COPY

Agreement N°9903/REG

FINANCING AGREEMENT

between

THE EUROPEAN COMMISSION

and

THE PACIFIC ISLANDS FORUM MEMBER STATES

Capacity Support for Sustainable Management of Energy Resources in the Pacific Region

(RPR/001/06rev)

EDF IX

I:\Sector 2 - Financing Procedures & ROM\Financing Agreements\Fed\reg\sadc\001-06rev(9)".doc

EUROPEAN COMMISSION

FINANCING AGREEMENT

Special Conditions

The European Community, hereinafter referred to as "**the Community**", represented by the Commission of the European Communities in its capacity as manager of the European Development Fund, hereinafter referred to as "**the Commission**",

of the one part, and

the Pacific Islands Forum Member States, represented by the Executive Secretary of Pacific Islands Forum, Regional Officer, hereinafter referred to as "**the Beneficiary**",

of the other part,

have agreed as follows:

ARTICLE 1 - NATURE AND PURPOSE OF THE OPERATION

1.1. The Community shall contribute to the financing of the following project:

Title:	Capacity Support for Sustainable Management of Energy Resources in the PacificRegion
Accounting n°:	9 ACP RPR 169
Identification n° :	RPR/001/06rev

hereinafter referred to as "the project", which is described in the Technical and Administrative Provisions in Annex II.

1.2 This project will be implemented in accordance with the financing agreement and the annexes thereto: the General Conditions (Annex I) and the Technical and Administrative Provisions (Annex II).

ARTICLE 2 - THE COMMUNITY'S FINANCIAL CONTRIBUTION

2.1 The total cost of the project is estimated at 1 200 000 euro.

2.2 The Community undertakes to finance a maximum of 1 200 000 euro. The breakdown of the Community's financial contribution into budget headings is shown in the budget included in the Technical and Administrative Provisions in Annex II.

ARTICLE 3 - THE BENEFICIARY'S CONTRIBUTION

3.1 The Beneficiary shall contribute zero euro to the project.

3.2 Where there is a non-financial contribution by the Beneficiary, the detailed arrangements shall be set out in the Technical and Administrative Provisions in Annex II.

ARTICLE 4 – PERIOD OF EXECUTION

The period of execution of the financing agreement shall commence on the entry into force of the financing agreement and end at 31 December 2013.

ARTICLE 5 - DEADLINE FOR THE SIGNATURE OF THE CONTRACTS AND PROGRAMME ESTIMATES IMPLEMENTING THE FINANCING AGREEMENT

Contracts and programme-estimates implementing the financing agreement shall be signed by 19 December 2010 at the latest.

ARTICLE 6 - PAYING AGENT

In order to effect the payments resulting from this financing agreement, the role of paying agent shall be performed by the financial institution chosen by the Commission.

ARTICLE 7 - ADDRESSES

All communications concerning the implementation of the financing agreement shall be in writing, refer expressly to the project and be sent to the following addresses:

for the Commission
the Head of the Delegation of the European Commission
Suva - Fiji

for the Beneficiary by delegation
The Regional Authorizing Officer
The Secretary General of the Pacific Islands Forum
Suva - Fiji

ARTICLE 8 - ANNEXES

8.1 The following documents shall be annexed to this financing agreement and form an integral part thereof:

Annex I: General Conditions.

Annex II: Technical and Administrative Provisions.

8.2 Should a conflict arise between the provisions of the Annexes and those of the Special Conditions of the financing agreement, the provisions of the Special Conditions shall take precedence. Should a conflict arise between the provisions of Annex I and those of Annex II, the provisions of Annex I shall take precedence.

ARTICLE 9 – ENTRY INTO FORCE OF THE FINANCING AGREEMENT

The financing agreement shall enter into force on the date on which it is signed by the last party.

Done in two original copies in the English language, one copy being handed to the Commission and one to the Beneficiary.

Done at Brussels

FOR THE COMMISSION

Gary QUINCE,
Deputy Chief Authorising Officer
of the EDF

Date 20 December 2007

EUROPEAN COMMISSION

Done at Suva

FOR THE BENEFICIARY

PACIFIC ISLANDS FORUM SECRETARIAT

Date 13 March 2008

ANNEX I - GENERAL CONDITIONS

TITLE I - PROJECT/PROGRAMME FINANCING

ARTICLE 1 – GENERAL PRINCIPLE

1.1 The Community's financial contribution shall be limited to the amount specified in the financing agreement.

1.2 The provision of Community financing shall be subject to fulfilment of the Beneficiary's obligations under this financing agreement.

1.3. The expenditure incurred by the Beneficiary before the entry into force of the financing agreement are not eligible for the Community financing.

ARTICLE 2 - COST OVERRUNS AND COVERING THEM

2.1 Individual overruns of the budget headings of the financing agreement are dealt with by reallocating funds within this budget, in accordance with Article 20 of these General Conditions.

2.2 Wherever there is a risk of overrunning the global amount set in the financing agreement, the Beneficiary shall immediately inform the Commission and seek its prior approval for the corrective measures planned to cover the overrun, proposing either to scale down the project/programme or to draw on its own or other non-Community resources.

2.3 If the project/programme cannot be scaled down, or if the overrun cannot be covered either by the Beneficiary's own resources or other resources, the Commission may, at the Beneficiary's duly substantiated request, grant additional Community financing. Should it take such a decision, the excess costs shall be financed, without prejudice to the relevant Community rules and procedures, by the release of an additional financial contribution to be set by the Commission.

TITLE II - IMPLEMENTATION

ARTICLE 3 – GENERAL PRINCIPLE

3.1 The project/programme shall be implemented under the responsibility of the Beneficiary with the approval of the Commission.

3.2 The Commission is represented in the State of the Beneficiary by its Head of Delegation.

ARTICLE 4 - PERIOD OF EXECUTION

4.1 The financing agreement shall lay down a period of execution, which shall commence on the entry into force of the financing agreement and end on the date specified to this end in Article 4 of the Special Conditions.

