

**AMENDED AND RESTATED FRAMEWORK FINANCING AGREEMENT
Higher Education in the Pacific Investment Program**

Parties	<p>This Amended and Restated Framework Financing Agreement (FFA) dated 22 July 2016 is between and among The University of the South Pacific (USP), the Government of Kiribati, the Government of the Solomon Islands, and Asian Development Bank (ADB).</p>
Investment Program	<p>USP is committed to supporting the USP Strategic Plans 2010-2012 & 2013-2018 ("Roadmap") to implement the goals of the Pacific Plan for regional higher education. The proposed Higher Education in the Pacific Investment Program is an integral part of the Roadmap ("Investment Program"). Both the Roadmap and the Investment Program are described in Schedule 1 hereto.</p> <p>The total cost of the Higher Education in the Pacific Investment Program over the period 2012 to 2019 is expected to be \$23 million equivalent.</p>
Multitranche Financing Facility	<p>The Multitranche Financing Facility ("Facility") is intended to finance projects under the Investment Program, provided that such projects comply with the criteria set out in Schedule 4 hereto and that understandings set out in this FFA are complied with.</p> <p>These projects may include the following components: (i) strengthened regional campuses; (ii) enhanced information and communication technology (ICT)-based education; (iii) improved student services; (iv) strengthened USP governance and management; and (v) strengthened project management capacity. The tranche 1 project will support the strengthening of the regional campus and enhanced ICT-based education in Kiribati. The tranche 2 project will support the strengthening of the regional campus and enhanced ICT-based education in the Solomon Islands.</p> <p>This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by USP, cancel the uncommitted portion of the Facility, and withdraw USP's right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.</p> <p>This FFA does not constitute a legal obligation on the part of USP to request any financing. USP has the right not to request any financing under the Facility. USP also has the right at any time to cancel any uncommitted portion of the Facility.</p> <p>USP and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties. The written notice will provide an explanation for the</p>

cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect.

Financing Plan

The financing plan for the Higher Education in the Pacific Investment Program is summarized below.

Financing Source	Amount (\$million)	Share (%) of Total
Asian Development Bank (ADF)	19.00	82.6
The University of the South Pacific	2.00	8.7
Government of Kiribati	1.15	5.0
Government of Solomon Islands	0.85	3.7
Total (Investment Program)	23.00	100.0

ADF = Asian Development Fund.

Source: Asian Development Bank and The University of the South Pacific estimates.

Financing Terms

ADB will provide loans to finance projects under the Investment Program, as and when they are ready for financing, provided USP is in compliance with the understandings hereunder, and the projects are in line with those same understandings. Each loan will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, capital market conditions, and ADB's financing policies, all prevailing on the date of signing the legal agreement for such tranche. Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other. There is no maximum or minimum size for a tranche.

Commitment charges or guarantee fees are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan or guarantee. ADB rules on commitment charges and guarantee fees, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is nineteen million U.S. Dollar equivalent (\$19,000,000). It will be provided in individual tranches from ADB's Special Funds Resources (SFR).¹

Availability Period

¹ Provisions of the Special Operations Loan Regulations applicable to Loans Made by ADB from its Special Funds Resources, dated 1 January 2006, would apply to each Loan, subject to modifications, if any, that may be included under any Loan Agreement (as so modified, the "Loan Regulations").

The last date on which any disbursement under any tranche may be made will be 30 June 2020.

Terms and Conditions

USP will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.

Execution

The Executing Agency will be USP. The Executing Agency will implement the Investment Program in accordance with the principles set forth in Schedule 1 to this Agreement, and as supplemented in the legal agreements for each tranche.

Periodic Financing Requests

USP may request, and ADB may agree, to provide loans under the MFF to finance the Investment Program upon the submission of a Periodic Financing Request (PFR). Each PFR should be submitted by USP and confirmed by the corresponding sovereign guarantor. ADB will make available to USP, the proceeds of the tranche in accordance with the related PFR, and the legal agreements for the tranche.

Each individual tranche will be for an amount of no less than \$2.0 million, or its equivalent. ADB will review the PFR(s), and, if found satisfactory, prepare the related legal agreements.

The components for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguard and fiduciary frameworks and other documents. The Facility will be implemented in accordance with the general framework set out in Schedule 3 to this FFA, and the Facility Administration Manual/Project Administration Manual agreed between USP and ADB and an indicative schedule to initiate these activities as set forth therein.

Until notice is otherwise given by USP, the Vice-Chancellor of USP will be USP's authorized representative for purposes of executing PFRs. Likewise, until notice is otherwise given by (i) the Government of Kiribati, the Ministry of Finance and Economic Development will be the authorized representative of the Government of Kiribati for purposes of executing the PFR for Tranche 1, and (ii) the Government of the Solomon Islands, the Ministry of Finance and Treasury, will be the authorized representative of the Government of the Solomon Islands for purposes of executing the PFR for Tranche 2.

General Implementation Framework Procedures

The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto.

Tranches to be provided under the MFF will be subject to following procedures and undertakings:

- (i) USP will have notified ADB of a forthcoming PFR in advance of the submission of the PFR;
- (ii) USP will have submitted a PFR in the format agreed with ADB;
- (iii) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche;
- (iv) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.

PFR information

The PFR will substantially be in the form attached hereto, and will contain the following details:

- (i) Loan, grant, guarantee, or cofinancing amount;
- (ii) Description of projects to be financed;
- (iii) Cost estimates and financing plan;
- (iv) Implementation arrangements specific to the projects;
- (v) Confirmation of the continuing validity of and adherence to the understanding in this Agreement;
- (vi) Confirmation of compliance with the provisions under previous Loan and Guarantee Agreement, as appropriate; and
- (vii) Other information as may be required under the Project Administration Manual, or reasonably requested by ADB.

Safeguards

Attached as Schedule 5 are references to the safeguard requirements that will be complied with during the implementation of the Facility.

ADB's Safeguard Policies in effect as of the date of signing of legal agreements for a tranche will be applied with respect to the components financed under such financing tranche.

Procurement

All goods and services to be financed under the Facility will be procured in accordance with ADB's *Procurement Guidelines* (2015, as amended from time to time).

Consulting Services

All consulting services to be financed under the Facility will be procured in accordance with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time).

Advance Contracting; Retroactive Financing

Under each tranche, ADB may, subject to its policies and procedures, allow on request for (a) advance contracting of civil works, equipment, goods, materials, and consulting services, and (b) retroactive financing of eligible expenditures for civil works, equipment, goods, materials and consultation up to 5% of the proposed individual loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. USP acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related project.

Disbursements

Disbursements will be made in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time).

**Monitoring,
Evaluation, and
Reporting
Arrangements**

The design and monitoring framework for the MFF is set out in Schedule 2 to this FFA, against which the implementation's effectiveness and the performance of the Investment Program will be evaluated. Each tranche will also have its own design and monitoring framework. Monitoring on the progress and performance of the projects will be incorporated in regular reports to ADB.


Undertakings

Attached as Schedule 6 are the undertakings provided by USP.

