
GRANT NUMBER 0478-SOL(SF)

GRANT AGREEMENT
(Special Operations)
(Economic Growth and Fiscal Reform Program)

between

SOLOMON ISLANDS

and

ASIAN DEVELOPMENT BANK

DATED 1 JULY 2016

SOL 48479

**GRANT AGREEMENT
(Special Operations)**

GRANT AGREEMENT dated 1 July 2016 between SOLOMON ISLANDS ("Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Recipient a development policy letter dated 23 December 2015 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Grant Agreement, designed to develop the Recipient's economic and financial sector through the Economic Growth and Fiscal Reform Program ("Program");

(B) the Recipient has applied to ADB for a grant for the purposes of the Program; and

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

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

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

(a) Section 2.01(15) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Grant, as described in the Grant Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Recipient.

(b) The term "Project" wherever it appears in the Grant Regulations shall be substituted by the term "Program".

(c) Section 2.01(17) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Grant Agreement.

(d) The term "Project Executing Agency" wherever it appears in the Grant Regulations shall be substituted by the term "Program Executing Agency".

Section 1.02. Wherever used in this Grant Agreement the several terms defined in the Grant Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in the Grant Agreement have the following meanings:

(a) "CEWG" means the Core Economic Working Group, which is the Program coordinating committee described in paragraph 2 of Schedule 3 to this Grant Agreement;

(b) "Counterpart Funds" means the local currency generated from the Grant proceeds under the Program and referred to in paragraph 6 of Schedule 3 to this Grant Agreement;

(c) "Deposit Account" means the account referred to in paragraph 3(a) of Schedule 2 to this Grant Agreement;

(d) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(e) "MOFT" means the Ministry of Finance and Treasury of the Recipient;

(f) "Policy Matrix" means the policy matrix as agreed between the Recipient and ADB, which sets forth actions accomplished or to be accomplished by the Recipient under the Program and is attached to the Policy Letter;

(g) "PPMS" means the program performance monitoring system described in paragraph 8 of Schedule 3 to this Grant Agreement;

(h) "Program Executing Agency" for the purposes of, and within the meaning of, the Grant Regulations means MOFT or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program; and

(i) "Solomon Islands dollar" means the currency of the Recipient.

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 five million Dollars (\$5,000,000).

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 Program in accordance with the provisions of this Grant Agreement.

Section 3.02. The proceeds of the Grant shall be withdrawn 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. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 March 2017 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 Program, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 3 to this Grant Agreement.

Section 4.02. As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. The following are specified as additional conditions to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations:

- (a) the Deposit Account shall have been opened as provided in subparagraph 3(a) of Schedule 2 of this Grant Agreement; and

- (b) all policy actions relating to the Program as specified in Attachment 2 of Schedule 2 to this Grant Agreement shall have been completed in a manner satisfactory to ADB.

Section 5.02. A date 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 Minister 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

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

Facsimile Number:

(677) 27855

(677) 28173.

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(63 2) 636-2444


(612) 8270-9445.

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 as of the day and year first above written and to be delivered at the principal office of ADB.

SOLOMON ISLANDS

By  _____
MATHEW FOX
Authorized Representative

ASIAN DEVELOPMENT BANK

By  _____
JAMES PATRICK LYNCH
Deputy Director General
Pacific Department

SCHEDULE 1

Description of the Program

1. The principal objective of the Program is to strengthen the economic and fiscal position of the Recipient to deliver improved opportunities and living standards. The Program is described in more detail in the Policy Letter.
2. The Program is expected to be completed by 31 March 2017.

SCHEDULE 2**Allocation and Withdrawal of Grant Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Grant proceeds from the Grant Account.
2. An application for withdrawal from the Grant Account shall be submitted to ADB by the Recipient and shall be in a form satisfactory to ADB.
3. (a) Prior to submitting the first application to ADB for withdrawal from the Grant Account, the Recipient shall nominate an account (Deposit Account) at the Central Bank of Solomon Islands into which all withdrawals from the Grant Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Recipient shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.
4. None of the proceeds of the Grant shall be withdrawn to finance any of the items specified in Attachment 1 of this Schedule.

Negative List

No withdrawals will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Recipient:

Table: Ineligible Items

| Chapter | Heading | Description of Items |
|---------|---------|---|
| 112 | | Alcoholic beverages |
| 121 | | Tobacco, unmanufactured; tobacco refuse |
| 122 | | Tobacco, manufactured (whether or not containing tobacco substitute) |
| 525 | | Radioactive and associated materials |
| 667 | | Pearls, precious and semiprecious stones, unworked or worked |
| 718 | 718.7 | Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors. |
| 728 | 728.43 | Tobacco processing machinery |
| 897 | 897.3 | Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems) |
| 971 | | Gold, nonmonetary (excluding gold ore and concentrates) |

Source: United Nations.

