AN ACT

To authorize the FSM to borrow approximately $8,019,000 from the Asian Development Bank and relend approximately $6,504,169 to the States for the purpose of funding basic social services projects, to authorize future appropriation of up to $8,019,000 for repaying the amounts borrowed; to further amend title 55 of the Code of the FSM, as amended, by enacting a new subchapter X to chapter 6 thereof to establish an External Debt Management Fund; to further amend title 52 of the Code of the FSM, as amended, by repealing section 508 thereof in its entirety and transferring funds presently in the National Government Employee's Early Retirement Fund to the new External Debt Management Fund; and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

Section 1. Authorization. The President (the "President") of the Federated States of Micronesia (the "FSM") is hereby authorized to borrow money from the Asian Development Bank (the "Bank") and relend a portion thereof to the States as provided hereinafter. The borrowing shall be by way of a project loan.

Section 2. Amounts.

(1) The total amount to be borrowed from the Bank is the equivalent in SDRs (Special Drawing Rights) of the Bank, as of such point in time as the Bank and the President shall agree, of up to $8,019,000.

(2) From the proceeds of that loan, the National Government will relend to the State Governments, or retain for its own use, the following approximate amounts, subject to the rate of exchange of the SDRs at the time of disbursement:

(a) Chuuk............................... $ 2,983,523
<table>
<thead>
<tr>
<th>Region</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kosrae</td>
<td>$ 613,521</td>
</tr>
<tr>
<td>Pohnpei</td>
<td>1,914,311</td>
</tr>
<tr>
<td>Yap</td>
<td>992,815</td>
</tr>
<tr>
<td>FSM</td>
<td>1,514,830</td>
</tr>
<tr>
<td>Total</td>
<td>8,019,000</td>
</tr>
</tbody>
</table>

Section 3. **Financial Terms.** The loan from the Bank and each of the loans thereunder to the States shall:

1. have an 8 year grace period for the repayment of principal;
2. bear interest at the rate of 1% per annum during the grace period and 1.5% thereafter; and
3. provide for the repayment of principal over a 24-year period commencing at the end of the grace period.

Section 4. **Use of Proceeds.** The loans will be for the purpose of funding basic social services in the FSM. Loan proceeds may be used only as provided in the loan agreements between the FSM and the Bank.

Section 5. **Relending Conditions.**

1. Relending of proceeds to a State shall be by way of Project Relending Agreements between the National Government and the State which taken together:
   
   (a) place the foreign exchange risk on the State with respect to disbursement of funds lent to the State and until the estimation and transfer process called for in subsection (c) below on the National Government thereafter;

   (b) amend provisions relating to the Trust Account created
in the name of the State pursuant to the existing Financing Agreement between the National Government and the State with respect to the ADB Public Sector Reform Program so as to permit and require that Trust Account to be used, in conjunction with the External Debt Management Fund created by this act, for repayment of not just the Public Sector Reform Loan but also the Basic Social Services Loan from the National Government to the State and possibly other loans to the State;

(c) provide for annual estimation of the amount conservatively estimated to be needed as a sinking fund for repayment of all loan proceeds advanced to the State since the last estimate, followed by transfer of the amount so estimated from the Trust Account to the External Debt Management Fund created by this act;

(d) provide for disbursement to the State of funds remaining in the Trust Account after five years if and when all loans to be repaid from the Trust Account have been disbursed;

(e) provide that from and after completion of the estimation and possible disbursement process called for in subsection (c) of this section, the National Government shall bear the risk that funds in the Trust Account and the External Debt Management Fund may not be sufficient to repay all the loans intended to be repaid therefrom and the State shall be released from liability for any such shortfall except as otherwise expressly provided in the Relending Agreements;

(f) contain such other provisions as the President or the
Bank may require; and
(g) are specifically and properly authorized by the Legislature of the State.

(2) Except as provided herein or in the loan agreements with the Bank, the form of the Relending Agreement with respect to a particular loan from the Bank shall be the same for all States so as to assure that no State is preferred over any other State.

Section 6. Delegations.

(1) While the President shall remain involved and informed, he may delegate:

(a) to the Secretary of the Department of Finance and Administration the authority to negotiate the loan agreements with the Bank, the Relending Agreements with the States, and other relevant documents;

(b) to the Secretary of the Department of Finance and Administration the authority to sign any such documents on behalf of the National Government;

(c) to the FSM's representative on the Board of the Bank in Manila the authority to sign agreements between the Bank and the National Government on behalf of the FSM; and

(d) to such officials as the President deems appropriate the authority to administer various portions of the programs and projects funded by the loan from the Bank.

(2) The right to delegate the performance of an act to a person
includes the right to ratify the performance of that act by that person after the fact.

Section 7. Appropriation of Loan Proceeds.

(1) If and to the extent that such an appropriation is necessary, all sums directly or indirectly received as proceeds of the project loan from the Bank are hereby appropriated for the purpose of funding basic social services projects to the extent and in the manner specified in the loan agreement with the Bank. Such funds may not be obligated until received from or made available by the Bank.

(2) If and to the extent that such an appropriation is necessary, all sums directly or indirectly received as proceeds of the loan from the Bank and intended for the use of a State are hereby appropriated for the purpose of funding projects in that State to the extent and in the manner specified in the loan agreement with the Bank. Such funds may not be obligated until they have been received from or made available by the Bank and until their use has been further specified through appropriation legislation in the State.