4.2 This period of execution shall comprise two phases:

- an operational implementation phase, in which the principal activities are carried out. This phase shall commence on the entry into force of the financing agreement and end at the latest 24 months before the end of the period of execution;
- a closure phase, during which final audits and evaluation are carried out and contracts and, if any, programme estimates for the implementation of the financing agreement are technically and financially closed. This phase shall commence on the day after the date of end of the operational implementation phase and end at the latest 24 months after this date.

4.3 Costs related to the principal activities shall be eligible for Community financing only if they have been incurred during the operational implementation phase. Costs related to final audits and evaluation and closure activities shall be eligible up to the end of the closure phase.

4.4 Any balance remaining from the Community contribution will be automatically cancelled six months after the end of the period of execution.

4.5 In exceptional and duly substantiated cases, a request may be made for the extension of the operational implementation phase and correlatively of the period of execution. If the extension is requested by the Beneficiary, the request must be made at least three months before the end of the operational implementation phase and approved by the Commission before that latter date.

4.6 In exceptional and duly substantiated cases, and after the end of the operational implementation phase, a request may be made for the extension of the closure phase and correlatively of the period of execution. If the extension is requested by the Beneficiary, the request must be made at least three months before the end of the closure phase and approved by the Commission before that latter date.

TITRE III – PAYMENTS TO BE MADE BY THE COMMISSION

ARTICLE 5 – DEADLINE FOR PAYMENTS TO BE MADE BY THE COMMISSION

5.1 When the Commission is making payments, the Beneficiary shall undertake to provide the Commission with the contractor's requests for payment no more than 45 calendar days, for procurement contracts, and 22 calendar days, for grants, after registering an admissible payment request. The Beneficiary shall notify the Commission of the date of registration of this request. The payment request is not admissible if at least one essential requirement is not met. The time limit for payments may be suspended by the Commission by informing the Beneficiary, at any time during the period referred to above, that the payment request can not be met, either because the amount is not due or because the appropriate supporting documents have not been produced. If information comes to the notice of the Commission which puts in doubt the eligibility of expenditure appearing in a payment request, the Commission may suspend the time limit for payment for the purpose of further verification, including an on-spot check, in order to ascertain, prior to payment, that the expenditure is indeed eligible. The Commission shall inform the Beneficiary as soon as possible.

5.2 The deadline referred to in paragraph 1 shall also apply when payment is conditional on approval of a report. In this case, the request for payment can be considered admissible but the time limit for payment shall begin only when the Beneficiary has approved the report, either expressly, by notifying the contractor, or tacitly, by allowing the contractual deadline for approval to expire without sending the contractor a document formally suspending that deadline. The Beneficiary shall notify the Commission of the date of approval of the report.

5.3 In the event of any delay in forwarding payment requests attributable to the Beneficiary, the Commission shall not be obliged to pay the contractor the late-payment interest provided for in contracts, which will be payable by the Beneficiary.

TITRE IV – PAYMENTS TO BE MADE BY THE BENEFICIARY THROUGH PROGRAMME ESTIMATES

ARTICLE 6 – GENERAL PRINCIPLE

6.1 When the Beneficiary is making payments, programme estimates must be drawn up and adopted beforehand.

6.2. All programme estimates implementing the financing agreement must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

TITRE V – AWARD OF CONTRACTS AND GRANTS

ARTICLE 7 – GENERAL PRINCIPLE

All contracts implementing the financing agreement must be awarded and implemented in accordance with the General Regulations for works, supply and service contracts adopted by the ACP-EC Council of Ministers, supplemented by the General Conditions for contracts financed by EDF and the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

ARTICLE 8 - DEADLINE FOR THE SIGNATURE OF THE CONTRACTS AND PROGRAMME ESTIMATES IMPLEMENTING THE FINANCING AGREEMENT

8.1 The contracts and programme estimates implementing the financing agreement shall be signed by both parties within three years of the adoption of the financial commitment by the Commission, namely at the latest on the date referred to in Article 5 of the Special Conditions. That deadline may not be extended.

8.2 The above provision shall not apply to audit and evaluation contracts, which may be signed later, as well as to riders to contracts already signed.

8.3 On the date referred to in Article 5 of the Special Conditions, any balance for which contracts have not been signed will be cancelled.

8.4 The above provision shall not apply to any balance of the contingency reserve.

8.5 A contract or programme estimate which has not given rise to any payment within three years of its signature shall be automatically terminated and its funding cancelled.

ARTICLE 9 - ELIGIBILITY

9.1 Participation in invitations to tender for works, supply or service contracts and in calls for proposals shall be open on equal terms to all natural and legal persons of the Member States of the Community and of the ACP States, and in the specific cases and under the conditions provided in Annex IV to the ACP-EC Partnership Agreement to natural and legal persons of other third countries.

9.2 This nationality rule shall also apply to the experts proposed by service providers taking part in tender procedures or service contracts financed by the Community.

TITLE VI - RULES APPLICABLE TO THE PERFORMANCE OF CONTRACTS

ARTICLE 10 - ESTABLISHMENT AND RIGHT OF RESIDENCE

10.1 Where justified by the nature of the contract, natural and legal persons participating in invitations to tender for works, supply or service contracts shall enjoy a provisional right of establishment and residence in the Beneficiary's country. This right shall remain valid for one month after the contract is awarded.

10.2 Contractors (including the grant beneficiaries) and natural persons whose services are required for the performance of the contract and members of their family shall enjoy similar rights during the implementation of the project/programme.

ARTICLE 11 - TAX AND CUSTOMS PROVISIONS

11.1 Save where otherwise provided in the basic acts governing the cooperation sector concerned, taxes, duties or other charges (including value added tax - VAT - or equivalent taxes) shall be excluded from Community financing.

