

EN

The Federated States of Micronesia - European Union

National Indicative Programme

for the period 2014-2020

GENERAL CLAUSES

The Government of the Federated States of Micronesia and the European Commission hereby agree as follows:

- (1) The Government of the Federated States of Micronesia and the European Commission hereinafter referred to as the Parties, determined the general orientations for cooperation for the period 2014-2020.

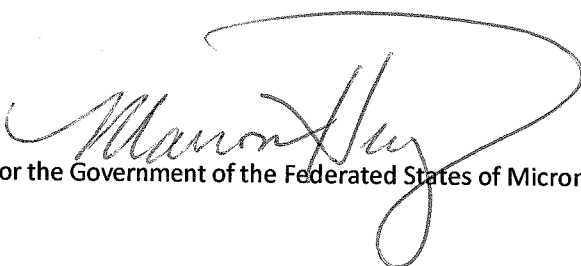
These orientations which are included in the National Indicative Programme, concern the European Union Aid in favour of the Federated States of Micronesia and were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, revised and signed in Luxemburg on 25 June 2005 and revised and signed in Ouagadougou on 22 June 2010.

The National Indicative Programme is annexed to the present document.

- (2) As regards the indicative programmable financial resources which the European Union envisages to make available to the Federated States of Micronesia for the period 2014-2020, an amount of EUR 14.2 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation). A B-allocation referred to in Article 3.2 (b) can be established to cover unforeseen needs. This allocation is at EUR 0 until a need arises. These allocations are not entitlements and may be revised by the Commission, following the mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects. The National Indicative Programme concerns the resources of the A-allocation. It also takes into consideration financing from which the Federated States of Micronesia benefit or could benefit under other European Union resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as humanitarian, emergency and post emergency assistance, where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate exogenous shocks. The B-allocation shall be established according to specific mechanisms and procedures and does therefore not constitute a part of the programming.
- (5) Pending the entry into force of the Internal Agreement between the Representatives of the Governments of the Member States of the European Union, meeting with the Council on the financing of European Union Aid under the multiannual financial framework for the period 2014 to 2020, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the Federated States of Micronesia within the limits of the A- and B-allocations referred to in this document under the condition that sufficient financial resources are available in the transitional measures ("Bridging Facility") composed of uncommitted balances from the previous EDFs and from funds decommitted from projects or programmes under those EDFs. The respective projects and programmes shall be implemented according to the rules and procedures of the 10th EDF until the entry into force of the 11th EDF implementing rules and financial regulation.

- (6) The European Investment Bank may contribute to the implementation of the present National Indicative Programme by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 2c and 3 of the 11th EDF multi-annual financial framework for the period 2014-2020.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Indicative Programme as well as the A-and B-allocations can be revised following the mid-term review and the end-of-term review or ad hoc reviews.

Signatures



For the Government of the Federated States of Micronesia



For the European Commission

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List of principal acronyms and abbreviations

ACP	African, Caribbean and Pacific Countries
ADB	Asian Development Bank
CRA	Climate Risk Assessment
CSO	Civil Society Organisation
CEDAW	Convention on Elimination all forms of Discrimination Against Women
EDF	European Development Fund
EIA	Environment Impact Assessment
EU / EUD	European Union / European Union Delegation
FSM	Federated States of Micronesia
GDP	Gross Domestic Product
MCT	Micronesian Conservation Trust
MDG	Millennium Development Goals
NAO	National Authorising Officer
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
PFM	Public Finance Management
PEFA	Public Expenditure and Financial Assessment
PFTAC	Pacific Financial Technical Assistance Team
SDP	Strategic Development Plan
SBOC	Statistics, Budget & Economic Management, Overseas Development Assistance and Compact Management
SEA	Strategic Environment Assessment

Summary: 11th EDF

National Indicative Programme (NIP) for the Federated States of Micronesia

The Federated States of Micronesia (FSM) consists of 607 mountainous islands and coral atolls in the Northern Western Pacific spread over 2 978 000 km² of Economic Exclusive Zone (EEZ). The land area is 701 km². The total population of FSM is around 100.000 people. FSM belongs to the category of Lower Middle Income Countries.

FSM is facing the critical dangers of impacts of climate change, most notably sea-level rise, changing weather patterns and increased storms and disasters. In response to these challenges the 9th and 10th EDF funds (EUR 17 million) were allocated to sustainable energy, Disaster Risk Reduction and conservation and environmental protection. It is proposed that energy, and in particular renewable energy, will remain the priority sector for the EU under the 11th EDF, therefore also ensuring the long-term sustainability of the achievements of previous EU investments in that sector.