Section 8. Repayment Authorization. The sum of up to $8,019,000 is hereby authorized to be appropriated in future years when and as necessary for repaying the loans from the Bank if and to the extent that the State Trust Accounts referred to in section 5 of this act and the External Debt Management Fund created hereinafter are insufficient to repay the loan.

Section 9. External Debt Management Fund. Title 55 of the Code
of the Federated State of Micronesia, as amended, is hereby further amended by enacting a new subchapter X of chapter 6 entitled "External Debt Management Fund".

Section 10. Title 55 of the Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 667 of subchapter X of chapter 6 to read as follows:

"Section 667. Establishment. There is hereby created and established an External Debt Management Fund, separate from the General Fund of the FSM and all other funds."

Section 11. Title 55 of the Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 668 of subchapter X of chapter 6 to read as follows:

"Section 668. Purpose. The purpose of the Fund is to provide an ongoing fund for the receipt and disbursement of funds associated with the loans from the Asian Development Bank (referred to as the 'Bank' in this subchapter) with respect to the Basic Social Services Project, the Public Sector Reform Program, and any other loan from an external lender if the National Government authorizing legislation for that loan provides that the loan is to be repaid out of the Fund, all said loans hereinafter referred to collectively as the 'subject_loans' and individually as a 'subject loan'."

Section 12. Title 55 of the Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new
section 669 of subchapter X of chapter 6 to read as follows:

"Section 669. Accounts within the Fund. The Fund shall contain the following accounts:

(1) a disbursing account for each of the subject loans (except the Public Sector Reform Program loan, as to which all disbursing of loan proceeds has been completed) to receive and disburse the portion of the proceeds of that loan intended for the use of the National Government;

(2) a master repayment account for use by the National Government of its own share of the subject loans and in consolidating repayments from the State repayment accounts;

(3) a repayment account for each State for use by the National Government on behalf of the State in reserving funds for repayment of the State's share of the subject loans; and

(4) such other accounts as may be deemed appropriate."

Section 13. Title 55 of the Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 670 of subchapter X of chapter 6 to read as follows:

"Section 670. Deposits.

(1) Funds received pursuant to the loan agreements between the Federated States of Micronesia and the external lender with respect to a subject loan shall be deposited in the appropriate disbursing account.

(2) Funds appropriated by the National Government for
execution of the programs and projects of a subject loan shall be deposited in the appropriate disbursement account.

(3) Funds received from a State or from a trust account administered by the National Government on behalf of a State for repayment of the State's portion of a subject loan shall be deposited in the State's repayment account. (4) Funds appropriated by the National Government for repayment of a subject loan shall be deposited in the master repayment account.

(5) Funds received from any other source associated with the subject loans shall be deposited in the appropriate account.

(6) Investment returns or losses shall remain with the account earning or suffering them."

Section 14. Title 55 of the Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 671 of subchapter X of chapter 6 to read as follows:

"Section 671. Disbursements.

(1) The Secretary of the Department of Finance and Administration is hereby authorized to make the following disbursements of moneys available in the Fund, without further authorization or appropriation by the Congress of the Federated States of Micronesia, for the following and no other purposes:
(a) execution of the programs and projects of the
subject loans to the extent and in the manner called for in
the applicable loan agreements or appropriating legislation
applicable to the subject loan associated with that
disbursing account;

(b) from a disbursing account to the master repayment
account with respect to any surplus funds remaining after the
programs and projects associated with that disbursement
account have been executed;

(c) from the master repayment account for repayment of
a subject loan in accordance with its terms;

(d) from a State repayment account for repayment of a
subject loan in accordance with its terms;

(e) from a State repayment account to the State as
called for by written agreement between the State and the
National Government; or

(f) as otherwise required by law.

(2) Unexpended moneys in the Fund shall not revert to the
General Fund nor lapse at the end of the fiscal year."

Section 15. Title 55 of the Code of the Federated States of
Micronesia, as amended, is hereby further amended by enacting a new
section 672 of subchapter X of chapter 6 to read as follows:

"Section 672. Administration. The Fund shall be
administered by the Secretary of the Department of Finance
and Administration, who shall administer the fund in accordance with the applicable loan agreements, financing or relending agreements, law, generally accepted accounting standards, and sound financial practices for the effectuation and implementation of the provisions of this subchapter."

Section 16. Title 55 of the Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 673 of subchapter X of chapter 6 to read as follows:

"Section 673. Annual Report. The President of the Federated States of Micronesia, or his designee, shall report to the Congress of the Federated States of Micronesia and to the Governor of each participating State on the status of the Fund at the close of each fiscal year."

Section 17. Termination of Retirement Fund. Title 52 of the Code of the Federated States of Micronesia, as amended, is hereby further amended by repealing section 508 thereof in its entirety. Funds currently in the National Government Employee's Early Retirement Fund created by that section 508 shall be deposited in the master repayment account of the External Debt Management Fund created by this act.

Section 18. Allotment and management of funds and lapse date.

(1) All funds appropriated by this act shall be allotted, managed, administered and accounted for in accordance with applicable law, including, but not limited to, the Financial Management Act of 1979. The allottee shall be responsible for insuring that these funds,
or so much thereof as may be necessary, are used solely for the purpose
specified in this act and that no obligations are incurred in excess of
the sum appropriated.

(2) The authority of the allottee to obligate funds appropriated
by this act shall not lapse.

Section 19. This act shall become law upon approval by the
President of the Federated States of Micronesia or upon its becoming
law without such approval.

December 3, 2001

/s/ Leo A. Falcam

Leo A. Falcam
President
Federated States of Micronesia