

PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA14649

Project Name	Pacific Islands regional Oceanscpe Program - Federated States of Micronesia (P151754)
Region	EAST ASIA AND PACIFIC
Country	Micronesia, Federated States of
Sector(s)	General agriculture, fishing and forestry sector (100%)
Theme(s)	Environmental policies and institutions (25%), Other environment and natural resources management (20%), Other public sector governance (20%), Rural policies and institutions (20%), Regional integration (15%)
Lending Instrument	Investment Project Financing
Project ID	P151754
Borrower(s)	The Federated States of Micronesia
Implementing Agency	National Oceanic Resource Management Authority
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	03-Nov-2014
Date PID Approved/Disclosed	20-Nov-2014
Estimated Date of Appraisal Completion	23-Oct-2014
Estimated Date of Board Approval	22-Dec-2014
Decision	

I. Project Context

Country Context

The Pacific Islands Ocean Region covers some 11 percent of the world's ocean area and is home to 22 small island countries and territories. The economies of Pacific Island countries (PICs), 11 of whom are members of the Bank 1/, are fundamentally shaped by this geography as much as any other feature. Essentially some 9 million people live on hundreds of islands covering roughly 40 million square kilometers of the Earth's surface, compared to approximately 40 million people living in the much smaller area (2.75 million sq. km.) of the Caribbean.

Because of their small size and remoteness, these countries are at risk of volatility and subject to external economic and natural shocks: the Pacific Islands Ocean Region contains one of the highest concentrations of fragile states anywhere in the world. Throughout the region 20 percent of most people in PICs live in poverty or hardship, meaning they are unable to meet their needs. Additionally, across PICs the top 20 percent of the population consumes 6 to 12 times as much as the bottom 20 percent. PICs are also marked by their diversity: the development challenges facing

larger Melanesian countries such as PNG, with 6 million people and extensive natural resources, are very different from those of the most remote Micronesian and Polynesian countries, which in some cases have total populations of less than 10,000 people and very few natural resources other than fisheries.

Despite their diversity, PIC economies throughout the region are in many cases driven by the transboundary ocean and fishery resources that they share. The countries are connected by ocean currents and the living and non-living cargo they carry, which ranges from tiny plankton to charismatic megafauna, not to mention waste and pollutants. The archipelagic nature of most PICs, and their strong reliance on coastal ecosystems for food, weather protection, resilience against shocks, and other services means that they fundamentally depend on healthy ocean environments and resources. In particular, as the threat from climate changes grows throughout the region, including sea level rise and potentially more intense and frequent storm events, maintaining or in some cases restoring healthy ocean environments and resources will be fundamental to building resilience to climatic shocks and longer term changes in region.

Sectoral and institutional Context

Sector Importance. The resources, services and biological diversity of the Pacific Ocean are essential to the economies and development of PICs, as well as being of significant value to the international community. For some Bank member PICs, especially the fishery-dependent small-island states (Federated States of Micronesia, Kiribati, Marshall Islands and Tuvalu) ocean resources such as fish stocks comprise the primary natural resource on which future economic growth will be based. These shared fisheries resources include, among others: (i) oceanic fisheries (largely tuna) that provide the majority of public revenues for a number of PICs; (ii) coastal fisheries that directly sustain rural livelihoods and contribute heavily to food security and national exports in many cases; and (iii) the natural habitats and biodiversity that sustain them.

The region's oceanic fisheries supply much of the world's tuna, with global demand steadily increasing. The wider Western Central Pacific Ocean area produced a record high of 2.6 million tons of tuna in 2012, representing over half of all of the world's tuna catch and yielding revenues at first sale on the order of over US\$6.5 billion. Roughly half of this tuna catch was taken from PIC waters, or some 30 percent of the world's tuna catch. The total first sale value of the tuna caught in PIC waters was estimated to be some US\$4 billion in 2013, of which PICs received roughly 8 percent as a result of access fees paid by largely foreign fleets. Even at this relatively low level of return from what is one of the more profitable fisheries in the world, revenues from sale of access constitute the largest single source of public revenues for a number of PICs. In addition to revenues from access fees, very little value addition takes place within the region. In many countries the diseconomies of isolation reduce the profitability or competitiveness of the fishing industry, and thus its capacity to pay for access to resources.