Renewable energy and climate change are related at the global level. Renewable energy technology and energy efficiency measures help reducing demand for fossil fuels and contribute to economic sustainability, whilst contributing to decreasing carbon emissions globally. A priority objective of the government is the provision of an adequate and secure supply of energy to meet the needs of households, commerce and industry. Over 40% of FSM households are still without electricity. Access to affordable energy is considered crucial for the sustainable growth and equitable development of the country.

Due to remoteness of FSM, an "innovative" approach to implementation is necessary and a shift from a project approach to budget support will be considered.

In choosing this sector the Government and the EU were cognizant of other donor programmes in the country, particularly the US with its focus on Health and Education, and synergies were developed between the different interventions undertaken.

Aligned to its focus on renewable energy, EU efforts in the non-focal area will continue with a particular emphasis on climate change and environmental conservation, as well as increased support to civil society to enhance participation of Non State Actors in policy dialogue, in the monitoring of national programmes, economic reforms and public finance management. Particular focus will also be given to gender issues, with support provided to implement Convention on Elimination all forms of Discrimination Against Women (CEDAW). The overall objective of this assistance is to improve social and economic development, increase resilience to climate change and reduce poverty, especially in the outer islands.

Following the agreement with the Government of the Federated States of Micronesia a single programme for EUR 14.2 million is to be implemented during the 11th EDF period 2014-2020 and it will include the following components:

Renewable Energy & Energy Efficiency	EUR 12 000 000	(84% of total)
Measures in favour of civil society	EUR 1 000 000	(7% of total)
Support measures	EUR 1 200 000	(9% of total)
Total	EUR 14 200 000	(100%)

In addition, the NIP may be complemented by operations financed under the EDF Regional Programme and the Investment Facility for the Pacific, and by the EIB from the Cotonou Investment Facility and/or from its Own Resources.

NATIONAL INDICATIVE PROGRAMME 2014-2020

FEDERATED STATES OF MICRONESIA (FSM)

1. The overall lines for the EU response

1.1. Strategic objectives of the EU's relationship with the partner country

The European Union (EU) and Federated State of Micronesia (FSM) have a 13-year long history of co-operation and partnership which started in 2000 with FSM joining the ACP (Africa, Caribbean, Pacific) group. EU-FSM cooperation is currently guided by the latest revision of the ACP-EU Partnership Agreement, signed in Cotonou in 2000 and updated in Ouagadougou in June 2010.

The ACP-EU Partnership Agreement will remain in force until 2020 and is centred on reducing, and eventually eradicating, poverty through sustainable development and gradual integration of ACP countries into the world economy. As stated in the objectives of the partnership, "the principles of sustainable management of natural resources and the environment, including climate change, shall be applied and integrated at every level of the partnership". The EU co-operation with FSM shall continue to pursue these objectives in keeping with the fundamental principles of the Agreement such as human rights, democratic principles, the rule of law, good governance, conflict prevention and resolution etc.

While a strong ownership of the country development strategy and the alignment of EU aid with this strategy will remain essential elements, the EU development approach set out in 2011 "EU agenda for change" and in the 2012 EU Communication "Towards a renewed EU–Pacific development partnership" will also be reflected. As a result, efforts will be made to develop better targeted aid delivery mechanisms to ensure maximum poverty reduction. Increased assistance will be provided to address climate change challenges. These actions should facilitate a more general convergence of views on global issues debated in international fora.

The principle of alignment of the EU development strategy with the FSM development strategy will guide the EU 11th EDF implementation. In 2004 the FSM 14th Congress approved the Strategic Development Plan (SDP) for the next twenty years (2004–2023). This plan, along with a national infrastructure development plan, are the strategic programming guides for the 4 states governments that forms FSM and are also intended to guide the programming of assistance from other development partners. The SDP was developed in collaboration with a wide variety of actors including private sector, non-government organisations, churches, women's and youth groups as well as donor institutions. The SDP aims at poverty reduction notably through improved standards of governance, including transparency and accountability; through the strengthening of institutional and regulatory processes for economic growth and through the promotion of the private sector, among others. Climate change, environmental issues and the sustainable management of natural resources also form an essential part of the Federated States' development plan which, complemented by the recent Development Framework "Looking to the Future", provides a solid base for development of the country and for the EU 11th EDF support 2014-2020.

