
GRANT NUMBER D779-FM

Financing Agreement

**(Federated States of Micronesia Prioritized Road Investment and Management
Enhancements Project
under the Pacific Climate Resilient Transport Program)**

between

FEDERATED STATES OF MICRONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

GRANT NUMBER D779-FM

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between FEDERATED STATES OF MICRONESIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). 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 twenty seven million eight hundred thousand Special Drawing Rights (SDR 27,800,000) (“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 1 and July 1 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 and the Program. To this end, the Recipient shall carry out the Project through the

Department of Transportation, Communications, and Infrastructure 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 responsible for finance.
- 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 State
Federated States of Micronesia 96941; and

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

E-mail:
fsmsafa@mail.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

Eugene Amor

Authorized Representative

Eugene Amor

Name: _____

Secretary of Finance & Administration

Title: _____

24-May-2021

Date: _____

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Paul Vallely

Name: _____

Acting Country Director, PNG and Pacific

Title: _____

20-May-2021

Date: _____

SCHEDULE 1

Project Description

The objective of the Project is to improve the climate resilience of the Recipient's road network.

The Project constitutes a phase of the Program and consists of the following parts:

Part 1: Spatial and Sector Planning Tools

- (a) Preparing, implementing and updating a road sector vulnerability assessment and a climate resilient road strategy, and conducting training on the use of the tools developed under such assessment and strategy.
- (b) Establishing and maintaining a climate-informed road asset management system and conducting training on the use of such system.

Part 2: Climate Resilient Infrastructure Solutions

- (a) Carrying out the following priority climate resilient improvement works, including feasibility studies, design, and supervision of such works:
 - (i) improving the Lelu causeway in the Recipient's state of Kosrae;
 - (ii) replacing the Awak bridge in the Recipient's state of Pohnpei;
 - (iii) improving the airport to Pou Bay bridge road in the Recipient's state of Chuuk; and
 - (iv) replacing two (2) steel and concrete composite bridges in the Recipient's state of Yap.
- (b) Carrying out works to enhance the resilience of the Recipient's road network to climate change impacts and natural hazards, as such works shall be selected and agreed by the Recipient and the Association based on the recommendations from the assessment and strategy prepared under Part 1(a) of the Project, including feasibility studies, design and supervision of such works.

Part 3: Strengthening the Enabling Environment

- (a) Conducting a review of the institutional arrangements, key policies, legislation, regulations, financing mechanisms and roles and responsibilities of the principal stakeholders involved in the Recipient's road sector, and formulating recommendations to strengthen such arrangements.
- (b) Providing technical and operational assistance to the Recipient on Project management and implementation, including, *inter alia*, environmental, and social management.
- (c) Providing technical assistance to improve road safety.
- (d) Carrying out activities to improve the planning, management and regulation of climate resilient road network, and to address gender employment gaps and sexual exploitation and abuse and sexual harassment concerns related to Project implementation.
- (e) Carrying out a pilot program to address gaps in the possession of a driver's license by women and persons with disabilities, including, *inter alia*, carrying out driver's education and safety courses and outreach programs on licensing for women; conducting training to upskill staff engaged in such pilot program; and conducting beneficiary survey, focusing on gender and persons with disabilities, to assess impacts of the major climate resilient works carried out under the Project and inform such pilot program.
- (f) Providing technical assistance to strengthen the Recipient's capacity to address emerging priority issues that could have an impact on the Recipient's ability to manage a climate resilient road network.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

Project Steering Committee

1. The Recipient shall provide oversight, policy direction, coordination, and support for Project implementation through the Project Steering Committee in accordance with the provisions of this Agreement, the Project Implementation Agreements, and the Project Operations Manual.
2. To this end, the Recipient shall, by not later than three (3) months after the Effective Date, establish and thereafter maintain throughout the Project implementation period, a Project Steering Committee, chaired by its secretary of the Department of Transportation, Communications and Infrastructure (or their representative), comprised of, *inter alia*, the secretary (or their representative) of the Department of Finance and Administration and representatives of the State Governments appointed by the respective state governor, and with an institutional framework, functions, and resources required for the implementation of the Project, in form and substance satisfactory to the Association.