The coastal fisheries throughout Pacific Islands Ocean Region play a very different but equally crucial role in PIC economies. Although they do not generate significant amounts of national revenue, they are crucial supporters of local livelihoods, food security and dietary health in all PICs. Fish and seafood are a primary source of animal protein in Pacific Island diets, and in some countries per capita consumption exceeds 100 kg per year (compared to a global average of 16 kg per year). PIC coastal fisheries are for the most part relatively small and localized and support only a few viable (though extremely valuable) export fisheries (for example bêche-de-mer, trochus, and

other specialized products), as well as coral reef fisheries for local consumption that are highly susceptible to over-exploitation. Women are particularly dependent on coastal fisheries for informal economic opportunities including handicrafts.

Both the oceanic and coastal fisheries depend on the natural habitats of the Pacific Ocean to sustain them, including coral reef ecosystems, mangroves and wetlands among others. These habitats also serve the important function of protecting villages and communities from storms and flooding, which are only expected to increase with climate change. Additionally, they are home to some of the world's most significant marine biodiversity. For example in 2012 the Conference of the Parties of the Convention on Biological Diversity named 26 large areas throughout the Western South Pacific as having met the criteria for ecologically or biologically significant marine areas (EBSAs) worldwide, including the Phoenix Islands in Kiribati, the Kadavu and the Southern Lau Region in Fiji, and the Tonga Archipelago.

In the aggregate, the Pacific Ocean's oceanic and coastal fish stocks, and the natural habitats that underpin them, represent a tremendous endowment of shared natural capital throughout the region. Enhancing this natural capital provides a wide range of opportunities to advance the World Bank's twin goals of reducing poverty and boosting shared prosperity in the Pacific Islands. For example, better-managed oceanic fisheries will increase the value of access to this resource that many PICs can sell to foreign fleets in order to generate revenues for public services needed for poverty reduction or to translate into foreign direct investment up the value chain to create job opportunities, while more productive coastal fisheries can support rural livelihoods and food security for many in the bottom 40 percent of income distribution, and both depend on healthy natural habitats.

Key Sector Issues and Institutional Constraints. The current and potential economic benefits that this natural capital asset provides to PICs depend on its underlying environmental status. In many cases the natural capital has been systematically undervalued, and increasingly overdrawn. More specifically, weaknesses in the institutions responsible for managing the use of this natural capital have led to access arrangements which have encouraged overexploitation, failed to provide incentives for conservation and understated the true value of the resource. As a result, the region's fishery resources have generally been underperforming assets, and many show warning signs of overexploitation or are already overexploited – presaging a decline in benefits.

For example, oceanic fisheries hold great economic potential for the Pacific, and particularly the three tuna fisheries: tropical purse seine, tropical long-line and southern long-line fisheries. To date these fisheries are relatively healthy compared to other tuna fisheries throughout the world, due largely to their relative isolation. However, they are now reaching their long-term sustainable limits, and future returns will have to come by earning more from current harvests, rather than increasing them. This is eminently possible, but, because the fish are moving across borders, will require continued collective action from countries to manage the resource.

Similarly, coastal fisheries throughout the region are threatened (and in some case severely impacted) by overfishing and coastal degradation, driven by growing demand for coastal fish products, more efficient fishing technologies, improved distribution channels and market access, and the erosion of customary management regimes due to increasing monetization of local economies. As populations grow, pressure on coastal fishery resources continues to increase and projections indicate that an alternative supply of fish protein (from the more abundant tuna

resources, or from aquaculture) will be needed in many PICs in the coming decades.

Lastly, as an additional pressure on fisheries, natural coastal habitats are increasingly degraded or threatened throughout the region, as a result of coastal development, destructive fishing practices, inadequate watershed management (agriculture and logging), sewage and other forms of pollution from cities, ships and industry, solid waste disposal and mining of coastal aggregates, among others.

