



Mapping FSM's Private Sector Resilience Building Initiatives

January 2024

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Original text: English

PIFS Cataloguing-in-Publication data

Mapping FSM's Private Sector Resilience Building Initiatives : Final report / [Commissioned by the Pacific Islands Forum Secretariat and FSM Chamber of Commerce and Industry]. Suva, Fiji : Pacific Islands Forum, 2024.

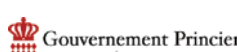
47 pages : col. illustrations ; 30 cm.

ISBN: 978-982-101-673-5

1.Climate changes – Environmental aspects–Federated States of Micronesia 2. Climate change – Government policy – Federated States of Micronesia 3. Climate change mitigation I. Pacific Islands Forum Secretariat II. Federated States of Micronesia Chamber of Commerce and Industry

363.738'74'09966 dc23

AACR2



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun Svizra

Federal Department of Foreign Affairs FDFA



PACIFIC ISLANDS FORUM

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Acknowledgments

This report has been produced in collaboration with the FSM Association of Chambers of Commerce (FSMACC), the four State Chambers and with inputs from the FSM National Designated Authority (NDA) Office for the Green Climate Fund.

We extend our gratitude to all individuals who dedicated their time to fill out the questionnaire, participate in the workshop session, and provide their insights through interviews.

The project team would like to thank the Pacific Islands Forum Secretariat (PIFS) Pacific Adaptation to Climate Change and Resilience (PACRES) Project Team for their guidance and facilitation of this project.

The mapping of private sector resilience building initiatives was made possible through the funding support of the European Union via the PACRES Project.

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Abbreviations

AE	Accredited Entity
AF	Adaptation Fund
ADB	Asian Development Bank
CCC	Chuuk Chamber of Commerce
COFA	Compact of Free Association
CSO	Civil Society Organization
DECEM	Department of Environment, Climate Change and Emergency Management
DFA	Department of Foreign Affairs
DOFA	Department of Finance and Administration
EIB	European Investment Bank
ENSO	El Niño-Southern Oscillation
ERBD	European Bank for Reconstruction and Development
FDB	Fiji Development Bank
FOA	Food and Agriculture Organisation
FSM	Federated States of Micronesia
FSMACC	Federated States of Micronesia Association of Chambers of Commerce
FSMDB	Federated States of Micronesia Development Bank
GCF	Green Climate Fund
GEF	Global Environment Fund
IDA	World Bank's International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IUCN	International Union for Conservation of Nature
IOM	International Organization for Migration
JICA	Japan International Cooperation Agency
KCC	Kosrae Chamber of Commerce
MCT	Micronesia Conservation Trust
MSME	Micro, Small, and Medium-sized Enterprise
NAP	National Adaptation Plan
NDA	FSM National Designated Authority to the Green Climate Fund
NDC	Nationally Determined Contributions
NGO	Non-Governmental Organisation
ODA	Overseas Development Assistance
PCC	Pohnpei Chamber of Commerce
PPD	Public-Private Dialogue
PPP	Public Private Partnerships
R&D	Department of Resources and Development
SBDC	Small Business Development Council
SCA	Save the Children Australia
SCCF	Special Climate Change Fund



SIDS	Small Island Developing States
SPC	Pacific Community
SPREP	South Pacific Regional Environment Programme
TNC	The Nature Conservancy
UNDP	United Nations Development Programmes
UNEP	United Nations Environment Programmes
WFP	World Food Programme
WWF	World Wildlife Foundation
YCC	Yap Chamber of Commerce

1. Executive Summary

The mapping of private sector resilience building initiatives for Federated States of Micronesia Chambers of Commerce (FSMACC) was prepared under the direction of Pacific Islands Forum Secretariat (PIFS) Pacific Adaptation to Climate Change and Resilience (PACRES) Project Team. It was prepared in consultation with FSMACC Board and members, State Chambers (Pohnpei, Chuuk, Yap, Kosrae), the FSM National Designated Authority (NDA) to the GCF, Non-Governmental Organisations (NGOs) and the private sector.

This document presents baseline information of private sector challenges and opportunities in relation to climate change initiatives, access to climate finance and public-private sector engagement.

FSM is highly vulnerable to a changing climate, with projections indicating that hazards will continue to intensify. Climate hazards and associated impacts across FSM's states vary considerably due to the El Niño-Southern Oscillation (ENSO) cycle, as well as the geographical spread of its islands. Businesses have experienced loss and damage to property and goods, but for many, climate events don't disrupt day-to-day operations, and are not seen as a critical concern.

In addition to a general public indifference towards climate change, the private sector is faced with multiple challenges in accessing climate finance as well as implementing climate mitigation and adaptation actions due to challenges in FSMACC capacity, balancing profitability and climate action, limited knowledge and resources as well as brain drain and labour shortages. Further challenges in accessing climate finance include absorptive capacity limitations, a perception that climate finance is non-existent for the private sector, limited collaboration and information sharing, and complexities in bureaucratic processes at state and national levels.

A strong and self-supporting FSMACC that drives collaboration between public and private sectors is imperative to deliver shared outcomes. There is a recognized need and willingness to address the current state of low private sector participation, capacity constraints and engagement. Opportunities include strengthening FSMACC institutional capacity, enhancing private sector participation within government, establishing effective public-private communication channels and promoting peer to peer knowledge exchange. Successful implementation is dependent upon adequate funding support.

This mapping exercise will provide preliminary insights into the private sector strategy within the FSM National Adaptation Plan (NAP) that has been approved with GCF funding to begin in 2024. The NAP will be a key 3-year piece of work that facilitates national, cross sectoral engagement to build climate resilience.

2. Introduction

FSMACC has sought assistance to conduct a private sector mapping exercise to facilitate strategic planning, inform more effective policy and identify opportunities for private sector engagement in climate finance.

This document provides a brief report of the private sector mapping exercise for FSM.

- Section 3 provides a summary of key findings.
- Section 4 provides recommendations and next steps.
- Section 5 provides the conclusion.

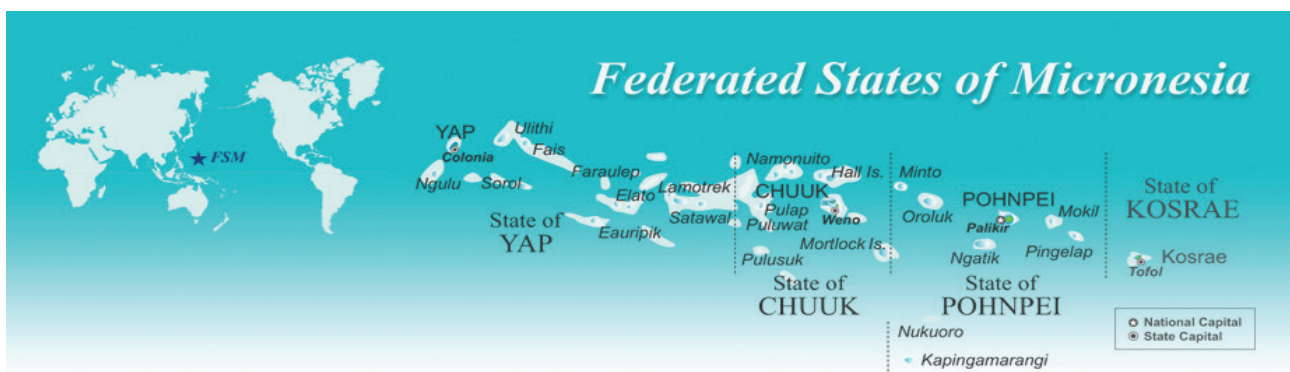
The deliverables are provided in the Annexes attached.

2.1 Context

The Federated States of Micronesia (FSM) is comprised of four states, Chuuk, Kosrae, Pohnpei, and Yap, spread across 607 islands in the northwestern Pacific. The private sector is represented by each state Chamber; Yap Chamber of Commerce (YCC), Chuuk Chamber of Commerce (CCC), Pohnpei Chamber of Commerce (PCC) and Kosrae Chamber of Commerce (KCC). FSMACC's role is to assist the State Chambers to help strengthen their organizational capacities in collaboration with the FSM Department of Resources and Development (R&D).

