
GRANT NUMBER 0078-SOL (SF)

GRANT AGREEMENT
(Special Operations)
(Emergency Assistance Project)

between

SOLOMON ISLANDS

and

ASIAN DEVELOPMENT BANK

DATED 11 SEPTEMBER 2007

GAS:SOL 41105

**GRANT AGREEMENT
(Special Operations)**

GRANT AGREEMENT dated 11 September 2007 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 Recipient has also applied to the European Commission (the "EC") for financing an amount equivalent to \$4 million on a grant basis for the purposes of the Project, and the EC has agreed to provide the amount and for the amount to be fully administered by ADB; and

(C) 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) "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;

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

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

(d) "MID" means the Ministry of Infrastructure and Development of the Recipient;

(e) "PMCBU" means the Project Management and Capacity Building Unit of the existing SIRIP of ADB;

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

(g) "Procurement Plan" means the procurement plan for the Project dated 27 June 2007 and agreed between the Recipient and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(h) "Project Area" means the areas in the Choiseul and Western provinces of the Recipient whose essential infrastructure was damaged following the earthquake and tsunami in April 2007 and shall be rehabilitated under this Project (as described in Schedule 1 to this Grant Agreement);

(i) "Project Executing Agency" for the purposes of, and within the meaning of, the Grant Regulations means MID, or any successor thereto;

(j) "Resettlement Framework" means the resettlement framework for the Project dated 27 June 2007 and agreed between the Recipient and ADB, as updated from time to time in accordance with ADB's Involuntary Resettlement Policy dated August 1995 and other arrangements agreed with ADB;

(k) "SIRIP" means the Solomon Islands Road Improvement (Sector) Project financed by ADB Grant Number SOL-39581;

(l) "TTF" means the Transport Task Force of the Recipient;

(m) "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 Agreement an amount of four million nine hundred and fifty thousand dollars (\$4,950,000) (hereinafter called the "Grant").

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 and consulting services 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 and consulting services 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 31 December 2009 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 and 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 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
P.O. Box 26
Honiara, Solomon Islands

Facsimile Number:

(677) 28619

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



DERECK ROOKEN-SMITH
Authorized Representative

ASIAN DEVELOPMENT BANK

By



HARUHIKO KURODA
President

SCHEDULE 1

Description of the Project

Impact and Outcome

1. The goal of the Project is to restore economic and social activities and accessibility in the Project Area to pre-disaster levels. The purpose is to assist the government in rehabilitating damaged infrastructure and make the area less vulnerable to climate change and natural hazards. The rehabilitation of damaged infrastructure is expected to restore accessibility in rural areas, allow a resumption of economic activities and social services, and safeguard public health.

Components

2. The Project has the following four components:

A. Road Rehabilitation

The Project will finance rehabilitation of damaged land transport infrastructure. This will include repair of about 35 kilometers of unsealed roads and about 35 watercourse crossings (culverts and wet crossings), and replacement of about 19 bridges. The proposed bridge structures will be designed and constructed in accordance with appropriate seismic standards to withstand against earthquake of similar or larger magnitude. Designs will incorporate lateral movement of the structure compatible with earthquake and tsunami forces. Similarly, protection works and sea walls will be also be designed and constructed to withstand against tsunami or cyclone generated forces.

B. Wharf and Jetty Rehabilitation

The Project will finance rehabilitation of damaged water transport infrastructure. This will include reconstruction of about five wharves and jetties. The proposed wharves and jetties will be designed and constructed in accordance with appropriate seismic standards to withstand against an earthquake of similar or larger magnitude. Designs will incorporate lateral movement of the structure compatible with earthquake and tsunami forces. Wharves and jetties will be constructed and protected to withstand against tsunami or cyclone generated forces.

C. Gizo Water Supply and Sanitation Rehabilitation

The Project will finance rehabilitation of the Gizo town water supply and sanitation system. This will include: (i) repairs to the distribution main and restoring flows to pre-tsunami level; (ii) cleaning, repairs and improvements to intake and reservoirs; (iii) upgrade of existing water supply systems with more reliable source development; (iv) shipment and installation of storage tanks;

(v) procurement of electrical components and cables of the submersible pump; (vi) installation of a purification system for safe drinking water; and (vii) repairs to the sanitation system.

D. Maintenance via Community Participation

During implementation the Project will finance minor routine maintenance on rehabilitated infrastructure through community participation and labor based methods. Small specialized maintenance equipment will be procured for future sustainability of labor based methods and ongoing road maintenance contracts by the community.