Project Implementation Unit

3. The Recipient shall, by not later than three (3) months after the Effective Date, establish and thereafter maintain throughout the Project implementation period, a Project Implementation Unit within the Department of Transportation, Communications and Infrastructure, with mandate, composition and resources satisfactory to the Association, which shall be responsible for day-to-day management and implementation of the Project. Without limitation to the generality of the foregoing, the Project Implementation Unit shall at all times: (a) be led by a Project manager; (b) include, at a minimum, a Project officer; and (c) be supported by specialists from the Central Implementation Unit as described in Section I.A.4 of this Schedule 2; each with terms of reference, qualifications and experience satisfactory to the Association.

Central Implementation Unit

4. The Recipient shall maintain, throughout the Project implementation period, the Central Implementation Unit, with mandate, composition and resources satisfactory to the Association, which shall be responsible for, *inter alia*, providing environmental and social, procurement, financial management, monitoring and evaluation and communications support for the Project. Without limitation to the generality of the foregoing, the Central Implementation Unit shall include staff, each with terms of reference, qualifications and experience satisfactory to the Association, performing the following key functions in support of Project: (a) Project management; (b) procurement; (c) environmental and social standards; (d) outreach and communications; (e) monitoring and evaluation; and (f) financial management.

B. Project Implementation Agreements

1. The Recipient shall, prior to the carrying out of any activities under Part 2 of the Project in a Recipient's state, enter into and thereafter maintain throughout the Project implementation period, a Project Implementation Agreement with the State Government of such state on terms and conditions satisfactory to the Association, which shall include, *inter alia*, the State Government's obligation to facilitate the implementation of the Project activities within its territory in accordance with the provisions of this Agreement, the Project Operations Manual and the Environmental and Social Commitment Plan ("ESCP").
2. Each State Government shall designate and thereafter maintain throughout the Project implementation period, a focal point responsible for, *inter alia*, coordination of the Project related activities within the respective Recipient's state.
3. The Recipient shall carry out and exercise its respective rights under the Project Implementation Agreements in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, or waive any of the Project Implementation Agreements or any of their provisions.
4. In case of a conflict between the provisions of a Project Implementation Agreement, the Project Operations Manual and this Agreement, those of this Agreement and the Project Operations Manual shall prevail, in that order of priority.

C. Project Operations Manual

1. The Recipient shall, by not later than three (3) months after the Effective Date, adopt a Project Operations Manual, which shall set forth, *inter alia*, the following detailed arrangements and procedures for the implementation of the Project: (a) institutional arrangements for the day-to-day execution of the Project; (b) the preparation and successive updates of the Procurement Plan and its implementation arrangements; (c) implementation arrangements for the ESS Instruments; (d) budgeting, disbursement, auditing and financial management arrangements; (e) Project monitoring, reporting, evaluation and communication arrangements; and (f) any other administrative, financial, technical and organizational arrangements and procedures as shall be necessary for the implementation of the Project and the achievement of its development objective.
2. The Recipient shall ensure that the Project is carried out in accordance with the Project Operations Manual, and except as the Association may otherwise agree in writing, the Recipient shall not amend or waive, or permit to be amended or waived, any provision of the Project Operations Manual.
3. In the event of any conflict between the provisions of the Project Operations Manual 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 by not later than:
 - (a) four (4) months after the Effective Date (or such later date which, after consideration of the reasons for the delay, the Association has confirmed in writing is acceptable to the Association in its sole discretion); and
 - (b) July 1 of each year for every subsequent year during the implementation of the Project (or such later date which, after consideration of the reasons for the delay, the Association has confirmed in writing is acceptable to the Association in its sole discretion);

for the Association's review and no-objection, an annual work plan and budget (once the Association has provided its no-objection, an "Annual Work Plan and Budget"), which shall, *inter alia*: (i) list all activities (including Training and activities incurring Operating Costs) proposed to be carried out under the Project during the Recipient's following fiscal year; (ii) provide a budget for their

financing (with a financial plan specifying all sources of financing including the Financing and any other resources provided by the Recipient); and (iii) describe the environmental and social measures taken or planned to be taken in accordance with the provisions of Section I.E of this Schedule 2.

