A BILL FOR AN ACT

To amend Public Law 12-19 by amending section 6 to require the Program and Project Relending Agreements between the National Government and the State executed in connection with the Public Sector Reform Program loan from the Asian Development Bank to provide that the interest income earned on the corpus of the trust account be available for disbursement to the states, at each state's option, and for other purposes.

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

Section 1. Section 6 of Public Law No. 12-19 is hereby amended to read as follows:

"Section 6. Relending Conditions.

(1) Relending of loan proceeds to a State shall be by way of Program and Project Relending Agreements between the National Government and the State which, taken together shall:

(a) place the foreign exchange risk on the State until the estimation and transfer process called for in subsection (c) below, and on the National Government thereafter;

(b) amend provisions relating to the Trust Account so as to permit and require the principal of that Trust Account to be used, in conjunction with the External Debt Management Fund, for repayment of the Public Sector Reform Program Loan, the present program and project loans and possibly other loans to the State;
(c) amend provisions relating to the Trust Account so as to permit the interest income earned on the corpus of each State's Trust Account to be disbursed to the State without restriction upon its request;

[(c)](d) 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 such estimate, followed by transfer of the amount so estimated from the Trust Account to the External Debt Management Fund;

[(d)](e) 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)](f) provide that from, and after completion of, each annual estimation and transfer process called for in subsection [(c)](d) 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)](g) contain such other provisions as the President
or the Bank may require; and

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 receives preferential treatment over any other State."

Section 2. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without such approval.

Date: 10/23/02

Introduced by: /s/ Jack Fritz

Jack Fritz