Against this background, the EU cooperation strategy with FSM will be guided by the existing SDP for the period 2014-2020.

In addition, the NIP may be complemented by operations financed under the EDF Regional Programme and the Investment Facility for the Pacific, and by the EIB from the Cotonou Investment Facility and/or from its Own Resources.

1.2. Choice of sector

With a population of around 100.000 people on a surface of 700km², FSM belongs to the category of Lower Middle Income Countries. It occupies more than 2,600,000 km² of the Pacific Ocean and as in many other Pacific Island countries, climate change is high on the agenda. In his address to the United Nations General Assembly, FSM President Emanuel Mori emphasized the critical danger Micronesia is facing from climate change, most notably sea-level rise, changing weather patterns and increased storms and disasters, and called for urgent and immediate action by the international community. In response to these challenges the 9th and 10th EDF funds (EUR17 million) were allocated to sustainable energy, Disaster Risk Reduction and conservation and environmental protection.

Renewable energy and climate change are related at the global level. Renewable energy technology and energy efficiency measures help reduce demand for fossil fuels and contribute to economic sustainability, while also contributing to decreasing carbon emissions globally. The 10th EDF country programme already promoted renewable energy and targeted in particular poor households, schools and health clinics on the Outer Islands. A priority objective of the government is the provision of an adequate and secure supply of energy to meet the needs of households, commerce and industry. Over 40% of FSM households are still without electricity. Access to affordable energy is considered crucial for the sustainable growth and equitable development of the country.

A continued EU focus on the energy sector would assist in consolidating successes so far gained. However, it is suggested that a change of modalities of intervention from a project approach to budget support be considered. As for most countries in the Pacific, the transaction costs of using a project approach is high, posing multiple challenges on the staff and staffing level of government departments. Moreover, a budget support approach will provide a solid platform for policy dialogue between the EU and the national authorities.

Against this background, and in line with the recommendations of the Paris Declaration, Accra Agenda for Action and Busan and with the recent EU Communication on budget support, a shift to budget support for the EU programme can have a significant impact and offer an efficient way to address the structural vulnerability faced by FSM and would align to similar developments taking place with aid from the US, Australia, the Asian Development Bank (ADB) and the World Bank. Though widely recognised as a more appropriate form of support for small islands, budget support comes with challenges of its own. It will require a strong ownership of development and reform agenda by the Government as well as professional skills and experience to work on macro-economic and public finance management. Dedicated technical assistance would therefore be required in the early days of the EU programme, and coordination and synergies with other development partners will

be established. Development partners have indicated a strong desire to become associated with the EU in its plans to further strengthen government capacities.

It is proposed that energy, and in particular renewable energy, will remain the priority sector for the EU under the 11th EDF, addressing energy, environment and climate change issues in an efficient manner through a Sector Budget Support Programme focussed on renewable energy and energy efficiency, provided eligibility criteria are met. This will allow the government to ensure long-term sustainability of past EDF interventions in renewable energy. It will also strengthen management and operational capacity across the energy sector. Beyond the sector, the modalities and governance system established will serve as a model for other sectors to emulate, thus promoting good public finance management, transparency and accountability across a wide range of government operations.

Aligned to its focus on renewable energy, EU efforts in the non-focal area will continue with a particular emphasis on climate change and environmental conservation, as well as increased support to civil society to enhance participation of Non State Actors in policy dialogue, in the monitoring of national programmes, economic reforms and public finance management. In the area of environmental conservation, a specific programme delivered via the Micronesian Conservation Trust, for instance, could be considered. Particular focus will also be given to gender issues, with support provided to implement Convention on Elimination all forms of Discrimination Against Women (CEDAW). In line with the Agenda for Change and the EU's fundamental values, support to this area could come from regional or thematic envelopes, in partnership with the UN or other development partners.

The proposed area of intervention is complementary to FSM's own efforts to improve the living conditions in the outer islands and redress the imbalance between urban and outer island development by spreading the benefits of growth more evenly across the country as well as to promote a sustainable use of the natural environment. It is co-ordinated with and complements the support for outer island development by other donors and development partners.