11.2 The State of the Beneficiary shall apply to procurement contracts and grants financed by the Community the most-favoured tax and customs arrangements applied to States or international development organisations with which it has relations. For the purpose of determining the most-favoured-State treatment, account shall not be taken of arrangements applied by the Beneficiary concerned to the other ACP States or to other developing countries.

ARTICLE 12 - FOREIGN EXCHANGE ARRANGEMENTS

The State of the Beneficiary undertakes to authorise the import or purchase of the foreign currency necessary for the implementation of the project. It also undertakes to apply its national foreign exchange regulations in a non-discriminatory manner to the contractors allowed to participate referred to in Article 9 of these General Conditions.

ARTICLE 13 – USE OF DATA FROM STUDIES

Where the financing agreement involves the financing of a study, the contract related to this study, signed for the implementation of the financing agreement, shall govern the ownership of that study and the right for the Beneficiary and the Commission to use data in the study, to publish it or to disclose it to third parties.

ARTICLE 14 - ALLOCATIONS OF AMOUNTS RECOVERED UNDER CONTRACTS

Amounts recovered from payments wrongly effected or guarantees lodged under a contract financed under this financing agreement, together with any penalties arising from non-performance of a contract, shall be allocated to this project/programme.

ARTICLE 15 - FINANCIAL CLAIMS UNDER CONTRACTS

The Beneficiary undertakes to confer with the Commission before taking any decision concerning a request for compensation made by a contractor and considered by the Beneficiary to be justified in whole or in part. The financial consequences may be borne by the Community only where the Commission has given its prior approval. Such prior approval is also required for any use of funds committed under the present financing agreement to cover costs arising from disputes relating to contracts.

TITLE VII - GENERAL AND FINAL PROVISIONS

ARTICLE 16 – VISIBILITY

16.1 Every project/programme financed by the Community shall be the subject of appropriate communication and information operations. These operations shall be defined under the responsibility of the Beneficiary with the approval of the Commission.

16.2 These communication and information operations must follow the rules laid down and published by the Commission for the visibility of external operations in force at the time of the operations.

ARTICLE 17 – PREVENTION OF IRREGULARITIES, FRAUD AND CORRUPTION

17.1 The Beneficiary undertakes to check regularly that the operations financed with the Community funds have been properly implemented. It shall take appropriate measures to prevent irregularities and fraud and, if necessary, bring prosecutions to recover funds wrongly paid.

17.2. "Irregularity" shall mean any infringement of the financing agreement, implementing contracts or programme estimates or Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the European Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the European Communities, or by an unjustified item of expenditure.

"Fraud" shall mean any intentional act or omission concerning:

- the use or presentation of false, incorrect or incomplete, statements or documents which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by them, or on their behalf;
- non-disclosure of information in violation of a specific obligation, with the same effect;
- the misapplication of such funds for purposes other than those for which they are originally granted.

The Beneficiary shall immediately inform the Commission of any element brought to its attention which arouses suspicions of irregularities or fraud, of any measure taken to deal with them and of the name of the economic operators whom have been the subject of a judgment which has the force of res judicata for fraud, corruption, involvement in a criminal organisation or any other illegal activity detrimental to the European Communities' financial interests.

17.3 The Beneficiary undertakes to take every appropriate measure to remedy any practices of active or passive corruption whatsoever at any stage of the procedure for the award of contracts or grants or in the implementation of the related contracts. "Passive corruption" shall mean the deliberate action of an official, who, directly or through an intermediary, requests or receives advantages of any kind whatsoever, for himself or for a third party, or accepts a promise of such an advantage, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the financial interests of the European Communities. "Active corruption" shall mean the deliberate action of whosoever promises or gives, directly or through an intermediary, an advantage of any kind whatsoever to an official, for himself or for a third party, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the financial interests of the European Communities.

ARTICLE 18 - VERIFICATIONS AND CHECKS BY THE COMMISSION, THE EUROPEAN ANTI-FRAUD OFFICE (OLAF) AND THE EUROPEAN COURT OF AUDITORS

18.1 The Beneficiary agrees to the Commission, OLAF and the European Court of Auditors conducting documentary and on-the-spot checks on the use made of Community funding under the financing agreement (including procedures for the award of contracts and grants) and carrying out a full audit, if necessary, on the basis of supporting documents of accounts and accounting documents and any other documents relating to the financing of the project/programme, throughout the duration of the agreement and for seven years after the date of the last payment.

18.2 The Beneficiary also agrees that OLAF may carry out on-the-spot checks and verifications in accordance with the procedures laid down by Community law for the protection of the financial interests of the European Communities against fraud and other irregularities.

18.3 To that end, the Beneficiary undertakes to grant officials of the Commission, OLAF and the European Court of Auditors and their authorised agents access to sites and premises at which operations financed under the financing agreement are carried out, including their computer systems, and to any documents and computerised data concerning the technical and financial management of those operations, and to take every appropriate measure to facilitate their work. Access by authorised agents of the European Commission, OLAF and the European Court of Auditors shall be granted on conditions of strict confidentiality with regard to third parties, without prejudice to public law obligations to which they are subject. Documents must be accessible and filed in a manner permitting easy inspection, the Beneficiary being bound to inform the Commission, OLAF or the European Court of Auditors of the exact location at which they are kept.

18.4 The checks and audits described above shall also apply to contractors and subcontractors who have received Community funding.

18.5 The Beneficiary shall be notified of on-the-spot missions by agents appointed by the Commission, OLAF or the European Court of Auditors.

ARTICLE 19 – CONSULTATION BETWEEN THE COMMISSION AND THE BENEFICIARY

19.1 The Beneficiary and the Commission shall consult each other before taking any dispute relating to the implementation or interpretation of this financing agreement further, in accordance with the relevant provisions of the ACP-EC Partnership Agreement.

19.2 Where the Commission becomes aware of problems in carrying out procedures relating to management of European Development Fund resources, it shall establish all necessary contacts with the Beneficiary to remedy the situation and, take any steps that are necessary, including, where the Beneficiary does not, or is unable to, perform the duties incumbent on it under the ACP-EC Partnership Agreement, temporarily taking the Beneficiary's place.

