
GRANT NUMBER 0127-SOL(SF)

GRANT AGREEMENT
(Special Operations)
(Domestic Maritime Support [Sector] Project)

between

SOLOMON ISLANDS

and

ASIAN DEVELOPMENT BANK

DATED 20 JANUARY 2009

GAS:SOL 40263

GRANT AGREEMENT (Special Operations)

GRANT AGREEMENT dated 20 January 2009 between SOLOMON ISLANDS (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Recipient has applied to ADB for a grant for the purposes of the Project described in Schedule 1 to this Grant Agreement;

(B) the Government of the Recipient has also applied to ADB for a technical assistance grant for the purposes of the establishment of the Solomon Islands Maritime Administration (the "TA");

(C) the Recipient has also applied to the European Commission for a grant for the purposes of the Project and the TA, to be administered by ADB; and

(D) ADB has agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The definitions set forth in the Grant Regulations are applicable to this Grant Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "ADB's Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook dated January 2007, as amended from time to time;

(b) "Component" means any of the components described in Schedule 1 to this Grant Agreement;

(c) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers dated February 2007, as amended from time to time;

(d) "EARP" means the environment assessment review procedure prepared for the Project;

(e) "EC" means the European Commission;

(f) "EMP" means the environmental management plan;

(g) "FSS" means a franchise shipping scheme;

(h) "Goods" means equipment and materials to be financed out of the proceeds of the Grant; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(i) "HIV/AIDS" means " means human immunodeficiency virus/ acquired immune deficiency syndrome;

(j) "IEE" means initial environmental examination;

(k) "MID" means the Ministry of Infrastructure Development of the Recipient or any successor thereto acceptable to ADB;

(l) "NTF" means the National Transport Fund as described in paragraph 11 of Schedule 4 to this Grant Agreement;

(m) "NTP" means the Recipient's National Transport Plan dated June 2006;

(n) "PMU" means the Project Management Unit as referred to in paragraph 3 of Schedule 4 to this Grant Agreement;

(o) "PPMS" means the Project performance and monitoring system as described in paragraph 18 of Schedule 4 to this Grant Agreement;

(p) "Procurement Guidelines" means ADB's Procurement Guidelines dated February 2007, as amended from time to time;

(q) "Project Executing Agency" or "EA" for the purposes of, and within the meaning of, the Grant Regulations means MID, which is responsible for the carrying out of the Project;

(r) "Procurement Plan" means the procurement plan for the Project dated 23 October 2008 and agreed between the Recipient and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(s) "PSC" means the Project Steering Committee as referred to in paragraph 2 of Schedule 4 to this Grant Agreement;

(t) "RRP" means the Report and Recommendation of the President to the Board of Directors of ADB on the Project;

(u) "subproject" means a subproject selected and approved in accordance with paragraphs 5-8 of Schedule 4 to this Grant Agreement; and

(v) "Works" means construction or civil works to be financed out of the proceeds of the Grant, 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.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Grant Agreement an amount of fourteen million Dollars (\$14,000,000).

ARTICLE III

Use of Proceeds of the Grant

Section 3.01. The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement.

Section 3.02. The Goods, Works, consulting services and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant among different categories of such Goods, Works, consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the Grant Account in respect of Goods, Works and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and Works and consulting services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2019 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement.

Section 4.02. (a) The Recipient shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Grant proceeds and compliance with the financial covenants of this Grant Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Recipient shall enable ADB, upon ADB's request, to discuss the Recipient's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Recipient pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Recipient unless the Recipient shall otherwise agree.

Section 4.03. The Recipient shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Grant, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. A date ninety (90) days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Permanent Secretary of the Ministry of Finance and Treasury of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

Permanent Secretary
Ministry of Finance and Treasury
P.O. Box 26
Honiara, Solomon Islands

Facsimile Number:

(677) 27855.

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2445.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

SOLOMON ISLANDS

By  _____
PHIL BOWEN
Authorized Representative

ASIAN DEVELOPMENT BANK

By  _____
HARUHIKO KURODA
President

SCHEDULE 1

Description of the Project

1. The impact of the Project is expected to be reduced economic disadvantage in remote rural areas. The outcome is expected to be frequent, reliable and safe inter-island shipping services.

2. The Project consists of the following components:

Component A

This component will provide investments in rural wharves and jetties. In particular, this component will:

- (i) rehabilitate or reconstruct about 12 wharves and jetties;
- (ii) support community training; and
- (iii) improve sustainability of the new facilities.

Component B

This component will establish a franchise shipping scheme that will support rural transport services through an output-based approach. In particular, this component will:

- (i) design and implement FSS to award franchises for provision of shipping services to remote areas that are considered commercially unviable;
- (ii) increase transport services on the unviable routes through subsidies to private sector operators; and
- (iii) support implementation of a Maritime Reform Act.

