

Public Disclosure Authorized

OFFICIAL DOCUMENTS

CREDIT NUMBER 6072-VU
GRANT NUMBER D1930-VU

Financing Agreement

Rural Electrification Project Stage II

between

REPUBLIC OF VANUATU

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated 23 July, 2017

CREDIT NUMBER 60720 VU
GRANT NUMBER D1930-VU

FINANCING AGREEMENT

AGREEMENT dated, 23 July 2017, entered into between REPUBLIC OF VANUATU ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association").

WHEREAS, (A) the Recipient having satisfied itself as to the feasibility and priority of the project described in Schedule I to this Agreement ("Project"), has requested the Association to extend a credit and a grant as provided in Section 2.01 of this Agreement, to assist in the financing of the Project; and

(B) the Recipient has also requested the Association, acting as administrator of the Pacific Region Infrastructure Facility ("PRIF") multi-donor trust fund, to make available to the Recipient a grant in the amount of three million four hundred and fifty thousand Dollars (US\$3,450,000.00) to assist in the financing of the Project, pursuant to a grant agreement to be signed between the Recipient and the Association ("PRIF Grant Agreement");

(C) the Recipient has also requested the Association, acting not in its individual capacity but as implementing entity of the Scaling-up Renewable Energy Program ("SREP") under the Strategic Climate Fund ("SCF"), to provide a grant to the Recipient in the amount of six million seven hundred and seventy thousand Dollars (US\$ 6,770,000.00) to assist in the financing of the Project, pursuant to a grant agreement to be signed between the Recipient and the Associations (SREP Grant Agreement)

Now, therefore 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 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 one million five hundred thousand Special Drawing Rights (SDR 1,500,000 ("Grant")); and
 - (b) an amount equivalent to one million five hundred thousand Special Drawing Rights (SDR 1,500,000 ("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 objective of the Project. To this end, the Recipient shall carry out the Project through the Ministry of Climate Change and Natural Disaster in accordance with the provisions of Article IV of the General Conditions.
- 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:
- The SREP Grant Agreement and PRIF Grant Agreement (“Grant Agreements”) have been executed and all conditions to their effectiveness or to the right of the Recipient to make withdrawals under them (other than the effectiveness of this Agreement) have been fulfilled.
- 4.02 The Effectiveness Deadline is (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 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 and Economic Management.
- 5.02. The Recipient’s Address is:
- Ministry of Finance and Economic Management
PMB 9058
Port Vila, Vanuatu
- Facsimile :
- 67827937
- 5.03. The Association’s Address is:
- International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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 PIKIOWE (MP)

Title: Minister of Finance and
Economic Management

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: MICHEL KELF

Title: COUNTRY DIRECTOR

SCHEDULE 1

Project Description

The objective of the Project is to support increased penetration of renewable energy and increased access to affordable electricity services in the dispersed off-grid areas of Vanuatu.

Part 1. Provision of Solar Home Systems and Micro-Grid systems in rural areas of Vanuatu

Expansion of access to reliable electricity services for rural households and public institution consumers through the provision of Subsidy Payments to partially cover the retail cost of the Solar Home Systems (SHS) and Micro-Grid systems.

Part 2. Construction of Mini-Grid systems in rural areas of Vanuatu

The expansion of access to reliable electricity services for rural communities through the support for the design, construction, and operation and maintenance of Mini-Grid systems.

Part 3. Technical Assistance and Project Management

Strengthening of the Department of Energy's (DoE) technical capacity, environmental and social safeguards oversight, and fiduciary capacity through the provision of technical assistance and implementation support for:

- (a) Vendor and product registration arrangements, communications, subsidy implementation arrangements including on Subsidy Implementation Agreements (SIA), verification, establishment of a grievance redress mechanism for end-users, support to relevant legislation and refinements to Environmental Code of Practice ("ECOP"), and support for microfinance products, all under Part 1 of the Project.
- (b) Hiring of an Owner's Engineer(s) and specialists/advisors to support the design, preparation of bid documents and contracts, supervision of works, preparation, and compliance and reporting on the implementation of environmental and social impact assessments and management plans, all under Part 2 of the Project.
- (c) Hiring of a Verification Agent to verify subsidy claims of Vendors for sales of eligible SHS and Micro-Grids, and to prepare the Output Verification Report, in accordance with the Project Operations Manual and the Subsidy

Implementation Manual, under Part 1 of the Project.

