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MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA
ACTING THROUGH
THE MILLENNIUM CHALLENGE CORPORATION

AND

THE GOVERNMENT OF THE REPUBLIC OF VANUATU

Millennium Challenge Compact

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MILLENNIUM CHALLENGE COMPACT

This MILLENNIUM CHALLENGE COMPACT (the "***Compact***") is made between the United States of America, acting through the Millennium Challenge Corporation, a United States Government corporation ("***MCC***"), and the Government of the Republic of Vanuatu (the "***Government***") (referred to herein individually as a "***Party***" and collectively, the "***Parties***"). A compendium of capitalized terms defined herein is included in Exhibit A attached hereto.

RECITALS

WHEREAS, MCC, acting through its Board of Directors, has selected Vanuatu as eligible to present to MCC a proposal for the use of Millennium Challenge Account ("***MCA***") assistance to help facilitate poverty reduction through economic growth in Vanuatu;

WHEREAS, the Government has carried out a consultative process with the country's private sector and civil society to outline the country's priorities for the use of MCA assistance and developed a proposal, which was submitted to MCC on March 31, 2005 (the "***Proposal***");

WHEREAS, the Proposal focused on, among other things, increasing economic activity and incomes in rural areas through comprehensive investments in transport infrastructure, including roads, wharfs, airstrips and warehouses;

WHEREAS, MCC has evaluated the Proposal and related documents to determine whether the Proposal is consistent with core MCA principles and includes proposed activities and projects that will advance the progress of Vanuatu towards achieving economic growth and poverty reduction; and

WHEREAS, based on MCC's evaluation of the Proposal and related documents and subsequent discussions and negotiations between the Parties, the Government and MCC determined to enter into this Compact to implement a program using MCC Funding to advance Vanuatu's progress towards economic growth and poverty reduction (the "***Program***");

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the Parties hereby agree as follows:

ARTICLE I.
PURPOSE AND TERM

Section 1.1 Project Objectives. The overall objective of this Compact is to reduce poverty and increase incomes in rural areas by stimulating economic activity in the tourism and agricultural sectors through the improvement of transport infrastructure, which is key to economic growth and poverty reduction in Vanuatu (the "***Compact Goal***"). The Parties have identified the following project-level objectives (each a "***Project Objective***" and together the

"***Project Objectives***") to advance the Compact Goal, each of which is described in more detail in the Annexes attached hereto:

(a) Provide improved or new priority transport infrastructure in rural areas and outer islands, including roads, wharfs, airstrips and warehouses (the "***Infrastructure Objective***"); and

(b) Strengthen the ability of the Government, specifically the capacity and capability of the Department of Public Works, to maintain and sustain Vanuatu's infrastructure assets (the "***Institutional Strengthening Objective***").

The Government expects to achieve, and shall use its best efforts to ensure the achievement of, these Project Objectives during the Compact Term.

Section 1.2 Projects. The Annexes attached hereto describe the specific projects and the policy reforms and other activities related thereto (each, a "***Project***") that the Government will carry out, or cause to be carried out, in furtherance of this Compact to achieve the Project Objectives.

Section 1.3 Entry into Force; Compact Term. This Compact shall enter into force on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that each Party has completed its domestic requirements for entry into force of this Compact and that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC (such date, the "***Entry into Force***"). This Compact shall remain in force for five (5) years from the date of the entry into force of this Compact, unless earlier terminated in accordance with Section 5.4 (the "***Compact Term***").

ARTICLE II.

FUNDING AND RESOURCES

Section 2.1 MCC Funding.

(a) MCC's Contribution. MCC hereby grants to the Government, subject to the terms and conditions of this Compact, an amount not to exceed Sixty-Five Million Six Hundred Ninety Thousand United States Dollars (USD $65,690,000) ("***MCC Funding***") during the Compact Term to enable the Government to implement the Program and achieve the Project Objectives.

(i) Subject to Sections 2.1(a)(ii), 2.2.(b) and 5.4, the allocation of MCC Funding within the Program and among and within the Projects shall be as generally described in Annex II or as otherwise agreed upon by the Parties from time to time.

(ii) If at any time MCC determines that a condition precedent to an MCC Disbursement has not been satisfied, MCC may, upon written notice to the Government, reduce the total amount of MCC Funding by an amount equal to the amount estimated in the applicable Detailed Financial Plan for the Program or Project activity for which such condition precedent has not been met. Upon the expiration or termination of this Compact, (1) any amounts of MCC Funding not disbursed by MCC to the Government shall be automatically released from any obligation in connection with this Compact and (2) any amounts of MCC Funding disbursed by

MCC to the Government as provided in Section 2.1(b)(i), but not re-disbursed as provided in Section 2.1(b)(ii) or otherwise incurred as permitted pursuant to Section 5.4(e) prior to the expiration or termination of this Compact, shall be returned to MCC in accordance with Section 2.5(a)(ii).

(b) Disbursements.

(i) Disbursements of MCC Funding. MCC shall from time to time make disbursements of MCC Funding (each such disbursement, an "***MCC Disbursement***") to a Permitted Account or through such other mechanism agreed by the Parties under and in accordance with the procedures and requirements set forth in Annex I, the Disbursement Agreement or as otherwise provided in any other relevant Supplemental Agreement.

(ii) Re-Disbursements of MCC Funding. The release of MCC Funding from a Permitted Account (each such release, a "***Re-Disbursement***"), shall be made in accordance with the procedures and requirements set forth in Annex I, the Disbursement Agreement or as otherwise provided in any other relevant Supplemental Agreement.

(c) Interest. Unless the Parties agree otherwise in writing, any interest or other earnings on MCC Funding that accrue (collectively, "***Accrued Interest***") shall be held in a Permitted Account and accrue in accordance with the requirements for the accrual and treatment of Accrued Interest as specified in Annex I or any relevant Supplemental Agreement. On a quarterly basis and upon the termination or expiration of this Compact, the Government shall return, or ensure the return of, all Accrued Interest to any United States Government account designated by MCC.

(d) Conversion; Exchange Rate. The Government shall ensure that all MCC Funding that is held in the Permitted Account(s) shall be denominated in the currency of the United States of America ("***United States Dollars***") prior to Re-Disbursement; *provided*, that a certain portion of MCC Funding may be transferred to a Local Account and may be held in such Local Account in the currency of Vanuatu prior to Re-Disbursement in accordance with the requirements of Annex I and any relevant Supplemental Agreement. To the extent that any amount of MCC Funding held in United States Dollars must be converted into the currency of the Republic of Vanuatu for any purpose, including for any Re-Disbursement or any transfer of MCC Funding into a Local Account, the Government shall ensure that such amount is converted consistent with Annex I, including the rate and manner set forth in Annex I, and the requirements of the Disbursement Agreement or any other Supplemental Agreement between the Parties.

(e) Guidance. From time to time, MCC may provide guidance to the Government through Implementation Letters on the frequency, form and content of requests for MCC Disbursements and Re-Disbursements or any other matter relating to MCC Funding. The Government shall apply such guidance in implementing this Compact.

Section 2.2 Government Resources.

(a) The Government shall provide or cause to be provided such Government funds and other resources, and shall take or cause to be taken such actions, including obtaining all necessary approvals and consents, as are specified in this Compact or in any Supplemental

Agreement to which the Government is a party or as are otherwise necessary and appropriate to effectively carry out the Government Responsibilities or other responsibilities or obligations of the Government under or in furtherance of this Compact during the Compact Term and through the completion of any post-Compact Term activities, audits or other responsibilities.

(b) If at any time during the Compact Term, the Government materially reallocates or reduces the allocation in its national budget or any other ni-Vanuatu governmental authority at a departmental, municipal, regional or other jurisdictional level materially reallocates or reduces the allocation of its respective budget, of the normal and expected resources that the Government or such other governmental authority, as applicable, would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, the Government shall notify MCC in writing within fifteen (15) days of such reallocation or reduction, such notification to contain information regarding the amount of the reallocation or reduction, the affected activities, and an explanation for the reallocation or reduction. In the event that MCC independently determines upon review of the executed national annual budget that such a material reallocation or reduction of resources has occurred, MCC shall notify the Government and, following such notification, the Government shall provide a written explanation for such reallocation or reduction and MCC may (i) reduce, in its sole discretion, the total amount of MCC Funding or any MCC Disbursement by an amount equal to the amount estimated in the applicable Detailed Financial Plan for the activity for which funds were reduced or reallocated or (ii) otherwise suspend or terminate MCC Funding in accordance with Section 5.4(b).

(c) The Government shall use its best efforts to ensure that all MCC Funding is fully reflected and accounted for in the annual budget of Vanuatu on a multi-year basis.

(d) The Government shall establish an independent unit within the Ministry of Finance and Economic Management, or such other entity as may be acceptable to MCC, which shall be responsible for the oversight and management of the Program as specified in Annex I ("***MCA-Vanuatu***"). The Government shall ensure the independent and proper administration of MCA-Vanuatu in accordance with the terms of the Compact, the Governing Documents of MCA-Vanuatu and any relevant Supplemental Agreements.

Section 2.3 Limitations on the Use or Treatment of MCC Funding.

(a) Abortions and Involuntary Sterilizations. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is subject to prohibitions on use of funds contained in (i) paragraphs (1) through (3) of section 104(f) of the Foreign Assistance Act of 1961 (22 U.S.C. 2151b(f)(1)-(3)), a United States statute, which prohibitions shall apply to the same extent and in the same manner as such prohibitions apply to funds made available to carry out Part I of such Act; or (ii) any provision of law comparable to the eleventh and fourteenth provisos under the heading "Child Survival and Health Programs Fund" of division E of Public Law 108-7 (117 Stat. 162), a United States statute.

(b) United States Job Loss or Displacement of Production. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production, including:

(i) Providing financial incentives to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(ii) Supporting investment promotion missions or other travel to the United States with the intention of inducing United States firms to relocate a substantial number of United States jobs or a substantial amount of production outside the United States;

(iii) Conducting feasibility studies, research services, studies, travel to or from the United States, or providing insurance or technical and management assistance, with the intention of inducing United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(iv) Advertising in the United States to encourage United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(v) Training workers for firms that intend to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(vi) Supporting a United States office of an organization that offers incentives for United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States; or

(vii) Providing general budget support for an organization that engages in any activity prohibited above.

(c) Military Assistance and Training. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support the purchase or use of goods or services for military purposes, including military training, or to provide any assistance to the military, police, militia, national guard or other quasi-military organization or unit.

(d) Prohibition of Assistance Relating to Environmental, Health or Safety Hazards. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard. Unless MCC and the Government agree otherwise in writing, the Government shall ensure that activities undertaken, funded or otherwise supported in whole or in part (directly or indirectly) by MCC Funding comply with environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time (the "***Environmental Guidelines***"), including any definition of "likely to cause a significant environmental, health, or safety hazard" as may be set forth in such Environmental Guidelines.

(e) Taxation.

(i) Taxes. As required by applicable United States law and consistent with the applicable requirement of Vanuatu law that international cooperation assistance shall be exempt from taxes, the Government shall ensure that the Program, all Program Assets, MCC Funding and Accrued Interest shall be free from any taxes imposed under laws currently or hereafter in effect in Vanuatu during the Compact Term. This exemption shall apply to any use

of any Program Asset, MCC Funding and Accrued Interest, including any Exempt Uses, and to any work performed under or activities undertaken in furtherance of this Compact by any person or entity (including contractors and grantees) funded by MCC Funding, and shall apply to all taxes, tariffs, duties, and other levies (each a "***Tax***" and collectively, "***Taxes***"), including:

(1) To the extent attributable to MCC Funding, income taxes and other taxes on profit or businesses imposed on organizations or entities, other than nationals of Vanuatu, receiving MCC Funding, including taxes on the acquisition, ownership, rental, disposition or other use of real or personal property, taxes on investment or deposit requirements and currency controls in Vanuatu, or any other tax, duty, charge or fee of whatever nature, except fees for specific services rendered; for purposes of this Section 2.3(e), the term "national" refers to organizations established under the laws of Vanuatu, other than MCA-Vanuatu or any other entity established solely for purposes of managing or overseeing the implementation of the Program or any wholly-owned subsidiaries, divisions, or Affiliates of entities not registered or established under the laws of Vanuatu;

(2) Customs duties, tariffs, import and export taxes, or other levies on the importation, use and re-exportation of goods, services, or the personal belongings and effects, including personally-owned automobiles, for Program use or the personal use of individuals who are neither citizens nor permanent residents of Vanuatu and who are present in Vanuatu for purposes of carrying out the Program or their family members, including all charges based on the value of such imported goods;

(3) Taxes on the income or personal property of all individuals who are neither citizens nor permanent residents of Vanuatu, including income and social security taxes of all types and all taxes on the personal property owned by such individuals, to the extent such income or property are attributable to MCC Funding; and

(4) Taxes or duties levied on the purchase of goods or services funded by MCC Funding, including sales taxes, tourism taxes, value-added taxes (VAT), or other similar charges.

(ii) This Section 2.3(e) shall apply, but is not limited to (1) any transaction, service, activity, contract, grant or other implementing agreement funded in whole or in part by MCC Funding; (2) any supplies, equipment, materials, property or other goods (referred to herein collectively as "goods") or funds introduced into, acquired in, used or disposed of in, or imported into or exported from, Vanuatu by MCC, or by any person or entity (including contractors and grantees) as part of, or in conjunction with, MCC Funding or the Program; (3) any contractor, grantee, or other organization carrying out activities funded in whole or in part by MCC Funding; and (4) any employee of such organizations (the uses set forth in clauses (1) through (4) are collectively referred to herein as "***Exempt Uses***").

(iii) If a Tax has been levied and paid contrary to the requirements of this Section 2.3(e), whether inadvertently, due to the impracticality of implementation of this provision with respect to certain types or amounts of taxes, or otherwise, the Government shall refund promptly to MCC to an account designated by MCC the amount of such Tax in the currency of Vanuatu, within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the Government is notified in writing according to procedures agreed by the

Parties, whether by MCC or otherwise, of such levy and tax payment; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2.3(e)(iii) and no MCC Funding, Accrued Interest, or any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part (directly or indirectly) by MCC Funding ("***Program Assets***") may be applied by the Government in satisfaction of its obligations under this paragraph.

(iv) The Parties shall memorialize in a mutually acceptable Supplemental Agreement or other suitable document the mechanisms for implementing this Section 2.3(e), including (1) a formula for determining refunds for Taxes paid, the amount of which is not susceptible to precise determination, (2) a mechanism for ensuring the tax-free importation, use, and re-exportation of goods, services, or the personal belongings of individuals (including all Providers) described in paragraph (i)(2) of this Section 2.3(e), and (3) any other appropriate Government action to facilitate the administration of this Section 2.3(e).

(f) Alteration. The Government shall ensure that neither MCC Funding nor Accrued Interest or Program Assets shall be subject to any impoundment, rescission, sequestration or any provision of law now or hereafter in effect in Vanuatu that would have the effect of requiring or allowing any impoundment, rescission or sequestration of any MCC Funding, Accrued Interest or Program Asset.

(g) Liens or Encumbrances. The Government shall ensure that no MCC Funding, Accrued Interest or Program Assets shall be subject to any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind (each a "***Lien***"), except with the prior approval of MCC in accordance with Section 3(c) of Annex I, and in the event of the imposition of any Lien not so approved, the Government shall promptly seek the release of such Lien and shall promptly pay any amounts owed to obtain such release; *provided, however*, the Government shall satisfy its obligations under this Section 2.3(g) at its own expense and no MCC Funding, Accrued Interest or Program Assets may be applied by the Government in satisfaction of its obligations under this Section 2.3(g).

(h) Other Limitations. The Government shall ensure that the use or treatment of MCC Funding shall be subject to such other limitations (i) as required by the applicable law of the United States of America now or hereafter in effect during the Compact Term, (ii) as advisable under or required by applicable United States Government policies now or hereafter in effect during the Compact Term, or (iii) to which the Parties may otherwise agree in writing.

(i) Utilization of Goods, Services and Works. The Government shall ensure that any Program Assets, services, facilities or works funded in whole or in part (directly or indirectly) by MCC Funding, unless otherwise agreed by the Parties in writing, shall be used solely in furtherance of this Compact.

(j) Notification of Applicable Laws and Policies. MCC shall notify the Government of any applicable United States law or policy affecting the use or treatment of MCC Funding, whether or not specifically identified in this Section 2.3, and shall provide to the Government a copy of the text of any such applicable law and a written explanation of any such applicable policy.

Section 2.4 Incorporation; Notice; Clarification.

(a) The Government shall include, or ensure the inclusion of, all of the requirements set forth in Section 2.3 in all Supplemental Agreements to which MCC is not a party and shall use its best efforts to ensure that no such Supplemental Agreement is implemented in violation of the prohibitions set forth in Section 2.3.

(b) The Government shall ensure notification of all of the requirements set forth in Section 2.3 to any Provider and all relevant officers, directors, employees, agents, representatives, Affiliates, contractors, sub-contractors, grantees and sub-grantees of any Provider. The term "***Provider***" shall mean (i) MCA-Vanuatu and any Government Affiliate or Permitted Designee involved in any activities in furtherance of this Compact or (ii) any third party who receives at least USD $50,000 in the aggregate of MCC Funding (other than employees of MCA-Vanuatu) during the Compact Term or such other amount as the Parties may agree in writing, whether directly from MCC, indirectly through Re-Disbursements, or otherwise.