2. Financial overview (indicative amounts)

Renewable Energy & Energy Efficiency	EUR 12 000 000	(84% of total)
Measures in favour of civil society	EUR 1 000 000	(7% of total)
Support measures	EUR 1 200 000	(9% of total)
Total	EUR 14 200 000	(100%)

3. EU support per sector

3.1 Renewable Energy & Energy Efficiency (indicative amount EUR 12 million)

3.1.1 The following overall and specific objectives will be pursued:

Overall Objective:

The overall objective is to improve social and economic development, increase resilience to climate change and reduce poverty, especially in the outer islands.

Specific Objectives:

The specific objectives are 1) to increase access to modern and sustainable energy services, with focus on outer island populations, 2) to improve the overall efficiency of the energy sector and 3) to increase the share of renewable energy and reduce dependence on imported petroleum.

3.1.2. For each of the specific objectives the main expected **results** are:

(1) Increased access to modern and sustainable energy services

- 1.1 Increased access to modern and sustainable energy services particularly in the outer islands
- 1.2 Improved energy security and trade, aiming at preparing the national energy system to benefit from cross-border and intra-regional energy cooperation, including regulation and barrier removal
- 1.3 Improved management of public bodies and utilities in the energy sector

(2) Improvement in energy efficiency

- 2.1 Improved energy efficiency by innovation in terms of (i) generation, (ii) transmission and (iii) consumption

(3) Increase the share of renewable energy

- 3.1 Increased share of renewable energy in the country's energy mix
- 3.2 Improved investment framework by providing incentives in the (sustainable) energy sector

3.1.3 The main indicators for measuring the aforementioned results are contained in the sector intervention framework (Annex3)

3.1.4. Donor coordination and policy dialogue:

Highlighting the need to improve aid effectiveness, the Mori Administration established the Office of SBOC (Statistics, Budget & Economic Management, Overseas Development Assistance and Compact Management) to manage and harmonize fiscal, economic, and budgetary policy and socio-economic data and information systems.

The largest single donor to FSM is the United States, providing some EUR 52 million per annum through the Compact agreement and an additional EUR 24 million per annum through a variety of instruments including Federal grants. Most Compact funds are directed toward the Health and Education sectors. In total the US provides 85% of all aid to FSM. Japan provides about EUR 7.5 million for infrastructure projects and China EUR 3 million, half of which goes into budget support.

The Asian Development Bank provides assistance to the FSM in the order of EUR 1.9 million per year in grants and loans. Annual EU bilateral assistance amounts to EUR 1.4 million accounting for about 1.2% of total annual ODA received. Australia provides some assistance, mostly for education scholarships, and the UN provides assistance, mainly in the health sector. None of the EU Member States have major aid programmes in FSM, however, Germany, Greece, France, Spain and the UK have all provided grants. In the past France provided assistance to the renewable energy sector and the UK in training and education through British Council scholarships. Spain has assisted in the construction of Catholic Mission schools and Germany has provided support for sustainable agriculture and forestry programmes.

There is no EU Member State representation resident in the FSM and the EU development cooperation continues to be managed from the Suva Delegation – a 25,000 km roundtrip. The majority of EU Member States accredited to FSM are Manila-based, as are many other development partners including the Asian Development Bank (ADB).

The traditional project approach does not provide an appropriate policy dialogue platform with national authorities. Against this background and responding to the recommendations of the Paris Declaration and the Accra Agenda for Action, the EU intends to introduce other aid delivery mechanisms in the Pacific such as budget support. Australia, NZAid, USAid and the World Bank are already either delivering their aid as budget support or are at an advanced stage of preparation. The ADB has embarked on programme loans, which corresponds to budget support in a lending context.

3.1.5. The Government's **financial and policy commitments:**

Budget support requires a comprehensive understanding of government's development and reform agenda and professional skills and experience to work on macro-economic policies such as fiscal, monetary, financial, and real sector developments. The Government is committed to improving Public Financial Management (PFM). Following a Public Expenditure and Financial Assessment (PEFA) in 2011, the Government, with assistance from the Pacific Financial Technical Assistance Team (PFTAC), is in the process of developing a roadmap for PFM reform.

In terms of policy coordination the National Government of the FSM is committed to hosting annual fora for all development partners to review progress, share experiences and discuss strategies for future cooperation. This will include opportunities for all FSM Governments and civil society participants to contribute to the on-going dialogue.

The FSM government commit to the on-going strengthening of core government functions as a means to ensuring that both domestic and foreign sourced resources are deployed in an effective, efficient and accountable manner. This will include regular independent PEFA reviews and follow-up action in the areas of planning, budgeting, financial management, procurement, auditing and measuring results.

