Hon. Maki Stanley Simelum  
Minister  
Ministry of Finance and Economic Management  
PMB 9058  
Port Vila  
REPUBLIC OF VANUATU

Dear Minister,

Second Grant Agreement for Republic of Vanuatu's Readiness Preparation Proposal  
Readiness Fund of the FCPF  
Grant No. TF019203  

I wish to refer to the Grant Agreement between Republic of Vanuatu ("Recipient") and the International Bank for Reconstruction and Development ("World Bank"), acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility ("FCPF"), dated March 31, 2010 ("Readiness Grant Agreement"), pursuant to which the World Bank agreed to provide to the Recipient a grant in the amount not to exceed two hundred thousand Dollars (US$ 200,000) for formulating the Readiness Preparation Proposal ("R-PP") ("R-PP Formulation Installment").

The Participants Committee of the FCPF ("PC") has reviewed the R-PP submitted by the Recipient and acknowledged the extensive efforts made by the Recipient and the high quality of the R-PP. Accordingly, the PC, through its Resolution PC/14/2013/8, decided to allocate grant funding to the Recipient in the amount of up to three million six hundred thousand Dollars (US$ 3,600,000) ("Grant"), to enable it to move ahead with preparation for readiness, subject to the terms and conditions set out in said Resolution. The funds of up to two hundred thousand Dollars (US$ 200,000) out of this US$ 3,600,000 shall be used for the purpose of strengthening the Recipient’s national feedback and grievance redress mechanism, subject to the terms and conditions set out in Resolution PC/Electronic/2012/1.

In response to the request for financial assistance made on behalf of the Recipient and the decisions of the PC referred to above, I am pleased to inform you that the World Bank agrees to extend the Grant in the amount of three million six hundred thousand Dollars (US$ 3,600,000) on the terms and conditions set forth or referred to in this letter agreement ("Second Grant Agreement"), which includes the attached Annex, to assist in the financing of the Readiness Preparation Activities described in the Annex.

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

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Second Grant Agreement and to carry out the Readiness Preparation Activities in accordance with the terms and conditions set forth or referred to in this Second Grant Agreement.
Since the execution of the Readiness Grant Agreement, the Charter Establishing the FCPF ("Charter") has been amended, and the terms and conditions of this Second Grant Agreement are based on the Charter, as so amended. Where there are inconsistencies between the Readiness Grant Agreement and this Second Grant Agreement including in the use of terms, the provisions in this Second Grant Agreement shall prevail and deemed to have accordingly amended the provisions of the Readiness Grant Agreement to eliminate any such inconsistency.

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 Second Grant Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Second Grant Agreement shall become effective as of the date of the countersignature.

Sincerely,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Franz Drees-Gross
Country Director
Timor-Leste, Papua New Guinea & Pacific Islands
East Asia and Pacific Region

AGREED:

REPUBLIC OF VANUATU

By: Authorized Representative

Name: MAKI SIMELUM
Title: MINISTER OF FINANCE
Date: 20 APRIL 2015
Enclosures:

(3) Disbursement Letter of even date herewith, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.
(4) Guidelines on Preventing and Combating Fraud and Corruption in Project Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised in January 2011.
1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated February 15, 2012 (“Standard Conditions”), with the modifications set forth below, constitute an integral part of this Second Grant Agreement:

(a) The following term and definition shall be added to the Appendix to the Standard Conditions as paragraph 18 bis to read as follows:

18bis “‘Readiness Preparation Activities’ means the activities, described in the Agreement, for which the Grant is made, as the description of said activities may be amended from time to time by agreement between the Recipient and the World Bank.”

(b) The term “Project” and its definition shall be deleted in their entirety from the Standard Conditions; and all references throughout the Standard Conditions to the term “Project” shall be deemed to refer to the “Readiness Preparation Activities.”

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Second Grant Agreement have the meanings ascribed to them in the Standard Conditions, the Charter Establishing the Forest Carbon Partnership Facility (“Charter”), or in this Second Grant Agreement.

(a) “Department of Forestry” means a department in the Recipient’s ministry responsible for agriculture, livestock, forestry, fishers and biosecurity.