Regional and Government Responses to Key Sector Issues and Constraints. While the threats are significant and the trends are negative, the Pacific Ocean and its fisheries resources are still relatively healthy in comparison to other regions of the world, so PICs are well-positioned to be proactive in addressing these challenges. Like the Pacific Ocean, the systems within it are interconnected and interdependent, leading to regional responses to the constraints and opportunities that these natural assets provide. Encouragingly, PIC institutions are adapting to address these issues, in particular through collective action for a more effective management system for the purse seine fishery targeting skipjack tuna (representing over half of the tuna catch in the Pacific). In 2009 the eight countries who are Parties to the Nauru Agreement (PNA) introduced a vessel day scheme (VDS) to manage access to the fishery. It works as follows: each year the PNA countries set the total catch limit needed to maintain a healthy fish stock, and translate that catch limit into individual vessel fishing days, which are allocated to countries by a PNA Office (PNA) 2/ based on an agreed formula, and then the countries sell the days. The vessels days are valuable because they limit catch to sustainable levels of production and this scarcity has value that can be traded. Prior to the introduction of the VDS, PNA countries captured little of the value of the tuna caught in their waters. As a result of introducing the VDS and subsequently a benchmark price, the price of a vessel day increased from US\$1,500 in 2010 to US\$6,000 in 2014, and total revenues to PNA countries increased from US\$60 million in 2010 to an estimated US\$265 million in 2014 (though still less than 10 percent of the value of the catch). This is only the value of access – and not potential additional benefits from local value added to fish products. Nor is this the end of the story – a number of experts believe that the price of vessel days can continue to climb if the system is further strengthened, and this fishery could sustainably return over US\$450 million per year to Pacific Island countries. However for this to happen, compliance with the system will need to be increased, as some countries have exceeded the number of days allotted to them at the expense of the health of the resource, as well as engaged in bi-lateral agreements outside the VDS. Additionally, a similar management system could be introduced for the tropical tuna and southern albacore long-line fisheries, significantly enhancing the value of this natural capital asset and the benefits that it can provide to Pacific Island countries.

To help address the threats to the Pacific Ocean and the natural habitats underpinning these fisheries, at the regional level the PICs have adopted an ‘oceanscape’ approach, aiming to establish and effectively manage multi-use marine areas that reflect the archipelagic nature of the region. Collaborative multi-country conservation arrangements such as the Micronesia Challenge and the Coral Triangle Initiative, as well as national commitments such as Kiribati’s Phoenix Islands Protected Area, and large-scale shark sanctuaries established by Palau, Tokelau and the Marshall Islands provide good examples of such areas, and are potentially valuable platforms for investment in the protection and restoration of critical habitats that support the fisheries. Such initiatives also provide powerful test cases for the use of innovative sustainable financing mechanisms linked to benefits from ocean ecosystem services, many of which may flow beyond national boundaries. At the same time, smaller local initiatives such as those mediated by the Locally Managed Marine

Areas network (LMMA) and other community-conservation NGOs have also delivered significant results in the region.

II. Proposed Development Objectives

The Development Objective of the PROP to strengthen the management of selected Pacific Island oceanic and coastal fisheries, and the critical habitats upon which they depend. This will provide the basis for sustainable and increased economic benefits to the region from this resource. More specifically, the program will strengthen: (i) the national and regional institutions responsible for the management of the oceanic fisheries; (ii) the local and national institutions responsible for the management of the coastal fisheries; and (iii) the institutions responsible for the conservation of the natural habitats that support them. As such, the program will provide a direct contribution to the Bank's twin goals to reduce poverty and boost shared prosperity in the region, as: (i) strengthened and more sustainable management of the tuna fisheries will increase the size of this resource and the value of access to it for foreign investment, which PICs can capture in the form of public revenues re-invested for poverty reduction and/or foreign direct investment in local value addition to expand job opportunities, depending on the local context; (ii) stakeholder-managed coastal fisheries will be better managed and more productive, enhancing rural livelihoods and food security throughout the region and particularly for the bottom 40 percent of income distribution; and (iii) both of these outcomes will depend on healthy ocean habitats to support fisheries.