In the field of energy policy the Government has made the following commitments:

Renewable Energy

- Effectively coordinate with donors and regional/sub-regional organizations to support technical/financial source of states' investment plans

- Conduct a nation-wide study for renewable energy assessment

Energy Efficiency and Conservation

- Implement the government facility conservation plan
- Proceed developing a regulation on building and construction
- Conduct an awareness campaign on energy efficiency and conservation
- Conduct a training and capacity building program

The environmental assessment and climate risk assessment procedures in the “Guidance for the Integration of Environment and Climate Change in EU Development Cooperation” will be applied to determine the need for an Strategic Environment Assessment (SEA in the case of a programme or Environment Impact Assessment EIA in the case of a project) and/or a Climate Risk Assessment (CRA). Even if an environmental assessment or a CRA is deemed unnecessary, the screening questionnaire will help identify environmental and climate change (adaptation and mitigation) aspects that could be integrated in the program formulation in order to enhance their environmental and climate change performance.

3.1.7. The overall **risk assessment** of the sector intervention:

The major risk associated with implementing the programme is the government's ability to achieve and maintain its 'eligibility' to receive EU budget support. Mitigating measures will include the provision of EUR 600,000 for a Technical Assistance support programme to assist the FSM to prepare and implement budget support in the focal area. Should, for any reason, budget support prove problematic, delivery will revert to a project approach.

Like other small Pacific islands developing states of the ACP Group, the FSM is vulnerable to disasters, which potentially have a large impact on the small economy and small population. Perceived natural hazards include: typhoons, droughts, tsunamis, floods, storm surges, and landslides. Human induced hazards include: epidemics, oil spills, transportation accidents, fire, and loss of life at sea. Over the past fifteen years disasters have included 9 typhoons, 1 drought, 3 severe landslide events, coastal and river flooding often associated with typhoons, and 3 cholera outbreaks in Chuuk. Whilst disasters in the past have been, and are most likely to remain natural, increasingly human-induced or technological disasters are expected to occur. Furthermore, climate change which is likely to result in sea level rise is a particular concern to the Federated States of Micronesia as many live on remote low-lying outer islands, and much infrastructure on the higher volcanic islands is in the coastal zone.

These challenges need to be addressed by a comprehensive programme of coordinated action.

4. Measures in favour of civil society

In line with the Cotonou Agreement and its Annex IV, an indicative amount of maximum EUR 1 000 000 will be set aside for support to civil society organisations involved in environmental protection and conservation. Some if not all of this funding will be channelled via the Micronesian Conservation Trust (MCT).

5. B-allocation

A B-allocation may be included in the MIP for unforeseen needs (specifically relevant for fragility situations). This allocation is at EUR 0 until a need arises. In case of necessity, a Financing Decision to meet an unforeseen or urgent need can always be taken notwithstanding the status of the indicative B-allocation mentioned in the MIP

6. Support measures

6.1. Measures to support or accompany the programming, preparation or implementation of actions

An indicative amount of maximum EUR 600 000 is foreseen for a Technical Assistance support programme to assist FSM prepare for possible budget support in the focal area.

6.2. Support to the National Authorising Officer

An indicative amount of maximum EUR 600 000 is foreseen for support to the National Authorising Officer

Attachments

1. Country at a glance (i.e. macro-economic indicators and indicators derived from the MDGs, as well as possible other indicators relevant for the country, including risk indicators for disaster prone countries)
2. Donor matrix showing the indicative allocations per sector
3. Sector intervention framework and performance indicators.
4. Indicative timetable for commitment of funds

Attachment 1: Country at a Glance (Key macro-economic indicators and key MDG and development indicators)

Attachment 1A: Key macro-economic indicators (years 2014,2015 and 2016 are projections)

Key macro-economic indicators										
Financial Year (FY)	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Basic data										
1	Population	52 245	52 341	52 428	52 495	52 555	52 634	52 772	52 993	53 311
	annual change in %	-0,6	-0,6	0,2	0,2	0,2	0,1	0,1	0,2	0,3
2a	Nominal GDP (EUR million)	178	199	222	223	255	255			
2b	Nominal GDP per capita (EUR)	1 700	1 913	2 141	2 155	2 463	2 467			
2c	annual change in %	-9,6	12,5	11,9	0,7	14,3	0,2			
3	Real GDP (annual change in %)	-2,6	1,0	2,5	2,1	0,4	0,6	0,6	0,6	0,6
4	Gross fixed capital formation (in % of GDP)	31,9	32,5	31,4	31,3	31,5	0,0	0,0	0,0	0,0
Balance of Payments (based on Fiscal Year)										
5a	Exports of goods (in % of GDP)	10,5	9,0		10,0	13,0	13,2	13,9		

