Financing Agreement

(Pacific Aviation Safety Office Reform Project)

between

PACIFIC AVIATION SAFETY OFFICE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated 1 November, 2013
AGREEMENT dated 1 November, 2013, entered into between PACIFIC AVIATION SAFETY OFFICE ("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) 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 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 in an amount equivalent to one million five hundred thousand Special Drawing Rights (SDR 1,500,000) (variously, "Grant" or "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 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 Payment Dates are February 15 and August 15 in each year.

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

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Project shall be carried out in accordance with the provisions of Article IV of the General Condtions.

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

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Recipient’s Council Chairman.

5.02. The Recipient’s Address is:

Pacific Aviation Safety Office
P.O. Box 139
La Casa d’Ancrea Building
Lini Highway
Port Vila, Vanuatu

Facsimile: (678) 28555

5.03. The Association’s Address is:

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

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

PACIFIC AVIATION SAFETY OFFICE

By

[Signature]
Authorized Representative

Name: WILSON SAGATI

Title: CHAIRMAN

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]
Authorized Representative

Name: FRANK R. DREES-GROSS

Title: COUNTRY DIRECTOR, EACNF
SCHEDULE 1

Project Description

The objective of the Project is to ensure effective regional delivery of aviation safety and security oversight in Pacific Island Countries by strengthening the Pacific Aviation Safety Office’s (PASO) technical and coordination capacity.

The Project consists of the following parts:

Part 1. Transitional Management and Support

Carrying out a program of activities to assist PASO through restructuring process including financing the costs associated with: (i) implementing a new organizational framework and staff changes, including financing of severance packages for termination of existing contracts of staff; (ii) conducting legal reviews for strengthening its governance and management; (iii) evaluating the PASO funding approach, including finding new revenue sources; (iv) conducting workshops and seminars for PASO Council members; (v) developing a communications strategy; (vi) transitional support to implement the new Business Plan, including engagement of TFSU for provision of support to PASO as per terms of Service Agreement; and (vii) carrying out annual financial audits of the Project as agreed with the Association.

Part 2. Establishment of a Pool of Regional Aviation Inspectors

Carrying out a program of activities to assist PASO in establishing a pool of inspectors to be used by PASO to oversee aviation safety and security, including: (i) establishing a comprehensive register of inspectors for the region available for PASO-related services; (ii) establishing a regional program of inspectors to build and assess the capacity of inspectors from PASO Member States; (iii) provision of necessary training for inspectors to ensure they meet skill levels necessary to provide PASO services; (iv) provision of training to PASO staff to develop the human resources to deliver the necessary services.

Part 3. Quality Management

Carrying out a program of activities, including: (i) establishing a quality assurance system for PASO to ensure that all operations meet an appropriate standard; and (ii) implementing a PASO management information system with an appropriate information technology network, including a document management system.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangement

1. PASO council

The Recipient shall maintain a council in PASO, to be responsible for:
(i) appointing a manager/senior coordinator and technical coordinators at PASO;
(ii) providing policy and strategic direction to PASO;
(iii) reviewing from time to time the adequacy and appropriateness of the PASO Constitution;
(iv) adopting rules of procedures, financial and administrative regulations;
(v) approval of the annual budgets, work programs, fee structures and staffing levels of PASO;
(vi) receiving, examining and releasing annual reports of the manager/Senior Coordinator of PASO.

2. Manager

The Recipient shall throughout the implementation of the Project maintain a manager with the responsibilities for day-to-day management of the Project, with the terms of reference and qualifications satisfactory to the Association.

3. Steering Committee

The Recipient shall maintain, throughout the implementation of the Project, a steering committee with terms of reference, powers, functions, and other resources satisfactory to the Association, including competent staff in adequate numbers, for the purposes of: (i) managing the process of restructuring of PASO; and (ii) supervision of the implementation of the Business Plan.

B. Service Agreement

1. The Recipient shall, no later than sixty (60) days after the Effective Date, amend the Cooperation Agreement with TFSU into a Service Agreement under the terms and conditions acceptable to the Association to reflect the details of the Project.

2. The Recipient shall exercise its rights under the Service Agreement in such manner as to protect the interests of the Recipient and the Association, and to accomplish the purposes of the Grant, and except as the Association shall otherwise agree in writing, not assign, amend, abrogate or waive the Service Agreement or any provision thereof.
C. Program Operations Manual and Business Plan

1. The Recipient shall no later than sixty (60) days after the Effective date adopt the Program Operations Manual with the provisions acceptable to the Association.

