

CONFORMED COPY

GRANT NUMBER H415-SB

Financing Agreement

(Sustainable Energy Project)

between

SOLOMON ISLANDS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 28, 2008

GRANT NUMBER H415-SB

FINANCING AGREEMENT

AGREEMENT dated July 28, 2008, entered into between SOLOMON ISLANDS (the "Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to two million five hundred thousand Special Drawing Rights (SDR 2,500,000) (the "Grant") to assist in financing the project described in Schedule 1 to this Agreement (the "Project").
- 2.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are January 1 and July 1 in each year.
- 2.05. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through Solomon Islands Electricity Authority (the “Project Implementing Entity”) in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement and the Schedule to the Project Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension is that the Project Implementing Entity’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness are that:
- (a) The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
 - (b) A commercialization manager has been appointed within SIEA with qualifications and on terms and conditions acceptable to the Association.
- 5.02. The Additional Legal Matter is that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Minister of Finance and Treasury.

6.02. The Recipient's Address is:

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

Facsimile:

+ 677 27855

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI)

1-202-477-6391

AGREED at _____, _____, as of the day and year first
above written.

SOLOMON ISLANDS

By: /s/ Syder Rini

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Antonie De Wilde

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve the operational efficiency, system reliability and financial sustainability of the Solomon Islands Electricity Authority through improved financial and operational management, reduction of losses, improved generator and distribution system reliability and increased revenue collection.

The Project consists of the following parts:

Part 1. Management of Solomon Islands Electricity Authority

- (a) Strengthening the Management and operations of SIEA through the appointment of key management staff to oversee the administrative, financial management and commercialization functions of SIEA.
- (b) Enhancing management capacity of SIEA through training of key management staff.

Part 2: Financial Operations of Solomon Islands Electricity Authority

Implementation of a commercialization program for the SIEA finance department, including: (i) establishment of a new financial management and billing system; (ii) preparation and implementation of a new finance accounting manual; and (iii) provision of training to staff on the new financial management and billing systems and the finance accounting manual.

Part 3. Technical Operations of Solomon Island Electricity Authority

- (a) Increasing the availability of existing electricity generation and improving system reliability through the implementation of a loss reduction program, a planned maintenance program for generation facilities in Honiara, and a distribution reinforcement program within SIEA.
- (b) Strengthening SIEA's capacity to implement the Project through the provision of Project implementation support, technical and Project management training to staff of SIEA, and establishment of a partnership with the Fiji Electricity Authority for the sharing of knowledge and best practices.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

The Project shall be implemented by the Project Implementing Entity (SIEA) in accordance with the Schedule to the Project Agreement.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Grant available to the Project Implementing Entity under a subsidiary agreement (“Subsidiary Agreement”) between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association, which shall include the following:
 - (a) the proceeds of the Grant shall be made available by the Recipient to the Project Implementing Entity on a grant basis;
 - (b) the Project Implementing Entity shall undertake to carry out the Project:
 - (i) with due diligence and efficiency and in accordance with appropriate management, financial, engineering and social and environmental standards acceptable to the Association, and provide, promptly as needed, the funds, facilities and other resources required for the purpose;
 - (c) the Recipient shall have the right to suspend or terminate the right of the Project Implementing Entity to the use of the proceeds of the Grant made available under the Subsidiary Agreement upon failure by the Project Implementing Entity to perform its obligations thereunder; and
 - (d) in the event that any portion of the proceeds of the Grant provided to the Project Implementing Entity is not used for Eligible Expenditures or is otherwise used in breach of this Agreement, the Project Agreement, or the Subsidiary Agreement, the Project Implementing Entity shall, upon notice from the Recipient or from the Association, refund the notified amount to the account provided in such notice.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports**

1. The Recipient shall, together with the Project Implementing Entity, monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall cause the Project Implementing Entity to maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall cause the Project Implementing Entity to prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall cause the Project Implementing Entity to have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding with the additional procedures set forth in the Annex to Schedule 2
(b) Shopping
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection,

which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection of Individual Consultants (including on a sole-source basis in accordance with the Consultant Guidelines)

D. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods procured on the basis of International Competitive Bidding; (b) each contract for goods procured on the basis of Direct Contracting; (c) the first three (3) contracts for goods to be procured on the basis of either National Competitive Bidding or Shopping; (d) each contract for goods procured on the basis of National Competitive Bidding estimated to cost \$100,000 or more; (e) each contract for consultants' services estimated to cost the equivalent of \$100,000 or more; and (f) each contract for consultants' services by an Individual Consultant as indicated in the Procurement Plan to require prior review by the Association. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Grant

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (exclusive of Taxes)
(1) Goods, consultants' services, training and Incremental Operating Costs* for the Project	2,500,000	100%
TOTAL AMOUNT	<u>2,500,000</u>	

*For purposes of this paragraph, the term "Incremental Operating Costs" means incremental expenses incurred on account of Project implementation, support and management and reasonably related thereto, including communications, utilities, stationary, and transportation costs, but excluding salaries of the Recipient's civil servants.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 30, 2012.

