



GRANT NUMBER D936-FM

Financing Agreement

(Additional Financing for Strengthening Public Financial Management Project)

between

FEDERATED STATES OF MICRONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION



GRANT NUMBER D936-FM

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between the FEDERATED STATES OF MICRONESIA ("Recipient") and the INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of assisting in financing the project described in Schedule 1 to this Agreement ("Project"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to three million and six hundred thousand Special Drawing Rights (SDR 3,600,000) ("Financing"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Payment Dates are January 15 and July 15 in each year.
- 2.05. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions and, Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 4.02. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is its Secretary of Finance and Administration.
- 5.02. For purposes of Section 11.01 of the General Conditions: (a) the Recipient's address is;

Department of Finance and Administration
P.O. Box PS158
Palikir
Pohnpei
Federated States of Micronesia; and

- (b) the Recipient's Electronic Address is:

E-mail: dofa@dofa.gov.fm.

5.03. For purposes of Section 11.01 of the General Conditions: (a) The Association's address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Association's Electronic Address is:

Telex:	Facsimile:	E-mail:
248423 (MCI)	1-202-477-6391	cdpngpacific@worldbank.org

AGREED as of the Signature Date.

FEDERATED STATES OF MICRONESIA

By



Authorized Representative

Name: Eugene Amor

Title: Secretary, FSM Finance & Administration

Date: 1/21/2022

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Stephen Ndegwa

Name: _____

Title: Country Director, PNG & Pacific Islands

Date: 18-Jan-2022

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. **Institutional Arrangements**

Project Steering Committee

1. The Recipient shall provide oversight and strategic guidance for Project implementation through the Project Steering Committee.
2. To this end, the Recipient shall maintain until the Closing Date, the Project Steering Committee, chaired by its Secretary of Finance and Administration (or such other person which the Association has confirmed in writing to the Recipient as acceptable to the Association), and comprised of the directors, or their representatives, of each of the State Finance Offices, and with an institutional framework, functions, and resources satisfactory to the Association as shall be required for the Project.
3. The Recipient shall provide technical advice and recommendations to the Project Steering Committee through the Intergovernmental PFM Working Group in accordance with the procedures detailed in the Project Implementation Manual.
4. To this end, the Recipient shall maintain until the Closing Date, the Intergovernmental PFM Working Group, chaired by the Assistant Secretary of Treasury (or such other person which the Association has confirmed in writing to the Recipient as acceptable to the Association), and comprised of members of the respective Technical Working Groups and other technical leads from, *inter alia*, the offices of the National Government and State Governments with finance, budget and information technology functions, and with an institutional framework, functions, and resources satisfactory to the Association, as shall be required for the Project.

Project Implementation Unit

5. The Recipient shall maintain until the Closing Date the Project Implementation Unit within the National Department of Finance and Administration with mandate, composition, and resources satisfactory to the Association, which shall be responsible for providing day to day management of Project implementation.

Without limitation to the generality of the foregoing, the Project Implementation Unit shall be supported by specialists within the Central Implementation Unit, and shall include the following key staff, each with terms of reference, qualifications, and experience satisfactory to the Association: (a) a Project manager; (b) a Project assistant; and (c) any additional technical specialists as may be needed.

Central Implementation Unit

6. The Recipient shall maintain until the Closing Date the Central Implementation Unit with mandate, composition, and resources satisfactory to the Association, which shall be responsible for providing fiduciary, monitoring and coordination of development partner funded projects. Without limitation to the generality of the foregoing, the Central Implementation Unit shall include staff performing the following key functions, each with terms of reference, qualifications, and experience satisfactory to the Association: (a) program management; (b) procurement; (c) safeguards; (d) communications; (e) monitoring and evaluation; and (f) financial management.

B. Project Implementation Manual

1. The Recipient shall update, no later than two (2) months after the Effective Date, and thereafter adopt, the Project Implementation Manual, in form and substance acceptable to the Association, setting forth the arrangements and procedures for implementation of the Project, including: (a) the institutional arrangements for day to day execution of the Project; (b) the arrangements for the implementation of the Environmental and Social Management Plan; (c) budgeting, disbursement, and financial management arrangements; (d) procurement arrangements and the Procurement Plan; (e) Project monitoring, reporting, and evaluation arrangements; (f) performance indicators for the Project; (g) the division of responsibilities and cooperative arrangements between the National Department of Finance and Administration, State Finance Offices, Project Steering Committee, Intergovernmental PFM Working Group, Technical Working Groups, Project Implementation Unit, and Central Implementation Unit; and (h) the procedures and arrangements for identifying and involving additional public offices as may be required for the Project.
2. The Recipient shall ensure that the Project is implemented in accordance with the provisions of the Project Implementation Manual.
3. The Recipient shall obtain from the Association written agreement prior to assigning, amending, abrogating, or waiving the Project Implementation Manual,

or any provision thereof, or permitting any entity participating in the implementation of the Project to do so.