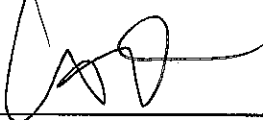
Guarantee

The Governments of Kiribati and the Solomon Islands will provide guarantees for the first and second tranches, respectively, of the Facility, in form and substance acceptable to ADB, as a condition precedent to the effectiveness of such tranches requested by USP, and provided by ADB pursuant to the terms of this Agreement.


THE UNIVERSITY OF THE SOUTH PACIFIC

By 
Professor Rajesh Chandra
Vice-Chancellor and President

ASIAN DEVELOPMENT BANK

By 
Xianbin Yao
Director General,
Pacific Department

GOVERNMENT OF KIRIBATI

By 
H.E. Reteta Rimon
High Commissioner to Fiji

GOVERNMENT OF SOLOMON ISLANDS

By 
H.E. John Patteson Oti
High Commissioner to Fiji

Attachments:

- SCHEDULE 1: MFF CONSTITUENTS
- SCHEDULE 2: DESIGN AND MONITORING FRAMEWORK FOR THE INVESTMENT PROGRAM
- SCHEDULE 3: IMPLEMENTATION FRAMEWORK
- SCHEDULE 4: SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECTS
- SCHEDULE 5: SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS
- SCHEDULE 6: UNDERTAKINGS
- SCHEDULE 7: COMPLIANCE STATUS OF FFA UNDERTAKINGS (as of July 2016)

SCHEDULE 1

MFF CONSTITUENTS

A. Road Map

1. **Issues and challenges of higher education in the Pacific.** Economic growth and sustainable development in the Pacific are dependent upon the capacity of Pacific island countries (PICs) to improve the competitiveness and diversity their economies. Strategies to develop human resources are closely linked to this transformation and are reflected in development and policy objectives at the regional and national levels. Higher education is regarded as crucial for training and producing qualified individuals who can adopt new technologies and innovative methods to establish more efficient organizations and allocate resources more effectively. Higher education, through increased knowledge and research, can also promote private-sector development and address common regional challenges such as climate change.

2. Most PICs have made progress in primary school enrollment, with its net enrollment ratio ranging from 67% (Solomon Islands) to 99% (Kiribati). Progress in secondary school enrollment has been varied across PICs, and updated statistics are not readily available in many PICs. Despite increases in primary and secondary enrollment, poor quality of basic education continues to be a concern. Great emphasis at both the regional and national levels has, therefore, been placed on improving the quality of primary and secondary education.

3. Progress in the development of higher education opportunities in the region, however, remains very limited. The gross enrollment ratio in higher education ranges from 10% in Fiji down to an average of 2%–5% in most other PICs. Higher education options for young people in most PICs are either to go overseas, e.g., to Australia or New Zealand, or to attend at the regional university, The University of the South Pacific (USP), whose capacity to accommodate the increasing demand, is becoming limited. The lack of adequate opportunities for quality higher education in the Pacific restricts the provision of qualified teachers who can raise the quality of education at the primary and secondary levels, and the creation of a competent work force that can support the development of diversified, sustainable economies. Most PICs, as a result, face a shortage of well-qualified professional and technical personnel such as administrators, accountants, and engineers who are needed in government, business, and industry.

4. Two major constraints prevent potential students from advancing to higher education in the Pacific. First, the financial costs of higher education, particularly for children from low-income households, are high, as attendance at USP is constrained due to its limited physical capacity, and the alternative of going to Australia or New Zealand is expensive. Only the top 5% of high school students have access to scholarship opportunities to study abroad, while the majority of aspiring youths do not have ready access to higher education in the region. Second, many Pacific Islanders feel that higher education is not perceived by potential employers as relevant or useful. The overall quality of learning and teaching in higher education institutions is not deemed to produce graduates with relevant skills and competencies required in the labor market. This impedes potential opportunities for businesses to utilize the growing young population in expanding and developing high-value industries. Therefore, strategies to build human resource capacities in the Pacific emphasize improving both access to and quality of higher education in the region, which will help stimulate economic growth and promote equitable development.

5. **Regional objectives for the education sector.** The Pacific Plan, which was endorsed by leaders of the PICs in 2005, represents regional development strategies comprising four

pillars—economic growth, sustainable development, governance, and security.² The four pillars are proposed to strengthen regional cooperation and integration in order to respond to unique challenges facing PICs. The Pacific Plan, as a living document, reflects the long-term development aspirations of the PICs to (i) raise living standards, (ii) increase access to opportunities, and (iii) stimulate pro-poor growth for the people in the PICs. In the Pacific Plan, an educated population is regarded as a prerequisite for economic growth, sustainable development, and good governance. Key priorities for the education sector are identified as improving access to opportunities for education at all levels and enhancing the quality and relevance of education to meet the needs of the Pacific in the 21st century.³

6. With strong emphasis on regionalism, the Pacific Plan recognizes the regional provision of public goods and services as one of main concepts of regionalism, especially for those services that are costly and inefficient to provide at the national level for small island countries but that can achieve economies of scale through regional institutions. In this regard, higher education is an ideal case for strengthening regionalism, and USP, as the only regional educational institution, is expected to play a leading role in providing higher education opportunities for the region as a whole.

7. USP, with 12 PICs as member countries, is recognized as one of the most successful examples of regional cooperation in the Pacific, operating 14 regional campuses to meet human resource development needs across 12 PICs. In response to the call for increased provision of higher education and improved quality of education to meet the changing economic and development challenges in the region, USP initiated its Strategic Plan 2010–2012, addressing “Quality, Relevance, and Sustainability.” This strategic plan from USP, therefore, reflects the regional aspirations and implementation goals of the Pacific Plan for higher education.⁴ The strategic plan 2013–2018 aims to further reshape the strategic focus of USP as a sustainable regional institution and to contribute to the regional development priorities outlined in the Pacific Plan.

8. **Regional road map for higher education in the Pacific.** The USP strategic plans 2010–2012 and 2013–2018 bring together its vision and long-term priorities as the regional road map for higher education, in alignment with the Pacific Plan. In the road map, six priority areas are identified with specific performance indicators. Some of the priorities have been implemented with support from development partners and by USP. The Asian Development Bank (ADB) proposes to support USP in four priority areas during 2012–2019, which make up core outputs of the proposed Investment Program (Table 1). ADB's support will complement other major development partners supporting the implementation of priorities in the road map, including the Australian Aid, European Union, Japan International Cooperation Agency, and New Zealand Aid Programme.

² The Pacific Plan for Strengthening Regional Cooperation and Integration, 2005. Pacific Islands Forum Secretariat.

³ The Pacific Plan for Strengthening Regional Cooperation and Integration, 2005. Education Ministers Meeting, Pacific Islands Forum Secretariat. Apia, Samoa; Pacific Plan Annual Progress Reports, 2010, 2011. Pacific Islands Forum Secretariat.

⁴ There are several regional initiatives in the education sector as part of the Pacific Plan, including the recent Pacific Education Development Framework 2009–2015, but they are confined to levels below higher education.