Section V. Other Undertakings

1. The Recipient shall use its best efforts to ensure that: (i) SIEA's annual bill collection from state-owned enterprises and other government entities will be at least seventy five percent (75%) of what is due; and (ii) arrears owed to SIEA by state-owned enterprises and other government entities will not exceed more than 120 days, or such other arrangement agreed with the Association.

ANNEX**to****SCHEDULE 2****Additional Procedures for National Competitive Bidding**

National Competitive Bidding procedures shall be subject to the following additional procedures:

- (i) The eligibility of bidders shall be as defined under Section I of the Procurement Guidelines; accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by the Association for reasons other than those provided in Section I of the Procurement Guidelines. Foreign bidders shall be eligible to participate in bidding under the same conditions as national bidders. In particular, no domestic preference over foreign bidders shall be granted to national bidders in bid evaluation, nor shall foreign bidders be asked or required to form joint ventures with national bidders in order to submit a bid.
- (ii) Registration shall not be used to assess bidders' qualifications. A foreign bidder shall not be required to register as a condition for submitting its bid and, if determined to be the lowest evaluated responsive bidder, shall be given reasonable opportunity of registering, without any let or hindrance. The registration process shall not be applicable for Sub-contractors. Bidding shall not be restricted to any particular class of contractors, and non-classified contractors shall also be eligible to bid.
- (iii) Invitations to bid shall be advertised in at least one (1) newspaper of national circulation, allowing a minimum of thirty (30) days for the preparation and submission of bids except for commodities and small goods contract. Potential bidders shall be allowed to purchase bidding documents up to anytime prior to the deadline for submission of bids.
- (iv) Standard Bidding Documents, acceptable to the Association, shall be used.
- (v) Qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, and only such specified criteria, shall be used to determine whether a bidder is qualified. Qualification shall be assessed on a pass or fail basis and merits points shall not be used. Such assessment shall only take into account the bidder's capacity and resources to perform the contract, specifically its experience and past performance on similar contracts, capabilities with respect to personnel, equipment and construction and manufacturing facilities, and financial capacity. The evaluation of the bidder's qualifications shall be conducted separately from the technical and commercial evaluation of the bid.

- (vi) Bidders may submit bids, at their option, either in person or by courier service or by mail. Bids shall be opened in public, immediately after the deadline for submission of bids. Bids received after the deadline for bid submission shall be rejected and returned to the bidders unopened. In addition:

All bidding for goods shall be carried out through a one-envelope procedure.

- (a) Evaluation of bids shall be made in strict adherence to the criteria that shall be clearly specified in the bidding documents and quantified in monetary terms for evaluation criteria other than price; merit points shall not be used in bid evaluation.
 - (b) A contract shall be awarded to the technically responsive bid that offers the lowest evaluated price and no negotiations shall be permitted.
 - (c) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.
 - (d) No bidder shall be rejected on the basis of a comparison with the employer's estimate and budget ceiling without the Association's prior concurrence.
 - (e) A copy of the minutes of the public bid opening shall be promptly provided to all bidders, and to the Association with respect to contracts subject to prior review.
- (vii) Neither shall all bids be rejected nor new bids solicited without Association's prior written concurrence.
 - (viii) Extension of validity of bids may be allowed in exceptional circumstances but there shall be no amendment of the price or any other condition of the bids. Bidders may refuse such an extension without forfeiting their bid securities, but bidders granting an extension shall provide extension of the validity of their bid securities.
 - (ix) The Recipient shall establish and implement an effective and independent protest mechanism allowing bidders to protest and to have their protests handled in a timely manner.
 - (x) The Association shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Association, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the Association.

- (xi) Each bidding document and contract financed from the proceeds of the Grant shall include a provision requiring bidders, suppliers, contractors and subcontractors to permit the Association at its request, to inspect their accounts and records relating to the bid submission and performance of the contract and to have said accounts and records audited by auditors appointed by the Association. The deliberate and material violation by the bidder, supplier, contractor or subcontractor of such provision may amount to obstructive practice.

APPENDIX**Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
5. “Fiji Electricity Authority” means the Republic of Fiji’s electricity authority established and operating pursuant to the Electricity Act of Fiji Act of 1966.
6. “Honiara” means the capital city of the Recipient.
7. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
8. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 14, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
9. “Project Implementing Entity” means SIEA.
10. “Project Implementing Entity’s Legislation” means the Recipient’s Electricity Act of 1969.
11. “SIEA” means Solomon Islands Electricity Authority, a statutory authority established and operating pursuant to the Electricity Act of 1969, and is the Project Implementing Entity for the Project.
12. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Grant available to the Project Implementing Entity.

