

**REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT  
TO THE  
BOARD OF DIRECTORS  
ON A  
PROPOSED LOAN  
TO  
SOLOMON ISLANDS  
FOR THE  
POST-CONFLICT EMERGENCY REHABILITATION PROJECT**

**November 2000**

## CURRENCY EQUIVALENTS

(as of 10 November 2000)

Currency Unit	—	Solomon Islands Dollar (SI\$)
SI\$1.00	=	US\$0.1938
US\$1.00	=	SI\$5.16

## ABBREVIATIONS

ADB	-	Asian Development Bank
AusAID	-	Australian Agency for International Development
GDP	-	gross domestic product
MOF	-	ministry of finance
NGO	-	non-government organization
PMU	-	project management unit
PSC	-	project steering committee
UNDP	-	United Nations Development Programme
UNOPS	-	United Nations Office for Project Services

## NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

## CONTENTS

	<b>Page</b>
LOAN AND PROJECT SUMMARY	i
MAP	iv
I. THE PROPOSAL	1
II. INTRODUCTION	1
III. BACKGROUND	2
A. The Situation	2
B. External Assistance	3
IV. THE PROPOSED REHABILITATION ASSISTANCE	4
A. Extent of Damage	4
B. Selection of Works	4
C. Rehabilitation Program	5
D. Implementation Arrangements	5
V. ASSURANCES	7
VI. RECOMMENDATION	8
APPENDIXES	9

## **LOAN AND PROJECT SUMMARY**

### **Project Rationale**

A peace agreement, signed on 15 October 2000 between militant groups from Guadalcanal and Malaita provinces, brought to an end an 18-month social conflict in Solomon Islands. The economy, however, was devastated; major enterprises were shut down, and a contraction in real terms of about 14 percent is expected in 2000. About 30,000 people abandoned their homes in Guadalcanal Province and relocated to other provinces. In refugee communities, many are without access to basic social services. Guadalcanal, in particular, suffered extensive damage to infrastructure and essential facilities. Roads and bridges were destroyed; water supplies were cut; vehicles and equipment were stolen or rendered inoperable; and schools, clinics and government offices were ransacked or demolished. Other provinces became severely burdened by the influx of displaced people. In the wake of the conflict, considerable economic and social rebuilding is required.

### **Borrower**

Solomon Islands

### **Executing Agency**

Ministry of Finance (MOF)

### **Amount of Loan and Terms**

A loan equivalent of \$10.0 million from Asian Development Bank's (ADB's) Special Funds resources. The loan will have an amortization period of 32 years, including a grace period of 8 years. The interest rate will be 1 percent during the grace period and 1.5 percent thereafter, with equal amortization.

### **Period of Utilization**

The utilization period will be 36 months, with retroactive financing from 13 November 2000.

### **Description of the Project**

The main objective of the Project is to assist the Government of Solomon Islands in restoring essential facilities and services for communities affected by the conflict. The Project covers replacement or restoration of government offices, water supply and sanitation facilities, roads, bridges, schools, and health facilities, including associated equipment, that were lost, destroyed, or damaged during the past 18 months as a result of the civil strife. In parts of Guadalcanal where communities remain or will be reconstituted, such damaged infrastructure, equipment, and facilities will be replaced or repaired under the Project. However, in cases where affected communities have no prospect of returning to Guadalcanal (due to safety concerns or because their homes or means of livelihood have also been destroyed), the Project will restore or rebuild the

essential infrastructure and facilities in other areas, particularly in the province of Malaita where such communities are located. The Project also will provide for consulting services.

**Estimated Cost and Financing Plan**

ADB will finance the total project cost of \$10.0 million equivalent under its Emergency Rehabilitation Assistance Loan facility.

**Estimated Project Completion Date**

31 December 2003

**Procurement of Goods and Services**

Consultants will be recruited under advance procurement action, and in accordance with ADB's *Guidelines for Procurement*, retroactive financing will be permitted for eligible items procured from 13 November 2000 for up to \$1 million.

**Disbursement**

The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook*. MOF will establish and maintain an imprest account for the Project at the Central Bank of Solomon Islands after the loan becomes effective. The ceiling of the imprest account will be \$1 million. The initial advance to the imprest account will be based on the estimated expenditures of the first six months. The statement of expenditures (SOE) procedure will be used to liquidate/replenish the imprest account and to reimburse other eligible expenditures. The ceiling of SOE per individual payment will be \$300,000.

**Consulting Services**

It is proposed that the United Nations Office for Project Services (UNOPS) be engaged under the loan to provide the international and domestic consultants for the Project Management Unit (PMU). The main tasks of the international consultants will include overall Project management, covering the planning, design, monitoring, and implementation of the subproject activities. They will be responsible for planning of the subproject components, assessment of works under various subprojects, writing appropriate technical specifications, reviewing detailed designs and bill of quantities of the civil works, estimating costs, preparation of bidding documents, tendering of the contract packages, bid evaluation, construction supervision, monitoring of the implementation of the project components, and ensuring quality. The consultants are also required to ensure that there are mechanisms in place for effective local community input in the planning of the project activities. Such plans should take into account local community views and indigenous knowledge, as well as the experience of Government agencies and staff. The

consultants will also be responsible for training local counterpart staff in design, documentation, contract administration, field supervision, and project management. The consultants will design an effective on-the-job training program for counterparts who will be assigned to work with them.

Local consultant services will be required for detailed assessment of damages, design and documentation, community consultation and participation, site supervision of the rehabilitation works, and accounting and auditing, among other things. The selection of the consultants will be made in accordance with the ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the engagement of domestic consultants.