(c) In the event the Government or any Provider requires clarification from MCC as to whether an activity contemplated to be undertaken in furtherance of this Compact violates or may violate any provision of Section 2.3, the Government shall notify, or ensure that such Provider notifies, MCC in writing and provide in such notification a detailed description of the activity in question. In such event, the Government shall not proceed, and shall use its best efforts to ensure that no relevant Provider proceeds, with such activity, and the Government shall ensure that no Re-Disbursements shall be made for such activity, until MCC advises the Government or such Provider in writing that the activity is permissible.

Section 2.5 Refunds; Violation.

(a) Notwithstanding the availability to MCC, or exercise by MCC of, any other remedies, including under international law, this Compact, or any Supplemental Agreement:

(i) If any amount of MCC Funding or Accrued Interest, or any Program Asset, is used for any purpose prohibited under this Article II or otherwise in violation of any of the terms and conditions of this Compact, any guidance in any Implementation Letter, or any Supplemental Agreement between the Parties, MCC may require the Government to repay promptly to MCC to an account designated by MCC or to others as MCC may direct the amount of such misused MCC Funding or Accrued Interest, or the cash equivalent of the value of any misused Program Asset, in United States Dollars, plus any interest that accrued or would have accrued thereon, within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the Government is notified, whether by MCC or otherwise, of such prohibited use; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2.5(a)(i) and no MCC Funding, Accrued Interest, nor Program Assets may be applied by the Government in satisfaction of its obligations under this Section 2.5(a)(i); and

(ii) If all or any portion of this Compact is terminated or suspended and upon the expiration of this Compact, the Government shall, subject to the requirements of Sections 5.4(e) and 5.4(f), refund, or ensure the refund, to MCC to such account(s) designated by MCC the amount of any MCC Funding, plus any Accrued Interest, promptly, but in no event later than

thirty (30) days after the Government receives MCC's request for such refund; *provided*, that if this Compact is terminated or suspended in part, MCC may request a refund for only the amount of MCC Funding, plus any Accrued Interest, then allocated to the terminated or suspended portion; *provided, further*, that any refund of MCC Funding or Accrued Interest shall be to such account(s) as designated by MCC.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under this Section 2.5 for a refund shall continue during the Compact Term and for a period of (i) five (5) years thereafter or (ii) one (1) year after MCC receives actual knowledge of such violation, whichever is later.

(c) If MCC determines that any activity or failure to act violates, or may violate, any Section in this Article II, MCC may refuse any further MCC Disbursements for or conditioned upon such activity, and may take any action to prevent any Re-Disbursement related to such activity.

ARTICLE III.
IMPLEMENTATION

Section 3.1 Implementation Framework. This Compact shall be implemented by the Parties in accordance with this Article III and as further specified in the Annexes and in relevant Supplemental Agreements.

Section 3.2 Government Responsibilities.

(a) The Government shall have principal responsibility for oversight and management of the implementation of the Program (i) in accordance with the terms and conditions specified in this Compact and relevant Supplemental Agreements, (ii) in accordance with all applicable laws then in effect in the Republic of Vanuatu, and (iii) in a timely and cost-effective manner and in conformity with sound technical, financial and management practices (collectively, the "***Government Responsibilities***"). Unless otherwise expressly provided, any reference to the Government Responsibilities or any other responsibilities or obligations of the Government herein shall be deemed to apply to any Government Affiliate and any of their respective directors, officers, employees, contractors, sub-contractors, grantees, sub-grantees, agents or representatives.

(b) The Government shall ensure that no person or entity shall participate in the selection, award, administration or oversight of a contract, grant or other benefit or transaction funded in whole or in part (directly or indirectly) by MCC Funding, in which (i) the entity, the person, members of the person's immediate family or household or his or her business partners, or organizations controlled by or substantially involving such person or entity, has or have a financial or other interest or (ii) the person or entity is negotiating or has any arrangement concerning prospective employment, unless such person or entity has first disclosed in writing to the Government the conflict of interest and, following such disclosure, the Parties agreed in writing to proceed notwithstanding such conflict. The Government shall ensure that no person or entity involved in the selection, award, administration, oversight or implementation of any contract, grant or other benefit or transaction funded in whole or in part (directly or indirectly) by

MCC Funding shall solicit or accept from or offer to a third party or seek or be promised (directly or indirectly) for itself or for another person or entity any gift, gratuity, favor or benefit, other than items of de minimis value and otherwise consistent with such guidance as MCC may provide from time to time.

(c) The Government shall not designate any person or entity, including any Government Affiliate, to implement, in whole or in part, this Compact or any Supplemental Agreement between the Parties (including any Government Responsibilities or any other responsibilities or obligations of the Government under this Compact or any Supplemental Agreement between the Parties) or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties, except as expressly provided herein or with the prior written consent of MCC; *provided, however*, the Government may designate MCA-Vanuatu or, with the prior written consent of MCC, such other mutually acceptable persons or entities, to implement some or all of the Government Responsibilities or any other responsibilities or obligations of the Government or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties (referred to herein collectively as "***Designated Rights and Responsibilities***"), in accordance with the terms and conditions set forth in this Compact or such Supplemental Agreement (each, a "***Permitted Designee***"). Notwithstanding any provision herein or any other agreement to the contrary, no such designation shall relieve the Government of such Designated Rights and Responsibilities, for which the Government shall retain ultimate responsibility. In the event that the Government designates any person or entity, including any Government Affiliate, to implement any portion of the Government Responsibilities or other responsibilities or obligations of the Government, or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties, in accordance with this Section 3.2(c), then the Government shall (i) cause such person or entity to perform such Designated Rights and Responsibilities in the same manner and to the full extent to which the Government is obligated to perform such Designated Rights and Responsibilities, (ii) ensure that such person or entity does not assign, delegate, or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any other person or entity and (iii) cause such person or entity to certify to MCC in writing that it will so perform such Designated Rights and Responsibilities and will not assign, delegate, or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any person or entity without the prior written consent of MCC.

(d) The Government shall, upon a request from MCC, execute, or ensure the execution of, an assignment to MCC of any cause of action which may accrue to the benefit of the Government, a Government Affiliate or any Permitted Designee including MCA-Vanuatu in connection with or arising out of any activities funded in whole or in part (directly or indirectly) by MCC Funding.

(e) The Government shall ensure that (i) no decision of MCA-Vanuatu is modified, supplemented, unduly influenced or rescinded by any governmental authority, except by a non-appealable judicial decision or any judicial decision which MCA-Vanuatu, with the agreement of MCC, decides not to appeal, and (ii) the authority of MCA-Vanuatu shall not be expanded, restricted, or otherwise modified, except in accordance with this Compact, the Governance Agreement, or any other Supplemental Agreement between the Parties.

(f) The Government shall ensure that all persons and individuals that enter into agreements to provide goods, services or works under the Program or in furtherance of this Compact shall do so in accordance with the Procurement Guidelines and shall obtain all necessary immigration, business and other permits, licenses, consents and approvals to enable them and their personnel to fully perform under such agreements.

Section 3.3 Government Deliveries. The Government shall proceed, and cause others to proceed, in a timely manner to deliver to MCC all Government deliveries required to be delivered by the Government under this Compact or any Supplemental Agreement between the Parties, in form and substance as set forth in this Compact or in any such Supplemental Agreement.

Section 3.4 Government Assurances. The Government hereby provides the following assurances to MCC that as of the date this Compact is signed:

(a) The information contained in the Proposal and any agreement, report, statement, communication, document or otherwise delivered or otherwise communicated to MCC by or on behalf of the Government on or after the date of the submission of the Proposal (i) are true, correct and complete in all material respects and (ii) do not omit any fact known to the Government that if disclosed would (1) alter in any material respect the information delivered, (2) likely have a material adverse effect on the Government's ability to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact, or (3) have likely adversely affected MCC's determination to enter into this Compact or any Supplemental Agreement between the Parties;

(b) Unless otherwise disclosed in writing to MCC, the MCC Funding made available hereunder is in addition to the normal and expected resources that the Government usually receives or budgets for the activities contemplated herein from external or domestic sources;

(c) This Compact does not conflict and will not conflict with any international agreement or obligation to which the Government is a party or by which it is bound; and

(d) No payments have been (i) received by any official of the Government or any other government body in connection with the procurement of goods, services or works to be undertaken or funded in whole or in part (directly or indirectly) by MCC Funding, except fees, taxes, or similar payments legally established in Vanuatu or (ii) made to any third party, in connection with or in furtherance of this Compact, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended (15 USC 78a *et seq.*).

Section 3.5 Implementation Letters; Supplemental Agreements.

(a) MCC may, from time to time, issue one or more letters to furnish additional information or guidance to assist the Government in the implementation of this Compact (each, an "***Implementation Letter***"). The Government shall apply such guidance in implementing this Compact.

(b) The details of any funding, implementing and other arrangements in furtherance of this Compact may be memorialized in one or more agreements between (i) the Government (or any Government Affiliate or Permitted Designee) and MCC, (ii) MCC and/or the Government (or any Government Affiliate or Permitted Designee) and any third party, including any of the Providers or Permitted Designee or (iii) any third parties where neither MCC nor the Government is a party, before, on or after the Entry into Force (each, a "***Supplemental Agreement***"). The Government shall deliver, or cause to be delivered, to MCC within five (5) days of its execution a copy of any Supplemental Agreement to which MCC is not a party.

Section 3.6 Procurement; Awards of Assistance.

(a) The Government shall ensure that the procurement of all goods, services and works by the Government or any Provider in furtherance of this Compact shall be consistent with the procurement guidelines (the "***Procurement Guidelines***") reflected in a Supplemental Agreement between MCC and MCA-Vanuatu (the "***Procurement Agreement***"), which Procurement Guidelines shall include the following requirements:

(i) Internationally accepted procurement rules with open, fair and competitive procedures are used in a transparent manner to solicit, award and administer contracts, grants, and other agreements and to procure goods, services and works;

(ii) Solicitations for goods, services, and works shall be based upon a clear and accurate description of the goods, services or works to be acquired;

(iii) Contracts shall be awarded only to qualified and capable contractors that have the capability and willingness to perform the contracts in accordance with the terms and conditions of the applicable contracts and on a cost effective and timely basis; and

(iv) No more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, shall be paid to procure goods, services, and works.

(b) The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, records regarding the receipt and use of goods, services and works acquired in furtherance of this Compact, the nature and extent of solicitations of prospective suppliers of goods, services and works acquired in furtherance of this Compact, and the basis of award of contracts, grants and other agreements in furtherance of this Compact.

(c) The Government shall use its best efforts to ensure that information, including solicitations, regarding procurement, grant and other agreement actions funded (or to be funded) in whole or in part (directly or indirectly) by MCC Funding shall be made publicly available in the manner outlined in the Procurement Guidelines or in any other manner agreed upon by the Parties in writing.

(d) The Government shall ensure that no goods, services or works funded in whole or in part (directly or indirectly) by MCC Funding are procured pursuant to orders or contracts firmly placed or entered into prior to the Entry into Force, except as the Parties may otherwise agree in writing.

(e) The Government shall ensure that MCA-Vanuatu and any other Permitted Designee follows, and uses its best efforts to ensure that all Providers follow, the Procurement Guidelines in procuring (including soliciting) goods, services and works and in awarding and administering contracts, grants and other agreements in furtherance of this Compact, and shall furnish MCC evidence of the adoption of the Procurement Guidelines by MCA-Vanuatu no later than the time specified in the Disbursement Agreement.

(f) The Government shall include, or ensure the inclusion of, the requirements of this Section 3.6 into all Supplemental Agreements between the Government or any Government Affiliate or Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, on the one hand, and a Provider, on the other hand.

Section 3.7 Policy Performance; Policy Reforms. In addition to the specific policy and legal reform commitments identified in Annex I and the Schedules thereto, the Government shall seek to maintain and improve its level of performance under the policy criteria identified in Section 607 of the Millennium Challenge Act of 2003, as amended (the "***Act***"), and the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time ("***MCA Eligibility Criteria***").

Section 3.8 Records and Information; Access; Audits; Reviews.

(a) Reports and Information. The Government shall furnish to MCC, and shall use its best efforts to ensure that all Providers and any other third party receiving MCC Funding, as appropriate, furnish to the Government (and the Government shall provide to MCC), any records and other information required to be maintained under this Section 3.8 and such other information, documents and reports as may be necessary or appropriate for the Government to effectively carry out its obligations under this Compact, including under Section 3.12.

(b) Government Books and Records. The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, accounting books, records, documents and other evidence relating to this Compact adequate to show, to the satisfaction of MCC, without limitation, the use of all MCC Funding, including all costs incurred by the Government and the Providers in furtherance of this Compact, the receipt, acceptance and use of goods, services and works acquired in furtherance of this Compact by the Government and the Providers, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods, services and works acquired by the Government and the Providers in furtherance of this Compact, the basis of award of Government and other contracts and orders in furtherance of this Compact, the overall progress of the implementation of the Program, and any documents required by this Compact or any Supplemental Agreement between the Parties or reasonably requested by MCC upon reasonable notice ("***Compact Records***"). The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, Compact Records in accordance with generally accepted accounting principles prevailing in the United States, or at the Government's option and with the prior written approval by MCC, other accounting principles, such as those (i) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) or (ii) then prevailing in Vanuatu. Compact Records shall be maintained for at least five (5) years after the end of the

Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any statutory requirements.

(c) Access. At the request of MCC, the Government, at all reasonable times, shall permit, or cause to be permitted, authorized representatives of MCC, the Inspector General, the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or a Permitted Designee to conduct any assessment, review or evaluation of the Program, at all reasonable times the opportunity to audit, review, evaluate or inspect activities funded in whole or in part (directly or indirectly) by MCC Funding or undertaken in connection with the Program, the utilization of goods and services purchased or funded in whole or in part (directly or indirectly) by MCC Funding, and Compact Records, including of the Government or any Provider, relating to activities funded or undertaken in furtherance of, or otherwise relating to, this Compact, and shall use its best efforts to ensure access by MCC, the Inspector General, the United States Government Accountability Office or relevant auditor, reviewer or evaluator or their respective representatives or agents to all relevant directors, officers, employees, Affiliates, contractors, representatives and agents of the Government or any Provider.

(d) Audits.

(i) Government Audits. The Government shall, on at least an annual basis and as the Parties may otherwise agree in writing, conduct, or cause to be conducted, financial audits of all MCC Disbursements and Re-Disbursements during the year since the Entry into Force or since the prior anniversary of the Entry into Force in accordance with the following terms, except as the Parties may otherwise agree in writing. As requested by MCC in writing, the Government shall use, or cause to be used, or select, or cause to be selected, an auditor named on the approved list of auditors in accordance with the *Guidelines for Financial Audits Contracted by Foreign Recipients* (the "***Audit Guidelines***") issued by the Inspector General of the United States Agency for International Development (the "***Inspector General***"), and as approved by MCC, to conduct such annual audits. Such audits shall be performed in accordance with such Audit Guidelines and be subject to quality assurance oversight by the Inspector General in accordance with such Audit Guidelines. An audit shall be completed no later than 90 days after the first anniversary of the Entry into Force of this Compact and no later than 90 days after each anniversary of the Entry into Force of this Compact thereafter, or such other period as the Parties may otherwise agree in writing.

(ii) Audits of U.S. Entities. The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States nonprofit organization, on the other hand, state that the United States organization is subject to the applicable audit requirements contained in OMB Circular A-133, notwithstanding any other provision of this Compact to the contrary. The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States for-profit Covered Provider, on the other hand, state that the United States organization is subject to audit by the cognizant United States Government agency, unless the Government and MCC agree otherwise in writing.

(iii) Audit Plan. The Government shall submit, or cause to be submitted, to MCC, no later than twenty (20) days prior to the date of its adoption, in form and substance satisfactory to MCC, a plan, in accordance with the Audit Guidelines, for the audit of the expenditures of any Covered Providers, which audit plan, in the form and substance as approved by MCA-Vanuatu, the Government shall adopt, or cause to be adopted, no later than sixty (60) days prior to the end of the first anniversary of the Entry into Force of this Compact or prior to the end of the first period to be audited.

(iv) Covered Provider. A "***Covered Provider***" is (1) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD $300,000 or more of MCC Funding in any MCA-Vanuatu fiscal year or any other non-United States person or entity that receives (directly or indirectly) USD $300,000 or more of MCC Funding from any Provider in such fiscal year or (2) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD $500,000 or more of MCC Funding in any MCA-Vanuatu fiscal year or any other United States person or entity that receives (directly or indirectly) USD $500,000 or more of MCC Funding from any Provider in such fiscal year.

(v) Corrective Actions. The Government shall use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, consider whether a Covered Provider's audit necessitates adjustment of its own records, and require each such Covered Provider to permit independent auditors to have access to its records and financial statements as necessary.

(vi) Audit Reports. The Government shall furnish, or use its best efforts to cause to be furnished, to MCC an audit report in a form satisfactory to MCC for each audit required by this Section 3.8, other than audits arranged for by MCC, no later than 90 days after the end of the period under audit, or such other time as may be agreed by the Parties from time to time.

(vii) Other Providers. For Providers who receive MCC Funding under this Compact pursuant to direct contracts or agreements with MCC, MCC shall include appropriate audit requirements in such contracts or agreements and shall, on behalf of the Government, unless otherwise agreed by the Parties, conduct the follow-up activities with regard to the audit reports furnished pursuant to such requirements.

(viii) Audit by MCC. MCC retains the right to perform, or cause to be performed, the audits required under this Section 3.8 by utilizing MCC Funding or other resources available to MCC for this purpose, and to audit, conduct a financial review, or otherwise ensure accountability of any Provider or any other third party receiving MCC Funding, regardless of the requirements of this Section 3.8. MCC will provide notice to the Government of its intent to exercise such right.