19 a	Commercial Bank Lending Rates (annual average rate in %)	14,4	15,4	15,1	14,4	14,3		
19 b	Deposit Rates (annual average rate in %)	2,5	1,3	0,9	0,6	0,4		
20	Exchange rate: annual average national currency / EUR	1,5	1,4	1,3	1,4	1,3	1,3	1,3

Sources

1. Time is calculated in fiscal years. For FSM, the fiscal year begins on October 1st and ends on September 30th of the following year. Year FY2008 in the table represents Fiscal Year beginning on October 1st of 2007 and ending on September 30th of 2008, alternatively written as 2007/2008.
2. Population: UNDESA United Nations Department of Economic and Social Affairs, Population Division, Populations Estimates and Projections Section (UNDESA). Website: <http://esa.un.org/unpd/wpp/Excel-Data/population.htm>
3. Nominal GDP: Asian Development Bank (ADB) Statistical Database and International Monetary Fund's (IMF) Article IV Mission - Country Report for 2012 and IMF Staff visit report Oct., 2013. Data in USD, hence USD/EUR bilateral exchange rate (period average over the fiscal year) has been used to convert the nominals into EUR Exchange Rate data is from ECB's website <http://sdw.ecb.europa.eu/browse.do?node=2018794> while the forecasts are from the Consensus Forecasts (Dec 2013). Also refer to endnote No. 16 below.
4. Real GDP: 2012 IMF Article IV Report & IMF Staff visit report Oct., 2013
5. Gross Formation: United Nations (UNdata): <http://data.un.org/Default.aspx>
6. Balance of Payments data has been sourced from the IMF Article IV Mission Report 2012 and IMF Staff visit report Oct. 2013 (2009 to 2014 - revised data).
7. Data on trade with the EU has been sourced from the Eurostat Database: <http://ec.europa.eu/trade/policy/countries-and-regions/statistics/regions/>
8. External Debt (FSM's all debt is external) - IMF Article IV Report 2012 (2008, 2015, 2016) & IMF Staff visit report Oct. 2013 (2009 to 2014 - revised data).

9. For Net Inflow of Remittance, Net Private Unrequited Transfers has been utilised as a proxy for remittance; IMF Article IV 2012 report (Table 4).
10. Net inflows of foreign direct investment has been sourced from Table 4, pg 22 of the IMF Article IV Mission Country Report 2012 and is calculated as direct investment (net)/ nominal GDP*100)
11. Trade Capacity data has been sourced from the World Bank: <http://databank.worldbank.org/data/views/reports/tableview.aspx>
12. Government data has been sourced from the IMF Article IV Mission Country Report 2012 (2008 & 2015, 2016) & IMF Staff visit report Oct. 2013 (2009 to 2014 - revised data).
13. Total Debt Stock (FSM's all debt is external) - IMF Article IV Report 2012 (2008, 2015, 2016) & IMF Staff visit report Oct. 2013 (2009 to 2014 - revised data).
14. Inflation Data: IMF Article IV Mission Country Report 2012 (2008 & 2015, 2016) & IMF Staff visit report Oct. 2013 (2009 to 2014 - revised data).
15. Money interest rates data are from the World Bank website < <http://data.worldbank.org/region/PSS>>
16. Exchange Rate: from ECB's website <http://sdw.ecb.europa.eu/browse.do?node=2018794> while the forecasts are from the Consensus Forecasts (December 2013) published by Consensus Economics. USD (the United States Dollar) is the currency in use in the FSM.
17. For the MDGs and development indicators, additional information is provided in the attached excel file (which shows data sources in the 'comments').

