

法規名稱：MEMORANDUM OF UNDERSTANDING BETWEEN THE REPUBLIC OF CHINA AND SOLOMON ISLANDS ON FINANCING RURAL CREDIT PROJECT (AD.1998.07.06)

簽訂日期：民國 87 年 07 月 06 日

生效日期：民國 87 年 07 月 06 日

Whereas the Republic of China and Solomon Islands (hereinafter referred to as the Contracting Parties) wish to further strengthen their economic cooperation, and through such cooperation to deepen their traditional friendship;

Whereas the Republic of China wishes to share its development experiences and Solomon Islands considers such experiences are of great value to its development efforts;

Whereas the Republic of China and Solomon Islands recognize the importance of rural development for Solomon Islands' economic progress; and

Whereas Solomon Islands recognizes that the Small Holder's Project carried out by the ROC agricultural technical mission has made substantial contribution to the wellbeing of rural people.

Now therefore the parties hereto hereby agree as follows:

- (a) The Republic of China agrees to provide a US\$2 million concessional loan to the Government of Solomon Islands to finance the proposed Rural Credit Project, substantially in accordance with the provisions set forth in Annex to this Memorandum of Understanding;
- (b) The Solomon Islands wishes to confirm that the concessional loan mentioned above and provided by the Republic of China is important to its development program and undertakes to provide all necessary resources to implement the program mentioned in the Annex to this Memorandum of Understanding.
- (c) This Memorandum of Understanding shall enter into effect upon signature.

- (d) This Memorandum of Understanding may be amended by mutual consent through the diplomatic channel.
- (e) Either of the Contracting Parties may terminate this Memorandum of Understanding at any time by giving six months' written notice to the other Party through the diplomatic channel.

IN WITNESS WHEREOF the undersigned, being duly authorized, have signed this Memorandum of Understanding.

Done at Honiara, in duplicate, in the English language, This sixth day of July, 1998.

For the Republic of China

[Signed]

蕭萬長

For Solomon Islands

[Signed]

Ulfaalu

Annex

Project Description

Rural Credit Project for the Solomon Islands

A. Project Objectives and Description

1. The primary objective of the project is to accelerate rural development of the Solomon Islands. The development potentials in the country, especially those in rural area, are not well activated due to lack of funding sources and skills required for profitable commercial and production activities. Two goals are envisaged by the proposed project. First, by providing lines of credit through the Development Bank of Solomon Islands (the DBSI) and the Credit Union League (SICUL) to the rural people, the project aims to overcome the resource constraint f-

aced by the rural people, and to enhance the efficiency of resource mobilization and strengthen the mechanism for development fund intermediation and allocation. Second, by providing credit to the participants of the rice produce extension project sponsored by ROC agricultural technical mission, the project will assist the farmers to sustain their level of production and increase the income of rural farmers.

2. Project Description. The ICDF will provide an U.S. dollar term loan in an aggregate principal amount not exceeding US\$2M to the Government of Solomon Islands (SIG) for 15 years (including 3 years grace period) at an interest rate of 3.5% per annum payable semiannually. The SIG will in turn channel the loan proceeds in SI dollars to finance the activities undertaken under the following four components:

a. Credit to the DBSI (US\$1.9M)

1. Rural Credit: US\$1.5M will be channeled through the DBSI to finance income generating activities of the individuals, communities, or enterprises. The terms and conditions for this line of operations is as follows:

.Project area: rural areas that encompass all over the Solomon Islands except for the Honiara city

.Eligible sub-projects: the activities to be financed will be as broad as possible to cover all kinds of income generating activities in rural area, which may include, but not limited to, projects in the agricultural, industrial, commerce, transportation, and service sectors.

.Sub-project appraisal procedure: the appraisal of the subprojects will follow the lending policy and procedures of the DBSI as stated in the General Policy, Procedures and Guidelines for the ICDF Rural Credit Line as attached in the Appendix I, and the General Policy Statement, Procedures and Lending Guidelines of the DBSI.

