



PACIFIC ISLANDS FORUM SECRETARIAT

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Office of the Secretary General

IB/69/5/7

6 February 2014

Mr Peter Forau
Director General
Melanesian Spearhead Group Secretariat
Private Mail Bag 9105
Port Vila,
VANUATU

Dear Director General,

I am pleased to inform you that the Pacific Islands Forum Secretariat (PIFS) has agreed to make a contribution equivalent to **€1,750,000** (the "Grant") to the Melanesian Spearhead Group (MSG) Secretariat for the implementation of trade related activities towards enhanced economic integration of the MSG member countries, consistent with regional and international integration initiatives (the Project) to be undertaken in cooperation with the PIFS in accordance with the detailed activities prescribed in the Terms of Reference (TOR) as Annex I.

2. The Grant is part of the Pacific Integrated Technical Assistance Project (PITAP) which is implemented by the PIFS and financed by the European Union under the 10th European Development Fund. The activities financed under the Grant will contribute towards the overall objective of the PITAP project which aims to improve economic integration through strengthened national systems and institutional frameworks to develop trade capacity. The purpose of the PITAP is to improve trade policy outcomes by building technical capacity, increasing private sector engagement in trade policy processes and increasing exports and investments for Pacific island countries. The PITAP is a component of the Strengthening Pacific Economic Integration through Trade (SPEITT) programme.

3. To facilitate the provision of the Grant, I propose that this letter initiate an Exchange of Letters (EOL) constituting an agreement between the PIFS and the MSG Secretariat on the terms and conditions herein. The activities implemented by the MSG Secretariat under this project should complement the efforts of the PIFS in building and strengthening Members' capacity in trade policy matters. They should coordinate with a view to increasing synergies so as to ensure effective use of resources allocated for regional programs.

4. The EOL shall enter into force on the date of PIFS' receipt of your acceptance in writing. The operational implementation period of the Project is for twenty four (24) to twenty eight (28) months and implementation shall begin on receipt of the first advance payment by PIFS to the MSG Secretariat. The execution period of this EOL shall end eight (8) months after the end of the implementation period, and in any case, the execution period shall end at the latest 31 October 2016. Reporting and payment arrangements are outlined in the TOR.

5. The Grant will be used to defray the costs of agreed activities in support of the Project. The MSG Secretariat shall administer the Grant in accordance with PIFS' financial regulations, policies and procedures, as (Annex II) with specific attention to the *General Conditions applicable to EU contribution agreements with international organisations* (General Conditions) as (Annex III). In the event of conflict between the provisions of the General Conditions and the PIFS' financial regulations, policies and procedures, the provisions of the General Conditions shall take precedence.

6. The Grant and activities financed will be subject to auditing procedures provided for in the PIFS' financial regulations, rules, policies and procedures. The audit will be carried out by Auditors appointed by PIFS and this will be part of the PITAP Annual Audit scheduled for the beginning of each year. The cost of the MSG Secretariat's portion of the audit will be paid from the Grant.

7. For ease of auditing purposes, the MSG Secretariat shall open a Euro bank account in Port Vila, Vanuatu where the Grant shall be transferred by the PIFS. The bank account will be used solely for this project and will be maintained by the MSG Secretariat. The MSG Secretariat shall advise PIFS of the details of the bank account before transfer of the first advance payment.

8. The budget provided in Annex IV is agreed to by the MSG Secretariat and PIFS. Any funds that remain unexpended after all commitments and liabilities have been satisfied shall be returned to PIFS or otherwise utilised in a manner agreed in writing between the MSG Secretariat and PIFS.

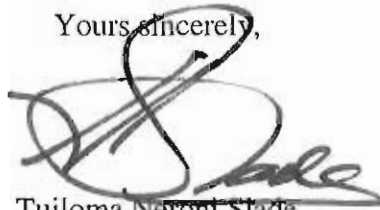
9. PIFS and the MSG Secretariat will consult with each other in respect of any matter that may arise from or in connection with the Grant. Any communication relating to this EOL shall be in writing and shall use the addresses in the TOR.

10. The following documents are annexed to this EOL and form an integral part of the agreement:

- (i) Annex I: Terms of Reference;
- (ii) Annex II: PIFS' financial regulations, policies and procedures;
- (iii) Annex III: General Conditions;
- (iv) Annex IV: MSG Budget;
- (v) Annex V: PITAP Log Frame; and
- (vi) Annex VI: Communications and Visibility Manual for EU External Actions.

11. If you agree to the proposed EOL, please notify your acceptance by signing, dating and returning the enclosed duplicate letter to PIFS. This will authorise us to proceed with the establishment of the Grant.