Table 1: Regional Higher Education Road Map Summary

Item	Key Performance Indicators	Key Development Partners for Support
A. Sector Outcomes		
1. Increased access to higher education	Enrollment increases in USP from 20,000 in 2010 to 25,500 by 2020	
2. Improved quality of higher education	Overall employment rate of USP graduates increases from 48% in 2008 to 70% in 2020	
B. Sector Outputs		
1. Improved quality and relevance of academic programs	<ul style="list-style-type: none"> Fully functioning operation of Japan-Pacific ICT Center by 2012 Review of academic portfolio completed by 2012 Expansion of e-learning programs, from 45% in 2010 to 100% by 2018 Expansion of ICT equipment and distance learning programs, with increased courses utilizing Moodle from 45% in 2010 to 80% in 2016 and 100% by 2020 	ADB, JICA, AusAID, NZ
2. Strengthened regional and international engagements	<ul style="list-style-type: none"> Implementation of infrastructure development plans in 3 regional campuses by 2018 Implement innovative programs with regional and international partnerships in at least 5 new programs by 2018 	ADB, CROP, EU, India, UNESCO
3. Increased postgraduate and research degrees	<ul style="list-style-type: none"> Number of active research partnerships increases from 3 in 2010 to at least 6 by 2018 	AusAID, EU, NZ, Korea, UNESCO
4. Enhanced student support services	<ul style="list-style-type: none"> Accommodation facilities for students increased by 200 beds by 2018 Career counseling services established by 2016 	ADB, AusAID, NZ
5. Enhanced human resources planning and management	<ul style="list-style-type: none"> Updated human resource database and management system by 2016 Strengthened gender equity with 30% women's representation in management committees by 2018 	AusAID, NZ
6. Strengthened governance and management capacity	<ul style="list-style-type: none"> Updated education management information system by 2016 Capacity building for procurement system by 2014 	ADB, AusAID, NZ
C. Sector Issues and Constraints		
<ul style="list-style-type: none"> Inadequate opportunities for higher education, especially those from low-income households and remote areas Geographic remoteness and high costs in accessing available opportunities for higher education in the region Insufficient coverage of ICT-based distance learning programs across regional campuses Poor quality of secondary school graduates in advancing to higher education 		<p>ADB, AusAID, NZ</p> <p>ADB</p> <p>ADB, JICA, AusAID, NZ, EU supporting at the national level</p>
D. ADB Support for Sector Outputs		
	Key Activities and Milestones	
1. Strengthened regional campuses	<ul style="list-style-type: none"> Expansion of campuses in Kiribati and Solomon Islands by 2015 and 2018, respectively Establishment of accommodation facility for regional students in Fiji by 2018 	
2. Enhanced ICT-based education	<ul style="list-style-type: none"> Provision of ICT equipment and facilities in the campuses of Kiribati and Solomon Islands by 2015 and 2018 Support for ICT-based distance and flexible learning programs by 2018 	
3. Improved USP student services	<ul style="list-style-type: none"> Establish and provide student counselling services on pre-enrollment and academic counselling by 2018 Provide career counseling on job search and employment by 2018 	

4. Strengthened UPS governance and management	<ul style="list-style-type: none"> • Assess the current education management information system by 2013 • Improve the collection, management, and use of data on students and academic staff by 2015
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B. Policy Support

9. **Policy support for higher education at the national level.** National development strategies in the PICs all recognize the important role of education for economic growth and sustainable development. For example, in the draft Kiribati Development Plan 2012–2015, human resource development is outlined as the first priority, with the objective to improve access to quality, inclusive, and equitable education opportunities. Limited opportunities for tertiary education and vocational training are acknowledged as a major constraint to increasing economic productivity, and enhanced tertiary education relevant to local or overseas employment opportunities is outlined as a key objective. For tertiary education, Kiribati education strategies have long been considering for USP to expand its local campus and extend its undergraduate programs so that Kiribati students can complete their undergraduate programs in the local campus instead of going overseas.

10. The National Development Strategy 2011–2020 in Solomon Islands, with its overarching theme of “To Build Better Lives for All Solomon Islands,” similarly emphasizes improved access to education as essential to both social and economic development. It also acknowledges the high cost of overseas tertiary education and endorses the development of in-country training as a more cost-effective option over the long term. The Education Strategic Framework 2007–2015 specifically considers the important role of USP in providing higher education for Solomon Islanders, with the proposed establishment of a full USP campus in Solomon Islands and the maximum use of technology to facilitate on-line and distance learning programs. A strong emphasis on improving the quality of basic and secondary education in national education policies, with extensive support by development partners, will also contribute to raising the quality level of students entering higher education.

C. Strategic Context

11. The multitrance financing facility (MFF) Investment Program for USP underscores ADB’s regional strategy, *Pacific Approach 2010–2014*, which provides alignment between the region’s Pacific Plan and ADB’s *Strategy 2020*. The *Pacific Approach* outlines regional cooperation and integration as a key agenda item, along with inclusive and sustainable growth and good governance. It also identifies education as one of the operational priorities. The Investment Program initiates ADB’s first assistance for education at the regional level, and by helping USP with its strategic priorities, ADB establishes long-term partnerships with a regional institution and its member PICs in the education sector. The proposed program is also in line with the national development plans of Kiribati and Solomon Islands, which have a priority goal of enhancing opportunities for quality higher education for human resource development.

12. By supporting USP to provide regional public goods and services for higher education that is costly to establish at the national level, ADB promotes regional integration activities while helping governments at the national level free up limited resources for investment in strengthening lower levels of education. By assisting USP to increase and improve the pool of qualified and knowledgeable individuals in the region, ADB will contribute to building human resources and skilled workforce at the regional and national levels, which in turn will foster private-sector driven economy, advance the business environment, and strengthen governance in the region.

13. The program will also assist USP to strengthen its capacity to deliver distance learning programs across PICs and reach a greater number of students more effectively and efficiently, by expanding and improving its use of information and communication technology (ICT)-based learning and teaching programs. This represents ADB's regional strategy aimed at enhancing connectivity and social service delivery through growing ICT investments in the region.

D. Investment Program

14. The Investment Program will support USP in expanding access to higher education in 12 PICs with improved quality of learning environments and programs, and is expected to be implemented through three tranches between 2012 and 2019. The program will include investments in both physical infrastructure and capacity development with the following: (i) expansion of regional campuses in Kiribati and Solomon Islands; (ii) enhancing ICT-based distance learning programs; (iii) improving student counseling services on pre-enrollment, curricular choice, and employment; (iv) strengthening governance and management capacity of USP, and (v) strengthening USP's project management capacity. Tranche 1 will finance the expansion of the USP regional campus in Kiribati, while Tranche 2 will support the regional campus in Solomon Islands.

15. Tranche 1, to be implemented from 2012 to 2015, will focus on the following:

- (i) **Strengthened regional campus and ICT-based education in Kiribati.** The USP Kiribati campus will be expanded to accommodate the rapidly increasing numbers of students, by constructing additional classrooms, an ICT studio, a student cafeteria, and administration facilities. For the upgraded campus, new ICT equipment will be provided to connect to other regional campuses and deliver faster and reliable ICT-based learning courses, especially distance and flexible learning (DFL) courses.
- (ii) **Strengthened USP governance and management.** The education management information system will be enhanced by collecting, analyzing, and disseminating accurate and timely statistical information about USP's activities and human resources (e.g., student, faculty, and alumni data) to support USP management and operations. All appropriate data will be disaggregated by sex.
- (iii) **Strengthened project management capacity.** Project management capacity will be supported by establishing a project implementation unit within USP, which will manage all project activities (e.g., procurement, accounting, monitoring).