2. The Recipient shall ensure that the Project is implemented in accordance with the Annual Work Plans and Budgets; provided, however, that in the event of any conflict between the Annual Work Plans and Budgets and the provisions of this Agreement, the provisions of this Agreement shall prevail.
3. Any amendment to an Annual Work Plan and Budget needed during the fiscal year covered by such plan shall be subject to the prior written no-objection of the Association.

E. Environmental and Social Standards

1. The Recipient shall ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Association.
2. Without limitation upon Section I.E.1 above, the Recipient shall ensure that the Project is implemented in accordance with the ESCP, in a manner acceptable to the Association. To this end, the Recipient shall ensure that:
 - (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, as provided in the ESCP;
 - (b) sufficient funds are available to cover the costs of implementing the ESCP;
 - (c) policies and procedures are maintained, and qualified and experienced staff in adequate numbers are retained to implement the ESCP, as provided in the ESCP; and
 - (d) the ESCP, or any provision thereof, is not amended, repealed, suspended, or waived, except as the Association shall otherwise agree in writing, as specified in the ESCP, and ensure that the revised ESCP is disclosed promptly thereafter.
3. In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.

4. The Recipient shall ensure that:
 - (a) all measures necessary are taken to collect, compile, and furnish to the Association through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the ESCP and the environmental and social instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out, *inter alia*: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and
 - (b) the Association is promptly notified of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, in accordance with the ESCP, the environmental and social instruments referenced therein and the Environmental and Social Standards.
5. The Recipient shall establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Association.
6. The Recipient shall ensure that all bidding documents and contracts for civil works under the Project include the obligation of contractors, subcontractors and supervising entities to: (a) comply with the relevant aspects of ESCP and the environmental and social instruments referred to therein; and (b) adopt and enforce codes of conduct that should be provided to and signed by all workers, detailing measures to address environmental, social, health and safety risks, and the risks of sexual exploitation and abuse, sexual harassment and violence against children, all as applicable to such civil works commissioned or carried out pursuant to said contracts.

Section II. Project Monitoring, Reporting and Evaluation

Project Reports

1. The Recipient shall furnish to the Association each Project Report not later than one (1) month after the end of each semester, covering the semester.

Mid-Term Review

2. The Recipient shall carry out, jointly with the Association, not later than three (3) years after the Effective Date, or such other period as may be agreed with the Association, a mid-term review of the Project (“Mid-Term Review”) to assess the status of Project implementation, as measured against the indicators acceptable to the Association, and compliance with the legal covenants included or referred to in this Agreement. Such review shall include an assessment of the following: (a) overall progress in implementation; (b) results of monitoring and evaluation activities; (c) progress on procurement and disbursement; (d) progress on implementation of ESS measures; (e) implementation arrangements and Project staffing; and (f) the need to make any adjustments to the Project to improve performance. To this end, the Recipient shall:
 - (i) prepare and furnish to the Association, at least one (1) month before the date of the Mid-Term Review, a report, in scope and detail satisfactory to the Association and integrating the results of the monitoring and evaluation activities performed pursuant to Section II.1 of this Schedule 2, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and
 - (ii) review jointly with the Association the report referred to in the preceding paragraph and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of such 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: (a) finance Eligible Expenditures; and (b) repay the Preparation Advance; 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, and consulting services, Operating Costs and Training for the Project	27,170,000	100%
(2) Refund of Preparation Advance	630,000	Amount payable pursuant to Section 2.07 (a) of the General Conditions
TOTAL AMOUNT	27,800,000	

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 August 31, 2028.