As a Small Island Developing State (SIDS), the FSM experiences heightened barriers to growth due to its geographic spread, small population and associated capacity and resource constraints, and exposure to natural hazards.

Figure 1 Federated States of Micronesia map¹



Capacity is further constrained by outward migration. The FSM and the United States maintain a unique diplomatic relationship through a bilateral Compact of Free Association (COFA) which provides FSM with grants and enables citizens to migrate and work in the United States. The Philippine Labour Ban that has prohibited citizens of the Philippines to work in the FSM, further exacerbated labour shortages since 2018 and significantly impacted the primary source of manpower for the construction industry in FSM.

FSM's small private sector, mainly comprised of MSMEs, is also susceptible to economic shocks. FSM's economy was impacted by the 2021 COVID-19 border closures, and only began to recover in 2022 as travel restrictions eased and the COFA was renewed with the United States. With about 95% of businesses in the retail sector, the private sector is highly dependent on a stable supply chain and are vulnerable to rising interest rates and surging food and energy prices.

¹ Federated State of Micronesia Country Program, Programming Cycle 2024-2027, https://dofa.gov.fm/wp-content/uploads/2022/10/Updated-Country-Program_ENDORSED.pdf

Due to rising climate challenges, access to climate finance is a priority for FSM. The Micronesia Conservation Trust (MCT) is a nationally accredited entity, under the GCF, which has the potential to channel funds to the private sector. The recent accreditation of the FSM Development Bank (FSMDB) as well as the anticipated GCF accreditation of The Vital Group in 2024 will further expand domestic avenues for the private sector to access climate finance. The GCF-funded NAP beginning implementation in 2024 will importantly undertake a more comprehensive private sector mapping exercise to inform understanding on the viability of private sector engagement in climate actions for the FSM.

2.2 Methodology

This study involved a preliminary scoping of stakeholder engagement with both the public and private sectors to gather climate related information and provide key recommendations based on the following activities.

- **Desktop research:** Desktop research was used to gather data on climate hazards, climate finance projects and potential PPP arrangements. Findings were validated through stakeholder consultation.
- **Questionnaire:** A questionnaire was distributed to FSMACC and State Chamber members to collect data on climate hazards, impacts and mitigation and adaptation action being taken by the private sector.
- **In-person workshop:** An in-person workshop was conducted in Pohnpei, FSM with private sector businesses and other organisations to discuss climate change needs and challenges, understand ongoing efforts, and assess strengths, weaknesses, threats, and opportunities.
- **Individual consultations:** Individual consultations were held with businesses and NGOs through online calls and emails.

2.3 Limitations

The study faced limitations including a general lack of publicly available documentation, which led to limited desktop research outcomes. Therefore, this record must remain dynamic and subject to updates as necessary.

Stakeholder consultation was based on input from a relatively small group of stakeholders, as outlined in Annex 1. Consultations with some relevant government departments including R&D and DECEM as well as other key private sector players such as Vital Group and FSMDB were not possible at the time due to time constraints.

The majority of stakeholders engaged were from Pohnpei, where the workshop took place. A representative from Kosrae attended the workshop, however, the geographic spread of FSM posed challenges in facilitating representation from Yap and Chuuk. In addition, the low response rate in the questionnaire can likely be attributed to the absence of physical outreach or presence.

This study did not capture the viewpoints of all sectors. It is noted that private sector businesses consulted didn't include micro-sized businesses which are more vulnerable to a changing climate and constitute a significant proportion of FSM's private sector.

These limitations can be addressed during the formulation of FSM's NAP in 2024, which is designed to engage stakeholders from all sectors across the states.



3. Summary of Key Findings

Key findings include:

- The private sector represented by FSMACC does not have a formal focal point of contact within the government at national and state levels.
- A disconnect and lack of mutual understanding between the public and private sectors, with information often used competitively rather than collaboratively.
- There is general agreement in the FSM that the private sector has an important role to play in climate action, however given constraints and challenges, there have been difficulties in directly involving the private sector in climate-related projects.
- There is high private sector interest in climate mitigation and adaptation activities and climate finance access, but there is limited understanding of climate effects and adaptation needs.
- Businesses experience climate fatigue due to discussions and proposed initiatives that are appearing as not being progressed nor implemented.

3.1 Private sector exposure to climate change impacts

The FSM is characterized as “highly vulnerable” by the GCF country Programme, with projections indicating that air and sea surface temperature, ocean acidification, sea level rise, and coastal erosion will all continue to intensify. The climate in the FSM varies considerably due to the El Niño–Southern Oscillation (ENSO) cycle, as well as the geographical spread of its islands, leading to a variation in climate hazards between states.

Key climate hazards identified by businesses in the FSM include rising temperatures, heavy rainfall, floods, high winds, typhoon and sea level rise. Some businesses have encountered impacts to operations, but for many, climate events don’t disrupt day-to-day operations, and are not seen as a critical concern. Impacted businesses have experienced property and goods loss and damage from inundation, storm, high winds and rainwater ingress. Other impacts include submerged causeways due to flooding, restricted access to outer islands, increased maintenance and building repair costs, and unwillingness to work laborious jobs in hot weather.

Although some states have not been directly impacted by severe natural disasters, FSM’s heavy reliance on imports means that climate events within the country as well as in neighbouring countries have the potential to significantly affect the FSM economy. An example of the former includes incidences of flooding on the Dekehtick Road in Pohnpei State which serves as the ‘lifeline’ road for food, medical and other necessary goods.² An example of the latter includes loss of banking services within the FSM in the recent typhoon that hit Guam.

2 Federated State of Micronesia Country Program, Programming Cycle 2024–2027, https://dofa.gov.fm/wp-content/uploads/2022/10/Updated-Country-Program_ENDORSED.pdf

Table 1 summarises key climate hazards and impacts identified through the questionnaire and consultations.

Table 1 Key climate hazards and summary of impacts

State	Hazards	Impacts
Chuuk	<ul style="list-style-type: none"> • Typhoons • Flooding • Droughts • Tropical storms • Storm waves • Landslides • High seas surges in outer islands 	<ul style="list-style-type: none"> • Loss or damage to products and equipment. • Damage to facilities. • Restricted visits to remote islands, impacting service provision. • Migration resulting in reduced workforce to deliver goods and services.
Yap	<ul style="list-style-type: none"> • Typhoons • Flooding • Droughts • High seas storm surges in outer islands 	<ul style="list-style-type: none"> • Main bridge impacted by typhoon. • Storm surge inundation of private businesses.
Pohnpei	<ul style="list-style-type: none"> • Typhoons during El Nino periods • Droughts • Variable rainfall patterns • Tropical storms • High sea levels during La Nina 	<ul style="list-style-type: none"> • Property damage from high sea level rise. • Damage to buildings from high winds. • Heavy rainfall and unpredictable weather conditions disrupt construction activities. • Supply chain instability, including delayed shipments of goods and materials, increased cost and time for delivery. • Labour shortages. • Submerged causeway due to flooding. • Need to fix cars damaged by sea level rise
Kosrae	<ul style="list-style-type: none"> • Tropical storms & typhoons • Droughts • Landslides • Higher than normal high tides • Large sea swells • Storm surges • Flooding 	<ul style="list-style-type: none"> • Flood damage to buildings and goods. • Flooded causeway. • Supply chain instability, including delayed shipments of goods and materials, increased cost and time for delivery. • Increased sea wall maintenance costs • Increased building repair costs such as roofing and guttering. • Adverse effects on farming and harvesting operations.

3.2 Private sector engagement in climate mitigation and adaptation

A small number of businesses already have or plan to invest in self-funded solar power mitigation activities and strengthen infrastructure to adapt to a changing climate. While businesses in the FSM are aware of climate-related challenges, this study found limited implementation of mitigation and adaptation measures.

Current mitigation actions include installation of solar power, solar water heating systems, high energy efficiency rated cooling equipment and lighting, waste reduction, resource reuse, and e-vehicle trials. These initiatives have been undertaken independently, as well as through government, NGO and CSO implementation support.

Future mitigation actions primarily include further investment in solar as well as an electric bike trial.