19.3 The consultation may lead to the amendment, suspension or termination of the financing agreement.

ARTICLE 20 – AMENDMENT OF THE FINANCING AGREEMENT

20.1 Any amendment to the Special Conditions and Annex II to the financing agreement shall be made in writing and be the subject of an addendum.

20.2 If the request for an amendment comes from the Beneficiary, the latter shall submit that request to the Commission at least three months before the amendment is intended to enter into force, except in cases which are duly substantiated by the Beneficiary and accepted by the Commission.

20.3 For technical adjustments, which do not affect the objectives and results of the project/programme and alterations in matters of detail which do not affect the technical solution adopted, and within the limit of the contingencies funds, the Beneficiary shall inform the Commission of the amendment and its justification in writing as soon as possible and apply that amendment.

20.4 The use of the contingency reserve is conditional on prior written agreement of the Commission.

20.5 The specific cases of the extension of the operational implementation phase or of the closure phase are governed by Article 4 (4) and (5) of these General Conditions.

ARTICLE 21 – SUSPENSION OF THE FINANCING AGREEMENT

21.1 The financing agreement may be suspended in the following cases:

- The Commission may suspend the implementation of the financing agreement if the Beneficiary breaches an obligation under the financing agreement.
- The Commission may suspend the financing agreement if the Beneficiary breaches an obligation relating to respect for human rights, democratic principles and the rule of law and in serious cases of corruption.

- The financing agreement may be suspended in cases of force majeure, as defined below. "Force majeure" shall mean any unforeseeable and exceptional situation or event beyond the partie's control which prevents either of them from fulfilling any of their obligations, is not attributable to error or negligence on their part (or the part of their contractors, agents or employees) and proves insurmontable in spite of all due diligence. Defects in equipment or material or delays in making them available, labour disputes, strikes or financial difficulties cannot be invoked as force majeure. A party shall not be held in breach of its obligations if it is prevented from fulfilling them by force majeure. A party faced with force majeure shall inform the other party without delay, stating the nature, probable duration and foreseeable effects of the problem, and take any measure to minimise possible damage.

21.2 No prior notice shall be given of the suspension decision.

21.3 When the suspension is notified, the consequences on the ongoing contracts and programme estimates or contracts and programme estimates to be signed will be indicated.

ARTICLE 22 – TERMINATION OF THE FINANCING AGREEMENT

22.1. If the issues which led to the suspension of the financing agreement have not been resolved within a maximum period of four months, either party may terminate the financing agreement at two months' notice.

22.2. Where a financing agreement has not given rise to any payment within three years of its signature or no implementing contract or programme estimates has been signed by the date referred to in Article 5 of the Special Conditions, that financing agreement will automatically be terminated.

22.3 When the termination is notified, the consequences on the ongoing contracts and programme estimates or contracts and programme estimates to be signed will be indicated.

ARTICLE 23 - DISPUTE-SETTLEMENT ARRANGEMENTS

23.1 Any dispute concerning the financing agreement which cannot be settled within a six-month period by the consultations between the Commission and the Beneficiary provided for in Article 19 of these General Conditions shall be submitted to the Council of Ministers. Between meetings of the Council of Ministers, such disputes shall be submitted to the Committee of Ambassadors. If the Council does not succeed in settling the dispute, either party may request settlement of the dispute by arbitration.

23.2 In this case the parties shall designate an arbitrator within 30 days of the request for arbitration. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration (The Hague) to designate a second arbitrator. The two arbitrators shall in their turn designate a third arbitrator within 30 days. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration to designate the third arbitrator.

23.3 Unless the arbitrators decide otherwise, the procedure laid down in the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organisations and States shall apply. The arbitrators' decisions shall be taken by a majority within a period of three months.

23.4 Each party shall be bound to take the measures necessary for the application of the arbitrators' decision.

ANNEX II

TECHNICAL AND ADMINISTRATIVE PROVISIONS FOR IMPLEMENTATION

THE PACIFIC ISLANDS FORUM MEMBER STATES

Title:	Capacity Support for Sustainable Management of Energy Resources in the PacificRegion
Accounting n°:	9 ACP RPR 169
Identification n° :	RPR/001/06rev

1. Summary

Of the 25 power utilities that are members of the Pacific Power Association (PPA) there are basically three standard power systems. Ten utilities use Australian standards, ten utilities use USA standards and five utilities use French standards. The power consumption in these utilities varies from a maximum demand of 600KW to 320MW. There are a number of forms of power production, including hydroelectric, wind turbine and photo-voltaic systems.The production of electricity in the Pacific Island power utilities is, however, mainly from diesel engines, using fossil fuels. The PIC utilities operate in a unique environment because of their geographic isolation, relatively small size and small populations. In a number of these PICs, particularly in the Melanesian region, the percentage of the population that has access to the electricity grid is only 25%.

Most utilities in the region have the delegated responsibility for the electrification of their outer islands, although this responsibility has at times been assumed by the Government and the energy planning group within the particular ministry.

The activities contained in this proposal are an integrated part of the partnerships between the Pacific Islands Energy Policy and Plan (PIEPP) and the European Union Energy (EUEI), which were both launched at the WSSD in Johannesburg.

The PIEPP, which has been endorsed by the Pacific Island Countries, is structured around ten sections with section 3 covering the power sector. The stated goal in the power sector is "Reliable, safe and affordable access to efficient power for all Pacific Islanders in both rural and urban parts of the region."

The two activities contained in this proposal, Energy Efficiency and Capacity Building conform to Policies 3.1.1 and 3.1.2 respectively in the PIEPP, with the PPA as the lead organisation. In addition the two activities in this proposal comply with the PIESD which has as one of its main objectives "Increased availability of adequate, affordable and environmentally sound energy for the sustainable development of Pacific Islanders."

