energy Investment Program Phase 3	\$95,913,219	STATIC; some components may already be funded. To be confirmed.
	3. Resilient Infrastructure for Health and Education Delivery Program	\$13,929,704	MERGED; some components have been merged into the National Health Resilience Project (see Annex 2).
	Total:	\$202,503,626	
Chuuk State	1. Chuuk State Resilient Critical Infrastructure Program	\$349,173,472	STATIC; some components may already be funded. To be confirmed.
	Total:	\$349,173,472	
Pohnpei State	1. Pohnpei State Resilient Critical Infrastructure Program	\$141,871,976	STATIC; some components may already be funded. To be confirmed.
	2. Pohnpei State Resilient Social Protection Program	\$25,305,659	MERGED; some components have been merged into the National Health Resilience Project (see Annex 2).
	3. Pohnpei State Resilient Tourism Development Program	\$3,198,090	STATIC; some components may already be funded. To be confirmed.
	Total:	\$170,375,725	
Kosrae State	1. Kosrae State Inland Road Completion Project	\$35,966,000	STATIC; some components may already be funded. To be confirmed.
	2. Building Resilient Communities in Kosrae State Program	\$97,200,364	MERGED; some components have been merged into the National Health Resilience Project (see Annex 2).
	Total:	\$133,166,364	
	Overall Total:	\$1,097,341,736	

Annex 3: Current Status of Readiness and Pipeline Projects with Newly Emerged Priorities

No.	PROJECT NAME	DAE/AE	USD	COMMENTARY
APPROVED AND CURRENTLY UNDER IMPLEMENTATION				
1	Climate resilient food security for farming households across the Federated States of Micronesia – (SAP proposal)	MCT	9.6 MILLION	Part of the CP Pipeline. Complements Food and Water Security components of the SPC EDA/GCF project and SPC Health PPF.
2	Climate change adaptation solutions for local authorities in the Federated States of Micronesia (EDA proposal)	SPC	16.6 MILLION	Not in the CP Pipeline but an EDA opportunity under the Readiness program. Falls under 'capacity building' enabling pillar in the CP Strategic Framework. Food and water security components complements the MCT-GCF project and SPC Health PPF.
3	Project preparation for increasing resilience to the health risks of climate change in the Federated States of Micronesia (SAP proposal)	SPC	9.6 MILLION	Not in the CP Pipeline but falls under Program of Action: Health and Social Protection, in the CP Strategic Framework. Good example of the flexible use of the CPSF; moving beyond or re-modulating the portfolio to respond to new, emerging priorities. Complements the MCT-GCF and SPC EDA/GCF projects.
4	Project Preparation for Community-Based Interventions for Reducing Vulnerability to Climate Change in Northern Pacific Small Island Vulnerable States (SIDS) (EDA proposal)	MCT	10 MILLION	Good example of expanding climate impact contribution at the regional level.
5	Building capacity of regional direct access entity and national designated authorities to foster climate action in the Pacific	SPC	300,000	Increases SPC's capacity as a DAE. Good example of expanding capacity at the regional level.
6	Strengthening the capacity of Direct Access Entities through the Community of Practice for Direct Access Entities (CPDAE) to access climate finance and implement adaptation and mitigation programs and projects.	GIZ	100,000	Increases MCT's and other DAEs capacity. Good example of expanding climate impact contribution at the global level. Supports coherence between the AF and the GCF, thus contributing to leveraging of funds for greater climate impacts.
PROGRESSING TOWARDS GCF CONSIDERATION (PROPOSAL STAGE)				
7	National Adaptation Plan (NAP)	SPREP	3 MILLION	This project will provide the foundation of a 'resilient FSM' by increasing capacity to access climate finance. It is a critical need for the effective implementation of CP priority pipeline projects.
8	Sea Sustainable Transport (Vaka Motu)	SPREP	TBA	Not in the CP Pipeline but falls under Programs of Action 1 and 2: Economic Resilience, and Energy, in the CP Strategic Framework. Can also be linked to 'Climate resilient infrastructure for Outer Island transport' national project with TC&I under ODA Priorities (yet to be endorsed).
9	FSM Renewable Energy Development Project (part of the ADB Pacific Renewable Energy Program)	ADB	TBA	In the CP Pipeline but parts of the project have since been funded under a separate ADB program with the FSM.
10	Adapting tuna-dependent Pacific Island communities and economies to climate change Project.	CI	TBA	Complements the <i>Food Security Project</i> through strengthening the FAD programs. The PPF has been completed and awaiting NOL from the FSM.
11	Building capacity of DAEs and NDAs to foster climate action in the Pacific'	SPREP	300,000	Increases SPREP's capacity as a DAE. Good example of expanding capacity at the regional level.

