

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. Gouland, 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

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category of loan basis. The Committee was informed that if a receiving or borrowing country's Gross Domestic Product (GDP) 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

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

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