Current adaptation actions include strengthening infrastructure such as increasing drainage and water storage capacity, and renovation to prevent rainwater ingress. Other actions include greenhouse farming and clearing rivers and streams for improved floodwater flow.

Future adaptation actions are focused around strengthening infrastructure such as elevating property levels, renovating to prevent storm damage, building new structures to handle higher wind loads and constructing sea walls. Other adaptation aspirations are to address logistical challenges, have an automated climate data collection system, explore other renewable sources such as biogas, and diversify investments.

Annex 1 provides the record of current and future mitigation and adaptation activities.

3.3 Private sector challenges in responding to climate change

Businesses in FSM, particularly MSMEs, face challenges in undertaking climate mitigation and adaptation action, with the following three key challenges highlighted below.

- **Balancing profitability and climate action** as businesses usually have to choose between profit margins and implementing climate action due to the high cost of investment. Access to financial capital is often a challenge for MSMEs, especially post COVID-19, as many have insufficient funds and/or cannot access small loans.
- **Limited knowledge and resources** about climate change hazards, impacts and possible mitigation and adaptation strategies.
- **Brain drain and skilled labour shortage** as individuals leave businesses for more attractive government positions, or to other countries for better opportunities, education and healthcare.

These challenges should be addressed to increase private sector engagement in climate action.

3.4 Private sector challenges to accessing climate finance

There are further challenges to accessing climate finance which includes the following.

- **Lack of awareness and guidance** on where to seek and how to access funding for businesses in implementing climate mitigation and adaptation action, and currently no known available climate finance for the private sector to directly access. There is limited information sharing of climate finance opportunities from government offices and financial institutions.
- **Limited collaboration between the private sector and government** as well as the absence of an organisation or government institution that works directly with the private sector in the field of climate action and finance. Ad hoc engagement and a disconnect between discussions and action results in climate fatigue and diminished confidence and motivation in pursuing climate finance opportunities.
- **Complexities in access to international climate funds** due to bureaucratic processes in gaining both national and state government support, technical conditions and long processes within funding applications. SIDS tend not to have the expertise to fulfill climate funding proposal requirements. In addition, the lengthy approval time of about two years means delays in fund disbursement and therefore project relevance as the project context and need may have changed.



- **Small and unique character** of the private sector in SIDS related to the unique and remote geography, prevalence of MSMEs, markets too small to enable economies of scale, and the dependency on the relatively larger public sector.
- **Absorptive capacity limitations** within internal management systems due to constrained resources, capacity, and expertise. These capacity limitations lead to reliance on donor organisations and NGOs for project implementation, hindering long-term sustainability.
- **Lack of reliable scientific data** to develop climate funding proposals, particularly adaptation proposals that require significantly more data to prove climate vulnerability compared to mitigation proposals.

There are no publicly available records of projects in FSM that directly utilises the private sector as delivery partners, likely due to the above private sector challenges. A record of projects in place that target or indirectly involve the private sector can be found in Annex 3.

No PPPs were identified in FSM, Annex 4 provides potential arrangements.

4. Recommendations and Next Steps

Key recommendations are to strengthen FSMACC institutional capacity, so that private sector participation within the government can be possible, and promote climate awareness and peer to peer knowledge exchange. Successful implementation of these recommendations is dependent upon adequate funding support.

4.1 Strengthen FSMACC institutional capacity

It is important to strengthen FSMACC's institutional capacity, increase private sector participation and enhance overall engagement at a national level. The first step would be to establish a dedicated FSMACC office space and appoint an administrative assistant to act as the focal point of contact for FSMACC, streamlining communications and supporting administrative functions. The role could also support documentation practices of the FSMACC strategy and meeting minutes to keep members accountable, informed and engaged.

FSMACC should run a recruitment drive to address the current low membership levels. An annual meeting calendar should be established to improve participation levels of the private sector and shift from the current approach of collaborating primarily during emergencies.

Effective communication channels are critical to facilitate information sharing and inform the private sector, government and community about FSMACC activities. This can be achieved through formal meetings, a website, social media, local newspaper or flyers. As FSMACC grows and diversifies its offerings, this channel can provide a platform to highlight membership benefits such as participation opportunities, networking, capacity building, training, and international exposure opportunities.

A strong network among state Chambers, the business community and other stakeholders is necessary to share information and facilitate greater collaboration. Strategic partnerships and effective communication with NGOs and other relevant organizations also plays a crucial role in disseminating information about climate funded project opportunities to the private sector, strengthening potential for industry participation. FSMACC should proactively seek and convey these opportunities to mitigate missed chances for participation caused by limited awareness.

Strengthening FSMACC institutional capacity is critical to deliver climate resilient outcomes, inform policy and legislation and capture funds for the private sector, particularly with the upcoming opportunity under the three-year National Adaptation Planning process in the FSM.

4.2 Enhance private sector participation within government

Climate finance in FSM is predominantly channeled through the public sector, underscoring the need to strengthen collaboration between the public and private sectors. Public recognition of FSMACC as the official focal point of contact for climate matters will facilitate better communication between public and private sectors. A key step in this process is the execution of a formal Memorandum of Agreement (MoA) between FSMACC and R&D to form an effective and tangible relationship at the national level.

To address the current sporadic engagement, private sector representatives should be appointed to serve on the boards of relevant government departments and agencies, particularly those directly dealing with climate change. This includes the Department of Environment, Climate Change and Emergency Management (DECCEM), Department of Finance and Administration (DoFA), Department of Foreign Affairs (DFA) and the Overseas Development Assistance (ODA) Office. The private sector should also be involved via FSMACC in meetings pertaining to climate-related legislation, economic development planning, national targets, future strategy and private sector actions. This will reinforce public recognition of the private sector's significant role in climate action, facilitate sharing of information and support a more inclusive perspective in decision-making processes.

Enhanced public-private sector collaboration could also present opportunities for private sector partnership such as PPPs or joint ventures. Improved public awareness of private sector capabilities to implement climate adaptation or mitigation projects can complement the government's efforts and enhance direct private sector engagement in climate action.

In collaboration with the government, FSMACC could support the development of a publicly accessible registry of active and upcoming projects being undertaken by government, NGOs and businesses to improve national coordination and collaboration across all stakeholders.

The development of an annual private sector event would promote greater participation, information sharing and open engagement of climate-related knowledge and financing opportunities between local businesses, the government, community, NGOs and other key stakeholders. Joint development and implementation by the public and private sectors will enhance collaboration and help deliver the action plan in MoA. This event should align with the upcoming Pohnpei Public-Private Dialogue (PPD), led by FSMACC and pending approval by PCC. The PPD will be undertaken in all states to foster a dialogue that engages the public, the business community, and the broader private sector.

Increased levels of private sector participation will support a unified approach to climate-related initiatives and build a more collaborative and engaged business community.

4.3 Building awareness and offering training programs

As the private sector focal point, FSMACC plays a vital role in advancing businesses through upskilling and improving understanding of climate change impacts on business, as well as strategies that can be adopted to build resilience. Targeting climate change awareness specifically at MSMEs will create a more informed and knowledgeable business community. Training programs designed to enhance technical expertise, critical skills, and administrative proficiency are also essential to access climate funds.

Fostering peer-peer learning opportunities among businesses and complementary sectors, both across states and potentially across countries, presents an opportunity to leverage lessons learned. Such collaborative learnings offer businesses exposure to local and regional best practices, instilling greater skills and broader perspectives. Partnership with organisations such as the College of Micronesia to design and deliver programs, along with government support, can help address capacity and resource constraints.

There should be a particular focus on entrepreneurial training given FSM's large presence of micro and small businesses. This could involve the re-establishment of the Small Business Development Centre (SBDC)'s in each state, building upon the component of the FSM-ADB 2001 Private Sector Development Program (PSDP) which led to the initial establishment of SBDC in FSM. This effort could be supported through collaboration with the national and state governments to provide technical expertise and financial assistance, ensuring SBDC plays its national role of entrepreneurial development.

FSMACC can also identify and raise awareness of existing independent consultants who can facilitate private sector climate financing proposal preparation to ensure complex requirements are fulfilled.

