

# **FEDERATED STATES OF MICRONESIA**

## **Country Program Strategy**

For the Administration of the Country's Micronesia Challenge  
Endowment Fund

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## **SECTION I: BACKGROUND**

The islands of the Federated States of Micronesia (FSM) are home to some of the most biologically diverse terrestrial and marine areas in the world. Many individual communities, government agencies and other organizations are acting to conserve the irreplaceable natural resources of the FSM. However, for the most part with limited public resources allocated for conservation activities, efforts have been small-scale and disconnected. Setting clear targets and supporting work to reach those targets with sufficient allocation of resources is required to reach conservation goals.

### **1.1 Micronesia Challenge and FSM’s Micronesia Challenge Endowment Fund**

In 2006, FSM joined the Republic of the Marshall Islands, the Republic of Palau, the Commonwealth of the Northern Mariana Islands and the United States Territory of Guam and declared the Micronesia Challenge Initiative ([www.micronesiachallenge.org](http://www.micronesiachallenge.org)). The Micronesia Challenge benefits the FSM by assisting the country in protecting its natural resources, and also by enhancing FSM’s efforts to attract external donors, partners and technical support.

The Micronesia Challenge is driven by three main targets: 1) to establish a system of protected areas networks in member countries; 2) to effectively conserve at least 30% of the near-shore marine and 20% of the terrestrial resources across Micronesia by 2020; and 3) to raise a \$29 million FSM Micronesia Challenge Endowment Fund to sustain these efforts in perpetuity. In 2010, updated in 2012, the Micronesia Challenge partnership produced a Sustainable Finance Plan estimating the costs, funds, and gaps for each state in the FSM to meet the Micronesia Challenge conservation goals. The Sustainable Finance Plan revealed that the FSM states of Yap, Chuuk, Pohnpei, and Kosrae collectively face an annual gap of approximately \$1.7 million. To bridge this gap, the FSM has set a \$29 million endowment goal.

As a result, the FSM authorized the establishment of the FSM’s Micronesia Challenge Endowment fund (Endowment fund). This Endowment fund is administered by the Micronesia Conservation Trust (MCT), a legally recognized Non-Profit Corporation registered in the FSM, whose mission is to support biodiversity conservation and related sustainable development for the benefit of the people of Micronesia by providing long term sustained funding for conservation and the sustainable use of natural resources. Through the Memorandum of Understanding between MCT and the Government of the Federated States of Micronesia, MCT is to act as the receiving and disbursement mechanism for the FSM Endowment fund and subsequent revenue flow.<sup>1</sup>

This Country Program Strategy summarizes how the FSM and MCT will manage and distribute the investment earnings from the FSM Micronesia Challenge Endowment Fund. The strategies and procedures for dispersing earnings from FSM’s Micronesia Challenge Endowment Fund described in this document are designed to support the

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<sup>1</sup> August 2009, Memorandum of Understanding between the Micronesia Conservation Trust and the Government of the Federated States of Micronesia (MCT-FSM MOU)

operation of the FSM's Protected Areas Network, and are consistent with the MCT Investment Policy Statement. The MCT Investment Policy Statement guides the MCT Investment Committee and MCT Board of Trustees in effectively supervising, monitoring and evaluating the investment of assets under MCT administration, and has been arrived at upon consideration by the Trustees of the financial implications of a wide range of policies, and describes the prudent investment process deemed appropriate.

## **1.2 FSM Protected Areas Network**

In 2015 the FSM Department of Resources and Development and each of the State Governments adopted the Protected Areas Network Policy, establishing a nationwide Protected Areas Network. The Protected Areas Network is designed to facilitate the national government in assisting states in the protection of significant areas of biodiversity, key habitats, and other valuable resources that are important to the future stability and health of the FSM. The Protected Areas Network Policy establishes procedures for the Management Units of protected area sites to apply to join the Protected Area Network and outlines the benefits of membership in the Protected Areas Network, including access to technical and financial assistance.

The FSM's Protected Areas Network augments efforts at the state, municipal, and community levels throughout the country to achieve conservation goals, which broadly reflect the country's participation in the Micronesia Challenge and the United Nations Convention on Biological Diversity. Funding for the operation of the FSM's Protected Areas Network comes from a combination of national government allocations, state financial and in-kind support, and earnings from the FSM's Micronesia Challenge Endowment Fund.

Actors within the FSM are evaluating additional funding streams, such as setting aside a portion of revenue from the sale of fishing licenses, portions of fines collected from marine and terrestrial violations, options to establish payments for ecosystem services, such as tourism fees, conservation easements, revolving funds, interest earnings from other trust funds, and support from regional and international development partners.