(d) Capacity building for DoE staff and staff of other relevant Recipient agencies on the technical components of the Project, execution of community engagement awareness program, project monitoring, evaluation and reporting.

SCHEDULE 2

Project Execution

Section I. Institutional and Implementation Arrangements

- A. **Institutional Arrangements.** The Recipient through the Ministry of Climate Change and Natural Disaster's Department of Energy shall have overall responsibility for project management, including general administration, procurement, financial management and monitoring and evaluation, and shall maintain adequate staffing and resources for this purpose.
- B. **Subsidy Payments under Part 1 of the Project**
1. The Recipient shall ensure that Vendors who participate in Part I of the Project, are approved and registered by the DoE according to procedures and criteria set out in the Project Operations Manual and Subsidy Implementation Manual.
 2. The Recipient shall enter into a Subsidy Implementation Agreement with each approved Vendor under terms and conditions acceptable to the Association, which shall include the following:
 - a. that the Vendor shall carry out its obligations with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the Anti-Corruption Guidelines, the ECOP and the Subsidy Implementation Manual;
 - b. that independent verification is carried out by a Verification Agent prior to claiming Subsidy Payments for eligible SHS and Micro-Grids systems listed in the Product Catalogue, in accordance with the Project Operations Manual and the Subsidy Implementation Manual;
 - c. that in the case of conflict between the terms and conditions of the Subsidy Implementation Agreement and the provisions of this Agreement, the latter shall apply; and
 - d. that the Recipient shall have the right to suspend or terminate the right of the Vendor to receive Subsidy payments upon failure by the Vendor to perform its obligations under the Subsidy Implementation Agreement.

3. The DoE shall maintain a Product Catalogue, acceptable to the Association, which sets out the types of products and technical standards based on international standards provided through a registered Vendor.

4. The DoE shall hire and maintain at all times during implementation of the Project, a Verification Agent ("VA") under terms of reference acceptable to the Association to be responsible for the verification of sales of SHS and Micro-Grid systems and other qualifying products by registered Vendors and for recording of Subsidy Payments. The DoE shall pay for subsidy claims from registered Vendors under procedures described in the Subsidy Implementation Manual and the Subsidy Implementation Agreement. The roles and responsibilities, processes, monitoring and evaluation of independent verification under the Project shall be described in the Project Operations Manual, Subsidy Implementation Manual and the Subsidy Implementation.

C. Construction of Mini-Grids under Part 2 of the Project

1. The Recipient shall ensure that the mini-grid site selection under Part 2 of the Project is conducted through a community engagement process as described in the Project Operations Manual and the Resettlement Policy Framework (RPF).

2. The Recipient shall hire an Owner's Engineer under terms of reference acceptable to the Association to support the preparation and implementation of the activities under Part 2 of the Project.

3. The Recipient shall engage a service provider to construct and commission the Mini-Grid systems, such service provider may be an existing concessionaire in Vanuatu or a new private sector provider identified by competitive bidding under Section III.

D. Project Operations Manual and Subsidy Implementation Manual

1. The Recipient shall ensure that the Project is carried out in accordance with the Project Operations Manual and Subsidy Implementation Manual acceptable to the Association. Except as the Association shall otherwise agree in writing, the Recipient shall not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the Project Operations Manual or the Subsidy Implementation Manual, or any provision thereof. In the case of conflict between the Project Operations Manual and/or the Subsidy Implementation Manual on the one hand, and the provisions of this Agreement on the other hand, the latter shall apply.

2. The Subsidy Implementation Manual shall set out detailed implementation arrangements for Part 1 of the Project, including eligibility criteria for beneficiaries and Vendors; process for registration of Vendors and administration of the

Subsidy Implementation Agreements; product registration arrangements; arrangements for verification of Subsidy claims; and a grievance mechanism, in form and substance satisfactory to the Association.

3. In the event of a conflict between the provisions of the Project Operations Manual and the Subsidy Implementation Manual on the one hand, and those of this Agreement on the other hand, the latter shall govern.

E. Anti-Corruption

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

F. Safeguards.

1. The Recipient shall carry out the Project in accordance with the Environmental and Social Management Framework (ESMF), and Resettlement Policy Framework (RPF).

2. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive, or permit to be assigned, amended, abrogated, or waived, any provision of the ESMF and RPF.