2. The Recipient shall, through the manager maintained pursuant to Section I.A.2 of this Schedule 2: (i) take all action required to carry out the Project in accordance with the provisions and requirements set forth or referred to in the Program Operations Manual and the Business Plan; (ii) submit recommendations to the Association for its consideration for changes and updates of the Program Operations Manual and the Business Plan as they may become necessary or advisable during the operation of the Project in order to achieve the objective of the Project; and (iii) not assign, amend, abrogate or waive the Program Operations Manual and/or the Business Plan or any provisions thereof without the Association's prior agreement. Notwithstanding the foregoing, if any of the provisions of the Program Operations Manual and/or the Business Plan are inconsistent with the provisions of this Agreement, the provisions of this Agreement shall prevail and govern. In case of inconsistency between the provisions of the Program Operations Manual and provisions of the Business Plan, the provisions of the Program Operations Manual shall prevail.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

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 in accordance with the indicators acceptable to the Association. Each Project Report shall cover the period of six (6) months, 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, 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 4.0(b) of the General Conditions. Each 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 Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods.

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

2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopping</td>
</tr>
</tbody>
</table>
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 table specifies methods of selection, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Selection Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection Based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(b) Single Source Selection</td>
</tr>
<tr>
<td>(c) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

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 Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
### Category

<table>
<thead>
<tr>
<th>Category</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, Consultants’ Services, Operating Costs, Training and Workshops for the Project, and Severance Payments for Part 1 of the Project</td>
<td>1,270,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Payment for Service Agreement to TFSU</td>
<td>230,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>1,500,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

### B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed one hundred thousand Special Drawing Rights (SDR 100,000), made prior to this date but on or after January 1, 2013 for Eligible Expenditures.

1. The Closing Date is December 31, 2018.
APPENDIX

Section I. Definitions


2. “Business Plan” means the plan developed to guide the organizational restructuring and operation of PASO, acceptable to the Association.

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


5. “Cooperation Agreement” means the agreement between the Recipient and TAL, dated July 26, 2012, to be amended into a Service Agreement by the Recipient pursuant to paragraph B.1 of Section I of Schedule 2 to this Agreement, as said Service 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 Cooperation Agreement.

6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants,” dated July 31, 2010, with the modifications set forth in Section II of this Appendix.

7. “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.

8. “Pacific Aviation Investment Program” means the regional program to improve operations, safety and oversight of international air transport infrastructure in participating countries, including the Republic of Kiribati, the Kingdom of Tonga, and Tuvalu.
9. “PASO” means Pacific Aviation Safety Office, the office established under the terms of the Pacific Islands Civil Aviation Safety and Security Treaty (PICASSTi), which was ratified by the Recipient on May 8, 2008 and which entered into force on June 8, 2008, or any successor thereto.

10. “PASO Employment Policy and Procedures” means the policy and procedures for recruitment, appointment, remuneration and benefits, terms and conditions of employment, performance management and termination of all PASO staff, dated June 27, 2006.

11. “PASO Member States” mean collectively the current or future states-parties Members of the Pacific Aviation Safety Office, namely the Commonwealth of Australia, the Cook Islands, the Republic of Fiji, the Republic of Kiribati, the Republic of Nauru, New Zealand, Niue, the Independent State of Papua New Guinea, the Independent State of Samoa, Solomon Islands, the Kingdom of Tonga, Tuvalu, and the Republic of Vanuatu and in whose territories the Project is carried out.


13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated August 23, 2013 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

14. “Program Operations Manual” means the manual developed under the Pacific Aviation Investment Program that is intended to guide implementing agencies on roles and responsibilities, including fiduciary, of various program participants, during implementation.

15. “Severance Payments” means the severance payments for three professional staff disestablished as a part of the implementation of the Project, in accordance with the Business Plan and PASO Employment Policy and Procedures.

16. “Service Agreement” means agreement between the Recipient and the TAL as defined in paragraph 5 of the Appendix to this Agreement, including any annexes or schedules to such Service Agreement.

17. “TAL” means Tonga Airports Ltd.

18. “TFSU” means “Technical and Fiduciary Services Unit” established within Tonga Airports, Ltd to support project implementation activities and project level coordination.
19. "Training and Workshops" means the reasonable costs required for the participation of personnel involved in training courses and workshops under the Project, including travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation, but excluding consultants' services.

Section II. Modifications to the General Conditions

The provisions of the General Conditions are modified as follows:

1. In Section 2.06 the term “Recipient” in the first sentence is replaced with the phrase “the Member of the Association, in which territory the Project activities will be carried out.”

2. Section 4.11(i) is amended to read as follows: “The Recipient shall take all reasonable actions to ensure that the members of the Association where the Project activities shall be carried out afford all reasonable opportunity for representatives of the Association to visit any part of their territory for purposes related to the Financing or the Project.”

3. Section 5.01 is deleted.

4. Paragraph 45 of the Appendix is modified to read as follows:

“45. “Recipient” means the party to the Financing Agreement to which the Financing is extended.”