



Completion Report

Project Number: 46014-002
Loan Number: 3127
Grant Number: 0386
July 2019

Solomon Islands: Provincial Renewable Energy Project

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Asian Development Bank

CURRENCY EQUIVALENTS

Currency unit – Solomon Islands dollar (SI\$)

		At Appraisal (1 March 2014)	At Project Completion (15 October 2018)
SI\$1.00	=	\$0.14	\$0.128
\$1.00	=	SI\$7.30	SI\$7.81

ABBREVIATIONS

ADB	–	Asian Development Bank
COL	–	Commissioner of Lands
DSC	–	design and supervision consultant
FIRR	–	financial internal rate of return
km	–	kilometer
kW	–	kilowatt
kWh	–	kilowatt-hour
MMERE	–	Ministry of Mines, Energy and Rural Electrification
PMU	–	project management unit
SDR	–	special drawing right
SIEA	–	Solomon Islands Electricity Authority
SIG	–	Solomon Islands Government
WACC	–	weighted average cost of capital

NOTES

- (i) The fiscal year (FY) of the Government of Solomon Islands, Solomon Islands Electricity Authority ends on 31 December. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2018 ends on 31 December 2018.
- (ii) In this report, “\$” refers to United States dollars.

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BASIC DATA

A. Loan/Grant Identification

1.	Country	Solomon Islands
2.	Loan/Grant number and financing source	3127 (COL) / 0386 (ADF)
3.	Project title	Provincial Renewable Energy Project
4.	Borrower/Recipient	Solomon Islands/Ministry of Finance and Treasury
5.	Executing agency	Ministry of Mines, Energy and Rural Electrification
6.	Amount of loan/grant	\$6,000,000 / \$6,000,000
7.	Financing modality	Project Loan and Grant

B. Loan/Grant Data

1.	Appraisal	
	– Date started	17 June 2013
	– Date completed	28 June 2013
2.	Loan/Grant negotiations	
	– Date started	27 February 2014
	– Date completed	28 February 2014
3.	Date of Board approval	12 May 2014
4.	Date of loan/grant agreement	16 June 2014
5.	Date of loan/grant effectiveness	
	– In loan/grant agreement	14 September 2014
	– Actual	16 June 2015
	– Number of extensions	2
6.	Project completion date	
	– Appraisal	31 March 2022
	– Actual	15 October 2018
7.	Loan/grant closing date	
	– In loan/grant agreement	31 March 2022
	– Actual	15 October 2018
	– Number of extensions	None
8.	Financial closing date	
	– Actual	15 October 2018
9.	Terms of loan	
	– Interest rate	1.5%
	– Maturity (number of years)	32
	– Grace period (number of years)	8
10.	Terms of relending (if any)	
	– Interest rate	4% p.a. over \$6,000,000 and 1% p.a. for \$4,500,000
	– Maturity (number of years)	20
	– Grace period (number of years)	7
	– Second-step borrower	Solomon Islands Electricity Authority (SIEA)

11. Disbursements

a. Dates

Initial Disbursement 24 January 2017	Final Disbursement 27 September 2018	Time Interval 20 months
Effective Date 16 June 2015	Actual Closing Date 15 October 2018	Time Interval 40 months

b. Amount (\$ million)

Category	Original Allocation (1)	Increased during Implementation (2)	Canceled during Implementation (3)	Last Revised Allocation (4=1+2-3)	Amount Disbursed (5)	Undisbursed Balance (6 = 4-5)
Civil Works	1.90	-	-	1.90	0.00	1.90
Capacity Building	1.50	-	-	1.50	0.00	1.50
Equipment	0.40	-	-	0.40	0.00	0.40
Project Management	1.20	-	-	1.20	0.35	0.85
Contingencies	1.00	-	-	1.00	0.00	1.00
Total	6.00			6.00	0.35	5.65

C. Project Data

1. Project cost (\$ million)

Cost	Appraisal Estimate	Actual
Foreign exchange cost	8.50	0.43
Local currency cost	6.50	0.00
Total	15.00	0.43¹

¹Includes SIEA \$88,504 expenditure as per 2017 Audited Project Financial Statement and ADB disbursements of \$345,689.11.

2. Financing plan (\$ million)

Cost	Appraisal Estimate	Actual
Implementation cost		
Borrower financed	3.00	0.09
ADB financed	12.00	0.35
Total implementation cost¹	15.00	0.43
Interest during construction costs		
Borrower financed	-	-
ADB financed	-	-
Other external financing	-	-
Total interest during construction cost²	-	-

¹Actual costs (rounded \$0.43 million) SIEA \$88,504 expenditure and ADB disbursements of \$345,689.11.

²No interest costs as no construction took place and no loan proceeds were disbursed.

3. Cost breakdown by project component (\$ million)

Component	Appraisal Estimate	Actual
A. Base Cost^a		
1. Fiu River hydropower plant	8.70	
2. Distribution grid extension	0.60	
3. Capacity building	1.70	
4. Project Management	1.40	00.35
Subtotal (A)	12.40	
B. Contingencies	2.60	
Total (A+B)	15.00	00.35

^a Appraisal estimate includes taxes and duties of \$1.7 million.

Source: ADB. 2014. Report and Recommendation to the President, Solomon Islands, Provincial Renewable Energy Project, Manila.

4. Project schedule

Item	Appraisal Estimate	Actual
Date of contract with consultants		
(i) Azimuth Surveys: Cadastral Survey	April 2014	29 February 2016
(ii) Azimuth Surveys: Topographic Survey	April 2014	26 April 2016
(iii) Saman Corp: Supervision Consultants	July 2014	18 May 2016
(iv) Golder Associates: Geotechnical Investigation	July 2014	7 October 2016

5. Project performance report ratings

Implementation Period	Single Project Rating
From 16 June 2015 to 30 September 2019	On Track
From 1 October 2015 to 31 December 2015	Potential Problem
From 1 January 2016 to 31 March 2016	On Track
From 1 April 2016 to 30 June 2016	Potential Problem
From 1 July 2016 to 30 September 2016	Potential Problem
From 1 October 2016 to 31 December 2016	Potential Problem
From 1 January 2017 to 31 March 2017	On Track
From 1 April 2017 to 30 June 2017	Actual Problem
From 1 July 2017 to 30 September 2017	Actual Problem
From 1 October 2017 to 31 December 2017	On Track
From 1 January 2018 to 31 March 2018	On Track
From 1 April 2018 to 30 June 2018	On Track
From 1 July 2018 to 30 September 2018	Potential Problem
From 1 October 2018 to 15 October 2018	On Track

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members ^a
Reconnaissance	6-10 May 2013	2	5	a, f
Loan Fact Finding	17-28 June 2013	4	35	a,b,b,c
Loan Negotiations	25-28 February 2014	2	4	a, f
Review	15-19 September 2014	2	5	a, f
Review	16-20 March 2015	2	5	a, f
Review	27-31 July 2015	2	5	a, f
Review	19-30 October 2015	2	5	a, f
Review	28 January 2016	2	5	a, f
Review	24-28 July 2017	2	5	a, f
Special Loan Administration	30 January–3 February 2017	2	5	a, f
Midterm Review Mission	13-17 November 2017	2	5	a, f
Project completion review	25 February–3 March 2019	3	9	a, d, e

a = energy specialist/team leader, b = safeguard specialists, c = young professional, d = project analyst, e = senior operations assistant, f = resident mission representative.

I. PROJECT DESCRIPTION

1. **Rationale.** The project rationale was to increase renewable energy generation and energy access in the underserved provincial capital of Auki, Malaita Province. While Malaita Province has about 25% of the national population, it only has about 2% of total electricity generation capacity, and only about 3% of the population of Malaita has access to grid-connected power. Power generation in Auki is currently 100% diesel generation, which has contributed in high generation costs contributing to high tariffs. The high cost of electricity and the limited reach of the distribution grid are slowing economic growth in the provincial centers, including Auki, and impacting agriculture and tourism in particular.