.Terms of the sub-loan: the terms of the sub-loan will be determined by the DBSI in according with the credit policy of the Bank, taking into account the project risk inv-



olved, the nature of the project and the projected cashflow of each sub-borrower. As a general rule, the terms will be the following:

Sub-loan Amount: SI\$2,500 - SI\$250,000.

Percentage of total cost of sub-project financed: 65% of total project cost.

Term of loan: up to 10 years

Grace period: up to 2 years

Interest rate: will be in principle the market rate

2. Credit to the participants of ROC agricultural technical mission (ATM) Small Holders Scheme: US\$300,000 (15%) will be channeled through the DBSI to the participants of the ROC Small Holders Scheme (the SHS). The same appraisal procedures will apply to this line of credit, subject to the condition that recommendation from ROC ATM on the technical feasibility of the project will be required. To give adequate incentive to the farmers in continuing their agriculture production activities, the interest rate applied to this credit line should be 3 lower than the rate applied to the sub-loans of Rural-Credit. The loan and grace period will be determined by the nature of the projects, and, under no circumstances, will exceed 10 and 2 years respectively.

3. Training Component: US\$100,000 will be used to finance training programs approved by the DBSI. The programs will aim to:

- a. strengthen the capacity of the DBSI staff;
- b. assist the rural people in identifying investment projects; enhance their skill and capacity in starting a business.
- c. train the people in the rural area, especially the borrowers of the Rural Credit, to enhance their project implementation and management capacity;

Detail annual plan for the training program will be prepared by the DBSI and submitted to the ICDF for approval

b.Credit to the Credit Union League: (US\$0.1 M)

Credit to support the Central Finance Facility (CFF) of the SICUL: US\$100,000 will be channeled from the SIG through the Ministry of Finance to enable the SICUL promoting investment in rural area through widespread credit unions.

#### B.Project Implementation Arrangement

a.ICDF Loan to the SIG

3.Terms of ICDF Loan. The interest rate will be 3.5% per annum for a period of fifteen years, including three years grace period.

4.The US\$2 million Loan will be provided to the SIG. The SIG will channel the proceeds of the ICDF loan through the Ministry of Finance (MoF) to the DBSI and the Credit Union League to rural area to support the activities of different project components. The terms of MoF Loan will be in line with that of ICDF Loan.

b.Credit to the DBSI

5.The MoF will on-lend the ICDF loan to the DBSI at 3.5% of interest rate. The loan will be denominated in Solomon Island dollars, while the loan and grace period will be in line with that of the ICDF loan.

6.The MoF will be responsible for project monitoring and supervision based on the credit policy as well as the rules and regulations set out by the Project.

7.Re-lending terms to the end user of the Fund. Terms of credit to the end user will depend on each sub-project financed and will be established at the moment of approval of each operation. To enhance the risk sharing mechanism and build an incentive system in the project, the proposed Loan will finance only 65% of the total cost of sub-project, while the DBSI and sub-project sponsor will be required to finance the remaining 35%. However, for Credit to the Participants of ROC ATM Small Holders Scheme, preferential terms may be applied when recommendation is made by the ROC



ATM.

8. Collateral/ Guarantee requirement. The normal collateral requirement will apply to the sub-loans. Whenever any potential sub-borrower is not able to meet the collateral requirement, the DBSI will submit the project to the Central Bank to seek proper guarantee from the Small Loan Guarantee Scheme (SLGS).
9. Roles of the DBSI. The DBSI will use the credit to extend sub-loans in local currency to the rural individuals or entities in accordance with the accreditation policy of the scheme. The DBSI will be responsible for each project's eligibility declaration, and for informing the SIG of their status.
10. Selection and Appraisal of Subprojects. On applying for a sub-loan under the Rural Credit component, the credit applicants will be required to present evidence of intent to make a capital asset investment or to procure raw materials or parts for production.
11. The subprojects would be selected and appraised by the DBSI in accordance with sound banking and financial principles and procedures. The appraisal of subprojects should take into consideration its financial viability, market potential for the goods or services to be provided by the subproject and proposed financing for the capital costs of the sub-project.
12. Environment Aspects. Given the nature of the Project, which supports small-scale economic activities in manufacturing, trading, services, etc., the environmental impact generated is expected to be minimal. However, when an individual investment project has been detected to have negative environmental effect, environment safeguards should be incorporated into the project design and implementation.
13. The DBSI will determine the repayment schedule of each sub-loan, taking into account the programmed cash flow of the subproject, subject to the term ceiling of the sub-loans.