(e) Application to Providers. The Government shall include, or ensure the inclusion of, at a minimum, the requirements of:

(i) Paragraphs (a), (b), (c), (d)(ii), (d)(iii), (d)(v), (d)(vi), and (d)(viii) of this Section 3.8 into all Supplemental Agreements between the Government, any Government

Affiliate, any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents (each, a "***Government Party***"), on the one hand, and a Covered Provider that is not a non-profit organization domiciled in the United States, on the other hand;

(ii) Paragraphs (a), (b), (c), (d)(ii), and (d)(viii) of this Section 3.8 into all Supplemental Agreements between a Government Party and a Provider that does not meet the definition of a Covered Provider; and

(iii) Paragraphs (a), (b), (c), (d)(ii), (d)(v) and (d)(viii) of this Section 3.8 into all Supplemental Agreements between a Government Party and a Covered Provider that is a non-profit organization domiciled in the United States.

(f) Reviews or Evaluations. The Government shall conduct, or cause to be conducted, such performance reviews, data quality reviews, environmental audits, or program evaluations during the Compact Term or otherwise and in accordance with the M&E Plan or as otherwise agreed in writing by the Parties.

(g) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to fund the costs of any Audits, reviews or evaluations required under this Compact, including as reflected on Exhibit A to Annex II, and in no event shall the Government be responsible for the costs of any such Audits, reviews or evaluations from financial sources other than MCC Funding.

Section 3.9 Insurance. The Government shall, to MCC's satisfaction, insure or cause to be insured all Program Assets and shall obtain or cause to be obtained such other appropriate insurance and other protections to cover against risks or liabilities associated with the operations of the Program, including by requiring Providers to obtain adequate insurance and post adequate performance bonds or other guarantees. MCA-Vanuatu or the Implementing Entity, as applicable, shall be named as the payee on any such insurance and the beneficiary of any such guarantee, including performance bonds. MCC and, to the extent it is not named as the insured party, MCA-Vanuatu shall be named as additional insured on any such insurance or other guarantee, to the extent permissible under applicable laws. The Government shall ensure that any proceeds from claims paid under such insurance or any other form of guarantee shall be used to replace or repair any loss of Program Assets or to pursue the procurement of the covered goods, services or works; *provided, however,* at MCC's election, such proceeds shall be deposited in a Permitted Account as designated by MCA-Vanuatu and acceptable to MCC or otherwise as directed by MCC. To the extent MCA-Vanuatu is held liable under any indemnification or other similar provision of any agreement between MCA-Vanuatu, on the one hand, and any other Provider or other third party, on the other hand, the Government shall pay in full on behalf of MCA-Vanuatu any such obligation; *provided, further,* the Government shall apply national funds to satisfy its obligations under this Section 3.9 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 3.9.

Section 3.10 Domestic Requirements. The Government shall proceed in a timely manner to seek any required ratification of this Compact or similar domestic requirement, which process the Government shall initiate promptly after the conclusion of this Compact. Notwithstanding

anything to the contrary in this Compact, this Section 3.10 shall provisionally apply prior to the Entry into Force.

Section 3.11 No Conflict. The Government shall undertake not to enter into any agreement in conflict with this Compact or any Supplemental Agreement during the Compact Term.

Section 3.12 Reports. The Government shall provide, or cause to be provided, to MCC at least on each anniversary of the Entry Into Force and otherwise within thirty (30) days of any written request by MCC, or as otherwise agreed in writing by the Parties, the following information:

(a) The name of each entity to which MCC Funding has been provided;

(b) The amount of MCC Funding provided to such entity;

(c) A description of the Program and each Project funded in furtherance of this Compact, including:

(i) A statement of whether the Program or any Project was solicited or unsolicited; and

(ii) A detailed description of the objectives and measures for results of the Program or Project;

(d) The progress made by Vanuatu toward achieving the Compact Goal and Project Objectives;

(e) A description of the extent to which MCC Funding has been effective in helping Vanuatu to achieve the Compact Goal and Project Objectives;

(f) A description of the coordination of MCC Funding with other United States foreign assistance and other related trade policies;

(g) A description of the coordination of MCC Funding with assistance provided by other donor countries, subject to the relevant protocols governing such assistance;

(h) Any report, document or filing that the Government, any Government Affiliate or any Permitted Designee submits to any government body in connection with this Compact;

(i) Any report or document required to be delivered to MCC under the Environmental Guidelines, any Audit Plan, or any component of the Implementation Plan; and

(j) Any other report, document or information requested by MCC or required by this Compact or any Supplemental Agreement between the Parties.

ARTICLE IV.

CONDITIONS PRECEDENT; DELIVERIES

Section 4.1 Conditions Prior to the Entry into Force and Deliveries. As conditions precedent to the Entry into Force, the Parties shall satisfy the conditions set forth in this Section 4.1.

(a) The Government (or a mutually acceptable Government Affiliate) and MCC shall execute a Disbursement Agreement, which agreement shall be in full force and effect as of the Entry into Force.

(b) The Government (or a mutually acceptable Government Affiliate) and MCC shall execute one or more of the Supplemental Agreements identified in Exhibit B attached hereto, which agreements shall be in full force and effect as of the Entry into Force, or execute one or more term sheets that set forth the material and principal terms and conditions that will be included in any such Supplemental Agreement that has not been entered into as of the Entry into Force (the "***Supplemental Agreement Term Sheets***").

(c) The Government (or mutually acceptable Government Affiliate) and MCC shall execute a Procurement Agreement, which agreement shall be in full force and effect as of the Entry into Force.

(d) The Government shall deliver a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative executing any document under this Compact, such written statement to be signed by a duly authorized official of the Government other than the Principal Representative or any such Additional Representative.

(e) The Government shall deliver a certificate signed and dated by the Principal Representative of the Government certifying:

(i) That the Government has completed all of its domestic requirements for this Compact to be fully enforceable under Vanuatu law; and

(ii) That attached thereto are true, correct and complete copies of any decree, legislation, regulation or other governmental document relating to its domestic requirements for this Compact to enter into force, which MCC may post on its website or otherwise make publicly available.

(f) MCC shall deliver a certificate signed and dated by the Principal Representative of MCC certifying that MCC has completed its domestic requirements for this Compact to enter into force.

(g) MCC shall deliver a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative executing any document under this Compact such written statement to be signed by a duly authorized officer of MCC other than the Principal Representative or any such Additional Representative.

Section 4.2 Conditions Precedent to MCC Disbursements or Re-Disbursements. Prior to, and as condition precedent to, any MCC Disbursement or Re-Disbursement, the Government shall satisfy, or ensure the satisfaction of, all applicable conditions precedent in the Disbursement Agreement.

ARTICLE V.

FINAL CLAUSES

Section 5.1 Communications. Unless otherwise expressly stated in this Compact or otherwise agreed in writing by the Parties, any notice, certificate, request, report, document or other communication required, permitted, or submitted by either Party to the other under this Compact shall be: (a) in writing; (b) in English; and (c) deemed duly given: (i) upon personal delivery to the Party to be notified; (ii) when sent by confirmed facsimile or electronic mail, if sent during normal business hours of the recipient Party, if not, then on the next business day; or (iii) two (2) business days after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt to the Party to be notified at the address indicated below, or at such other address as such Party may designate:

To MCC:

Millennium Challenge Corporation
Attention: Vice President of Operations
(with a copy to the Vice President and General Counsel)
875 Fifteenth Street, N.W.
Washington, DC 20005
United States of America
Facsimile: (202) 521-3700
Email: VPOperations@mcc.gov (Vice President of Operations);
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

Office of the Prime Minister
Attention: Director-General, Office of the Prime Minister
PMB 9053 Port Vila
Republic of Vanuatu
Facsimile: (678) 26708

Notwithstanding the foregoing, any audit report delivered pursuant to Section 3.8, if delivered by facsimile or electronic mail, shall be followed by an original in overnight express mail. This Section 5.1 shall not apply to the exchange of letters contemplated in Section 1.3 or any amendments under Section 5.3.

Section 5.2 Representatives. Unless otherwise agreed in writing by MCC, for all purposes relevant to this Compact, the Government shall be represented by the Director-General of the Prime Minister's Office, or in his absence the relevant designated Additional Representative, and

MCC shall be represented by the individual holding the position of, or acting as, Vice President, Department of Operations (each, a "***Principal Representative***"), each of whom, by written notice, may designate one or more additional representatives (each, an "***Additional Representative***") for all purposes other than signing amendments to this Compact. The names of the Principal Representative and any Additional Representative of each of the Parties shall be provided, with specimen signatures, to the other Party, and the Parties may accept as duly authorized any instrument signed by such representatives relating to the implementation of this Compact, until receipt of written notice of revocation of their authority. MCC may change its Principal Representative to a new representative of equivalent or higher rank upon written notice to the Government, which notice shall include the specimen signature of the new Principal Representative.

Section 5.3 Amendments. The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of the Parties and subject to the respective domestic approval requirements to which this Compact was subject.

Section 5.4 Termination; Suspension.

(a) Subject to Section 2.5 and paragraphs (e) through (h) of this Section 5.4, either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' written notice.

(b) Notwithstanding any other provision of this Compact, including Section 2.1, or any Supplemental Agreement between the Parties, MCC may suspend or terminate this Compact or MCC Funding, in whole or in part, and any obligation or sub-obligation related thereto, upon giving the Government written notice, if MCC determines, in its sole discretion that:

(i) Any use or proposed use of MCC Funding or Program Assets or continued implementation of the Compact would be in violation of applicable law or United States Government policy, whether now or hereafter in effect;

(ii) The Government, any Provider, or any other third party receiving MCC Funding or using Program Assets is engaged in activities that are contrary to the national security interests of the United States;

(iii) The Government or any Permitted Designee has committed an act or omission or an event has occurred that would render Vanuatu ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(iv) The Government or any Permitted Designee has engaged in a pattern of actions or omissions inconsistent with the MCA Eligibility Criteria, or there has occurred a significant decline in the performance of Vanuatu on one or more of the eligibility indicators contained therein;

(v) The Government or any Provider has materially breached one or more of its assurances or any covenants, obligations or responsibilities under this Compact or any Supplemental Agreement;

(vi) An audit, review, report or any other document or other evidence reveals that actual expenditures for the Program or any Project or any Project Activity were greater than the projected expenditure for such activities identified in the applicable Detailed Financial Plan or are projected to be greater than projected expenditures for such activities;

(vii) If the Government (1) materially reduces the allocation in its national budget or any other Government budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein; (2) fails to contribute or provide the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact; or (3) fails to pay any of its obligations as required under this Compact or any Supplemental Agreement, including such obligations which shall be paid solely out of national funds;

(viii) If the Government, any Provider, or any other third party receiving MCC Funding or using Program Assets, or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking;

(ix) Any MCC Funding or Program Assets are applied (directly or indirectly) to the provision of resources and support to, individuals and organizations associated with terrorism, sex trafficking or prostitution;

(x) An event or condition of any character has occurred that: (1) materially and adversely affects, or is likely to materially and adversely affect, the ability of the Government or any other party to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact or any Supplemental Agreement or to perform its obligations under or in furtherance of this Compact or any Supplemental Agreement or to exercise its rights thereunder; (2) makes it improbable that the Project Objectives will be achieved during the Compact Term; (3) materially and adversely affects the Program Assets or any Permitted Account; or (4) constitutes misconduct injurious to MCC, or constitutes a fraud or a felony, by the Government, any Government Affiliate, Permitted Designee or Provider, or any officer, director, employee, agent, representative, Affiliate, contractor, grantee, subcontractor or sub-grantee thereof;

(xi) The Government or any Permitted Designee or Provider has taken any action or omission or engaged in any activity in violation of, or inconsistent with, the requirements of this Compact or any Supplemental Agreement to which the Government or any Permitted Designee or Provider is a party;

(xii) There has occurred a failure to meet a condition precedent or series of conditions precedent or any other requirements or conditions in connection with MCC

Disbursement as set out in and in accordance with any Supplemental Agreement between the Parties; or

(xiii) Any MCC Funding, Accrued Interest or Program Asset becomes subject to a Lien without the prior approval of MCC, and the Government fails to (i) obtain the release of such Lien and (ii) pay solely with national funds (and not with MCC Funding, Accrued Interest or Program Assets) any amounts owed to obtain such release, all within 30 days after the imposition of such Lien.

(c) MCC may reinstate any suspended or terminated MCC Funding under this Compact or any Supplemental Agreement if MCC determines, in its sole discretion, that the Government or other relevant party has demonstrated a commitment to correcting each condition for which MCC Funding was suspended or terminated.

(d) The authority to suspend or terminate this Compact or any MCC Funding under this Section 5.4 includes the authority to suspend or terminate any obligations or sub-obligations relating to MCC Funding under any Supplemental Agreement without any liability to MCC whatsoever.

(e) All MCC Disbursements and Re-Disbursements shall cease upon expiration, suspension, or termination of this Compact; *provided, however*, (i) reasonable expenditures for goods, services and works that are properly incurred under or in furtherance of this Compact before expiration, suspension or termination of the Compact and (ii) reasonable expenditures for goods and services (including administrative expenses) properly incurred within one hundred twenty (120) days after the expiration, suspension or termination of the Compact in connection with the winding up of the Program may be paid from MCC Funding, provided that in the case of clauses (i) and (ii) the request for such payment is (A) properly submitted within ninety (90) days after the expiration, suspension or termination of the Compact and (B) subject to the prior written consent of MCC.

(f) Except for payments which the Parties are committed to make under noncancelable commitments entered into with third parties before such suspension or termination, the suspension or termination of this Compact or any Supplemental Agreement, in whole or in part, shall suspend, for the period of the suspension, or terminate, or ensure the suspension or termination of, as applicable, any obligation or sub-obligation of the Parties to provide financial or other resources under this Compact or any Supplemental Agreement, or to the suspended or terminated portion of this Compact or such Supplemental Agreement, as applicable. In the event of such suspension or termination, the Government shall use its best efforts to suspend or terminate, or ensure the suspension or termination of, as applicable, all such noncancelable commitments related to the suspended or terminated MCC Funding. Any portion of this Compact or any such Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(g) Upon the full or partial suspension or termination of this Compact or any MCC Funding, MCC may, at its expense, direct that title to Program Assets be transferred to MCC if such Program Assets are in a deliverable state; *provided*, for any Program Asset(s) partially purchased or funded (directly or indirectly) by MCC Funding, the Government shall reimburse to

a United States Government account designated by MCC the cash equivalent of the portion of the value of such Program Asset(s).

(h) Prior to the expiration of this Compact or upon the termination of this Compact, the Parties shall consult in good faith with a view to reaching an agreement in writing on (i) the post-Compact Term treatment of MCA-Vanuatu, (ii) the process for ensuring the refunds of MCC Disbursements that have not yet been released from a Permitted Account through a valid Re-Disbursement nor otherwise committed in accordance with Section 5.4(e), or (iii) any other matter related to the winding up of the Program and this Compact.

Section 5.5 Privileges and Immunities. MCC is an agency of the Government of the United States of America and its personnel assigned to Vanuatu will be notified pursuant to the Vienna Convention on Diplomatic Relations as members of the mission of the Embassy of the United States of America. The Government shall ensure that any personnel of MCC, including individuals detailed to or contracted by MCC, and the members of the families of such personnel, while such personnel are performing duties in Vanuatu, shall enjoy the privileges and immunities that are enjoyed by a member of the United States Foreign Service, or the family of a member of the United States Foreign Service, as appropriate, of comparable rank and salary of such personnel, if such personnel or the members of the families of such personnel are not a national of, or permanently resident in Vanuatu.

Section 5.6 Attachments. Any annex, schedule, exhibit, table, appendix or other attachment expressly attached hereto (collectively, the "***Attachments***") is incorporated herein by reference and shall constitute an integral part of this Compact.

Section 5.7 Inconsistencies.

(a) Conflicts or inconsistencies between any parts of this Compact shall be resolved by applying the following descending order of precedence:

(i) Articles I through V; and

(ii) Any Attachments.

(b) In the event of any conflict or inconsistency between this Compact and any Supplemental Agreement between the Parties, the terms of this Compact shall prevail. In the event of any conflict or inconsistency between any Supplemental Agreement between the Parties and any other Supplemental Agreement, the terms of the Supplemental Agreement between the Parties shall prevail. In the event of any conflict or inconsistency between Supplemental Agreements between any parties, the terms of a more recently executed Supplemental Agreement between such parties shall take precedence over a previously executed Supplemental Agreement between such parties. In the event of any inconsistency between a Supplemental Agreement between the Parties and any component of the Implementation Plan, the terms of the relevant Supplemental Agreement shall prevail.

Section 5.8 Indemnification. The Government shall indemnify and hold MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative (each of MCC and any such persons, an "***MCC Indemnified Party***") harmless from and against, and shall compensate,

reimburse and pay such MCC Indemnified Party for, any liability or other damages which (i) are (directly or indirectly) suffered or incurred by such MCC Indemnified Party, or to which any MCC Indemnified Party may otherwise become subject, regardless of whether or not such damages relate to any third-party claim, and (ii) arise from or as a result of the negligence or willful misconduct of the Government, any Government Affiliate, or any Permitted Designee, (directly or indirectly) connected with, any activities (including acts or omissions) undertaken in furtherance of this Compact; *provided, however,* the Government shall apply national funds to satisfy its obligations under this Section 5.8 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 5.8.

Section 5.9 Headings. The Section and Subsection headings used in this Compact are included for convenience only and are not to be considered in construing or interpreting this Compact.

Section 5.10 Interpretation; Definitions.

(a) Any reference to the term "including" in this Compact shall be deemed to mean "including without limitation" except as expressly provided otherwise.