The Government of the FSM may decide to allocate resources to the country's Endowment fund at any time for a variety of reasons, including but not limited to: 1) leveraging additional investment from local and international donor organizations; 2) investing in FSM Micronesia Challenge Endowment Fund to reach the target level, and/or; 3) increasing the amount of investment earnings the fund generates.

## **1.3 Contents**

This FSM Country Program Strategy outlines the following:

- The funding priorities for investment earnings from the FSM's Micronesia Challenge Endowment Fund

- Disbursement guidelines for what the Endowment fund investment earnings will support
- The governance structure for managing the Endowment fund

## **SECTION 2: FUNDING PRIORITIES**

The funding priorities for the FSM's Micronesia Challenge Endowment Fund reflect the needs of the country's Protected Areas Network and the capitalization of the Endowment fund itself, in order to provide perpetual support to help sustain the FSM's biodiversity resources for the people of the FSM. The specific near-term priorities for the endowment funding therefore are, in order of priority:

### **2.1 Build the FSM's Micronesia Challenge Endowment Fund to the target level**

The FSM Government's near-term priority for the endowment is to reach the target level of \$29 million by:

- Reinvesting, all or a portion of, the investment earnings in the Endowment fund
- Contributing additional funds through government allocations to the Endowment fund
- And/or fundraising from development partners

The MCT Board of Trustees, which is ultimately responsible for the management and investment of the endowment assets of the FSM's Endowment fund, and the Micronesia Challenge Steering Committee, which oversees regional coordination and implementation of the Micronesia Challenge, support the FSM Government in this process. The FSM Government is working to reach this target by 2020 if not sooner.

### **2.2 Fund, to the extent possible, the operation of FSM's Protected Areas Network member-sites**

As outlined in this Country Program Strategy and in-line with the Endowment's objective, the FSM government intends to use the majority of available investment income to support the implementation of annual work-plans for the country's Protected Areas Network member sites. These allocations are to be based on a transparent, consistent, and reoccurring annual budget process as described in the FSM's National Protected Areas Policy, subject to the availability of investment income.

### **2.3 Fund other projects that support the FSM's Protected Areas Network**

Remaining available investment income from the Endowment fund may also be used for projects that support the FSM's Protected Areas Network, as proscribed in the FSM's

Protected Areas Network Policy. All such projects will be based on a competitive grant cycle and are subject to the criteria and procedures included in the FSM's Protected Areas Network Policy.

Such projects may include supporting the development of new Protected Areas Network sites during the application process for membership in the Protected Areas Network, financing training or capacity building activities targeting potential and/or new member sites, and training, capacity building, monitoring, research, supportive policy development and implementation (e.g. fisheries reform, land use planning outside of protected area sites), or education activities beyond the scope of work of member sites' management and annual work plans.

### **SECTION 3. DISBURSEMENT GUIDELINES**

This section describes the composition of funds available to be disbursed according to this Country Program Strategy. This Section also includes guidelines for percentage allocation of available funds to support the FSM's Protected Areas Network. The Protected Areas Network Technical Committee, which is defined and described in the FSM's Protected Areas Network Policy, may, in conjunction with the Secretary of the Department of Resources and Development and the State Micronesia Challenge Focal Points, amend these guidelines from time to time. This Section also outlines restrictions on the use of the Endowment's investment income as proscribed in the MCT Investment Policy Statement.

The annual investment income allocation cycle to fund in whole or in part the implementation of activities within Protected Areas Network member sites and the competitive grant pool for other projects are governed by the Protected Areas Network Policy and the FSM Protected Areas Network Operations Manual.

The supply of annual funds is based on three elements:

- Interest income generated by the Endowment fund in the previous year
- Any donations or Government allocations to the Endowment fund
- Any additional funding available to the Protected Areas Network

Once the FSM Government meets its Phase I funding commitments for the FSM's Endowment fund, the Endowment is intended to fund, to the extent possible, the operation of FSM's Protected Areas Network member-sites as well as through a competitive grant process fund to other projects that support the FSM's Protected Areas Network.

The below percentages are guidelines for the allocation between these funding priorities, described in Section 2 above.

- 90 - 100% for the Annual Budget Cycle to fund the implementation of work according to workplans for Protected Areas Network member sites
- Up to 10% for competitive grants for projects in support of the FSM's Protected Areas Network

This Country Program Strategy includes the following restriction in accordance with the MCT Investment Policy:

- Spend or distribute no more than 5% (five percent) of a three year moving average of the FSM Micronesia Challenge Endowment Fund's capital value.