Annex 4: List of re-structured projects at States level for simpler financing modalities, such as the GCF Simplified Approval Process (SAP)

* The following projects were identified for the first round of project development in 2018, noting that not all projects on the list would qualify for the SAP given large amount sizes and high environmental risk categories.

	Title & Description	Estimated Cost USD
1	Climate Proofing the Dehketik Road Project - Our objective is to climate proof the road to the port and to improve the flow of water through culverts so that the tides can once again assist in the proper flow of water out of the Dehketik area. We would like to elevate the road and insert 5 culverts along the man-made stretch that connects the port to Kolonia.	\$9,951,885
2	Kosrae State Inland Road Completion project -This project is a continuation of the Adaptation Fund's (AF) funding of phase 1 of this project. The entire rest of the project is listed as a state and national priority project and should be developed into a full GCF proposal.	\$30,000,000
3	Kosrae, Malem Water System Improvement -The municipality of Malem currently uses a non-potable piped water distribution system to its residents. The objective of the project is to provide storage and treatment for sedimentation, and new transmission and distribution mains, service lines and metering for each household.	\$6,000,000
4	Yap Resilient Infrastructure for Health and Education Delivery - which would see septic tanks and compost toilets built for vulnerable communities, along with a new recycling and solid waste management program and community education.	\$10,000,000
5	Yap Community and Coastal Protection Programme - see the water infrastructure on the main island of Yap improved and a community education project around climate change and disaster risk reduction issues.	\$7,000,000
6	Yap State Resilient Critical Transport Infrastructure Program - a consolidated list of priority transport infrastructure projects to move forward, including multi role vessel, airstrip improvements, and roads.	\$102,648,586
7	Chuuk Community and Coastal Protection Programme - that would see the dock infrastructure on 9 lagoon islands improved and a coastal protection project around the dock facilities to climate proof the surrounding environment, plus the purchase of a multi-role vessel	\$9,000,000
8	Chuuk State Resilient Critical Infrastructure Program - Phase 1" which would see Phase 2 of the Weno road project completed, along with road infrastructure done on the lagoon islands.	\$90,000,000
9	Pohnpei State Resilient Tourism Sector Development Project - targeting ecotourism development as well as agroforestry	\$3,100,000

Annex 5: FSM States SWOC Analysis Results

Yap:

<u>STRENGTH'S:</u>	
<u>CLIMATE FINANCE STRATEGY:</u>	<u>CP PIPELINE:</u>
1.) ESTABLISHED NATIONAL/REGIONAL IMPLEMENTING ENTITIES eg): DAE / MCT / PSMD / VITAL SPC SPREP	1.) DEVELOPED GCF COUNTRY PROGRAM.
2. NETWORK OF TECHNICAL PARTNER'S: - DOFA / NDA - DECEM - R4D - NATIONAL / STATE	2.) APPROVED PROJECT'S: - FOOD SECURITY - EDA (ENHANCED DIRECT ACCESS)
	3.) LEARNING OPPORTUNITIES - EDA - MCT - HEALTH SAP - SPC - NAP - SPREP
	4.) ESTABLISHED ACCESS MECHANISM: STATE → NDA → GCF ↳ DECEM

<u>WEAKNESSES</u>	
<u>Climate Finance Strategy</u>	<u>CP Pipeline</u>
1. Lack of Line of Communication between State, National, Stateholders and etc.	1. Centralizing our DATAs & How to share the DATAs.
2. Lack of Policies, Laws & Regulations that addresses Climate Change Activities	2. Logistical Challenges of Projects
3. We don't have a Financial Mechanism in Place to support the State Climate Change Activity.	3. Traditional Practices

<u>OPPORTUNITIES</u>	
<u>CLIMATE FINANCE STRATEGY</u>	<u>CP PIPELINE</u>
- Availability of Funds	- New partnership to increase access to Accredited Entities.
- Post 2023 compact negotiations include stronger support for CC response.	- Completion of the National Adaptation Plan (NAP) to address data, capacity, and technological capabilities issues.
- High level dialogues more accurately reflect the FSM's large ocean state identity.	
- New and stronger partnerships for increasing co-financing opportunities.	
- COVID-FREE COUNTRY !! 😊	

<u>CHALLENGES</u>	
<u>CLIMATE FINANCE STRATEGY</u>	<u>CP PIPELINE</u>
• Getting more entities accredited	• Lengthy process of securing TA
• Limitation of current DAE	• LIMITED DATA
• Financing is uncertain	• COVID-19 PANDEMIC