16. Tranche 2 will support the expansion of the campus in Solomon Islands, along with capacity development for ICT-based learning programs and student services.

- (i) The Solomon Islands regional campus will be provided with additional classrooms, an ICT studio, science laboratories, student facilities, a dormitory, and faculty offices to accommodate the increasing numbers of students. The upgraded facilities will be provided with ICT equipment to enable learning programs through face-to-face, DFL, or blended methods. Additional e-learning materials will be produced to make a wide range of courses available for students across USP regional campuses.
- (v) To improve student support services, pre-enrollment services will focus on providing accurate information about curricular choice. Extensive career counseling services will also be established to facilitate skills assessment, job search processes, links to

available employment opportunities. A new dormitory will be constructed at the main campus to accommodate more regional students at the degree or graduate levels, especially female students with families.

17. The total cost of the Investment Program is estimated at \$23 million equivalent, including taxes and duties of \$1 million (Table 2).

Table 2: Investment Plan
(US\$ million)

Item	Amount ^a
1. Base Cost	
Output 1: Strengthened regional campuses	14.550
Output 2: Enhanced ICT-based education	2.650
Output 3: Improved USP student services	0.475
Output 4: Strengthened USP governance and management	0.275
Output 5: Strengthened project management capacity	0.500
Taxes and duties ^b	1.000
Land contribution ^b	1.300
Subtotal (A1)	20.750
2. Contingencies (A2)^c	1.600
3. Financing Charges during Implementation^d (A3)	0.650
Total (A1+A2+A3)	23.000

^a In mid-2011 prices.

^b The governments of Kiribati and Solomon Islands will exempt taxes and duties and contribute land for construction. For civil works at the main Laucala campus, the USP financing will cover taxes and duties.

^c Physical contingencies are computed at 5% for civil works, equipment, and services. Price contingencies are computed at 1% foreign exchange costs and average regional cost escalation factor for local currencies.

^d Interest charges on the ADB loan will be capitalized at 1% per annum during implementation.

Source: Asian Development Bank and The University of the South Pacific estimates.

E. Financing Plan

18. The MFF will finance the Investment Program with an Asian Development Fund loan of \$19 million. The MFF will consist of three tranches subject to USP's submission of related periodic financing requests; availability of a sovereign guarantee; execution of the related loan and project agreements for each tranche; and fulfillment of terms, conditions, and undertakings set forth in this framework financing agreement. The financing plan is in Table 3.

Table 3: Financing Plan
(US\$ million)

Source	Amount	Share of Total (%)
Investment Program		
Asian Development Bank (ADF)	19.000	82.6%
University of the South Pacific	2.000	8.7%
Government of Kiribati	1.150	5.0%
Government of Solomon Islands	0.850	3.7%
Total	23.000	100.0%

ADF = Asian Development Fund.

Source: Asian Development Bank and The University of the South Pacific estimates.

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE INVESTMENT PROGRAM

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact USP graduates contribute to economic competitiveness and diversifications of PIC economies.	% of job placement in public and private sectors among USP graduates improves from 48% in 2008 to 70% in 2022 % of USP graduates who continue for postgraduate study increases from 19% in 2010 to at least 25% by 2022	USP annual graduate destination surveys	Assumption Macroeconomic environment continues to be stable in the Pacific. Risks Change of emigration regulations in neighboring industrialized countries can accelerate brain drain from USP member countries.
Outcome USP provides expanded and equitable access to quality higher education in USP member countries.	Enrollment increases from 20,000 in 2010 to 25,500 by 2020 At least 57% of the total enrollment are female students by 2020 (baseline 54% in 2010)	USP official statistics	Assumption USP Council and senior management continue to be committed to USP reform efforts specified in the Road Map. Additional sovereign guarantors will support subsequent tranches of the Investment Program.
Outputs 1. Strengthened regional campuses	At least 20 new classrooms operate with adequate ICT equipment for mixed modes of learning including DFL by 2020 At least 50% of dormitory residents are female by 2020 (baseline 42% in 2010)	USP official statistics USP management reports	Assumption Youth in Kiribati and Solomon Islands continue to be motivated to participate in higher education. Risk Weak coordination and reporting across USP regional campuses on civil works delay planned construction work.
2. Enhanced ICT-based education	% of courses that utilize Moodle as a learning management system increases from 45% in 2010 to 80% in 2016 and 100% by 2020 At least 50% of the increased enrollment for distance	USP official statistics	Assumption ICT-based education continues to be supported and complemented by other development projects supported by AusAID and JICA.

	learning is female by 2020 (baseline 5,457/10,463 in 2008)		
3. Improved USP student services	<p>The rate of satisfaction with orientation programs reaches at least 70% by 2018 and 80% by 2020, among entering students (new surveys to be undertaken)</p> <p>At least 50% of USP graduates receive support from newly established job search or job counseling services by 2020</p>	Graduate destination and program experience surveys	Assumption Relevant USP staff are equipped with necessary skills, knowledge, and training to provide student services.
4. Strengthened USP governance and management	<p>Full EMIS is in place with sex-disaggregated data on students, faculty, and alumni by 2016 and reports are produced annually</p> <p>90% of internal audit report recommendations are complied with by 2020 (baseline 50% in 2008)</p> <p>Females will hold 40% of management-level positions by 2016 (32% in 2007)</p>	<p>USP statistics and human resources reports</p> <p>Internal audit report</p>	Assumption USP Strategic Plan objectives and key targets continue to drive planned improvements.
5. Strengthened project management capacity	100% of the projected disbursement and contract awards are achieved by 2019	Project progress reports	Assumption USP recruits additional staff to manage the project.
Activities with Milestones Output 1: Strengthened regional campuses <ol style="list-style-type: none"> 1.1 Procure construction design and supervision firms for civil works (Q4 2012-Q1 2018) 1.2 Complete site clearances and obtain necessary licenses for civil works, 3 sites under 3 tranches (Q2 2013-Q2 2018) 1.3 Expand USP campus facilities at existing site in Kiribati (Q2 2013-Q3 2015) 1.4 Construct/upgrade USP facilities in Solomon Islands (Q4 2016-Q3 2019) 1.5 Finalize outfitting and be ready for certificate of compliance prior to handover in Kiribati and Solomon Islands (Q3 2015-Q3 2019) 1.6 Commence each campus at full operation in new buildings (Q1 2016 in Kiribati; Q3 2019 in Solomon Islands) Output 2: Enhanced ICT-based education <ol style="list-style-type: none"> 2.1 Review the whole academic portfolio in terms of quality and relevance (Q4 2012-Q3 2013) 2.2 Based on academic audit and review, select programs to convert to a DFL mode (Q1 2013-Q4 2016) 2.3 Provide DFL training to USP faculties, selected administrative staff, and students (Q1 2013-Q4 2018) 			Inputs ADB: \$19.00 million USP: \$2.00 million Government of Kiribati: \$1.15 million Government of Solomon Islands: \$0.85 million