## I. THE PROPOSAL

1. I submit for your approval the following Report and Recommendation on a proposed loan to Solomon Islands for the Post-Conflict Emergency Rehabilitation Project.

## II. INTRODUCTION

2. The conflict in Solomon Islands has had deep and far-reaching impact on the social and economic situation in the country. The social fabric of the country has been greatly strained and substantially altered. The economic structure of the country has also been severely damaged along with almost complete erosion of private sector confidence. Around 8,000 people (around 20 percent of the formal sector workforce) lost jobs or were placed on indefinite unpaid leave. About 30,000 people abandoned their homes in Guadalcanal Province and relocated to other provinces. In refugee communities, many are without access to basic social services. Guadalcanal, in particular, suffered extensive damage to infrastructure and essential facilities. Road and bridges were destroyed; water supplies were cut; vehicles and equipment were stolen or rendered inoperable; and schools, clinics, and government offices were ransacked or demolished. The total damage suffered has been estimated at \$30 million-\$35 million. Other provinces were severely burdened by the influx of refugees. In the wake of the conflict, considerable economic and social rebuilding is required.

3. A peace agreement signed on 15 October 2000 is expected to lead to disarmament of the two militant groups. However, the situation remains fragile because many issues, including compensation and the proposed self-government of several provinces, require further deliberation. Early revival of economic activities and return to normalcy hold the key to cementing the peace process and putting the country back on the path of sustainable growth. In the near term, implementing the agreement will entail significant assistance from external sources, including support for disarmament, social reconstruction and rehabilitation of the essential physical and social infrastructure.

4. The key members of the donor community<sup>1</sup> agreed on the need for a comprehensive and coordinated framework for external support to Solomon Islands. At the request of the Government, it was agreed that a multidonor assessment mission would visit Solomon Islands as soon as the security situation permitted. Subsequently, an Asian Development Bank (ADB) Mission was fielded from 4-12 November 2000<sup>2</sup> as part of the multidonor mission. Other participants were Australia, the International Monetary Fund, Japan, New Zealand, United Kingdom, and World Bank. The ADB Mission held discussions with officials of the Government and reached an understanding on a proposed Post-Conflict Emergency Rehabilitation Project. During this process, the ADB Mission was in full consultation with other aid agencies involved in the multidonor mission.

---

<sup>1</sup> The following sources of aid met informally in August 2000 to consider their respective approaches in providing assistance to Solomon Islands' peace building and economic recovery: Asian Development Bank, Australia, European Union, International Monetary Fund, Japan, New Zealand, United Kingdom, United Nations Development Programme, and the World Bank. Officials from the Ministry of Finance and the Central Bank of Solomon Islands participated in the meeting.

<sup>2</sup> The Mission comprised R. Siy Jr., OIC, Area A, POHQ; D. Sharan, Economist, POHQ; and R. Ram Adhar, Senior Project Implementation Officer, SPRM.

5. The loan is proposed under ADB's facility for rehabilitation assistance after disasters. The facility includes abbreviated and flexible loan processing and approval procedures.

### **III. BACKGROUND**

#### **A. The Situation**

##### **1. The Conflict**

6. Economic and social development in Solomon Islands, before and after independence in 1978, centered mainly in and around the capital, Honiara, on the island province of Guadalcanal. In 1998, of about 35,000 persons employed in the formal sector, over 51 percent were in Honiara. Many from other provinces migrated to Guadalcanal in search of better opportunities. The largest number of migrants came from Malaita Province. Over time, the pressure and economic competition from migrants raised tensions between the largest group of migrants of Malaitan origin and the native population of Guadalcanal. The conflict started to build toward the end of 1998, when an armed group of militants from Guadalcanal, first known as the Guadalcanal Revolutionary Army and later called the Isatabu Freedom Movement (IFM), forced settlers of Malaitan origin to leave the island of Guadalcanal. The dispute grew into a violent conflict by mid-1999 and resulted in loss of lives, major damage to property, substantial disruption of economic activity, and large displacement of people. By the end of 1999, a militant group of Malaitan origin, known as the Malaitan Eagle Force (MEF), was formed in retaliation.

7. The MEF took control of Honiara and detained the Prime Minister on 5 June 2000, leading to his resignation. By the end of June 2000, a new coalition for national unity, reconciliation, and peace formed a Government with peace as its priority. An agreement for the cessation of hostilities between the MEF and IFM, and for restoration of peace and social harmony in Solomon Islands was signed on 15 October 2000 in Townsville, Australia.

##### **2. The Economy**

8. Solomon Islands is an archipelago with a land area of 28,000 square kilometers (km<sup>2</sup>) in the South Pacific. The total population of the country, based on the 1999 census, was 409,042. Solomon Islands comprises six main islands and more than 900 others that stretch across 1,300 km of the Pacific Ocean. About 80 percent of the land is rugged mountain terrain. With a large endowment of natural resources, including an exclusive economic zone of 1.3 million km<sup>2</sup>, the country has the potential for sustainable development and a self-reliant economy. However, this potential is far from realized.

9. The country has a narrow production base in the secondary sector, which contributes about 15 percent to total output. The primary and tertiary sectors, respectively, account for 40 and 45 percent of output. More than half of primary sector output is in the non-monetary rural-based subsistence sector, to which about 80 percent of the population belong. Logs, fish, coconut products, oil palm, cocoa, and gold are the main exports of the country. Oil, food, and plant, vehicle and transport equipment are the main imports of the country.