Because of their small population base and geographic isolation, the staff of these power utilities does not have the same access to professional development as they would in developed countries. As a consequence, utility staff acquires skills from their peers and by networking if possible with utility staff in neighbouring Pacific Island Countries (PIC). This has a detrimental effect because the skills acquired in this manner have been "watered down" through each changeover of staff.

It needs to be recognised that utilities require people with specialist skills. While some tasks, such as budgetary planning, are common throughout most institutions in the PICs, there are many other skills required that are unique to power utilities.

In this environment, the reliability of power plant, transmission and distribution equipment is poor, resulting in unplanned outages of equipment causing interruptions in supply to customers and subsequent loss of revenue. Utilities suffer from the procurement of inappropriate equipment that is costly to operate and maintain, because utility staff does not have the skills to design good technical specifications. In addition, the utility power systems operate in an inefficient manner with noticeably large system losses. The net effect is that utilities need to supplement their revenue either by National Government subsidies or increasing tariffs.

In summary, utility performance is poor, with associated high cost of utility operations and maintenance. This has the result of inhibiting economic development in the PIC, and in particular, restricting National Governments' fiscal ability to increase access of their people to energy services. In the PICs, the National Governments thus can not carry out their social responsibilities of poverty alleviation, improvement of access to energy services to all PIC citizens, and attracting external investment, resulting in little or no economic and social development.

In addition to inefficient use of fossil fuels, utilities do not have the skills to develop renewable resources and are not well placed to tackle the particular problems of electrification of remote areas (for which renewable energy may be the preferred solution). Utilities also lack capability to deal with the provision of energy services to the poorer parts of society, which may require particular investments and strategies.

2. Intervention

2.1 General remarks

There has been little previous work to address the generating efficiency of the power utilities in the Pacific. It is clear, however, that utilities are experiencing power losses of around 30% (compared with 15% expected in developed countries). There is little quantitative data available on the utilities' electricity systems and there is significant scope for both better monitoring and loss reduction.

Previous capacity building programmes in the energy sector did not necessarily focus on customer requirements. There was little or no post-training follow-up to quantify improvements in utility performance. For the training proposed under this programme, only suitable trainees will be selected, with nominations approved by the PPA Executive Director. Trainees will complete an assessment of the course and each participating utility will be required to sign a commitment to provide a quantitative assessment of the improvements that each trainee has made to their utility.

Funding for regional energy projects in the Pacific is complicated by the fact that the USDOI will only provide funding for those PICs that are linked to the USA (Guam, Saipan, FSM, Palau, RMI and American Samoa) under either a Compact of Free Association, Trust Territory, or USA Commonwealth PIC. The Asian Development Bank (ADB) will only assist Developing Member Countries of the ADB and EDF funds are available only to signatory States of the ACP-EU Partnership Agreement. In addition, a number of PICs are eligible for funding support from more than one donor.
This has lead to the situation where a planned capacity building of the Northern Pacific power utilities is one year ahead of the Southern utilities. The PPA implemented the capacity building activity in the Northern utilities in 2002 (with USDOI funding 100% of the first year and 50% of subsequent years). Partial funding for the Southern utilities from France (Papua New Guinea, Solomon Islands, Kiribati, Tuvalu, Cook Islands, Niue, Fiji and Samoa) only became available in 2003. The proposed EDF funding for the capacity building (Activity 2) therefore represents a parallel funding of these actions (for ACP countries only).

The USDOI has approved full funding of the energy efficiency assessment for the Northern Pacific PICs that are listed above. EDF funds (Activity 3) will focus on the remaining (ACP) countries. A small efficiency study was carried out in several Pacific Island power utilities (Fiji, Vanuatu, Samoa, Palau, FSM) with funding from the Government of France.

Currently an Asian Development Bank (ADB) study, "Performance Benchmarking of Pacific Power Utilities", is being carried out in the region. This is implemented as a partnership between the ADB and PPA and will be useful for the quantitative assessment of the benefits derived from the efficiency study.

The PPA Energy Initiative project will work especially closely with the Pacific Islands Energy Policies and Strategic Action Planning (PIEPSAP) project – a Danish-funded project which, will address the energy policy and strategy needs of the Pacific ACP countries. Both the PIEPSAP project and the Support to Pacific Islands Utilities have been identified under the Pacific Regional component for the EU Energy Initiative for Poverty Eradication and Sustainable Development. It is anticipated that the policies and action plans will influence national efforts, such as this capacity building programme, towards achieving reliable, affordable and environmentally sound energy for the sustainable development for all Pacific Islanders.

2.2 Objectives

2.2.1 Overall objective

The overall objective of the project is to contribute to the attainment of the Millennium Development Goals by reducing poverty through improved regional co-operation and targeted action for the poor in the energy sector.

2.2.2 Project Purpose

The project purpose is to improve energy services in Pacific ACP countries with the focus on energy efficiency, development of renewable and sustainable sources and reduction of fossil fuel usage, according to the aims of the EU Energy Initiative. Thus, the aim is both to assist economic integration of remote Pacific island states and to improve energy provision to the poor.

2.3 Results

The three essential results sought from this project are:

Result 1: Integrate a renewable energy component in to power utility services and to the supply of these services to remote areas.

Result 2: The skills of staff in Pacific Power utilities will be improved through training. Improvements in operation, maintenance and safety are expected.

Result 3: Power system losses in Pacific Island Countries power utilities will be identified.

2.4 Activities

For each expected result the corresponding activities are:

Activity 1: Through a renewable energy advisor, utilities will gain improved understanding and technical competence in renewable energy, in particular the integration with existing power systems, with an appreciation of the advantages and problems of integrating a renewable energy component in to their services and the supply of these services to remote and to the poorer areas. Action and investment plans for renewable energy in the PIC utility context will have been developed.

Activity 2: The technical skills of engineers and technicians from Pacific energy utilities will be improved through the provision of centralised training.