2. The project was to assist the state-owned power utility Solomon Islands Electricity Authority (SIEA) to construct Fiu River hydropower plant, adjacent to Auki, and extend the distribution grid to Auki peri-urban households. This was to benefit the economy by (i) reducing fossil fuel imports; (ii) lower the cost of power generation, which will ease the pressure on power tariffs and thereby reduce commercial and household expenditure; (iii) improve energy security, and (iv) minimize tariff volatility by partially converting the national grid to renewable energy. The use of renewable energy also reduces greenhouse gas emissions, which contribute to global warming. Externally tendered operation and maintenance contracts, including capacity development of SIEA technical staff, was to improve the quality of power supply (by reducing outages) in Auki, and encourage economic development. The grid extension was to directly benefit new peri-urban customers by (i) replacing kerosene lighting with a cheaper form of energy, thereby freeing household expenditure; (ii) enabling household income generation; (iii) improving children's education; and (iv) reducing indoor health and safety issues associated with burning kerosene.

3. **Impact, Outcome and Outputs.** The impact of the project was increased economic activity in Auki, Malaita Province. The outcome was increased supply of more reliable and cleaner power to Auki, Malaita Province. The outputs of the project were (i) Fiu River hydropower plant put into operation by SIEA, (ii) extension of distribution grid by SIEA, (iii) capacity building undertaken for implementing agency and project beneficiaries, and (iv) the Project Management Unit renders efficient project management services.

II. DESIGN AND IMPLEMENTATION

4. The design and monitoring framework and the actual achievements are in Appendix 1.

A. Project Design and Formulation

5. The outcome of the Project was increased supply of more reliable and cleaner power to Auki, Malaita Province. At the time of approval, the project outcome was aligned with ADB's country program and national sector frameworks and development strategies. The project was included in ADB's country partnership strategy, 2012–2016 and the country operations business plan (2014–2016) at the request of the Solomon Islands Government (SIG).¹ The project was closely aligned with Solomon Islands' National Development Strategy, 2011–2020, which prioritized development of reliable and affordable power supply to urban centers from renewable energy and the expansion of access to electricity. The project was specifically included as a

¹ ADB. 2012. *Country Partnership Strategy: Solomon Islands, 2012–2016*. Manila.

priority investment in the Solomon Islands National Infrastructure Investment Plan.² It also supported Solomon Islands' National Energy Policy Framework, 2007 and the draft National Energy Policy Framework 2013, which both prioritize development of renewable energy.³ The project also supported the draft Solomon Islands Renewable Energy Investment Plan, 2013.⁴

6. The project design was initially selected through a site screening process under TA-7329 Promoting Access to Renewable Energy in the Pacific,⁵ and then through a site-specific design and due diligence process under a separate project preparation technical assistance (\$1 million).⁶ Government and SIEA showed strong ownership of the project. Hydropower was assessed to be the least cost technical option for conversion of the Auki grid from diesel generation to renewable energy. Extensive community consultation was undertaken by the Provincial Government prior to ADB's engagement, and ADB conducted additional extensive consultation with relevant stakeholders, including landowners.

7. Multiple financing modalities were assessed during project preparation including project loan, multi-tranche financing facility and sector loan. The project financing modality was selected as the project was a single site, with a relatively short construction period and did not suit multi-tranche or long-term sector loan modalities. This modality is considered appropriate. Project design was considered relevant at appraisal and is still considered relevant. ADB supports development of renewable energy in Solomon Islands and is currently supporting two separate renewable energy projects: (i) Solar Power Development Project and (ii) Tina River Hydropower.

B. Project Outputs

8. **Background.** The project was approved on 12 May 2014, the loan agreement was signed on 16 June 2014 and the project was declared effective on 16 June 2015. The extended period between signing of loan agreement and effectiveness was due to delays in signing the subsidiary loan agreement between SIEA and SIG, which was a loan effectiveness condition. This was the first such subsidiary loan agreement signed between SIEA and SIG and extended negotiations were required to agree on repayment obligations.

9. **Initial Works.** Following effectiveness on 16 June 2015, the Project Management Unit was established within SIEA and initial site preparation works undertaken, including topographical and cadastral surveys, geotechnical analysis and preliminary technical design. However, due to ongoing land acquisition delays, the project did not proceed to procurement of the Fiu River Hydropower Engineering, Procure, Construct (EPC) contract.

10. **Malaita Provincial Government.** The Malaita Provincial Government (MPG) had conducted significant land acquisition works prior to ADB financing being requested, as part of the provincial government de-risking of pre-identified priority investment sites. This included assigning a dedicated lands representative, identification of landowners, and multiple consultation meetings. Two Memoranda of Agreement were signed between landowners and the MPG to allow the project assessment to proceed (21 May 2013 and 14 August 2013).

² Government of Solomon Islands, Ministry of Development Planning and Aid Coordination. 2013. *Solomon Islands National Infrastructure Investment Plan*. Honiara.

³ Government of Solomon Islands, Ministry of Mines, Energy and Rural Electrification. 2007. *Solomon Islands' National Energy Policy Framework*. Honiara.

⁴ Government of Solomon Islands, Ministry of Mines, Energy and Rural Electrification. 2013. *Draft Solomon Islands Renewable Energy Investment Plan*. Honiara.

⁵ ADB. 2009. Regional Technical Assistance for Promoting Access to Renewable Energy in the Pacific. Manila.

⁶ ADB. 2013. Provincial Renewable Energy Project (formerly Outer Island Renewable Energy Project). Manila.

11. **Fiu River Hydropower site.** The project did not require physical relocation or loss of income for landowners but required about 11 hectares of customarily owned land. The project design was run-of-river so did not include a reservoir (only low diversion weir) and no impacts were expected upstream or downstream of the hydropower plant. Land acquisition and compensation were pursued as a negotiated agreement between SIG and customary landowners. Land acquisition was voluntary.

12. **Resettlement Plan.** As part of the resettlement plan preparation, ADB conducted significant consultation, including (i) socio-economic survey, (ii) 3 focus group discussions (total 75 persons), and (iii) 4 consultation meetings (total 175 persons).⁷ A Resettlement Plan was prepared and approved prior to Board approval which detailed consultations undertaken and issues discussed with effected persons. During project preparation a review was undertaken of alternative land acquisition models and lessons learnt from other large infrastructure projects in Solomon Islands. The Project was categorized as Involuntary Resettlement: Category B and Indigenous Peoples: Category C.

13. **Land Acquisition Process.** Land acquisition followed the national process mandated under the Land and Titles Act, including consultation with landowners at regular intervals. Land acquisition also followed the process in the Resettlement Plan. The process included:

- (i) A lands acquisition officer was appointed by the Commissioner of Lands (COL).
- (ii) Project was advertised and call for submissions from land claimants issued. The lands acquisition officer conducted wide consultations in both Auki and Honiara to ensure potential land claimants knew of the proposed project.
- (iii) Malaita Provincial Government and SIEA held parallel public consultations with potential land claimants to discuss the ongoing process and any land claimants concerns.
- (iv) Land acquisition officer assessed land claimants and determined landowners in accordance with national requirements.
- (v) A three-month appeal period expired on 14 May 2014.
- (vi) A Certificate of No Appeal was issued.
- (vii) The Commissioner of Lands (COL) then advised the Surveyor General to undertake the site survey (boundary of land to be leased).
- (viii) A valuation study was undertaken by the Valuation Unit, Ministry of Lands, Housing and Survey. SIEA advised land claimants that financial support was available for undertaking independent land evaluation.
- (ix) Funding was provided to the land claimants who undertook an independent valuation.

14. After the appeals period had expired, an additional claimant lodged an objection to the landowner identification process. The claimant was not identified as a landowner under the original survey and consultations and did not raise an opinion during the public submissions period. The Malaita Magistrates' Court in Auki reviewed the claim on 10 March 2015, sought advice from the Attorney General, and subsequently overturned the objection. The claimant then took the case to the High Court in Honiara which after repeated delays heard the case on 28 November 2016. Despite repeated enquiries from various levels of Government, the High Court did not deliver a finding. COL would not proceed with the lease agreement while there were outstanding court cases.

⁷ SMEC. April 2013. Fiu River Hydropower, Social Assessment (Community Consultations, FGD and Household Survey).