APPENDIX

Definitions

1. “Annual Work Plan and Budget” means each annual work plan and budget (including related cash forecasts) for the implementation of the Project accepted by the Association, in Section I.D of Schedule 2 to this Agreement; and “Annual Work Plans and Budgets” means, collectively, all such plans and budgets.
2. “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.
3. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
4. “Central Implementation Unit” means the Recipient’s Central Implementation Unit, established within the Department of Finance and Administration, or any successor thereto.
5. “Department of Finance and Administration” means the Recipient’s department responsible for finance, or any successor thereto.
6. “Department of Transportation, Communication and Infrastructure” means the Recipient’s national department responsible for transportation, communication and infrastructure, or any successor thereto.
7. “Environmental and Social Commitment Plan” or “ESCP” means the environmental and social commitment plan for the Project, dated March 16, 2021, as the same may be amended from time to time in accordance with the provisions thereof, which sets out the material measures and actions that the Recipient shall carry out or cause to be carried out to address the potential environmental and social risks and impacts of the Project, including the timeframes of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any environmental and social instruments to be prepared thereunder.
8. “Environmental and Social Standards” or “ESSs” means, collectively:
(i) “Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts”; (ii) “Environmental and Social Standard 2: Labor and Working Conditions”; (iii) “Environmental and Social

Standard 3: Resource Efficiency and Pollution Prevention and Management”; (iv) “Environmental and Social Standard 4: Community Health and Safety”; (v) “Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement”; (vi) “Environmental and Social Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources”; (vii) “Environmental and Social Standard 7: Indigenous Peoples/Sub-Saharan Historically Underserved Traditional Local Communities”; (viii) “Environmental and Social Standard 8: Cultural Heritage”; (ix) “Environmental and Social Standard 9: Financial Intermediaries”; (x) “Environmental and Social Standard 10: Stakeholder Engagement and Information Disclosure”; effective on October 1, 2018, as published by the Association.

9. “ESS Instruments” means, collectively, ESCP and any other instruments to be prepared thereunder.
10. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (revised on August 1, 2020).
11. “Mid-Term Review” means a mid-term review of the Project referred to in Section II.2 of Schedule 2 to this Agreement.
12. “Operating Costs” means reasonable incremental expenditures incurred on account of Project implementation and based on Annual Work Plans and Budgets accepted 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.
13. “Participating Countries” means the Recipient and any other countries that may join the Program as agreed in writing by the Association.
14. “Preparation Advance” means the portion of the advance referred to in Section 2.07(a) of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on November 9, 2017 and on behalf of the Recipient on November 9, 2017.

15. “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.
16. “Program” means the Pacific Climate Resilient Transport Program, a series of projects designed to finance activities to systematically improve the resilience of the Participating Countries’ transport networks to natural hazards and climate change.
17. “Project Implementation Agreements” means, collectively, all the agreements to be executed between the Recipient and each of its State Government pursuant to Section I.B of Schedule 2 to this Agreement; and “Project Implementation Agreement” means any one of these agreements.
18. “Project Implementation Unit” means the Recipient’s Project implementation unit to be established pursuant to the provisions of Section I.A.3 of Schedule 2 to this Agreement.
19. “Project Operations Manual” means a manual to be adopted by the Recipient pursuant to the provisions of Section I.C of Schedule 2 to this Agreement, as such manual may be updated from time to time with a prior written approval of the Association.
20. “Project Steering Committee” means the Recipient’s committee to be established pursuant to the provisions of Sections I.A.1 and I.A.2 of Schedule 2 to this Agreement.
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 Governments” means, collectively, the governments of the states of the Recipient, namely, Kosrae State Government, Pohnpei State Government, Chuuk State Government and Yap State Government; and “State Government” means any one of these State Governments.

23. "Training" means reasonable costs of Project related training activities, including workshops, all based on terms of reference acceptable to the Association and Annual Work Plans and Budgets accepted ex ante by the Association, including preparation and reproduction of training materials, rental of facilities and equipment, transportation costs, tuition fees, per diem of trainers and trainees (if applicable), and any other expenses directly related to the Project preparation and implementation.