Activity 3: Power system electrical data handbooks will be available for each utility identifying power losses on the generating side (Supply Side Management). The utilities will also have action plans for improving power system efficiency. Software will be available at the Pacific Power Association for load-flow analysis at each utility.

2.5 Indicators

Overall performance will be measured on the basis of indictors given in the logical framework (Annex A).

2.6 Lessons from past experience

a) Countries' political commitment is essential for sustainable pursue of policies in the energy sector and linking them with the development programs. Accordingly, in the Pacific five of the six new ACP countries have identified renewable energy as the focal sector of cooperation in their 9th EDF Country Strategy Papers.

b) Central coordination of regional projects/programmes in general is more effective than split national components. In line with that, the program will primarily support institutional strengthening through technical assistance for co-ordination and programming activities at regional level. The components with national focus (e.g. dissemination activities) will be concerted at regional level through appropriate mechanisms.

c) Clear institutional co-operation framework for the region is required to ensure delineation of tasks ands responsibilities. Where more than one organisation may have a legitimate interest, as the case for the Pacific region, then close partnerships have been established.

d) Training activities need to respond to customer requirements and to be followed-up for monitoring their impact. Specific monitoring indicators are therefore prepared. In addition, in the Pacific program, each participating utility will be required to sign a commitment to provide a quantitative assessment of the improvements that each trainee has made to his/her utility.

2.7 Linkage with other operations

This project supports capacity building and institutional strengthening in the areas of energy policy making and program delivery, hence its activities are complementary to the EU Energy Initiative, and will link with it as best possible.

In addition, complementary support is provided by France for the Southern Pacific Power Utilities, by Denmark on the "Pacific Islands Energy Policies and Strategic Action Planning", by the Asian Development Bank on the "Performance Benchmarking of Pacific Power Utilities" and by the USDOI, for to the Power Utilities of the countries that are specifically linked to the USA.

2.8 Results of economic and cross-sectoral appraisal

Inefficient use of energy resources [primarily of fossil fuels] results at high greenhouse gas emission levels, in relative or absolute terms, and other pollutants. Reducing waste, inefficient consumption and promoting renewable and alternative energy sources, the program contributes in reducing the negative environmental effects, including deforestation and land degradation.

Also the program contributes in mitigating health risks by promoting strategies reducing production of health-risk pollutants. This aspect is particularly important for women and children.

3. Implementation

3.1 Physical and non-physical means

The programme will be carried out through private indirect decentralised operations.

3.2 Organisation and implementation procedures

Private indirect decentralised operations:

The Contracting Authority will be the Regional Authorising Officer (RAO), i.e. the Pacific Islands Forum Secretariat.

The management and implementation of the project shall be carried out by the following body governed by private law: The Pacific Power Association (PPA)to which a service contract will be awarded in accordance with contract procedures for EC external actions. A direct award to the PPA is possible as the PPA is a non profit making institution related to activities of an institutional nature.

The corresponding service contract must explicitly designate the two persons who will take on the duties of authorisation (imprest administrator) and payment (imprest accounting officer).

The Pacific Power Association (PPA) will be the implementing agency, contracted to function as the Project Management Unit (PMU), whereby all PPA staff members are deemed to be acceptable to work independently of their nationality.

In accordance with the powers delegated to them by the Regional Authorising Officer, the imprest administrator and the imprest accounting officer shall draw up, submit to approval of the RAO and endorsement by the Head of Delegation and implement consecutive programme estimates, award contracts and grants, commit expenditure and make the corresponding payments.

The imprest administrator and the imprest accounting officer shall submit, every four months, their technical and financial reports *to the project steering committee,* to the Regional Authorising Officer and to the Head of Delegation.

The preparation, management and the implementation of the Programme Estimates will be in conformity with the procedures described in the *Practical Guide to Management of Programme Estimates Financed by the EDF.* The annual Programme Estimate will be subject to financial audits every four months undertaken by an accounting firm approved and commissioned by the RAO.

The performance of contracts to implement the project, whether financed under the imprest component of the budget of programme estimates (imprest individual financial/budgetary commitments) or by specific individual financial commitments, excluding contracts for audits and final evaluations and, where applicable, any technical assistance contract(s) concerning the financial closure of the project, may under no circumstances be prolonged beyond the end of the operational implementation phase of the corresponding financing agreement.

A Steering Committee, consisting of representatives of SOPAC, the RAO's office and the Delegation of the European Commission for the Pacific, will meet regularly (provisionally once per quarter), to discuss and approve the orientation of the programme. Close coordination will in particular be ensured with the parallel-(Danish-) funded PIEPSAP proposal, which is being implemented by SOPAC, through existing regional implementation mechanisms, such as possibly the CROP Energy Working Group.

Service contracts will be concluded by the RAO for two individual experts to act as energy efficiency adviser to the utilities and to carry out the energy efficiency assessment and an experienced renewable energy adviser. (Activities 1 and 3 of the programme described above). These experts will work from the PPA offices in Suva, Fiji, and their activities and progress will be monitored by the PMU. Training and associated action of the utility staff (Activity 2 of the programme) will be organized by the PMU, recruiting individual trainers as required for the different training course.

3.3 Timetable, cost and financing plan

The total cost of the programme is 1.2 million EUR financed under the 9th EDF Intra-ACP funds. The tentative breakdown of the budget is as follows:

Description	Amount [€]
Activity 1 (Renewable Energy Adviser)	400,000
Activity 2 (Training)	400,000
Activity 3 (Energy Efficiency Study)	150,000
PPA PMU support costs	100,000
Evaluation	50,000
Audits	50,000
Contingencies	50,000
TOTAL EDF	1,200,000

Operational implementation is planned to take place over a maximum period of four years . A detailed calendar is attached in Annex B.