15. SIEA met with all land claimants and advised that if land acquisition was not settled the project would not proceed. In parallel, SIEA began assessing alternative sites for renewable energy supply to Auki Township. On 19 October 2017, the Minister of Finance and Treasury (Honorable John Maneniaru) requested ADB to revise the project site from the Fiu River Hydropower to the Kwainamoro Solar Plant site. ADB tentatively agreed to this proposal because the proposed change in scope was consistent with the original projects impact and outcome.

16. **Kwainamoro Solar Plant.** SIEA screened numerous sites near Auki for a solar farm and selected Kwainamoro site (3 hectares) as it was freehold (not customary land), land trustees supported its use as a solar farm and the site was adjacent to transmission infrastructure. SIEA commenced site assessment (financed through counterpart financing), including topographic and cadastral surveys and landowner consultation. ADB procured 4 individual consultants on behalf of SIG (financed through the project) to prepare feasibility studies and undertake due diligence of the site. However, prior to mobilization and preparation of a major change in scope for ADB management consideration, ADB required SIG to finalize land acquisition. The identified site was privately held by 5 Trustees, however following the death of one trustee, the remaining trustees and the family of the deceased trustee could not agree on a revised land ownership agreement, and could therefore not proceed with the lease to SIEA. SIEA met with the landowners on several occasions to keep them informed of the process and advise them of deadlines for making the land available. Due to extended delays in land acquisition at the Kwainamoro Solar Farm site, the Ministry of Finance and Treasury (MoFT) requested ADB to cancel the financing for the project (letter dated 28 August 2018).

17. The key performance indicators for the all project outputs were therefore not met as the Fiu Hydropower plant as well as distribution grid extensions were not constructed. Consequently, associated capacity building activities were also not completed as these were related to operation of the proposed infrastructure. This is summarized in Appendix 1. There were no major changes in scope processed.

C. Project Costs and Financing

18. At financial close, a total of \$434,193.11 had been spent on the project, including \$88,504 expenditure by SIEA (as per 2017 Audited Project Financial Statement) and ADB disbursements of \$345,689.11. There were no major contracts signed for the project (due to ongoing land acquisition delays) and no cost-overruns. Project cost at appraisal and actual is included in Appendix 2. The project was financially closed on 15 October 2018 and \$5,410,944.12 was cancelled.⁸

D. Disbursements

19. A total of \$345,689.11 was disbursed from Grant 0386 (total \$6,000,000) for initial project preparation activities. No funding from Loan 3127 was disbursed. Overall, 2.9% of ADB financing was disbursed. The original disbursement projections at the time of project effectiveness were realistic from a technical perspective, however the projections of time required for land acquisition was ultimately unrealistic. The projected and actual disbursement is included in Appendix 3.

⁸ The loan of \$6,000,000 (SDR 3,886,000) was closed on 15 October 2018 with the rate of 1 USD = SDR 1.392420. The USD equivalent on the closing date calculated was \$5,410,944.12.

E. Project Schedule

20. The schedules at appraisal and as implemented are in Appendix 6. The schedule delays were due to the following:

- (i) **Signing of Subsidiary Loan Agreement.** The project was approved on 12 May 2014 and became effective on 16 June 2015. The delay between approval and effectiveness was due to protracted negotiations between SIEA and MoFT over the subsidiary loan agreements. This pushed the schedule back 13 months.
- (ii) **Consultants recruitment.** There were delays in engaging design and supervision consultants as (i) SIEA was reluctant to proceed with recruitment prior to effectiveness due to uncertainty over repayment obligations, and (ii) change in site location required additional topographical surveys prior to commencement of design work.
- (iii) **Land acquisition.** Land acquisition was relatively on-schedule in relation to the appraisal schedule, until an out of appeals period objection was received. Significant delays were then experienced while court cases were deliberated, which ultimately resulted in cancellation of the project with no major contracts awarded.

21. The original closing date was 31 March 2022, however the actual closing date was 15 October 2018. The early closing date was due to cancellation of the project at the request of the Government. There were no extensions in loan or grant closing date.

F. Implementation Arrangements

22. Implementation arrangements designed at appraisal were applied and were considered adequate. No major changes were made to the implementation arrangements. The Ministry of Mines, Energy and Rural Electrification (MMERE) was the executing agency and SIEA was the implementing agency.

23. A Project Management Unit (PMU) was established within SIEA to implement the project, including (i) project manager (engineer), (ii) finance officer (part time), (iii) land acquisition officer (part time), and (iii) administrative assistant (part time). The PMU was supported by a design and supervision consultancy package. SIEA also provided project support through the SIEA outstation manager in Auki, who managed relationships with the Government and stakeholders in Malaita Province. A Project Steering Committee was established and held three meetings in 2016, however due to ongoing land acquisition delays, none of these meetings were held in 2017 or 2018.

24. The PMU structure was adequate for activities undertaken under the Project, including procuring and administering consultants and small works packages for initial site investigations and surveys, progress reports and preparation of withdrawal applications. Some minor delays were experienced as the SIEA team lead role was initially not full time, however a full time position was subsequently allocated. The PMU lands acquisition officer had significant experience in land acquisition in Solomon Islands, and provided valuable oversight over the lands acquisition officer appointed by COL.

25. SIG showed strong ownership in attempting to sort out the land acquisition issue, including the following:

- (i) Both SIEA and the MPG met with the land claimants to attempt and facilitate an out-of-court agreement.
- (ii) The Attorney General approached the Registrar of the High Court to request a timely delivery of the finding from the relevant judge.
- (iii) Permanent Secretaries from both MoFT and MMERE approached the High Court to request for an explanation regarding the delays in delivering a finding.

G. Technical Assistance

26. Project development was originally supported by TA-7329 Promoting Access to Renewable Energy in the Pacific⁹. The regional TA supported sector reform, capacity building and project screening in Solomon Islands, Papua New Guinea and Vanuatu. In Solomon Islands the TA screened renewable energy sites and completed pre-feasibility studies for five prioritized hydropower sites. This formed the basis for selection of the Fiu River Hydropower site for subsequent investment. The TA closure report concluded the TA as *successful*.¹⁰ The TA also developed the Solomon Islands national renewable energy plan, which formed part of the updated national Energy Policy.

27. Project development was then supported by a project preparation technical assistance (PPTA) Provincial Renewable Energy Project (formerly Outer island Renewable Energy Project).¹¹ The PPTA carried out due diligence and successfully supported due diligence and technical design of the Fiu River Hydropower Plant. The PPTA also conducted extensive social and environment safeguard assessments.

H. Consultant Recruitment and Procurement

28. The recruitment of the design and supervision consultants (DSC) was completed in accordance with ADB's *Guidelines on the Use of Consultants (2017, as amended from time to time)*, by using the quality and cost-based selection method with a weighting of 90:10. At the request of SIEA, ADB procured the consultants on their behalf. SIEA signed a lump sum contract with SAMAN on 18 May 2016. SAMAN completed preliminary design work. SIEA considered the work undertaken by SAMAN to be adequate. Due to ongoing land acquisition delays, a stop work notice was issued to SAMAN on 6 July 2017 and termination notification sent 27 September 2017. No major issues were encountered during the procurement or implementation of the DSC contract.

I. Gender Equity

29. The Project was classified as effective gender mainstreaming (EGM). A Gender Action Plan (GAP) was prepared and approved as a linked document to the RRP on 12 May 2014. As the project did not proceed to procurement of civil works contracts or construction, the gender performance targets set out in the GAP were not achieved.

⁹ ADB. 2009. *Regional Technical Assistance for Promoting Access to Renewable Energy in the Pacific*. Manila.

¹⁰ ADB. 2016. *Regional Technical Assistance Closure Report for Promoting Access to Renewable Energy in the Pacific*. Manila.

¹¹ ADB. 2013. *Project Preparatory Technical Assistance Report for Provincial Renewable Energy Project (formerly Outer Island Renewable Energy Project)*. Manila.

J. Safeguards

30. **Environment.** The project was assigned category B for environment following ADB's Safeguard Policy Statement (2009). The main environmental impacts identified in the initial environmental examination were related to construction impacts from the powerplant, powerlines and access roads. The only site activities conducted were topographical and geotechnical surveys. As such, environmental monitoring and reporting did not commence.