10. Solomon Islands is one of the poorest Pacific developing member countries of ADB, manifesting low human development and high human poverty indices, according to the 1999 Pacific Human Development Report of the United Nations Development Programme (UNDP).

The country's Human Poverty Index (HPI) of 49.1 places it in the company of many poor countries in sub-Saharan Africa. Country economic and social indicators are presented in Appendix 1.

11. At the beginning of 1999, the economy was expected to experience steady growth. However, from mid-1999, economic activity, government finances, and the balance of payments began to deteriorate following the escalation of social tensions and unrest. The deterioration in the economy was further aggravated by the events of June 2000. The economy in 2000 is expected to contract by about 14 percent in real terms. The worst affected sectors include mining (-50 percent), construction (-50 percent), fishing (-42 percent), agriculture (-30 percent), water and electricity (-20 percent), and wholesale trade (-20 percent). While there are some signs of economic revival following the peace agreement, major enterprises in mining, fishing, and agriculture remain closed, and the prospects for 2001 will largely depend on how soon the country returns to normality.

12. Government finances are in serious crisis with government revenues estimated to fall short of the budget 2000 estimates by over 30 percent. The largest decline is expected in the corporation tax (-60 percent), followed by import duty (-50 percent) and export duty (-33 percent). The Government introduced a minibudget (August-December 2000), projecting a deficit of SI\$160 million (SI\$5.16 = \$1). A significantly higher expenditure was budgeted for the five months due to payments related to peace building and peacekeeping. Notable features of the minibudget include minimal development expenditure and a continuation of unpaid leave for about 800 public officers. The overall budget balance in 2000 is projected to be a deficit equivalent to 4.5 percent of gross domestic product (GDP). The total stock of central government debt at end of 2000 is projected to reach 75 percent of GDP, with about 60 percent of the same in external debt. So far, the Government has managed generally to meet its debt service obligations, but arrears in other expenditure areas are rising, indicating the possibility of default on debt obligations.

13. Because of lower domestic demand and import prices, inflation has generally been falling since the second half of 1999. Inflation was 6.1 percent in May 2000 and is expected to remain low during the year, despite higher oil prices. Total domestic credit increased by 12 percent in the nine months to September 2000, with most credit to the private sector extended in the first half of 2000. Broad money supply is projected to grow at 9.5 percent in 2000. Exports in 2000 are expected to decline by about 29 percent in US dollar terms because of disruption of production. Imports are also expected to decline by about 15 percent in US dollar terms largely due to low demand for imported goods. External reserves fell sharply after the crisis, but improved subsequently as receipts from log exports improved. Exchange control measures also helped the improvement. Gross external reserves are projected to be \$33.4 million at the end of 2000, sufficient to cover only a little over two months of imports. The external position of the country remains fragile.

## **B. External Assistance**

14. Because of severe financial constraints, the Government is not in a position to finance any of the reconstruction work in the near term. It has therefore requested assistance from bilateral and other multilateral agencies. Although the possible contributions of various sources are yet unclear, there are some initial indications of assistance. Assistance from Australian Agency for International Development (AusAID) is expected to focus on security and peace building, support for health services, and small-scale community-based activities. New Zealand is expected to support peace building, secondary education, small business development, and

community-based initiatives. The United Kingdom is likely to support education and public information. Japan is also a contributor to the peace building and security efforts and to grassroots reconstruction work. The World Bank has a new health project and a nearly complete education project with some savings; in both cases, project resources may be redirected to finance rehabilitation of damaged facilities. Various United Nations agencies are involved in aspects of peace making, disarmament and social reconstruction activities. The European Commission may also be able to reorient some of its ongoing and approved projects for reconstruction and rehabilitation efforts. Untied grants are also anticipated from Taipei,China, although the amounts have not been confirmed.

#### **IV. THE PROPOSED REHABILITATION ASSISTANCE**

##### **A. Extent of Damage**

15. The social unrest in Solomon Islands caused extensive damage to transport infrastructure, schools, water supply and sanitation systems, government and provincial buildings, and health centers on the island of Guadalcanal and in nearby provinces. The total damage, estimated at \$30 million - \$35 million, has placed a severe strain on government services in the affected provinces. This is further compounded by a fiscal crisis under which many civil servants have been sent on indefinite leave without pay. In Guadalcanal, farmers, in particular, are finding it difficult to move their produce and livestock to markets. The tourist industry has also been affected by damage to, and current inaccessibility of, resorts around the coast of Guadalcanal.

16. Heavy machinery used by the militants during the unrest damaged many sections of the main and adjacent roads in Guadalcanal. The sections of eastern and western Guadalcanal main roads were excavated by militants and used as bunkers. Thirteen bridges along the above roads were damaged, severing transportation links to the city. The sealed roads in the capital city were also extensively damaged. The Nagalimbu Bridge, which provides access to two of the country's largest enterprises, Gold Ridge Mining and Solomon Islands Plantations Limited (an oil palm plantation), is in danger of collapse. In addition, 14 timber pile bridges on Malaita have been severely weakened under the load of heavy equipment and other vehicles stolen by militants and shipped to the island.