3. The Project includes the provision of consulting services. The Project is expected to be completed by 31 December 2018.

SCHEDULE 2

Allocation and Withdrawal of Grant Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Recipient, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Recipient, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds for financing Goods, Works, consulting services and other items shall be disbursed in accordance with ADB's Loan Disbursement Handbook.

Imprest Accounts; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Recipient shall establish immediately after the Effective Date, two first-generation imprest accounts at the Central Bank of the Recipient and two second-generation imprest accounts at a commercial bank acceptable to ADB. The imprest accounts shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed

Schedule 2

arrangements agreed upon between the Recipient and ADB. The initial amount to be deposited into each of the first-generation imprest accounts shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six months of Project implementation, or (ii) the equivalent of \$300,000.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for the Project and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB, upon demonstration of acceptable financial management by the PMU and the EA. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Domestic Maritime Support [Sector] Project)			
CATEGORY			ADB FINANCING*
Number	Item	Amount Allocated \$ Category	Percentage and Basis for Withdrawal from the Grant Account
1	Works	7,680,000	83.5 percent of total expenditure
2	Services: Franchise Shipping Scheme	2,460,000	51.5 percent of total expenditure
3	Consulting Services	1,410,000	40.8 percent of total expenditure
4	Unallocated	2,450,000	
	Total	14,000,000	

*Details of additional cofinanced funds from the EC, administered by ADB, are shown in Appendix 4 of the RRP.

SCHEDULE 3

Procurement of Goods and Works, and Consulting Services

A. General

1. All Goods, Works and consulting services to be financed out of the proceeds of the Grant shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Grant Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding
Shopping

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Recipient may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. The Recipient may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.
5. National Competitive Bidding. The Recipient and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Recipient's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Recipient and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Recipient and ADB.
6. Procurement for FSS. The Recipient shall ensure that all procurement for the FSS is done in accordance with the procedures satisfactory to ADB. ADB shall have the right to refuse to finance contracts which have not been procured and/or awarded in accordance with the procedures acceptable to ADB. Prior to making any change in the routes, vessel eligibility, or performance criteria, the Recipient shall obtain ADB's concurrence. Prior to the award of any franchise contract, the Recipient shall obtain ADB's concurrence on the bid evaluation.

Schedule 3

7. Community Participation in Procurement. The Recipient may use community participation in procurement for Works contracts for community maintenance contracts in accordance with the procedures set out in the Procurement Plan.

8. Procurement Agent. The Recipient may appoint a Procurement Agent to carry out international competitive bidding, national competitive bidding and shopping for Goods and Works in accordance with the terms and conditions set out in the Procurement Plan. The Recipient shall ensure that the Procurement Agent follows all of the requirements of this Schedule and the Procurement Plan.

C. Selection of Consulting Services

9. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, the Recipient shall apply quality- and cost-based selection for selecting and engaging consulting services. The Recipient has requested and ADB has agreed that selection of consultants shall be done by ADB in accordance with the Consulting Guidelines.

D. Industrial or Intellectual Property Rights

10. (a) The Recipient shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Recipient shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

11. The Recipient shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

E. ADB's Review of Procurement Decisions

12. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Recipient and ADB and set forth in the Procurement Plan.

SCHEDULE 4

Execution of Project and Operation of Project Facilities

Implementation Arrangements

1. MID shall be the EA responsible for the overall implementation of the Project.
2. A PSC shall be established to oversee and monitor all aspects of the Project implementation, including but not limited to, (i) policy guidance and coordination; (ii) subproject feasibility study and selection; (iii) Project progress reports and other Project documentation; (iv) regular reports of FSS budgets and activities; and (v) audited accounts and financial statements.
3. A PMU, directed by the permanent secretary of MID, shall be responsible for day-to day implementation of the Project. The PMU shall be fully integrated with MID professional and technical staff as counterparts. The PMU shall (i) conduct subproject baseline surveys, feasibility documentation, design, and supervision; (ii) manage bidding processes; (iii) manage contracts; (iv) prepare withdrawal applications; (v) prepare Project progress reports and a Project completion report; (vi) maintain Project accounts and complete financial records for auditing; (vii) monitor the Project's socioeconomic impacts; (viii) train MID staff and build their project implementation capacity; and (ix) complete related project management activities, as necessary to implement the Project successfully and comply with ADB policies and guidelines.

Counterpart Funds

4. The Recipient shall ensure that its contributions to Project costs are available in a timely fashion. The Recipient shall ensure that (i) counterpart staff for the Marine Division and the Transport Policy and Planning Unit of MID are available throughout the Project duration; and (ii) MID has adequate resources to support its routine operations, including per diem and transport for staff participating in field activities.

