Financing Agreement

(Sustainable Energy Development Project)

between

REPUBLIC OF THE MARSHALL ISLANDS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF THE MARSHALL ISLANDS ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). 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) apply to and form 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 or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient a grant, deemed by the Association to be on concessional terms, as set forth or referred to in this Agreement, in an amount equivalent to twenty-four million three hundred thousand Special Drawing Rights (SDR 24,300,000) ("Financing"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

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

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

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

2.05. The Payment Currency is Dollar.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

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

(a) The Memorandum of Understanding, referred to in Section I.A.2 of Schedule 2 to this Agreement, has been duly executed and delivered on behalf of the parties thereto.

4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

4.03. For purposes of Section 10.05 (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 Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

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

5.02. For purposes of Section 11.01 of the General Conditions: (a) the Recipient’s address is:

    Ministry of Finance, Banking and Postal Services
    P.O. Box D
    Majuro
    Republic of the Marshall Islands 96960; and

    (b) the Recipient’s Electronic Address is:

    Facsimile:
    692-625-3607

5.03. For purposes of Section 11.01 of the General Conditions: (a) the Association’s address is:

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

(b) the Association’s Electronic Address is:

Telex: 248423 (MCI)  
Facsimile: 1-202-477-6391  
E-mail: cdpngpacific@worldbank.org

AGREED as of the Signature Date.

REPUBLIC OF THE MARSHALL ISLANDS

By

[Signature]

Authorized Representative

Name: Brenson S. Wase

Title: Minister

Date: March 15, 2018

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: Mona Sul

Title: Acting Country Director

Date: January 31, 2018
SCHEDULE 1

Project Description

The objective of the Project is to increase the share of renewable energy generation in the Recipient’s territory, and enhance the reliability of electricity supply and improve energy efficiency in the Project Areas.

The Project consists of the following parts:

Part 1: Renewable Energy Investments

(a) Carrying out a program of activities to support the design, supply, installation, and operational support for solar power generation, battery energy storage and grid-management equipment in Majuro, including: (i) conducting a detailed survey, preliminary design and cost analysis, preparation of bidding documents and supervision of engineering, procurement and construction contractors; (ii) installing solar power generation equipment, battery storage, grid connection, inverters and ancillary equipment needed to support the impact of increased share of renewable energy and maintain grid stability; and (iii) carrying out operations and maintenance support and capacity building activities to enhance knowledge transfer and sustainability of the technology supplied and installed.

(b) Supply and installation of gensets in Majuro and Ebeye.

Part 2: Promotion of Energy Efficiency and Loss Reduction Program

(a) Carrying out a program of activities designed to reduce energy system loss, including: (i) undertaking a loss reduction study for Kwajalein Atoll Joint Utility Resource (KAJUR); and (b) implementing the recommendations from such loss reduction study that are designed to increase the energy efficiency of essential energy infrastructure such as transformers, distribution lines, and electricity meters.

(b) Carrying out a program of activities designed to enhance efficient use of energy in the Project Areas, including: (i) supplying and installing of selected energy efficiency investments, to be selected by MEC and Energy Planning Division (EPD) in accordance with criteria set forth in the Project Implementation Manual; (ii) carrying out information awareness campaigns, Training and Workshops on demand side management and energy efficiency; (iii) supporting the development of policies, regulations, standards and labelling for energy efficiency, including those related to the phasing out of inefficient incandescent bulbs and the development of standards for appliances; and (iv) carrying out activities aimed at raising consumer awareness of energy efficiency and related capacity building.
activities and Training and Workshops on the new policies, regulations, standards and labelling developed.