17. In Guadalcanal, militants damaged the Honiara Water Supply, leaving more than 2/3 (around 25,000 people) of Honiara's population without access to safe water. Because about 30,000 people were displaced, the population of other provinces has sharply increased (in Temotu Province, for example, the population has risen by over 50 percent). Most schools in Guadalcanal were damaged or destroyed; schoolchildren have not returned to school. The provincial headquarters building in Guadalcanal was damaged, while that of the Central Province was burned down by militants, disabling communication and services to rural communities. Health facilities were similarly ruined. Several area health centers and associated staff houses were burned down, and rural health clinics and nurse aide posts, damaged. The Government is giving high priority to restoring damaged infrastructure on Guadalcanal and providing social infrastructure in other provinces where displaced people have resettled.

##### **B. Selection of Works**

18. The main objective of the Project is to assist the Government in restoring essential facilities and services for communities affected by the conflict. The Project covers replacement

or restoration of government offices, water supply and sanitation facilities, roads, bridges, schools, health other essential facilities, including associated equipment, that were lost, destroyed, or damaged during the past 18 months as a result of the civil strife. Subprojects for ADB financing will be selected in accordance with ADB's policy of financing urgent rehabilitation requirements, primarily to establish the status quo before the conflict. The project framework is given in Appendix 2.

### **C. Rehabilitation Program**

19. In parts of Guadalcanal where communities remain or will be reconstituted, damaged infrastructure, equipment, and facilities will be replaced or repaired under the Project. However, in cases where affected communities have no prospect of returning to Guadalcanal (due to safety concerns or because their homes or means of livelihood had also been destroyed), the Project will restore or rebuild the essential infrastructure and facilities in the areas of other provinces, particularly in the province of Malaita, where such communities are located. The Project will also provide consulting services. The Project, with a duration of three years, is expected to begin in January 2001. An indicative list of works that may be included in the Project is given in Appendix 3.

20. The Government has requested an emergency rehabilitation loan of \$10 million equivalent from ADB to finance expenditures associated with the reconstruction work. The proposed loan, from ADB's Special Funds resources, will finance all foreign and local costs of selected subprojects. The financing of the total project cost under the proposed loan is justified by the severe economic crisis and by the need for the Government to adhere as closely as possible to fiscally responsible budget targets.

21. The term of the loan will be 32 years, including a grace period of 8 years. The interest charge will be 1 percent during the grace period and 1.5 percent thereafter, with equal amortization. Loan utilization will be for three years.

### **D. Implementation Arrangements**

#### **1. The Executing Agency**

22. The Executing Agency for the Project will be the Ministry of Finance (MOF). A Project Management Unit (PMU) staffed by international and domestic consultants will be established to handle project administration. The PMU will have a full-time project manager (an international consultant) and operate under the direction of a Project Steering Committee (PSC), comprising senior representatives from the ministries of finance, development planning, national unity, and concerned sectoral ministries. The committee will oversee implementation of the Project. The PSC, to be chaired by the permanent secretary of finance, should be established and convened by MOF within two weeks after loan approval. The PMU will also serve as the secretariat for the PSC. For the first year, the PSC will meet monthly to discuss and approve the proposed work program and the prioritization of subprojects, evaluate project progress, assist the PMU to resolve any problems or constraints affecting implementation, and provide guidance on the Government's policies during implementation. From year 2, the PSC will meet on a quarterly basis. Local area consultative groups - comprising representatives from the provincial government, non-government organizations (NGOs), churches, landowners, and community leaders - will be established to discuss project activities. Their views will be considered in design and implementation of the project components.

## 2. Consulting Services

23. It is proposed that the United Nations Office for Project Services (UNOPS) be engaged under the Project to provide the international and domestic consultants for the PMU. The direct selection is justified by the unique experience and expertise of United Nations agencies in coordinating relief and rehabilitation work in post-conflict situations. The main tasks of the international consultants will include overall project management: planning, design, monitoring, and implementation of the subproject activities. The consultants will be responsible for proper planning of the subproject components, assess works under various subprojects, write appropriate technical specifications, review detailed designs and bill of quantities of the civil works, estimate costs, prepare bidding documents, tender the contract packages, evaluate bids, supervise construction, monitor implementation of the project components, and ensure quality. The consultants will also ensure that mechanisms are in place for effective local community input in planning the project activities. Such plans should take into account local community views and indigenous knowledge, as well as the experience of Government agencies and staff. The consultants will also be responsible for training local counterpart staff in design, documentation, contract administration, field supervision, and project management. The consultants will design an effective on-the-job training program for counterparts who will be assigned to work with them. The outline terms of reference for the consultants are given in Appendix 4.

24. Local consulting services will be required for detailed assessment of damages, design and documentation, community consultation and participation, site supervision of the rehabilitation works, and accounting and auditing, among other things. The consultants will be selected in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants.

## 3. Procurement

25. The PMU will procure civil works and goods in accordance with ADB's *Guidelines on Procurement*. All civil works contracts estimated to cost more than \$500,000 will be procured through ADB's international shopping procedures from prequalified contractors. To promote the local construction industry, its participation in joint ventures will be encouraged. Civil works contracts estimated to cost \$500,000 or less will be awarded to prequalified contractors using the Government's local competitive bidding procedures acceptable to ADB. To expedite rehabilitation measures, direct purchase procedures will apply in procuring of construction materials, and hiring or purchasing equipment for contracts estimated to cost less than \$100,000. In cases where international shopping will apply, procurement notices will be advertised in Honolulu, USA; New Zealand; and Australia to ensure sufficient competition.