4. In the event of any conflict between the provisions of the Project Implementation Manual and those of this Agreement, the provisions of this Agreement shall prevail.

C. Safeguards

1. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Environment and Social Management Plan ("ESMP").
2. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall, in accordance with terms of reference satisfactory to the Association: (a) monitor the status of compliance with the ESMP; and (b) prepare and furnish to the Association, as part of each Project Report, a report on the results of such monitoring activities during the period covered by said Project Report, giving details of:
 - (a) measures taken in furtherance of the ESMP;
 - (b) conditions, if any, which interfere or threaten to interfere with the effective implementation of the ESMP; and
 - (c) remedial measures taken or required to be taken to address such conditions.
3. The Recipient shall afford the Association a reasonable opportunity to review the reports prepared under paragraph 2 of this Part C, and thereafter shall carry out with due diligence all remedial measures agreed with the Association so as to ensure the proper implementation of the Project in accordance with the ESMP.
4. The Recipient shall ensure that:
 - (a) all terms of reference for any technical assistance or studies carried out under the Project are consistent with the Association's environmental and social safeguard policies, as well as the Recipient's own laws relating to the environment and social aspects; and
 - (b) in drafting any regulations, guidelines, corporate procedures, policies, standards or labelling and carrying out capacity building activities under the Project, due attention is given to said policies and laws.

5. In the event of a conflict between the provisions of any of the ESMP and those of this Agreement, the provisions of this Agreement shall prevail.

D. Annual Work Plans and Budgets

1. The Recipient shall prepare and furnish to the Association not later than:
 - (a) four (4) months after the Effective Date (or such later date as the Association may agree); and
 - (b) August 31 of each year for every subsequent year during the implementation of the Project (or such later date as the Association may agree);

for the Association's no-objection, an Annual Work Plan and Budget containing all eligible Project activities and corresponding expenditures, inclusive of Operating Costs, proposed to be included in the Project in the Recipient's following calendar year, including a specification of the source or sources of financing for all such expenditures, and environmental and social safeguard measures taken or planned to be taken in accordance with the provisions of Section I.C of this Schedule.

2. The Recipient shall ensure that the Project is implemented in accordance with the Annual Work Plan and Budget accepted by the Association for the Recipient's respective calendar year; provided, however, that in the event of any conflict between the Annual Work Plan and Budget and the provisions of this Agreement, the provisions of this Agreement shall prevail.
3. The Recipient shall not make or allow to be made any change to the Annual Work Plan and Budget without prior no-objection in writing by the Association.

Section II. Project Monitoring, Reporting and Evaluation

1. The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

2. Mid-Term Review

The Recipient shall: (a) not later than two (2) years after the Effective Date, or such other date as the Association may agree in writing, prepare and furnish to the

Association a mid-term report, in such detail as the Association shall reasonably request, documenting progress achieved in the carrying out of the Project during the period preceding the date of such report, taking into account the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section II, and setting out the measures recommended to ensure the continued efficient carrying out of the Project and the achievement of its objective during the period following such date; and (b) review with the Association such mid-term report, on or about the date one month after its submission, carry out a mid-term review of the Project, and thereafter take all measures required to ensure the continued efficient implementation of the Project and the achievement of its objectives, based on the conclusions and recommendations of the mid-term report and the Association's views on the matter.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consulting services, Training and Workshops, and Operating Costs for the Project.	3,600,000	100%
TOTAL AMOUNT	3,600,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date.
2. The Closing Date is March 25, 2025.

APPENDIX

Section I. Definitions

1. "Anti-Corruption Guidelines" means, for purposes of paragraph 5 of the Appendix to the General Conditions, the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
2. "Category" means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
3. "Central Implementation Unit" means the Recipient's Central Implementation Unit, referred to in Section I.A.6 of Schedule 2 to this Agreement, within the National Department of Finance and Administration.
4. "Chuuk State Department of Administrative Services" means the Department of Administrative Services of the Chuuk State Government, established pursuant to the Chuuk State Executive Branch Organization Act of 1990.
5. "Customs and Taxation Administration" means the Recipient's Customs and Taxation Administration within the National Department of Finance and Administration, or any successor thereto.
6. "Environmental and Social Management Plan" or "ESMP" means the environmental and social management plan for the Project, dated March 24, 2018, prepared and adopted by the Recipient which sets forth details of measures to manage potential environmental and social risks and mitigate, reduce and/or offset adverse environmental and social impacts associated with the implementation of activities under the Project, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, its terms, and including a pest management plan, as the same may be amended and supplemented from time to time with the prior agreement of the Association.
7. "Financial Management Information System" and "FMIS" means the centralized system referred to in Part 2 of Schedule 1 to this Agreement, comprised of the computer programs, databases, associated processes, procedures, and technology platforms that enable government finance and accounting staff to carry out their day-to-day operational tasks.