3. Whenever any Project activity, pursuant to the ESMF, requires the preparation of an additional Environmental Management Plan, the Recipient shall ensure that no such activity shall be implemented unless and until such additional Environmental Management Plan is prepared in accordance with the ESMF and furnished to the Association for review and approval, and is disclosed as required by the ESMF and approved by the Association.

4. The Recipient shall ensure that each contract for the design and construction of mini-grids under Part 2 of the Project and to be financed out of the proceeds of the Financing includes the obligation of the relevant contractor to implement the ESMF and RPF.

5. In carrying out the Project, the Recipient shall:

- (a) take all necessary actions to minimize to the extent possible any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently, and the displacement of said people in the carrying out of the Project or any part thereof;
- (b) where the acquisition of land or assets or the displacement of people is unavoidable, before initiating the implementation of any works or activities that would result in such acquisition or

displacement, make available to such people compensation and, as applicable, relocate and rehabilitate the Displaced Persons in accordance with a RAP prepared and adopted in accordance with the RPF, and in a manner satisfactory to the Association; and

- (c) whenever required in accordance with the RPF, proceed to have an additional Resettlement Action Plan (RAP) or RAPs: (i) prepared in form and substance satisfactory to the Association; (ii) except as otherwise agreed with the Association, submitted to the Association for review and approval; (iii) thereafter, adopted and publicly disclosed; and (iv) thereafter, to implement, or cause to be implemented, such additional RAP or RAPs in accordance with their terms and in a manner acceptable to the Association.

6. The Recipient shall carry out the Project in accordance with its Environmental Code of Practice (ECOP) for battery disposal or waste management legislation and regulations. The Recipient shall ensure that each Vendor complies with the ECOP.

7. The Recipient shall ensure that all studies and technical assistance to be supported under the Project are carried out under terms of reference satisfactory to the Association, and that such terms of reference are consistent with, and pay due attention to, the Association's Safeguards Policies.

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 acceptable to the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.

2. The Recipient shall: (a) on or about the date twenty four (24) months after the Effective Date, prepare and furnish to the Association a mid-term report (including results of an impact survey), 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 Part A, and setting out the measures recommended to ensure the continued efficient carrying out of the Project and the achievement of its objectives 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, 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.

3. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than three (3) months after the Closing Date.

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 semester interim unaudited financial reports for the Project covering the semester 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 fiscal year of the Recipient, commencing on the fiscal year of the countersignature of this Agreement. 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

All goods, works, non-consulting services and 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 the Procurement Regulations and the provisions of the Procurement Plan.

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 “Disbursement Guidelines for Investment Project Financing” dated February 2017, 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:

Category	Amount of IDA Credit Allocated (expressed in SDR)	Amount of IDA Grant Allocated (expressed in SDR)	Amount of PRIF Grant¹ (expressed in USD)	Amount of SREP Grant (expressed in USD)	Percentage of Expenditures to be Financed [inclusive of Taxes]
(1) a. Goods, works, non-consulting services, and b. consulting services and audits for the Project	a. 1,500,000 b. 00	a. 1,060,000 b. 140,000	a. 1,250,000 b. 580,000	a. 2,180,000 b. 700,000	100%
(2) Operating Costs, Training and Workshops for the Project	00	00	100,000	430,000	
(3) Subsidy Payments under Part I of the Project	00	300,000	1,520,000	3,460,000	
TOTAL AMOUNT	1,500,000	1,500,000	3,450,000	6,770,000	

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 one hundred forty thousand Special Drawing Rights (SDR 140,000.00) from the IDA Grant only may be made for payments made prior to this date but on or after January 31, 2017, for Eligible Expenditures under Category (1b);
 - (b) for Subsidy Payments under Category (3), unless and until: (i) the Subsidy Implementation Manual has been prepared and adopted in accordance with Section I.D of Schedule 2 to this Agreement; (ii) the Subsidy Implementation Agreement as described in Section I. B 2 of Schedule 2 has been approved by the Association; and (iii) the Verification Agent under Section I.B.4 of Schedule 2 is appointed according to Terms of Reference acceptable to the Association.
2. The Closing Date is June 30, 2022.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15:	
commencing October 15, 2027 to and including April 15, 2037	1%
commencing October 15, 2037 to and including April 15, 2057	2%