2.4	Procure equipment and services required for ICT-based education in Kiribati and Solomon Islands campuses (Q2 2014-Q4 2018)	
2.5	Prepare new ICT-based courses, e.g., Pacific Studies, Climate Change (Q1 2013-Q4 2019)	
Output 3: Improved USP student services		
3.1	Carry out tracer studies of USP graduates (2012-2019)	
3.2	Develop and implement USP's employability strategy (2014-2018)	
3.3	Establish career advisory services (2014-2018)	
3.4	Establish student service centers (2014-2018)	
3.5	Introduce pre-enrollment services (2014-2018)	
Output 4: Strengthened USP governance and management		
4.1	Assess the current educational management information system (EMIS) (Q1-Q2 2013)	
4.2	All USP student/academic staff profiles (e.g., sex-disaggregated data) to be collected, managed, and compiled in the EMIS (Q4 2012-Q4 2014)	
4.3	Heads of school to improve effective use of data on student performance (Q1 2013-Q4 2014)	
Output 5: Strengthened project management capacity		
5.1	Tender, award, and manage contracts (2012-2019)	
5.2	Monitor project implementation progress (2012-2019)	
5.3	Implement and monitor the gender action plan (2013-2019)	
5.4	Provide timely progress reports (2012-2019)	
5.5	Carry out regular accounting and annual audit (2013-2019)	

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, DFL = distance and flexible learning, EMIS = education management information system, ICT = information and communications technology, JICA = Japan International Cooperation Agency, USP = The University of the South Pacific.
Source: Asian Development Bank.

SCHEDULE 3

IMPLEMENTATION FRAMEWORK

A. Management of the Investment Program

1. USP will be the executing agency with the overall responsibility for execution of the Investment Program. The project steering committee, which will be chaired by the USP Vice-Chancellor and comprising representatives from the USP member countries, will oversee and monitor the implementation of project activities under the Investment Program, including financial and procurement plans for civil works in regional campuses. A project implementation unit (PIU) will be established within USP's Development, Marketing, Communications and Alumni Division (DMCAD) to carry out day-to-day implementation, including the engagements of consulting services and contracts under the Investment Program. Director of DMCAD will act as project supervisor for the PIU who will be responsible for the implementation and coordination of all activities including contract awards and payments.

2. All matters relating to selection or appointment or changes in the selection or appointment of the Vice-Chancellor or the Director of DMCAD shall be promptly notified to ADB.

3. USP will hire a consultant(s) who will support the PIU with project implementation, including procurement, contract management, monitoring of civil works and safeguard compliances, and project progress reporting.

B. Investment Program Accounting, Auditing, and Review

4. USP shall ensure that proper accounts and records are maintained and audited in a timely manner to adequately identify the use of Loan proceeds in such manner and detail as may be specified under each Loan Agreement. USP will submit consolidated annual audited reports and related financial statements to ADB within 6 months from the end of each fiscal year. The annual audit report will include an audit of the statement of expenditure procedures, and will include a separate audit opinion on the use of loan proceeds and compliance with statement of expenditure procedures.

5. USP through the PIU will prepare and submit to ADB consolidated quarterly progress reports on the implementation of each Project under the Investment Program. These reports will include a summary financial account for each Project, expenditures to date, report on performance monitoring (including status of outcome and outputs for each Project), results of monitoring of social and environmental impacts; information on progress of civil works, consulting services, disbursements, status of loan covenants, issues encountered (including any changes to the implementation schedule, and remedial actions taken, anticipated problems and the proposed remedial measures, and work to be undertaken in the following period. DMCD will submit the quarterly progress reports to ADB within 45 days from the close of each quarter.

6. USP through the PIU will prepare and provide ADB with a project completion report within 6 months of physical completion of each individual Project and a Facility completion report within 6 months of completion of transactions under the Facility. These reports will provide a detailed evaluation of the design, costs, contractors' and consultants' performance, social and economic impact, and other details relating to the Investment Program as may be requested by ADB.

C. Project Performance Monitoring and Evaluation

7. The PIU will develop and establish a project performance management system (PPMS), in form and substance satisfactory to ADB, for use throughout the life of the Investment Program. The PIU will establish, within 6 months from the date of the FFA, in form and substance satisfactory to ADB, baseline data for performance indicators and targets indicated in the design and monitoring framework and the Gender Action Plan (GAP) to be used for monitoring the implementation of each Project. Baseline data for outputs, outcome, GAP, and other key indicators will be updated regularly and reported in the PIU's quarterly progress reports. All the indicators will be disaggregated by sex, as much as possible. It will conduct annual evaluation surveys in accordance with the PPMS to evaluate the scope, implementation arrangements, progress, and achievement of the outcomes and outputs.

D. Project Review

8. ADB, USP and Kiribati or the Solomon Islands (as applicable) will meet regularly as required to discuss the progress of the Investment Program and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving the outcome of the Investment Program and each Project.

9. The status of compliance with loan covenants—policy, legal, financial, economic, environmental, and others—will be reviewed during each ADB review mission. All noncompliance issues, if any, will be updated in the quarterly progress reports together with remedial actions.

10. Project reviews will be undertaken every 6 months, jointly by ADB staff and USP representatives. The reviews will assess the performance of the PIU and the status of the project implementation including procurement, civil works, financing, compliance with environmental and social safeguards, and compliance with loan covenants. USP and ADB will jointly undertake a comprehensive midterm in the second year of project implementation. Each midterm review will evaluate compliance with the terms, conditions, and undertakings set out in the FFA, and loan covenants set out in the loan agreements. The midterm review will (i) identify potential problems with project scope, implementation arrangements, and schedules of project activities; and (ii) allow for any necessary midcourse corrections to ensure successful implementation and the achievement of the project objectives.

11. The PIU will provide ADB with (i) quarterly progress reports; (ii) consolidated annual reports including progress achieved by outputs as measured through key performance indicators; and (iii) a project completion report within 6 months of physical completion of each tranche project. The finance section of USP will be responsible for submission of the audited project accounts and financial statements through the PIU.

SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECTS

A. Selection Criteria

1. The following criteria will apply to the projects that are financed under this Facility:
 - (i) The proposed project under each tranche contributes to the regional higher education sector outputs for USP in Schedule 1, and specifically to the following outputs:
 - (a) strengthened regional campuses of USP,
 - (b) enhanced ICT-based education with appropriate ICT equipment and learning materials,
 - (c) improved student services,
 - (d) strengthened USP governance and management capacity, and
 - (e) strengthened project management capacity.
 - (ii) The outputs supported under each project should be reflected in USP annual budgets or work plans.
 - (iii) Sovereign entities provide a guarantee arrangement for the proposed tranche.
 - (iv) Host country provides a project facilitation letter to confirm its no-objection, support for safeguards compliance, provision of land use rights, and related matters.
 - (v) The USP Council endorses the proposed tranche.
 - (vi) The project under each tranche does not involve land acquisition or involuntary resettlement impacts; all civil works under the project will be undertaken on land being used by USP or on land provided by the government free of any other claims or issues.
 - (vii) All civil works and equipment installations under the proposed project are expected to have only minor environmental impacts such as noise and traffic congestion, and should comply with relevant national regulations and ADB's safeguard policies, as presented in Schedule 5.