Attachment 1B: Key MDG and development indicators

Table 2B: FSM											
Key MDG and development indicators											
	1990	2000	2008	2009	2010	2011	2012	2013	2014	2015 Expected Achievements (On-Track/Off-Track/Mixed/Insufficient information/Not Applicable)	2015 Original Goals
1	...	31.2	...	...	...	...	...	...	...	<p>OFF TRACK TO ACHIEVE THIS GOAL.</p> <p>TARGET 1.A</p> <p>Evidence of growing hardship. Chuuk has the highest proportion of its population below the BNPL, while Yap has the smallest. Pohnpei has relatively more working poor than the other states. Poverty in Kosrae widespread but less severe. Government recognises need for targeted poverty strategy but yet to materialise. [Source: PIFS 2013 MDGs Report, pg 14]</p>	Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
	<p>Key indicators</p> <p>Proportion (%) of population below 1\$/day in PPP [Source: http://mdgs.un.org/unsd/mdg/data.aspx]</p>										

4	HIV Prevalence in Population aged 15-24 (%) [Source: PIFS 2013 MDG Report]	0.0	HIV have halted by 2015 and begun to reverse the spread of HIV and AIDS	ON TRACK TO ACHIEVE THIS GOAL.. TARGET 6.A Up until 2009, 37 reported cases, 28 of which had died from AIDS-related illnesses, and three had left the country. Cases likely under-reported. SGS surveys reveal high risk (heterosexual) behaviour still common, while HIV/AIDS knowledge low and negative attitudes prevail. This is despite two decades of education and awareness campaigns. [Source: PIFS 2013 MDGs Report, pg 14]
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8b	Gender Parity Index in secondary level enrolment [Source: PIFS 2013 MDG Report (for 1990, 2011) & http://mdgs.un.org/unsd/mdg/data.aspx (for 2000)]	0.98	1.06	1.09	
8c	Gender Parity Index in tertiary level enrolment [Source: PIFS 2013 MDG Report]	0.70	1.07	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
		<p>However, low economic participation of women. Better access to education not translated into increased participation in the formal sector. Likely due to deeply entrenched beliefs in the traditional role of women. Also, general lack of job opportunities so women turning to subsistence lifestyles. FSM among the few FICs that do not have any women in parliament. Government considering temporary special measures to reserve four seats in parliament for women. [Source: PIFS 2013 MDGs Report, pg 14]</p>																		
		preferably by 2005, and in all levels of education no later than 2015																		

9	Percentage of pupils starting grade 1 who reach last grade of primary, both sexes [Source: PIFS 2013 MDG Report]	...	92.0	86.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...
<p>Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling</p>																		
<p>MIXED RESULTS IN ACHIEVING THIS GOAL. TARGET 2.A Relatively high net enrolment and literacy rates. However, survival rate to the last grade declined but could be a result of outmigration. Chuuk and Kosrae States most affected by emigration due to its poor economic outcomes. Decline in survival rate in Chuuk related to outmigration. Kosrae doing comparatively better due to favourable geography (easier to attend school compared to other States), as well as strong influence of Church. Access to education in Pohnpei fairly good. Data issues for Yap prevent proper analysis. [Source: PIFS 2013 MDGs Report, pg 14]</p>																		

10	Population with sustainable access to improved water source (%) [Source: http://mdgs.un.org/unsd/mdg/data.aspx]	91.0	90.0	89.0	89.0	89.0	89.0	89.0	89.0	...	...	...	...	MIXED RESULTS IN ACHIEVING THIS GOAL. TARGET 7C Improved access to water. Low access to sanitation. Water and sanitation issues are particularly problematic in Chuuk. [Source: PIFS 2013 MDGs Report, pg 14]	Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
11 a	Fixed telephone lines per 100 inhabitants [Source: http://mdgs.un.org/unsd/mdg/data.aspx]	2.53	9.01	7.88	7.86	7.61	7.53	7.49	...	...	...	...	...	...	...
11 b	Mobile cellular subscriptions per 100 inhabitants [Source: http://mdgs.un.org/unsd/mdg/data.aspx]	0.00	0.00	24.92	24.85	24.78	24.74	24.62

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11 c	Internet users per 100 inhabitants [Source: http://mdgs.un.org/unsd/mdg/data.aspx]	0.00	3.73	14.4 9	15.3 5	20.0 0	22.8 0	25.9 7
12	Cost of business start-up procedures (% of GNI per capita) [Source: http://data.worldbank.org/country]	...	...	137. 7	136. 7	151. 1	142. 9	144. 3	144. 4	...	...	...
13	Time required to start a business (days) [Source: http://data.worldbank.org/country]	...	...	16.0	16.0	16.0	16.0	16.0	16.0	...	...	...
14	Real GDP per capita, PPP (constant 2005 international \$) [Source: http://data.worldbank.org/country]	263 1	301 6	3044	3089	3178	3249	3264

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17	Unemployment (in % of labour force, ILO def.) [Source: http://data.worldbank.org/country]	...	22.0
18	Employment in agriculture (in % of total employment) [Source: https://www.cia.gov/library/publications/the-world-factbook/geos/fm.html]	...	...	...	...	...	0.9	...	...	...	...	...	...	...	...	...	...	...	...

