OFFICIAL DOCUMENTS

GRANT NUMBER D182-MH

Financing Agreement

(Pacific Resilience Project II) (Under the Pacific Resilience Program)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PACIFIC COMMUNITY

23 JUNE ,2017 Dated_

GRANT NUMBER D182-MH

FINANCING AGREEMENT

AGREEMENT dated <u>72</u> JJNE 2017, entered into between PACIFIC COMMUNITY ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association").

WHEREAS: (A) the Recipient, the Participating Countries and the Pacific Islands Forum Secretariat have undertaken to carry out a regional program designed to strengthen climate and disaster resilience in the Participating Countries with financing provided by the Association and other donors; and

WHEREAS: (B) the Recipient and the Republic of the Marshall Islands have undertaken to carry out the Pacific Resilience Project II under the Pacific Resilience Program designed to strengthen climate and disaster resilience of the Republic of the Marshall Islands at the national and regional levels.

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 — GRANT

- 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 three million Special Drawing Rights (SDR 3,000,000) ("Grant"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Recipient may withdraw the proceeds of the Grant 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 Grant Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are June 1 and December 1 in each year.
- 2.05. The Payment Currency is Euro.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project and the Program. To this end, the Recipient shall carry out the Project 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 REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consist of the following: The SPC 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 The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI --- REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is its Director-General.

6.02. The Recipient's Address is:

Pacific Community B/P D5 98848 Noumea, New Caledonia

Facsimile:

+687263818

6.03. The Association's Address is:

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

Telex: Facsimile:

248423 (MCI) 1-202-477-6391

AGREED at $\frac{23}{NOUMER_{1}NEW}$ (AVE), as of the day and year first above written.

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a.

INTERNATIONAL DEVELOPMENT ASSOCIATION



Name:

Title: _

COUNTRY

Director

By

Name:

OLIN TUKU ITONGA

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Authorized Representative

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Title:

THEAT LANGAN

PACIFIC COMMUNITY

Michel VEAP

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to strengthen early warning systems and climate resilient investments in shoreline protection in the Republic of the Marshall Islands.

The Project constitutes the second phase of the Program, and consists of the following parts:

Part 1 Institutional Strengthening, Early Warning and Preparedness

Carrying out a program of activities to strengthen the capacity of the Republic of the Marshall Islands to reduce climate and disaster risks, including improving impact forecasting, disaster response and system integration, institutional strengthening of the National Disaster Management Office, awarding of Scholarships to selected applicants for academic or vocational trainings or degrees in fields relevant to climate and disaster resilience and coastal risk management, and planning and resourcing post-disaster need assessments.

Part 2 Strengthening Coastal Resilience

Carrying out a program of activities to strengthen integrated coastal risk management, including investigating sustainable sources of aggregates, and conducting coastal vulnerability assessments, geospatial analysis, and other activities to inform coastal management plans, strategies and frameworks.

Part 3. Project and Program Management

Carrying out a program of activities through the Program Support Unit to support the Recipient and the Republic of the Marshall Islands to manage and implement the Project, including procurement, financial management, monitoring and evaluation, and operational technical assistance.

SCHEDULE 2

Project Execution

Section I. <u>Implementation Arrangements</u>

A. Institutional Arrangements

1. <u>Regional Steering Committee</u>

The Recipient shall, in collaboration with PIFS and the Participating Countries, take all necessary measures on its part to ensure that the Regional Steering Committee is maintained within PIFS throughout the Project implementation period, with a mandate and adequate resources satisfactory to the Association to be responsible for, inter alia, oversight of the Program. To this end, the Recipient shall: maintain a representative at the Regional Steering Committee; and (b) ensure continued participation of the representative in all meetings of the Regional Steering Committee.

2. Program Support Unit and Service Agreement

- (a) The Recipient shall, in collaboration with PIFS and the Participating Countries, take all necessary measures on its part to ensure that the Program Support Unit, is maintained throughout the Project implementation period, with mandate and adequate resources satisfactory to the Association, to be responsible for, *inter alia*, providing technical, procurement, fiduciary, monitoring and implementation support to the Participating Countries.
- (b) The Recipient shall by not later than four (4) months after the Effective Date, enter into and thereafter maintain, throughout the Project implementation period, a service agreement ("Service Agreement") with the Republic of the Marshall Islands, under terms and conditions acceptable to the Association pursuant to which the Recipient, through the PSU, shall provide technical, fiduciary, procurement, monitoring and implementation support to the Republic of the Marshall Islands.
- (c) 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.