B. Procedures for Periodic Financing Request Application

2. The first tranche under the Facility has been prepared with required assessments and is included in the first periodic financing request submission. For subsequent financing (tranche 2), the procedures will be as follows:

- (i) USP will prepare all required documents for the projects under subsequent tranches in accordance with the Investment Program and its selection criteria.
- (ii) Sovereign guarantees for the subsequent tranche will be secured between ADB and the sovereign entities.
- (iii) The executing agency (USP) will obtain all necessary approvals from the USP Council and relevant governments prior to ADB approval of the subsequent tranche project.
- (iv) USP will submit the period financing request to ADB for the subsequent tranche, together with documents showing all required approvals.

SCHEDULE 5

SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. USP will ensure that all the requirements prescribed in this Schedule, and the following environment management plans (EMP) and gender action plans that have been prepared with respect to the Facility and the first tranche and of which ADB has been provided full copies, and which are deemed incorporated herein by reference, are complied with during the processing and implementation of the projects under the Facility.

- (i) Initial environment examination reports, including environment management plans for tranche 1 and the subsequent tranche, dated November 2011; and
- (ii) Gender action plans for the Investment Program and tranche 1, dated November 2011.

2. All projects proposed under tranche 1 and the subsequent tranche have been assessed for environment, involuntary resettlement, and indigenous peoples impacts in accordance with ADB's Safeguard Policy Statement (2009). The projects under the Facility are not expected to involve any land acquisition and involuntary resettlement (categorization C), or to affect any distinct or vulnerable group of indigenous peoples (categorization C) as defined by the ADB Safeguard Policy Statement. Resettlement frameworks and indigenous people's planning frameworks, therefore, are not required under the Facility. Environment impacts are expected to be minor and hence environment management plans have been prepared for each tranche (categorization B). If any change is expected for the scope and activities of projects under the subsequent tranche, USP will inform ADB and prepare necessary assessment reports and management plans prior to submitting the periodic financing requests (PFR) for the subsequent tranche.

3. Prior to the preparation of each PFR, the applicability and relevance of assessments conducted for the Facility on environment, involuntary resettlement, and indigenous people will be reviewed and updated to ensure relevance and consistency with applicable country legal frameworks and ADB's safeguard policies, as amended from time to time.

4. In all cases, for each new PFR preparation, USP will review ongoing projects to check on the status of compliance with the gender action and safeguard plans, and submit the review reports to ADB, together with other required safeguard documents relevant to the components included in the tranche being processed. In any case if major noncompliance is discovered in the course of the review of ongoing projects, a corrective action plan will be prepared and submitted to ADB.

Environment

5. USP will ensure that preparation, design, construction, implementation, operation and decommissioning of the facilities under the Investment Program and each project under the Facility comply with (i) all applicable laws and regulations of the territory of the USP member in which each project is to be carried out relating to environment, health, and safety; (ii) the environmental safeguards under ADB's Safeguard Policy Statement (2009); (iii) all measures and requirements set forth in the initial environment examination, the environment management plan, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

6. In case of any discrepancies between the environmental laws, regulations, and procedures of the relevant USP member and ADB's requirements, the Safeguard Policy Statement shall prevail. USP will ensure that no construction work of any kind under the Investment Program commences until all applicable environmental clearances have been obtained and that all the above requirements are incorporated in the bidding documents and civil works contracts to ensure compliance.

Land Acquisition and Involuntary Resettlement

7. USP will ensure that (i) all projects under the Investment Program will not have any involuntary resettlement impacts, within the meaning of the Safeguard Policy Statement; (ii) no land acquisition will be involved under the Investment Program; (iii) all civil works are undertaken at existing locations of project facilities on land owned by USP or leased by USP from relevant governments; (iv) a land assessment report will be submitted to ADB before award of the civil works contracts for the respective project confirming that the land is free of encumbrance. In the event that any resettlement impacts are unavoidable for any project activities, USP will inform ADB and prepare resettlement plans for such activities in accordance with the Safeguard Policy Statement.

Indigenous Peoples

8. USP will ensure that all projects under the Investment Program will not have any adverse impacts on indigenous peoples, within the meaning of the Safeguard Policy Statement and all project activities will be implemented in a culturally appropriate and participatory manner to meet the needs of various peoples in the member countries where project activities are being implemented. If any impact is anticipated, USP will ensure that an Indigenous Peoples Plan is prepared in accordance with the Safeguard Policy Statement and take all steps required to ensure that each project complies with the applicable laws and regulations of the relevant member country and with the Safeguard Policy Statement.

Safeguards-Related Provisions in Bidding Documents and Civil Works Contracts

9. USP will ensure that all bidding documents and contracts for civil works contain provisions that require contractors to:

- (i) comply with the measures and requirements relevant to the contractor set forth in the respective IEE and EMPs, and any corrective or preventative actions set out in safeguards monitoring reports;
- (ii) make available a budget for all such environmental and social measures;
- (iii) provide USP with a written notice of any unanticipated risks or impacts related to environment, resettlement, or indigenous peoples that arise during construction, implementation or operation of the Project that were not considered in the respective IEE and EMPs.
- (iv) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (v) fully reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Human and Financial Resources to Implement Safeguards Requirements

10. USP will make available necessary budgetary and human resources to fully implement the environment management plan, the resettlement plan, and the indigenous peoples' plan, as applicable.

Prohibited List of Investment

11. USP will ensure that no proceeds of the ADB loans are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the Safeguard Policy Statement.

Gender

12. USP shall ensure that the Gender Action Plan is fully implemented in a timely manner, and that adequate resources are allocated for this purpose. In particular, USP will ensure that (i) by 2020, at least 57% of the total USP enrollment are female; (ii) sex-disaggregated data are gathered for all project activities during the program implementation period; and (iii) project monitoring and reporting include the progress of GAP implementation.

Labor Law, Health, and Social Protection

13. USP will ensure that Works contracts and bidding documents under the Investment Program include specific provisions requiring contractors to comply with all (a) applicable labor laws and core labor standards on (i) prohibition of child labor as defined in national legislation for construction and maintenance activities, on (ii) equal pay for equal work of equal value regardless of gender, ethnicity or caste, and on (iii) elimination of forced labor; and (b) the requirement to disseminate information on sexually transmitted diseases including HIV/AIDS to employees and local communities surrounding the project facilities. Such contracts shall also include clauses for termination by USP in case of any breach of the stated provision by the contractors.

SCHEDULE 6

UNDERTAKINGS

Capitalized terms used in this Schedule 6 or in Schedules 2 and 3 of the FFA and not otherwise defined herein shall have the meanings set out in Attachment 1 to this Schedule 6.