A well-informed private sector will be better equipped to adapt, innovate and leverage financial resources, leading to more resilient business that is capable of addressing impacts of climate change.

5. Conclusion

FSM is vulnerable to the impacts of a changing climate, with projections indicating that hazards will continue to intensify. Some businesses have implemented climate mitigation and adaptation actions but MSMEs have yet to benefit from climate finance, as they still face challenges in accessing available funds.

In 2024, it is anticipated that the FSM will have three nationally accredited entities under GCF, which puts the country in a good position to expand domestic avenues for climate finance and channel funds to the private sector. Further, the comprehensive private sector mapping planned under the NAP beginning in 2024 will enable the FSM to act from an evidence-based platform for improving private sector engagement in climate action.

Absorptive capacity for utilization and implementation of climate finance remains a challenge. To prepare for future financing, FSMACC must strengthen institutional capacity, increase private sector participation and raise climate awareness on the impacts as well as the opportunities under climate change. This more immediately necessitates establishing a dedicated office space, creating effective communication channels, and running a recruitment drive to foster an engaged business community.

An effective and tangible relationship at the national and state levels is critical and should be strengthened through a MoA, appointing private sector representatives in relevant government boards, and developing an annual private sector event to facilitate improved information sharing and promote an inclusive approach to climate-related initiatives.

The proposed measures in this report aim to empower businesses to navigate climate hazards, facilitate informed decision-making, and contribute to the long-term climate resilience and sustainability of the FSMs private sector.

6. Key Sources Consulted

Asian Development Bank (ADB) Member Fact Sheet: FSM, 2023

ClimateAnalytics, SIDS Access to the Green Climate Fund, 2021 https://climateanalytics.org/media/sids_access_to_the_green_climate_fund_1.pdf

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Annexes



Annex 1: Questionnaire and Workshop agenda

A. Questionnaire

In October 2023, a questionnaire was distributed to FSMACC and State Chamber members. 14 responses were received from the construction, retail, energy and tourism sectors. Out of these respondents 11 were Chamber members. The key findings were:

- 13 out of 14 respondents said climate change is a risk to business operations. The business that said climate change was not a risk was in the retail sector.
- Majority of businesses indicated that their business has experienced supply chain disruptions, flood and/or storm damage to property and goods, and increased maintenance and repair costs.
- The main climate hazards affecting business operations are heavy rainfall and flood, followed by rising temperatures, high winds and sea level rise.
- Half of respondents said they have the capacity to respond to climate impacts.
- No survey respondents have accessed climate finance in the form of a loan or grant for adaptation or mitigation activities or have not found any available.

The questionnaire is below.

1. Business contact details

- | | |
|--------------------|------------------|
| a. Primary contact | d. Village |
| b. Business name | e. Email address |
| c. Island | f. Phone number |

2. Primary industry sector

3. Is your business registered with your State Chamber of Commerce?

Climate Change ImpAacts:

4. Do you think climate change is a risk to your business operations?
5. Which climate hazards affect your business the most?
6. How does climate change impact your business? (This may include damage to business property and assets, sourcing goods and services, availability of raw materials, other incomes sources)
7. What were the costs to your business due to these impacts?
8. Does your business have the capacity to respond to climate change impacts?



Climate Change Mitigation:

9. What current mitigation activities are you undertaking? What is the approximate cost of implementation?
10. What future mitigation actions would you like to implement? What is the approximate cost?

Climate Change Adaptation:

11. What current adaptation activities are you undertaking? What is the approximate cost?
12. What future adaptation activities are you undertaking? What is the approximate cost of implementation?

Climate Funding and Challenges:

13. Has your business accessed funding to address climate change?
14. What are the challenges to accessing climate funding?
15. Is there anything else you would like to add?

B. Workshop concept note agenda

The following agenda outlines the planned structure of the workshop session. The actual session adopted a less formal approach, while still encompassing workshop activities and meeting objectives, considering the smaller participant turnout.

Background

Federated States of Micronesia (FSM) is vulnerable to the impacts of climate change and is likely to suffer serious adverse environmental, social, and economic losses because of climate change-induced hazards.

Due to these climate challenges faced by FSM's private sector, the EU-funded PACRES Project is supporting the FSM Association of Chamber of Commerce (FSMACC) to conduct a mapping of private sector activities relevant to climate change adaptation and mitigation.

Purpose

The purpose of this workshop is to strengthen collaboration between the government including national and state governments with the private sector, including nationally run private sector companies. The workshop will gather information and data in climate change and disaster related initiatives.

This baseline information aims to assist FSMACC and the Government of FSM with decision making, strategic planning and resourcing activities related to resilient development for the private sector. Collection of this baseline information is timely given the more detailed private sector analysis under the FSM's upcoming 3-year National Adaptation Plan (NAP) development process.

Objectives

The objectives for day one of the workshop are to:

1. Gather data on businesses impacted by climate change including climate impacts and hazards.
2. Gauge climate adaptation and mitigation actions being undertaken by the private sector.
3. Identify potential projects to explore further through a concept note for climate financing proposal.

The objectives for day two of the workshop are to:

4. Map existing engagement channels and institutional arrangements between public and private sectors.
5. Analyse strengths, weaknesses, opportunities and threats to improved private sector engagement.
6. Develop foundational aspects of a partnership framework between FSMACC and Government of FSM.

The expected outputs of this two-day workshop are:

1. A list of climate change impacts, hazards and implications for businesses in FSM.
2. List of climate adaptation and mitigation action being undertaken by the private sector.
3. Potential projects identified for concept note for climate financing proposal.
4. Map of existing engagement channels and institutional arrangements between public and private sector.
5. SWOT analysis for strengthened private sector engagement in resilience building.
6. Foundations of a partnership framework for further collaboration.

Workshop Agenda

Date: 3rd – 4th October 2023

Time: 8:00am to 1:00pm

Location: Governors Building – Downstairs Conference Hall

Table 2 Workshop agenda

Date	Time	Agenda	Activity	Facilitator/Speaker
Tuesday 3rd October	8:00 – 8:30	Registration		Chamber of Commerce representative
	8:30 – 9:00	Welcome and project introduction	Welcoming remarks Opening prayer High level overview of project, objectives and day one workshop outcomes Introductions to the team	Richard Adams, PCC Presiding Officer TBC Pacific Islands Forum Secretariat (virtual) FSMACC
	9:00 – 9:30	Climate change impacts	Overview of climate change, hazards and impacts Breakout activity to identify climate impacts to businesses.	Cress Consulting
	9:30 – 10:15	Climate mitigation and adaptation actions	Overview of current climate mitigation and adaptation actions collected from the survey. Case study and Q&A Breakout activity to validate survey findings and identify additional actions	Cress Consulting Freddy Perman Cress Consulting
	10:15 – 10:30	Tea Break		
	10:30 – 11:00	Understanding climate financing	Overview of climate financing mechanisms.	FSM-GCF NDA Office, Department of Finance and Administration
	11:00 – 12:30	Private sector concept development	Breakout activity to identify challenges and brainstorm project opportunities for climate financing proposals.	Cress Consulting
	12:30 – 1:00	Workshop conclusion and recap	Day one conclusion Recap of insights and overview of day two activities	FSMACC Cress Consulting
	1:00 onwards	Lunch		

Date	Time	Agenda	Activity	Facilitator/Speaker
Wednesday 4th October	9:00 – 9:30	Welcome and introduction	Welcoming remarks Day one recap and day two workshop outcomes	FSMACC Cress Consulting
	9:30 – 10:15	Map existing public-private engagement channels	Breakout activity to map current partnerships and engagement channels between the public and private sectors	Cress Consulting
	10:15 – 10:45	Tea Break		
	10:45 – 12:30	Analysis of partnerships between the public and private sectors	Present the need for partnership and provide an overview of SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. Breakout activity to complete a SWOT analysis aimed at strengthened engagement between public and private sector, including key considerations for successful partnership.	Cress Consulting
	12:30 – 1:00	Next Steps and Closing Remarks	Recap of insights and project next steps Next steps for the Chambers of Commerce Next steps for the National Government Closing remarks	Cress Consulting Herman Semes, FSMACC Executive Director FSM-GCF NDA Office, Department of Finance and Administration FSMACC
	1:00 onwards	Lunch		

Annex 2: Record of current climate finance related projects and funding sources involving the private sector and relevant GCF and AF Accredited Entities

A. Current access to climate finance

There are no publicly available records of projects directly utilising the private sector as delivery partners, but there are several existing projects targeting or indirectly involving the private sector. The list below outlines current projects by funding source and may not be exhaustive.