31. **Involuntary resettlement and indigenous peoples.** The Project was assigned category B for resettlement and category C for indigenous peoples following ADB's Safeguard Policy Statement (2009). A resettlement plan was prepared, approved by ADB and uploaded on ADB's website. Since detail design was not completed, the resettlement plan was not revised. The PMU included a land acquisition specialist. The design and supervision consultants also included national and international social safeguard specialists. An indigenous peoples' plan was not required.

K. Monitoring and Reporting

32. The project included 42 covenants (Appendix 8) which were complied with, or were not due, except the following:

- (i) Project Website (Financing Agreement, Schedule 5): Partially complied with. Project webpage was set up, however basic data on procurement of small topographic and geotechnical contracts were not uploaded.
- (ii) Land Acquisition and Involuntary Resettlement (Financing Agreement Schedule 5): Not complied with. The inability to complete land acquisition ultimately led to project cancellation.

33. All covenants stipulated in the financing agreements were assessed relevant and appropriate. No covenants were required to be modified during project implementation as the loan/grant was cancelled. Compliance with safeguard monitoring and periodic progress reporting covenants was deferred due to lack of progress on detail design and construction activity.

34. The audited project financial statements (APFS) were submitted as required. APFS for Fiscal Years 2015 and 2016 were deferred due to lack of disbursement. APFS for Fiscal Year 2018 (due on or before 30 June 2019) was submitted on time. There is a discrepancy between the disbursement recorded under APFS for Fiscal Year 2017 and the total amount disbursed. The unaccounted amount (\$68,343) is accounted for in APFS for Fiscal Year 2018.

III. EVALUATION OF PERFORMANCE

A. Relevance

35. The project's design and DMF are rated as *relevant* at appraisal and financial close. Power generation in Auki, the provincial capital of Malaita Province, is 100% diesel generation, which has contributed in high generation costs resulting in high tariffs. Malaita Province has exceptionally low access to the electricity grid. Malaita Province has about 25% of the national population, however it only has about 2% of total electricity generation capacity, and only about 3% of the population of Malaita has access to grid-connected power. The proposed project was to assist the state-owned power utility SIEA to construct Fiu River hydropower plant, adjacent to Auki, and extend the distribution grid to Auki peri-urban households. This was to benefit the

economy by (i) reducing fossil fuel imports; (ii) lower the cost of power generation, which will ease the pressure on power tariffs and thereby reduce commercial and household expenditure; (iii) improve energy security, and (iv) minimize tariff volatility by partially converting the national grid to renewable energy. The grid extension was to directly benefit new peri-urban customers by (i) replacing kerosene lighting with a cheaper form of energy, thereby freeing household expenditure; (ii) enabling household income generation; (iii) improving children's education; and (iv) reducing indoor health and safety issues associated with burning kerosene. This design remains relevant.

36. The project loan modality is considered appropriate. The project experienced significant delays due to land acquisition delays. While these delays were not immediately foreseeable, a more conservative project design may have included advanced land acquisition completed prior to Board approval.

B. Effectiveness

37. The project is rated as *ineffective* as the expected outcomes were not achieved. The outputs were not achieved as the project did not proceed due to land acquisition delays. The project was classified as effective gender mainstreaming (EGM). Gender benefits were ineffective as the gender action plan indicators were not met.

C. Efficiency

38. The project is rated as *inefficient* as the project economic benefits will not be realized.

D. Sustainability

39. The project is rated as *unsustainable* as the project financial benefits will not be realized as the project did not proceed to construction phase.

E. Development Impact

40. The development impact of the project is rated as *unsatisfactory* as the development impact will not be realized. The targets identified in the contribution to the ADB results framework will not be achieved.

F. Performance of the Borrower and the Executing Agency

41. The implementing agency, SIEA, showed strong ownership over the project. SIEA allocated (i) dedicated staff, (ii) counterpart financing for consulting, legal and travel fees relating to land acquisition costs, and (iii) provided dedicated office space and communications for consultants. However, there were delays between loan/grant signing and effectiveness due to protracted negotiations between MoFT and SIEA over allocation of responsibilities in the subsidiary loan agreement. The steering committee met regularly and provided oversight and guidance on key issues. MPG showed early strong ownership over the land acquisition process. SIEA allocated dedicated land acquisition staff and facilitated dialogue with landowners. However, once the land dispute entered the courts, the executing agency, MPG and SIEA had no authority to influence and expedite the court decision. As a result, failure to manage the land acquisition issue ultimately required early closure of the Project. The executing agency complied with ADB safeguard and auditing requirements, although these were minimal due to the limited implementation progress. The overall performance of the executing agency is rated *less than*

satisfactory, primarily due to the extended delays in achieving effectiveness and due to extended land acquisition issues which could not be resolved.

G. Performance of the Asian Development Bank

42. Project design is considered adequate and included innovative design components to address country specific capacity constraints, including extended 3-year operation and maintenance contracts built into project financing. ADB provided adequate support to the Project Management Unit, including (i) training for the finance manager for preparation and submittal of WA's, (ii) training for technical staff, and (iii) delegated procurement of design and supervision consultants on behalf of SIEA. ADB conducted advance land acquisition activities ahead of Board approval and conducted numerous safeguard reviews to assess progress on land acquisition, both by PARD safeguard specialists and independent consultants. Apart from the executing and implementing agencies, ADB kept regular communication with other relevant stakeholders, including development partners (to share lessons learnt), and MPG. ADB maintained flexibility in design scope, including a willingness to assess an alternative site, once it was clear the land acquisition issues at Fiu River were intractable.

43. ADB fielded 12 missions from 2013 to 2019, including project preparation missions, loan fact finding, loan negotiations and review missions. This is considered adequate. No review missions were held in 2018 as project progress was on hold while the High Court deliberated the land dispute case, however the Project team (including country office staff) were in constant communication with key stakeholders to gauge progress.

44. The overall performance of ADB is rated *satisfactory*. Although the project ultimately failed due to land acquisition delays impacting the Project, the resolution of the court case which prevented land acquisition, was beyond ADB control. Land acquisition due diligence at the time of project design was considered adequate.

H. Overall Assessment

45. The project is assessed with an overall rating of *unsuccessful* given that the outcome and outputs were not achieved.

Overall Ratings	
Criteria	Rating
Relevance	Relevant
Effectiveness	Ineffective
Efficiency	Inefficient
Sustainability	Unsustainable
Overall Assessment	Unsuccessful
Development impact	Unsatisfactory
Borrower and executing agency	Less than satisfactory
Performance of ADB	Satisfactory

ADB = Asian Development Bank.
Source: Asian Development Bank.

IV. ISSUES, LESSONS, AND RECOMMENDATIONS

A. Issues and Lessons

46. **Land Acquisition.** Despite significant resources dedicated to supporting the land acquisition process, and advance land acquisition action being undertaken prior to Board approval, the Project ultimately did not proceed due to land acquisition delays. Land acquisition is a major barrier to infrastructure development in Solomon Islands. In order to reduce the risk of delayed or cancelled projects in the future, pipelined energy projects could consider (i) requiring completion of land acquisition prior to Board consideration, and (ii) only selecting project sites that do not have existing land disputes and non-customary sites wherever possible.¹²

47. **Elite capture of land compensation payments.** Current local clan structures and national land acquisition processes encourage maneuvering by clan leaders to maximize compensation payments, which can delay or block project implementation. Models are currently being tested where compensation is paid directly to individual clan members, which may partially remove the disincentives for clan leaders to delay or block project progress.¹³ This also partially avoids formal recognition of clan leadership structures, which is traditionally fluid. These models were assessed during project preparation but considered to have excessive transaction costs for small projects such as the Fiu River Hydropower. This may be considered for future projects.

48. **Additional Lessons.** The following issues and lessons should also be considered:

- (i) Attendance fees. During initial landowner consultations, the Government paid attendance fees which created an incentive to hold more meetings and delay decisions. Clear directives should be given to Government not to pay attendance fees and explore options for more inclusive consultations without inducing any cash payment.
- (ii) Levels of compensation. Initial landowner dialogue should include independent advice on indicative compensation package sizes. This will manage inflated landowner perceptions of project benefits which impacts inter-clan coordination and overall compensation negotiation.

