Financing Agreement

(Additional Financing for Vanuatu Aviation Investment Project and Amendment to the Original Financing Agreement)

between

REPUBLIC OF VANUATU

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated 23 FEBRUARY, 2017
FINANCING AGREEMENT

Agreement dated 23 FEBRUARY, 2017, entered into between REPUBLIC OF VANUATU ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement).

WHEREAS (A) the Program Countries and PASO wish to carry out a regional program of aviation investments in a coordinated manner with financing provided by the Association and other donors; and

(B) Under the Original Financing Agreement (as such term is defined in the Appendix to this Agreement), the Association agreed to provide to the Recipient a credit in an amount equivalent to forty-two million, three hundred thousand Special Drawing Rights (SDR 42,300,000) to assist in financing the Original Project (as such term is defined in the Appendix to this Agreement); and

(C) Under the PRIF Grant Agreement (as such term is defined in the Appendix to this Agreement), the Association agreed to provide to the Recipient a grant in an amount not to exceed three hundred thousand United States Dollars (US$300,000) to assist in financing to assist in the financing of Part B.2 of the Original Project.

The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions, the Original Financing Agreement or in the Appendix to this Agreement.
ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant and a credit (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):

(a) an amount equivalent to three million, three hundred thirty thousand Special Drawing Rights (SDR3,330,000) (“Grant”); and

(b) an amount equivalent to six million nine hundred thirty thousand Special Drawing Rights (SDR6,930,000) (“Credit”).

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are April 15 and October 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project through the Ministry of Infrastructure and Public Utilities (“MIPU”) in accordance with the provisions of Article IV of the General Conditions, the Project Implementation Agreement and the TFSU Service Agreement.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient
shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Additional Condition of Effectiveness consists of the following:

(a) The Recipient has provided evidence satisfactory to the Association that:
   (i) CAAV has commenced the collection of the Safety and Security Levy from departing international air passengers; and (ii) CAAV and AVI have prepared and adopted the Disbursement Framework.

4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

4.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is its Minister at the time responsible for finance.

5.02. The Recipient’s Address is:

   Ministry of Finance and Economic Management
   PMB 9058
   Port Vila
   Republic of Vanuatu

5.03. The Association’s Address is:

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

   Telex: 248423 (MCI)  Facsimile: 1-202-477-6391
AGREED at Port Vila, Vanuatu, as of the day and year first above written.

REPUBLIC OF VANUATU

By

Authorized Representative

Name: Hon. Gaetan Pilimeame
Title: Minister of Finance & Economic Management

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Michel Kerf
Title: Country Director
SCHEDULE 1

Project Description

The objective of the Project is to improve the operational safety and oversight of international air transport and associated infrastructure in the Recipient’s territory.

The Project is part of the Program and consists of Parts A(a), (b) and (c), Part B, Part C, and Part E of the Original Project as amended herein:

Part A: International Airport Infrastructure Investments

Carrying out of aviation infrastructure investments at the Recipient’s international airports, including:

(a) rehabilitation and/or resurfacing of airport runway, apron and taxiway pavements at Project Airports; and expansion of taxiways and turning bays at Bauerfield International Airport;

(b) rehabilitation, resurfacing and expansion of the existing apron and/or construction of a new apron at Bauerfield International Airport;

(c) construction of new taxiways and widening of the existing taxiway at Bauerfield International Airport;

(d) (i) upgrading of airport runway lighting and cabling at Pekoa International Airport, Bauerfield International Airport and Whitegrass International Airport; and (ii) installation of approach lighting at Bauerfield International Airport;

(e) provision of air traffic control equipment at Bauerfield International Airport and Pekoa International Airport;

(f) provision and installation of aviation navigation aids;

(g) provision and installation of weather monitoring equipment at Bauerfield International Airport and Whitegrass International Airport;

(h) upgrading of communications equipment and systems;

(i) provision and installation of VSAT communications systems at Pekoa International Airport, Whitegrass International Airport and Bauerfield International Airport;

(j) provision of equipment for improved power supply at Bauerfield International Airport and Whitegrass International Airport;
(k) provision and or upgrading of airport rescue fire services equipment, including fire tender vehicles, and vehicle shelters at Project Airports.