- The **Green Climate Fund (GCF)** has four projects in FSM including the North Pacific Eco-System Based Adaptation (EbA) Project which has been approved to establish small-grant facilities, valued at USD \$9.9m. The climate resilient food security for farming households is focused on introducing sustainable agricultural practices and developing climate-resilient agriculture food chains, valued at USD \$9.4mil, includes training on marketing, packaging, bookkeeping with an aim to sell surplus. Aims to organise farmers at a state level to form four state level farmer associations, develop a national agricultural policy to integrate climate change aspects and establish coordination mechanisms to channel weather information through the Department of Environment, Climate Change and Emergency Management (DECCEM). There is also the Pacific Islands Renewable Energy Investment Program, valued at USD 29.2mil under implementation across seven countries, as well as the Climate Change Adaptation Solutions for Local Authorities, valued at USD 19.7mil which will indirectly benefit the private sector.
- The **World Bank** has several projects underway including the FSM Skills and Employability Enhancement Project, the Digital FSM Project and Palau-FSM Connectivity Project. The Employability Enhancement Project has a budget of USD \$17.7 million, commenced in 2022 and aims to enhance vocational education, skill training, and employment access, while also enabling a swift and effective response to eligible crises or emergencies, with a projected end date in 2027. The Digital FSM Project, valued at USD \$30.8mil, is aimed at expanding access to internet, promoting private sector investment in digital services, establish critical digital foundations. The Palau-FSM Connectivity Project: AF Kosrae Connectivity Project, valued at USD \$16.2mil, aims to support private sector development within the ICT services.
- The **Asian Development Bank (ADB)** is funding several projects in FSM. The Regional Initiative on Accelerated Energy Transition valued at USD \$1mil aims to accelerate the transition to clean energy. Developing Inclusive and Resilient Social Protection Systems in Asia and the Pacific, valued at USD \$1.1mil will help develop inclusive and resilient social protection systems. Promoting Climate-Resilient and Sustainable Blue Economies Project will support the establishment and implementation of the Blue Pacific Finance Hub valued at USD \$2.5mil. There is also the regional project Preparing the Pacific Renewable Energy Investment Facility, Phase 3 in FSM and Marshall Islands, valued at USD \$3.5mil to support private sector development.

- The **Micronesian Conservation Trust (MCT)** Livelihoods Program supports the implementation of several projects including the Coconut 4 Life (C4L), Senipehn Water Security Project, and the Awak Pah aquaculture project. C4L is a partnership between FSM Vital, FSM Resource and Development and MCT to revive the coconut industry in FSM and provide an alternative revenue stream for farmers. The Senipehn Water Security Project, funded by Seacology aims to improve water accessibility in Senipehn Community, Pohnpei. The Awak Pah aquaculture project, valued at USD \$35k, is also supported by Seacology to pilot a community-driven aquaculture farm as a source of food and to reseed the reef and mangrove areas with native species that are normally seen in the area. This project includes training on marketing, packaging and bookkeeping with an aim to sell surplus.
- The **European Development Bank (EDB)** funds the Sustainable Energy an Accompanying Measures (SEAM) Project to address the energy sector in Chuuk, valued at EUR €1mil and completed in 2025. It includes private sector development including a focus on building women technical capacity in energy.
- The **Federated States of Micronesia Development Bank (FSMDB)** has designed and piloting an agri-value chain financing facility, which will help farmers and agricultural businesses access finance needed to operate and expand their business.
- The **Food and Agriculture Organisation (FAO)** has some projects to support SMEs. FAO develops strategic plans for communities based on specific challenges identified through consultations, ranging from fish, agriculture, livestock, food processing, poultry support. FAO identifies interested entrepreneurs and can support them.
- The **US Department of Agriculture** provides High Energy Cost Grants (HECG) for eligible entities including for-profit businesses in communities with extremely high per-household energy costs.

This record is a live document that should be regularly reviewed and updated.

B. Climate finance pipeline

Pipeline investments that directly involve the private sector are available for all sectors, particularly agriculture and WASH. Main financing sources include the GCF, ADB and World Bank and are outlined in the table below.

Table 3 Climate finance pipeline

Sector	Project	Financing Source	Year	Indicative cost
All	FSM Skills and Employability Enhancement Project	World Bank	2023	USD \$17.7mil
All	National Adaptation Planning in the Federated States of Micronesia	GCF	2024	USD \$3mil
Agriculture	FSM Agriculture and Food Security Project.	World Bank	2025	USD \$20mil
WASH	Chuuk Water Supply and Sanitation Project (Additional Financing)	ADB	-	USD \$12.8mil
All	Pacific Regional Financing Facility	ADB	-	USD \$10mil

C. General funding criteria

Large scale climate change adaptation and mitigation projects invite interest from AEs such as the World Bank/IFC, ADB and UNDP which are all active in the Pacific and have committed billions to the region. Accessing climate finance through partnerships with international AEs such as World Bank, ADB or UNDP has been the most successful avenue to date in terms of size and speed of financing.³ Smaller scale projects are likely to be supported by other multilateral and bilateral donors, particularly Australia, New Zealand, United States, India, Korea and Japan as well as smaller aid organisations. Each multilateral climate fund has its own funding criteria, however generally the following is required and should be considered in the future development of climate financing proposals:

- Co-financing by other funders which could be public or private.
- Project objectives align with the country's climate strategy, NDCs and national adaptation plans.
- Project must have a significant measurable impact (i.e., emissions reduced, number of lives saved, reduction in losses of assets).
- Implementing entities must have the capacity to carry out project activities.

³ <https://www.imf.org/-/media/Files/Publications/DP/2021/English/UACFPICEA.ashx>

- Project should help the fund achieve sustainable development through replicability and scalability.
- Projects should be developed in consultation with the community and NDAs.
- There is an absence of alternative sources of financing.

These general criteria should be considered in future climate funding projects in FSM.

D. List of relevant GCF and AF Accredited Entities

There are several Accredited Entities (AEs) relevant to the FSM at a national, regional and international level. There are three options of Direct Access, Regional Access and International Access to the GCF. Across the board, international access has the highest disbursement rate and offers a mix of instruments, grants and concessional loans. There are three regional direct access entities for the GCF which are the Micronesia Conservation Trust (MCT), the Secretariat of the Pacific Regional Environment Programme (SPREP) and the Pacific Community (SPC). Almost all PICs are seeking Direct Access, although to date, only Fiji and Cook Islands have been successfully accredited for GCF direct access although neither have received any disbursements so far. It is noted that direct access is still challenging, regional and international pathways are more successful. By 2024, The Vital Group and FSMDB are expected to achieve accreditation under the GCF, thereby creating two additional national avenues to supplement MCT.

i. Regional AEs

Micronesian Conservation Trust (MCT)⁴

MCT is classed as Micro, Category C AE that supports biodiversity conservation and related sustainable development for the people of Micronesia, providing grants and strengthening organisation leadership capability. MCT provides several programs including capacity building, conservation, livelihoods and finance and administration.

Secretariat of the Pacific Regional Environment Programme (SPREP)⁵

SPREP is classed as Category C AE, and is the regional organisation established to protect and manage the environment and natural resources of the Pacific. SPREP supports action on climate change in the key areas of adaptation, mitigation, policy and science. SPREP intends to apply GCF resources towards SIDS-focused adaptation and mitigation projects and programs.

