



Increased renewable energy penetration micronesia

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The project aims to: Increase electricity access, in the state of Chuuk; Scale-up ...

WASHINGTON, December 7, 2018 - The World Bank's Board of Executive Directors has approved US\$30 million for the Federated States of Micronesia (FSM)'s Sustainable Energy Development and Access Project, which supports efforts to increase access to electricity, while improving quality of delivery and reducing the reliance on fossil fuels for generation.

The project is consistent with FSM's National Energy Policy and Energy Master Plan and complements the World Bank-supported Energy Sector Development Project approved in 2014 both of which highlight the need for a more reliable and sustainable energy sector, promoting equitable access to energy across the country and increasing the share of renewable generation. The project will be implemented by the four state utility companies, the state governments and the FSM National government.

"We are pleased to deepen our partnership with the World Bank in our energy sector, through this project that will see more of our people get access to electricity, improve the quality of electricity supply, and help us achieve a greener electricity sector," said Marion Henry, Secretary of Resources and Development. "We are also working to improve the management of our energy utilities through more efficient operation and maintenance, and sector regulation, while also exploring opportunities for the private sector in electricity generation and supply."

The Federated States of Micronesia is made of up of 74 inhabited islands across the states of Pohnpei, Kosrae, Chuuk and Yap, with the population of more than 104,000 reliant mostly on fossil fuels such as diesel for electricity, making the nation highly vulnerable to petroleum price volatility and shocks. Approximately 76 percent of households in Micronesia have some form of electrification, however access rates vary widely among states; Kosrae and Pohnpei have a 95 percent electrification rate while only 27 percent of Chuuk's population have access to electricity.

"The World Bank is committed to supporting the Federated States of Micronesia in its long-term goal of boosting access to reliable, clean energy, which is essential for economic growth that benefits all Micronesians," said Victoria Kwakwa, the World Bank's Vice President for East Asia and the Pacific, who has been in FSM this week for talks with national and state governments in Chuuk, Kosrae and Yap.

The project is funded through a US\$30 million grant from the International Development Association (IDA), the World Bank's fund for the most in-need countries.

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Foreign direct investment (FDI) is almost nonexistent due to prohibitions on foreign ownership of land and businesses (in specified industries), difficulties in registering companies (the process requires approvals from the state governments as well as the national government), poor private sector contract enforcement, poor protection of minority (foreign) investors' rights, weak courts, and weak bankruptcy processes. In addition, lack of infrastructure, poor health and education systems, the scarcity of commercial flights, and high costs of energy, imported goods and various business services also contribute to the lack of FDI.

Pohnpei State's Legislature amended its laws in September 2018 to reduce requirements on foreign investment. The law specified the business sectors that permit FDI, with the remaining sectors available for Pohnpei citizens only. Domestic capital formation is very low. Commercial banks are classified as foreign entities and their ability to provide commercial loans, especially secured by real estate, is very limited. Banks view all credit to FSM borrowers as essentially unsecured.

Most national political power is delegated to the four states by the FSM Constitution, including regulation of foreign investment and restrictions on leases. Thus, investors must navigate nationwide between five different sets of regulations and licenses. U.S. citizens can live and work in the FSM indefinitely without visas under the Compact but cannot own property on most FSM islands.

FSM voters select national legislators (senators). The national senators then caucus to select the president and vice-president from among the four at-large senators. There are no political parties. On March 7, 2023, President David W. Panuelo lost his bid for the at-large seat for Pohnpei in the FSM Congress, which eliminated his ability to be reelected president for another four-year term. Senators will select a president and vice-president May 11, 2023.

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