(b) Any reference to activities undertaken "in furtherance of this Compact" or similar language shall include activities undertaken by the Government, any Government Affiliate or Permitted Designee, any Provider or any other third party receiving MCC Funding involved in carrying out the purposes of this Compact or any Supplemental Agreement, including their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, whether pursuant to the terms of this Compact, any Supplemental Agreement or otherwise.

(c) References to "day" or "days" shall be calendar days unless provided otherwise.

(d) The term "***United States Government***" shall, for the purposes of this Compact, mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

(e) The term "***Affiliate***" of a party is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence.

(f) The term "***Government Affiliate***" is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government.

(g) References to any Affiliate or Government Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

(h) Any references to "***Supplemental Agreement between the Parties***" shall mean any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.

Section 5.11 Signatures. Other than a signature to this Compact or an amendment to this Compact pursuant to Section 5.3, a signature delivered by facsimile or electronic mail in accordance with Section 5.1 shall be deemed an original signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying document, certificate, notice, instrument or agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form. Such signature shall be accepted by the receiving Party as an original signature and shall be binding on the Party delivering such signature.

Section 5.12 Designation. MCC may designate any Affiliate, agent, or representative to implement, in whole or in part, its obligations, and exercise any of its rights, under this Compact or any Supplemental Agreement between the Parties.

Section 5.13 Survival. Any Government Responsibilities, covenants, or obligations or other responsibilities to be performed by the Government after the Compact Term shall survive the termination or expiration of this Compact and expire in accordance with their respective terms. Notwithstanding the termination or expiration of this Compact, the following provisions shall remain in force: Sections 2.2, 2.3, 2.5, 3.2, 3.3, 3.4, 3.5, 3.8, 3.9 (for one year), 3.12, 5.1, 5.2, 5.4(d), 5.4(e) (for sixty days), 5.4(f), 5.4(g), 5.4(h), 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, this Section 5.13, 5.14, and 5.15.

Section 5.14 Consultation. Either Party may, at any time, request consultations relating to the interpretation or implementation of this Compact or any Supplemental Agreement between the Parties. Such consultations shall begin at the earliest possible date. The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Party shall endeavor to designate a representative of equal or comparable rank. If such representatives are unable to resolve the matter within 20 days from the commencement of the consultations then each Party shall forward the consultation to the Principal Representative or such other representative of comparable or higher rank. The consultations shall last no longer than 45 days from date of commencement. If the matter is not resolved within such time period, either Party may terminate this Compact pursuant to Section 5.4(a). The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner.

Section 5.15 MCC Status. MCC is a United States government corporation acting on behalf of the United States Government in the implementation of this Compact. As such, MCC has no liability under this Compact, is immune from any action or proceeding arising under or relating to this Compact and the Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to this Compact, MCC is not subject to the jurisdiction of the courts or other body of Vanuatu.

Section 5.16 Language. This Compact is prepared in English and in the event of any ambiguity or conflict between this official English version and any other version translated into any language for the convenience of the Parties, this official English version shall prevail.

Section 5.17 Publicity; Information and Marking. The Government shall give appropriate publicity to this Compact as a program to which the United States, through MCC, has contributed, including by posting this Compact, and any amendments thereto, on the MCA-

Vanuatu Website, identifying Program activity sites, and marking Program Assets; *provided*, any announcement, press release or statement regarding MCC or the fact that MCC is funding the Program or any other publicity materials referencing MCC, including the publicity described in this Section 5.17, shall be subject to prior approval by MCC and shall be consistent with any instructions provided by MCC from time to time in relevant Implementation Letters. Upon the termination or expiration of this Compact, MCC may request the removal of, and the Government shall, upon such request, remove, or cause the removal of, any such markings and any references to MCC in any publicity materials or on the MCA-Vanuatu Website.

[SIGNATURE PAGE BEGINS ON THE NEXT PAGE.]

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective governments, have signed this Compact this 2nd day of March, 2006 and this Compact shall enter into force in accordance with Section 1.3.

Done at Port Vila, Vanuatu in the English language.

FOR THE UNITED STATES OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION

Name: Charles O. Sethness
Title: Vice President, Accountability

FOR THE GOVERNMENT OF THE REPUBLIC OF VANUATU

Name: Ham Lini
Title: Prime Minister of the Republic of Vanuatu

EXHIBIT A

DEFINITIONS

The following compendium of capitalized terms that are used herein is provided for the convenience of the reader. To the extent that there is a conflict or inconsistency between the definitions in this Exhibit A and the definitions elsewhere in the text of this Compact, the definition elsewhere in this Compact shall prevail over the definition in this Exhibit A.

Accrued Interest *is any interest or other earnings on MCC Funding that accrues or are earned.*

Act *means the Millennium Challenge Act of 2003, as amended.*

ADB *means the Asian Development Bank.*

Additional Representative *is a representative as may be designated by a Principal Representative, by written notice, for all purposes other than signing amendments to this Compact.*

Affiliate *means the affiliate of a party, which is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence. References to Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.*

Attachments *means any annex, schedule, exhibit, table, appendix or other attachment to this Compact.*

Audit Guidelines *means the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the Inspector General of the United States Agency for International Development.*

Auditor *means the auditor(s) as defined in, and engaged pursuant to, Section 3(h) of Annex I and as required by Section 3.8(d) of the Compact.*

Auditor/Reviewer Agreement *is an agreement between MCA-Vanuatu and each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer.*

AusAID *means the Australian Agency for International Development.*

Bank(s) *means each individually and collectively, any bank holding an account referenced in Section 4(d) of Annex I.*

Bank Agreement *means an agreement between MCA-Vanuatu and a Bank, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account.*

Beneficiaries *means the intended beneficiaries identified in accordance with Section 3 of Schedule 1 of Annex I.*

Chair *means the Chair of the Steering Committee.*

Compact *means the Millennium Challenge Compact made between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Vanuatu.*

Compact Goal *means reducing poverty and increasing incomes in rural areas by stimulating economic activity in the tourism and agricultural sectors through the improvement of transport infrastructure in Vanuatu.*

Compact Records *shall have the meaning set forth in Section 3.8(b).*

Compact Reports *means any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties.*

Compact Term *means the term for which this Compact shall remain in force, which shall be the five (5) year period from the Entry into Force, unless earlier terminated in accordance with Section 5.4.*

Covered Provider *shall have the meaning set forth in Section 3.8(d)(iv).*

Designated Rights and Responsibilities *shall have the meaning set forth in Section 3.2(c).*

Detailed Financial Plan *means the financial plans that detail the annual and quarterly budget and projected cash requirements for the Program (including administrative costs) and the Transport Infrastructure Project, projected both on a commitment and cash requirement basis.*

Disbursement Agreement *is a Supplemental Agreement that MCC, the Government (or a mutually acceptable Government Affiliate) and MCA-Vanuatu shall enter into that (i) further specifies the terms and conditions of any MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) and of MCA-Vanuatu.*

EMPs *means environmental management plans.*

Entry into Force *means the entry into force of this Compact, which shall be on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC.*

Environmental Guidelines *means the environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time.*

Equipment Subproject Activity *shall have the meaning set forth in Section 2(b)(i) of Schedule 1 of Annex 1.*

ESI Officer *means Environmental and Social Impact Officer.*

EU *means the European Union.*

Evaluation Component *means the component of the M&E Plan that specifies a methodology, process and timeline for the evaluation of planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability.*

Exempt Uses *shall have the meaning set forth in Section 2.3(e)(ii).*

Final Evaluation *shall have the meaning set forth in Section 3(a) of Annex III.*

Financial Plan *means collectively, the Multi-Year Financial Plan, each Detailed Financial Plan, and each amendment, supplement or other change thereto.*

Financial Plan Annex *means Annex II of this Compact, which summarizes the Multi-Year Financial Plan for the Program.*

Fiscal Accountability Plan *shall have the meaning set forth in Section 4(c) of Annex I.*

Fiscal Agent *shall have the mean set forth in Section 3(g) of Annex I.*

Fiscal Agent Agreement *is an agreement between MCA-Vanuatu and each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent.*

GDP *means gross domestic product*

Goal Indicator *means the Indicator in the M&E Plan that will measure results for the overall Program. A table of Compact Goal Indicator definitions is set forth at Section 2(a)(i) of Annex III.*

Governance Agreement *is the governance agreement to be entered into by the Government and MCA-Vanuatu and, at MCC's option, MCC, that, in addition to the Governing Documents, sets forth the terms and conditions to govern MCA-Vanuatu.*

Governing Documents *shall have the meaning set forth in Section 3(c)(i)(10) of Annex I.*

Government *means the Government of the Republic of Vanuatu.*

Government Affiliate *is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government. References to Government Affiliate shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.*

Government Members *are the government members identified in Section 3(d)(ii)(2)(A)(i-x) of Annex I serving as voting members on the Steering Committee, and any replacements thereof in accordance with Section 3(d)(ii)(2)(A) of Annex I.*

Government Party *means the Government, any Government Affiliate, any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents.*

Government Responsibilities *shall have the meaning set forth in Section 3.2(a).*

HIES *means the Household Income and Expenditure Survey.*

Implementation Letter *is a letter that may be issued by MCC from time to time to furnish additional information or guidance to assist the Government in the implementation of this Compact.*

Implementation Plan *is a detailed plan for the implementation of the Program and each Project activity, which will be memorialized in one or more documents and shall consist of: (i) a Financial Plan, (ii) a Fiscal Accountability Plan, (iii) a Procurement Plan, (iv) Work Plans, and (v) an M&E Plan.*

Implementing Entity *means a Government agency, nongovernmental organization or other public- or private-sector entity or persons to which MCA-Vanuatu may provide MCC Funding, directly or indirectly, through the Outside Project Manager to implement and carry out the Transport Infrastructure Project or any other activities to be carried out in furtherance of this Compact.*

Implementing Entity Agreement *is an agreement between MCA-Vanuatu and an Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity.*

Indicator(s) *means the quantitative, objective and reliable data that the M&E Plan will use to measure the results of the Program.*

Indicator Baseline *shall have the meaning set forth in Section 2(a) of Annex III.*

Infrastructure Activity *is the Project Activity described in Section 2(a) of Schedule 1 of Annex I.*

Infrastructure Objective *means the Project Objective to provide improved or new priority transport infrastructure in rural areas and outer islands, including roads, wharfs, airstrips and warehouses.*

Infrastructure Subproject Activity *shall have the meaning set forth in Section 2(a) of Schedule 1 of Annex 1.*

Inspector General *means the Inspector General of the United States Agency for International Development.*

Institutional Strengthening Activity *shall have the meaning set forth in Section 2(b) of Schedule 1 of Annex 1.*

Institutional Strengthening Objective *means the Project Objective to strengthen the ability of the Government, specifically the capacity and capability of the Department of Public Works, to maintain and sustain Vanuatu's infrastructure assets.*

Institutional Strengthening Subproject Activity *shall have the meaning set forth in Section 2(b) of Schedule 1 of Annex 1.*

Lien *means any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind.*

Local Account *shall have the meaning set forth in Section 4(d)(ii) of Annex I.*

M&E Annex *means Annex III of this Compact, which generally describes the components of the M&E Plan for the Program.*

M&E Implementation Manual *means the implementation manual to be developed by MCA-Vanuatu and approved by MCC consistent with the M&E Plan.*

M&E Plan *means the plan to measure and evaluate progress toward achievement of the Compact Goal and Objectives of this Compact.*

Managing Director *means the Managing Director of MCA-Vanuatu.*

Material Agreement *shall have the meaning set forth in Section 3(c)(i)(3) of Annex I.*

Material Re-Disbursement *means any Re-Disbursement that requires MCC approval under applicable law, the Governing Documents, the Procurement Agreement, Procurement Guidelines, or any Supplemental Agreement.*

Material Terms of Reference *means any terms of reference for the procurement of goods, services or works that require MCC approval under applicable law, the Governing Documents, the Procurement Agreement, Procurement Guidelines, or any Supplemental Agreement.*

MCA *means the Millennium Challenge Account.*

MCA Eligibility Criteria *means the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time.*

MCA-Vanuatu *shall have the meaning set forth in Section 2.2(d) of this Compact and as is further described in Section 3(d) of Annex I.*

MCA-Vanuatu Website *means the website operated by MCA-Vanuatu.*

MCC *means the Millennium Challenge Corporation.*

MCC Disbursement *means the disbursement of MCC Funding by MCC to a Permitted Account or through such other mechanism agreed by the Parties as defined in and in accordance with Section 2.1(b)(i) of this Compact.*

MCC Disbursement Request *means the applicable request that the Government and MCA-Vanuatu will jointly submit for an MCC Disbursement as may be specified in the Disbursement Agreement.*

MCC Funding *shall have the meaning set forth in Section 2.1(a).*

MCC Indemnified Party *means MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative.*

MCC Representative *is a representative appointed by MCC to serve as an Observer on the Steering Committee.*

Monitoring Component *means the component of the M&E Plan that specifies how progress toward the Project Objectives and intermediate results of the Transport Infrastructure Project will be monitored and as set forth in Section 2 of Annex III.*

Multi-Year Financial Plan *means the multi-year financial plan for the Program and for the Transport Infrastructure Project, which is summarized in Annex II.*

Multi-Year Financial Plan Summary *means a multi-year Financial plan summary attached to this Compact as Exhibit A of Annex II.*

NGOs *means non-governmental organizations.*

Non-Government Members *are the General Manager of the Chamber of Commerce and the Secretary-General of the Vanuatu Non-Governmental Organization serving as Voting Members on the Steering Committee.*

Objective Indicator *means the Indicator in the M&E Plan for each Project Objective that will measure the final results of the Transport Infrastructure Project in order to monitor its success in meeting each of the Project Objectives. A table of Objective Indicator definitions is set forth at Section 2(a)(ii) of Annex III.*

Observers *means the non-voting observers of the Steering Committee described in Section 3(d)(ii)(2) of Annex I.*

Outcome Indicator *means the Indicator in the M&E Plan that will measure the intermediate results achieved under each of the Project Activities to provide an early measure of the likely impact of the Transport Infrastructure Project. A table of Outcome Indicator definitions is set forth at Section 2(a)(ii) of Annex III.*

Outside Project Manager *means the qualified persons or entities engaged by MCA-Vanuatu, to serve as outside project managers in accordance with Section 3(e) of Annex I.*

PAA *is the Government's National Priorities and Action Agenda.*

Parties *means the United States, acting through MCC, and the Government.*

Party *means (i) the United States, acting through MCC or (ii) the Government.*

Permitted Account(s) *shall have the meaning set forth in Section 4(d) of Annex I.*

Permitted Designee *shall have the meaning set forth in Section 3.2(c).*

Pledge *means any pledge of any MCC Funding or any Program Assets, or any guarantee (directly or indirectly) of any indebtedness.*

Principal Representative *means (i) for the Government, the individual holding the position of the Director-General of the Prime Minister's Office, or in his absence the relevant designated Additional Representative and (ii) for MCC, the individual holding the position of, or acting as, the Vice President of Operations.*

Procurement Agent *are the procurement agents that MCA-Vanuatu will engage to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Vanuatu, the Project Manager or Implementing Entity.*

Procurement Agent Agreement *is the agreement that MCA-Vanuatu enters into with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent.*

Procurement Agreement *is a Supplemental Agreement between MCC and MCA-Vanuatu, which includes the Procurement Guidelines, and governs the procurement of all goods, services and works by the Government or any Provider in furtherance of this Compact.*

Procurement Guidelines *shall have the meaning set forth in Section 3.6(a).*

Procurement Plan *shall have the meaning set forth in Section 3(i) of Annex I.*

Program *means a program, to be implemented under this Compact, using MCC Funding to advance Vanuatu's progress towards economic growth and poverty reduction.*

Program Annex *means Annex I to this Compact, which generally describes the Program that MCC Funding will support in Vanuatu during the Compact Term and the results to be achieved from the investment of MCC Funding.*

Program Assets *means (i) MCC Funding, (ii) Accrued Interest, or (iii) any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part (directly or indirectly) by MCC Funding.*

Program Management Unit *means a management unit of MCA-Vanuatu to have overall management responsibility for the implementation of this Compact.*

Project *means the Transport Infrastructure Project, and the policy reforms and other activities related thereto that the Government will carry out, or cause to be carried out in furtherance of this Compact to achieve the Objectives and the Compact Goal.*

Project Activity *means the activities that will be undertaken in furtherance of the Transport Infrastructure Project.*

Project Activity Indicator *shall have the meaning set forth in Section 2(a)(iii) of Annex III.*

Project Activity Outcomes *is the progress made toward the Project Objectives and the intermediate results of the Transport Infrastructure Project and each Project Activity.*

Project Objective(s) *means the Infrastructure Objective and the Institutional Strengthening Objective.*

Proposal *is the proposal for use of MCA assistance submitted to MCC by the Government on March 31, 2005.*

Provider *shall have the meaning set forth in Section 2.4(b).*

PWD *means the Public Works Department.*

PWD Project Management Unit *shall have the meaning set for in Section 3(e) of Annex 1.*

REDI *means the Rural Economic Development Initiative coordinated by the Department of Strategic Management of the Government.*

Re-Disbursement *is the release of MCC Funding from a Permitted Account.*

Reviewer *shall have the meaning set forth in Section 3(h) of Annex I.*

Road Maintenance Budget Allocation *shall have the meaning set forth in Section 5(b)(i) of Schedule 1 of Annex 1.*

Special Account *shall have the meaning set forth in Section 4(d(i) of Annex I.*

Steering Committee *means an independent Steering Committee of MCA-Vanuatu to oversee MCA-Vanuatu's responsibilities and obligations under this Compact.*

Supplemental Agreement *shall have the meaning set forth in Section 3.5(b).*

Supplemental Agreement Between the Parties *means any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.*

Supplemental Agreement Term Sheets *shall have the meaning set forth in Section 4.1(b).*

Target *means one or more expected results that specify the expected value and the expected time by which that result will be achieved.*

Tax(es) *shall have the meaning set forth in Section 2.3(e)(i).*

Transport Infrastructure Project *means the Project and Project Activities that the Parties intend to implement in furtherance of the Infrastructure Objective and the Institutional Strengthening Objective and as further described in Schedule I to Annex I.*

Technical Assistance Subproject Activity *shall have the meaning set forth in Section 2(b)(ii) of Schedule 1 of Annex I.*

United States Dollars *(USD) means the currency of the United States of America.*

United States Government *means any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.*

Vice Chair *means the Vice Chair of the Steering Committee.*

Voting Members *are the voting members on the Steering Committee described in Section 3(d)(ii)(2) of Annex I.*

Work Plans *means work plans for the overall administration of the Program and for the Transport Infrastructure Project.*

EXHIBIT B

LIST OF CERTAIN SUPPLEMENTAL AGREEMENTS

1. Governance Agreement
2. Fiscal Agent Agreement
3. Implementing Entity Agreements
4. Bank Agreement
5. Procurement Agent Agreement

ANNEX I

PROGRAM DESCRIPTION

This Annex I to the Compact (the "***Program Annex***") generally describes the Program that MCC Funding will support in Vanuatu during the Compact Term and the results to be achieved from the investment of MCC Funding. Prior to any MCC Disbursement or Re-Disbursement, including for the Transport Infrastructure Project (described in Schedule I to this Program Annex), MCC, the Government (or a mutually acceptable Government Affiliate) and MCA-Vanuatu shall enter into a Supplemental Agreement that (i) further specifies the terms and conditions of such MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) and of MCA-Vanuatu (the "***Disbursement Agreement***").