3. The Project is expected to be completed by 31 July 2009.

SCHEDULE 2

Allocation and Withdrawal of Grant Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works and 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.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and 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 the proceeds of the Grant 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 proceeds of the Grant for financing all Goods, Works and consulting services shall be disbursed in accordance the Loan Disbursement Handbook.

Imprest Account: Statement of Expenditures

5. (a) The PMCBU will open and maintain dedicated imprest accounts for each funding source in a domestic bank. The maximum amount in each account will be 10% of the eligible funding from each source, or the equivalent of 6 months of expenditures from each source, whichever is lower. The initial amount deposited in each imprest account will not exceed \$250,000 equivalent. Withdrawals from the grant accounts will be made on the basis of 100% of eligible expenditures for each claim received, up to the total amount to be financed by the grant.

(b) The statement of expenditures procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with the Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. Any individual payment to be reimbursed or liquidated under the statement of expenditures procedure shall not exceed \$50,000 equivalent, upon review and approval by ADB. Payments in excess of the SOE ceiling will be reimbursed based on the normal process with full supporting documentation. Direct payments will be encouraged for most civil works and consulting services.

TABLE
ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS
(Emergency Assistance Project)

Item	Cost		Financing		
			ADB	European Commission	Government
A. Base Cost					
1. Civil Works					
a. Road Rehabilitation	4.00	0.00	4.00		0.00
b. Wharf and Jetty Rehabilitation	2.15	1.95	0.00		0.20
c. Gizo Water Supply and Sanitation	1.01	0.91	0.00		0.10
d. Maintenance	0.25	0.15	0.00		0.10
Subtotal (A1)	7.41	3.01	4.00		0.40
2. Equipment, Vehicles, and Furniture	0.25	0.20	0.00		0.05
3. Consulting Services					
a. Design and Supervision	0.34	0.27	0.00		0.07
b. Project Management	0.34	0.26	0.00		0.08
Subtotal (A3)	0.68	0.53	0.00		0.15
Subtotal (A)	8.34	3.74	4.00		0.60
B. Contingencies					
1. Physical Contingencies	0.71	0.61	0.00		0.10
2. Price Contingencies	0.70	0.60	0.00		0.10
Subtotal (B)	1.41	1.21	0.00		0.20
Total	9.75	4.95	4.00		0.80

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. (a) 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
Community Procurement

(b) The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Beneficiary 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. No procurement may be undertaken under National Competitive Bidding (NCB) procedures unless ADB and the Recipient have agreed in writing to any necessary modifications or clarifications to the Recipient's NCB procedures for purposes of this Project to ensure consistency with ADB's Procurement Guidelines. Any such modifications or clarifications shall be subsequently reflected in the Procurement Plan and are hereby incorporated by reference to this Grant Agreement.
6. Community Participation in Procurement. The Beneficiary may use community participation in procurement for works contracts for minor routine maintenance on rehabilitated infrastructure in accordance with the agreed procedures set out in the Procurement Plan.

C. Selection of Consulting Services

7. Single Source Selection. At the request of the Government, ADB will recruit consultants through a firm using ADB's single source selection method, justified by the emergency nature of the Project and the need to ensure continuity and to integrate activities with ongoing projects

D. Industrial or Intellectual Property Rights

8. (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 Works 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.

9. 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

10. 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; Financial Matters

Project Management

1. (a) The Recipient shall ensure that the TTF serves as the project steering committee which oversees and monitors all aspects of Project implementation, including: (i) policy guidance and coordination; (ii) subproject feasibility study and selection; (iii) project progress reports and other project documentation; and (iv) audited accounts and financial statements. The Recipient shall ensure that the TTF meets as often as necessary (and at least on a quarterly basis) to oversee Project implementation and provide guidance on policy and institutional reform issues.

(b) The MID shall be the Project Executing Agency responsible for overall execution and coordination of the Project.

Project Implementation

2. (a) The Project shall be implemented through the PMCBU, which is directed by the permanent secretary of the MID.

(b) The PMCBU shall: (i) conduct subproject feasibility documentation, design, and supervision; (ii) manage tendering processes; (iii) manage contracts; (iv) prepare withdrawal applications; (v) prepare project progress reports and a project completion report; (vi) maintain project accounts for auditing; (vii) monitor the Project's socioeconomic and environmental impacts; and (viii) complete related project management activities, as necessary to implement the Project successfully and comply with ADB policies and guidelines.

(c) The Recipient shall ensure that at all times throughout Project implementation the PMCBU is: (i) adequately staffed with professional and clerical personnel with experience and expertise in financial accounting, road engineering, construction supervision, and contract administration; and (ii) provided with adequate office space, utilities, and telecommunications.