Subproject Selection and Approval

5. The Recipient shall obtain ADB's concurrence on the inclusion of any subproject for financing under the Project prior to the detailed design of the subproject. Each subproject shall be prioritized and selected in accordance with the eligibility criteria and the process described in paragraphs 6, 7 and 8 of this Schedule, through a systematic and consultative approach, including but not limited to, (i) social, economic, and environmental evaluation; (ii) design; (iii) procurement; (iv) implementation; and (v) monitoring. Each subproject feasibility study shall provide sufficient evidence of its eligibility under the agreed criteria to enable ADB to assess the viability and suitability of the subproject. No subproject classified as category A in accordance with ADB's *Environment Policy* (2002) or ADB's *Involuntary Resettlement Policy* (1995), shall be financed under the Project.
6. The Recipient shall ensure that all subprojects for Component A are selected in accordance with the following criteria:

Schedule 4

- (i) The subprojects shall upgrade or rehabilitate wharves assessed as high development priorities based on their contribution to the objectives of the Recipient's Medium Term Development Strategy, particularly:
 - (a) potential to catalyze development in remote areas with poor access;
 - (b) improved accessibility to social services among poor and rural households, including schools, health facilities, and Recipient's government extension services;
 - (c) increased opportunities for employment, income generation, and marketing of local products;
 - (d) potential for increased private sector participation in provincial and national economic activities; and
 - (e) contribution to poverty reduction among poor and rural households.
- (ii) The Recipient shall endorse the subprojects through their inclusion and prioritization in the NTP.
- (iii) Communities shall agree to use of land, for locations that are not public land, for rehabilitation or reconstruction works.
- (iv) Environmental screening shall be conducted for all subprojects. No subproject classified as category A in accordance with ADB's *Environment Policy (2002)* shall be eligible for funding under the Project. No subproject shall be financed under the Project if it meets any of the following environmental criteria:
 - (a) wharves in or adjacent to areas classified as ecologically sensitive, and therefore in category A, requiring the production of an environmental impact assessment;
 - (b) requirement for major re-alignment of the existing facility;
 - (c) significant loss or damage to near-shore marine environments, such as reefs, mangroves, or other sensitive coastal areas;
 - (d) permanent negative effect on a known rare or endangered species; and
 - (e) permanent damage to irreplaceable cultural relics and archaeological sites.
- (v) Screening for land acquisition and resettlement impacts shall be conducted for all subprojects. No subproject shall be eligible for financing under the Project if it entails significant involuntary resettlement according to ADB's *Involuntary Resettlement Policy (1995)*.
- (vi) Subprojects shall be economically and financially viable. Subprojects shall demonstrate an economic internal rate of return of at least 12%.

7. The Recipient shall ensure that all subprojects for Component B are selected in accordance with the following criteria:

- (i) Candidate routes shall be analyzed and prioritized according to the approved multi-criteria assessment procedure incorporating technical, economic, and social criteria. Criteria shall include distance of the route, historically poor services with frequencies less than monthly, confirmation through community consultations, and approval by the PSC.
- (ii) Projections of demand shall be based on data established through baseline surveys, comparing the effects of regular and irregular services in the target areas. Passenger trip forecasts shall be based on population, number of households, number of children and young people in secondary and tertiary education for each ward in the franchise area, the number of government and health related trips, and social events. Cargo volume projections shall be based on the share of agricultural products generated in target areas.
- (iii) Assessments shall demonstrate financial viability through cash flow analysis and comparison of the expected financial internal rate of return versus the weighted average cost of capital, and economic viability through calculation of positive net present value using an assumed discount rate of 12%.

8. The Recipient shall ensure that all subprojects are approved in accordance with the following process:

- (i) Potential subprojects are identified and prioritized in the NTP based on high-level assessments of (a) existing networks; (b) technical feasibility of providing access by alternative modes; (c) positive and negative economic, social, and environmental impacts; and (d) the need for connecting infrastructure.
- (ii) The EA, assisted by the PMU, shall conduct and document an assessment of each subproject based on the criteria described in the preceding paragraphs of this Schedule. Each assessment shall involve collecting and analyzing baseline data to determine the detailed feasibility and impacts expected, using generally accepted transport planning methods. Community consultations shall be conducted to (a) validate baseline data; (b) identify positive and negative impacts; and (c) evaluate technical, social, and environmental risks. Particular attention shall be paid to data collection to enable benefit monitoring.
- (iii) Each subproject assessment shall include (a) a technical feasibility assessment; (b) an economic impact analysis conducted in accordance with ADB's *Guidelines for Economic Analysis of Projects*, 1997; (c) a social and poverty analysis; and (d) for Component A only, an IEE and an EMP in accordance with the EARP.

- (iv) The PSC shall endorse the subprojects that meet all the eligibility criteria. Before the detailed design of any subproject and its inclusion for financing under the Project, designs shall be subject to review and approval by ADB. Prior to contract award, the procurement process and bid evaluation report shall be subject to review and approval by ADB.

