Mr. Wilson Sagati  
Council Chairman  
Pacific Aviation Safety Office  
P.O. Box 139  
Anchor House  
Lini Highway  
Port Vila, Vanuatu  

Re: PRIF Grant No.TF0A3687  
Pacific Aviation Safety Office Reform Project  
Letter Agreement  

Dear Sir/Madam:

In response to the request for financial assistance made on behalf of PACIFIC AVIATION SAFETY OFFICE ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development/International Development Association ("World Bank"), acting as administrator of grant funds provided by the Government of Australia through the Department of Foreign Affairs and Trade ("DFAT") and the Government of New Zealand through its Ministry of Foreign Affairs and Trade ("MFAT") ("Donors") under the Multi-Donor Trust Fund for the Pacific Regional Infrastructure Facility ("PRIF"), proposes to extend to the Recipient for the benefit of the Member Countries (as defined in the Appendix to this Agreement), the Cook Islands and Niue (collectively referred to as the "Pacific Island Countries"), a grant in an amount not to exceed nine hundred fifty thousand United States Dollars (USD 950,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project"). This Grant constitutes an additional financing to the grant in the amount of one million five hundred thousand Special Drawing Rights (SDR 1,500,000) that the International Development Association provided to the Recipient to finance the Pacific Aviation Safety Office Reform Project pursuant to the financing agreement ("Original Financing Agreement") (IDA Grant No. H883) between the Association and the Recipient dated November 1, 2013, as amended to the date of this Agreement.

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

1818 H Street NW • Washington, DC 20433 USA
Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date specified by the World Bank in accordance with Article 5 of the Annex to this Agreement.

Very truly yours,
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

Michel Kerf
Country Director
Timor-Leste, Papua New Guinea
& Pacific Islands
East Asia and Pacific Region

AGREED:
PACIFIC AVIATION SAFETY OFFICE

By
Authorized Representative

Name WILSON SABAULI OBE
Title CHAIRMAN
Date 02.02.17

Enclosures:
(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions"), with the modifications set forth in Section I of the Appendix to this Agreement, constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions, in the Original Financing Agreement or in this Agreement (including the cover letter to this Agreement and this Section) as follows:

"Amended Service Agreement" means the Service Agreement that has been amended in a manner and on terms and conditions acceptable to the World Bank, to reflect the additional activities financed by the Grant, as referred to in Sections 2.03(b) and 5.01(a) of this Agreement.

"Operating Costs" means the reasonable Project costs, including costs of incremental expenditures under the Project incurred by the Recipient for purposes of Project implementation, management, and monitoring and evaluation, including fees, utilities and supplies, bank charges, communications, vehicle operation, maintenance, and insurance, office space rental (in the amount not covered by funding from other sources), public awareness-related publicity and media expenses, travel and subsistence, but excluding salaries, fees, honoraria, bonuses, and any other salary supplements of the Recipient’s employees.

"Original Project" means the project described in Schedule 1 to the Original Financing Agreement.

"VSAT" means the very small aperture terminals acquired and installed for the Cook Islands and Niue pursuant to Part 4 of the Project.

"VSAT Operation and Maintenance Agreements" means, collectively, the (i) agreement between the Recipient and the Cook Islands and (ii) agreement between the Recipient and Niue, to ensure proper use, operation and maintenance of the VSAT by the Cook Islands and Niue throughout Project implementation period, as referred to in Sections 2.03(d) and 3.02(b) of this Agreement.

Article II
Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to strengthen the coordination capacity of the Pacific Aviation Safety Office (PASO) to deliver regional aviation safety and security oversight, and technical and advisory services to the Pacific Island Countries. The Project consists of the Original Project. The Grant will be used to finance Part 1 and Part 4 of the Original Project.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) 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 ("Anti-Corruption Guidelines"); and (c) this Article II.

2.03. **Institutional and Other Arrangements.** (a) **Institutional Arrangements.** The provisions of Section 1.A (Institutional Arrangements) of Schedule 2 to the Original Financing Agreement are hereby incorporated and shall apply, mutatis mutandis, to this Project, with all references to "Project" and "Association" being deemed references, respectively, to this Project and "World Bank" 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.