Yours sincerely,



Tuiloma Neroni Stade
**Secretary General and
Regional Authorising Officer**

Acceptance

I hereby confirm the MSG Secretariat's agreement to the terms and conditions contained in this EOL, and understand that this shall constitute an Agreement between the MSG Secretariat and PIFS.


Signature

Peter Forau
Director General
Melanesian Spearhead Group Secretariat
Port Vila
Vanuatu

14 February 2014
Date

Annex I: Terms of Reference

IMPLEMENTATION OF TRADE-RELATED ACTIVITIES TOWARDS ENHANCED ECONOMIC INTEGRATION OF THE MELANESIAN SPEARHEAD GROUP (MSG) (CONSISTENT WITH REGIONAL AND INTERNATIONAL INTEGRATION INITIATIVES)

A. Introduction

The purpose of this contribution by the Pacific Islands Forum Secretariat (PIFS) of €1,750,000 (the Grant) to the Melanesian Spearhead Group (MSG) Secretariat is to provide financial assistance under the Pacific Integrated Technical Assistance Project (PITAP) to the MSG Secretariat for implementing trade related activities to enhance economic integration of the MSG countries, consistent with regional and international integration initiatives (the Project) in cooperation with PIFS.

The Terms of Reference form an integral part of the Agreement between PIFS and the MSG Secretariat as outlined in the Exchange of Letters (EOL).

B. Summary of the Project

The Project has the following two main activities:

I. *Sub-regional and regional integration of the MSG countries strengthened.* Activities targeted at achieving this result are focused on supporting the MSG Secretariat to build national capacity of member countries to strengthen trade, and identify and implement trade-related reforms that are deemed necessary under the MSG Trade Agreement (MSGTA).

1.1. Strengthen national capacities of MSG line ministries and national mechanisms in relation to trade policy and implementation.

1.2. Review MSGTA and deepening of the MSGTA.

1.3. Assist MSG members with expansion of MSGTA's negotiations.

2. *Enhanced private sector opportunities in MSG countries through targeted trade facilitation, promotion and development of trade opportunities arising from sub-regional and regional agreements.* The Project will directly and indirectly support the development of private sector-led strategies and initiatives for regional trade development through targeted trade facilitation and promotion measures. This includes the MSGTA and interim Economic Partnerships Agreement trade opportunities to promote private sector exports. The Project will also assist MSG member countries to develop policies for key sectors (mining, forestry, industry, agriculture) or industries of common interest to promote downstream processing, value adding and employment.

- 2.1. Provide long term technical assistance on private sector development in MSG countries.
- 2.2. Conduct at least two (2) information seminars and/or training on new agreements, procedures and processes in each MSG country for relevant authorities, enforcement agencies and private sector.
- 2.3. Implement a minimum of 2 studies on strategic export sectors, industries or products of potential and common interest to MSG members.
- 2.4. Strengthen export capabilities of export-oriented enterprises in MSG countries in selected sectors.

The Project contributes towards the key result areas and overall objective of the PITAP as shown in the PITAP Log Frame as Annex V. A breakdown of the total Project budget by activities for the Grant is in Annex IV.

D. Communication and Visibility

The Grant is part of the 10th EDF and as is the case with all this type of funding 1% of total project costs is provided for activities to promote project visibility. EU financial support will be highlighted appropriately in all activities, reports and media releases. EU promotional material will also be produced and distributed. The Communication and Visibility Manual for EU External Actions (2010) will provide overall guidance in this aspect as Annex VI. This allocation is shown in Annex IV.

E. Implementation arrangements

In undertaking the implementation of the Project, the MSG Secretariat shall undertake the following:

1. Annual Work Plans: Develop forward Annual Work Plans and Budgets for implementation of all activities of the Project as stated in Annex IV within the implementation period (24-28 Months) and submit to the PIFS. These work plans and budgets are to be incorporated into the overall PITAP Annual Work Plan and submitted to the EU. Three possible work plans and budgets to be submitted as follows:
 - 1.1. 2013/2014 Interim Work Plan and Budget;
 - 1.2. 2014 Detailed Annual Work Plan and Budget; and
 - 1.3. 2015 Annual Work Plan and Budget.