B. Anti-Corruption

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

C. Project Operations Manual

- The Recipient prepare and adopt, by no later than four (4) 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 procurement management procedures and implementation arrangements; (c) the implementation arrangements for Safeguard Instruments; (d) budgeting, disbursement, and financial management arrangements; (e) Project monitoring, reporting, and evaluation arrangements; (f) performance indicators; and (g) details of the Scholarships to be awarded under Part 1 of the Project, including: procedures and eligibility criteria for the selection, review and approval of Scholarship applications and beneficiaries; procedures for disbursement of Scholarship funds; the terms and conditions of the provision of Scholarships, including the form of agreements to be entered into with successful applicants; and governance arrangement for the scholarship program("Project Operations Manual").
- 2. The Recipient shall ensure the Project is carried out in accordance with the Project Operations Manual, and except as the Association shall otherwise agree in writing, not amend or waive, or permit to be amended or waived, any provision of the Project Operations Manual, including any supplements thereto.
- 3. In case of any inconsistency between the provisions of the Project Operations Manual and those of this Agreement, the provisions of this Agreement shall prevail.

D. Safeguards

- 1. The Recipient shall ensure that the Project is carried out in a manner that is consistent with the provisions of the Safeguard Instruments.
- 2. 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 Safeguard Instruments, the Association's environmental and social safeguards policies and requirements as well as the Recipient's relevant policies and procedures related to environment and social matters as relevant to the Project; and

(b) in drafting any regulations, guidelines or corporate procedures and carrying out capacity building activities under the Project, due attention is given to said instruments, policies, requirements and laws.

E. Annual Work Plans and Budgets

- 1. The Recipient shall prepare and furnish to the Association not later than:
 - (a) two (2) 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 Expenditures, inclusive of Operating Costs, Recurrent Technical Staff Costs, and Scholarships, 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 any environmental and social safeguard measures taken or planned to be taken in accordance with the provisions of Section I.D 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.

Section II. <u>Project Monitoring, Reporting and Evaluation</u>

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 and detailed in the Project Operations Manual. Each Project Report shall cover the period of one (1) 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. <u>Mid-term Review</u>

The Recipient shall: (a) not later than November 29, 2019 (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.A, 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.

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 (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than nine (9) months after the end of such period.

Section III. Procurement

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

Section IV. <u>Withdrawal of the Proceeds of the Grant</u>

A. General

- 1. The Recipient may withdraw the proceeds of the Grant 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 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:

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consulting services, Scholarships, Training and Workshops, and Operating Costs for the Project	2,200,000	100%
(2) Recurrent Technical Staff Costs	800,000	100%
TOTAL AMOUNT	3,000,000	

B. Withdrawal Conditions; Withdrawal Period

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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 SDR260,000 may be made

for payments made prior to this date but on or after March 15, 2017 of this Agreement, for Eligible Expenditures.

2. The Closing Date is November 30, 2022.

APPENDIX

Section I. 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.E.1 of Schedule 2 to this Agreement.
- 2. "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.
- 3. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
- 4. "Displaced Persons" means persons who, on account of the involuntary taking of land and other assets under the Project resulting in a direct economic and social adverse impact, whether or not said Displaced Persons must physically relocate, had or would have their: (i) standard of living adversely affected, whether or not the Displaced Persons must move to another location; (ii) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently, adversely affected; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and "Displaced Person" means any of the Displaced Persons.
- 5. "Environmental and Social Impact Assessment" or the acronym "ESIA" means any assessment for the Project, to be prepared or caused to be prepared by the Republic of the Marshall Islands or the Recipient in accordance with the environmental and social screening guidelines, procedures and forms included in the ESMF, pursuant to Section I.D of Schedule 2 to this Agreement, each such assessment in form and substance satisfactory to the Association, defining details of potential environmental and social risks and adverse impacts associated with the implementation of Project activities, as said assessment may be modified from time to time with the prior written approval of the Association, and such term includes any annexes and schedules to such assessment.
- 6. "Environmental and Social Management Framework" and the acronym "ESMF" means the framework of the Recipient and the Republic of the Marshall Islands

dated January 2017, prepared by the Republic of the Marshall Islands and the Recipient for Phase 2 of the Program setting out mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, to eliminate any adverse environmental and social impacts of Project activities, offset them, reduce them, or enhance positive impacts, as well as guidelines and procedures for the preparation and disclosure of Environmental Management Plans, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to such framework.