## 4. Disbursements

26. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook*. MOF will establish and maintain an imprest account for the Project at the Central Bank of Solomon Islands after the loan becomes effective. The ceiling of the imprest account is \$1.0 million with the initial advance being based on the estimated expenditures for the first six months. The ADB's statement of expenditures (SOE) procedure will be used to liquidate/replenish the imprest account and to reimburse other eligible expenditures. The ceiling for any individual payment is \$300,000. Withdrawal applications will be prepared by the PMU

and signed by the secretary of finance. The imprest account and SOE will be audited by an independent auditor acceptable to ADB. A separate audit opinion on the use of the imprest account and the SOE procedure will be included in the annual audit report.

## **5. Advance Action and Retroactive Financing**

27. Consultants are being recruited under advance procurement action. Retroactive financing will be permitted for eligible items procured from 13 November 2000 for up to \$1 million.

## **6. Reports, Accounts and Audits**

28. The following reports will be submitted to ADB:

- (i) at the end of each month, a brief summary report, including as attachment the minutes of the PSC meeting;
- (ii) at the end of each quarter, a detailed progress and financial report containing an evaluation of the progress of project implementation and its individual components; constraints affecting implementation and actions proposed; any recommendations on changes or adjustments in policies, procedures, or operations to improve implementation; and a detailed program of works for the next quarter based on the implementation schedule. In subproject areas, the report will also assess the likelihood of normal services being resumed in the area concerned following subproject completion and include a brief update on activities of other funding agencies involved in rehabilitation work;
- (iii) audited financial statements for the project accounts and imprest accounts within six months after the end of each fiscal year; and
- (iv) upon physical completion of the Project, a project completion report in accordance with ADB's guidelines as required in the Loan Agreement.

## **7. Anticorruption Provisions**

29. ADB's anticorruption policy was brought to the attention of the Government. In particular, attention was drawn to ADB's policy to require the governments to observe the highest ethical standards during implementation of ADB-financed projects.

## **V. ASSURANCES**

30. The Government has given the following assurances, in addition to the standard assurances, which have been incorporated in the legal documentation:

- (i) Prior to loan effectiveness, the Government will establish and convene a PSC made up of senior representatives of the Ministry of Finance, Ministry of Development Planning, Ministry of National Unity and relevant sectoral ministries to oversee project implementation.

- (ii) The Government will ensure that the PSC meets as often as necessary, at least once a month during the first year of implementation of the Project and quarterly thereafter, to discuss the progress of the Project, assist the PMU to resolve any problems or constraints affecting implementation, and provide guidance on policy issues.
- (iii) The Government through the services of UNOPS will establish a PMU to be staffed by international and domestic consultants who will be responsible for administering the Project under the direction of the PSC.
- (iv) The Government will ensure, and will cause the PSC and PMU to ensure, that the design and implementation of the Project and its components take into account the views of local people and their representatives. For this purpose, the Government will encourage the establishment of local consultative groups comprising representatives of the provincial government, NGOs, churches, landowners, and community leaders.
- (v) Prior to the planning or processing of any subproject, the PMU will obtain ADB's concurrence on the inclusion of the subproject for financing under the loan.
- (vi) Before awarding a contract for any subproject, the Government will confirm to ADB that the relevant property rights and any other authorization required for implementing the subproject and its utilization upon completion have been obtained by the Government.

## **VI. RECOMMENDATION**

31. I am satisfied that the proposed loan would comply with the Articles of Agreement of ADB and recommend that the Board approve the loan in various currencies equivalent to Special Drawing Rights 7,771,000 to Solomon Islands for the Post-Conflict Emergency Rehabilitation Project, with a term of 32 years, including a grace period of 8 years, and with an interest charge at the rate of 1 percent per annum during the grace period and 1.5 percent per annum thereafter, and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board.

TADAO CHINO  
President

29 November 2000

**APPENDIXES**

<b>Number</b>	<b>Title</b>	<b>Page</b>	<b>Cited on (page, para.)</b>
1	Country Performance Indicators	10	3, 10
2	Project Framework	12	5, 18
3	Indicative List of Repair and Rehabilitation Works	13	5, 19
4	Outline Terms of Reference for Project Management Consultants	15	6, 23