4 Micronesian Conservation Trust, <https://ourmicronesia.org/>

5 Secretariat of the Pacific Regional Environment Programme, <https://www.sprep.org/>

Pacific Community (SPC)⁶

SPC is a regional entity serving as the principal scientific and technical organisation to support Pacific development. With its vision for a region of peace, harmony, security, social inclusion and prosperity and for all Pacific people to lead free, healthy and productive lives, SPC has been focused on sustainable economic development, empowered and resilient Pacific communities and enhanced health and livelihoods of Pacific people with a view to achieving its members' development goals.

ii. International AEs

Asian Development Bank (ADB)⁷

ADB is an international organisation whose main goal is to reduce poverty in Asia and the Pacific through environmentally sustainable growth through loans, technical assistance, grants, guarantees and equity investments. ADB's programming in the country seeks to increase supply of renewable energy, improve disaster risk financing, delivering safe water and sanitation services, strengthening human capacity and supporting private sector development. The Private Sector Development Initiative (PSDI) is strengthening the FSM's business environment by increasing access to finance.

Agence Française de Développement (AFD)⁸

AFD is a public international financial institution with a mandate to contribute to social and economic development through sustainable and inclusive growth, enhancing livelihoods and natural resource management. AFD has operations in all regions including small island developing states and is actively engaged in climate change and mitigation and adaptation actions across all sectors.

Conservation International (CI)⁹

CI is a non-profit organisation operating to empower has worked in the Pacific Islands region for more than 20 years engage across the entire region. Conservation International works across industries to change the way the world does business, helping companies take steps towards sustainability that benefit people, the planet and their bottom lines.

European Investment Bank (EIB)¹⁰

EIB is an international financial entity whose main objective in developing countries is to provide finance and expertise for sound and sustainable investment projects, in both the private and the public sector, provide social and economic infrastructure, and address climate change, among others. In 2021, SME financing represented €45b out of the EIB Group's total lending of €94.9b and continues to actively support development in the Pacific.

6 Pacific Community, <https://www.spc.int/>

7 Asian, Development Bank, <https://www.adb.org/>

8 Agence Française de Développement, <https://www.afd.fr/fr>

9 Conservation International, <https://www.conservation.org/>

10 European Investment Bank, <https://www.eib.org/en/index>

European Bank for Reconstruction and Development (ERBD)¹¹

ERBD is an international entity with the mandate to promote transition towards a sustainable, open market economy and to foster innovation. The areas of investment for mitigation activities are energy efficiency, infrastructure, the power sector, renewable energy, sustainable energy financing facilities and carbon market development. The work of EBRD is strongly focused on the private sector and micro, small and medium-sized enterprises, however, it prioritises support for countries in Central and West Asia, and North Africa.

Fiji Development Bank (FDB)¹²

The Fiji Development Bank (FDB) is a national public sector entity and Government-owned development bank based in Fiji. FDB's main objectives are to facilitate and stimulate the promotion and development of natural resources, transportation and other industries and enterprises and give special consideration and priority to the economic development of the rural and agricultural sectors of the economy, however, support is limited to Fiji.

Food and Agriculture Organisation (FAO)¹³

FAO is an international organization whose main goals are the eradication of hunger, food insecurity and malnutrition; the elimination of poverty and the driving forward of economic and social progress for all; and the sustainable management and utilization of natural resources, including land, water, air, climate and genetic resources for the benefit of present and future generations. While the FAO has collaborated with SMEs and small-scale actors to promote sustainable agrifood systems, there is no documented evidence of such initiatives in the Pacific region.

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)¹⁴

GIZ is an international organisation that offers advice, human capacity development, network and dialogue management, mediation, management and logistics. GIZ supports long term capacity building and policy reform processes, operating in all sectors relevant to sustainable development and climate change mitigation and adaptation.

Global Environment Fund (GEF)¹⁵

GEF is a group of funds dedicated to confronting biodiversity loss, climate change, pollution, and strains on land and ocean health, supporting developing countries to address environmental priorities and adhere to international conventions and agreements. Over the past three decades, the GEF has provided more than USD \$23b and mobilized USD \$129b in co-financing for more than 5,000 national and regional projects. The GEF Small Grants Programme (SGP) provides financial and technical support to local civil society and community-based organizations to develop and implement innovative local actions. The GEF Special Climate Change Fund (SCCF) strategy focuses on supporting the adaptation needs of SIDS and strengthening technology transfer, innovation and private sector engagement.

11 European Bank for Reconstruction and Development, <https://www.ebrd.com/home>

12 Fiji Development Bank, <https://www.fdb.com.fj/>

13 Food and Agriculture Organisation, <https://www.fao.org/home/en>

14 Deutsche Gesellschaft für Internationale Zusammenarbeit, <https://www.giz.de/de/html/index.html>

15 Global Environment Fund, <https://www.thegef.org/>

International Bank for Reconstruction and Development (IBRD) (World Bank)¹⁶

IBRD (World Bank) is an international organization with a mandate to reduce poverty by promoting sustainable economic development. It has supported SIDS in climate change adaptation by financing projects in disaster risk reduction and ecosystem services in sectors such as fisheries and water resources management. The International Development Association (IDA) also provides interest-free loans and grants. The World Bank has opened a permanent office in Pohnpei, FSM following several years of an expanding presence and portfolio across the North Pacific, acting as a regional hub for FSM, Marshall Islands and Palau.

International Finance Corporation (IFC)¹⁷

IFC is an international organization with a strong global presence and focus on development, primarily in the private sector. IFC works in over 100 developing countries through the private sector, with a special focus on infrastructure, manufacturing, agribusiness, services and financial markets.

International Fund for Agricultural Development (IFAD)¹⁸

IFAD is an international organization whose objective is to improve agricultural development and livelihoods in developing countries, including SIDS. IFAD assists vulnerable groups such as smallholder farmers, pastoralists, foresters, fishers and small-scale entrepreneurs in rural areas by providing, among others, access to weather information, disaster preparedness, social learning and technology transfer that enables farmers to feed growing populations and increase the climate resilience of rural farming systems.

International Union for Conservation of Nature (IUCN)¹⁹

IUCN, headquartered in Switzerland, is a non-profit organisation that operates internationally, with a strong presence in small island developing states to find practical solutions to environment conservation and sustainable development challenges.

Japan International Cooperation Agency (JICA)²⁰

JICA has been providing financial and technical support to climate change mitigation and adaptation projects, focusing on energy efficiency, renewable energy, public transport systems, stable water supply, climate-resilient agriculture, sustainable forest management, disaster risk reduction and coastal protection. Building upon international best practices, JICA aims to make the best use of Japanese knowledge, experience and technologies in driving a paradigm shift towards a low-carbon and climate-resilient society in developing countries.

16 International Bank for Reconstruction and Development, <https://www.worldbank.org/en/who-we-are/ibrd>

17 International Finance Corporation, <https://www.ifc.org/en/home>

18 International Fund for Agricultural Development, <https://www.ifad.org/en/>

19 International Union for Conservation of Nature, <https://www.iucn.org/>

20 Japan International Cooperation Agency, <https://www.jica.go.jp/english/>

Save the Children Australia (SCA)²¹

SCA, based in Australia operates internationally managing various programs related to climate change adaptation, disaster risk reduction, education, health and nutrition, and urban and humanitarian areas, among others. SCA is implementing a climate resilience project in Vanuatu, focusing on agriculture and fisheries sectors. Key activities include establishing local disaster risk reduction committees, protecting and restoring 11,600 hectares of agricultural and fisheries site, and training smallholder farmers in climate-resilient agriculture techniques and fishers in effective coastal resource management.

The Nature Conservancy (TNC)²²

TNC is a global conservation organisation dedicated to conserving the lands and waters on which all life depends, creating innovative, on-the-ground solutions. Working in 72 countries and territories, it uses a collaborative approach that engages local communities, governments, the private sector, and other partners.

United Nations Development Programme (UNDP)²³

UNDP, an international organization, has a strong portfolio in SIDS with a focus on sustainable development, climate change and disaster resilience, and governance. UNDP works in partnership with entities to support the coordinated delivery of financing to achieve transformational impact in the areas of mitigation and adaptation.

United Nations Environment Programme (UNEP)²⁴

UNEP, an international entity, whose mandate is to promote sustainable development and prudent use of the global environment. UNEP supports resilient, low-emission pathways through its flagship programmes in adaptation, forestry, energy efficiency and transition to sustainable development.