The Financing Agreement shall be concluded by 31 December of the year following the year in which the global financial commitment was adopted by the EDF committee. Failing this, the corresponding appropriations shall be cancelled. The operational implementation phase shall end by 31 December 2011 and the end of the period of execution of the Financing Agreement is hereby set at 31 December 2013. Any balance of funds remaining available under the EC grant shall be automatically cancelled six months after the end of the period of execution of the Financing Agreement. Contracts and programme estimates must be signed by both parties not later than three years from the date of the corresponding global financial commitment. This deadline cannot be extended. The above provision does not apply to contracts relating to audit and evaluation, which may be signed later.

3.4 Special Conditions and accompanying measures to be taken by the Government

The participating Pacific Island Countries must ensure that the utilities make the financial contribution to the training actions as specified above. Utilities will adopt and implement the energy efficiency action plans drawn up under Activity 3.

4. Procurement and grant award procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the General Regulations for works, supply and service contracts adopted by the ACP-EC Council of Ministers, supplemented by the General Conditions for contracts financed by EDF and the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

5. Monitoring and evaluation

5.1 Monitoring arrangements and follow up

Implementation of the project will be measured against the indictors given in the logical framework (Annex A). Six-monthly reports will be provided by the PMU. The Steering Committee, in its meetings, will review progress and decide on future direction.

5.2 Reviews/evaluation/audit: procedure and reports

Independent Financial Audits of the project will be undertaken each quarter. The Commission can organise an independent audit of expenditure under this Agreement.

In any event, when total expenditure incurred by the imprest component of the budget of a programme estimate amounts to the equivalent of EUR 200,000 or more, verification of these expenditure by an external auditor has to be done before submission of the closure request of that programme estimate.

Audits may also be conducted on the systems and procedures used if need be.

Provision is also made for independent reviews and evaluations of the project. These reviews and evaluations will possibly be conducted jointly with the Pacific Islands Energy Policies and Strategic Action Planning (PIEPSAP) project.

LIST OF ACRONYMS and ABBREVIATIONS

Acronym	Term
ACP	Africa, Caribbean and Pacific
EC	European Commission
EDF	European Development Fund
EU	European Union
MDG	Millennium Development Goals
MOU	Memorandum of Understanding
PIESD	Pacific Islands Energy Strategic Development
PIEPSAP	Pacific Islands Energy Policies and Strategic Action Planning
PIEPP	The Pacific Island Energy Policy Plan
PMU	Project Management Unit
PPA	Pacific Power Association
REC	Regional Economic Community
UNDP	United Nations Development Programme

LIST OF ANNEXES

ANNEX A: Logical Framework
ANNEX B: Indicative Calendar
ANNEX C: Assumptions and Factors Ensuring Sustainability

ANNEX A: LOGICAL FRAMEWORK

	Intervention Logic	Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	To Contribute to the attainment of the Millennium Development Goals by reducing poverty through improved regional co-operation and targeted action for the poor in the energy sector.	• Regional added value in assisting countries in reaching their national objectives is recognised • Improved economic activity through the development of energy services. • The provision of environmentally sound energy for sustainable development. • Improvements in the livelihood of the general populace.	• Annual REC reports • Annual PPA Performance Benchmarking process • Utility electrical data reports. • Utility Annual Reports • National statistics and reports.	
Project Purpose	To improve energy services in Pacific ACP countries with the focus on energy efficiency, development of renewable and sustainable sources and reduction of fossil fuel usage, according to the aims of the EU Energy Initiative.	• Increased awareness of RE resources. • Improve efficiency of energy services by 2007 through infrastructure development and capacity building. • New sustainable and renewable sources of energy identified and developed by 2007. • Reduced use of fossil fuel by 2007. • Action plans prepared by utilities to effect improvements in energy efficiency by end of 2005	• Renewable Energy installation and Asset Report • CEOs six monthly reports. • Energy Efficiency Data Report book. • Utilities Action Plans.	• Pacific Island States prioritise renewable energy development in the energy sector. Governments commitment in complimentary activities in the energy sector.
Results	Integrating a renewable energy component in to power utility services and the supply of these services to remote areas.	• Increased availability and adequate affordable electricity. • Improved efficiency in the distribution of energy. • Number of remote communities using electricity increased. • Improved performance of utilities through the development of renewable energy. • Action plans developed for all Pacific ACP countries by end of project.	Utility Action Plans *Project Reports* PPA Reports CEOs Reports National budgets and reports.	Utilities have skills to integrate RE resources into remote and poor areas of their Islands in their utility grids. Adequate infrastructure in place to support renewable energy development. Consumers can afford the costs involved in accessing electricity .

	Intervention Logic	Verifiable Indicators	Sources of Verification	Assumptions
1. RESULT 2	The skills of staff in Pacific Power utilities will be improved through the provision of training.	• Utility training courses developed and conducted over the first 2 years of implementation. • Power utilities staff in participating countries trained. • Improvements in power utility operation, maintenance and safety standards.	1.1.1 Project Reports Training reports PPA reports CEOs utilities reports	
2. RESULT 3	Power system losses in Pacific Island Countries power utilities will be identified.	• Reduced maintenance costs of utilities • Optimised generation efficiency • Improved analysis of load-flow at each utility	2.1.1 Project Reports CEOs Utilities reports PPA reports	Utilities have sufficient resources to make necessary adjustments to operate more efficiently.
3. ACTIVITY 1.1	Establish present installations of RE in the PICs	3.1.1.1 3.1.1.2 3.1.1.3 Project Inputs Activity 1 (Renewable Energy Adviser) Activity 2 (Training) Activity 3 (Energy Efficiency Study) PPA Service Contract Evaluation and Audits Evaluation and Audits Contingencies **TOTAL**	 Euro 400,000 400,000 150,000 100,000 50,000 50,000 50,000 **1,200,000**	NAOs and Utilities are able to agree on their energy requirements. Technical expertise and equipment available. Training is tailored to the requirements of each country. National governments and utilities contribute towards sustainability of project activities.
4. ACTIVITY 1.2	Establish with PIC utilities present skills and abilities with RE sources.			
5. ACTIVITY 1.3	Undertake needs analysis of energy Priorities in PICs.			
6. ACTIVITY 1.4	Development of action and investment plans for RE in their PICs.			
7. ACTIVITY 1.5	PMU established to manage implementation of the project.			