Part 3: Technical Assistance, Capacity Building and Project Management

(a) Carrying out a program of activities designed to enhance the capacity of the Ministry of Finance, Banking and Postal Services (MFBPS), MEC, EPD, KAJUR and Majuro Water and Sewer Company (MWSC) to support efficient energy sector operation, including: (i) carrying out Training and Workshops on energy sector policies, regulatory framework, management, and planning; (ii) conducting studies and provision of technical assistance to enhance EPD’s role in the sector; (iii) providing technical assistance to establish the O&M Fund to ensure sufficient funds for the operation and maintenance of the renewable energy investments supplied and installed under Part 1 of the Project; and (iv) providing technical assistance and carrying out Training and Workshops to undertake energy sector gender assessments and mainstream gender dimensions into the Project.

(b) Supporting the preparation of studies to identify further assistance and investments needed on renewable energy in Ebeye and the Outer Islands, including the design of the potential renewable energy projects and preparation of related documents.

(c) Carrying out a program of activities designed to support MEC and MFBPS to manage and implement the Project, including provision of support on Project coordination, monitoring and evaluation, reporting, procurement, financial management, audit, safeguards management, and technical operation.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

Project Steering Committee

1. The Recipient shall, by no later than three (3) months after the Effective Date (or such other date which the Association has confirmed in writing to the Recipient as acceptable to the Association, as determined in its sole discretion, under the circumstances), establish and thereafter maintain until the Closing Date, the Project Steering Committee with mandate, composition and resources satisfactory to the Association, which shall be responsible for providing oversight and strategic guidance for Project implementation. Without limitation to the generality of the foregoing, the Project Steering Committee shall be chaired by the Chief Secretary of the Public Service (or such other person which the Association has confirmed in writing to the Recipient as acceptable to the Association, as determined in its sole discretion, under the circumstances), and be composed of representatives from, *inter alia*, MFBPS, Energy Planning Division, MEC, KAJUR, Ministry of Works, Infrastructure and Utilities, Kwajalein Atoll Development Authority, Combined Utilities Board, and Majuro Water and Sewer Company (MWSC).

Project Implementation Unit

2. The Recipient shall maintain, until the Closing Date, the Project Implementation Unit within MEC, with a mandate, composition and resources satisfactory to the Association, which shall be responsible for coordinating the implementation of the Project by MFBPS, MEC, EPD, MWSC and KAJUR, in a manner set forth in the Memorandum of Understanding, in a form and substance acceptable to the Association, pursuant to which:

(a) MEC shall lead the technical implementation of Parts 1, 2(a) and 3 of the Project, with support from MFBPS, EPD, MWSC and KAJUR as may be necessary to enable the implementation of the activities under such Parts of the Project;

(b) EPD shall lead the technical implementation of Part 2(b) the Project, with support from MFBPS and MEC as may be necessary to enable the implementation of the activities under such Part of the Project; and

(c) MFBPS shall be responsible for: (i) the disbursement, monitoring of the use of the proceeds of the Financing as well as financial reporting to the Association in accordance with the provisions of this Agreement;
(ii) procurement support for the Project; and (iii) providing safeguards support under the Project and ensuring that the Project is carried out in accordance with the Safeguard Documents.

3. Without limitation to the generality of the provisions of Section I.A.2 of this Schedule 2, the Project Implementation Unit shall: (a) include the following minimum key staff, each with terms of reference, qualifications and experience satisfactory to the Association: (i) a Project manager; and (ii) a technical advisor; and (b) include the following minimum key staff or be supported by specialists from the MFBPS, each with terms of reference, qualifications and experience satisfactory to the Association, in the following roles: (i) an accountant; (ii) a procurement specialist; and (iii) a safeguards specialist.

B. Project Implementation Manual

1. The Recipient shall prepare and adopt, by no later than three (3) months after the Effective Date, a manual, in form and substance acceptable to the Association, setting forth the arrangements and procedures for implementation of the Project, including: (a) the institutional arrangements for day to day execution of the Project; (b) the implementation arrangements for Safeguard Documents; (c) budgeting, disbursement, and financial management arrangements; (d) procurement arrangements; (e) Project monitoring, reporting, and evaluation arrangements; (f) performance indicators; (g) criteria and procedures to be used for the selection of energy efficiency investment activities undertaken under Part 2(b) of the Project; (h) the boundaries of Project Areas and the criteria and procedure for selecting additional Project Areas; and (i) criteria and procedures to be used for the selection of Outer Islands for activities undertaken under Part 3(b) of the Project (“Project Implementation Manual”).