49. **Effectiveness Conditions.** The effectiveness condition that required signing of the subsidiary loan agreement (SLA) between the power utility and MoFT resulted in significant delays from Board approval to project effectiveness. This was the first SLA for SIEA and MoFT.

B. Recommendations

50. The following is recommended:

- (i) Land acquisition is completed prior to proceeding to Board approval for greenfield energy sector projects on customary land in Solomon Islands.¹⁴ It should be

¹² Solar Power Development Project, approved on 21 November 2016, is supporting solar power development on 5 provincial grids and selected sites which were non-customary. This has reduced land acquisition issues in project development.

¹³ Proposed loan and grant to the Solomon Islands for the Tina River Hydropower Project, Guadalcanal.

¹⁴ Note that land acquisition would still be carried out in compliance with ADB SPS.

- recognized that this will delay processing schedules and require upfront allocation of additional technical assistance to support land acquisition.¹⁵
- (ii) Consideration is given in future energy projects in Solomon Islands to models currently being tested where compensation is paid directly to individual clan members.
 - (iii) The SLA is signed prior to Board approval for energy sector projects where the power utility has no experience in signing SLA with the Government. This will reduce the risk of delays between loan signing and effectiveness.

51. **Covenants.** No revisions to the covenants are recommended as the project has been cancelled.

52. **Further action or follow-up.** No further actions or follow up is recommended.

53. **Timing of the project performance evaluation report.** Since the Project did not proceed to construction, a project performance evaluation report is not considered relevant.

¹⁵ This approach is being adopted for Tina River Hydropower, where ADB is requiring the Government to complete advanced land acquisition prior to PARD submitting the project for Board consideration.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Indicators and Targets	Project Achievements
Impact Increased economic activity in Auki, Malaita Province	<p>Increase in SIEA business customers by 20% in Auki by August 2020 compared with June 2014 baseline of 335</p> <p>Increase in registered businesses in Auki by 20% by August 2020 compared with June 2014.</p>	<p>Not achieved</p> <p>Not monitored as project did not proceed</p>
Outcome SIEA has increased supply of more reliable and cleaner power to Auki, Malaita Province	<p>Renewable energy generation increased as a percentage of Auki power generation, from 0% in June 2014 to 99% (2.04 GWh) by June 2018</p> <p>Duration of outages for customers reduced by 20% in Auki by June 2018 compared to June 2014</p> <p>CO₂ emissions reduced by 1623 tCO_{2e} by January 2018, relative to June 2014 baseline</p> <p>Diesel imports into Malaita Province for power generation reduced by 672,000 liters by March 2018 relative to June 2014 baseline</p>	<p>Not achieved. Renewable energy generation for Auki remains at 0%.</p> <p>Not monitored as project did not proceed</p> <p>Not achieved</p> <p>Not achieved</p>
Outputs 1. Fiu River Hydropower plant put into operation by SIEA	2.04 GWh hydropower generated from the Fiu River Hydropower Plant per annum by June 2019 (2014 baseline 0.0 GWh)	Not achieved
2. Extension of distribution grid by SIEA	<p>SIEA increases household customers from 274 in June 2014 to 524 in June 2020 including subsidized connections to households headed by women</p> <p>Construction of additional 9.7 km distribution line by June 2020 (June 2014 baseline: 0km distribution line to Fiu River hydropower plant)</p> <p>SIEA increases commercial customers by 20% by February 2020 (baseline 335 in June 2014)</p>	<p>Not achieved</p> <p>Not achieved</p> <p>Not monitored as project did not proceed</p>
3. Capacity building undertaken for implementing agency and project beneficiaries	<p>PMU conducts training workshops for 250 newly connected households including power safety, household utility budget and business skills (including 50% women participation) by June 2018</p> <p>Minimum 6 SIEA staff receive</p>	<p>Not achieved</p> <p>Not achieved</p>

Design Summary	Performance Indicators and Targets	Project Achievements
	comprehensive training in hydropower operation by operation and maintenance contractors by September 2021	
4. The PMU renders efficient project management services	PMU meets annual target contract awards and disbursements PMU conducts training activities for PMU staff and SIEA management, including gender awareness training by June 2015	Not achieved Not achieved

ADB = Asian Development Bank, EPC = engineer-procure-construct, GWh = gigawatt-hour, MWh = megawatt-hour, O&M = operation and maintenance, PMU = Project Management Unit, SDR = special drawing right, SIEA = Solomon Islands Electricity Authority, tCO₂e = tons carbon dioxide equivalent.
Source: Asian Development Bank.

PROJECT COST AT APPRAISAL AND ACTUAL
(\$ million)

Item	Appraisal Estimate		Actual	
	Foreign Exchange	Total Cost	Foreign Exchange	Total Cost
A. Investment Costs				
1. Civil Works	6.90	6.90	0.00	0.00
2. Equipment	0.40	0.40	0.00	0.00
3. Land Acquisition	0.70	0.70	0.09	0.09
4. Project Management	1.20	1.20	0.35	0.35
5. Capacity Building	1.50	1.50	0.00	0.00
Subtotal (A)	10.70	10.70	0.43	0.43
B. Taxes and Duties	1.70	1.70	0.00	0.00
Subtotal (A+B)	12.4	12.4	0.00	0.00
C. Contingencies				
1. Physical	1.20	1.20	0.00	0.00
2. Price	1.40	1.40	0.00	0.00
Subtotal (C)	2.60	2.60	0.00	0.00
Total (A+B+C)	15.00	15.00	0.350	0.35

Source: Asian Development Bank estimates.

PROJECT COST BY FINANCIER

Table A3.1: Project Cost at Appraisal by Financier

Item	ADB (ADF Loan)		ADB (ADF Grant)		Government		Total Cost
	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	Amount
A. Investment Costs							
1. Civil Works	5.0	73%	1.9	27%	0	0%	6.9
2. Equipment	0.0	0%	0.4	100%	0	0%	0.4
3. Land acquisition	0.0	0%	0.0	0%	0.7	100%	0.7
4. Project Management ^a	0.0	0%	1.2	100%	0	0%	1.2
5. Capacity Building ^b	0.0	0%	1.5	100%	0	0%	1.5
Subtotal (A)	5.0	40%	5.0	40%	0.7	0%	10.7
B. Taxes and Duties							
1 Taxes and Duties	0.0	0%	0.0	0%	1.7	100%	1.7
Total Base Cost (A+B)	5.0	40%	5.0	40%	2.4	0%	12.4
C. Contingencies^c	1.0	40%	1.0	40%	0.6	0%	2.6
Total Project Cost (A+B+C)	6.0		6.0		3.0		15.0
% Total Project Cost		40%		40%		20%	100%

^aIncludes design and supervision consultants.

^bIncludes operation and maintenance contract and design and supervision consultants.

^cPhysical contingencies are computed at 10% of base cost, price contingencies are computed by expenditure based on annual domestic and foreign inflation.

Source: ADB estimate.

Table A3.2: Project Cost at Completion by Financier

Item	ADB (ADF Loan)		ADB (ADF Grant)		Government		Total Cost
	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	Amount
A. Investment Costs							
1. Civil Works	0.00	0%	0.00	0%	0.00	0%	0.00
2. Equipment	0.00	0%	0.00	0%	0.00	0%	0.00
3. Land acquisition	0.00	0%	0.00	0%	0.09	100%	0.09
4. Project Management ^a	0.00	0%	0.35	100%	0.00	0%	0.35
5. Capacity Building ^b							
Subtotal (A)	0.00	0%	0.35	0%	0.09	0%	0.43
B. Taxes and Duties							
1 Taxes and Duties	0.00	0%	0.00	0%	0.00	0%	0.00
Total Base Cost (A+B)	0.00	0%	0.00	0%	0.00	0%	0.00
C. Contingencies^c	0.00	0%	0.00	0%	0.00	0%	0.00
Total Project Cost^d (A+B+C+D)	0.00	0%	0.35	100%	0.09	100%	0.43
% Total Project Cost		0%		100%		0%	100%

^aIncludes design and supervision consultants.

^bIncludes operation and maintenance contract and design and supervision consultants.