III. Project Description

Component Name

Component 1: Sustainable Management of Oceanic Fisheries

Comments (optional)

This component aims to help participating Pacific Island countries strengthen the management of the region's purse seine and long-line tuna fisheries. Towards this objective, the component includes both regional and national activities to: (i) strengthen the capacity of national and regional institutions to sustainably manage Pacific Island tuna fisheries; and (ii) ensure an equitable distribution within Pacific Island countries of the benefits of sustainably managed tuna fisheries.

Component Name

Component 2: Sustainable Management of Coastal Fisheries

Comments (optional)

This component aims to support participating countries to sustainably manage defined coastal fisheries, focusing on those with the greatest potential for increased benefits, i.e. coastal fisheries such as bêche-de-mer (BDM) that (i) can generate export earnings for the country, and/or (ii) support livelihoods, food security and dietary health. Towards this objective, this component includes both regional and national activities to: (i) empower stakeholders to sustainably manage targeted coastal fisheries in participating countries; and (ii) link sustainable coastal fish products to regional markets.

Component Name

Component 3: Regional Coordination, Implementation Support, Training and Monitoring and Evaluation

Comments (optional)

This component aims to help identify revenue streams to sustainably finance the conservation of critical habitats that underpin oceanic and coastal fisheries in the region. Towards this objective, the component will include both regional and national activities to establish: (i) Pacific Marine

Conservation Development Financing Mechanisms to support the growing number of large marine protected areas (MPAs) in the region; and (ii) a pilot Pacific Blue Carbon regional program for small to medium scale fishery habitats. The cost and more detail information can be found on the attached PID

Component Name

Regional Coordination, Implementation Support, Training and Monitoring and Evaluation

Comments (optional)

This component aims to provide regional coordination, implementation support and program management, to ensure a coherent approach to program implementation and wide dissemination of results and lessons learned; as well as regional and national implementation support and training as needed for the program to achieve its objectives. Towards this objective, this component includes both regional and national activities to: (i) support a program management unit within FFA for implementation support to participating countries; (ii) share knowledge and outreach globally; (iii) support the Oceanscape Unit within the Pacific Island Forum Secretariat; and (iv) support program management, M&E in each participating country.

IV. Financing (in USD Million)

Total Project Cost:	5.50	Total Bank Financing:	5.50
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			5.50
Total			5.50

V. Implementation

The implementation arrangements for the PROP are as follows:

Regional Level: The Forum Fisheries Agency (FFA, regional implementation agency for the PROP) will establish a Program Support Unit (PSU) to implement regional project activities (financed by the regional IDA grant and a parallel GEF grant), as well as to work with each country on financial management and procurement of activities implemented nationally. More specifically, the PSU will undertake any international procurement activities needed by participating countries on their behalf, as well as support day-to-day implementation and financial reporting as needed. For overall monitoring, FFA will report on progress to the Forum Fisheries Committee (FFC) of Ministers of Fisheries each year.

National Level: Each of the projects will be implemented at the national level by the ministry, department or agency responsible for fisheries in each country, as designated implementing agencies. Each implementing agency will name or recruit a project focal point, who will be responsible for providing summaries of implementation progress and results from the monitoring and evaluation (M&E) to the PSU, to support program-wide monitoring of results. The implementing agency will implement national-level activities, including procurement and financial management for these activities, utilizing funds from a national designated account. The implementing agencies in the first four countries to participate in the PROP area as follows:
 (i) FSM: National Oceanic Resource Management Authority (NORMA);

- (ii) RMI: Marshall Islands Marine Resources Authority (MIMRA);
- (iii) Solomon Islands: Ministry of Fisheries and Marine Resources (MFMR); and
- (iv) Tuvalu: Tuvalu Fisheries Department (TFD).

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36	x	
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

World Bank

Contact: John Virdin
 Title: Sr Natural Resources Mgmt. Spec.
 Tel: 610-431-0278
 Email: jvirdin@worldbank.org

Borrower/Client/Recipient

Name: The Federated States of Micronesia
 Contact: Ms Juliet L. Jimmy
 Title: Assistant Secretary, Department of Finance & Administration
 Tel: 6913202640
 Email:

Implementing Agencies

Name: National Oceanic Resource Management Authority
 Contact: Patrick Mackenzie
 Title: Director
 Tel: 6913202700
 Email:

VIII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>