2. The Recipient shall ensure that the Project is implemented in accordance with the provisions of the Project Implementation Manual.

3. The Recipient shall obtain from the Association written agreement prior to assigning, amending, abrogating, or waiving the Project Implementation Manual, or any provision thereof, or permitting any entity participating in the implementation of the Project to do so.

4. In the event of any conflict between the provisions of the Project Implementation Manual and those of this Agreement, the provisions of this Agreement shall prevail.

C. Safeguards

1. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Safeguard Documents.
2. If a Resettlement Action Plan (RAP) would be required for any Project activities on the basis of the Resettlement Policy Framework (RPF), the Recipient shall ensure that: (a) said RAP has been prepared in accordance with the requirements of the RPF, furnished to the Association for approval, and disclosed locally; and (b) no such activities shall commence until: (i) all measures required to be taken under said RAP prior to the commencement of said activities have been taken; (ii) a report, in form and substance satisfactory to the Association, on the status of compliance with the requirement of said RAP has been prepared and furnished to the Association; and (iii) the Association has confirmed that said activities may be commenced.

3. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall, in accordance with terms of reference satisfactory to the Association: (a) monitor the status of compliance with the Safeguard Documents; and (b) prepare and furnish to the Association, as part of each Project Report, a report on the results of such monitoring activities during the period covered by said Project Report, giving details of:

(a) measures taken in furtherance of such Safeguard Documents;

(b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of such Safeguard Documents; and

(c) remedial measures taken or required to be taken to address such conditions.

4. The Recipient shall afford the Association a reasonable opportunity to review the reports prepared under paragraph 3 of this Part C, and thereafter shall carry out with due diligence all remedial measures agreed with the Association so as to ensure the proper implementation of the Project in accordance with the Safeguard Documents.

5. The Recipient shall ensure that:

(a) all terms of reference for any technical assistance or studies carried out under the Project are consistent with the Association's Safeguard Policies, as well as the Recipient's own laws relating to the environment and social aspects; and

(b) in drafting any regulations, guidelines, corporate procedures, policies, standards or labelling and carrying out capacity building activities under the Project, due attention is given to said policies and laws.
6. In the event of a conflict between the provisions of any of the Safeguard Documents and those of this Agreement, the provisions of this Agreement shall prevail.

D. Annual Work Plans and Budgets

1. The Recipient shall prepare and furnish to the Association not later than:

(a) four (4) months after the Effective Date (or such later date as the Association may agree); and

(b) November 30 of each year for every subsequent year during the implementation of the Project (or such later date as the Association may agree);

for the Association’s no-objection, an Annual Work Plan and Budget containing all eligible Project activities and Eligible Expenditure, inclusive of Operating Costs, proposed to be included in the Project in the Recipient’s following calendar year, including a specification of the source or sources of financing for all Eligible Expenditures, and environmental and social safeguard measures taken or planned to be taken in accordance with the provisions of Section I.C of this Schedule.

2. The Recipient shall ensure that the Project is implemented in accordance with the Annual Work Plan and Budget accepted by the Association for the Recipient’s respective calendar year; provided, however, that in the event of any conflict between the Annual Work Plan and Budget and the provisions of this Agreement, the provisions of this Agreement shall prevail.

3. The Recipient shall not make or allow to be made any change to the Annual Work Plan and Budget without prior no-objection in writing by the Association.