^cPhysical contingencies are computed at 10% of base cost, price contingencies are computed by expenditure based on annual domestic and foreign inflation.
Source: ADB estimate.

^dIncludes Solomon Islands Electricity Authority spending of \$88,504 for consulting, legal and travel fees relating to land acquisition costs as outlined in note 6 of the 2017 Audited Project Financial Statement for the Provincial Renewable Energy Project. ADB grant disbursements total \$345,689.11 to make total Project cost \$434,193.11 (rounded to \$0.43 million).

DISBURSEMENT OF ADB LOAN AND GRANT PROCEEDS

Table 4.1: Annual and Cumulative Disbursement of ADB Loan and Grant Proceeds
(\$ million)

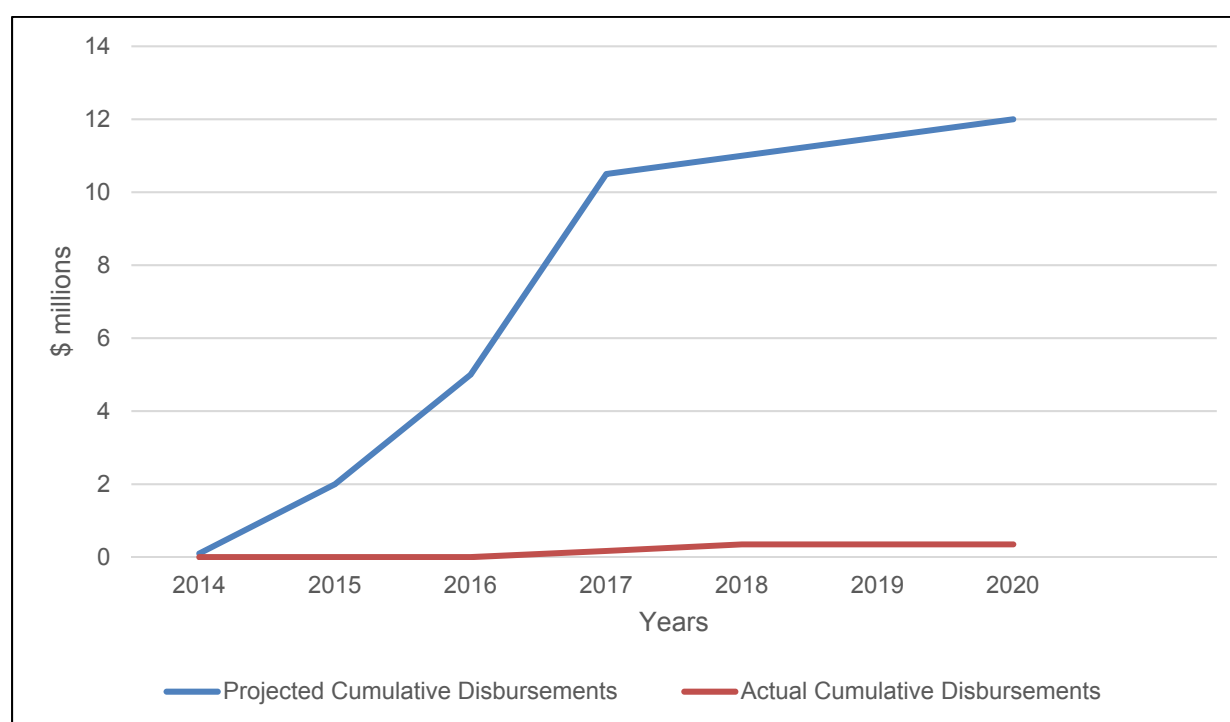
Year	Annual Disbursement ¹		Cumulative Disbursement	
	Amount (\$ million)	% of Total	Amount (\$ million)	% of Total
2017	0.167	48	0.167	48
2018	0.179	52	0.346	100
Total	0.346	100.0%		

ADB = Asian Development Bank.

Source: Asian Development Bank.

¹No loan proceeds disbursed, only grant funds

Figure 4.1: Projection and Cumulative Disbursement of ADB Loan and Grant Proceeds



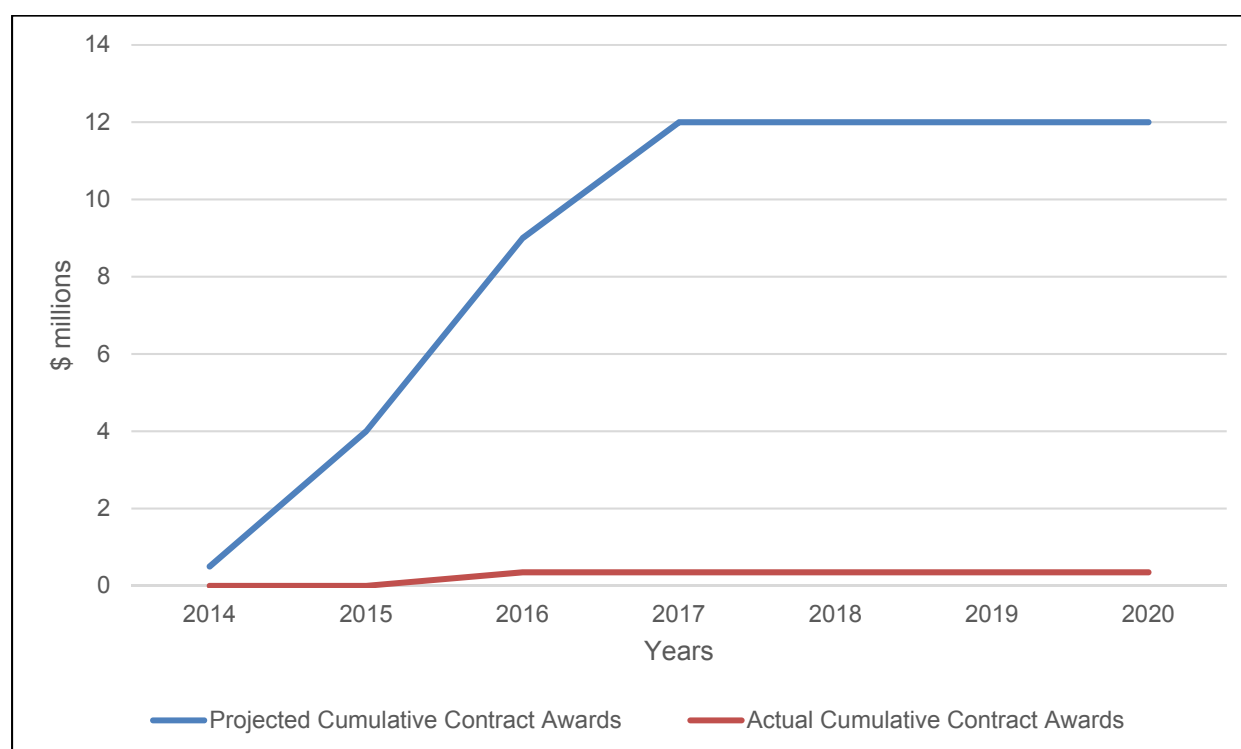
CONTRACT AWARDS OF ADB LOAN AND GRANT PROCEEDS

Table 5.1: Annual and Cumulative Contract Awards of ADB Loan and Grant Proceeds
(\$ million)

Year	Annual Contract Awards		Cumulative Contract Awards	
	Amount (\$ million)	% of Total	Amount (\$ million)	% of Total
2016	0.346	100	0.346	100
Total	0.346	100.0%	0.346	100

ADB = Asian Development Bank.
Source: Asian Development Bank.

Figure 5.1: Projection and Cumulative Contract Awards of ADB Loan and Grant Proceeds
(\$ million)



CHRONOLOGY OF MAIN EVENTS

Date	Event
<u>2013</u>	
21 May	First Landowner MOU signed
17–28 June	Loan Fact Finding
14 August	Second Landowner MOU signed
<u>2014</u>	
12 May	Board Approval
14 May	3-month land claimant appeal period closed
16 June	Loan signing
<u>2015</u>	
10 March	Malaita Magistrates Court reviewed the claim
19 March	Loan negotiations
16 June	Loan effective
<u>2016</u>	
18 May	SAMAN signed contract
28 November	High Court heard land claim
<u>2017</u>	
6 July	SAMAN stop work notice issued
27 September	SAMAN termination notification
19 October	Minister of Finance and Treasury requested ADB to revise the project site
13–17 November	Midterm Review Mission
<u>2018</u>	
28 August	Ministry of Finance and Treasury request Project cancellation
15 October	Loan Closing Date

Source: Asian Development Bank.

