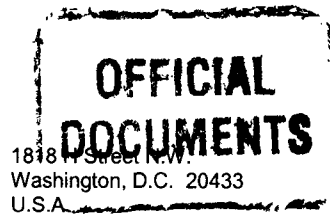


The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION



D004-FM
(202) 473-1000
Cable Address: INTBAFRAD
Cable Address: INDEVAS

March 7, 2016

Hon. Sihna Lawrence
Secretary
Department of Finance and Administration
FSM National Government
PS158, Palikir
Pohnpei
FM 96941
Federated States of Micronesia



Dear Madam Secretary,

Federated States of Micronesia: Amendment to the Palau-FSM Connectivity Project Financing Agreement - IDA Grant D004-FM

We refer to the financing agreement (“Financing Agreement”), dated March 06, 2015 between the Federated States of Micronesia (“Recipient”) and the International Development Association (“Association”) for the Palau-FSM Connectivity Project (“Project”). We refer also to your letter dated December 4, 2015 requesting to make some amendments to the Financing Agreement.

The Association concurs with your request and accordingly amends the Financing Agreement as follows:

1. Paragraph (B) of the Preamble to the Financing Agreement is hereby amended to read as follows:

“(B) in furtherance of the foregoing, the Recipient and Palau will collaborate in implementing the activities under Part 1(a) of the project described in Schedule 1 to this Agreement (the “Project”);”

2. Paragraph (C) of the Preamble to the Financing Agreement is deleted in its entirety, and paragraphs (D) and (E) are respectively renumbered ‘(C)’ and ‘(D)’ to restore ascending order.

3. Section 3.02 is hereby amended to read as follows:

“3.01 The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall: (a) carry out Part 2(a) and (b), and Part 3 of the Project through the Department of Transportation, Communication and Infrastructure; (b) cause Part 1 of the Project to be carried out by DOFA and DTICI, until such time as the FSM Open Access Entity has been established and operationalized, then through the FSM Open Access Entity; (c) cause Part 2(c) to be carried out by the Office of the Regulator in accordance with the provisions of Article IV of the General Conditions and the Project Agreements.”

4. Paragraph (c) of Section 4.01 and Section 4.02 of the Financing Agreement are hereby deleted in their entirety.
5. Part 1(a) of the Project, as set forth in Schedule 1 to the Financing Agreement, is hereby amended to read as follows:
 - “(a) In collaboration with Palau, financing for the construction of a new cable system (and/or the procurement of capacity rights) to connect Yap to the global telecommunications network.”
6. Section I.A.1 of Schedule 2 to the Financing Agreement is hereby amended to read as follows:

“The Recipient shall vest responsibility for overall implementation of the Project in the DTCI; and: (a) implementation of Part 1 of the Project in DOFA and DTCI, until such time as the FSM Open Access Entity has been established and operationalized, then through the FSM Open Access Entity; (b) implementation of Part 2(c) of the Project in the Office of the Regulator; and (c) implementation of Parts 2(a) and (b), and Part 3 of the Project in the DTCI.”
7. Section I.B.1. of Schedule 2 to the Financing Agreement is hereby amended to read as follows:
 - “1. MicroPal Fiber-Optic Joint Committee

To facilitate the proper and efficient coordination of Part 1(a) of the Project, the Recipient shall take all necessary measures on its part to maintain, until no less than one (1) year after completion of activities financed under Part 1(a), the MicroPal Fiber-Optic Joint Committee, which shall serve as a coordination committee between the Recipient and Palau in respect of Part 1(a) of the Project.”
8. Section I.B.2.(a) of Schedule 2 to the Financing Agreement is hereby amended to read as follows:
 - “2. FSM Open Access Entity
 - (a) The Recipient shall establish and operationalize the FSM Open Access Entity which shall, after it has been operationalized, be responsible for implementation of Part 1 of the Project. To this end, the Recipient shall take all measures required on its part to: (i) appoint a board of directors, chief executive officer, managerial and technical personnel necessary for operational requirements; (ii) adopt by-laws, governance arrangements, a business and marketing plan, and organizational plan; and (iii) put in place financing arrangements that would ensure adequate capitalization and operational financing including to address contingencies for the FSM Open Access Entity, all in a manner acceptable to the Association.”
9. Section I.B.3.(a) (i) and (ii) of Schedule 2 to the Financing Agreement is hereby amended to read as follows:

- “(i) The obligation of the Recipient to: (A) transfer the proceeds of the Financing, required for the implementation of Part 1 of the Project, to FSM Open Access Entity, on a non-reimbursable grant basis, and otherwise to take all action necessary to permit the Project Implementing Entity to carry out the Project and ensure the achievement of the objectives thereof; and (B) transfer, in a manner satisfactory to the Association, all responsibilities, rights and obligations associated with the implementation of Part 1 of the Project from DOFA and DTIC to the FSM Open Access Entity.
- (ii) The obligation of the FSM Open Access Entity to: (A) manage, operate, monitor, transfer and reconcile the proceeds of the Financing made available to it in accordance with arrangements and procedures satisfactory to the Association; (B) take all required actions, including provision of timely consents and approvals as may be necessary, to facilitate the utilization of said proceeds of the Financing and the implementation of Part 1 of the Project, and to comply with its undertakings under the Project Agreement; (C) secure adequate capacity for the cables serving Yap and Chuuk to connect to the global telecommunications network; (D) enter into, or otherwise acquire rights under, one or more Landing Party Agreements, with any other necessary party thereto, in form and substance satisfactory to the Association, and setting forth the arrangements for landing rights for the landing of the submarine fiber optic cables to be constructed under Part 1(a) and Part 1(b) of the Project; (E) obtain all licenses, permits, and approvals required for the operation and supply of international and domestic wholesale communication services; (F); enter into arrangements with a suitably-qualified supplier, in form and substance satisfactory to the Association, for the provision of satellite services for Kosrae; (G) maintain all relevant records and documents related to the Financing and the Project and provide promptly such documents and records, including all other information, as may be requested by the Recipient or the Association from time to time; (H) promptly inform the Recipient and the Association of any condition which interferes or threatens to interfere with the implementation of Part 1 of the Project and the achievement of the objectives thereof; (I) at the request of the Recipient, exchange views with the Recipient and the Association with regard to the progress of Part 1 of the Project and the achievement of the objectives thereof and; (J) carry out Part 1 of the Project in accordance with the Anti-Corruption Guidelines and the Safeguard Documents.”

10. Section I.B.4(b) of Schedule 2 to the Financing Agreement is hereby deleted in its entirety, and paragraphs (c) through (h) are renumbered to restore ascending order.

11. Section I.B.4(b) (previously numbered Section I.B.4(c)) of Schedule 2 to the Financing Agreement is hereby amended to read as follows:

- “(b) cause (or take all measures on its part to cause) the FSM Open Access Entity to enter, or otherwise acquire rights under, one or more Landing Party Agreements, with any other necessary party thereto, and setting forth the arrangements for landing rights for the landing of the submarine fiber optic cables to be constructed under Part 1(a) and (b) of the Project.”

12. Section I.B.4(d) (previously numbered Section I.B.4(e)) of Schedule 2 to the Financing Agreement is hereby amended to read as follow:

“(d) cause (or take all measures on its part to cause) FSM Open Access Entity to secure adequate capacity for the cables serving Yap and Chuuk to connect to the global telecommunications network.”

13. Section III.A.B.2. of Schedule 2 to the Financing Agreement is hereby amended to read as follow:

“2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) Limited International Bidding; (b) Shopping and (c) Direct Contracting.”

14. The withdrawal table detailed in Section IV.A.2. of Schedule 2 of the Financing Agreement is hereby amended as set forth in Attachment 1 to this Amendment Letter.