Franchise Route Selection

9. Prior to making any change in the routes, vessel eligibility, or performance criteria the Recipient shall obtain ADB's concurrence. Prior to the award of any franchise contract, the Recipient shall obtain ADB's concurrence on the tender evaluation.

Land Acquisition and Resettlement

10. The Recipient shall ensure that subprojects do not require resettlement or land acquisition. In the event of any unforeseen land acquisition or resettlement needs, the Recipient shall inform ADB and prepare a resettlement plan according to the Recipient's relevant laws and regulations and ADB's *Involuntary Resettlement Policy* (1995). The PMU shall ensure that no construction activities begin until ADB has reviewed and approved such resettlement plan.

National Transport Fund

11. Within one (1) year of the Effective Date, the Recipient shall (i) formally establish the NTF under the legislation; (ii) appoint trustees; and (iii) promulgate regulations for NTF operation that are acceptable to ADB, including but not limited to, criteria restricting the use of the proceeds of the Grant and other development partners' funds deposited to the NTF for the purposes approved in respective project documentation.

Maritime Reform Act

12. Within one (1) year of the Effective Date, the Recipient shall enact a Maritime Reform Act that establishes the Solomon Islands Maritime Safety Administration as a regulatory body, consolidates and updates all applicable laws, and provides for the establishment of a franchise shipping scheme to be funded by the NTF.

Environment

13. The Recipient, through MID, shall ensure that (i) the Project is carried out in accordance with the Project design, and construction and operations comply with the Recipient's applicable environmental laws and ADB's *Environment Policy* (2002); (ii) the EARP is strictly followed including compliance of subprojects with the operational principles indicated in the EARP; (iii) the EMP is updated during detailed design; (iv) the environmental mitigation measures specified in the EMP are incorporated into the bidding documents and Works contractor's specifications; (v) Works contractors are closely supervised to ensure compliance, (vi) the PMU undertakes environmental monitoring and reflects the results in the Project progress reports and Project completion report, (vii) adequate support, including training, is provided to the MID officer assigned for supervising environmental management to enable environmental supervision and monitoring during construction and operations; and

(viii) if necessary, an additional officer responsible for environmental management is recruited to supplement the existing environment capacity of MID.

Labor standards

14. The Recipient shall ensure that (i) Works contracts require contractors employed under the Project to incorporate workplace occupational safety standards in accordance with all applicable labor laws of the Recipient and international conventions acceded to by the Recipient; (ii) contractors provide appropriate training and information materials for workers on HIV/AIDS prevention; (iii) contractors and their workers observe local customs concerning acceptable behavior toward the local population; (iv) contractors pay equal wages to men and women for work of equal value; (v) specific clauses to implement this covenant are included in bidding documents; and (vi) compliance is strictly monitored during Project implementation.

Public Consultations and Participation

15. The Recipient shall ensure that as part of the poverty and social analysis of subprojects, consultations are undertaken in each subproject location with (i) resource owners, (ii) households, (iii) the poor and non-poor, (iv) women and men, (v) young and old, (vi) the disabled, (vii) community-based and nongovernment organizations, (viii) transport service providers and users, (ix) local contractors, and (x) provincial governments.

Gender Inclusive Development

16. The Recipient shall ensure women's involvement in (i) consultations held under the Project; (ii) HIV/AIDS prevention; and (iii) project impact monitoring.

Anticorruption

17. The Recipient and MID shall comply with ADB's *Anticorruption Policy* (1998, as amended to date). Consistent with its commitment to good governance, accountability and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, the Recipient and MID shall (i) include relevant provisions of ADB's *Anticorruption Policy* in all bidding documents for the Project; and (ii) include provisions in contracts financed by ADB in connection with the Project specifying the right of ADB to audit and examine the records and accounts of MID, all contractors, suppliers, consultants and other service providers as they relate to the Project. In particular, the Recipient and MID shall ensure that all tender processes include measures designed to prevent anti-competitive behavior including clear documentation, public tender openings, and confidentiality of financial projections.

PPMS

18. The Recipient shall ensure that within six (6) months of the Effective Date, the EA finalizes and adopts a PPMS acceptable to ADB. PPMS shall be based on indicators and procedures agreed between the Recipient and ADB, including financial monitoring of the FSS. The EA shall monitor the indicators according to the agreed framework on a quarterly

basis to determine the efficiency and effectiveness of the Project, and shall provide to ADB semi-annual monitoring reports from the commencement of project implementation until Project completion, and thereafter on an annual basis for the first five (5) years after the Project completion.

Project Review

19. The Recipient and ADB shall undertake regular reviews of the Project and a midterm review about two (2) years after the Project inception. The reviews shall evaluate in detail the scope, implementation arrangements and other relevant aspects of the Project.