USP shall undertake to ADB as follows:

General

1. USP shall remain committed to the implementation of the USP Strategic Plans 2010-2012 and 2013-2018 and the Pacific Plan insofar as the higher education sector is concerned.
2. USP shall ensure that the entire proceeds of the loans from the Facility will be made available to utilize for the purposes agreed to with ADB in the relevant legal agreement.
3. USP will ensure (i) timely implementation of the Investment Program, including executing the implementation arrangement set out in Schedule 3 to this FFA, and monitoring and evaluating implementation based on the Design and Monitoring Framework set out in Schedule 2 to this FFA; (ii) that all projects financed under the Facility are selected and approved in accordance with the criteria and procedures set out in Schedule 4 to this FFA; and (iii) that all projects financed under the Facility are developed, implemented, and maintained in accordance with the safeguards requirements set out in Schedule 5 to this FFA.
4. USP will ensure that all activities undertaken for the preparation and implementation of the Investment Program are in compliance with ADB's relevant policies and procedures, including on procurement, disbursement, safeguards, social dimensions, gender, governance, and anticorruption measures.

Organization and Structure of USP

5. USP shall maintain its existence as a regional cross-border entity and shall not change any provision of its organizational documents, including the Charter in any manner that would (a) be inconsistent with its status as a regional international organization or (b) result in USP ceasing to provide educational services to students throughout the Pacific region.
6. USP shall ensure that ADB (a) within six months of the Effective Date, is granted observer status on the Council, (b) maintains its observer status on the Council until the Loan Closing Date, and (c) receives copies of all proposed amendments to the Charter or other constitutive documents at the same time as other members of the Council of Directors receive such proposals.
7. USP shall not sell, transfer, lease or otherwise dispose of all or a substantial part of its assets (whether in a single transaction or in a series of transactions, related or otherwise), or undertake or permit any merger, consolidation or reorganisation.

Counterpart Funds and Obligations

8. USP will ensure that (i) financial, technical, and human resources are provided in a timely manner for the efficient implementation of the Investment Program throughout the implementation period; and (ii) adequate funds are allocated for the maintenance of the infrastructure and items procured under the Investment Program.

9. USP will ensure that governments of host countries where projects under the Investment Program are implemented (i) provide the agreed in-kind contributions to compensate for taxes and duties relating to the conduct of the project in its territory; (ii) confirm the availability of any required land, permits, and licenses for the conduct of project activities in a timely manner; and (iii) ensure the application of and compliance with the Safeguard Policy Statement in its territory in connection with the projects under the Investment Program to be carried out in such territory.

Construction Quality

10. USP will ensure that each project under the Investment Program is carried out in accordance with applicable standards and international best practice for design, technical specifications, construction supervision, quality control, and project management.

Debt to Net Revenues

11. Except as ADB shall otherwise agree, USP will not incur any debt unless a reasonable forecast of the revenues and expenditures of USP shows that the estimated net revenues of USP for each fiscal year during the term of the debt to be incurred shall be at least three times the estimated debt service requirements of USP in such year on all debt of USP including the debt to be incurred. USP will confirm that no event has occurred since the date of the last forecast provided to ADB which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition of future operating results of USP.

Operating Ratio

12. Except as ADB shall otherwise agree, USP shall maintain, for each of its fiscal years starting loan effectiveness date of the Project, a ratio of total operating expenses to total operating revenue not higher than 100%.

13. Before 30 November in each of its fiscal years, USP shall, on the basis of forecasts prepared by USP and satisfactory to ADB, review whether it would meet the requirements set forth in Paragraph 12 in respect of such year and the next following fiscal year, and shall furnish to ADB the results of such review upon its completion.

14. If any such review shows that USP would not meet the requirements set forth in paragraph 12 for USP's fiscal years covered by such review, USP shall promptly take all necessary measures (including without limitation, adjustments of the structure or levels of its fees) in order to meet such requirements.

Governance and Anticorruption

15. USP will (i) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledges that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practice relating to the Investment Program;

and (ii) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

16. USP will ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of all contractors, suppliers, and other service providers as they relate to the Investment Program.

Attachment 1 to Schedule 6 to the FFA, Undertakings.

Relevant Definitions

- (a) "Charter" shall mean the constitutive documents of the Borrower;
- (b) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2010, as amended from time to time);
- (c) "Consulting Services" means the services to be financed out of the proceeds of the Loan as further detailed in the FAM;
- (d) "Council" means the supreme governing body of the Borrower;
- (e) "DMCD" means the development, marketing and communications division of the Borrower;
- (f) "Environmental Management Plan" or "EMP" means the environmental management plan for the Project, including any update thereto, incorporated in the IEE;
- (g) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the Safeguard Policy Statement;
- (h) "Facility" means the multitranche financing facility provided by ADB to the Borrower for purposes of financing projects under the Investment Program;
- (i) "FAM" means the Facility administration manual dated 20 April 2012 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;
- (j) "FFA" means the amended and restated framework financing agreement dated 22 July 2016 between ADB, the Borrower, Kiribati and the Solomon Islands with respect to the Facility;
- (k) "Gender Action Plan" or "GAP" means the gender action plan prepared for the Facility and for each tranche thereunder and approved by USP, as set out in the FAM;
- (l) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;
- (m) "Guarantee Agreement" means each of the Guarantee Agreements to be provided in support of the Projects under the Facility;
- (n) "Guarantor" means, with respect to a loan under the Facility, Kiribati or the Solomon Islands as relevant;
- (o) "ICT" means information and communications technology;

(p) "International Financial Reporting Standards or "IFRS" means the set of international accounting standards issued by the International Accounting Standards Board in and after 2001;

(q) "IEE" means the initial environmental examination for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB, and each and any further initial environmental examination prepared for specific Project Facilities during the Project Implementation Period, in each case cleared by ADB;

(r) "Indigenous Peoples Plan" or "IPP" means the indigenous peoples plan for the Project, if any, including any update thereto, prepared and submitted by the Borrower in accordance with Schedule 5 to this FFA and cleared by ADB;

(s) "Kiribati" means the Republic of Kiribati;

(t) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(u) "Output 1" means the output of the Investment Program relating to strengthening of the Kiribati and Solomon Islands regional campuses of the Borrower as described in paragraph 14_ of Schedule 1 to this FFA;

(v) "Output 2" means the output of the Investment Program relating to enhancement of ICT-based educational offerings of the Borrower for regional outreach as described described in paragraph 14 of Schedule 1 to this FFA;

(w) "Output 3" means the output of the Investment Program relating to improved USP student services including pre-enrollment services and career counseling as described in paragraph 14 of Schedule 1 this FFA;

(x) "Output 4" means the output of the Investment Program relating to strengthening of governance, internal control and management of the Borrower as described in described in paragraph 14 of Schedule 1 to this FFA;

(y) "Output 5" means the output of the Investment Program relating to strengthening project management capacity of the Borrower as described in described in paragraph 14 of Schedule 1 to this FFA;

(z) "Outputs" means each and any of Outputs 1 through 5;

(aa) "PDMC" means a Pacific country which is a developing member country of ADB;

(bb) "PIU" means the Project Implementation Unit created within the DMCD of the Borrower;