**COUNTRY PERFORMANCE INDICATORS**  
**Table A1.1: Economic Indicators, Solomon Islands**

Item	1995	1996	1997	1998	1999	2000 <sup>a</sup>
<b>ECONOMIC INDICATORS</b>						
<b>A. Income and Growth</b>						
1. GDP per Capita (dollars, current)	1,002.7	1,083.3	1,111.4	916.1	865.8	660.7
2. GDP Growth (% in constant prices)		3.5	-2.3	1.1	-1.3	-14.0
Primary	-	-8.6	1.2	-8.3	-4.1	-26.6
Industry	-	14.0	-14.1	5.5	22.3	-30.7
Services	-	7.6	-2.8	3.7	-8.0	-13.0
<b>B. Saving and Investment (current market prices)</b>						
	<b>Percent of GDP</b>					
1. Gross Domestic Investment	-	-	-	-	-	-
2. Gross Domestic Saving	-	-	-	-	-	-
<b>C. Money and Inflation</b>						
	<b>Annual Percent Change</b>					
1. Consumer Prices (annual average)	9.6	11.8	8.1	12.4	8.0	6.0
2. Broad Money (M3)	9.9	15.7	6.3	4.8	4.5	9.5
<b>D. Government Finance</b>						
	<b>Percent of GDP</b>					
1. Total Revenue	39.9	39.2	33.7	37.1	38.6	29.5
2. Total Expenditure	45.3	43.6	38.5	37.0	40.9	34.0
3. Overall Surplus/Deficit (-)	-5.3	-4.4	-4.8	0.2	-2.4	-4.5
<b>E. Balance of Payments</b>						
1. Merchandise Trade Balance (% of GDP)	3.7	2.8	-8.3	-1.7	2.7	4.8
2. Current Account Balance (% of GDP)	3.6	2.9	-8.8	4.5	9.9	2.5
3. Export (\$) growth (annual percent change)	18.2	-3.4	7.1	-19.0	6.3	-29.2
4. Import (\$) growth (annual percent change)	8.4	-2.0	38.5	-29.8	-4.6	-14.8
<b>F. External Payments Indicators</b>						
1. International Reserves (million dollars, end of period)	15.1	32.2	31.7	47.9	50.6	33.4
- months of Imports	0.8	1.6	1.3	2.8	2.7	2.2
2. External Debt Service (% of exports of goods & services)	5.2	7.3	4.6	17.9	-	-
3. External Debt (% of GDP)	50.7	46.9	52.6	48.4	-	-
<b>Memorandum Items:</b>						
GDP (current prices, million <i>local currency</i> )	1,250.0	1,461.0	1,612.0	1,728.0	1,739.0	1,412.3
GDP (current prices, million <i>US dollar</i> )	367.0	408.4	430.1	364.6	354.1	277.5
Exchange Rate ( <i>local currency</i> per US dollar, annual average)	3.4	3.6	3.7	4.8	4.8	5.1
Population (million)	0.366	0.377	0.387	0.398	0.409	0.420

- = no current data available, GDP = gross domestic product.

<sup>a</sup> Projection

Source: Government, Central Bank of Solomon Islands, International Monetary Fund, and staff estimates.

**Table A1.2: Population, Social, and Environmental Indicators, Solomon Islands**

Item	1985	1990	Latest Year
<b>POPULATION INDICATORS</b>			
Total Population (millions)	0.273	0.319	0.409(1999)
Annual Population Growth Rate (% change)	3.5 (1976-1986)		2.8(1986-1999)
<b>SOCIAL INDICATORS</b>			
Total Fertility Rate (births per woman)	6.4	5.3	5.5
Maternal Mortality Rate (per hundred thousand live births)			550.0
Infant Mortality Rate (below 1 year; per '000 live births)	4.7	26.0	38
Life Expectancy at Birth (years)			
Female	66.0	67.0	66.0
Male	64.0	63.0	64.0
Adult Literacy (%)	23.0	-	76.0(1999)
Primary School Enrollment (% of school age population)			
Female	-	-	36.0
Secondary School Enrollment (% of school age population)			
Female	9.0	12.0	18
Children (5-14 years) attending school (%)			57 (1999)
Population Below Poverty Line (%)			-
Income Ratio of Highest 20% to Lowest 20%			-
Population with Access to Safe Water (%)	68.0	70.0	64.0
Population with Access to Sanitation (%)			16.0
Public Education Expenditure as % of GNP		6.0	-
Public Health Expenditure as % of GDP		3.7	3.9
Human Development Index			0.560
Human Development Ranking			123
Human Poverty Index			49.1
<b>ENVIRONMENTAL INDICATORS</b>			
Forestry			
Deforestation	-	-	-
Total Area	-	-	-
Annual Deforestation	-	-	-
Biodiversity			
Nationally Protected Area	-	-	-
Area	-	-	-
Number	-	-	-
As % of Land Area	-	-	-
Biosphere Reserves	-	-	-
Area	-	-	-
Number	-	-	-
World Heritage Sites (number)	-	1	1
Wetlands of International Importance	-	-	-
Area	-	-	-
Number	-	-	-
Land Use			
Cropland; Permanent Pasture per Capita	-	0.16	(1993)
Air Pollution (Ambient Concentrations)			
Particulates	-	-	-
SO <sup>2</sup>	-	-	-
Water Pollution (Concentration of Pollutants in Water Bodies)			
Biochemical Oxygen Demand (BOD)	-	-	-
Chemical Oxygen Demand (COD)	-	-	-
Global Environmental Problems			
CO <sup>2</sup> Emissions (Total and Per Capita)		0.48	(1996)

- = no current data available, GDP = gross domestic product, GNP = gross national product

Source: Government and staff estimates

### PROJECT FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
<b>Goals</b>			
Return to prior levels of production and productivity	Economic indicators return to normal levels within one year of project completion.	National economic indicators	Other necessary factors for productive economic activity will remain available, including peace, law and order, and political stability. Basic services are resumed and utilized in areas of major economic activity.
<b>Purpose</b>			
Resumption of normal transportation and social services in areas affected by the civil strife	Return to normal observed levels of traffic density, resumption of operations of local government, schools, clinics and other basic services in affected areas	Visual inspections Project manager's reports Interviews with officials, private sector, and civil society	Adequate finance and other resources will be available to complete all works. Services are still valued and consumed in areas where they are restored. Peace and order are maintained.
<b>Outputs</b>			
Restoration of selected physical infrastructure, government offices, and health and education, facilities	Selected infrastructure and facilities are restored by 31 December 2003.	Visual inspections Project manager's reports	Design work and contracts will be completed on time. Law and order are maintained in subproject areas.
<b>Inputs</b>			
<ul style="list-style-type: none"> <li>• Consultants</li> <li>• Supply of materials</li> <li>• Hire of equipment</li> <li>• Civil works</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of project management unit, and imprest account</li> <li>• Recruitment of consultant</li> <li>• Procurement of equipment and materials required for implementing of civil works</li> <li>• Agreement with Government and civil society on priorities</li> <li>• Contracts for repair of various infrastructure and facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Project manager's reports</li> <li>• Project accounts</li> </ul>	Consultants and contractors are competent.