Attachment 2 –Matrix of intervention from other donors

Note that accurate information is unavailable, therefore the following are estimates (not inclusive of loans) for 2012

Development Partner	Sector	Estimated Commitment ('000 USD p.a.)
United States - Compact	Infrastructure	1,300
	Health	19,500
	Education	24,500
	Environment	1,500
	Governance	3,400
	Private Sector Development	2,000
	Other (inc. Trust Fund)	28,000
United States - Federal Grants	Health	10,000
	Infrastructure	5,000
	Environment	1,000
Japan	Infrastructure	12,000
	Other	2,000
Asian Development Bank	Governance	500

World Bank	Infrastructure (telecommunications)	500 (major, multi-year IDA grant currently pending)
Australia	Governance	1,000
	Environment	1,500
	Other	250
United Nations Joint Presence	Health	1,000
	Education	1,000
	Other	500
Peoples Republic of China	Infrastructure	Variable - estimated 2,000
European Union	Renewable Energy	1,200
	Disaster Risk Reduction	500
	TOTAL	118,450 (exclusive of loans)

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Attachment 3: Sector intervention framework

Sector 1: Renewable Energy & Energy Efficiency

Specific objective 1: To achieve universal access to modern and sustainable energy services

Expected Results	Indicators ¹	Means of verification
1.1 Increased access to modern and sustainable energy services, particularly in the outer islands	Percentage of people with secure access to modern energy services(urban and rural areas separately) Percentage of people with access to electricity from a grid (urban and rural areas separately) Percentage of people using solid fuels	UN Millennium Development Goal Database Country data/ with project support
1.2 Improved energy security and trade, aiming at preparing the national energy system to benefit from intra-regional energy cooperation, including regulation and barrier removal]	Existence/ status of i) National strategy, ii) policies and iii) regulation that aim at allowing the national energy system to benefit from intra-regional energy cooperation in the context of ad-hoc Regional Agreements.	National Policy Documentation

¹ Baselines will be included at the latest in the Action Document

<p>[1.3 Improved management of public bodies and utilities in the energy sector]</p>	<p>Existence/ degree of implementation of i) National strategy and ii) policies related to the access to modern and sustainable energy services for the poor</p> <p>Existence of regulations delegating decision making power and operational capacity in the sector of energy access to local authorities below the Central Government level</p>	<p>National Policy Documents</p>
<p>Specific objective 2: improvement in energy efficiency</p>		

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<p>2.1 Improved energy efficiency by innovation in terms of (1) generation, (2) transmission and (3) consumption</p>	<p>Percentage of people with secure access to cleaner cooking facilities Technical and non-technical losses in power generation, transmission, distribution and end-use (measured as % of energy generated, transmitted and distributed) MWh per year saved through energy efficiency measures Energy Intensity (kg oil equivalent per \$ GDP)</p>	<p>UN Millennium Development Goal Database Country data/ with project support</p>
<p>Specific objective 3 : Increase the share of renewable energy</p>		
<p>3.1 Increased share of renewable energy in the country's energy mix</p>	<p>Percentage of energy mix derived from renewable sources Number of MW generated from renewable energy sources Percentage of GDP allocated to investments for renewable energies</p>	<p>Country data/ with project support</p>

3.2 Improved investment framework and increase incentives in the renewable energy sector	Existence of regulations/favourable fiscal regime/subsidies aiming at promoting private sector investments in the sector of sustainable energy	Country data/ with project support
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The results, indicators and means of verification specified in the present annex may need to evolve to take into account changes intervening during the programming period.

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Attachment 4: Indicative timetable for commitments

	Indicative allocation (EUR million)	2014	2015	2016	2017	2018	2019	2020
SECTOR - Renewable Energy & Energy Efficiency	12			12,0				
Other measures (support to civil society)	1		1,0					
B- allocation	0							
Support measures	1,2							
• Measures to support or accompany the programming, preparation or implementation of	0,6		0,6					
• Support to the National Authorising Officer	0,6				0,6			
Total Commitments	14,2	0	1,6	12,0	0,6	0	0	0

The amounts indicated in this table are indicative.