Except as specifically provided herein, the Parties may amend this Program Annex only by written agreement signed by the Principal Representative of each Party. Except as defined in this Program Annex, each capitalized term in this Program Annex shall have the same meaning given such term elsewhere in this Compact. Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of the Compact.

1. Background; Consultative Process.

(a) Background. Over the past decade, Vanuatu's economic growth has fallen short of its population growth. From 1994 to 2003, annual real gross domestic product ("***GDP***") growth in Vanuatu has averaged 1.0% while annual population growth has averaged 2.6% and average per capita income in real terms declined by 15.4%. Although the Government has fostered macroeconomic stability by reducing fiscal deficits and maintaining prudent levels of external debt over the past five years, this progress has largely come at the expense of capital expenditures. Vanuatu's capital outlays are the lowest in the Pacific region (whereas, in contrast, Vanuatu's budget allocation for education from 2000 to 2003 was significantly higher than most Pacific countries).

The Government has identified the major constraints to economic development as the lack of an attractive investment climate for private sector investment, a lack of income earning opportunities for a fast growing population due to the high cost of doing business, and poor access to basic health and primary education services in rural areas. The Government needs to spend considerably more on infrastructure in order to reduce business costs and therefore improve the environment for private sector-led economic growth.

The current state of Vanuatu's transportation infrastructure is hindering formal economic activity and investment in the agriculture and tourism sector — the two primary sources of growth and employment in Vanuatu. These two sectors together employ 92% of Vanuatu's working population and represent approximately 32% of Vanuatu's GDP. Furthermore, small-scale agriculture is the mainstay of Vanuatu's rural areas, where 80% of the population resides and 51% of the population in such rural areas lives in hardship. Consequently, specific policies and investments aimed at reducing the transport cost burden faced by those engaged in economic activity within these sectors are key to bringing about a reduction in rural hardship.

(b) National Development Plan. The Government's National Priorities and Action Agenda ("***PAA***") serves as the country's national development strategy and integrates and prioritizes the action plans for economic development. The PAA is intended to more effectively link these plans with the Government's medium-term investment program and annual budget. Moreover, the PAA has been subject to broad stakeholder consultation through public consultative workshops with the provincial governments, non-governmental organizations ("***NGOs***"), private sector, and civil society.

The top two priorities in the latest PAA include: (i) "improving the lives of people in rural areas by improving service delivery, expanding market access to rural produce, lowering costs of credit and transportation, and ensuring sustainable use of natural resources;" and (ii) "raising private investment by lowering obstacles to growth of private enterprise including lowering costs of doing business, facilitating long-term secure access to land, and providing better support services to businesses." The Program's focus on transport infrastructure, with the goals of reducing transport costs of doing business and stimulating agricultural and tourism-based economic activity in the rural areas, is consistent with the key priorities contained in the PAA for reducing poverty and increasing economic growth.

(c) Consultative Process. Vanuatu engaged in a comprehensive consultative process, which included: (i) ongoing national and provincial public forums, such as the CRP Summit, National Business Forum, and REDI workshops which included specific discussion on priorities and projects for the Proposal; (ii) one MCA-specific public awareness meeting on the outer island of Ambrym; and (iii) public outreach meetings in four of Vanuatu's six provinces. Consulted groups included the Republic of Vanuatu's council of chiefs, women's group leaders, the private sector, NGOs, church leaders, and provincial government officials.

During the consultation process, the lack of adequate transport infrastructure repeatedly surfaced as a priority (and even served as a barrier to meeting attendance). With respect to selection of specific transport infrastructure projects for MCC consideration, all projects in Vanuatu's Proposal were derived from previous local-level stakeholder consultation forums in each of six provinces. In these forums, government provincial leaders met with representative groups of civil society, NGOs, and private sector to identify economic opportunities limited by a lack of adequate infrastructure and proposing infrastructure projects. This process resulted in a pool of projects from which specific selection criteria (such as economic and poverty impact) were used to select a short-list of projects to be subjected to detailed feasibility studies. Subsequently, in each province's ongoing consultation workshops, it was confirmed that a number of the priority infrastructure projects remained unfunded.

The Government recently conducted a significant public outreach campaign, in which the short-list of projects subject to MCC due diligence were released to local newspaper and radio media, discussed in provincial "public outreach meetings" (led by the Government's MCA transaction team), and sent to civil society, private sector organizations, and donors for comment and input. The Government intends to continue these modes of outreach in order to sustain public awareness and foster stakeholder participation in the design of maintenance and monitoring arrangements.

2. Overview.

(a) Program Objectives. The Program involves a series of specific and complementary interventions that the Parties expect will achieve the Infrastructure Objective and

the Institutional Strengthening Objective and advance the progress of Vanuatu toward the Compact Goal.

(b) Project. The Parties have identified the Transport Infrastructure Project, which they intend for the Government to implement, or cause to be implemented, using MCC Funding. Schedule I to this Program Annex identifies the activities that will be undertaken in furtherance of the Transport Infrastructure Project (each, a "***Project Activity***"). Notwithstanding anything to the contrary in this Compact, the Parties may agree to amend, terminate or suspend the Transport Infrastructure Project or the Project Activities or create a new project by written agreement signed by the Principal Representative of each Party without amending this Compact; *provided, however*, any such amendment of the Transport Infrastructure Project or any Project Activity or creation of a new project is (i) consistent with the Project Objectives; (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact; (iii) does not cause the Government's responsibilities or contribution of resources to be less than specified in Section 2.2 of this Compact or elsewhere in this Compact; and (iv) does not extend the Compact Term.

(c) Beneficiaries. The intended beneficiaries of the Transport Infrastructure Project are described in Schedule I to this Program Annex to the extent identified as of the date hereof. The intended beneficiaries shall be identified more precisely during the initial phases of the implementation of the Program. The Parties shall agree upon the description of the intended beneficiaries of the Program, including publishing such description on the website operated by MCA-Vanuatu.

(d) Civil Society. Civil society will participate in overseeing the implementation of the Program through its representation on the MCA-Vanuatu Steering Committee. In addition, the Work Plans for the Transport Infrastructure Project shall note the extent to which civil society will have a role in the implementation of a particular Project Activity.

(e) Monitoring and Evaluation. Annex III of this Compact generally describes the plan to measure and evaluate progress toward achievement of the Project Objectives of this Compact (the "***M&E Plan***"). As outlined in the Disbursement Agreement and other Supplemental Agreements, continued payment of MCC Funding under this Compact will be contingent on successful achievement of targets set forth in the M&E Plan.

3. Implementation Framework.

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring, evaluation and fiscal accountability for the use of MCC Funding is summarized below and in Schedule I attached to this Program Annex, or as may otherwise be agreed in writing by the Parties.

(a) General. The elements of the implementation framework will be further described in relevant Supplemental Agreements and in a detailed plan for the implementation of the Program and each Project Activity, which will be memorialized in one or more documents and shall consist of a Financial Plan, a Fiscal Accountability Plan, a Procurement Plan, Work Plans, and an M&E Plan (such documents and plans collectively, the "***Implementation Plan***"). MCA-Vanuatu shall adopt each component of the Implementation Plan in accordance with the requirements and timeframe as may be specified in this Program Annex, the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time. MCA-Vanuatu may

amend the Implementation Plan or any component thereof without amending this Compact, provided any material amendment of the Implementation Plan or any component thereof has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties. By such time as may be specified in the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time, MCA-Vanuatu shall adopt one or more work plans for the overall administration of the Program and for the Transport Infrastructure Project (collectively, the "***Work Plans***"). The Work Plan(s) shall set forth the details of each activity to be undertaken or funded by MCC Funding as well as the allocation of roles and responsibilities for specific Project Activities, or other programmatic guidelines, performance requirements, targets, or other expectations for the Transport Infrastructure Project.

(b) Government. The Government shall promptly take all necessary and appropriate actions to carry out the Government Responsibilities and other obligations or responsibilities of the Government under and in furtherance of this Compact, including undertaking or pursuing such legal, legislative or regulatory actions, procedural changes and contractual arrangements as may be necessary or appropriate to achieve the Project Objectives, to successfully implement the Program, and to establish MCA-Vanuatu. The Government shall ensure that MCA-Vanuatu is duly authorized and sufficiently organized, staffed and empowered to fully carry out the Designated Rights and Responsibilities. Without limiting the generality of the preceding sentence, MCA-Vanuatu shall be organized, and have such roles and responsibilities, as described in Section 3(d) of this Program Annex and as provided in the Governance Agreement and any Governing Documents, which shall be in a form and substance satisfactory to MCC.

(c) MCC.

(i) Notwithstanding Section 3.1 of this Compact or any provision in this Program Annex to the contrary, and except as may be otherwise agreed upon by the Parties from time to time, MCC must approve in writing each of the following transactions, activities, agreements and documents prior to the execution or carrying out of such transaction, activity, agreement or document and prior to MCC Disbursements or Re-Disbursements in connection therewith:

(1) MCC Disbursements;

(2) The Financial Plan and any amendments and supplements thereto;

(3) Agreements (i) between the Government and MCA-Vanuatu, (ii) between the Government, MCA-Vanuatu or other Government Affiliate, on the one hand, and any Provider or Affiliate of a Provider, on the other hand, which require such MCC approval under applicable law, the Governing Documents, the Procurement Agreement, Procurement Guidelines or any Supplemental Agreement, or (iii) in which the Government, MCA-Vanuatu or other Government Affiliate appoints, hires or engages any of the following in furtherance of this Compact:

(A) Auditor and Reviewer;

(B) Fiscal Agent;

(C) Bank;

(D) Procurement Agent;

(E) Project Manager;

(F) Implementing Entity; and

(G) Director, Observer, analysts and/or other key employee or contractor of MCA-Vanuatu, including any compensation for such person.

(Any agreement described in clause (i) through (iii) of this Section 3(c)(i)(3) and any amendments and supplements thereto, each, a "***Material Agreement***");

(4) Any modification, termination or suspension of a Material Agreement, or any action that would have the effect of such a modification, termination or suspension of a Material Agreement;

(5) Any agreement that is (i) not at arm's length or (ii) with a party related to the Government, including MCA-Vanuatu, or any of their respective Affiliates;

(6) Any Re-Disbursement (each, a "***Material Re-Disbursement***") that requires such MCC approval under applicable law, the Governing Documents (defined below), the Procurement Agreement, Procurement Guidelines or any Supplemental Agreement;

(7) Terms of reference for the procurement of goods, services or works that require such MCC approval under applicable law, the Governing Documents (defined below), the Procurement Agreement, Procurement Guidelines or any Supplemental Agreement (each, a "***Material Terms of Reference***");

(8) The Implementation Plan, including each component plan thereto, and any material amendments and supplements to the Implementation Plan or any component thereto;

(9) Any pledge of any MCC Funding or any Program Assets or any guarantee (directly or indirectly) of any indebtedness (each, a "***Pledge***");

(10) Any decree, legislation, contractual arrangement, charter, by-laws or other document establishing or governing MCA-Vanuatu, including the governance agreement to be entered into by the Government, MCA-Vanuatu, and at MCC's option, MCC (the "***Governance Agreement***") (collectively, the "***Governing Documents***"), and any disposition (in whole or in part), liquidation, dissolution, winding up, reorganization or other change of (A) MCA-Vanuatu, including any revocation or modification of, or supplement to, any decree, legislation, contractual arrangement or other document establishing MCA-Vanuatu, or (B) any subsidiary or Affiliate of MCA-Vanuatu;

(11) Any change in character or location of any Permitted Account;

(12) Formation or acquisition of any subsidiary (direct or indirect) or other Affiliate of MCA-Vanuatu;

(13) Any (A) change of the Director, Observer, officer or other key employee or contractor of MCA-Vanuatu, or in the composition of the Steering Committee, or (B) filling of any vacant seat of the Chair, the Director or an Observer or vacant position of an officer or other key employee or contractor of MCA-Vanuatu;

(14) The selection of the ESI Officer;

(15) The management information system to be developed and maintained by the Program Management Unit of MCA-Vanuatu, and any material modifications to such system;

(16) Any decision to amend, supplement, replace, terminate or otherwise change any of the foregoing; and

(17) Any other activity, agreement, document or transaction requiring the approval of MCC in this Compact, applicable law, the Governing Documents, the Procurement Agreement, Procurement Guidelines, the Disbursement Agreement, or any other Supplemental Agreement between the Parties.

The Chair of the Steering Committee (the "***Chair***"), or in his absence the Vice Chair of the Steering Committee (the "***Vice Chair***") or other designated voting member of the Steering Committee, as provided in the Governing Documents, shall certify any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties (the "***Compact Reports***").

(ii) MCC shall have the authority to exercise its approval rights set forth in this Section 3(c) in its sole discretion and independent of any participation or position taken by the MCC Representative at a meeting of the Steering Committee. MCC retains the right to revoke its approval of a matter if MCC concludes that its approval was issued on the basis of incomplete, inaccurate or misleading information furnished by the Government or MCA-Vanuatu.

(d) MCA-Vanuatu.

(i) General. Unless otherwise agreed by MCC in writing, MCA-Vanuatu shall be responsible for the oversight and management of the implementation of this Compact. MCA-Vanuatu shall be governed by the terms and conditions set forth in the Governing Documents based on the following principles:

(1) MCA-Vanuatu shall be established by the Government as an independent unit within the Ministry of Finance and Economic Management and shall report to the Steering Committee. The Government shall ensure the independent and proper administration of MCA-Vanuatu in accordance with the terms of the Compact, the Governing Documents of MCA-Vanuatu and any relevant Supplemental Agreements;

(2) The Government shall ensure that MCA-Vanuatu shall not assign, delegate or contract any of the Designated Rights and Responsibilities without the prior written consent of the Government and MCC. MCA-Vanuatu shall not establish any Affiliates or subsidiaries (direct or indirect) without the prior written consent of the Government and MCC; and

(3) Unless otherwise agreed by MCC in writing, MCA-Vanuatu shall consist of (a) an independent governing committee (the "***Steering Committee***") to oversee MCA-Vanuatu's responsibilities and obligations under this Compact (including any Designated Rights and Responsibilities) and (b) a management unit (the "***Program Management Unit***") to have overall management responsibility for the implementation of the Compact.

(ii) Steering Committee.

(1) Formation. The Government shall ensure that the Steering Committee shall be formed, constituted, governed, maintained and operated in accordance with applicable law and the terms and conditions set forth in this Section 3(d), the Governing Documents and the relevant Supplemental Agreements.

(2) Composition. Unless otherwise agreed by MCC in writing, the Steering Committee shall consist of twelve (12) voting members (the "***Voting Members***"), three (3) non-voting observers (the "***Observers***"), each of whom must be acceptable to MCC, taking into consideration appropriate gender and ethnic representation, and the Director of the Program Management Unit, who shall serve as an ex officio non-voting member.

(A) The Voting Members shall be as follows, provided that the Government members identified in subsection (i) through (x) (the "***Government Members***") may be replaced by another government official of comparable rank from a ministry or other government body relevant to the Program activities, subject to approval by the Government and MCC (such replacement to be referred to thereafter as a Government Member):

(i) Director-General of the Office of the Prime Minister;

(ii) Director-General of the Ministry of Finance and Economic Management;

(iii) Director-General of the Ministry of Foreign Affairs and External Trade;

(iv) Director-General of the Ministry of Infrastructure & Public Utilities;

(v) Director-General of the Ministry of Lands;

(vi) Director of the Public Works Department;

(vii) Director of Finance;

(viii) Director of the Department of Economics and Social Development;

(ix) Director of the Department of Strategic Management;

(x) Head of Development Cooperation, Ministry of Foreign Affairs;

(xi) General Manager of the Chamber of Commerce (representing the private sector); and

(xii) Secretary-General, Vanuatu Non-Governmental Organizations (representing non-state actors) (together with the General Manager of Chamber of Commerce, the "***Non-Government Members***").