(b) “Environmental and Social Management Framework” or “ESMF” means the environmental and social management framework acceptable to the World Bank, which establishes the modalities and procedures to address potential negative environmental and social impacts from the implementation of REDD+ investments and demonstration activities as well as associated mitigation measures through employing best practices; and includes the screening criteria, procedures and institutional responsibilities for the safeguard policies that are triggered for subsequent REDD+ investments. The ESMF, as necessary, will also include a Resettlement Policy Framework and/or a Process Framework, as determined by the outcome of the SESA process.

(c) “National Advisory Board on Climate Change and Disaster Risk Reduction” or “NAB” means an advisory body in charge of all climate change and disaster risk reduction programs, projects, initiatives and activities.

(d) “National REDD+ Unit” means a unit which will be established by this Grant within the Recipient’s Department of Forestry to manage implementation of the Readiness Preparation Activities.

(e) “Project Management Unit” means the climate change and disaster risk reduction program management unit in the Vanuatu Meteorological and Geo-hazards Department, and which serves as a secretariat of the NAB.

(f) “Process Framework” means the process framework acceptable to the World Bank, which establishes the modalities and procedures to address restrictions in access to natural resources
in legally designated parks and protected areas resulting from the implementation of REDD+ investments and demonstration activities.

(g) "Provincial REDD+ Committees" means committees established by this Grant at the provincial level to help support implementation of the Readiness Preparation Activities.

(h) "REDD+" means reducing emissions from deforestation and forest degradation, conservation of forest carbon stocks, sustainable management of forest, and enhancement of forest carbon stocks.

(i) "REDD+ Technical Committee" means a multi-sectoral committee composed of Recipient’s agencies representing forestry, agriculture, climate change, land tenure, trade, commerce, and finance sectors.

(j) "Resettlement Policy Framework" means the resettlement policy framework acceptable to the World Bank, which establishes the modalities and procedures to address potential land acquisition and resettlement from the implementation of REDD+ investments and demonstration activities.

(k) "Strategic Environmental and Social Assessment" or "SESA" means the strategic environment and social assessment to be conducted as part of the Readiness process to assess the potential impact from national REDD+ programs and policies, formulate alternatives and mitigation strategies and enhance the decision-making process around the design of the national REDD+ framework.

(l) "Vanuatu Meteorological and Geo-hazards Department" means a department under the Recipient’s ministry in charge of civil aviation, meteorology and postal services.

Article II

Execution of Readiness Preparation Activities

2.01. Objective and Description. The objective of the Grant is to assist the Recipient to carry out the Readiness Preparation Activities by supporting the preparation of its REDD+ strategy through a participatory and inclusive process, and by producing technical and policy advice to help strengthen sustainable land and forest management practices. The Readiness Preparation Activities consist of the following parts:

Component 1: Institutional strengthening for REDD+ management arrangements at the national and decentralized levels

The activities under this component include: a) establishing National REDD+ Unit and supporting the REDD+ Technical Committee by providing financial, technical, and human resource support; b) supporting National Advisory Board on Climate Change and Disaster Risk Reduction ("NAB") and its Project Management Unit ("PMU") by providing financial, technical, and human resource support; and c) establishing the Provincial REDD+ Committees.

Component 2: Strengthening of the stakeholder engagement process at the decentralized level

The activities under this component include: a) strengthening participatory structures at the provincial and area council levels to support stakeholder engagement in REDD+ process; and b) assessing existing feedback and grievance redress mechanisms at the national and decentralized levels, and supporting their strengthening specifically for REDD+.
Component 3: Development of a REDD+ strategy

The activities under this component include: a) supporting analytical work to inform REDD+ strategy options, including on drivers and underlying causes of deforestation and forest degradation, land ownership and title to emission reductions, and existing benefit sharing arrangements; b) undertaking SESA, and preparing an ESMF; and c) conducting consultation and participation activities on key issues related to REDD+, including drivers and underlying causes of deforestation and degradation, REDD+ strategy options, legal implications of activity-based approach for REDD+, and benefit sharing arrangement.