* 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

1. "Anti-Corruption Guidelines" means 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.
2. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. "Department of Energy" of "DoE" means the Recipient's Department of Energy, within the Ministry of Climate and Natural Disasters, or any successor thereto.
4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010.
5. "Grant Agreements" mean the Pacific Regional Infrastructure Facility Grant Agreement and the Scaling up Renewal Energy Program Grant Agreement.
6. "Micro-Grid systems" means the micro-grid systems meeting the technical standards as described in the Subsidy Implementation Manual.
7. "Mini-Grid systems" means the mini-grid systems meeting the technical specifications as set out in the bid documents.
8. "Operating Costs" means incremental expenses incurred by the Recipient on account of the implementation, management, monitoring and evaluation of the Project, based on annual budgets approved by the Association, including local contractual support staff salaries, benefits, travel expenditures and other travel-related allowances; equipment rental and maintenance; office rental and maintenance; materials and supplies; and utilities, media information campaigns and communications' expenses; but excluding salaries, fees, honoraria, bonuses and any other salary supplements of the Recipient's civil servants.
9. "Output Verification Report" means a report prepared by the Verification Agent, certifying that a Vendor has made a sale of a solar home system or micro-grid in accordance with the Project Operations Manual and the Subsidy Implementation Manual.
10. "Pacific Regional Infrastructure Facility" or "PRIF" means the multi-donor trust fund administered by the Association which finances infrastructure projects in the Pacific Region and financed by the Commonwealth of Australia and New Zealand.

11. "Pacific Regional Infrastructure Facility Grant Agreement" or "PRIF Grant Agreement" means the agreement to be entered between the Recipient and the Association, acting as administrator for the Pacific Regional Infrastructure Facility providing for a PRIF grant.
12. "PRIF grant" means, for purposes of this Agreement, an amount of three million four hundred and fifty thousand United States dollars (US\$3,450,000.00), to be provided by the PRIF to assist in financing the Project.
13. "Procurement Plan" means the Recipient's procurement plan for the Project, dated January 25, 2017 and provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the Association.
14. "Procurement Regulations" means the "World Bank Procurement Regulations for Borrowers under Investment Project Financing", dated July 1, 2016.
15. "Project Operations Manual" means the manual referred to in Section I.D of Schedule 2 to this Agreement, setting forth the implementation arrangements for the Project, including financial management, procurement, disbursement and flow of funds, indicators for monitoring and evaluation of the Project, as such Manual may be modified from time to time with written approval of the Association.
16. "Scaling-up Renewable Energy Program" or "SREP" means the program established under the Strategic Climate Fund in accordance with the Governance Framework for the Strategic Climate Fund for the purposes set forth in the SREP Design Document.
17. "Scaling up Renewal Energy Program Grant Agreement" or "SREP Grant Agreement" means the agreement to be entered into between the Recipient and the Association, acting not on its own behalf but as implementing entity for the Scaling up Renewal Energy Program for Low Income Countries, providing for the SREP grant.
18. "Solar Home Systems" or "SHS" means the solar home systems which meet the technical standards as described in the Product Catalogue.
19. "SREP grant" means, for purposes of this Agreement, an amount of six million seven hundred and seventy thousand United States dollars (US\$6,770,000.00), to be provided by the SREP trust fund to assist in financing the Project.
20. "Subsidy Implementation Agreement" or "SIA" means the agreement between the Recipient and Vendor setting the terms and conditions for participating under

Part 1 of the Project, as described in Section I.D of Schedule 2 to this Agreement.

21. "Subsidy Implementation Manual " means the manual referred to in Section I. D of Schedule 2 to this Agreement, setting forth the subsidy implementation arrangements and requirements for Part 1 of the Project, as such manual may be modified from time to time with the written approval of the Association.
22. "Subsidy Payments" means the amount payable to a Vendor under a Subsidy Implementation Agreement for eligible solar home system or micro-grid.
23. "Training and Workshops" means training courses and workshops required for the Project, as approved by the Association, including reasonable course or conference fees, travel and accommodation costs, per diems, rental of training and workshop facilities, preparation and production of training and workshop materials, and other costs directly related to training courses and workshop preparation and implementation.
24. "Vendor" means an energy retailer selected and registered by the DoE under procedures and criteria described in the Subsidy Implementation Manual and who has entered into a Subsidy Implementation Agreement with the Recipient.
25. " Verification Agent" or "VA" means the agent to be appointed by the Department of Energy as provided for in Section I.B of Schedule 2.