The following provisions shall apply to the Voting Members:

(i) Each Government Member may be replaced by another government official, subject to approval by the Government and MCC;

(ii) Subject to the Governing Documents, the Parties contemplate that the Director-General of the Office of the Prime Minister shall serve as Chair of the Steering Committee and the Director-General, Ministry of Finance and Economic Management shall serve as the Vice Chair; and

(iii) Each Government Member position shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity.

(B) The Observers shall be (i) a representative appointed by MCC (the "***MCC Representative***"); (ii) the Director of Environment Unit, Ministry of Lands; and (iii) the General Manager, Vanuatu Tourism Office. The Observers shall have the right to attend all meetings of the Steering Committee, participate in discussions of the Steering Committee, and receive all information and documents provided to the Steering Committee, together with any other rights of access to records, employees or facilities as would be granted to a member of the Steering Committee under the Governance Agreement and any Governing Document.

(C) The Director of the Program Management Unit shall serve as an ex officio member of the Steering Committee and shall make reports to the Steering Committee as required from time to time.

(3) Roles and Responsibilities.

(A) The Steering Committee shall oversee the overall implementation of the Program and the performance of the Designated Rights and Responsibilities.

(B) Certain actions may be taken, and certain agreements and other documents may be executed and delivered, by MCA-Vanuatu only upon the approval and authorization of the Steering Committee as provided under applicable law and in the Governing Documents, including each MCC Disbursement Request, selection or termination of certain Providers, any component of the Implementation Plan, certain Re-Disbursements and certain terms of reference.

(C) The Chair shall certify the approval by the Steering Committee of all Compact Reports or any other documents or reports from time to time delivered to MCC by MCA-Vanuatu (whether or not such documents or reports are required to be delivered to MCC), and that such documents or reports are true, accurate and complete.

(D) Without limiting the generality of the Designated Rights and Responsibilities, and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement, the Steering Committee shall have the exclusive authority for all actions defined for the Steering Committee under applicable law and in the Governing Documents and which are expressly designated therein as responsibilities that cannot be delegated further.

(4) Meetings. The Steering Committee shall hold monthly meetings as well as such other periodic meetings or subcommittee meetings as may be necessary from time to time.

(5) Indemnification of the Observers; MCC Representative. The Government shall ensure, at the Government's sole cost and expense, that appropriate insurance is obtained and appropriate indemnifications and protections are provided, acceptable to MCC, to ensure that the Observers shall not be held personally liable for the actions or omissions of the Steering Committee. Pursuant to Section 5.5 and Section 5.8 of this Compact, the Government and MCA-Vanuatu shall hold harmless the MCC Representative for any liability or action arising out of the MCC Representative's role as a non-voting observer on the Steering Committee. The Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to the Compact, the MCC Representative is not subject to the jurisdiction of the courts or other body of Vanuatu.

(iii) Program Management Unit. Unless otherwise agreed in writing by the Parties, the Program Management Unit shall report, through the Director or other officer as designated in the Governing Documents, directly to the Steering Committee, and shall have the

composition, roles and responsibilities described below and set forth more particularly in the Governing Documents.

(1) Composition. The Government shall ensure that the Program Management Unit shall be composed of qualified experts from the public or private sectors, including such officers and staff as may be necessary to carry out effectively its responsibilities, each with such powers and responsibilities as set forth in the Governance Agreement, any Governing Document, and from time to time in any Supplemental Agreement between the Parties, including without limitation the following: (i) one Director, (ii) two analysts, and (iii) appropriate administrative and support personnel.

(2) Appointment of Program Management Unit. Unless otherwise specified in the Governance Agreement or any Governing Documents, the Steering Committee shall appoint the Director after an open and competitive recruitment and selection process, which appointment shall be subject to the approval of MCC. The remaining officers of the Program Management Unit shall be appointed by the Director after an open and competitive recruitment and selection process, which appointment shall be subject to the approval of the Steering Committee and MCC.

(3) Roles and Responsibilities.

(A) The Program Management Unit shall assist the Steering Committee in overseeing the implementation of the Program and shall have principal responsibility (subject to the direction and oversight of the Steering Committee and subject to MCC's rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement) for the overall management of the implementation of the Program.

(B) Without limiting the foregoing general responsibilities or the generality of Designated Rights and Responsibilities that the Government may designate MCA-Vanuatu, the Program Management Unit shall develop the components of the Implementation Plan, oversee the implementation of the Transport Infrastructure Project, manage and coordinate monitoring and evaluation, maintain internal accounting records, conduct and oversee certain procurements, and such other responsibilities as set out in the Governing Documents or delegated to the Program Management Unit by the Steering Committee from time to time.

(C) Appropriate officers shall have the authority to contract on behalf of MCA-Vanuatu for procurement under the Program, as designated by the Steering Committee.

(D) The Program Management Unit shall have the obligation and right to approve certain actions and documents or agreements, including certain Re-Disbursements, MCC Disbursement Requests, Compact Reports, certain human

resources decisions, and certain procurement actions, as provided in the Governing Documents.

(e) Project Manager. The Department of Public Works will serve as the Project Manager for the Transport Infrastructure Project and will be responsible for oversight of the specific activities of the Transport Infrastructure Project. The duties of the Project Manager will include certification of receipt of goods and services secured for the Transport Infrastructure Project. Outside professional services will be contracted through MCA-Vanuatu to assist the Project Manager in its functions (the "***Outside Project Manager***"). The Department of Public Works will establish a dedicated unit (the "***PWD Project Management Unit***") within its headquarters, and within its regional offices, if appropriate, with a minimum of two full-time staff that are suitably qualified to support the design and engineering supervision professionals that are charged with the responsibility to execute its project management responsibilities. The PWD Project Management Unit will be guided by the contracted supervision professionals.

(f) Implementing Entities. Subject to the terms and conditions of this Compact and any other Supplemental Agreement between the Parties, MCA-Vanuatu may provide MCC Funding, (directly or indirectly) through the Project Manager, to one or more Government Affiliates or to one or more nongovernmental or other public- or private-sector entities or persons to implement and carry out the Transport Infrastructure Project or any other activities to be carried out in furtherance of this Compact (each, an "***Implementing Entity***"). The Government shall ensure that MCA-Vanuatu (or the Project Manager) enters into an agreement with each Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity (the "***Implementing Entity Agreement***"). An Implementing Entity shall report directly to MCA-Vanuatu or the Project Manager, as designated in the applicable Implementing Entity Agreement or as otherwise agreed by the Parties.

(g) Fiscal Agent. The Department of Finance in the Ministry of Finance and Economic Management of the Government shall serve as the fiscal agent on behalf of MCA-Vanuatu (the "***Fiscal Agent***"), who shall be responsible for, among other things, (i) ensuring and certifying that Re-Disbursements are properly authorized and documented in accordance with established control procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement and other relevant Supplemental Agreements, (ii) instructing a Bank to make Re-Disbursements from a Permitted Account, following applicable certification by the Fiscal Agent, (iii) providing applicable certifications for MCC Disbursement Requests, (iv) maintaining proper accounting of all MCC Funding financial transactions, and (v) producing reports on MCC Disbursements and Re-Disbursements (including any requests therefore) in accordance with established procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement or any other relevant Supplemental Agreements. Upon the written request of MCC, the Government shall ensure that MCA-Vanuatu terminates the Fiscal Agent, without any liability to MCC, and the Government shall ensure that MCA-Vanuatu engages a new Fiscal Agent, subject to the approval by the Steering Committee and MCC. The Government shall ensure that MCA-Vanuatu enters into an agreement with each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent ("***Fiscal Agent Agreement***").

(h) Auditors and Reviewers. The Government shall ensure that MCA-Vanuatu carries out the Government's audit responsibilities as provided in Sections 3.8(d), (e) and (f), including engaging one or more auditors (each, an "***Auditor***") required by Section 3.8(d). As requested by MCC in writing from time to time, the Government shall ensure that MCA-Vanuatu shall also engage an independent (i) reviewer to conduct reviews of performance and compliance under this Compact pursuant to Section 3.8(f), which reviewer shall (1) conduct general reviews of performance or compliance, (2) conduct environmental audits, and (3) have the capacity to conduct data quality assessments in accordance with the M&E Plan, as described more fully in Annex III, and/or (ii) evaluator to assess performance as required under the M&E Plan (each, a "***Reviewer***"). MCA-Vanuatu shall select the Auditor(s) or Reviewers in accordance with the Governing Documents or relevant Supplemental Agreement. The Government shall ensure that MCA-Vanuatu enters into an agreement with each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer (the "***Auditor/Reviewer Agreement***"). In the case of a financial audit required by Section 3.8(f), such Auditor / Reviewer Agreement shall be effective no later than 120 days prior to the end of the relevant fiscal year or other period to be audited; *provided, however*, if MCC requires concurrent audits of financial information or reviews of performance and compliance under this Compact, then such Auditor / Reviewer Agreement shall be effective no later than a date agreed by the Parties.

(i) Procurement Agent. If requested by MCC, the Government shall ensure that MCA-Vanuatu engages one or more procurement agents (each, a "***Procurement Agent***") to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Vanuatu, the Project Manager or Implementing Entity. The role and responsibilities of such Procurement Agent and the criteria for selection of a Procurement Agent shall be as set forth in the applicable Implementation Letter or Supplemental Agreement. The Government shall ensure that MCA-Vanuatu enters into an agreement with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent (the "***Procurement Agent Agreement***"). Any Procurement Agent shall adhere to the procurement standards set forth in the Procurement Agreement and Procurement Guidelines and ensure procurements are consistent with the procurement plan adopted by MCA-Vanuatu pursuant to the Procurement Agreement (the "***Procurement Plan***").

4. Finances and Fiscal Accountability.

(a) Financial Plan.

(i) Financial Plan. The multi-year financial plan for the Program and for the Transport Infrastructure Project (the "***Multi-Year Financial Plan***") is summarized in Annex II to this Compact.

(ii) Detailed Financial Plan. During the Compact Term, the Government shall ensure that MCA-Vanuatu delivers to MCC for approval timely financial plans that detail the annual and quarterly budget and projected cash requirements for the Program (including administrative costs) and the Transport Infrastructure Project, projected both on a commitment

and cash requirement basis (each a "***Detailed Financial Plan***"). Each Detailed Financial Plan shall be delivered by such time as specified in the Disbursement Agreement or as may otherwise be agreed by the Parties. The Multi-Year Financial Plan and each Detailed Financial Plan and each amendment, supplement or other change thereto are collectively, the "***Financial Plan***."

(iii) Expenditures. No financial commitment involving MCC Funding shall be made, no obligation of MCC Funding shall be incurred, and no Re-Disbursement shall be made or MCC Disbursement Request submitted for any activity or expenditure, unless the expense is provided for in the Detailed Financial Plan and unless uncommitted funds exist in the balance of the Detailed Financial Plan for the relevant period or unless the Parties otherwise agree in writing.

(iv) Modifications to Financial Plan. Notwithstanding anything to the contrary in this Compact, MCA-Vanuatu may amend or supplement the Financial Plan or any component thereof without amending this Compact, provided any material amendment or supplement has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.

(b) Disbursement and Re-Disbursement. The Disbursement Agreement (and disbursement schedules thereto), as amended from time to time, shall specify the terms, conditions and procedures on which MCC Disbursements and Re-Disbursements shall be made. The obligation of MCC to make MCC Disbursements or approve Re-Disbursements is subject to the fulfillment or waiver of any such terms and conditions. The Government and MCA-Vanuatu shall jointly submit the applicable request for an MCC Disbursement (the "***MCC Disbursement Request***") as may be specified in the Disbursement Agreement. MCC will make MCC Disbursements in tranches to a Permitted Account from time to time as provided in the Disbursement Agreement or as may otherwise be agreed by the Parties, subject to Program requirements and performance by the Government, MCA-Vanuatu and other relevant parties in furtherance of this Compact. Re-Disbursements will be made from time to time based on requests by an authorized representative of the appropriate party designated for the size and type of Re-Disbursement in accordance with the Governing Documents and Disbursement Agreement; *provided, however*, unless otherwise agreed by the Parties in writing, no Re-Disbursement shall be made unless and until the written approvals specified herein or in the Governing Documents and Disbursement Agreement for such Re-Disbursement have been obtained and delivered to the Fiscal Agent.

(c) Fiscal Accountability Plan. By such time as specified in the Disbursement Agreement or as otherwise agreed by the Parties, MCA-Vanuatu shall adopt as part of the Implementation Plan a fiscal accountability plan that identifies the principles and mechanisms to ensure appropriate fiscal accountability for the use of MCC Funding provided under this Compact, including the process to ensure that open, fair, and competitive procedures will be used in a transparent manner in the administration of grants or cooperative agreements and the procurement of goods and services for the accomplishment of the Project Objectives (the "***Fiscal Accountability Plan***"). The Fiscal Accountability Plan shall set forth, among other things, requirements with respect to the following matters: (i) funds control and documentation; (ii) separation of duties and internal controls; (iii) accounting standards and systems; (iv) content and timing of reports; (v) policies concerning public availability of all financial information; (vi) cash management practices; (vii) procurement and contracting practices, including timely

payment to vendors; (viii) the role of independent auditors; and (ix) the roles of fiscal agents and procurement agents.

(d) Permitted Accounts. The Government shall establish, or cause to be established, such accounts (each, a "***Permitted Account***," and collectively "***Permitted Accounts***") as may be agreed by the Parties in writing from time to time, including:

(i) A single, completely separate U.S. Dollar interest-bearing account (the "***Special Account***") at the Reserve Bank of Vanuatu to receive MCC Disbursements;

(ii) If necessary, an interest-bearing local currency of Vanuatu account (the "***Local Account***") at a commercial bank that is procured through a competitive process to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency; and

(iii) Such other interest-bearing accounts to receive MCC Disbursements in such banks as the Parties mutually agree upon in writing.

No other funds shall be commingled in a Permitted Account other than MCC Funding and Accrued Interest thereon. All MCC Funding held in an interest-bearing Permitted Account shall earn interest at a rate of no less than such amount as the Parties may agree in the respective Bank Agreement or otherwise. MCC shall have the right, among other things, to view any Permitted Account statements and activity directly on-line or at such other frequency as the Parties may otherwise agree. By such time as shall be specified in the Disbursement Agreement or as otherwise agreed by the Parties, the Government shall ensure that MCA-Vanuatu enters into an agreement with each Bank, respectively, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account, respectively (each a "***Bank Agreement***"). For purposes of this Compact, any bank holding an account referenced in Section 4(d) of this Program Annex are each a "***Bank***" and, are collectively referred to as the "***Banks***."

(e) Currency Exchange. The Bank shall convert MCC Funding to the currency of Vanuatu at a rate to which the Parties mutually agree with the Bank in the Bank Agreement.

5. Transparency; Accountability.

Transparency and accountability to MCC and to the beneficiaries are important aspects of the Program and Transport Infrastructure Project. Without limiting the generality of the foregoing, in an effort to achieve the goals of transparency and accountability, the Government shall ensure that MCA-Vanuatu:

(a) Establishes an e-mail suggestion box as well as a means for other written comments that interested persons may use to communicate ideas, suggestions or feedback to MCA-Vanuatu;

(b) Considers as a factor in its decision-making the recommendations of the Observers;

(c) Develops and maintains a website (the "***MCA-Vanuatu Website***") in a timely, accurate and appropriately comprehensive manner, such MCA-Vanuatu Website to include postings of information and documents in English and French, as appropriate; and

(d) Posts on the MCA-Vanuatu Website and otherwise makes publicly available via appropriate public mediums (including radio and print) in the appropriate language, from time to time, the following documents or information:

(i) The Compact and all Compact Reports;

(ii) All minutes of the meetings of the Steering Committee;

(iii) The M&E Plan, as amended from time to time, along with periodic reports on Program performance;

(iv) All relevant environmental assessments and supporting documents;

(v) All audit reports by an Auditor and any periodic reports or evaluations by a Reviewer;

(vi) All financial reports provided in accordance with the Compact and any relevant Supplemental Agreement;

(vii) Disbursement Agreement, as amended from time to time, as well as the MCC Disbursement Requests submitted thereunder;

(viii) All procurement agreements (including policies, standard documents, procurement plans, and required procedures), solicitations, and notices of awarded contracts; and

(ix) A copy of any legislation and other documents related to the formation, organization and governance of MCA-Vanuatu, including the Governing Documents, and any amendments thereto.

SCHEDULE 1 to ANNEX I

TRANSPORT INFRASTRUCTURE PROJECT

This Schedule 1 describes and summarizes the key elements of the transport infrastructure project that the Parties intend to implement in furtherance of the Infrastructure Objective and the Institutional Strengthening Objective (the "***Transport Infrastructure Project***"). Additional details regarding the implementation of the Transport Infrastructure Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

Overcoming transport infrastructure constraints to poverty reduction and economic growth, specifically for rural areas, has been consistently identified through the consultative process as a major impediment to economic growth in Vanuatu. The Government recognizes the importance of adequate and reliable transport infrastructure services as well as the negative impact Vanuatu's poor transportation infrastructure has had on formal economic activity and investment in the agriculture and tourism sectors – the two primary sources of growth and employment in Vanuatu. The Transport Infrastructure Project is intended to reduce transport costs and improve reliability of access to prioritized roads, wharfs and airstrips, and thereby, alleviate one of the principal constraints to private sector development.

