
GRANT NUMBER 0751-FSM(SF)

GRANT AGREEMENT
(Special Operations)

Health Expenditure and Livelihoods Support Program

between

FEDERATED STATES OF MICRONESIA

and

ASIAN DEVELOPMENT BANK

DATED 25 November 2020

FSM 54309

**GRANT AGREEMENT
(Special Operations)**

GRANT AGREEMENT dated 25 November 2020 between
FEDERATED STATES OF MICRONESIA ("Recipient") and ASIAN DEVELOPMENT BANK
("ADB").

WHEREAS

(A) ADB has received from the Recipient a development policy letter dated 24 September 2020 ("Policy Letter"), setting forth certain objectives, policies and actions for the implementation of the Recipient's countercyclical development expenditures to address impacts relating to the coronavirus disease 2019 (COVID-19) as described in Schedule 1 to this Grant Agreement ("Program");

(B) the Recipient has applied to ADB for a grant for the purposes of the Program; and

(C) ADB has agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All the provisions of ADB's Special Operations Grant Regulations, dated 1 January 2017 ("Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(l) is deleted and the following is substituted therefor:

"Program" means the program for which ADB has agreed to make the Grant, as described in the Grant Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Recipient;

(b) The term "Project" wherever it appears in the Grant Regulations shall be substituted by the term "Program".

(c) Section 2.01(n) is deleted and the following is substituted therefor:

"Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Grant Agreement;

- (d) The term "Project Executing Agency" wherever it appears in the Grant Regulations shall be substituted by the term "Program Executing Agency".
- (e) Section 5.01(b) is deleted.

Section 1.02. Wherever used in this Grant Agreement the several terms defined in the Grant Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in the Grant Agreement have the following meanings:

- (a) "Counterpart Funds" means the local currency generated from the Grant proceeds under the Program and referred to in paragraph 5 of Schedule 3 to this Grant Agreement;
- (b) "Deposit Account" means the account referred to in paragraph 3 of Schedule 2 to this Grant Agreement;
- (c) "DOFA" means the Recipient's Department of Finance and Administration or any successor thereto;
- (d) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time); and
- (e) "Program Executing Agency" for the purposes of, and within the meaning of, the Grant Regulations means DOFA or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Grant Agreement an amount of fourteen million Dollars (\$14,000,000).

ARTICLE III

Use of Proceeds of the Grant

Section 3.01. The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Program in accordance with the provisions of this Grant Agreement.

Section 3.02. The proceeds of the Grant shall be withdrawn in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 September 2021 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 3 to this Grant Agreement.

Section 4.02. As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. A date 90 days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Secretary of Finance and Administration of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

Department of Finance and Administration
P.O. Box PS 158
Palikir, Pohnpei, FM 96941
Federated States of Micronesia

Facsimile Number:

N/A

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:


(632) 8636-2444
(632) 8636-2446.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

FEDERATED STATES OF MICRONESIA

By  _____
EUGENE AMOR
Secretary
Department of Finance and Administration

ASIAN DEVELOPMENT BANK

By  _____
LEAH C. GUTIERREZ
Director General
Pacific Department

SCHEDULE 1**Description of the Program**

1. The principal objective of the Program is to reduce the adverse effects of COVID-19 on the Recipient's businesses and population and the scope of the Program includes implementation of measures to (a) combat the entry and spread of COVID-19; (b) deliver economic stimulus relief to businesses; and (c) provide social assistance to poor and vulnerable groups. The Program is described in more detail in the Policy Letter.

2. The Program is expected to be completed by 30 September 2021.

SCHEDULE 2**Allocation and Withdrawal of Grant Proceeds**

1. Except as set out in this Schedule or as ADB may otherwise agree, the Grant proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.
2. An application for withdrawal from the Grant Account shall be submitted to ADB by the Recipient and shall be in a form satisfactory to ADB.
3. (a) Prior to submitting the first application to ADB for withdrawal from the Grant Account, the Recipient shall nominate an account (Deposit Account) at Bank of Federated States of Micronesia or Bank of Guam into which all withdrawals from the Grant Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with the applicable regulations and procedures of the Recipient.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Recipient shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.
4. No Grant proceeds shall be withdrawn to finance any item specified in the Attachment to this Schedule.
5. The Recipient may withdraw the Grant upon effectiveness of this Grant Agreement.

Negative List

No withdrawals of Grant proceeds will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Recipient:

Table: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iii) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (iv) expenditures for narcotics;
- (v) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party; and
- (vi) expenditures on account of any payment prohibited by the Recipient in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

SCHEDULE 3

Program Implementation and Other Matters

Implementation Arrangements

1. The Recipient shall designate DOFA as the Program Executing Agency, which shall be responsible for overseeing and coordinating the implementation of the Program. The Recipient shall designate (a) DOFA, (b) the Department of Health and Social Affairs, (c) the Department of Resource and Development, and (d) the Federated States of Micronesia Development Bank as implementing agencies for the Program, which shall be responsible for implementation and monitoring of the Program.

2. The Recipient shall establish and maintain a Program Steering Committee co-chaired by the Secretary of Finance and Administration and Secretary of Health, and comprised of key government officials from DOFA, the implementing agencies and Finance Directors of the State Governments of Chuuk, Kosrae, Pohnpei and Yap to provide oversight and monitoring of the budget execution and flow of funds for countercyclical measures based on monthly reports prepared by DOFA.

Policy Actions and Dialogue

3. The Recipient shall promptly discuss with ADB, issues and constraints encountered during the implementation of the Program and appropriate measures to overcome and mitigate such issues and constraints.

4. The Recipient shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Recipient shall take into account ADB's views before finalizing and implementing any such proposal.

Use of Counterpart Funds

5. The Recipient shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program.

Governance and Anticorruption

6. The Recipient, the Program Executing Agency, and the implementing agencies shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

Monitoring and Review

7. The Recipient shall monitor the implementation of the Program and provide quarterly reports to ADB throughout the implementation period of the Program until 6 months after the Grant Closing Date, including monitoring and reporting data on: (a) macroeconomic and financial sector conditions, (b) budget execution, expenditure and flow of funds to support the Recipient's countercyclical measures including COVID-19 response measures for the protection of poor and vulnerable groups, and (c) beneficiaries of the countercyclical measures and the Program (disaggregated by sex as feasible).

8. Within 6 months after the Grant Closing Date, the Recipient shall submit to ADB a Program completion report that assesses the extent of progress and the impact of the Program.