The purpose of a three year moving average is to smooth out the rate caused by market volatility and consequently budget allocations over time. The purpose of restrained payout percentage is to avoid jeopardizing the Endowment's value over time, while still allowing for increase during sustained periods of prosperity. Any surplus will be reinvested into the Endowment fund capital to upgrade the capacity of the FSM's Micronesia Challenge Endowment Fund to produce higher revenues in subsequent years.

#### **SECTION 4: GOVERNANCE STRUCTURE**

The following entities are involved in the management of the FSM's Protected Areas Network, as relates to the FSM Micronesia Challenge Endowment Fund:

- The FSM Department of Resources and Development
- FSM Protected Areas Network Technical Committee
- The Micronesia Conservation Trust
- Recipients/awardees of Endowment Funds

##### **4.1 The FSM Department of Resources and Development**

The Department of Resources and Development is the primary agency responsible for the FSM's Protected Areas Network. The Department manages the application process for sites to join the National Protected Areas Network, provides access to technical assistance, and supports the process of making funding decisions in conjunction with the Protected Areas Network Technical Committee.

As such, the Department of Resources and Development will work closely with the National Protected Areas Network Technical Committee, and MCT during the disbursement of Endowment funds associated with the Annual Budget Cycle and possible competitive grant process described in Section 3 Disbursement Guidelines. Specifically the Department of Resources and Development is responsible for:

Based on information provided by MCT, the Secretary will determine on an annual basis prior to the Annual Funding Cycle how much, if any, of the 5% investment income will

be made available for disbursement, or reinvested into the FSM Micronesia Challenge Endowment Fund.

- The amount budgeted for each year is to reflect Section 2 Funding Priorities, which may include re-investing all or a portion of available investment income back into the Endowment, as well as the stipulation that no more than 5% (five percent) of a three year moving average of the Endowment fund's capital value may be spent or distributed during an annual period
- Issuing directives from the Secretary of the Department of Resources and Development, to MCT to disperse funds to the Management Units of Protected Areas Network member sites based on the results of the Annual Budget Cycle as decided by the Protected Areas Network Technical Committee
- Issuing directives from the Secretary of the Department of Resources and Development to MCT to disperse funds for competitively selected grant awards for other projects as decided by the Protected Areas Network Technical Committee
- Collecting and housing information from Protected Areas Network sites, including annual financial reports, Management Plans, and data from monitoring and research
- Serving as the link between the FSM Protected Areas Network Technical Committee and MCT
- Providing access to technical assistance to Protected Areas Network member sites to build their capacity to submit budgets in accordance with the procedures for the Annual Budget Cycle
- Providing access to technical assistance to Protected Areas Network member sites to build their capacity to fulfill financial reporting requirements
- Report progress to the FSM and State Leadership

#### **4.2 FSM Protected Areas Network Technical Committee**

The FSM Protected Areas Network Technical Committee, which includes representatives from each of the FSM's four states, is responsible for making all funding decisions during the Annual Budget Cycle and determining competitive project awards, if any. See the Protected Areas Network Policy for more information about the Technical Committee and the procedures for funding decisions. As specifically relates to the FSM's Micronesia Challenge Endowment fund, the Technical Committee has the following responsibilities:

- Taking into consideration the available amount of investment income from the Endowment, as reported by MCT, evaluate and make funding allocation decisions during the Annual Budget Cycle

- Taking into consideration the results of the Annual Budget Cycle, and the remainder, if any, of investment income, determine whether or not to open a competitive solicitation process for other projects in support of the FSM's Protected Areas Network
- Should the Technical Committee decide to open a competitive solicitation, the Technical Committee is then responsible for evaluating project proposals and making award decisions

### **4.3 Micronesia Conservation Trust**

The FSM Government has nominated and accepted MCT as the administrator of the FSM's Micronesia Challenge Endowment Fund. As such, the FSM Government acknowledges and accepts that the FSM Micronesia Challenge Endowment Fund will be administered in accordance with the MCT investment policy, MCT's operational requirements and procedures.

The MCT Board of Trustees is ultimately responsible for the management and investment of the endowment assets of the FSM's Micronesia Challenge Endowment fund. As described in the MCT Investment Policy, consistent with their fiduciary responsibilities, the MCT Board of Trustees will prudently manage the FSM Endowment fund's investments with the general goal of increasing the financial capacity of the Endowment fund and minimizing the risk of loss, all while using safe, legal, and ethical investment vehicles.