2. Summary of the Transport Infrastructure Project and Project Activities.

The Transport Infrastructure Project consists of two principal project activities: (i) civil works for the reconstruction or construction of priority infrastructure on eight islands, covering roads, wharfs, airstrips and warehouses (the "***Infrastructure Activity***"); and (ii) institutional strengthening efforts in the Public Works Department ("***PWD***"), including the provision of plant and equipment for maintenance of the infrastructure (the "***Institutional Strengthening Activity***").

(a) Infrastructure Activity.

Pursuant to the Infrastructure Activity, MCC Funding will be used to rehabilitate or construct priority infrastructure, (each an "***Infrastructure Subproject Activity***"), including:

(i) Efate - Ring Road. Upgrade 90 km of the Ring Road on Efate, the most populous of Vanuatu's islands, to a two-lane bitumen seal standard, with improved drainage systems.

(ii) Santo - East Coast Road. Upgrade the 70 km road from Luganville to Port Olry on the island of Santo to a two lane, bitumen seal standard, including associated bridges and other drainage structures.

(iii) Santo - South Coast Road Bridges. Construct an additional five bridges along the south coast road on the island of Santo, improving access to the commercial center and markets at Luganville, on a 15 km section of the road.

(iv) Malekula - Norsup Lakatoro Lits Lits Road. Reconstruct the 11 km of the Norsup- Lakatoro- Lits Lits Road, the administrative and commercial center of the island of

Malekula and the Malampa province, linking the three nodes to a two lane bitumen seal standard, with associated drainage works.

(v) Malekula - South West Bay Airstrip. Fill the low lying area surrounding the South West Bay airstrip on the island of Malekula and provide some sub surface drainage to reduce the frequency of closings of the airstrip.

(vi) Pentecost - Loltong Wharf and N-S Road. Construct a wharf in Loltong on the island of Pentecost, suitable for conventional boats and barges close to the Loltong village in a sheltered part of the harbor. The proposed structure will be sufficiently robust to withstand the most severe weather conditions, and is expected to require minimum maintenance. Provide a coral pavement over the 8 km length of the new section of the North South road and an adequate storm water drainage system. In addition, the North South road, following a ridge from the north to central Pentecost will be upgraded to significantly improve access for the productive southeastern sections of the island to Loltong Wharf.

(vii) Tanna - Whitesands Road. Reconstruct the Whitesands Road on the island of Tanna, providing a coral pavement, substantial concrete-lined drains and floodways and sections of concrete pavement where gradients are very steep.

(viii) Epi - Lamen Bay Wharf. Reinforce the existing causeway of the Lamen Bay Wharf on the island of Epi to extend the life of the structure and extend the wharf face further into deeper water away from the coral reefs to provide a suitable berth for inter island shipping.

(ix) Ambae - Road Creek Crossings. Reconstruct the creek crossings on a 50 km section of road on the island of Ambae to improve the overall level of serviceability. Ambae is a relatively populous and productive island.

(x) Malo - Road Upgrade. Provide better drainage and coral surfacing of the two roads extending 15 km on the island of Malo to improve the overall level of serviceability.

(xi) Warehouses (Several Locations). Provide five new warehouses at various locations throughout the islands for storing outgoing or incoming freight for the shipping industry in Vanuatu. These warehouses are proposed to be operated under a management or lease contract, involving the local private sector.

(b) Institutional Strengthening Activity.

Recognizing the importance of maintenance of transport infrastructure, the Institutional Strengthening Activity will provide focused assistance to the PWD, to remove key constraints that face the institution in effectively delivering maintenance and repair services. Under the Institutional Strengthening Activity, the Program also provides support for the sustainability and viability of the PWD through organizational reform and policy changes (each an "***Institutional Strengthening Subproject Activity***" and together, the "***Institutional Strengthening Subproject Activities***"). MCC Funding will be used to:

(i) Plant and Equipment. Provide essential plant and equipment to maintain road and airstrip infrastructure (the "***Equipment Subproject Activity***"). Supply of equipment

will be made in two ways: (i) certain new equipment (value of approximately USD $4.35 million) will be mobilized under the civil works contract and used initially by the contractor for civil works funded by MCC Funding, and then delivered in specified condition for use by PWD at the end of four years; and (ii) other equipment (value of approximately USD $1.39 million) will be provided through direct procurement for use by PWD.

(ii) Technical Assistance. Fund the development of the annual PWD action plans and annual audits of PWD's performance. PWD will enter into a service performance agreement with the Ministry of Infrastructure and Public Utilities, by which PWD will be required to meet specific performance targets through an annual action plan for maintenance and repair (the "***Technical Assistance Subproject Activity***"). Annual audits will be undertaken to measure PWD's performance against the targets, which will form the basis for management accountability.

The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks at the Transportation Infrastructure Project and Project Activity levels (*i.e.*, the Infrastructure Activity and the Institutional Strengthening Activity) that may be used to monitor implementation progress. Performance against these benchmarks and the overall impact of the Transport Infrastructure Project and each Project Activity will be assessed and reported at regular intervals to be specified in the M&E Plan or otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks will be identified during implementation of each Project Activity. Conditions precedent to each Project Activity and sequencing of the Infrastructure Subproject Activities and the Institutional Strengthening Subproject Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(c) Project Implementation.

PWD will serve as the Project Manager of the Transport Infrastructure Project, responsible for oversight of the specific Subproject Activities of the Infrastructure Activity. The duties of PWD will include certification of receipt of goods and services procured for the Transport Infrastructure Project. Outside professional services will be contracted through MCA-Vanuatu to assist the Project Manager.

3. Beneficiaries.

The primary beneficiaries ("***Beneficiaries***") of the Transport Infrastructure Project fall into the following two broad categories:

- Providers (and laborers) of tourist-related goods and services, including hotels, airlines, tour companies, shops, restaurants, and artisans; and

- Local producers (including landowners, lessees, and processors of primary produce) and inhabitants of remote communities with limited access to social and other services.

The Transport Infrastructure Project is expected to have a transformational impact on Vanuatu's economic development, increasing average income per capita (in real terms) by approximately $200 or 15% of current income per capita by 2010. GDP is expected to increase by an additional 3% each year as a result of the MCA Program.

The Program is expected to benefit approximately 65,000 poor, rural inhabitants living nearby and using the roads to access markets and social services. The program is also expected to expand the tourism sector by approximately 15% each year once construction is complete. Based on the most recent employment data, this translates to the creation of an estimated 280 additional formal sectors jobs and 25 new locally-owned businesses each year in this sector, impacting over 1,300 people.

4. Donor Coordination.

The majority of donors in Vanuatu have focused more consistently on the social sectors. Donors such as Australia and New Zealand have recently committed to enlarging their assistance to the agriculture and tourism sectors in response to the priorities for growth and poverty reduction outlined in the Government's PAA. MCC's focus on transport infrastructure presents a number of mutually beneficial coordination opportunities with ongoing and planned donor programs, namely: the European Union (the "***EU***") and France's Agricultural Producers Organization Project; the EU and the Asian Development Bank's ("***ADB***") Tourism Training and Education project; ADB's Rural Credit Strengthening and Secured Transaction Framework projects; New Zealand Agency for International Development's Customary Land Tenure initiatives; the Australian Agency for International Development's "***AusAID***") Business Climate Reform program; and the EU's Institutional Strengthening for Infrastructure Maintenance program. Moreover, AusAid is providing funding for key household data surveys (such as the Household Income and Expenditure Survey ("***HIES***"), which will be used in monitoring Program impacts. The United States Agency for International Development does not maintain a mission in Vanuatu and is not currently providing any development assistance programs to Vanuatu.

5. Sustainability.

(a) Institutional Sustainability.

PWD is the principal institution responsible for the effectiveness and sustainability of the Program, including maintenance of the roads, and outer island wharfs and airstrips.

A lack of suitable equipment is the single most important factor constraining PWD's road maintenance capacity. Most of the plant is 20 years old. In most provinces, the equipment fleet lacks at least one essential item, seriously reducing the efficiency of the rest. MCC Funding will provide equipment that will allow PWD's reformed institutional capacity to carry out timely maintenance and repairs on all transport infrastructure under its responsibility. MCC Funding will expand PWD's capability and capacity in all maintenance and repair activities, and is expected to reduce its recurrent direct costs (attributable to maintenance of old equipment) by at least 10% of its current budget.

Notwithstanding the past improvements made in strengthening PWD, in order to ensure efficient and timely delivery of services by PWD and to institute sustainable accountability and management efficiency, MCC Funding will provide support for the establishment and maintenance of a Service Performance Contract for PWD. Annual action plans will be developed by the Government, with the assistance of MCA-Vanuatu, which will form the basis for annual assessments against the Service Performance Contract.

(b) Financial Sustainability.

(i) Roads. The Parties agree that an annual budget of about USD $5.7 million, together with the provision of new plant and equipment for maintenance (provided by MCC Funding) is considered to be an appropriate level of funds for road maintenance (the "***Road Maintenance Budget Allocation***"). MCC Funding will be contingent upon the Government allocating sufficient funds in accordance with the Road Maintenance Budget Allocation.

(ii) Airstrip. PWD is funded through the Government budget process for maintenance of airstrips. Two sources of revenue related to airstrip maintenance are derived from regular air services: (i) a departure tax; and (ii) a landing charge based on aircraft weight. The total revenue collected from these two sources is sufficient for maintenance of the airstrip.

(iii) Sea Ports. Under the Decentralisation Act (1994), the provincial governments were expected to take over ownership and operations and maintenance responsibility for the outer island ports. With no budget allocation for maintenance, the provincial governments have declined to take such responsibility. As a result, PWD remains as the agency to perform maintenance works on wharfs at the request of the provincial governments. Historically, no user fees have been collected at the port facilities. Shefa Province has announced a tax on passengers and cargo departing from sea ports in the province. Although the form of construction or rehabilitation proposed for the wharfs is robust and requires minimal maintenance, some infrequent maintenance will be required. MCC Funding for the wharfs will be contingent upon successful introduction of user charges on shipping to provide a source of revenue.

(c) Environmental and Social Sustainability.

The key to ensuring environmental and social sustainability of the Program is ongoing public consultation and attention to environmental mitigation measures to ensure optimal design and implementation and to ensure full country-ownership of the Program. The Government will ensure that environmental and social mitigation measures are followed for all Project Activities in accordance with Environmental Guidelines and the provisions set forth in this Compact and relevant Supplemental Agreements. In agreement with MCC, MCA-Vanuatu will select through an open and competitive process, subject to the approval of MCC, an environmental and social impact officer (the "***ESI Officer***") to serve as the point of contact for comments and concerns of the parties affected by the Program and the implementation of all Project Activities. The ESI Officer will be located within the Environment Unit of the Government. The ESI Officer will lead the effort to find feasible resolutions to environmental and social issues in connection with the implantation of Project Activities, and will convene periodic public meetings to provide implementation updates and to identify and address public concerns.

Other important sustainability issues involve the provision of adequate maintenance of infrastructure. Insufficient maintenance of assets, such as drainage systems, could lead to environmental degradation and poor performance of the asset. Therefore, institutional sustainability of PWD and the assurance of management effectiveness (through the proposed Service Performance Contract) are directly linked to environmental sustainability. The Service Performance Contract for PWD will address environmental and social impacts. In addition,

potential environmental and social impacts of Program-induced tourism will be evaluated to ensure that Vanuatu has adequate capacity to manage such impacts.

6. Policy, Legal and Regulatory Reforms.

The Parties have identified the following policy actions and legislative and regulatory reforms that the Government will pursue in support of the Transport Infrastructure Project to reach its full benefits. Satisfactory implementation of these reforms may be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement:

(a) The Government shall, in accordance with World Bank policy on involuntary resettlement, undertake consultations with land users in the Whitesands Road project area in order to establish appropriate locations for drainage lines and shall address any social issues and claims arising from such consultations to the satisfaction of MCC. Moreover, any required acquisition rights-of-way and any resettlement programs shall be amicably settled with compensation in accordance with World Bank policy on Involuntary Resettlement;

(b) The Government shall ensure that an M&E Implementation Manual ("***M&E Implementation Manual***"), describing all data collection, reporting, and quality assurance mechanisms, must be submitted to and approved by MCC;

(c) The Government will ensure completion of the Household Income and Expenditure Survey and collection of baseline data on all monitoring and evaluation indicators;

(d) PWD shall establish commercially driven maintenance contracts with community representatives for basic routine maintenance activities for the following Infrastructure Subproject Activities: Efate Ring Road (with rural villages), Santo East Coast Road (with rural villages), Malekula Norsup Lakatoro Lits Lits Road, Pentecost North South Road, Tanna Whitesands Road, and Malo Roads. These maintenance contracts must be in effect prior to the commencement of the respective Infrastructure Subproject Activities;

(e) The Government or the respective province shall develop a revenue collection mechanism and an implementation plan for the collection of wharf user fees and their application towards wharf maintenance. This shall be a condition precedent for initial disbursement of MCC Funding for the relevant Infrastructure Subproject Activity;

(f) The Government will fund the mitigation and remediation costs related to the civil works component of the Transport Infrastructure Project as identified in the environmental management plans ("***EMPs***") in excess of the budgeted amount in the Detailed Financial Plan for such costs;

(g) The Government will ensure that a service performance contract is entered into between PWD and Ministry of Infrastructure and Public Utilities within six months of Entry into Force. The service performance contract shall monitor and assess PWD's performance against an action plan. PWD management shall be held accountable for service performance in accordance with terms to be specified in the service performance contract; and

(h) The Government will allocate sufficient funds for road maintenance activities in accordance with the Road Maintenance Budget Allocation.

Additionally, the Parties agree that the Government will explore insurance coverage options to further ensure the sustainability of the Program Assets.

ANNEX II

FINANCIAL PLAN SUMMARY

This Annex II to the Compact (the "***Financial Plan Annex***") summarizes the Multi-Year Financial Plan for the Program. Except as defined in this Financial Plan Annex, each capitalized term in this Financial Plan Annex shall have the same meaning given such term elsewhere in this Compact.

1. General. A multi-year financial plan summary ("***Multi-Year Financial Plan Summary***") is attached hereto as Exhibit A. By such time as specified in the Disbursement Agreement, MCA-Vanuatu will adopt, subject to MCC approval, a Multi-Year Financial Plan that includes, in addition to the multi-year summary of anticipated estimated MCC Funding and the Government's contribution of funds and resources, an estimated draw-down rate for the first year of the Compact based on the achievement of performance milestones, as appropriate, and the satisfaction or waiver of conditions precedent. Each year, at least 30 days prior to the anniversary of the entry into force of the Compact, the Parties shall mutually agree in writing to a Detailed Financial Plan for the upcoming year of the Program, which shall include a more detailed plan for such year, taking into account the status of the Program at such time and making any necessary adjustments to the Multi-Year Financial Plan.

2. Implementation and Oversight. The Multi-Year Financial Plan and each Detailed Financial Plan shall be implemented by MCA-Vanuatu, consistent with the approval and oversight rights of MCC and the Government as provided in this Compact, the Governance Agreement and the Disbursement Agreement.

3. Estimated Contributions of the Parties. The Multi-Year Financial Plan Summary identifies the estimated annual contribution of MCC Funding for Program administration, monitoring and evaluation, the Transport Infrastructure Project, and each Project Activity. The Government's contribution of resources to Program administration, monitoring and evaluation, and the Transport Infrastructure Project shall consist of (i) "in-kind" contributions in the form of Government Responsibilities and any other obligations and responsibilities of the Government identified in this Compact and (ii) such other contributions or amounts as may be identified in relevant Supplemental Agreements between the Parties or as may otherwise be agreed by the Parties; *provided*, in no event shall the Government's contribution of resources be less than the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact.

4. Modifications. The Parties recognize that the anticipated distribution of MCC Funding between and among the various Program activities and the Project and Project Activities will likely require adjustment from time to time during the Compact Term. In order to preserve flexibility in the administration of the Program, the Parties may, upon agreement of the Parties in writing and without amending the Compact, change the designations and allocations of funds between Program administration and the Project, between one Project Activity and another Project Activity, between different activities within the Project, or between a Project Activity identified as of the Entry into Force and a new Project Activity, without amending the Compact;

provided, however, that such reallocation (i) is consistent with the Project Objectives, (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact, and (iii) does not cause the Government's obligations or responsibilities or overall contribution of resources to be less than specified in Section 2.2(a) of this Compact, this Annex II or elsewhere in the Compact.

5. Conditions Precedent; Sequencing. MCC Funding will be disbursed in tranches. The obligation of MCC to approve MCC Disbursements and Material Re-Disbursements for the Program, the Transport Infrastructure Project, and each Project Activity is subject to satisfactory progress in achieving the Project Objectives and on the fulfillment or waiver of any conditions precedent specified in the Disbursement Agreement for the relevant Program activity, Project or Project Activity. The sequencing of Project Activities and other aspects of how the Parties intend the Transport Infrastructure Project to be implemented will be set forth in the Implementation Plan, including Work Plans for the applicable Project Activities, and MCC Disbursements and Re-Disbursements will be disbursed consistent with that sequencing.

EXHIBIT A

Multi-Year Financial Plan

Component (in US$ millions)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1. **Transport Infrastructure Project**						
Infrastructure Activity	4.00	22.45	25.80	2.21	0.03	54.47
Institutional Strengthening Activity	5.47	0.48	0.09	0.09	0.09	6.22
2. **Program Management**	0.43	0.32	0.28	0.28	0.28	1.59
3. **Monitoring and Evaluation**	0.28	0.06	0.06	0.06	0.91	1.37
4. **Fiscal and Procurement Agents**	1.17	0.14	0.14	0.14	0.14	1.71
5. **Audit**	0.07	0.07	0.07	0.07	0.07	0.33
TOTAL MCC INVESTMENT	**11.42**	**23.51**	**26.43**	**2.85**	**1.52**	**65.69**

Note: Figures are rounded to second decimal place. Foreign exchange rate: USD = 108 Vatu.