- (ii) expenditures in the currency of the Recipient or for goods supplied from the territory of the Recipient;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party; and
- (vii) expenditures on account of any payment prohibited by the Recipient in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Policy Actions for the Program

In order to release the Grant proceeds, the following policy actions shall have been complied with:

Improving Public Service Delivery and Economic Management

1. The Cabinet approves the draft Customs and Excise Bill and sends it to the Attorney General's Chambers for review for the purposes of submission to Parliament.
2. The Cabinet approves the public financial management roadmap.
3. The Cabinet approves the framework for the National Development Strategy, 2016–2036.

Creating an enabling environment for private sector led growth

4. The Ministry of Lands, Housing and Survey establishes a Land Board under the Land and Titles (Amendment) Act 2014 to improve the governance of alienated land.
5. The Cabinet approves a policy recommendation paper for credit unions.
6. The Cabinet approves work undertaken on the competition policy project and agrees to development of a policy recommendation paper.
7. The Cabinet approves a policy recommendation paper outlining the broad parameters, process, and timeline for the development of a state-owned enterprises capital structure policy.
8. The Parliament enacts the Business Names Act.

Enabling the drivers of economic growth

9. The Parliament enacts the Fisheries Act to strengthen fisheries' governance and management.
10. The Cabinet approves a new National Tourism Strategy which includes a cruise ship action plan.

SCHEDULE 3

Program Implementation and Other Matters

Implementation Arrangements

1. The Recipient, through MOFT, shall be responsible for (a) overseeing all policy, legal and regulatory actions to be taken in connection with the Program; and (b) ensuring that all policy reforms set out in the Policy Letter and Policy Matrix are duly carried out in a timely manner. MOFT shall also be responsible for the overall implementation of the Program, including reporting to ADB, administering and disbursing the Grant Proceeds, and maintaining Program records and accounts.
2. CEWG, comprising officials from MOFT, the Central Bank of Solomon Islands, the Office of the Prime Minister and Cabinet, the Ministry of Development Planning and Aid Coordination, Ministry of Education and Human Resource Development, the Ministry of Public Service, ADB, Australia, the European Union, New Zealand and the World Bank, shall function as the Program coordinating committee. The CEWG shall continue to meet quarterly to monitor progress and to provide guidance and direction to the MOFT. CEWG may invite concerned line agencies of the Recipient as well as ADB and other donor partners and stakeholders to participate in meetings to discuss the Program and Program implementation issues.

Policy Actions and Dialogue

3. The Recipient shall (a) ensure that all policy actions adopted under the Program, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Program; (b) promptly adopt all other policies and take all other actions as described in the Policy Letter and the Policy Matrix and ensure that such policies and actions continue in effect throughout the Program; and (c) make submissions to ADB on the completion of actions under the Policy Matrix by reference to the indicators set out therein.
4. The Recipient shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Recipient shall take into account ADB's views before finalizing and implementing any such proposal.
5. The Recipient shall: (a) keep ADB informed of, and the Recipient and ADB shall from time to time exchange views on, sector issues, policy reforms and additional reforms during the Program that may be considered necessary or desirable, including the progress made in carrying out policies and actions set out in the Policy Letter and Policy Matrix; (b) promptly discuss with ADB problems and constraints encountered during implementation of the Program and appropriate measures to overcome or mitigate such problems and constraints; and (c) convene regular meetings of the CEWG consisting of key development partners engaged in the Recipient's public sector reforms.

Use of Counterpart Funds

6. The Recipient shall ensure that the Counterpart Funds are used to finance the costs relating to the implementation of the Program and other activities consistent with the objectives of the Program, and shall provide the necessary budget appropriations in a timely manner to finance the costs relating to the implementation of reforms under the Program.

Governance and Anticorruption

7. The Recipient and MOFT shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

Monitoring and Review

8. The Recipient and ADB shall undertake ongoing monitoring and regular formal review of Program performance and the Recipient, through MOFT, shall establish and maintain a PPMS that will include a database on the status of policy actions.

9. The Recipient, through MOFT, is responsible for: (a) providing quarterly input to the PPMS maintained by ADB, such input to be of a nature and scope satisfactory to ADB; (b) carrying out monitoring and evaluation of the Program jointly with CEWG members for 2 years after completion of the Program or to the end of 2018, whichever is earlier; and (c) maintaining all relevant monitoring data to evaluate the benefits of the Program. Specific indicators (including financial and performance indicators) as agreed with ADB shall be used to assist with monitoring the implementation of policy actions and their impact on budget outcomes and public enterprise performance.

10. The Recipient, through MOFT, shall ensure that reporting on the progress of the Program through periodic reviews at least every 6 months is made to ADB in accordance with the performance indicators described in paragraph 9 of this Schedule.

11. The Recipient and ADB shall jointly conduct periodic reviews of the macroeconomic and fiscal conditions of the Recipient's economy, and assess the impact and evaluate the benefits of the Program in accordance with the PPMS. Program reviews will take into account the views of stakeholders from the private sector and civil society identified jointly by the Recipient and ADB. The Recipient, through MOFT, shall submit to ADB a Program completion report within 24 months of completion that assesses compliance with, and impact of, the agreed actions under the Program on each sector and describes lessons identified during the Program.