### INDICATIVE LIST OF REPAIR AND REHABILITATION WORKS

Subproject Description	Location	Proposed Actions	Procurement Modes	Cost (\$ m)
<b>A. Road Rehabilitation</b>				
Alligator Creek–Aola (79 km, 54 km sealed & 25 km unsealed)	Eastern Guadalcanal	Repair and reseal damaged sections (20 km) and improve drainage	IS	2.25
White River-Lambi (69 km, 28 m sealed & 41 km unsealed)	Western Guadalcanal	Repair and reseal damaged sections (10 km) and improve drainage	IS	1.20
Honiara City Roads (10 km sealed)	Guadalcanal	Improve drainage, rehabilitate and two-coat seal on damaged sections (10 km)	IS	1.20
<b>Subtotal (A)</b>				<b>4.65</b>
<b>B. Bridge Rehabilitation</b>				
Tenarau Nos. 1 & 2 and Ngabiliu Bridges	Eastern Guadalcanal	Strengthen, repair and replace damaged structural members	LCB	0.20
Kodovele, Tenavesa, Taburiu Bridges	Western Guadalcanal	Replace	LCB	0.50
South Road (7 bridges), North Road (5 bridges), and East Road (2 bridges)	Malaita	Replace bridges	IS	1.70
<b>Subtotal (B)</b>				<b>2.40</b>
<b>C. Health Center Reconstruction</b>				
Grove and Lambi Area Health Centers	Guadalcanal	Reconstruct centers, upgrade staff quarters	LCB	0.15
<b>Subtotal (C)</b>				<b>0.15</b>

<b>D. Provincial Government Building Reconstruction</b>				
Provincial Headquarters	Guadalcanal	Rehabilitate	LCB	0.15
Provincial Headquarters	Central Province	Reconstruct	LCB	0.35
Provincial Headquarters	Guadalcanal and Central Province	Supply of facilities and equipment	IS	0.10
<b>Subtotal (D)</b>				<b>0.60</b>
<b>E. School Reconstruction (including associated water and sanitation facilities)</b>				
4 National and 4 Provincial Secondary Schools	Guadalcanal	Rehabilitate damaged areas including water and sanitation facilities	LCB	0.25
Rehabilitation of National and Provincial Schools	Malaita	Additional classrooms for resettled students including water and sanitation facilities	LCB	0.30
<b>Subtotal (E)</b>				<b>0.55</b>
<b>F. Equipment</b>				
Specialized Road Maintenance, Soils and Concrete Testing, and PMU Office equipment; PMU vehicles; outboard motors and boats	Guadalcanal & Malaita	Replace stolen and damaged equipment and support for PMU.	IS and DP	0.65
<b>Subtotal (F)</b>				<b>0.65</b>
<b>G. Consulting Services and Local Support to PMU</b>				
Project Manager, Road & Bridge Engineers, Clerk of Works, Domestic Consultants, Local Staff (Project Accountant, Clerical Staff and Local Counterpart to PMU)	Honiara	PMU and operational costs.	DP and LCB	1.00
<b>Subtotal (G)</b>				<b>1.00</b>
<b>TOTAL (A+B+C+D+E+F+G)</b>				<b>10.00</b>

DP = direct purchase, IS = international shopping, LCB = local competitive bidding, PMU = project management unit

**OUTLINE TERMS OF REFERENCE  
FOR  
CONSULTING SERVICES**

1. The Project comprises rehabilitation of the existing sealed and unsealed roads, restoration of water supply, strengthening and replacement of bridges, rehabilitation of government and provincial government buildings, and procurement of some specialized road maintenance equipment.

**A. Objectives**

2. The main objective is to assist the Government of Solomon Islands in designing, implementing, and managing the Post-Conflict Emergency Rehabilitation Project. Further objectives are to train the local counterpart staff in design, documentation, contract administration, field supervision, and project management. The consultants will design an effective on-the-job training program for local counterparts assigned to work with them, to ensure that adequate skills and knowledge are transferred and that the local staff develop full confidence and maturity in managing and implementing future projects

**B. Scope of Services**

3. About 54 person-months of consulting services from international consultants will be required: for a full-time project manager, 24 and about 30 person-months distributed, as and when required, among various specialists including a road design engineer, a civil/structural design engineer, and a site supervisor/clerk of works (detailed requirements are in para. 3). A water supply engineer may also be required if the Honiara water supply is included in the Project. Domestic consultants (about 30 person-months) will be required in the following technical fields to assist the international consultants: building assessment, design, and supervision (15 person-months) and roads and bridges supervision (15 person-months). Local counterpart staff, including a project accountant and secretarial and clerical support services, will be employed on contract for the project duration under Government conditions. Provision will also be made for domestic consultancies for community participation specialists, workshop facilitators, and auditors of project accounts. The project management consultants will report to the Project Steering Committee and will perform the following tasks:

- (i) Ensure proper planning; assess in detail works under various subprojects, prepare appropriate design and technical specifications, review detailed designs and bill of quantities of the civil works, prepare cost estimates, prepare bidding documents, tender the contract packages, evaluate bids, supervise construction, design effective monitoring of the project components, and ensure their quality.
- (ii) Ensure sound environmental practices are in place from project planning to completion.
- (iii) Ensure that mechanisms are in place for effective local community input in planning project activities. Such plans should embrace all sectors and take into account local community views and indigenous knowledge, as well as the experience of Government agencies and staff.