MCT's roles and responsibilities include:

- Monitoring performance and ensuring consistency with the goals of the FSM Protected Areas Network and the MCT Investment Policy
- Sharing information about the performance of the Endowment fund with the Department of Resources and Development
- MCT, in coordination with the Secretary, will determine on an annual basis prior to the Annual Funding Cycle how much, if any, of the 5% investment income will be made available for disbursement, or reinvested into the Endowment Fund
- Upon receipt of directive(s) from the Secretary of the Department of Resources and Development, releasing endowment funds to Management Units as part of the Annual Budget Cycle. Prior to releasing any funds, MCT and the recipient will enter into a grant agreement in accordance with all applicable MCT policies and procedures
- Should the Technical Committee decide to hold a competitive solicitation process, and upon receipt of a directive from the Secretary of the Department of Resources and Development, draft and issue solicitations for proposals for other projects in support of the FSM's Protected Areas Network

- Collect all received applications for competitive funding and submit them to the Coordinator to initiate review and decision by the Technical Committee
- Oversee the implementation of all agreements issued that include Endowment funds in accordance with MCT policies and procedures
- Maintaining all project implementation and financial records related to the FSM's Micronesia Challenge Endowment-funded agreements, in accordance with MCT policies and procedures for grantee performance monitoring and reporting

#### **4.4 Recipients/awardees of Endowment Funding**

All recipients/awardees of funding from the FSM's Micronesia Challenge Endowment Fund are required to keep financial records and submit at least annual reports documenting activities, results, and expenditures to MCT. In addition, recipients are responsible for adhering to all requirements for implementation and reporting as set in grants/contracts with MCT.

### **SECTION 5. RECORDKEEPING, MONITORING AND EVALUATIONS**

#### **5.1 Recordkeeping Practices**

This Section outlines the recordkeeping requirements related to the FSM's Micronesia Challenge Endowment Fund. Please see the FSM Protected Areas Network Policy for a description of the recordkeeping practices for the operation of the Network itself.

The Department of Resources and Development will maintain records of:

- All funding requests received as part of the Annual Budget Cycle from Protected Areas Network member sites
- All applications for competitive funding received
- All funding decisions made by the Protected Areas Network Technical Committee
- Meeting minutes from the Technical Committee's Annual Budget Cycle discussions and evaluations of competitive proposals received.

These records may be made available to the public upon request.

MCT, as the administrator of the FSM Micronesia Challenge Endowment fund, will maintain the following records:

- All financial records related to Endowment fund transactions in accordance with MCT operational policies and procedures and the MCT Investment Policy
- All disbursements made from the Endowment fund to recipients/grantees of the Annual Budget Cycle and any competitive awards
- All performance and financial records from recipients/grantees of Endowment funds

These records will be made available to the Department of Resources and Development and the FSM Protected Areas Network Technical Committee.

### **5.1.a Annual Audit**

Each year MCT hires an internationally recognized accounting firm to conduct an annual audit by March 31 of the next year. The auditing firm has full access to all MCT financial records, including transactions related to the FSM Micronesia Challenge Endowment Fund. Audit reports include audited financial statements for the entire organization, including Statement of Position, Statement of Activities, Statement of Cash Flows, and Statement of Functional Expenses. In addition the auditor provides a Management letter with recommendations, as needed to MCT Executive Secretariat and Board related to improving the accounting system, internal controls, and financial planning. Audit adjustments and recommendations will be implemented in a timely manner, and all audit findings related to the FSM Micronesia Challenge Endowment Fund will be shared with the Department of Resources and Development.

### **5.1.b Annual Report**

No more than 60 days following the end of each fiscal year, MCT will produce an annual report and provide it to the Department of Resources and Development and the FSM Protected Areas Network Technical Committee. As determined by the Secretary of the Department of Resources and Development, annual reports may also be shared with donors to the FSM Micronesia Challenge Endowment Fund. This annual report will include the following information:

- Summary of annual performance of the FSM's Micronesia Challenge Endowment Fund
- List of all Protected Areas Network member sites that received Endowment funds as part of the Annual Budget Cycle and highlights of activities implemented as a result
- List of projects financed with Endowment funds as a result of the competitive grants cycle, if any, and results of these projects
- An evaluation of key progress made during the year towards the objectives of the FSM Protected Areas Network and the identification of any challenges

- As required, identification and analysis of additional funding, legislation, or other resources required to support sustainable financing of the Protected Areas Network

## **5.2 Monitoring and Evaluations**

All monitoring and evaluations of the performance of the FSM Endowment fund are to be conducted in accordance with the MCT Investment Policy.

Monitoring and evaluations of the performance of recipients/awardees of FSM Endowment funds are to be conducted in accordance with the FSM's Protected Areas Network Policy and MCT's policies and procedures.