



Mr. Johnson Wabaiat
Program Director, MCA-Vanuatu
Constitution Building
P.O. Box 192
Port Vila, Vanuatu

September 30, 2010

Re: MCC Disbursement Request Response for the 19th Disbursement Period (October 1 – December 31, 2010).

Dear Johnson:

This letter is in response to the Millennium Challenge Corporation (*MCC*) Disbursement Request Package submitted by Millennium Challenge Account Vanuatu (*MCA-Vanuatu*) on September 14, 2010 pursuant to the Disbursement Agreement, dated April 28, 2006, among MCC, MCA-Vanuatu, and the Ministry of Finance and Economic Management (the *Disbursement Agreement*). Capitalized terms that are not defined in this letter have the meanings given to such terms in the Compact or in the Disbursement Agreement.

MCC Disbursement: MCA-Vanuatu requested MCC approval of the authority to request disbursements of up to \$3,822,203 on September 20, 2010. MCC has approved the disbursement authority of up to \$3,822,203 for the period from October 1 – December 31, 2010.

Approval of Reports: MCC approves the following reports submitted by MCA-Vanuatu:

- a) Detailed Financial Plan and Quarterly Financial Report submitted September 20, 2010;
- b) Procurement Performance Report submitted September 14, 2010;
- c) Indicator Tracking Table submitted September 21, 2010;
- d) Conditions Precedent Report submitted September 14, 2010;
- e) Deferral Letter submitted September 14, 2010;
- f) Narrative Report submitted September 14, 2010; and
- g) Work Plan July-December 2010 submitted on September 14, 2010.

MCC wishes to note the following items in relation to this quarter's submission, as well as items to be corrected prior to next quarter's submission:

1. The Conditions Precedent (*CP*) Report:

- a. Section 3.5 (c) – Satisfactory progress on implementation work plans:
 - i. Work Plan: MCC has accepted the updated Work Plan for the period from July to December 2010 but wishes to note the Work Plan will need to be updated for the January to April (August) period to ensure all tasks related to compact closure, final works, and monitoring and evaluation are included with the next disbursement request.
 - ii. MCC acknowledges receipt of the MCA-Vanuatu 2010 Performance Management Plans as approved by the Steering Committee. In assessing any bonuses, MCC expects that the Steering Committee and Program Director will take into account whether the responsible officers submit key deliverables on time, particularly those deliverable relating to the QDRP, monitoring and evaluation, compact closure, goodwill and compensation, and quarry and stockpile rehabilitation.
- b. Schedule 1: Government of Vanuatu allocation for road maintenance and PWD expenditure reports and plan: MCC acknowledges receipt of additional evidence of the Government's 2010 allocation for road maintenance and PWD's report of 2009 expenditures and 2010 plans for road maintenance. The inclusion of these reports under the revised M&E Plan is noted.

Other Items

Quarry Issues:

1. Royalties: MCC understands that MCA-Vanuatu, in conjunction with the Commissioner of Mines, the Lands Tribunal Office, and the State Law Office have agreed to develop mitigation strategies to address payment of quarry royalties, and that there has been some progress with payments to land owners. MCC expects that the relevant parties will have met with all affected land owners to ensure that they understand the process to resolve land disputes and to encourage resolution under the Land Tribunals Act. This issue remains one of great reputational risk to the compact, and MCC requires bi-weekly updates on payment progress to the MCC Resident Country Mission and ESA Director.
2. Quarry Rehabilitation Plans: MCC understands Downer has provided copies of all Quarry Rehabilitation Plans to MCA-Vanuatu and the Supervisory Engineer. MCC expects that MCA-Vanuatu will continue to give this priority and ensure the plans are approved, monitored and signed-off, and for documentation to be provided to MCC. Any potentially non-compliant rehabilitations must be agreed in writing with MCC.
3. Malarua Stockpile: As conveyed in our previous Disbursement Response letter, MCC expected resolution on this issue by the end of September. MCC notes that the situation is now more urgent with the increased possibility of dust pollution as the dry season commences and with the Contractor seeking sign-off prior to demobilization. MCC requires bi-weekly updates to the MCC Resident Country Mission and ESA Director until this matter is resolved.

Utilities: MCC again notes its concern that there has been little progress with the continued effort to resolve the issue of utilities in the right of way around the Efate Ring Road. The power poles have been identified as a safety concern for road users. MCC requests that MCA-Vanuatu facilitate a Government

response on how this issue will be addressed to protect the sustainability and safety of the roads and the compact investment.

Road Safety and Speed Calming Measures: MCC requests that MCA-Vanuatu gives increased priority to road safety and speed calming measures and to the facilitation of a national road safety campaign as proposed in MCA-Vanuatu's paper to the Steering Committee in 2009.

Steering Committee Minutes: MCC remains concerned with the ongoing "good governance" gap resulting from a delay in preparation, approval, and posting of the minutes of the Steering Committee's meetings. MCA-Vanuatu is reminded that MCC expects compact partner countries to maintain high standards of transparency. The Steering Committee is requested to give urgent attention to this issue which is now the subject of a repeated negative audit finding against the Vanuatu compact.

Stakeholder Committee: MCC notes that MCA-Vanuatu has yet to convene any meetings of its Stakeholders Committee this year as required on a quarterly basis under the Governance Agreement. MCC views this as another example of inadequate transparency and expects that MCA-Vanuatu will conduct two meetings before the end of 2010.


Contractor Performance Reports: MCC reminds MCA-Vanuatu that it has yet to forward these reports, originally due in 2009. The last extension has expired and MCC expects to receive these reports in October 2010.

Final QDRP under the Compact: MCC reminds MCA-Vanuatu that the final QDRP is due by December 10, 2010 and will cover the period through to compact closure. MCC expects that the Steering Committee will ensure that the preparation of this QDRP will commence early to ensure that a compliant package is delivered on time.

Please acknowledge receipt of this letter and indicate your agreement, on behalf of MCA-Vanuatu, with the matters set forth herein by delivering a countersigned copy of this letter to our attention via confirmed email.

Sincerely,

By:



Mr. Darius Peter
Deputy Vice President
Millennium Challenge Corporation

Acknowledged and agreed:

By:

Mr. Johnson Wabaiat
Program Director
MCA-Vanuatu

Cc: Mr. Simeon Athy
Chairman
MCA-Vanuatu Steering Committee and
Director General, Prime Minister's Office