

FEDERATED STATES OF MICRONESIA

March 6, 2015

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

Re: IDA Grant Number D004-FM  
Palau-FSM Connectivity Project  
Section 5.01 of the General Conditions  
Financial and Economic Data

Dear Sirs and Mesdames:

In connection with the Financing Agreement (Financing Agreement) of this date between the Federated States of Micronesia (Member Country) and International Development Association (Association) providing financing (Financing) for the above-captioned Project, and the General Conditions (General Conditions) made applicable to the Financing Agreement, I am writing on behalf of the Member Country to set forth the following:

1. We understand and agree that, for purposes of Section 5.01 of the General Conditions, the Member Country is required by the Association:

(a) to report "long-term external debt" (as defined in the World Bank's Debtor Reporting System Manual, dated January 2000 (DRSM)), in accordance with the DRSM, and in particular, to notify the Association of new "loan commitments" (as defined in the DRSM) not later than 30 days after the end of the quarter during which the debt is incurred, and to notify the Association of transactions under loans (as defined in the DRSM) once a year, not later than March 31 of the year following the year covered by the report; and

(b) to: (i) notify the Association at least three months prior to incurring any non-concessional long-term external debt, of its intention to incur such debt, together with the proposed terms of such debt; and (ii) afford the Association a reasonable opportunity to exchange views with the Member Country on the matter. For purposes of this paragraph, "non-concessional long-term external debt" means any long-term external debt (as defined in the DRSM), but excluding private debt (as so defined), with an estimated grant element (GE) calculated in the manner published from time to time by the Association (see, [www.worldbank.org/ida](http://www.worldbank.org/ida) under "reports") of less than (i) 35% or (ii) the GE for determining concessionality established by the International Monetary Fund in any Extended Credit Facility arrangement, Standby Credit Facility or Policy Support Instrument with the Member Country in effect at the time of such notice, whichever is higher.

2. We represent that no defaults exist in respect of any external debt (as defined in the DRSM). It is our understanding that, in making the Financing, the Association may rely on the representations set forth or referred to in this letter.

3. Please confirm your agreement to the foregoing by having a duly authorized representative of the Association sign in the space provided below.

Very truly yours,

FEDERATED STATES OF MICRONESIA

By   
Authorized Representative

AGREED:

INTERNATIONAL DEVELOPEMENT ASSOCIATION

By   
Authorized Representative