



Initial Poverty and Social Analysis

Project Number: 55324-001
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Federated States of Micronesia: Clean Energy Project - Project Readiness Financing

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of October 2021)

The currency unit of the Federated States of Micronesia is the United States dollar.

ABBREVIATIONS

ADB	–	Asian Development Bank
CSO	–	civil society organization
FSM	–	Federated States of Micronesia
IPSA	–	initial poverty and social analysis
MDGs	–	Millennium Development Goals
NGO	–	non-government organization
TA	–	technical assistance

NOTE

In this report, “\$” refers to United States dollars unless otherwise stated.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Federated States of Micronesia	Project Title:	Clean Energy Project – Project Readiness Financing
Lending/Financing Modality:	Project Readiness Financing	Department/ Division:	Pacific Department/Energy Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The proposed project supports the government’s development priorities, as articulated in the Strategic Development Plan 2004–2023 of FSM, particularly in its objective to provide and utilize cost-effective, reliable social and economic infrastructure. This is supported by the FSM National Energy Policy Vision Statement for Energy which is to “improve the life and livelihood of all FSM residents with affordable, reliable and environmentally sound energy”. The FSM Energy Sector Masterplan 2019-2039 sets out what investments are required to achieve this vision in the electricity sector through individual State Energy Master Plans over the next 20 years, and how the investments will be potentially financed and implemented. It is also aligned with the FSM Infrastructure Development Plan 2016–2025 and a post COVID-19 economic stabilization strategy that will place heavy emphasis on stimulating the construction industry as the primary engine of growth in the short term. The project is consistent with ADB’s Pacific Approach 2021–2025, which serves as the country partnership strategy for FSM, and with ADB’s Strategy 2030, particularly with operational priorities one (address remaining poverty and reducing inequalities), three (tackle climate change, building climate and disaster resilience, and enhance environmental sustainability), four (make cities more livable) and six (strengthen governance and institutional capacity). The project is included in the indicative lending pipeline for FSM in ADB’s country operations business plan for the 11 small Pacific Island countries 2020–2022.

B. Poverty Targeting:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The project has been identified as a key infrastructure investment needed to address constraints on development and management of reliable, safe, sustainable, affordable and climate resilient energy services that are critical to sustaining economic growth and to providing access to resources and socio-economic opportunities. On the main island of Pohnpei it will finance the potential construction of renewable energy infrastructure. The state utility is currently unable to recover sufficient funding from tariffs to support large new capital projects due to constrained household payment capacity and the high cost of generation from diesel-based generation. FSM currently spend around US\$40 million per year on imported fuels for energy generation. In addition, on the remote outer islands, the project will support loads such as for drinking water using renewable energy sources to improve resilience of local communities to ground water depletion due to declining rainfall or deterioration of ground water resources due to sea water intrusion. Additional institutional reforms will complement improving operations and the service provision, benefiting residents but particularly the poorest households, which are the ones with less access to electricity supply. Improved energy services and infrastructure contribute directly and indirectly to poverty reduction by improving health and living conditions as well as potentially increasing productivity and job creation in the project sites.

C. Poverty and Social Analysis

1 **Key issues and potential beneficiaries.** On access to energy, it is noted that approximately 76% of households in FSM have some form of electrification, however access rates vary widely among states; Kosrae and Pohnpei have a 95% electrification rate while Chuuk, where 47% of the population resides, lags the other states with the lowest access rate at 27%. There is a noted major lack of funding to expand access to electricity and even where the grid is accessible, the one-off cost of connection (US\$40) remains one potential barrier prohibiting poorer households from gaining access. Household energy poverty is thus high as energy expenditure can account for a large portion of poor and low-income households’ income. Usually, households that spend more than 10% of their incomes on energy are considered energy poor households. Energy poverty is also likely to increase due to COVID-19 as energy expenditure will make even a bigger share of the shrinking incomes of households. Hence, energy poverty pushes poor households deeper into poverty. Energy poor households limit electricity use by having lower living standards. Frequent power outages can also have severe negative impacts on the social and economic lives of poor and low-income households. The primary beneficiaries of the project will be the public who will benefit from improved energy supply and services. The total number of the project’s direct and indirect beneficiaries will be confirmed during project processing.

