STANDING COMMITTEE REPORT NO. 21-36

RE: C.R. NO. 21-98/R&D

SUBJECT: APPROVING A GRANT FROM THE ASIAN DEVELOPMENT BANK IN THE AMOUNT OF $15,000,000 TO FUND THE RENEWABLE ENERGY DEVELOPMENT PROJECT IN THE FSM.

JANUARY 31, 2020

The Honorable Wesley W. Simina
Speaker, Twenty-First Congress
Federated States of Micronesia
Third Regular Session, 2020

Dear Mr. Speaker:

Your Committee on Resources and Development, to which was referred C.R. No. 21-98, entitled:

“A RESOLUTION APPROVING AND ACCEPTING A GRANT IN THE AMOUNT OF $15,000,000 FROM THE ASIAN DEVELOPMENT BANK, TO FUND THE RENEWABLE ENERGY DEVELOPMENT PROJECT IN THE FEDERATED STATES OF MICRONESIA, INCLUDING ALL THE TERMS AND CONDITIONS OF THE ASSISTANCE.”,

begs leave to report as follows:

The intent and purpose of this resolution is expressed in its title.

Your Committee held a public hearing on the said resolution on Wednesday, January 29, 2019, at the Congress hearing room. Chairman Dion G. Neth, Vice Chairman Aren Palik, members Joseph J. Urusemal, Victor V. Goulard, Derensio S. Konman, and staff attorney Alik Jackson were present. Witnesses from the Executive branch included the Secretary of Finance and Administration, Eugene Amor, Consultant Rob Solomon, Assistant Secretary Sohs John from the Department of Finance and
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Administration; Secretary of the Department of Resources and
Development Marion Henry and Administrative Officer Hannalisa
Esguerra from the Department of Resources and Development, and
Assistant Attorney General Jeffrey Tilfas from the Department of
Justice.

Chairman Neth thanked the witnesses for showing up and explained
the purpose of the hearing.

Secretary Eugene Amor conveyed his greetings and respect. He
explained that the $15 million from the Asian Development Bank
(ADB) was negotiated prior to him becoming the Secretary so he
asked Consultant Rob Solomon to explain the purpose of the
grant.

Mr. Solomon explained that the grant is from the Asian
Development Bank to fund renewable energy projects in the states
of Kosrae and Yap. The allocation of the grant is $6.7 million
for Yap State, $5.7 million for Kosrae State and the rest to be
used for capacity building. During the explanation of the grant
of $15 million, your Committee was informed that another grant
in the amount of $15 million from the European Union (EU) is
forthcoming. This grant is anticipated to fund projects in the
outer islands of Pohnpei and Chuuk States. According to Rob
Solomon, the anticipated grant from the EU in the amount of $15
million will be transmitted to Congress during the May 2020
session.

Your Committee expressed its concern on why all of a sudden; the
Federated States of Micronesia is receiving grants instead of
loans. Members remembered that the state of Yap has received a
$9 million loan from ADB, in which the National Government had
to issue a sovereign guarantee on that loan. So the Committee
is asking what is happening here? Secretary Marion explained
that the FSM is now changed to grant basis and no longer in the
category of loan basis. The Committee was informed that if a receiving or borrowing country’s Gross Domestic Product (GDB) is considered very low, then that country is eligible to receive grants. Secretary Amor explained that this is an assessment done by the donor countries. For instance, the International Monetary Fund (IMF) assesses on the country’s debt and makes determination on whether a country can be able to meet its debt. Since the financial assistance under the Amended Compact ends in 2023, this may be a determination that FSM may not be able to meet its debt. Thus, FSM start receiving grants instead of loans from the ADB.

Your Committee also inquired who makes decisions for projects in the states. Your Committee was informed that there is a Steering Committee at the National Government that review a wish list formulated by each state and provided to the Department of Resources and Development and the Department of Finance and Administration at the national level. The members of the Steering Committee consisted of representatives from the Office of the Governors of each state.

Your Committee inquired of the witnesses if this grant will be supplementing the current renewable energy project in Yap State that was funded by the last loan from ADB. Secretary Henry stated that it is going to complement it.

Secretary Amor explained the initial stage of soliciting for funding involved the deployment of technical experts where they go and do the technical assessment on the proposed project sites. The project cannot be implemented until Congress approves of the grant.

Your Committee asked the witnesses who makes the decision on the distribution? Secretary Amor indicated that the distribution is based on the assessment of the projects. The states of Pohnpei
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and Chuuk are not considered to receive funding from this grant because there is another funding anticipated for them. The Steering Committee who solicits funding based their decision on the ODA priorities and the Energy Master Plan.

Your Committee questioned why a small area, like Walung, Kosrae, is designated for this kind of project because few people reside there. The Tofol area in Kosrae is where a lot of people reside. Also your Committee inquired if it is possible to divert the grant to fund the purchase of vessels. Secretary Amor indicated that before a project is implemented, a group of technical expert is sent to the project sites and do an assessment, and a decision is made. He also stated that it is a very difficult decision to change the scope of a project that funding is already approved for by these Multilateral Grantors.

After the hearing, the witnesses provided supplemental information, which describe the actual breakdown of the $15 million, as follows:
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ADB Renewable Energy – Total Project Cost

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Kosrae</strong></td>
<td></td>
</tr>
<tr>
<td>1-KUA main grid</td>
<td>3.69</td>
</tr>
<tr>
<td>2-Walung Mini-grid 100% Renewable Energy &amp; Solar Home System</td>
<td>1.16</td>
</tr>
<tr>
<td>Total CAPEX</td>
<td>4.85</td>
</tr>
<tr>
<td><strong>Yap</strong></td>
<td></td>
</tr>
<tr>
<td>1-Battery Energy Storage System at Power Station</td>
<td>1.31</td>
</tr>
<tr>
<td>2-Ground mount solar photovoltaic array near Power Station</td>
<td>4.47</td>
</tr>
<tr>
<td>3-Rooftop solar photovoltaic array extension at sports complex</td>
<td>0.49</td>
</tr>
<tr>
<td>4-Upgrade to power station SCDA and controls</td>
<td>0.31</td>
</tr>
<tr>
<td>Total CAPEX</td>
<td>6.58</td>
</tr>
<tr>
<td><strong>Pohnpei</strong></td>
<td></td>
</tr>
<tr>
<td>1-Supplemental Management and Operations Consultants</td>
<td>0.74</td>
</tr>
<tr>
<td><strong>FSM</strong></td>
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</tr>
<tr>
<td>1-Project Implementation Consultants</td>
<td>0.87</td>
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<tr>
<td>2-Project Management Unit Support</td>
<td>0.23</td>
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<tr>
<td>Total CAPEX</td>
<td>1.10</td>
</tr>
<tr>
<td>Contingency</td>
<td>1.73</td>
</tr>
<tr>
<td><strong>TOTAL PROJECT COSTS</strong></td>
<td>15.00</td>
</tr>
</tbody>
</table>

The Committee is in accord with the intent and purpose of C.R. No. 21-98 and recommends its adoption in the form attached hereto.
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Respectfully submitted,

/s/ Dion G. Neth
Dion G. Neth, chairman

/s/ Aren B. Palik
Aren B. Palik, vice chairman

/s/ Tiwiter Aritos
Tiwiter Aritos, member

/s/ Derensio K. Konman
Derensio K. Konman, member

/s/ Peter M. Christian
Peter M. Christian, member

/s/ Isaac V. Figir
Isaac V. Figir, member

Victor V. Gouland, member