2.02. Execution Generally. The Recipient declares its commitment to the objective of the Readiness Preparation Activities. To this end, the Recipient shall carry out the Readiness Preparation Activities through the National REDD+ Unit of the Department of Forestry under the Ministry of Agriculture, Livestock, Forestry, Fisheries and Biosecurity, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January, 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. Institutional and Other Arrangements. Without limitation upon the provision of paragraph 2.02 above, the Recipient shall ensure that, throughout the period of implementation of the Readiness Preparation Activities, the National REDD+ Unit, REDD+ Technical Committee, NAB, PMU, and the Provincial REDD+ Committees have assigned staff and resources in adequate number acceptable to the World Bank, in order to carry out the Readiness Preparation Activities.

2.04. Safeguards.

(a) all (i) terms of reference for any technical assistance or studies carried out under the Readiness Preparation Activities and (ii) frameworks prepared on the basis of the SESA under the Readiness Preparation Activities pursuant to Section 2.01 of this Second Grant Agreement are consistent with, and pay due attention to, the World Bank’s environmental and social safeguards policies, as well as the Recipient’s own laws relating to the environment and social aspects; and

(b) in drafting any laws or regulations under the Readiness Preparation Activities, due attention will be given to said policies and laws.

2.05. Mid-term Progress Report and Completion Report. The Recipient shall, not later than June 30, 2017, prepare and furnish to the World Bank a mid-term progress report on the Readiness Preparation Activities in accordance with terms of reference acceptable to the World Bank, including the provisions of Section 6.3(b) of the Charter and Resolutions PC/7/2010/3 and PC/12/2012/2. The Recipient shall also prepare and furnish to the World Bank not later than six months after the Closing Date, a Completion Report in accordance with the provision of Section 2.06(b) (ii) of the Standard Conditions.

2.06. Financial Management.

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

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1 Resolution PC/7/2010/3 requires the REDD Country Participant to submit a mid-term progress report to the PC according to a timetable that shall be jointly agreed in the Grant Agreement between the World Bank and the REDD Country Participant. When the World Bank receives the REDD Country Participant’s mid-term progress report in accordance with the timetable set out in Section 2.05 of this Grant Agreement, it will forward the progress report to the PC for its review. Resolution PC/12/2012/2 specifies the process for the submission and review of mid-term progress report, including the format of such progress report.
(b) The Recipient shall ensure that interim unaudited financial reports for the Readiness Preparation Activities are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

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

2.07. Procurement.

All goods, non-consulting services, and/or consulting services required for the Readiness Preparation Activities and to be financed, fully or partially, out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers,” dated January 2011, revised July 2014 (“Procurement Guidelines”), and the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers,” dated January 2011, revised July 2014 (“Consultant Guidelines”).

2.08. Any contract for Eligible Expenditures to be financed in full or in part out of the proceeds of the Grant shall be included in the procurement plan prepared by the Recipient and approved by the Bank in accordance with the Procurement Guidelines and the Consultant Guidelines, prior to initiating the procurement process for any such contract.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) 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 Second Grant Agreement pursuant to such instructions), to finance 100% of Eligible Expenditures consisting of goods, non-consulting services, consultants’ services, Training and Workshops, and Operating Costs inclusive of Taxes.

For the purpose of Section 3.01, (i) the term “Training and Workshops” means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Readiness Preparation Activities, including tuition, 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 (but excluding goods and consultant’s services); and (ii) the term “Operating Costs” means the reasonable costs, as shall have been approved by the World Bank, for the incremental expenses incurred on account of the implementation of the Readiness Preparation Activities, consisting of vehicle operation and maintenance, communication, and insurance costs, banking charges, rental expenses, office (and office equipment) maintenance, utilities, document duplication/printing, consumables, travel cost and per diem for Readiness Preparation Activity staff for travel linked to the implementation of the Readiness Preparation Activities, and salaries of contractual staff for the Readiness Preparation Activities (but excluding consultants’ services and salaries of officials of the Recipient’s civil service).
3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Second Grant Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Second Grant Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2019.

**Article IV**

**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 at the time for Finance and Economic Development.

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 Development  
PMB 9058  
Port Vila  
Vanuatu  
Facsimile: +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  
Facsimile: 1-202-477-6391