2 **Impact channels and expected systemic changes.** The main channel for project benefits is the improved energy supply and services provided. The project will undertake priority renewable energy investments to increase and improve

service coverage and reduce energy supply insecurity, particularly among low-income households. The project will also address the factors, which result in unsustainable management of the electricity network through technical assistance to the state governments for project management, resource mobilization and institutional strengthening. Poor and socially excluded groups will directly benefit from the project.

3. **Focus of (and resources allocated in) the transaction TA or due diligence.** A due diligence will be completed on all project component and activities during project preparation and design with focus on gender, the environment and any impacts to the surrounding area and residents. A series of consultations will be conducted during project preparation. Any issues arising from this assessment, workshops, review, and consultations will be addressed through measures in the project design.

4. **Specific analysis for policy-based lending.** Not applicable.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? Women, particularly in rural and outer island areas are increasingly experiencing poverty and its economic effects. The project recognizes the critical role of integrating gender considerations and advocates for the equitable participation of men and women in preparation and implementation activities. Gender design features will be a focus of project preparation and in implementation, the employment opportunities will be open to recruiting female workers when there are eligible females with technical skills for technical work positions, as well as other labor-based work and the provision of services during construction.

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women access to and use of opportunities, services, resources, assets, and participation in decision-making? Yes No

A gender action plan will be prepared during project preparation and due diligence for the follow on investment.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERING THE POOR

1. Who are the main stakeholders of the project, including beneficiaries and affected people? Explain how they will each participate in the project's design.

Key stakeholders include the Department of Finance and Administration as well as the Department of Resources and Development, state governments as well as relevant state energy utilities. Nongovernment organizations, development partners, the private sector, and public will also be active participants. A consultative process will be carried out employing the projects public communication strategy and community consultation plan.

2. Who are the key, active, and relevant CSOs in the project area?

FSM Alliance of NGOs (FANGO)

3. Are there issues during project design for which participation of the poor and vulnerable is important?

Yes No If yes, what are these issues?

During the PRF preparation and implementation, public consultations will be held to design the project components with active participation of women, low-income population, and communities. The government, relevant stakeholders and the community will be engaged in all aspects of the project through investigation, design, and implementation stages. Consultations will ensure that the poor, vulnerable and excluded groups are actively engaged.

4. How will the project ensure the participation of beneficiaries and affected people, particularly the poor and vulnerable and/or CSOs, during project design to address these issues?

A PMU will be set up with a dedicated social development and gender specialist with the responsibility to ensure participation of the poor, excluded and vulnerable groups, and/or CSOs in design. Local communities will be consulted during the social and poverty analysis to identify any social impacts which need to be mitigated. These consultations will be inclusive of women and other marginalized groups.

5. What level of CSO participation is planned during the project design?

H Information generation and sharing M Consultation N/A Collaboration N/A Partnership

IV. SOCIAL SAFEGUARDS	
A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
No land acquisition is envisaged for the project, and this will be confirmed during project preparation. Any civil works under the project's proposed piloting component will be confined to individual households.	
2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?	
<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Resettlement framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
	<input checked="" type="checkbox"/> None
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?	
<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
	<input checked="" type="checkbox"/> None
V. OTHER SOCIAL ISSUES AND RISKS	
1. What other social issues and risks should be considered in the project design?	
<input type="checkbox"/> Creating decent jobs and employment	<input checked="" type="checkbox"/> Adhering to core labor standards L
<input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS	<input type="checkbox"/> Labor retrenchment
<input type="checkbox"/> Increase in unplanned migration	<input type="checkbox"/> Increase in human trafficking
<input type="checkbox"/> Creating internal social conflicts	<input type="checkbox"/> Increase in vulnerability to natural disasters
<input type="checkbox"/> Others, please specify _____	<input type="checkbox"/> Creating political instability
2. How are these additional social issues and risks going to be addressed in the project design?	
The project with its piloting component may create employment, so it is integral that bidding documents require contractors to adhere to core labor standards.	
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT	
1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks? Are the relevant specialists identified?	
<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis; and the participation plan during the transaction TA or due diligence?	
An international and a national Social Development and Gender Specialists will be engaged. They will be responsible for preparation of a project consultation strategy and community participation plan and will undertake social and poverty assessment including a gender analysis.	

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