PROJECT IMPLEMENTATION SCHEDULE

<i>Project Schedule - Provincial RE Project</i>	2014				2015				2016				2017				2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Preparatory Works																												
Loan Effective																												
Consultants Recruitment																												
Topographical Survey																												
Geotechnical Survey																												
Land Acquisition																												
EPC Tender Design and Tendering																												
Preliminary Engineering Design																												
Tender Documentation																												
Tendering and Bid Evaluation																												
Tender Award																												
Project Construction																												
Weir/Intake																												
Headrace Canal																												
Penstock																												
Powerhouse																												
Electro-mechanical																												
Water control plant																												
Transmission and distribution																												
Testing and Commissioning																												
Operations and Maintenance Contract																												
Tender																												
Contract Award																												
Operation and Maintenance Services																												
Project Completion																												

Projected
Actual

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference	Status of Compliance
Implementation Arrangements. The Beneficiary and SIEA shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such changes by the Beneficiary, SIEA and ADB. In the event of any discrepancy between the PAM and this Financing Agreement, the provisions of this Financing Agreement shall prevail.	Financing Agreement Schedule 5	Complied. There were changes to implementation arrangements and the Beneficiary and SIEA consulted appropriately with ADB.
Counterpart Support. The Beneficiary and SIEA shall make available adequate budgetary allocations of the required counterpart funds in respect of the Project on a timely and regular basis. The Beneficiary and SIEA shall meet any financing shortfall to ensure that the Project is fully implemented.	Financing Agreement Schedule 5	Complied
The Beneficiary shall ensure that all its ministries, agencies and divisions involved in the implementation of the Project, including local Government authorities, give their full cooperation to ensure smooth implementation of the Project. Specifically, the Beneficiary and SIEA shall fully cooperate to ensure that any licenses, permits or approvals required in connection with the Works are issued in a timely manner.	Financing Agreement Schedule 5	Complied
Project Website. Within 7 months after the Effective Date, SIEA shall create a dedicated page on its webpage to disclose information about the Project, including with respect to procurement. With regard to procurement, the website shall include information on the list of participating bidders, name of the winning bidder, basic details on basic bidding procedures adopted, amount of contract awarded, and the list of goods/services procured.	Financing Agreement Schedule 5	Partially Complied. Project webpage set up, however basic data on procurement of small topographic and geotechnical contracts were not uploaded.
Grievance Redress Mechanism. Within 12 months after the Effective Date, the Beneficiary and SIEA shall prepare a grievance redress mechanism, acceptable to ADB, and establish a special committee to receive and resolve complaints/grievances or act upon reports from stakeholders on misuse of funds or other irregularities, including grievances due to resettlement. The special committee will (a) make public the existence of the grievance redress mechanism; (b) review and address grievances of stakeholders of the Project, in relation to either the Project, or any of the service providers, or any person responsible for carrying out any aspect of the Project; and (c) proactively and constructively respond to them.	Financing Agreement Schedule 5	Complied.
Environment. The Beneficiary and SIEA shall ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Beneficiary relating to environment, health and safety; (b) the Environmental Safeguards; and (c) all measures and requirements set forth in the IEE, the EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.	Financing Agreement Schedule 5	Complied.
Land Acquisition and Involuntary Resettlement. The Beneficiary and SIEA shall ensure that all land and all rights-of-way required for the Project are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land	Financing Agreement Schedule 5	Not complied. The inability to complete land acquisition

Covenant	Reference	Status of Compliance
acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Beneficiary relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the RP, and any corrective or preventative actions set forth in the Safeguards Monitoring Report.		ultimately led to project cancellation.
Without limiting the application of the Involuntary Resettlement Safeguards or the RP, the Beneficiary and SIEA shall ensure that no physical or economic displacement takes place in connection with the Project until: (a) compensation and other entitlements have been provided to affected people in accordance with the RP; and (b) a comprehensive income and livelihood restoration program has been established in accordance with the RP.	Financing Agreement Schedule 5	Land acquisition did not proceed to compensation stage.
Safeguards – Related Provisions in Bidding Documents and Works Contracts. The Beneficiary and SIEA shall ensure that all bidding documents and contracts for Works contain provisions that require contractors to: (a) comply with the measures relevant to the contractor set forth in the IEE, the EMP and the RP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in a Safeguards Monitoring Report; (b) make available a budget for all environmental and social measures; (c) provide SIEA with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP and the RP; (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; (e) reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.	Financing Agreement Schedule 5	Project did not proceed to preparation of bidding documents or award of major contracts.
Safeguards Monitoring and Reporting. The Beneficiary and SIEA shall do the following: (a) submit semi-annual Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission; (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP and the RP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and (c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP or the RP promptly after becoming aware of the breach.	Financing Agreement Schedule 5	Semi-annual Safeguard Monitoring Reports were not submitted as project did not proceed to construction.
Prohibited List of Investments. The Beneficiary and SIEA shall ensure that no proceeds of the Loan and Grant are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.	Financing Agreement Schedule 5	Complied.
Labor, Health and Social Protection. The Beneficiary and SIEA shall ensure that Works contracts and bidding documents under the Project include specific provisions requiring contractors to comply with all applicable labor laws and core labor standards on (a) prohibition of child labor as defined in national legislation for construction and	Financing Agreement Schedule 5	Project did not proceed to construction.

Covenant	Reference	Status of Compliance
maintenance activities; (b) equal pay for equal work of equal value regardless of gender, ethnicity or caste; (c) elimination of forced labor; (d) appropriate facilities for workers at construction sites; and (e) the requirement to disseminate information on sexually transmitted diseases including HIV/AIDS to employees and local communities.		
Gender and Development. To ensure that women benefit equally from the Project and interventions avoid gender bias, the Beneficiary and SIEA shall ensure that the Project is carried out in accordance with ADB's Policy on Gender and Development (1998) and the GAP. The Beneficiary and SIEA shall ensure that adequate resources are allocated for this purpose. In particular, the Beneficiary shall cause SIEA to (a) ensure that the GAP's targets are achieved; (b) train all SIEA staff on the GAP; and (c) closely monitor and report to ADB on the implementation of the GAP.	Financing Agreement Schedule 5	Complied.
Operation and Maintenance. The Beneficiary and SIEA shall ensure that the Project facilities are properly maintained and that proper technical supervision and adequate routine funds are provided for this purpose. Furthermore, the Beneficiary and SIEA shall ensure that sufficient funds are earmarked in their respective operation and maintenance budgets, and allocated and released on a timely basis, for the maintenance and rehabilitation of the Project facilities. The Beneficiary and SIEA shall ensure that all equipment and spare parts financed under the Project are used exclusively for the maintenance and operation of the Project.	Financing Agreement Schedule 5	Not due.
Financial Ratios of SIEA. Throughout the Project implementation period, (i) SIEA shall maintain a debt-service coverage ratio of at least 1.2 and (ii) SIEA shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 1.5. For the purposes of this provision, the term "debt" means any indebtedness maturing by its terms more than one year after the date on which it is originally incurred.	Financing Agreement Schedule 5	Complied.
Project Performance and Monitoring System. Within 6 months after Effective Date, SIEA with the support of consultants shall establish a project performance monitoring system in line with the targets, indicators set in the Project design and monitoring framework. Within 12 months after the Effective Date, the baseline data corresponding to indicators and targets set out in the project status report will be disaggregated by income levels and gender as required. After the initial baseline survey, the SIEA, with the support of the consultants, shall conduct annual survey and quarterly monitoring of indicators and submit quarterly reports to ADB throughout project implementation.	Financing Agreement Schedule 5	Not due as project did not proceed to procurement of main civil works contracts.
Governance and Anticorruption. The Beneficiary and SIEA 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 Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.	Financing Agreement Schedule 5	Complied.
The Beneficiary and SIEA shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.	Financing Agreement Schedule 5	Not due.