World Food Programme (WFP)²⁵

WFP is an international entity whose mandate is to fight hunger worldwide by supporting national, local and regional food security and nutrition plans and programs. It has built strong relationships with international organizations, non-governmental organizations, civil society and the private sector to enable people, communities and countries to meet their own food needs.

World Wildlife Fund (WWF)²⁶

WWF, an international non-governmental organisation, has evolved its work from saving species and landscapes to addressing the larger global environmental threats and forces that impact them, with people at the centre of its work. WWF is working with MSMEs in adopting cleaner production practices.

21 Save the Children Australia, <https://www.savethechildren.net/>

22 The Nature Conservancy, <https://www.nature.org/en-us/>

23 United Nations Development Programme, <https://www.undp.org/>

24 United Nations Environment Programme, <https://www.unep.org/>

25 World Food Programme, <https://www.wfp.org/>

26 World Wildlife Fund, <https://www.worldwildlife.org/>

Annex 3: Potential for PPPs in FSM

In the context of FSM and many other Small Island Developing States (SIDS), the private sector ability to effectively participate in large scale PPPs is constrained due to low technical and financial capacity to extend beyond their core business operations.

There are currently no identified PPPs in FSM, although there are some Independent Power Producers (IPP) in which non-utility generators not owned by the national government sell power back to the grid. IPPs in FSM have been created with Vital Corporation and Kepirohi Solar Energy Limited.

There is potential to explore opportunities for PPPs or Power Purchase Agreements (PPA) with IPPs to promote renewable energy adoption within the energy sector in FSM. It also addresses operation and maintenance expenses and maintain system longevity as it is often noted that the transfer of energy generating assets to the public sector results in deterioration due to lack of institutional and technical ability to handle growing operational issues.

Successful implementation of IPPs would require a fair and competitive bidding process, transparent policies, clear risk allocation between the public and private sectors, and ongoing monitoring to ensure the sustained success of the projects. The vertically integrated energy policy and regulatory framework would need modification to create an environment that is favourable to PPPs including policies that provide incentives such as tax credits, deductions, or exemptions.

The ADB-funded Strengthening the Energy Sector Regulatory Framework initiative provided FSM States with RFP and IPP advice and templates.

The MoA and PPD has the potential to support the development of PPP arrangements that enable the private sector to contribute towards diversifying the energy mix, reducing reliance on imported fossil fuels, and enhancing energy resilience. This would support FSM and its states to fulfill its climate and energy goals.

Annex 4: Draft Memorandum of Agreement

A. Background

A Public-Private Partnership (PPP) encompasses a variety of possible collaborations between public and private entities. A successful PPP involves efficient allocation of responsibilities, obligations, and risks creating a mutually beneficial situation. The government can offer financial investments, asset transfers, in-kind contributions, and the capacity to mobilise political support. The private sector leverages its expertise in management, operations, and innovation, and may also provide financial capital, depending on the agreement terms.

In the context of the Federated States of Micronesia (FSM) and many other Small Island Developing States (SIDS), the private sector plays a limited role in directly addressing climate change risks, and their ability to effectively participate in large scale PPPs is constrained. This is primarily due to limited understanding of climate mitigation and adaptation, as well as low technical and financial capacity to extend beyond their core business operations.

There are also broad challenges in accessing climate finance particularly due to the unique and remote geography of FSM, a limited private sector, prevalence of Micro, Small & Medium Enterprises (MSMEs) and markets too small to enable economies of scale. Additional business burdens such as tax reforms, interest rates, post-COVID-19 business recovery and the migration of skilled personnel exacerbate challenges.

Climate finance in FSM primarily occurs through the public sector, highlighting the need to enhance collaboration between the public and private sectors. Current engagement is infrequent, on an ad-hoc basis. The upcoming Pohnpei Public-Private Dialogue (PPD), which is led by FSMACC and pending approval by the Pohnpei Chamber of Commerce (PCC), aims to address the lack of engagement and build a better business community. The PPD will be undertaken in all states to foster a dialogue that engages the public, the business community, and the broader private sector.

To strengthen private sector engagement in climate change and resilience, a formal partnership agreement between the national Department of Resources and Development (R&D) and the FSM Association of Chambers of Commerce (FSMACC) is needed. The agreement could also assist in forming an effective and tangible relationship on a national scale to formalize ongoing State PPD activities.

It is important to note that a partnership agreement usually matures over time in response to challenges encountered. FSM is in the early stages of its partnership arrangement, so this draft agreement places emphasis on revitalizing, fostering, and enabling public and private sector engagement in climate mitigation and adaptation including access to climate finance. As partnerships evolve and solidify, the focus of the framework may shift accordingly.

B. Key Partnership Agreement Considerations

Strengthened engagement between the public and private sectors is key to enhancing private sector access to climate finance. The partnership agreement should consider strengths, weaknesses, opportunities, and threats to strong engagement. On the 3rd and 4th of October 2023, the private sector was consulted to identify the following factors.

Strengths identified:

- There is a recognised need for engagement, and an expressed interest and willingness to participate in climate change initiatives.
- There are some acknowledgements of the importance of the private sector's role in climate initiatives.
- FSMACC is an established organisation, already chartered to represent the private sector.

Weaknesses identified:

- A perceived reduced level of communication impacts FSMACC's ability to collaborate with the private sector to identify and address the most significant climate-related issues.
- The absence of a physical FSMACC office results in accessibility challenges for the private sector.
- Businesses are time poor making it difficult to actively engage as a Chamber member.
- There is an absence or lack of private sector participation in discussions that directly affect their interests.
- Limited private sector participation and engagement, with very few businesses involved, limiting diversity and hindering FSMACC effectiveness.
- A disconnect between the private sector and government in terms of priorities and communication.

Opportunities identified:

- Strengthen the FSMACC institutional capacity and enhance private sector participation.
- Establish a dedicated office space and appoint an administrative assistant as the focal point of contact for the Chamber, streamlining communication and administrative functions.
- Improve government participation and private sector advocacy to provide a unified approach to climate-related initiatives.
- Appoint private sector representatives to serve on the boards of various government departments, ensuring a more diverse and inclusive perspective in decision-making processes and actively involved in discussions that affect them.
- Implement documentation practices, including meeting minutes and the FSMACC strategy to keep the Board and members accountable, informed, and engaged while providing more opportunities for people to participate actively.

- Offer training programs designed to enhance critical skills, including administrative proficiency, and support businesses in staying ahead of regulations, particularly related to climate and sustainability.

Threats identified:

- Behaviours and attitudes resistant to collaboration can bring about barriers and impede progress.
- Migration exacerbated by climate change leads to labour shortages and frequent changes of key positions in government departments, resulting in reduced effectiveness and discontinuity of initiatives and communications.
- Economic pressures, including inflation and tax burdens, reduces financial capacity to participate.

These factors have been taken into consideration to draft the following MoA.

MEMORANDUM OF AGREEMENT (MoA)

DATE _____

BETWEEN FEDERATED STATES OF MICRONESIA DEPARTMENT OF RESOURCES AND DEVELOPMENT (hereinafter referred to as "R&D") having its office at PS12, Palikir, Pohnpei State, FM 96941PO represented by Elina Akinaga, Secretary,

AND FEDERATED STATES OF MICRONESIA ASSOCIATION OF CHAMBERS OF COMMERCE (hereinafter referred to as "FSMACC") having its temporary office at XXX, represented by Herman Semes, Executive Director.

R&D and FSMACC are individually referred to as "**the Party**" and collectively referred to as "**Parties**".

1. BACKGROUND

The Federated States of Micronesia (FSM) is characterized as 'highly vulnerable' by the Green Climate Fund Country Program, with projections indicating that air and sea surface temperature, ocean acidification, sea level rise, and coastal erosion will all continue to intensify due to climate change.

At the national level, FSM developed the Strategic Development Plan 2004-2023 which provides an overarching context, supplemented by the Nation-wide Integrated Disaster Risk Management and Climate Change Policy (2013) and the FSM Climate Change Act (2014). Based on these policies and plans, FSM's Nationally Determined Contributions (NDCs) were developed in 2016 to reduce carbon emissions.