(l) provision of safety and security equipment, including x-ray machines for passenger baggage and cargo screening, at Bauerfield International Airport, Whitegrass International Airport and Pekoa International Airport; and

(m) provision of design and supervision consulting services required for implementation of the infrastructure investments.

Part B: Aviation Sector Reform and Training

1. Carrying out of activities to strengthen the Civil Aviation Authority of Vanuatu ("CAAV"), MIPU and other line ministries and to facilitate reform of the Recipient’s aviation sector, including:

   (a) development of an Aviation Sector Strategy;

   (b) provision of advisory services to assist CAAV to: (i) review and update the Recipient’s legislative framework applicable to the aviation sector; (ii) address national and international regulatory requirements for the aviation sector; and (iii) implement the Aviation Sector Strategy;

   (c) provision of advisory services to assist MIPU with its management and oversight of the Recipient’s aviation sector; and

   (d) training for capacity-building.

2. Provision of PASO aviation safety and security audit, oversight and advisory services to CAAV.

Part C: Strengthening Airport Operations and Management Capacity

Carrying out of activities to strengthen the Recipient’s and AVL’s airport operations and management capacity, including:

   (a) development of an Airport Master Plan;

   (b) provision of technical assistance to improve the planning, financial viability, efficiency, safety and security of airport operations; and

   (c) training on aviation policy, operations and management.
Part D: Emergency Reconstruction

Carrying out of emergency reconstruction and/or rehabilitation activities related to the Recipient's air transport and associated infrastructure in the Recipient's territory.

Part E: Project Support

 Provision of technical, fiduciary, Project management, advisory and administrative support to the VPMU and AVL, including the financing of TFSU support services, annual subscriptions for the operation of the VSAT infrastructure during the Project implementation period, and Project financial audits.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

1. The provisions of Section I of Schedule 2 to the Original Financing Agreement are hereby incorporated and shall apply, mutatis mutandis, to this Agreement (with all references to “Project”, “Agreement”, “Credit”, “Grant” and “Financing”, being deemed references, respectively, to this Project, this Agreement, this Credit, this Grant, and this Financing as defined in this Agreement. The Recipient undertakes to comply with the provisions as so incorporated to the same extent as if they had been set out in full in this Agreement.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators set out in the Program Operations Manual and acceptable to the Association. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal was made under the Preparation Advance for the Project. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.
Section III. Procurement

A. General

1. Goods, Works and Non-consulting Services. All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following methods of procurement, 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) Shopping; and (b) Direct Contracting.

C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following methods of procurement, other than Quality- and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection based on Consultants’ Qualifications; (c) Single-source Selection of consulting firms; (d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for
the Selection of Individual Consultants; and (e) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, non-consulting services, consultants’ services, Audit, Training, TFSU Costs and Operating Costs for the Project other than under Part B.2 of the Project</td>
<td>0</td>
<td>3,330,000</td>
<td>100% of the TFSU Costs paid as per the terms of the Service Agreement; and 100% of all other Eligible Expenditures</td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

   (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR800,000 under Category (1) may be made for payments made prior to this date but on or after September 1, 2016, for Eligible Expenditures under Category (1).

2. The Closing Date is December 31, 2019.
**SCHEDULE 3**

**Repayment Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15:</td>
<td></td>
</tr>
<tr>
<td>commencing April 15, 2027 to and including October 15, 2036</td>
<td>1%</td>
</tr>
<tr>
<td>commencing April 15, 2037 to and including October 15, 2056</td>
<td>2%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Section I. Definitions


2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. “Original Financing Agreement” means the financing agreement for a Vanuatu Aviation Investment Project between the Recipient and the Association, dated June 3, 2015 as amended to the date of this Agreement (Credit No.5632-VU).