- 7. "Environmental and Social Management Plan" or the acronym "ESMP" means a plan, to be prepared or caused to be prepared by the Republic of the Marshall Islands or the Recipient and to be agreed with the Association in accordance with the ESMF, setting out mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, to eliminate any adverse environmental and social impacts of Project activities, offset them, reduce them, or enhance positive impacts, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such plan; and "Environmental and Social Management Plans" means more than one such plan.
- 8. "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.
- 9. "Operating Costs" means the reasonable and necessary costs of expenditures incurred by the Recipient on account of the implementation, management, monitoring and evaluation of the Project, based on Annual Work Plans and Budgets approved ex ante by the Association, 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, and other costs directly related to the Project, including the salaries of the Recipient's staff working on the Project but excluding (i) bonuses, sitting fees and honoraria or equivalent payments and (ii) Recurrent Technical Staff Costs.
- 10. "Pacific Islands Forum Secretariat" or "PIFS" means the inter-governmental organization established in 1971 pursuant to the Agreement Establishing the Pacific Islands Forum.
- 11. "Participating Countries" means the Republic of the Marshall Islands, Independent State of Samoa, the Republic of Vanuatu and the Kingdom of Tonga, and any other countries as agreed in writing by the Association.

- 12. "Procurement Plan" means the Recipient's procurement plan for the Project, dated March 17, 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.
- 13. "Procurement Regulations" means the "World Bank Procurement Regulations for Borrowers under Investment Project Financing", dated July 1, 2016.
- 14. "Program" means the Pacific Resilience Program (PREP), which is a 'Series of Projects,' to be financed by the Association and other donors, designed to strengthen early warning, resilient investments and financial protection of Participating Countries.
- 15. "Program Support Unit" means the support unit within SPC to be responsible for coordination of the Program and providing implementation support to the Participating Countries.
- 16. "Recurrent Technical Staff Costs" means the reasonable and necessary costs of expenditures incurred by the Recipient for the salaries and travel of the Recipient's technical staff working on the Project, but excluding bonuses, sitting fees and honoraria or equivalent payments, based on the Annual Work Plans and Budgets approved ex ante by the Association.
- 17. "Regional Steering Committee" means the committee established under phase 1 of the Pacific Resilience Program and referred to in Section I.A of Schedule 2 to this Agreement.
- 18. "Resettlement Action Plan" or the acronym "RAP" means a plan prepared by the Republic of the Marshall Islands or the Recipient and acceptable to the Association pursuant to Section I.D.3 of Schedule 2 to this Agreement, setting out: reporting and grievance redress procedures; mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, to carry out acquisition of land and related assets under the Project; compensation, resettlement, and rehabilitation of Displaced Persons; prepared in accordance with the provisions of the Resettlement Policy Framework, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to such plan.
- 19. "Resettlement Policy Framework" and the acronym "RPF" means the Republic of the Marshall Islands' framework for the Project, dated January 2017, prepared by the Republic of the Marshall Islands and the Recipient, setting out: reporting and grievance redress procedures; mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, to carry out acquisition of land and related assets under the Project; compensation, resettlement, and rehabilitation of Displaced Persons; guidelines and procedures

for the preparation of Resettlement Action Plans, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such framework