(cc) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(dd) "Procurement Plan" means the procurement plan for the Project dated 20 April 2011 and agreed between the Borrower and ADB, as updated from time to time in

accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(ee) "Project" means any project to be financed under the Facility;

(ff) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the Borrower, which is responsible for the carrying out of the Project;

(gg) "Project Facilities" means each and any of the sites for construction, upgrading or refurbishment of USP campuses or properties under the Project;

(hh) "PSC" means the Project Steering Committee, composed of representatives of the Pacific island member countries of the Borrower and chaired by the Vice-Chancellor of the Borrower;

(ii) "Resettlement Plan" or "RP" means the resettlement plan for the Project, if any, including any update thereto, prepared and submitted by the Borrower in accordance with Schedule 4 of this FFA and cleared by ADB; and

(jj) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

For the purposes of Undertakings, paragraph 11, in Schedule 6:

(i) The term "debt" means any indebtedness of USP maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (a) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (b) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "net revenues" means the difference between:

A. the sum of revenues from all sources related to operations and net non-operating income, after making adequate provisions for uncollectible debts; and

B. the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt. Lease payments under finance leases must also be included.

(iv) The term "net non-operating income" means the difference between:

A. Revenues from all sources other than those related to operations, and

B. Expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (iv)(A) above.

(v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on debt.

(vi) The term "reasonable forecast" means a forecast prepared by USP not earlier than nine months prior to the incurrence of the debt in question, which both ADB and USP accept as reasonable and as to which ADB has notified USP of its acceptability.

(vii) Whenever for the purposes of this covenant it shall be necessary to value, in terms of the currency of any Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is at the time of such valuation obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to ADB.

For the purposes of the operating ratio in Undertakings paragraphs 12-14 in Schedule 6:

(i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight line basis at the rates per annum set out in subparagraph (ii) below of the current gross value of USP's fixed assets in operation, or other basis acceptable to ADB, but excluding interest and other charges on debt.

(ii) The rates of depreciation to be applied under subparagraph (i) immediately above shall be rates in compliance with International Financial Reporting Standards (IFRS) and as of the date of this Agreement shall be:

Property (Land and Buildings) – 2%
Equipment and Furniture – 10%
Computers and computer related equipment – 20%
Vehicles and Vessels – 20%

(iii) The term "total operating revenues" means revenues from all sources related to operations, after making adequate provisions for uncollectible debts.

(iv) The current gross value of USP's fixed assets in operation shall be calculated as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to ADB.

SCHEDULE 7

REG: Higher Education in the Pacific Investment Program

Compliance Status of Framework Financing Agreement Undertakings (As of July 2016)

Item	Covenant	Status
1	USP shall remain committed to the implementation of the USP Strategic Plans 2010-2012 and 2013-2018 and the Pacific Plan insofar as the higher education sector is concerned.	Being complied with.
2	USP shall ensure that the entire proceeds of the loans from the Facility will be made available to utilize for the purposes agreed to with ADB in the relevant legal agreement.	Being complied with.
3	USP will ensure (i) timely implementation of the Investment Program, including executing the implementation arrangement set out in Schedule 3 to this FFA, and monitoring and evaluating implementation based on the Design and Monitoring Framework set out in Schedule 2 to this FFA; (ii) that all projects financed under the Facility are selected and approved in accordance with the criteria and procedures set out in Schedule 4 to this FFA; and (iii) that all projects financed under the Facility are developed, implemented, and maintained in accordance with the safeguards requirements set out in Schedule 5 to this FFA.	Being complied with.
4	USP will ensure that all activities undertaken for the preparation and implementation of the Investment Program are in compliance with ADB's relevant policies and procedures, including on procurement, disbursement, safeguards, social dimensions, gender, governance, and anticorruption measures.	Being complied with.
	<u>Organization and Structure of USP</u>	
5	USP shall maintain its existence as a regional cross-border entity and shall not change any provision of its organizational documents, including the Charter in any manner that would (a) be inconsistent with its status as a regional international organization or (b) result in USP ceasing to provide educational services to students throughout the Pacific region.	Being complied with.
6	USP shall ensure that ADB (a) within six months of the Effective Date, is granted observer status on the Council, (b) maintains	Being complied with.

Item	Covenant	Status
	its observer status on the Council until the Loan Closing Date, and (c) receives copies of all proposed amendments to the Charter or other constitutive documents at the same time as other members of the Council of Directors receive such proposals.	
7	USP shall not sell, transfer, lease or otherwise dispose of all or a substantial part of its assets (whether in a single transaction or in a series of transactions, related or otherwise), or undertake or permit any merger, consolidation or reorganisation.	Being complied with.
	<u>Counterpart Funds and Obligations</u>	
8	USP will ensure that (i) financial, technical, and human resources are provided in a timely manner for the efficient implementation of the Investment Program throughout the implementation period; and (ii) adequate funds are allocated for the maintenance of the infrastructure and items procured under the Investment Program.	Being complied with.
9	USP will ensure that governments of host countries where projects under the Investment Program are implemented (i) provide the agreed in-kind contributions to compensate for taxes and duties relating to the conduct of the project in its territory; (ii) confirm the availability of any required land, permits, and licenses for the conduct of project activities in a timely manner; and (iii) ensure the application of and compliance with the Safeguard Policy Statement in its territory in connection with the projects under the Investment Program to be carried out in such territory.	Being complied with.
	<u>Construction Quality</u>	
10	USP will ensure that each project under the Investment Program is carried out in accordance with applicable standards and international best practice for design, technical specifications, construction supervision, quality control, and project management.	Being complied with.
	<u>Debt to Net Revenues</u>	
11	Except as ADB shall otherwise agree, USP will not incur any debt unless a reasonable forecast of the revenues and expenditures of USP shows that the estimated net revenues of USP for each fiscal year during the term of the debt to be incurred shall be at least three times the estimated debt service requirements of USP in such year on all debt of USP including the debt to be incurred. USP will confirm that no event has occurred	Being complied with.

Item	Covenant	Status
	since the date of the last forecast provided to ADB which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition of future operating results of USP.	
	<u>Operating Ratio</u>	
12	Except as ADB shall otherwise agree, USP shall maintain, for each of its fiscal years starting loan effectiveness date of the Project, a ratio of total operating expenses to total operating revenue not higher than 100%.	Being complied with.
13	Before 30 November in each of its fiscal years, USP shall, on the basis of forecasts prepared by USP and satisfactory to ADB, review whether it would meet the requirements set forth in Paragraph 12 in respect of such year and the next following fiscal year, and shall furnish to ADB the results of such review upon its completion.	Being complied with.
14	If any such review shows that USP would not meet the requirements set forth in paragraph 12 for USP's fiscal years covered by such review, USP shall promptly take all necessary measures (including without limitation, adjustments of the structure or levels of its fees) in order to meet such requirements.	Being complied with.
	<u>Governance and Anticorruption</u>	
15	USP will (i) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledges that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practice relating to the Investment Program; and (ii) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.	Being complied with.
16	USP will ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of all contractors, suppliers, and other service providers as they relate to the Investment Program.	Being complied with.

ADB= Asian Development Bank; FFA = Framework Financing Agreement;