E. Operations and Maintenance Fund

1. The Recipient shall, by no later than twelve (12) months after the Effective Date, establish and thereafter maintain until the Closing Date, a fund for the operation and maintenance of the renewable energy investments supplied and installed under Part 1 of the Project ("O&M Fund"). To this end, the Recipient shall, by no later than twelve (12) months after the Effective Date:

(a) finalize the design of the O&M Fund to the satisfaction of the Association;

(b) develop rules, guidelines, and procedures necessary to regulate the funding of, and disbursement from, the O&M Fund that are in form and substance satisfactory to the Association; and
(c) put in place all arrangements that would ensure operational functioning of the O&M Fund throughout the lifespan of the renewable energy investments supplied and installed under Part 1 of the Project, including payment of funds into the O&M Fund, all in a manner acceptable to the Association.

Section II. Project Monitoring, Reporting and Evaluation

1. The Recipient shall furnish to the Association each Project Report not later than forty-five (45) after the end of each calendar semester, covering the calendar semester.

2. Mid-Term Review

The Recipient shall: (a) not later than June 22, 2020 (or such other date as the Association may agree in writing), prepare and furnish to the Association a mid-term report, in such detail as the Association shall reasonably request, documenting progress achieved in the carrying out of the Project during the period preceding the date of such report, taking into account the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section II, and setting out the measures recommended to ensure the continued efficient carrying out of the Project and the achievement of its objective during the period following such date; and (b) review with the Association such mid-term report, on or about the date one month after its submission, carry out a mid-term review of the Project, and thereafter take all measures required to ensure the continued efficient implementation of the Project and the achievement of its objectives, based on the conclusions and recommendations of the mid-term report and the Association's views on the matter.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to: (a) finance Eligible Expenditures; and (b) repay the Preparation Advance; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing 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, consulting services, Training and Workshops, and Operating Costs for the Project</td>
<td>23,850,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Refund of Preparation Advance</td>
<td>450,000</td>
<td>Amount payable pursuant to Section 2.07 (a) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>24,300,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date.

2. The Closing Date is December 30, 2022.
APPENDIX

Definitions

1. “Annual Work Plans and Budgets” means the annual work plans and budgets (including related cash forecasts) for the implementation of the Project, referred to in Section I.D.1 of Schedule 2 to this Agreement.

2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

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

4. “Chief Secretary of the Public Service” means the head of the Recipient’s Chief Secretary Office, established and appointed in accordance with Article VII, Section 2 of the Constitution of the Marshall Islands 1979.

5. “Combined Utilities Board” or “CUB” means the Recipient’s Combined Utilities Board as established by the Recipient’s Cabinet, that is responsible for the governance and oversight of MEC, MWSC and KAJUR, as authorized by the Recipient’s Cabinet Decisions C.M026(97) dated February 21, 1997 and C.M052(2006) dated April 28, 2006.

6. “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter, (B) loss of assets or access to assets, or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction to access legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means more than one such Displaced Person.

7. “Energy Planning Division” or “EPD” means the Recipient’s Energy Planning Division, or any successor thereto.

8. “Environmental and Social Management Plan” or “ESMP” means the environmental and social management plan for the Project, dated October 30, 2017, prepared and adopted by the Recipient which sets forth details of measures to manage potential environmental and social risks and mitigate, reduce and/or offset adverse environmental and social impacts associated with the implementation of activities under the Project, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation
of, and regular feedback on compliance with, its terms, and including a pest management plan, as the same may be amended and supplemented from time to time with the prior agreement of the Association.


10. “Kwajalein Atoll Development Authority” means the Recipient’s Kwajalein Atoll Development Authority established pursuant to the Kwajalein Atoll Development Authority Act (2016).


12. “Majuro Water and Sewer Company” or “MWSC” means the Recipient’s state owned enterprise responsible for sewer and water services in Majuro, governed by the CUB in accordance with the Recipient’s Cabinet Decision on February 21, 1997 (CM026(97)).


14. “Memorandum of Understanding” means the memorandum of understanding between MFBPS, MEC, EPD, MWSC and KAJUR referred to in Section I.A.2 of Schedule 2 to this Agreement.