	Intervention Logic		Assumptions
8. ACTIVITY 1.6	Launch international tender for procurement of equipment and supervise contracts for the supply and installation of equipment.		
9. ACTIVITY 2.1	Assessment of the human resource development needs of each utility with the plan to then initiate a capacity building programme		
10. ACTIVITY 2.2	Develop workshop modules for training.		
11. ACTIVITY 2.3	Conduct the workshop modules in the region for the utilities.		
12. ACTIVITY 3.1	Collection of all necessary power system data from each of the power utilities.		
13. ACTIVITY 3.2	Procurement and installation of the Digsilent loadflow software		
14. ACTIVITY 3.3	Undertake extensive load flow analysis at the PPA Secretariat of each of the PPA's utilities power systems. . Determine the quantifiable power system losses.		
15. ACTIVITY 3.4	Power system electrical data handbooks will be produced and made available for each utility identifying power losses on the power system side (Supply Side Management) Action plans will be developed by utilities for optimizing power system efficiency. Software will be available at the Pacific Power Association for load-flow analysis at each utility.		

This annex contains information regarding external elements likely to be significant for a successful outcome of the project as well as regarding factors which may assure the viability of the project. It is provided for information only and does not form part of the financing agreement.

Assumptions

At project purpose level it is assumed that Pacific ACP governments prioritise renewable energy development and remain committed to undertaking complementary activities in the energy sector. At the level of results there is a risk that the training investment may be partially lost through trainees changing jobs or migrating. This risk will be reduced through careful selection of trainees and Power Utilities will be asked to provide evidence of quantifiable improvements achieved by trainees six months after completion of the training course. Project training will ensure that the power utility staff is certified to carry out work in their country and with other utilities in the region. To curb possible migration internationally recognised qualifications will not be offered.

Factors Ensuring Sustainability

There is great diversity among the Pacific ACP in their resource endowment and stages of development. In particular, the constraints and opportunities facing a remote micro-state, such as Kiribati, vary significantly from, for example, Papua New Guinea. Thus, policy options and approaches need to be tailored to country circumstances, while at the regional level the focus is placed on shared or common resources, such as their peoples and the oceans.

The characteristics that have important implications for development include:

- Remoteness and insularity: being located far from major markets and comprising widely dispersed multi-island micro-states, resulting in high international and domestic transportation costs, arising from both the distances to be covered and the low volume of cargo. Equally, the development of even a small domestic market is constrained by distances between settlements and infrequent internal transport services.
- Susceptibility to natural disasters: being frequently affected by adverse climatic and other natural events which, typically, affect the entire population and economy.
- Small population size: many states are limited by small population size as it effects institutional capacity and increases unit costs of services, and also limits the potential for private sector growth and investment.
- Limited diversification: a narrow resource base and small domestic markets automatically results in being relatively undiversified in production and exports, and also limits capacity in the private sector.
- Openness: heavy reliance on external trade and foreign investment to overcome inherent scale and resource limitations leaves states vulnerable to external economic and environmental shocks.

For the Pacific ACP, small domestic markets combined with large distances from overseas markets results in a lack of competition - often the size of the market can only support a single producer. As a result, the economies of small states do not benefit from the effects of competition on improving efficiency, lowering costs and spurring innovation.
Most utilities in the region have the delegated responsibility for the electrification of their outer islands, although this responsibility has at times been assumed by the Government and the energy planning group within the particularly ministry.

Regional Energy Policy is to:

- Ensure energy sector policy and planning addresses the availability and efficient use of sufficient, affordable and appropriate sources of energy, taking into account a balance of social, cultural, technological, institutional, environmental, economic, and global market issues
- Promote sustainable energy options for electricity generation, transportation, water supply, health care, education, telecommunication, food supply, and income generation
- Promote the development of appropriate regulatory guidelines to meet the needs of consumers resulting from sector reforms.
- Assess and promote indigenous resource potential and technical capacity for all aspects of sector planning and development.
- Promote policy mechanisms for efficient use of energy in all sectors of the economy.

The two activities contained in this proposal, Energy Efficiency and Capacity Building conform to Policies 3.1.1 and 3.1.2 respectively in the PIEPP, with the PPA as the lead organisation. In addition the two activities in this proposal comply with the PIESD which has as one of its main objectives "Increased availability of adequate, affordable and environmentally sound energy for the sustainable development of Pacific Islanders."

The main stakeholders are the power utilities and the Pacific ACP governments. Consumers of power including the private sector are the ultimate beneficiaries. Immediate beneficiaries will be the power utilities and their staff. The project will be implemented by PPA, thus enhancing beneficiary ownership.

Of the 25 power utilities that are members of the Pacific Power Association there are basically three standard power systems. Ten utilities use Australian standards; ten utilities use USA standards; and five utilities use French standards. The power consumption in these utilities varies from a maximum demand of 600KW to 320MW. There are a number of forms of power production, including hydroelectric, wind turbine and photo-voltaic systems. The production of electricity in the Pacific Island power utilities is, however, mainly from diesel engines, using fossil fuels. The PIC utilities operate in a unique environment because of their geographic isolation, relatively small size and small populations. In a number of these PICs, particularly in the Melanesian region, the percentage of the population that has access to the electricity grid is only 25%.

A number of donors and agencies (e.g. France, Japan, Denmark, UNDP) have been involved in a number of renewable energy and capacity building projects throughout the Pacific to develop sustainable solar and wind capacity and to investigate maintenance and tariff options. A new 9th EDF proposal for five Pacific States (Niue, Nauru, RSM, FSM and Palau) aims to provide energy efficiency improvements and renewable energy infrastructure.