8. "General Conditions" means the "International Development Association General Conditions for IDA Financing, Investment Project Financing", dated December 14, 2018 (revised on August 1, 2020 and April 1, 2021).
9. "Intergovernmental PFM Working Group" means the Recipient's working group, to be established in accordance with Section I.A.4 of Schedule 2 to this Agreement.
10. "Kosrae State Department of Administration and Finance" means the Department of Administration and Finance of the Kosrae State Government established pursuant to the Kosrae State Code, Title 5.
11. "National Department of Finance and Administration" means the Recipient's National Department of Finance and Administration, established pursuant to the Recipient's Financial Management Act 1979, or any successor thereto.
12. "National Government" means the Federal Government of the Federated States of Micronesia.
13. "Operating Costs" means reasonable incremental expenditures incurred on account of Project implementation and based on Annual Work Plans and Budgets approved *ex ante* by the Association, including leasing and/or routine repair and maintenance of vehicles, equipment, facilities and office premises, fuel, office supplies, utilities, consumables, communication expenses (including postage, telephone and internet costs), translation, printing and photocopying expenses, bank charges, publications and advertising expenses, insurance, meeting expenses, travel, subsistence and lodging expenses, administrative staff, project implementation support personnel, and other administrative costs directly related to the Project, exclusive of salaries of any member of the Recipient's (or any of its sub-divisions) civil service, sitting fees, bonuses, fees and honoraria or equivalent payments.
14. "Pohnpei State Department of Treasury and Administration" means the Department of Treasury and Administration of the Pohnpei State Government, established pursuant to the Pohnpei State Financial Organization & Management Act 1987, as amended.
15. "Original Project" means the project described under Schedule 1 of the Financing Agreement signed on June 21, 2018, for Grant D324-FM.
16. "Procurement Regulations" means, for purposes of paragraph 87 of the Appendix to the General Conditions, the "World Bank Procurement Regulations for IPF Borrowers", dated November 2020.

17. "Procedures Manuals" means the Recipient's manuals to be updated or prepared under Part I(iii) of the Project, that sets forth the functional roles and responsibilities in the State Governments and the National Government which are relevant to the Recipient's financial management and budget execution activities.
18. "Project Implementation Manual" means the manual developed under the Original Project, and to be updated for this Project, setting forth the arrangements and procedures for Project implementation, as per Section 1.B of Schedule 2 to this Agreement.
19. "Project Implementation Unit" means the Recipient's Project implementation unit referred to in Section 1.A.5 of Schedule 2 to this Agreement
20. "Project Steering Committee" means the Recipient's committee referred to in Section 1.A.1. of Schedule 2 to this Agreement, established by the National Government and State Governments at the 2016 Federated States of Micronesia Finance and Budget Conference, held in Kosrae State from November 15-18, 2016.
21. "Signature Date" means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to "the date of the Financing Agreement" in the General Conditions.
22. "State Finance Offices" means, collectively, Yap State Office of Administrative Services, Yap State Office of Planning and Budget, Pohnpei State Department of Treasury and Administration, Kosrae State Department of Administration and Finance, and Chuuk State Department of Administrative Services.
23. "State Governments" means, collectively, the Governments of each State of the Federated States of Micronesia, namely Kosrae State Government, Pohnpei State Government, Chuuk State Government, and Yap State Government.
24. "Technical Working Groups" means the Recipient's FMIS implementation task forces established by Resolution 2016-03 of the 2016 Federated States of Micronesia Finance and Budget Conference, held in Kosrae State from November 15-18, 2016.
25. "Training and Workshops" means activities to be carried out by the Recipient, based on terms of reference acceptable to the Association, for facilitating, conducting, and/or undertaking domestic and overseas training and workshops under the Project, the reasonable costs of which include: costs of training or workshop materials; equipment and venue rental; and per diem, accommodation,

and transportation for those attending the training or workshop, and honoraria for trainers.

26. "Yap State Office of Administrative Services" means the Office of Administrative Services of the Yap State Government, established pursuant to the Yap State Executive Branch Reorganization Act, Yap State Code, Title 3.
27. "Yap State Office of Planning and Budget" means the Office of Planning and Budget of the Yap State Government, established pursuant to the Yap State Executive Branch Reorganization Act, Yap State Code, Title 3.