ANNEX III

DESCRIPTION OF THE M&E PLAN

This Annex III to the Compact (the "***M&E Annex***") generally describes the components of the M&E Plan for the Program. Except as defined in this M&E Annex, each capitalized term in this Annex III shall have the same meaning given such term elsewhere in this Compact.

1. Overview.

MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee) shall formulate, agree to and the Government shall implement, or cause to be implemented, an M&E Plan that specifies (i) how progress toward the Project Objectives and the intermediate results of each Project Activity (the "***Project Activity Outcomes***") will be monitored (the "***Monitoring Component***"), (ii) a methodology, process and timeline for the evaluation of planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability (the "***Evaluation Component***"), and (iii) other components of the M&E Plan described below. Information regarding the Program's performance, including the M&E Plan, and any amendments or modifications thereto, as well as periodically generated reports, will be made publicly available on the MCA-Vanuatu Website and elsewhere.

2. Monitoring Component.

To monitor progress toward the achievement of the Project Objectives and Project Activity Outcomes, the Monitoring Component of the M&E Plan shall identify (i) the Indicators, (ii) the party or parties responsible, the timeline, and the instrument for collecting data and reporting on each Indicator to MCA-Vanuatu, and (iii) the method by which the reported data will be validated.

(a) Indicators. The M&E Plan shall measure the results of the Program using quantitative, objective and reliable data ("***Indicators***"). Each Indicator will have one or more expected results that specify the expected value and the expected time by which that result will be achieved (each, a "***Target***"). The M&E Plan will measure and report four types of Indicators. First, Indicators for the Program as a whole (each, a "***Goal Indicator***") will measure the impact of the Compact on the incomes and poverty of ni-Vanuatu who are directly or indirectly affected by the Project Activities anticipated under the Transport Infrastructure Project. Second, the Indicators for each Objective (each, an "***Objective Indicator***") will measure whether the improved infrastructure assets are having the intended impact. Third, outcome Indicators, (each, an "***Outcome Indicator***") will signal whether the Transport Infrastructure Project is stimulating the expected intermediate results. Forth, Indicators for each Project Activity (each, a "***Project Activity Indicator***") will measure implementation success. For each Indicator, the M&E Plan shall define a strategy for obtaining and validating the value of such Indicator prior to its being affected by the Program ("***Indicator Baseline***"). All Indicators will be disaggregated by gender, income level and age, to the extent practicable.

(i) Goal Indicator. The highest level of results to be achieved by the Program, *i.e.*, the Compact Goal, is understood to be the aggregation of the estimated benefits of the Transport Infrastructure Project and which are indicative of the overall impact expected from all of the Project Activities. While these benefits can be estimated, it is methodologically impossible to attribute with a high degree of precision changes in income at the end of the Compact Term specifically to interventions undertaken under or in furtherance of the Program

due to the existence of other factors, unrelated to the Program, that may affect income changes. However, these estimated benefits may be used to inform future impact evaluation. The M&E Plan shall contain the Goal Indicators listed in the table below.

Compact Goal Increased Economic Growth and Poverty Reduction				
Goal Indicator	**Indicator Definition**	**Baseline1**	**Year 5**	**Year 10**
Increase cash income per capita of Beneficiaries	Average cash income per capita of residents living within the catchment area of the infrastructure sub-projects listed below (1):	$1,206	$1,411	$1,695
	Efate: Round Island Road	$804	$1,160	$1,633
	Santo: Port Olry Road	$784	$1,156	$1,831
	Santo: South Coast Bridges	$784	$821	$853
	Tanna: Whitesands Road	$366	$487	$604
	Malekula: Lits Lits Road	$1,000	$1,069	$1,150
	Malekula: SW Bay Airstrip	$1,000	$1,010	$1,019
	Pentecost: Loltong Wharf/N-S Road	$302	$367	$420
Reduce poverty (as measured by dependence on subsistence activities)	Fraction of individuals receiving more than X percent of their income (i.e. poverty threshold) from subsistence activities. The "poverty threshold" will be defined during the first year of the program based on the results of the Household Income Expenditure Survey.	TBD	TBD	TBD
Increase tourism employment	Number of additional formal tourism jobs created on Efate, Santo and Tanna.	-	560	1,960

(1) Baseline cash income estimates are based on 1999 HIES, converted to USD and adjusted to 2005 prices using provincial estimates where island data was not available. Statistically representative baselines will be updated during the first year of the Compact.

(ii) Project Objective and Outcome Indicators. The M&E Plan shall contain the Objective and Outcome Indicators listed in the table below, with definitions (where necessary). The corresponding Indicator Baselines and estimated Targets to be achieved are based on the assumptions from the economic analysis. MCA-Vanuatu may add Objective Indicators or refine the Targets of existing Objective Indicators prior to any MCC Disbursement or Re-Disbursement for the Transport Infrastructure Project or any Project Activity that may influence that Indicator, or at such other times as may be agreed with MCC, in each case with prior written approval of MCC.

Vanuatu Transport Infrastructure Project Objective: Facilitate transportation to increase tourism and business development[1]						
Objective Indicators (Metric of Project success observable by end of Compact)	**Baseline[2]**	**Year 1[3]**	**Year 2[3]**	**Year 3[3]**	**Year 4[3]**	**Year 5**
Number of New Hotel Rooms[4] Constructed (cumulative)						
Efate	0	n.t.	n.t.	n.t.	200	400
Santo	0	n.t.	n.t.	n.t.	70	140
Number of Tourists (per annum)						
Vanuatu	61,453	65,755	70,358	75,283	84,170	87,743
Santo	6,963	7,450	7,972	8,530	11,137	13,744
Tanna	5,000	5,350	5,725	6,125	6,738	7,412
Malekula (South-West Bay)	30	30	30	30	80	130
Number of Hotel & Bungalow Bed-nights[5] occupied (per annum)						
Efate	243,380	260,420	278,650	298,160	377,430	462,250
Santo	64,500	69,015	73,846	79,015	84,546	90,465
Tanna	15,000	16,050	17,174	18,376	20,213	22,235
Malekula (South-West Bay)	90	90	90	90	240	390

Vanuatu Transport Infrastructure Project Objective: Facilitate transportation to increase agriculture production						
Objective Indicators (Metric of Project success observable by end of Compact)	**Baseline[2]**	**Year 1[3]**	**Year 2[3]**	**Year 3[3]**	**Year 4[3]**	**Year 5**
Airfreight uplifted from South West Bay, Malekula (tonnes per annum)	35	35	35	35	45	50
Cargo shipped from Loltong wharf, Pentecost (tonnes per annum)	1,000	1000	1000	1000	1,025	1,056

Vanuatu Transport Infrastructure Project						
Outcome Indicators (Indication that the Project is having the intended impact)	**Baseline[2]**	**Year 1[3]**	**Year 2[3]**	**Year 3[3]**	**Year 4[3]**	**Year 5**
Traffic volume (average annual daily traffic)[6]						
Santo: South Coast Bridges	33	33	n.m	36	n.m	40
Malekula: Lits Lits Road	200	200	n.m	221	n.m	244
Pentecost: N-S Road	25	25	n.m	28	n.m	31
Days road is closed (number per annum)						
Santo: South Coast Bridges	90	90	n.m.	90	0	0
Pentecost: North-South Road	90	90	n.m.	90	0	0
Number of S-W Bay, Malekula flights cancelled due to flooding (per annum)	33	33	n.m.	33	7	7
Time at wharf (hours/vessel)	8	8	n.m.	4	4	4

Vanuatu Transport Infrastructure Project – Road Maintenance Quality Objective: Improved road sustainability through increased funding and improved maintenance						
Outcome Indicator (Indication that the Project is having the intended impact)	**Baseline**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Share of road network in "Good" or "Fair" condition (%)[7]	TBD	TBD	n.m.	TBD	n.m.	TBD

Notes:

[1]Targets for all tourism projects (except South-West Bay) incorporate an assumed without-project rate of growth of tourism (7%) in addition to program's projected incremental impact beginning in Year 4. Tourism in South-West Bay, Malekula is not expected to grow until the airstrip is improved.

[2]The Baseline data presented in these tables was collected during due diligence for the purposes of estimating the economic impact. Data will be collected and quality checked on all indicators during the first year of the program (during the design phase and prior to construction) to validate these baseline assumptions. Hence, Year 1 will become the baseline.

[3]Targets in intermediate years will depend on precise implementation schedule for specific subprojects.

[4]Assumes approximately 2 beds per room.

[5]Based on 40% capacity utilization rate for major hotels. To be updated for all hotels and bungalows during initial implementation of the Project. Survey data is to be collected on room-nights of accommodation available and used (to give capacity utilization), and person-nights of accommodation used (to indicate quantity of tourism), with only the latter to be presented as in Indicator.

[6]Extent of reduced vehicle operating costs will be a function of the quantity of traffic and delivery of the improved road. As the latter will be monitored through an Outcome Indicator and technical supervision reports, only the traffic volume need be measured. Traffic volume is reported as the Average Annual Daily Traffic (equal to annual traffic divided by 365). Traffic on Round-Island Road (Efate), Port Orly Road (Santo), and White Sands Road (Tanna) will be monitored for evaluation purposes in the first and last years of the Compact. However, they are not included here because targets cannot be reasonably estimated as they depend on multiple factors.

[7]Based on an audited survey of road conditions conducted as part of the PWD action plan and performance review. An independent baseline survey will be conducted during the first year of the program to establish current road conditions. Performance targets will be a function of five year performance plan developed during the first year of the Compact. Independent audit will be repeated during the third and fifth years of the program.

All monetary values are reported in constant U.S. Dollars (2005).

n.t. (not targeted) Indicates that the indicator will not be targeted during that year given that the transportation infrastructure will not be complete until the end of year 3. However, the Indicator will be monitored for evaluation purposes.

n.m. (not monitored) Signifies that an indicator will not be monitored in a given year due to the lag between construction, project completion, and commencement of benefits.

(iii) Project Activity Indicators. The M&E Plan shall contain the Project Activity Outcome Indicators listed in the table below, with definitions (where necessary). Indicators have been selected to measure the progress of construction and PWD adherence to action plan objectives. The Baseline and estimated Targets are notional based on anticipated implementation schedule. MCA-Vanuatu may add Project Activity Outcome Indicators or refine the Targets of existing Project Activity Outcome Indicators prior to any MCC Disbursement or Re-Disbursement for any Project Activity that may influence that Indicator, or at such other times as may be agreed with MCC, in each case with prior written approval of MCC.

Vanuatu Transport Infrastructure Project					
Activity Indicators[1] (Metric of Implementation Performance)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Kilometers of Roads Upgraded		**80**	**213.8**		
Efate: Round-Island Road		45	90		
Malekula: Norsup-Lits Lits Road			10.8		
Malo: Multiple Roads			5		
Pentecost: North-South Road			8		
Santo: East Coast Road		35	70		
Tanna: White Sands Road			30		
Number of River Crossings Constructed		**40**	**5**		
Ambae: Creek Crossings Reconstruction		40			
Santo: South Coast Road Bridges			5		
Airstrip Meters Upgraded at S-W Bay, Malekula		2,000			
Number of maritime wharves reconstructed			**2**		
Pentecost: Loltong Wharf			1		
Epi: Lamen Bay Wharf			1		
Number of Warehouses Constructed			**5**		
Maintenance Activities[2]					
Equipment delivered (USD millions)	1.00	0.39			4.35
Utilization of equipment[3]		50%	75%	80%	80%
Annual PWD Score[4]		60	70	80	90
PWD Budget as a percentage of transport revenue collected (USD millions at, 2005 prices)[5]	TBD	TBD	TBD	TBD	TBD

Notes:
[1]Activity Targets are notional and will depend on the specific implementation timeline provided by the contractor. These will be finalized during the first year of the Compact.
[2]Country's performance relative to maintenance activity Targets will be linked to disbursements.
[3]Time each item of equipment is used relative to work time.
[4]Audited composite annual score measuring PWD's performance against targets set in the annual action plan. Maximum score is 100.
[5]As reported in Government revenues and budget for road maintenance.

(b) Data Collection and Reporting. The M&E Plan shall establish guidelines for data collection and a reporting framework, including a schedule of reporting required under the terms of the Compact and the responsible parties. The Program Management Unit shall conduct regular assessments of Program performance to inform MCA-Vanuatu, the Project Manager and MCC of progress under the Program and to alert these parties to any problems. These assessments will report the actual results compared to the Targets on the Indicators referenced in the Monitoring Component, explain deviations between these actual results and Targets, and in general, serve as a management tool for implementation of the Program. With respect to any data or reports received by MCA-Vanuatu, MCA-Vanuatu shall promptly deliver such reports to MCC along with any other related documents, as specified in this Annex III or as may be requested from time to time by MCC.

(c) Data Quality Reviews. From time to time, as determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan shall be reviewed to ensure that data reported are as valid, reliable, and timely as resources will allow. The objective of any data quality review will be to verify the quality and the consistency of performance data, across different implementation units and reporting institutions. Such data quality reviews also will serve to identify where those levels of quality are not possible, given the realities of data collection. The data quality reviewer shall enter into an Auditor / Reviewer Agreement with MCA-Vanuatu in accordance with Annex I.

3. Evaluation Component.

The Program shall be evaluated on the extent to which the interventions contribute to the Compact Goal. The Evaluation Component shall contain a methodology, process and timeline for analyzing data in order to assess planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability. The Evaluation Component shall contain two types of reports: Final Evaluations and Ad Hoc Evaluations, and shall be finalized before any MCC Disbursement or Re-Disbursement for specific Program related activities or Project Activities.

(a) Final Evaluation. MCA-Vanuatu, with the prior written approval of MCC, may engage an independent evaluator to conduct an evaluation at the expiration or termination of the Compact Term ("***Final Evaluation***") or at MCC's election, MCC may engage such independent evaluator and shall provide notification of such engagement to MCA-Vanuatu. The Final Evaluation must at a minimum (i) evaluate the efficiency and effectiveness of the Project Activities (and Subproject Activities, as appropriate); (ii) estimate, quantitatively and in a statistically valid way, the causal relationship between the Compact Goal (to the extent possible), the Project Objectives, Project Outcome and Project Activities (and Subproject Activities, as appropriate); (iii) determine if and analyze the reasons why the Compact Goal, Project Objectives and Project Outcomes and Project Activities were or were not achieved; (iv) identify positive and negative unintended results of the Program; (v) provide lessons learned that may be applied to similar projects; (vi) assess the likelihood that results will be sustained over time; and (vii) any other guidance and direction that will be provided in the M&E Plan. To the extent engaged by MCA-Vanuatu, such independent evaluator shall enter into an Auditor / Reviewer Agreement with MCA-Vanuatu in accordance with Annex I.

(b) Ad Hoc Evaluations. Either MCC or MCA-Vanuatu may request ad hoc or interim evaluations or special studies of the Transport Infrastructure Project, Project Activities, or the Program as a whole prior to the expiration of the Compact Term. If MCA-Vanuatu engages an evaluator, the evaluator will be an externally contracted independent source selected by MCA-Vanuatu, subject to the prior written approval of MCC, following a tender in accordance with the Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter or Supplemental Agreement. The cost of an independent evaluation or special study may be paid from MCC Funding. If MCA-Vanuatu requires an ad hoc independent evaluation or special study at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to the Transport Infrastructure Project or any Project Activity or to seek funding from other donors, no MCC Funding or MCA-Vanuatu resources may be applied to such evaluation or special study without MCC's prior written approval.

4. Other Components of the M&E Plan.

In addition to the Monitoring and Evaluation Components, the M&E Plan shall include the following components for the Project Activities, including, where appropriate, roles and responsibilities of the relevant parties and Providers:

(a) Costs. A detailed cost estimate for all components of the M&E Plan.

(b) Assumptions and Risks. Any assumptions and risks external to the Program that underlie the accomplishment of the Objectives and Project Activity Outcomes provided, however, such assumptions and risks shall not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.

5. Implementation of the M&E Plan.

(a) Approval and Implementation. The approval and implementation of the M&E Plan, as amended from time to time, shall be in accordance with the Program Annex, this M&E Annex, the Governance Agreement, and any other relevant Supplemental Agreement.

(b) Steering Committee. The completed portions of the M&E Plan will be presented to the Steering Committee at the Steering Committee's initial meeting, and any amendments or modifications thereto or any additional components of the M&E Plan will be presented to the Steering Committee at appropriate subsequent meetings of the Steering Committee. Members of the Steering Committee will have the opportunity to present suggestions on the M&E Plan.

(c) MCC Disbursement and Re-Disbursement for a Project Activity. Unless the Parties otherwise agree in writing, prior to, and as a condition precedent to, the initial MCC Disbursement or Re-Disbursement with respect to certain Project Activities, the baseline data or report, as applicable and as specified in the Disbursement Agreement, with respect to such Project or Project Activity must be completed in form and substance satisfactory to MCC. As a condition to each MCC Disbursement or Re-Disbursement there shall be satisfactory progress on the M&E Plan for the Transport Infrastructure Project or any Project Activity, and substantial compliance with the M&E Plan, including any reporting requirements.

(d) Modifications. Notwithstanding anything to the contrary in the Compact, including the requirements of this M&E Annex, MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee) may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending the Compact; provided, any such modification or amendment of the M&E Plan has been approved by MCC in writing and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.