3. The Recipient shall ensure that counterpart staff for the MID's Transport Policy and Planning Unit and the Land Transport Division are employed on a timely basis.

Counterpart Contributions

4. The Recipient shall allocate and release, on a timely basis, adequate counterpart funds in accordance with its disaster recovery action plan. The Recipient shall ensure that the MID has adequate budget to maintain staffing and support its operations, including transport and subsistence allowances for staff participating in field activities.

Co-financing

5. The Recipient shall take all necessary measures to facilitate the timely mobilization of the necessary cofinancing required for implementing the Project. In the event that cofinancing from the EC does not become available, the Recipient shall consult ADB to reduce the scope of the Project, or make other arrangements acceptable to ADB to cover the funding shortfall.

Subproject Selection

6. Prior to the detailed design of any subproject, the Recipient shall obtain ADB's concurrence on the inclusion of the subproject for financing under the Project, based on the appraisal and selection criteria agreed between the Recipient and ADB.

Land Acquisition and Resettlement

7. The Recipient shall ensure that all Project rehabilitation works are undertaken within existing rights-of-way. In the event of any unforeseen land acquisition or resettlement needs, the Recipient shall inform ADB and prepare a resettlement plan according to applicable laws and regulations, the Resettlement Framework, and ADB's *Involuntary Resettlement Policy* (1995). The Recipient, through the PMCBU, shall ensure that no construction activities begin until ADB has reviewed and approved the resettlement plan.

Environment

8. The Recipient shall ensure that: (a) the Project is carried out in accordance with applicable laws and regulations and ADB's *Environment Policy* (2002); (b) no civil works under the subproject will commence until the agency responsible for environment-related matters of the Recipient has cleared the environmental assessment of the subproject; (c) the initial environment examination (IEE) and the preliminary environmental management and monitoring plan (EMMP) are prepared in accordance with the Environment Assessment and Review Procedures (EARP), reviewed and updated at the engineering design stage and submitted to ADB for approval; (d) the Project complies with the EMMP reflected in the updated IEE; (e) the EMMP is reflected as part of bidding documents and civil works contracts; and (f) civil works contractors are closely supervised to ensure that any adverse environmental impacts arising from the Project are minimized by implementing the agreed mitigating measures and standard operating practices are changed to avoid their recurrence.

Gender and Employment

9. The Recipient shall: (a) encourage Project contractors to employ women in rehabilitation and labor-intensive maintenance; (b) provide equal pay to men and women for work of equal type, in accordance with national laws and international treaty obligations; (c) provide safe working conditions for male and female workers; and (d) ensure that Project contractors comply with applicable labor laws and abstain from child labor. Specific provisions to this effect will be included in the bidding documents.

Health Risks

10. The Recipient, through the PMCBU, shall ensure that all civil works contractors engaged under the Project participate in an HIV/AIDS prevention program to be funded under the Project in construction campsites. In addition, the PMCBU shall ensure that information on the risk of transmission of HIV/AIDS and other sexually transmitted diseases is disseminated to local communities in coordination with national agencies working on the issue. The PMCBU shall also include specific provisions to this effect in civil works contracts and strictly monitor compliance.

Project Performance Monitoring and Evaluation

11. Within three months of the Effective Date, the Recipient, through the Project Executing Agency, shall finalize and adopt a project performance and monitoring system acceptable to ADB, based on indicators and procedures agreed between the Recipient and ADB. The Project Executing Agency shall: (a) monitor the indicators according to the agreed framework on a quarterly basis to determine the efficiency and effectiveness of the Project; and (b) provide to ADB monitoring reports from the commencement of project implementation until completion.

Anticorruption Measures

12. The Recipient shall: (a) undertake necessary measures to create and sustain a corruption-free environment; (b) ensure that its anticorruption laws and regulations and ADB's *Anticorruption Policy* (1998) are strictly enforced and are being complied with during Project implementation, and that relevant provisions of ADB's *Anticorruption Policy* (1998) are included in all bidding documents for the Project; (c) facilitate ADB's exercise of its right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project; (d) ensure that the Project Executing Agency conducts periodic inspections on the contractors' activities related to fund withdrawals and settlements; and (e) ensure that all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of the Project Executing Agency and all contractors, suppliers, consultants and other service providers as they relate to the Project.

Project Review

13. ADB, together with the Recipient, shall undertake regular review missions approximately every six months. The reviews shall evaluate in detail the scope, implementation arrangements, and other relevant aspects of the Project (including administrative, organizational, technical, environmental, social, poverty reduction, resettlement, economic, and financial aspects) that might affect project performance, viability, and achievement of scheduled targets.