- 20. "Safeguard Instruments" means the Environmental and Social Management Framework, the Resettlement Policy Framework, any Resettlement Action Plans and any Environmental and Social Management Plans, inclusive of any associated documents and supplements; and "Safeguard Instruments" means, collectively, all such instruments.
- 21. "Scholarship" means a cash award made or proposed to be made out of the proceeds of the Grant to selected applicants under Part 1 of the Project, in accordance with the eligibility and selection criteria, terms and conditions and governance and other arrangements set forth in the Project Operations Manual.
- 22. "Service Agreement" means a service agreement between the Recipient and the Republic of the Marshall Islands referred to in Section I.A.2(b) of Schedule 2 to this Agreement.
- 23. "SPC Treaty" means the Canberra Agreement of 1947.
- 24. "Training and Workshops" means the reasonable cost of expenditures incurred by the Recipient, based on terms of reference acceptable to the Association, in facilitating, conducting, and/or undertaking domestic and overseas training and workshop activities under the Project, including: 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.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. Section 2.06 is modified to read as follows:

"Section 2.06. Financing Taxes

The use of any proceeds of the Grant to pay for Taxes levied by, or in the territory of, the Member Country on or in respect of Eligible Expenditures, or on their importation, manufacture, procurement or supply, if permitted by the Financing Agreement, is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage of such Eligible

Expenditures to be financed out of the proceeds of the Grant specified in the Financing Agreement, as required to ensure consistency with such policy of the Association."

- 2. Sections 3.03, 3.04 and 3.08 are deleted in their entirety, and Sections 3.05, 3.06, 3.07, 3.09 and 3.10 are re-numbered, respectively, as Sections 3.03, 3.04, 3.05, 3.06 and 3.07.
- 3. Paragraphs (b) and (c) of the newly re-numbered Section 3.07 are modified to read as follows:

"(b) All Financing Payments shall be paid without restrictions of any kind imposed by, or in the territory of, the Member Country, and without deduction for, and free from, any Taxes levied by, or in the territory of, the Member Country.

(c) The Legal Agreements shall be free from any Taxes levied by, or in the territory of the Member Country, or in connection with their execution, delivery or registration."

4. In Section 4.11, paragraph (a) is modified to reads as follows:

"Section 4.11. Visits

"(a) The Recipient shall take all action necessary or useful to ensure that the Member Country affords all reasonable opportunity for representatives of the Association to visit any part of their territories for purposes related to the Grant or the Project."

- 5. Section 5.01 is deleted in its entirety.
- 6. Section 6.02 is modified as follows:
 - (a) Paragraph (j) on *Membership* is modified to read as follows:

(j) *Membership.* The Member Country or any member of the Recipient: (i) has been suspended from membership in or ceased to be a member of the Association; or (ii) has ceased to be a member of the International Monetary Fund."

(b) Paragraph (m) is renumbered as paragraph (n), and a new paragraph (m) is added to read as follows:

"(m) Interference. The Member Country: (i) has taken or permitted to be taken any action which would prevent or interfere with the execution of the Project or the performance by the Recipient of its obligations under the Financing

Agreement; or (ii) has failed to afford a reasonable opportunity for representatives of the Association to visit any part of its territory for purposes relating to Grant or the Project."

7. Paragraph (a) of Section 8.01 is modified to read as follows:

"(a) The execution and delivery of each Legal Agreement on behalf of the Recipient which is a party to such Legal Agreement have been duly authorized by all necessary corporate action."

- 8. The Appendix (Definitions) is modified as follows:
 - (a) Paragraph 29 is modified to read as follows:

"29. "Foreign Expenditure" means an expenditure in the Currency of any country other than the Member Country for goods, works or services supplied from the territory of any country other than the Member Country."

(b) Paragraph 33 is modified to read as follows:

"33. "Local Expenditure" means an expenditure: (a) in the Currency of the Member Country; or (b) for goods, works or services supplied from the territory of the Member Country; provided, however, that if the Currency of the Member Country is also that of another country from the territory of which goods, works or services are supplied, an expenditure in such Currency for such goods, works or services shall be deemed to be a Foreign Expenditure."

(c) A new paragraph 34 with the definition of Member Country is added to read as follows, and the subsequent paragraphs are renumbered accordingly;

""34. "Member Country" means the member of the Association in whose territory the Project is carried out or any such member's political or administrative subdivisions. If such activity is carried out in the territory of more than one such member, "Member Country" refers separately to each such member."

(d) Renumbered paragraph 46 is modified to read as follows:

"46. "Recipient" means the party to the Financing Agreement to which the Grant is extended."