The Honorable Mr. Kensley Ikosia
Secretary
Department of Finance and Administration
PS158, Palikir, Pohnpei State
FM 96941
FEDERATED STATES OF MICRONESIA

Re: Federated States of Micronesia: PRIF Grant No. TF015459.
Telecommunications and ICT Technical Assistance Project

Dear Sir:

In response to the request for financial assistance made on behalf of the Federated States of Micronesia ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development and the International Development Association (collectively the "World Bank"), acting as administrator of grant funds provided by various donors ("Donors") under the Pacific Regional Infrastructure Facility ("PRIF"), proposes to extend to the Recipient a grant in an amount not to exceed five hundred thousand United States Dollars (U.S.$500,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days after the date of signature of this
Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

By 
Franz R. Drees-Gross
Country Director
Timor-Leste, Papua New Guinea
& Pacific Islands
East Asia and Pacific Region

AGREED:
FEDERATED STATES OF MICRONESIA

By 
Authorized Representative
Name: KEASLEY K. IKOSIA
Title: SECRETARY
Date: Sept 09, 2013

cc:

Mr. Francis I. Itimai
Secretary
Department of Transport, Communication & Infrastructure
Federated States of Micronesia

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
ANNEX

Article I
Standard Conditions; Definitions


1.02. Definitions. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

(a) "Department of Transportation, Communication and Infrastructure" means the Recipient’s Ministry responsible for transportation, communications and infrastructure, or any successor thereto.

(b) "FSMTC" means the Recipient’s FSM Telecommunications Corporation.

(c) "ICT" means information and telecommunications technology.

(d) "States" means the Recipient’s four state territories which are Yap, Chuuk, Pohnpei and Kosrae.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to strengthen the Recipient’s legal, regulatory and institutional environment to provide a foundation for improved access and affordability of telecommunications services, and increased private sector investment in the telecommunications sector. The Project consists of the following parts:

Part 1: Sector Reform and Analysis of Infrastructure Options for Improving Connectivity among the States

Assist the Recipient’s Department of Transportation, Communication and Infrastructure to (a) undertake sector reform to develop a new regulatory framework; (b) improve connectivity and examine options for improving connectivity between the Recipient’s four States; and (c) carry out institutional capacity building.

Part 2: Restructuring of FSMTC

Assist the Recipient to develop and implement options for restructuring FSMTC in the context of increasing competition through: (a) developing options for establishing an infrastructure access entity by developing principles to guide discussions; (b) implementation of preferred option for infrastructure access by providing advice and assistance to the Recipient during those discussions; and (c) the restructuring of FSMTC by providing advice on options for changing its financial and ownership structure.
2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through its Department of Transportation, Communication and Infrastructure in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) 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 ("Anti-Corruption Guidelines"); and (c) this Article II.

2.03. Institutional and Other Arrangements. The Recipient’s Department of Transportation, Communications and Infrastructure will be in charge of the overall implementation of the Project, with the Recipient’s Department of Finance in charge of overall Project monitoring and reporting.

2.04. Donor Visibility and Visit. (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donors to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the World Bank not later than forty five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.06. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have the Project Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. The audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements shall be furnished to the World Bank not later than nine (9) months after the end of such period.

2.07. Procurement
(a) **General.** All consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

   (i) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

   (ii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II, III, IV and V of the Consultant Guidelines.

(c) **Particular Methods of Procurement of Consultants’ Services**

   (i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

   (ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants’ Qualifications; (B) Single Source Selection for firms; and (C) Selection of Individual Consultants.

(d) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Article III**

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance 100% of Eligible Expenditures consisting of consultants’ services inclusive of Taxes.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is August 31, 2015.
Article IV
Recipient’s Representative; Addresses

4.01. *Recipient’s Representative.* The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Secretary of the Department of Finance and Administration.

4.02. *Recipient’s Address.* The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Department of Finance and Administration
PS158, Palikir, Pohnpei State
FM 96941
Federated States of Micronesia

Facsimile:
(691) 320-2380

4.03. *World Bank’s Address.* The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development/
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391