Financing Agreement

(Second Development Policy Financing)

between

SOLOMON ISLANDS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated 4 October, 2013
FINANCING AGREEMENT

AGREEMENT dated October 4, 2013, entered into between SOLOMON ISLANDS ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore 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 one million and four hundred thousand Special Drawing Rights (SDR 1,400,000 — variously “Grant” and “Financing”).

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 June 1 and December 1 in each year.

2.05. The Payment Currency is Dollar.
ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule I to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its 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 address: Telex: Facsimile:
INDEVAS 248423 (MCI) 1-202-477-6391
Washington, D.C.

AGREED at Honiara, Solomon Islands, as of the day and year first above written.

SOLOMON ISLANDS
By

Authorized Representative
Name: RECK N HOKENI PWELA
Title: MINISTER OF FINANCE

INTERNATIONAL DEVELOPMENT ASSOCIATION
By

Authorized Representative
Name: FRANZ R. DREES-GRoss
Title: COUNTRY DIRECTOR, EACNF
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

A. Improve Public Financial Management

1. Broaden Community Engagement in the Budget Process

   The Recipient has published a summary of the consultations with civil society organizations that occurred in preparing its 2012 budget and has carried out similar consultations in the formation of its 2013 budget, as evidenced through: (i) the “Solomon Islands Budget 2013 – Budget Strategy and Outlook – Budget Paper: Volume 1” circulated by the Recipient’s Minister of Finance and Treasury, as published on the website: http://www.mof.gov.sb/GovernmentFinances/Budgets.aspx; (ii) the attendance sheets for the 2013 budget consultation with civil society organizations, churches and provincial governments held from May 2012 to June 2012 for Honiara, and Malaita Provinces; and (iii) the “Report on 2013 Budget Consultation with Provincial Government, Civil Society Organizations and Churches – Better Responding to the Needs of all Solomon Islanders” dated August 3, 2012.

2. Strengthen the Planning and Tracking of Budget Expenditures

   The Recipient has adopted a new chart of accounts to plan and track expenditures by natural account codes across recurrent and development expenditures, as evidenced through the “Chart of Accounts 2013 Natural Account Codes Master List” dated October 29, 2012 distributed by the Recipient’s Ministry of Finance and Treasury to all Recipient’s Ministries, as per the Letter No 473/1/9/23 dated June 11, 2013 from the Recipient’s Permanent Secretary of the Ministry of Finance and Treasury.

3. Improve the Quality of Budget Formation and Execution

   The Recipient has adopted formal consultation mechanisms between the Recipient’s Ministries as part of the budget formation process to assess the full content of the Recipient’s Ministries spending proposals for the recurrent and development budgets, as evidenced through: (i) the Recipient’s “Extract for Action from Conclusion of the Cabinet” dated June 18, 2012, endorsing the 2013 budget strategy and process; (ii) the
Consultation Sheet for the 2013 Budget Process dated August 2012; and (iii) the Recipient’s Minister of Finance and Treasury Media Release (“2013 Budget is Launched”) dated June 6, 2012.

4. Improve Process for Approving Tax Exemptions

The Recipient has established a transparent and consistent process for approving tax exemptions, as evidenced through: (i) the official record from the Recipient’s National Parliament (with reference “Customs and Excise (Amendment) (No2) Act 2012 (No. 8 of 2012)) confirming that an “Act to amend the customs and excise Act (Cap. 121) and make consequential amendments to related tax acts” was passed by said National Parliament on November 27, 2012; and (ii) the Commencement Notice sent by the Recipient’s Minister for Finance and Treasury on June 28, 2013.

5. Improve Procurement Processes

The Recipient has established a dedicated procurement branch within its Treasury including dedicated units for policy and training, tender support and operational procurement, as evidenced through: (i) Letter dated June 6, 2013 (Ref: 473/1/9/23) from the Recipient’s Permanent Secretary of the Ministry of Finance and Treasury confirming the establishment of said dedicated procurement branch; and (ii) the Recipient’s Procurement and Contract Administration Manual dated April 2013.