15. Paragraphs (iv) and (v) of Section IV.B.1(b). of Schedule 2 of the Financing Agreement are hereby deleted in their entirety and the subsequent paragraphs in Section IV.B.1(b) are renumbered to restore ascending order.

16. The newly renumbered paragraph (v) (originally paragraph “(vii)”) of Section IV.B.1(b) of Schedule 2 of the Financing Agreement is hereby amended to read as follows:

“(v) (A) the FSM Open Access Entity has entered into, or otherwise acquired rights under, one or more Landing Party Agreements in accordance with the provisions of Section I.B.4(c) of Schedule 2 to this Agreement, and (B) the Association has received a legal opinion or opinions satisfactory to it of counsel acceptable to the Association, or if the Association so requests, a certificate or certificates satisfactory to the Association of a competent official or officials, attesting that the Landing Party Agreement, or such agreement granting rights therein, has duly executed and delivered on behalf of the parties thereto, ratified by all necessary governmental or corporate action, and is legally binding upon the parties thereto in accordance with the terms thereof;”

17. The newly renumbered paragraph (vi) (originally numbered paragraph “(viii)”) of Section IV.B.1(b) of Schedule 2 of the Financing Agreement is hereby amended to read as follows:

“(vi) all other implementation arrangements required for Part 1(a) of the Project, satisfactory to the Association and as agreed with the Recipient, have been completed;”

18. The newly renumbered paragraph (vii) (originally numbered paragraph “(ix)”) of Section IV.B.1(b). of Schedule 2 of the Financing Agreement is hereby amended to read as follows:

“(vii) the FSM Open Access Entity has secured adequate capacity for the cables serving Yap and Chuuk to connect to the global telecommunications network in accordance with the provisions of Section I.B.4(e) of Schedule 2 to this Agreement.”

19. Paragraphs 3, 4, 5, 6, 7, and 31 of Section 1 to the Appendix of the Financing Agreement are hereby deleted in their entirety and all subsequent paragraphs in Section 1 are renumbered to restore ascending numeric order.

20. Paragraph 33. (previously numbered paragraph "39.") of Section 1 to the Appendix of the Financing Agreement is hereby amended to reads as follows:

"33. "Telecommunications Act" means Title 21 of the Recipient's Laws, including the Recipient's P.L. No. 18-52, which may be cited as the Telecommunications Act."

All capitalized terms used in this Letter of Amendment have the same meaning assigned to them in the Financing Agreement. All the terms of the Financing Agreement not hereby amended will remain in full force and effect.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed two copies of this Letter of Amendment, and returning one copy to the Association. Upon receipt by the Association of the countersigned copy of this letter of amendment, the amendments and waivers herein shall become effective as of the date of the countersignature.

Sincerely,



Franz R. Drees-Gross

Country Director

Timor-Leste, Papua New Guinea

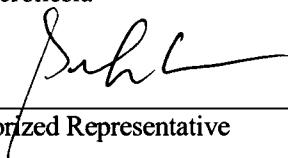
& Pacific Islands

East Asia and Pacific Region

AGREED:

Federated States of Micronesia

By:


Authorized Representative

Name: Sihna N. Lawrence

Title: Secretary of Finance

Date:

3/18/16

ATTACHMENT 1***Amendments to the table detailed in Section IV.A.2. of Schedule 2 of the Financing Agreement***

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1)(a) Goods, works, non-consulting services, and consultants' services for Parts 1(a) and (b) of the Project	27,700,000	100%
(1)(b) Goods, works non-consulting services, and consultants' services for Part 1(c) of the Project	2,400,000	100%
(2) Consultants' services and Training for Part 2(a) and (b) of the Project	700,000	100%
(3) Goods, Consultants Services and Training for Part 2(c) of the Project	800,000	100%
(4) Consultants' services, Training, goods and Operating Costs for Part 3 of the Project	500,000	100%
TOTAL AMOUNT	32,100,000	