

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 473-1000
Cable Address: INTBAFRAD
Cable Address: INDEVAS

March 31, 2010

The Honourable Sela Molisa
Minister of Finance and Economic Management
Port Vila
Vanuatu

Re: Vanuatu: Grant Agreement for the Readiness Plan
Readiness Fund of the FCPF
R-PP Formulation and Readiness Preparation Grant No.
TF096103

Honourable Minister:

I wish to refer to Resolution PC2008-2 of the Participants Committee of the Forest Carbon Partnership Facility (FCPF) regarding Selection of REDD Country Participants ("Resolution PC2008-2"). REDD refers to reducing emissions from deforestation and forest degradation.

Resolution PC2008-2 provides that subject to the availability of funds, certain REDD Country Participants may receive grant funding of up to three million six hundred thousand United States Dollars (US\$3,600,000) (an "R-PP Formulation and Readiness Preparation Grant") for formulating and carrying out a Readiness Preparation Proposal (R-PP).

Resolution PC2008-3 of the Participants Committee regarding Grant Allocation for REDD Country Participants ("Resolution PC2008-3") further provides that the R-PP Formulation and Readiness Preparation Grant to an eligible REDD Country Participant may be made available in up to three installments, with the first installment in the amount of up to two hundred thousand United States Dollars (US\$200,000) ("R-PP Formulation Installment") available to the Eligible REDD Country upon its selection as a Participant in the FCPF for the purpose of formulating a RPP.

Republic of Vanuatu (the "Recipient") was selected as a REDD Country Participant and wishes to receive the R-PP Formulation Installment of the R-PP Formulation and Readiness Preparation Grant to formulate its R-PP. In response to the request for financial assistance made on behalf of the Recipient, I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility ("Trustee"), agrees to extend to the Recipient an R-PP Formulation Installment in an amount not to exceed two hundred thousand United States Dollars (US\$200,000) 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 activities described in the Annex ("Formulation Activities").

The Trustee may enter into one or more than one supplementary agreement(s) to this grant agreement with the Recipient for the purpose of extending the remaining installment(s) of The R-PP Formulation and Readiness Grant for carrying out the R-PP, subject to the availability of funds, terms and conditions set forth in attachment II to Resolution PC2008-3 and a decision by the Participants Committee.

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

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 of the countersignature.

Very truly yours,
**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**
Acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility

/s/ By Kanthan Shankar
Acting Country Director
Papua New Guinea, Timor-Leste and Pacific Island Operations

AGREED:
REPUBLIC OF VANUATU

Name: /s/ By Sela Molisa
Title: Minister of Finance
Date: April 26, 2010

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank out of Various Funds, dated July 1, 2008.

(2) Disbursement Letter dated March 31, 2010, together with World Bank Disbursement Guidelines for Project dated May 1, 2006.

ANNEX

Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.**

- (a) The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 1, 2008 (“Standard Conditions”), with the modifications set forth in paragraphs (b) and (c) below, constitute an integral part of this Agreement.
- (b) The following term shall be inserted as paragraph 6(bis):

6bis. “Charter” means the Charter Establishing the Forest Carbon Partnership Facility, as may be amended from time to time;”
- (c) The definition of the term “Project” is replaced to read as follows:

“‘Formulation Activities’ means the proposed activities, for which the World Bank as the Trustee of the Readiness Fund of the Forest Carbon Partnership Facility has made the R-PP Formulation Installment, for the formulation by the Recipient of a Readiness Preparation Proposal.”

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, the Charter, or in this Agreement.

Article II
Project Execution

2.01. **Project Objectives and Description.** The objective of the R-PP Formulation Installment is to assist the Recipient to formulate a Readiness Preparation Proposal (R-PP), on the basis of the Readiness Preparation Idea Note, following the FCPF template for the R-PP. The Formulation Activities consist of the following parts:

- (a) preparation of a brief assessment of land use and forest policies and governance in the forest sector;
- (b) establishment of a multi-stakeholder national-level REDD Working Group responsible for following upon REDD activities in the country;
- (c) preparation of a consultation and outreach plan (to be implemented during the implementation phase of the Readiness Plan) and conduct consultations among key entities;
- (d) preparation of Terms of Reference (TOR) for the development of the national REDD strategy;
- (e) preparation of TOR for the design of a national REDD implementation framework;

- (f) preparation of a summary of proposed social and environmental impact analysis methodology and the TOR for carrying out the analysis;
- (g) assessment of the investment and capacity building needs for the implementation of the national REDD strategy;
- (h) preparation of TOR for the development of a reference scenario for emissions from deforestation and forest degradation; and
- (i) preparation of TOR for establishing the monitoring, reporting and verification system for changes in forest cover and changes in carbon stocks at the national level.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Formulation Activities. To this end, the Recipient shall carry out the Formulation Activities through the Vanuatu National Advisory Committee on Climate Change (NACCC), 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 (“Anti-Corruption Guidelines”), and (c) this Article II.

2.03. **Formulation Activities Report and Completion Report.** The Recipient shall prepare the Formulation Activities Report and Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Formulation Activities Report shall be furnished to the World Bank on a six monthly basis beginning July 31, 2010. The Completion Report shall be furnished to the World Bank not later than six months after the closing date.

2.04. **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 have its Financial Statements for the Formulation Activities audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.05. **Procurement**

(a) **General.** All goods and services required for the Formulation Activities and to be financed out of the proceeds of the R-PP Formulation Installment shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October

2006 (“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 Formulation Activities in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 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 the Procurement Guidelines, or] the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) 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.

Procurement Method
National Shopping

(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 table specifies the methods of procurement, 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.

Procurement Method
(a) Selection Based on Consultants’ Qualifications
(b) Selection of Individual Consultant

(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 Proceeds

3.01. Eligible Expenditures.

The Recipient may withdraw the proceeds of the R-PP Formulation Installment in accordance with the provisions of (a) Article III of 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 R-PP Formulation Installment ("Category"), the allocations of the amounts of the R-PP Formulation Installment 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 USD)	Percentage of Expenditures to be Financed
(1) Consultants' Services	123,478	62%
(2) Training and Workshops	43,478	100%
(3) Operating Costs	33,044	100%
TOTAL AMOUNT	200,000	

For the purpose of Section 3.01, (i) the term "Training and Workshops" means the costs associated with training and workshop participation of personnel involved in the implementation of the Formulation Activities including travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training courses and workshop preparation and implementation; and (ii) the term "Operating Costs" means the operating costs incurred on account of the implementation of the Formulation Activities including office supplies and consumables, utilities, communications, mass media and printing services, vehicle rental, operation and maintenance, charges for the opening and operation of bank accounts required for the Project, and travel, lodging and per diems, but excluding salaries of officials of the Recipient's civil service.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2011.

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 consists of the Default in Implementation set forth in Section 6.5 (a) (i) of the Charter.

Article V
Recipient's Representative; Addresses

4.01. *Recipient's Representative.* The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance and Economic Management.

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

Ministry of Finance and Economic Management
Port Vila, Vanuatu

Telex:	Facsimile:
678 23032	678 27937

4.03. *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
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD	248423 (MCI) or	1-202-477-6391
Washington, D.C.	64145 (MCI)	