15. “Ministry of Finance, Banking and Postal Services” or “MFBPS” means the Recipient’s Ministry of Finance, Banking and Postal Services, or any successor thereto.


17. “O&M Fund” means the Recipient’s fund for the operation and maintenance of the renewable energy investments supplied and installed under Part 1 of the Project, referred to in Section I.E of Schedule 2 to this Agreement.

18. “Operating Costs” means reasonable incremental expenditures incurred on account of Project implementation, including leasing and/or routine repair and maintenance of vehicles, equipment, facilities and office premises, fuel, office supplies, utilities, consumables, communication expenses (including postage, telephone and internet
costs), translation, printing and photocopying expenses, bank charges, publications and advertising expenses, insurance, meeting expenses, travel, subsistence and lodging expenses, administrative staff, and other administrative costs directly related to the Project, exclusive of salaries of the Recipient’s civil service, sitting fees, bonuses, fees and honoraria or equivalent payments.

19. "Outer Islands” means the islands in the Recipient’s territory, excluding Majuro and Ebeye, selected in accordance with the criteria and procedure detailed in the Project Implementation Manual.

20. “Preparation Advance” means the advance referred to in Section 2.07 (a) of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on March 16, 2017 and on behalf of the Recipient on March 30, 2017.

21. "Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for Borrowers under Investment Project Financing”, dated July 1, 2016.

22. “Project Areas” means Ebeye, Majuro, and any other areas defined as ‘Project Areas' in the Project Implementation Manual that have been identified in accordance with the criteria detailed in the Project Implementation Manual.

23. “Project Implementation Manual” means the Recipient’s manual referred to in Section I.B. of Schedule 2 to this Agreement.

24. “Project Implementation Unit” means the Recipient’s Project implementation unit referred to in Section I.A.2 of Schedule 2 to this Agreement.

25. “Project Steering Committee” means the Recipient’s Project committee referred to in Section I.A.1 of Schedule 2 to this Agreement.

26. “RAP” means a resettlement action plan, in form and substance satisfactory to the Association, to be prepared by the Recipient on the basis of the RPF, and giving details of the specific actions, measures and policies designed to facilitate the achievement of the objectives of the RPF, along with the procedural and institutional measures needed to implement such actions, measures and policies; the term “RAPs” means more than one such RAP.

27. “Resettlement Policy Framework” or “RPF” means the framework prepared and adopted by the Recipient, dated October 30, 2017 which sets out the criteria and procedures, including organizational arrangements and budget for: (a) negotiated access to land; (b) the involuntary taking of land and other assets, or access to said land and other assets, from Displaced Persons; (c) resettlement and rehabilitation
of, and compensation to, Displaced Persons; and (d) reporting and monitoring arrangements to ensure compliance with such framework.

28. "Safeguard Documents" means, collectively, the ESMP, the RPF, and any RAPs.

29. "Safeguard Policies" means, to the extent that they are applicable to the Project activities, the operational policies and procedures OP/BP 4.01 (Environmental Assessment), OP/BP 4.04 (Natural Habitats), OP/BP 4.09 (Pest Management), OP/BP 4.10 (Indigenous Peoples), OP/BP 4.11 (Physical Cultural Resources), OP/BP 4.12 (Involuntary Resettlement), OP/BP 4.36 (Forests), and OP/BP 4.37 (Safety of Dams) contained in the Bank’s Operational Manual which can be found on the Bank’s website at www.worldbank.org.

30. "Signature Date" means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to "the date of the Financing Agreement" in the General Conditions.

31. "Training and Workshops" means activities to be carried out by the Recipient, based on terms of reference acceptable to the Association, for facilitating, conducting, and/or undertaking domestic and overseas training and workshops under the Project, the reasonable costs of which include: costs of training or workshop materials; equipment and venue rental; and per diem, accommodation, and transportation for those attending the training or workshop, and honoraria for trainers.