To accelerate adaptation investments in FSM, it is important to address critical capacity constraints and the need for grant financing. Additionally, the country requires improvement in data collection and management to effectively report on businesses impacted by climate change, as well as the costs of low and high intensity disasters. A key challenge to this effort is the limited engagement of the private sector in climate change and resilience initiatives.

There exists an opportunity for the private sector to contribute to climate change mitigation and adaptation initiatives, complementing the government's efforts. Collaboration between the public and private sectors is necessary to address challenges in accessing climate finance and build resilience of FSM.

The Parties intend to collaborate and operate in accordance with the following clauses.

2. PURPOSE

The purpose of this Memorandum of Agreement (MoA) (hereinafter referred to as "**Agreement**") is to define the working relationship of the Parties and establish a formal engagement mechanism whereby the Parties collaborate to build resilience of FSM through active private sector engagement.

3. GOAL AND OBJECTIVES

This Agreement seeks to achieve the common objective of strengthening collaboration between the Parties to enhance private sector engagement in activities related to resilience building, mitigation and disaster risk reduction efforts through increasing access to climate finance.

4. RESPONSIBILITIES

The Parties recognise the need to collaborate, and each Party has specific responsibilities within this Agreement. R&D advocates for FSMACC, provides technical assistance and capacity building support, while recognising FSMACC as the official focal point for private sector. FSMACC, serves as the private sector focal point to effectively disseminate information and coordinate engagement opportunities with the private sector.

Schedule One provides an Action Plan that more specifically outlines the roles and responsibilities of each Party during the term of this agreement.

5. TERM

This Agreement shall become effective upon the latter date of the signature of either Party and will have a duration of x years. This Agreement may be extended by mutual agreement of the Parties.

6. AMENDMENTS

This Agreement may be modified or amended by means of mutual written agreement between Parties.

7. TERMINATION

This Agreement may be terminated by either Party at any time by giving 60 days written notice to the other Party.

8. NO JOINT VENTURE

The Parties agree that they are not entering into a Legal Partnership, joint venture or other such business arrangement, nor is the purpose of the Parties to enter into a commercial undertaking for monetary gain. Neither Party will refer to or treat the arrangements under this Agreement as a Legal Partnership or take any action inconsistent with such intention.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the latter date written.

FEDERATED STATES OF MICRONESIA DEPARTMENT OF RESOURCES AND DEVELOPMENT (R&D)

Elina Akinaga
Secretary

Date

[Witness name]

Date

FEDERATED STATES OF MICRONESIA ASSOCIATION OF CHAMBERS OF COMMERCE (FSMACC)

Herman Semes
Executive Director

Date

[Witness name]

Date

SCHEDULE ONE: ACTION PLAN

	Action Item	Planned Execution Date
1	R&D and FSMACC will execute a Memorandum of Agreement (MOA) that establishes a formal engagement mechanism and defines responsibilities to build climate resilience of FSM through private sector engagement.	January 2024
2	The Parties will jointly establish meetings on a quarterly basis or as mutually decided to exchange information, coordinate, plan and manage climate activities. Additional meetings will be held at the request of either Party.	As scheduled by R&D
3	The Parties will jointly establish an annual state trade event dedicated to providing an opportunity for information sharing and open engagement in climate change. It would facilitate sharing of knowledge, lessons learned, best practices and serve as an educational and training channel for the private sector. The event would be aligned with the Public Private Dialogue.	As scheduled by R&D
4	R&D will collaborate with and establish involvement of FSMACC in departmental meetings and decision making that involves private sector interests. This would include meetings pertaining to climate-related legislation, economic development planning, national climate targets, future adaptation strategy and private sector actions.	As scheduled by R&D
5	R&D, as the FSMACC focal point within national government, will advocate for private sector involvement in climate-change initiatives, identify and share potential climate-related financing opportunities and provide technical assistance to build climate knowledge. FSMACC will disseminate climate mitigation and adaptation information with the private sector.	Ongoing
6	FSMACC will provide technical support to the State Chambers of Commerce to develop and build internal capacity and enhance climate knowledge.	Ongoing
7	R&D will continue to support FSMACC in its organizational capacity building to build a strong and self-supporting organization with technical and financial support from the National Government and other sources.	Ongoing

Annex 5: Draft concept notes to inform climate financing proposals

The following preliminary concept notes outline two potential projects that can serve as the basis for climate financing proposals.

A. Concept Note 1: Annual private sector event

Project summary

Objective:	Establish an annual private sector event to promote climate change and MSMEs information sharing.
Lead agencies:	FSM Association of Chambers of Commerce, State Chambers of Commerce and Department of Resources and Development
Location:	Pohnpei, Chuuk, Yap and Kosrae
Indicative cost:	TBD
Potential sources of funding:	National Government, State Government, Pacific Island Forum Secretariat and others.

Purpose

The purpose of the event is to promote greater participation, information sharing and open engagement of climate-related knowledge, MSMEs and financing opportunities between local businesses, the government, community, NGOs and other key stakeholders.

The national and state governments will share information on climate-related financing opportunities and provide technical assistance to build climate knowledge.

Project rationale

Climate hazards and associated impacts across FSM states vary considerably due to the El Niño–Southern Oscillation (ENSO) cycle, as well as the geographical spread of its islands. Businesses have experienced loss and damage to property and goods, but for many, climate events don't disrupt day-to-day operations, and are not perceived as a critical concern.

Despite the threats of a changing climate, only a small number of businesses have undertaken climate mitigation and adaptation actions. Within FSM's private sector, there is a general lack of awareness and knowledge in relation to understanding climate change, impacts, adaptation and mitigation actions and climate finance.

Collaboration between the public and private sectors is necessary to address challenges in accessing climate finance and to build resilience of FSM. However, current engagement between the private sector and the government is limited, leading to poor collaboration in climate initiatives.

An annual private sector event would provide an information sharing platform to enhance climate knowledge while also strengthening engagement with the government. Joint development and implementation by the public and private sector will enhance collaboration and help deliver on the action plan in the Memorandum of Agreement between FSMACC and Department of Resources and Development.

Expected Outcomes

This initiative aims to:

1. Facilitate peer to peer knowledge exchange including lessons learned and best practices to support the development of innovative strategies to address climate change.
2. Enhance private sector awareness of climate finance, empowering businesses with the knowledge and skills required to navigate.
3. Foster closer collaboration between the private sector and the government to strengthen overall climate resilience and meet national targets.

B. Concept Note 2: Small scale solar for MSMEs

Project summary

Objective:	Provision and utilization of affordable, reliable, and sustainable energy.
Lead agencies:	FSM Association of Chambers of Commerce, State Chambers of Commerce and Department of Resources and Development
Location:	Pohnpei, Chuuk, Yap and Kosrae
Indicative cost:	TBD
Potential sources of funding:	Asian Development Bank

Purpose

The purpose of the small scale solar initiative is to increase the uptake of clean and affordable energy, reducing dependence on fossil fuels and securing power decentralized from the grid. This initiative supports both mitigation and adaptation to climate change.

Project rationale

In FSM, electricity is primarily generated through fossil fuels. Despite constraints in resources, technical knowledge and capacity, FSM has a set a goal of achieving 100% access to energy by 2030. FSM also plans to increase renewable energy to over 70% of power generation by 2030, and to over 85% of power generation by 2040.

MSMEs face challenges in securing a stable power supply with the potential to impact business operations. Businesses are interested in adopting solar energy to utilise cleaner energy sources and reduce reliance on the grid. However, these enterprises lack the funds and technical expertise for installation and maintenance of solar systems.

MSMEs have limited financial capital to access small loans, especially post COVID-19. Undertaking climate mitigation actions becomes challenging, due to having to balance between limited profit margins and the high cost of implementing climate actions.

The provision and utilisation of affordable, reliable and sustainable energy will enable the private sector to contribute towards FSM's national energy targets, ensuring business continuity and strengthening overall resilience.

Expected Outcomes

This initiative aims to:

1. Enhance the affordability and accessibility for MSMEs in FSM to participate in climate mitigation initiatives.
2. Promote the adoption of clean energy sources through small-scale solar solutions.
3. Reduce reliance on fossil fuels for electricity generation in FSM, supporting national targets.



ISBN 978-982-101-673-5



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