Chuuk:

Opportunities (Internal/External)

Climate Finance Strategy	CP Pipeline of Project/Programs
1. Collaboration with Nat'l govt on compact funding.	Road Projects (Sewer, water, bridges, sea wall)
2. Capacity Building	5). Health Project
3. Centralize data collection	- Dispensaries (Lagoon/Outer State Island)
4. Localize accessibility	- Upgrade Chuuk Hospital to accommodate National needs.
	- Grant Writing & Technical Support
1. What opp are open?	- Establish an office with capable staff at the State level.
2. What funds could we take advantage of?	- State geared assistance
3. How can we turn our strengths into opp?	

CHALLENGE

CF Strategy	CP Pipeline of Project/Programs
- Use nat'lch w/every	- Lack of awareness on programs
Climate financing strategy	
- Capacity (Technical)	- Capacity to access & absorb & implement
- Language Complexity in reports, b/w FSM states	- Human Resources (Migration)
- Familiarity	- Restrictions on Travel + mobility (COVID-19)
- User Friendly Forms (Templates)	- State + National Communication (not communication in between)

STRENGTHS	
Climate Finance Strategy (Internal)	CP Pipeline of Projects/Programs (External)
1). Labor	Technical assistance
2). Natural Resources	- Climate Finance
3). Some skills/limited	- Data and Proposed
4). GCF Priorities in place	- Accredited Entities in place
5). ESAP IDP in place	

Title e.g "Weaknesses Internally"

- Lack of expertise
- collection data
- donate funding Climate finance
- Lack of Requirements

Externally

- Need technical experts
- Lack Requirements

Kosrae:

Climate finance strategy

S

- What we do/did well

Kosrae ODA as focal point for GCF FSM

NAP

Projects under CP are linked to State Priorities

Partnership with State, National, NGOs, Private Sector, CSOs

- Unique resources we draw on

Funding from other international donors i.e Adaptation Fund

World Bank

ADB

EU

- What do others see as our strength

Existing processes in project identification and prioritization

MCT as an accredited entity

W

What could we improve?

Coordination between State and National Government

Compliance to FSM ODA policy

Focal points are not full time

Where do we have fewer resources?

Technical Capacity from proposal development to reporting

Lack of experience with working with accredited entities

Opportunities

What opps are open

Funding opportunities

We have the country program

Trends we could take advantage of Development and climate change concept

Limited baseline data/science based and socioeconomic data

Completed work is not documented

Cost of consultancy

Entities who are in the process of getting accredited (FSMDB and Petro)

C

What could harm us?

Global conflicts

Flooding and erosion- Climate change processes are faster than implementation process

What challenges do our weaknesses expose?

Slow processes

Limited local expertise

Limited understanding by GCF on our situation

Pipeline projects

S

Political Will

State identified Priority Projects are under consideration

CP projects are under KSDP and IPIC listings (IDP)

Weakness

Timing from planning to implementation

Review process

Lack of technical capacity/ limited local capacity, state GCF staffing

NDA support to States/focal points

Coordination between state and national

Opportunities

Create employment opportunities

Climate resilience for communities

Approved funding may Build local capacity

Challenge

Technical needs

Pohnpei:

STRENGTH		WEAKNESS	
CLIMATE FINANCE STRATEGY	CP PIPELINE OF PROJECTS / PROGRAMS	Climate Finance Strategy	CP PIPELINE OF PROJECTS / PROGRAMS
1. COUNTRY PROGRAM ^{in-PFM}	1. ACCREDITED ENTITY (MCT)	1. Communication ↳ Between National & State	1. Technical Capability / Capacity
2. RECEIVED \$27.6M FROM GCF	2. IDENTIFIED INFRASTRUCTURE PRIORITIES-	2. Technical / Capacity	2. Climate improving Policies ^{proofing}
3. FSM- LARGE OCEAN STATE		3. LACK OF STRATEGIC PLAN	3. Administrative priorities (changes)
4. POLITICAL AWARENESS			
- ESTABLISHED CLIMATE CHANGE COMMITTEES			

Challenges	
(CFS) Climate Finance Strategy	CP Pipeline of Projects / programs
* Being an small Island, Funding sources are provide ^{is limited} are limited .	* limited Technical Capacity.
* Being a New entity, Funding sources are tend to be limited.	* No Capacity ^{for} umbrella concepts only the small concepts.
Opportunities	
CFS	CP- Proj./Prog
FSM Nat'l gov't	Elim. Res.
NGOs/consultants	
Embassies/UN	
EVANG	

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