B. Improve the Financial Position of Key State Owned Enterprises

6. Improve the Debt Situation of State Owned Enterprises

The Solomon Islands Electricity Authority and the Solomon Islands Water Authority in collaboration with the Recipient’s Ministry of Finance and Treasury have agreed on a mechanism for the reduction of the Solomon Islands Water Authority’s debt towards the Solomon Islands Electricity Authority, as evidenced through the “Debt Settlement Agreement” dated May 31, 2012 between the Recipient’s Ministries of Finance and Treasury and Mines, Energy and Rural Electrification on the one hand and the Solomon Islands Electricity Authority and the Solomon Islands Water Authority on the other hand.

C. Improve Extractive Revenue Transparency

7. Apply for Candidate Status to the Extractive Industries Transparency Initiative
The Recipient has applied successfully for candidate status to the Extractive Industries Transparency Initiative, as evidenced through: (i) the application letter (Ref: 472.09.11.01) dated May 10, 2012 signed by the Recipient’s Minister of Finance and Treasury and sent to the Chair of the Board of the Extractive Industries Transparency Initiative; (ii) the admission confirmation sent by the Head of the Secretariat of the Extractive Industries Transparency Initiative by letter to the Recipient’s Minister of Finance and Treasury dated July 3, 2012; and (iii) the press articles “SI attains EITI candidacy” published on the newspapers the Island Sun and the Solomon Star, both on July 10, 2013.

Section II. **Availability of Financing Proceeds**

A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. **Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>1,400,000</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>1,400,000</strong></td>
</tr>
</tbody>
</table>

C. **Withdrawal Tranche Release Conditions**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (a) with the Program being carried out by the Recipient, and (b) with the adequacy of the Recipient’s macroeconomic policy framework.

D. **Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the
Recipient’s budget management system, in a manner acceptable to the Association.

E. **Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. **Closing Date.** The Closing Date is December 31, 2014.
APPENDIX

Section I. Definitions

1. "Excluded Expenditure" means any expenditure:

(a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

(b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch</td>
</tr>
</tbody>
</table>
cases) and goldsmiths’ or silversmiths’ wares (including set gems)

| 971 | Gold, non-monetary (excluding gold ores and concentrates) |

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) 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;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.


3. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

4. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated June 27, 2013 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

5. “Recipient’s Ministries” means all the Recipient’s Ministries, or any successor thereof, as follows: (i) Office of the Prime Minister and Cabinet; (ii) Ministry of Public Service; (iii) Ministry of Development, Planning and Aid Coordination; (iv) Ministry of Finance and Treasury; (v) Ministry of Police, National Security
and Correctional Services; (vi) Ministry of Women, Youth and Children’s Affairs; (vii) Ministry of Education and Human Resources Development; (viii) Ministry of Health and Medical Services; (ix) Ministry of Foreign Affairs and External Trade; (x) Ministry of Commerce, Industry, and Employment; (xi) Ministry of Culture and Tourism; (xii) Ministry of Agriculture and Livestock Development; (xiii) Ministry of Lands, Housing and Survey; (xiv) Ministry of Infrastructure Development; (xv) Ministry of Communication and Aviation; (xvi) Ministry of Environment, Conservation Disaster Management and Meteorology; (xvii) Ministry of Fisheries and Marine Resources; (xviii) Ministry of Mines, Energy and Rural Electrification; (xix) Ministry of Provincial Government and Institutional Strengthening; (xx) Ministry of Home Affairs; (xxi) Ministry of National Unity, Reconciliation and Peace; (xxii) Ministry of Rural Development; (xxiii) Ministry of Justice and Legal Affairs; and (xxiv) Ministry of Forestry and Research.

6. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

7. “Solomon Islands Electricity Authority” means the Recipient’s autonomous, government-owned entity responsible for the generation, transmission, distribution and sale of electrical energy throughout the Recipient’s territory as created and operating under the Recipient’s Electricity Act of 1969.

8. “Solomon Islands Water Authority” means the Recipient’s autonomous, government-owned entity responsible for public water and sewerage services in the Recipient’s territory as created and operating under the Recipient’s Water Act of 1992.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 4.01 (Project Execution Generally), and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

"Section 4.06. Plans; Documents; Records

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records."

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

"Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing."

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

"‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement."

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:
"Program' means the program referred to in the Financing Agreement in support of which the Financing is made." All references to "Project" throughout these General Conditions are deemed to be references to "Program".