2. Payment details: The Grant shall be paid to the MSG Secretariat on an advance basis in accordance with Table 1. The first advance payment will be paid upon agreement of the following: on a 2013/2014 Interim Work Plan and Budget being incorporated into the revised PITAP 2013 Annual Work Plan and Budget; then on receipt of payment for additional funds needed for the PITAP 2013 revised Budget and Work Plan by PIFS from the EU.
3. After the payment of the initial advance amount, payment of the remaining advance payments will be dependent on the following: agreement of a forward Work Plan and Budget for the following year; acceptance of the previous year's narrative and financial reports, this shall include acceptance of the PITAP Annual Audit report by the EU.
4. Forecasted payments (subject to the provisions of this TOR) as follows:

4.1.	First advance payment	€43,401
4.2.	Second advance payment	€961,318
4.3.	Final payment	€745,281
	Total financing payment	€1,750,000
5. Narrative and Financial Reporting: Submission of the Annual Narrative and Financial Progress Reports shall be comprehensive and must include:
 - 5.1. Introduction;
 - 5.2. Main Body (staff and material resources);
 - 5.3. Results based reporting for each Objectively Verifiable Indicator;
 - 5.4. Budget and expenditures analysis (based on Work Plan Budget and Expenditure Verification report);
 - 5.5. Challenges, Issues and Actions required to remedy situations;
 - 5.6. Recommendation/ Conclusion;
 - 5.7. Annexes (Expenditure/Financial Verification);
 - 5.8. Two copies each of the Annual Progress Reports (technical and financial) shall be presented and bound in A4 format. In addition electronic versions shall be submitted to PIFS; and
 - 5.9. This report will be incorporated into the main PITAP Annual Report for submission to EU Delegation;
 - 5.10. The annual progress report should report activities completed as per Annex IV and against the intended outcomes and verifiable indicators of the PITAP Project as per the Logical Framework in Annex V; and
 - 5.11. Timing for submission of each report shall be no later than 30 January of each year. i.e. 30 January 2014 for receipt of 2013 Annual Progress Report.

6. The following Table 1 serves to summarise the expected time frame for Work Plans and Budgets in line with Annual Progress Reports, Audits and advance payments.

Table 1: Tentative Schedule	
Timeframe	Implementation Arrangements
Upon signature of EOL	<ul style="list-style-type: none"> • 2013/2014 Interim Work Plan and Budget submitted to PIFS. •
Upon signature of EOL	<ul style="list-style-type: none"> • 1st advance paid to MSG Secretariat once revised 2013 PITAP budget pre-financing payment received from EU.
February 2014	<ul style="list-style-type: none"> • 2014 Annual Work Plan and Budget to be submitted to PIFS. • 2nd advance paid to MSG Secretariat once 2013 Audit submitted and accepted by EU.
30 September 2014	<ul style="list-style-type: none"> • 2015 (12 month) Annual Work Plan and Budget to be submitted to PIFS.
By 15 January 2015	<ul style="list-style-type: none"> • 2014 Annual Narrative Progress Report to be submitted to PIFS. • 2014 Financial Report: Expenditure Verification Report to be submitted to PIFS. • PIFS to submit pre-financing request to EU for next payment.
February 2015	<ul style="list-style-type: none"> • 2014 Annual PITAP Audit to include Audit of the Grant Project activities undertaken by MSG Secretariat. Auditors to travel to MSG Secretariat to undertake this part of the Audit. • 3rd advance amount paid to MSG Secretariat once 2014 Audit submitted and accepted by EU.
By 15 January 2016	<ul style="list-style-type: none"> • 2015 Annual Narrative Progress Report to be submitted to PIFS. • 2015 Financial Report: Expenditure Verification Report to be submitted to PIFS.
February 2016	<ul style="list-style-type: none"> • 2015 Annual PITAP Audit to include audit of the Grant Project activities undertaken by MSG Secretariat. Auditors to travel to MSG Secretariat to undertake this part of the Audit.
No later than 31 October 2016	<ul style="list-style-type: none"> • Final Report due. Outcomes based on what has been achieved against PITAP logframe.

7. Eligible and indirect costs: Subject to the General Conditions Article 14 of Annex III a budget allocation is shown as indirect costs. Indirect costs may be claimed to cover administrative overheads incurred for the Project, this may include MSG Secretariat's costs for their portion of the annual audits and participation in Project Steering Committee meetings.
8. Programme monitoring and evaluation: Provide an update to the Strengthening Pacific Economic Integration through Trade (SPEITT) Annual Project Steering Committee (PSC) Meeting, and present an update on implementation of activities for the Project against the PITAP logframe. The cost to attend the SPEITT PSC will be borne by the MSG Secretariat. The indirect portion of the budget can be used for this purpose.
9. Participate by providing adequate information and materials to any midterm review, Result Oriented Monitoring (ROM) missions and final project evaluation commissioned by the European Union.
10. Contact addresses: any communication relating to the Grant shall be in writing and shall use the following addresses:
 - 10.1. For MSG Secretariat: The Director General of the Melanesian Spearhead Group Secretariat, Private Mail Bag 9105, Port Vila, Vanuatu
 - 10.2. For the PIFS: The Secretary General of the Pacific Islands Forum Secretariat, Private Mail Bag, Suva, Fiji.