Covenant	Reference	Status of Compliance
<p>(a) SIEA shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.</p> <p>(b) Without limiting the generality of the foregoing, SIEA undertakes to insure, or cause to be insured, the Goods to be imported for the Project against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods.</p>	Project Agreement	Not due.
<p>SIEA shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Loan or the Grant, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.</p>	Project Agreement	Complied.
<p>(b) Without limiting the generality of the foregoing, SIEA shall furnish to ADB periodic reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.</p> <p>(c) Promptly after physical completion of the Project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, SIEA shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by SIEA of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan and the Grant.</p>	Project Agreement	<p>Quarterly reports not submitted as land acquisition delays prevented substantive project progress.</p> <p>Physical completion not achieved.</p>
<p>(a) SIEA shall</p> <ul style="list-style-type: none"> (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements for the Project audited annually 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; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Loan and the Grant proceeds and compliance with the financial covenants of the Financing Agreement and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request. <p>(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.</p>	Project Agreement	<p>Complied, except (iv) as no auditor's opinion was provided on compliance with the financial covenant on debt service coverage ratio.</p> <p>Complied.</p>

Covenant	Reference	Status of Compliance
<p>(c) In addition to annual audited financial statements referred to in subsection (a) hereinabove, SIEA shall</p> <p>(i) provide its annual financial statements prepared in accordance with national accrual-based financing reporting standards acceptable to ADB;</p> <p>(ii) have its financial statements audited annually 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; and</p> <p>(iii) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements in the English language and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.</p> <p>(d) SIEA shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and SIEA and its financial affairs where they relate to the Project with the auditors appointed by SIEA pursuant to subsections (a)(iii) and (c) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of SIEA, unless SIEA shall otherwise agree.</p>		<p>Complied.</p> <p>Not required to date.</p>
In the carrying out of the Project and operation of the Project facilities, the Beneficiary shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Financing Agreement.	Financing Agreement Article IV Section 4.01	Complied to date
ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.	Financing Agreement Article IV Section 4.02	Complied
The Beneficiary shall enable ADB's representatives to inspect the Project, the Goods and Woks, and any relevant records and documents.	Financing Agreement Article IV Section 4.03	Complied to date
The Beneficiary shall take all action which shall be necessary on its part to enable SIEA to perform its obligations under the Project Agreement and shall not take or permit any action which would interfere with the performance of such obligations.	Financing Agreement Article IV Section 4.04	Beneficiary was ultimately not able to arrange land title
<p>(a) The Beneficiary shall exercise its rights under the Subsidiary Financing Agreement in such a manner as to protect the interests of the Beneficiary and ADB and to accomplish the purposes of the Loan and the Grant.</p> <p>(b) No rights or obligations under the Subsidiary Financing Agreement shall be assigned, amended, or waived without the prior concurrence of ADB.</p>	Financing Agreement Article IV Section 4.05	<p>Complied</p> <p>Complied</p>
<p>(a) SIEA shall carry out the Project with due diligence and efficiency, and in conformity with sound applicable technical, financial, business, and development practices.</p> <p>(b) In the carrying out of the Project and operation of the Project facilities, SIEA shall perform all obligations set forth in the Financing Agreement to the extent that they are applicable to SIEA.</p>	Project Agreement Article II Section 2.01	<p>Complied</p> <p>Complied</p>
SIEA shall make available, promptly as needed, and in term and conditions acceptable to ADB, the funds, facilities, services, land and other resources as required, in addition to the proceeds of the Loan and the Grant, for the carrying out of the Project	Project Agreement Article II Section 2.02	SIEA was ultimately unable to make land available
<p>(a) In the carrying out of the Project, SIEA shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.</p> <p>(b) Except as ADB may otherwise agree, SIEA shall procure all items of expenditures to be financed out of the proceeds of the Loan or</p>	Project Agreement Article II Section 2.03	<p>Complied</p> <p>Complied</p>

Covenant	Reference	Status of Compliance
the Grant in accordance with the provisions of Schedule 4 to the Financing Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Beneficiary and ADB or where the terms and conditions of the contract are not satisfied to ADB.		
SIEA shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. SIEA shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such details as ADB shall reasonably request.	Project Agreement Article II Section 2.04	Complied to date
(a) SIEA shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice. (b) Without limiting the generality of the foregoing, SIEA undertakes to insure, or cause to be insured, the Good to be imported for the Project against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance and indemnity shall be payable in a currency freely usable to replace or repair such Goods.	Project Agreement Article II Section 2.05	Complied as not due Complied as not due
SIEA shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Loan or the Grant, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.	Project Agreement Article II Section 2.06	Complied
(a) ADB and SIEA shall cooperate fully to ensure that the purposes of the Loan and the Grant will be accomplished. (b) SIEA shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement or the Subsidiary Financing Agreement, or the accomplishment of the purposes of the Loan and the Grant. (c) ADB and SIEA shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, SIEA, the Loan and the Grant.	Project Agreement Article II Section 2.07	Complied Complied Complied
(a) SIEA shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan, the Grant and the expenditure of the proceeds thereof; (ii) the items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial conditions of SIEA; and (v) any other matters relating to the purposes of the Loan and the Grant. (b) Without limiting the generality of the foregoing, SIEA shall furnish to ADB periodic reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period. (c) Promptly after physical completion of the project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, SIEA shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operations of the Project,	Project Agreement Article II Section 2.08	Complied Complied Complied as not due

Covenant	Reference	Status of Compliance
including its cost, the performance by SIEA of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan and the Grant.		
<p>(a) SIEA shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements for the Project audited annually 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; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Loan and the Grant proceeds and compliance with the financial covenants of the Financing Agreement and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.</p> <p>(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.</p> <p>(c) In addition to annual audited financial statements referred to in subsection (a) hereinabove, SIEA shall (i) provide its annual financial statements prepared in accordance with national accrual-based financing reporting standards acceptable to ADB; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements in the English language and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.</p> <p>(d) SIEA shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and SIEA and its financial affairs where they relate to the Project with the auditors appointed by SIEA pursuant to subsections (a)(iii) and (c) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of SIEA, unless SIEA shall otherwise agree.</p>	Project Agreement Article II Section 2.09	<p>Complied, except (iv) as no auditor's opinion was provided on compliance with the financial covenant on debt service coverage ratio.</p> <p>Complied</p> <p>Complied</p> <p>Complied as not requested</p>
SIEA shall enable ADB's representatives to inspect the Project, the Goods and Works and any relevant records and documents.	Project Agreement Article II Section 2.10	Complied as not requested
<p>(a) SIEA shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its operations.</p> <p>(b) SIEA shall at all times conduct its operations in accordance with sound applicable technical, financial, business, development and operational practices, and under the supervision of competent and experienced management and personnel.</p> <p>(c) SIEA shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed,</p>	Project Agreement Article II Section 2.11	<p>Complied</p> <p>Complied</p> <p>Complied</p>

Covenant	Reference	Status of Compliance
make all necessary repairs and renewals thereof, all in accordance with sound applicable technical, financial, business, development, operational and maintenance practices.		
Except as ADB may otherwise agree, SIEA shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations of the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.	Project Agreement Article II Section 2.12	Complied
Except as ADB may otherwise agree, SIEA shall apply the proceeds of the Loan and the Grant to the Financing of expenditures on the Project, in accordance with the provisions of the Financing Agreement and this Project Agreement, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the Project.	Project Agreement Article II Section 2.13	Complied
Except as ADB may otherwise agree, SIEA shall duly perform all its obligations under the Subsidiary Financing Agreement, and shall not take, or concur in, any action which would have the effect of assigning, amending, aborting or waiving any rights or obligations of the parties under the Subsidiary Financing Agreement.	Project Agreement Article II Section 2.14	Complied
SIEA shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of the Solomon Islands Electricity Act of 1969, which, if implemented, could adversely affect the carrying out of the Project or the operation of the Project facilities. SIEA shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.	Project Agreement Article II Section 2.15	Complied as not required