6. “Original Project” means the Project described in Schedule 1 to the Original Financing Agreement.

7. “PRIF Grant Agreement” means the grant agreement for a Vanuatu Aviation Investment Project between the Recipient and the Association acting as administrator of grant funds provided under the Pacific Regional Infrastructure Facility (“PRIF”) multi-donor trust fund, dated June 3, 2015 (Grant No.TF0A0607).


9. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated October 18, 2016 and provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the Bank.

10. “Program Operations Manual” means the operations manual for the Program, most recently updated on November 21, 2016, setting forth detailed guidelines and procedures for the implementation of the Project, including in the areas of monitoring and evaluation, procurement, coordination, social and environmental
safeguards, financial, administrative and accounting procedures, corruption and fraud mitigation measures, and such other arrangements and procedures as shall be required for the Project, as the same may be amended and or supplemented from time to time with the prior written agreement of the Association.

11. “Project Airports” means the Bauerfield International Airport, Whitegrass International Airport, and the Pekoa International Airport, all located within the Recipient’s territory.

12. “Project Implementation Agreement” means the project implementation agreement between the Government of the Republic of Vanuatu represented by the Vanuatu Project Management Unit, and Airports Vanuatu Limited dated July 1, 2015 and referred to in Section 1.B of Schedule 2 to this Agreement, as such agreement may be revised from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such agreements.

13. “TFSU Service Agreement” means the service agreement between the Government of the Republic of Vanuatu, AVL and Tonga Airport Limited concerning the Project and Program implementation dated November 23, 2016 and referred to in Section 1.C of Schedule 2 to the Original Financing Agreement, as such agreement may be revised from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such agreements; and “Service Agreements” also includes similar agreements between TAL and Kiribati, Tonga, Tuvalu, Samoa and PASO respectively.

Section II. Amendments to the Original Financing Agreement

1. Part A(a) of the Project description detailed in Schedule 1 to the Original Financing Agreement is amended to read as described in Part A(a) of Schedule 1 to this Agreement.

2. Part A(e) of the Project description detailed in Schedule 1 to the Original Financing Agreement is deleted in its entirety. Paragraphs (f) through (n) are subsequently renumbered to restore ascending alphabetic order.

3. Part A(k) (previously numbered Part A(l)) of the Project description detailed in Schedule 1 to the Original Financing Agreement is amended to read as follows:

“(k) provision and/or upgrading of airport rescue fire services equipment, including fire tender vehicles, and vehicle shelters at Project Airports.”
4. Section I.G. of Schedule II to the Original Financing Agreement is amended to read as follows:

"G.  Safety and Security Levy"

1. Unless otherwise agreed with the Association in writing, the Recipient shall take all measures required on its part to ensure that CAAV shall, throughout the Project implementation period, collect from departing international air passengers a levy in a minimum amount equivalent to five Australian Dollars (AU$5) to recover aviation safety and security expenditures incurred by the Recipient ("Safety and Security Levy").

2. The Recipient shall, throughout the Project implementation period, ensure that CAAV and AVL: (i) use the Safety and Security Levy in accordance with the Disbursement Framework; and (ii) furnish to the TFSU, by not later than March 31 of each year, annual audit reports prepared in accordance with the Disbursement Framework, for collation and distribution to the Association."

5. Section I, paragraph 11 of the Appendix to the Original Financing Agreement is amended to read as follows:

"11.  "Disbursement Framework" means the framework prepared by CAAV and AVL in consultation with the TFSU, and adopted and implemented by CAAV and AVL, in form and substance satisfactory to the Association, which sets forth the eligible activities to be financed by the Safety and Security Levy, and the processes for collection, disbursement and auditing of the Safety and Security Levy, and for the preparation of annual audit reports to be furnished to the Association; as said framework may be amended from time to time with the prior written agreement of the Association."