(b) **Amended Service Agreement.** The Recipient shall exercise its rights under the Amended Service Agreement in such manner as to protect the interests of the Recipient and the World Bank, and to accomplish the purposes of the Grant, and except as the World Bank shall otherwise agree in writing, not assign, amend, abrogate or waive the Amended Service Agreement or any provision thereof.

(c) **Program Operations Manual and Business Plan.** The provisions of Section 1.C.2 (Program Operations Manual and Business Plan) of Schedule 2 to the Original Financing Agreement are hereby incorporated and shall apply, mutatis mutandis, to this Project, with all references to "Project" and "Association" being deemed references, respectively, to this Project and "World Bank" 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.

(d) **VSAT Operation and Maintenance Agreements.** (i) The Recipient shall, before requesting any withdrawal of proceeds of the Grant under Category (3) of the table in Section 3.01 of this Agreement, enter into the VSAT Operation and Maintenance Agreements with the Cook Islands and Niue, under the terms and conditions acceptable to the World Bank, to ensure proper use, operation and maintenance of the VSAT by the Cook Islands and Niue throughout Project implementation period.

(ii) The Recipient shall exercise its rights under the VSAT Operation and Maintenance Agreements in such manner as to protect the interests of the Recipient and the World Bank, and to accomplish the purposes of the Grant, and except as the World Bank shall otherwise agree in writing, not assign, amend, abrogate or waive the VSAT Operation and Maintenance Agreements or any provision thereof.

2.04. **Donor Visibility and Visit** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor(s) to visit any part of the Cook Islands and Niue for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators, acceptable to the World Bank and set forth in the Program Operations Manual. Each Project Report shall cover the period of six (6) months, and shall be furnished to the World Bank not later than forty five (45) days after the end of the period covered by such report.
(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.06. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.07. Procurement

(a) General. All goods, works, non-consulting services and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:


(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014) (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods, Works and Non-consulting Services

(i) Except as otherwise provided in sub-paragraph (ii) below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts which are specified in the Procurement Plan: (A) Shopping; and (B) Direct Contracting.

(d) **Particular Methods of Procurement of Consultants' Services**

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Selection Based on Consultants' Qualifications; (B) Single- Source Selection; and (C) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

### Article III

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts 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 Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Operating Costs under Part 1 of the Project</td>
<td>100,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Payment for Service Agreement to TFSU</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods, works, non-consulting services and consultants' services under Part 4 of the Project</td>
<td>850,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>950,000</td>
<td></td>
</tr>
</tbody>
</table>
3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement; or

(b) under Category (3), unless and until the Recipient has provided evidence satisfactory to the World Bank that the VSAT Operation and Maintenance Agreements have been entered into in accordance with the provisions of Section 2.03(d)(i) of this Agreement and become effective in accordance with their terms.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2018.

Article IV
**Additional Remedies**

4.01. **Additional Event of Suspension.** The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following, namely that, the Pacific Island Civil Aviation Safety and Security Treaty has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement.

Article V
**Effectiveness; Termination**

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:

(a) The Amended Service Agreement between the Recipient and TAL, through TFSU, has been executed by both parties thereto and become effective in accordance with its terms.

(b) The Program Operations Manual has been updated with the provisions acceptable to the World Bank to reflect the additional activity financed by the Grant.

5.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.03. **Termination for Failure to Become Effective.** This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.
Article VI
Recipient’s Representative; Addresses

6.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Council Chairman.

6.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

   Pacific Aviation Safety Office  
   P.O. Box 139  
   Anchor House  
   Lini Highway  
   Port Vila, Vanuatu  

   Facsimile: (678) 28555

6.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

   Telex: 248423 (MCI) or 64145 (MCI)  
   Facsimile: 1-202-477-6391
APPENDIX
Modifications to the Standard Conditions

For the purposes of this Agreement, the term “Member Country” defined in the Appendix to the Standard Conditions is modified to read as follows:

“17. “Member Country” means each of the following: Republic of Kiribati, Republic of Nauru, Independent State of Papua New Guinea, Independent State of Samoa, Solomon Islands, Kingdom of Tonga, Tuvalu, and Republic of Vanuatu, which are members of the World Bank in whose respective territories the Project is carried out; “Member Countries” refers to all the aforementioned countries; and solely for the purposes of the Standard Conditions, whenever the term “Member Country” or “Member Countries” is used in the Standard Conditions, it shall be read to include the Cook Islands and Niue, self-governing territories in free association with New Zealand.”