- (iv) Establish the Project Management Unit and make arrangements for providing local staff for accounting, clerical, and secretarial support required for the project duration.
- (v) In consultation with the concerned agencies, draw up the terms of reference of the domestic consultants and local counterparts and recruit them following procedures stipulated in the Loan Agreement.
- (vi) Facilitate good liaison and communication on project activities between the Executing Agency and Asian Development Bank (ADB), and other aid agencies involved in the rehabilitation program.
- (vii) Procure goods, services, and civil works, including prequalifying civil works contractors, processing tender documents, arranging for tender evaluation, and recommending contract award.
- (viii) Investigate all infrastructure sites and facilities to be rehabilitated or repaired, and make recommendations for appropriate designs and maintenance practices.
- (ix) Ensure quality and effective supervision of activities throughout the project implementation.
- (x) Coordinate with relevant agencies for timely land acquisition, if needed, for the Project.
- (xi) Coordinate with the Central Bank for early establishment of an imprest account. Ensure that operation and management of the imprest and project accounts are carried out and that the project accounts are audited as required in the Loan Agreement.
- (xii) Coordinate with concerned agencies in preparing necessary documents for disbursement of loan funds.
- (xiii) Ensure full compliance with loan covenants throughout project implementation.
- (xiv) Observe and ensure that ADB's anticorruption policies are respected, and establish good working relationships with all agencies involved in project implementation.
- (xv) Undertake any other project-related or rehabilitation program activities not specifically covered above, which may be required from time to time by the Government and ADB.

### **C. Qualifications and Experience**

4. The individual consultants will have the following specific qualifications and experience:

**1. Project Manager**

- (i) A qualified civil engineer with 5-10 years experience in civil works design and documentation, contract administration and project management.
- (ii) Extensive knowledge and experience in administering and managing design supervision and “design-build” bidding documents of small civil works contracts
- (iii) Knowledge and experience in project management, evaluation, and monitoring.
- (iv) Experience in dealing with road, bridge and water supply, and sanitation building contracts.
- (v) Experience in managing staff from different ethnic groups and with different skills.
- (vi) Experience in the Pacific or small island economies, particularly in remote or isolated locations.
- (vii) Working experience with multilateral or bilateral development organizations.
- (viii) Willingness to work under difficult conditions.

**2. Road Design Engineer**

- (i) A qualified civil engineer with 5-10 years experience in suburban and rural road designs, rehabilitation or major maintenance, preparing tender documents, and tendering and evaluating design supervision and design-build contracts.
- (ii) Knowledge and experience in small bridge strengthening and repairs as well as heavy road maintenance works.
- (iii) Knowledge of geotechnical investigations on soil parameters including designs of flexible pavement.
- (iv) Knowledge and application of HDM III or IV for economic analysis.
- (v) Capacity to design drainage facilities and waterway calculations from water catchment areas.
- (vi) Experience in the Pacific or small island economies, particularly in remote or isolated locations.
- (vii) Working experience with multilateral or bilateral development organizations.
- (viii) Willingness to work under difficult conditions.

**3. Bridge/Structural Engineer**

- (i) A qualified civil engineer with 5-10 years experience in civil works, small bridge designs and maintenance or rehabilitation, river training works at natural waterways on suburban and rural roads.
- (ii) Knowledge and experience in design, preparation of tender documentation, and tendering processes for design supervision and design-build contracts for bridges.
- (iii) Knowledge and experience in small bridge strengthening and repairs.
- (iv) Knowledge of geotechnical investigations on soil parameters including design of bridge foundations.
- (v) Capacity to design drainage facilities and make waterway calculations from water catchment areas.

- (vi) Experience in the Pacific or small island economies, particularly in remote or isolated locations.
- (vii) Working experience with multilateral or bilateral development organizations.
- (viii) Willingness to work under difficult conditions.

#### **4. Site Supervisor/Clerk of Works**

- (i) Civil engineering background and extensive experience in administering and supervising construction and design-build contracts of civil works including buildings, water supply, sanitation, roads, and bridges.
- (ii) Experience and ability to read and interpret engineering, structural, and architectural drawings.
- (iii) Knowledge and experience in geotechnical areas and ability to carry out laboratory soil and concrete tests to verify contractor's results.
- (iv) Experience in the Pacific or small island economies, particularly in remote and isolated locations.
- (v) Working experience with multilateral or bilateral development organizations.
- (vi) Willingness to work under difficult conditions.

#### **D. Reports**

5. The project manager will prepare the following reports and three copies of each will be submitted to ADB. One copy of each report will be submitted to each agency involved in project implementation.

- (i) At the end of each month, a brief summary report, including as an attachment the minutes of the Project Steering Committee meeting.
- (ii) At the end of each quarter, a detailed progress and financial report containing an evaluation of the progress of project implementation and its individual components; constraints affecting implementation and actions proposed; any recommendations on changes or adjustments in policies, procedures, or operations to improve implementation; and a detailed program of works for next quarter based on the project's implementation schedule. In subproject areas, the report should also assess the likelihood of normal services being resumed in the area concerned following subproject completion. The report should also include a brief update on activities of other funding agencies involved in rehabilitation work.
- (iii) Upon physical completion of the Project, a project completion report in accordance with ADB's guidelines as required in the Loan Agreement.

6. At the end of the services of each specialist or individual consultant, he/she will submit a completion report on his/her services to ADB and the relevant Government agencies.