c.Credit to the SICUL

- 14.Credit to the SICUL will be used as start-up capital for it to operate the Central Finance Facility (CFF) that aims to finance rural investment projects through credit unions with sound management.
- 15.The terms of the loan will be in line with that of the ICDF loan. The management of the facility will be subject to close supervision of the Central Bank.
- 16.A well-prepared policy and operation plan to extending loans to the Credit Unions, as well as the procedures to be applied to appraise sub-loans to the Credit Union, have to be reviewed by the CBSI with the concurrence of the MoF before submitted to the ICDF for approval.

d.Disbursement and Repayment Arrangements

- 17.Disbursement. Imprest fund approach will be applied to the disbursement to the DBSI, while one time disbursement of US\$0.1 million will be made to the SICUL. The Request for Drawdown shall be submitted by the MoF to the ICDF, while the disbursement will be made directly to the project accounts (PA), the first drawdown request by the SIG should be made within 60 days after Loan Agreement Date.
- 18.The PAs will be kept by the CBSI under the name of the DBSI or the SICUL, depending on the purpose use of the proceeds. However, the CBSI shall not at any time for any reasons withhold the PAs, except when it is approved by the ICDF.
- 19.All repayments from sub-projects shall be kept in the PAs and recycled to finance new projects eligible for financing from the Project.
- 20.The first disbursement to the PAs of the DBSI will be US\$0.4 million. To apply for replenishment of the PA, a withdrawal application along with a Statement of Expenditure (SOE) summarizing payments from the DBSI to sub-borrowers in a minimum amounts of US\$0.3 million, will be submitted by the DBSI to the ICDF for review. For making replenish-



ent, the SOE and other documents should show to the satisfaction of the ICDF that the proceeds of loans have been used exclusively in accordance with the conditions of the Project.

21. The loan allocation for the three components will be reviewed and adjustment can be made subject to the agreement of the ICDF, the SIG, and/or the DBSI and the SICUL, one year from the first drawdown.
  22. For each sub-loan financed, the DBSI should be sure that:
    - The loan funds will not be used for the repayment or refinancing of previous obligations of the end users;
    - All other conditions will be established in accordance with the regulations and practices normally applied by the DBSI;
    - Each beneficiary will permit the supervision of the credit by the DBSI and the ICDF.
  23. Commitment Fee and Commitment Period. The MoF will pay the ICDF a commitment fee at a rate of 0.75% per annum on the undisbursed balance of the loan. Payment of the commitment fee will be made on the Interest Payment Date. The Loan closing date will be 36 months from the date of the first drawdown of the Loan.
  24. Repayment of Principal. The SIG will repay to the ICDF the principal amount of the Loan drawn down on the last day of the Commitment Period in United States Dollars in 24 equal installments.
- e. Subproject Monitoring
25. The MoF will furnish to the ICDF all such reports and information as the ICDF may reasonably request, including but not limited to, (i) a quarterly report on the implementation of the Project within two months after the end of each quarter; (ii) a projected annual disbursement schedule for the loan, broken down by quarters by 15 December each year; (iii) a completion report on the Project within three months after the closing date of the loan.



26. The MoF will make sure that the DBSI and the SICUL monitor sub-projects during the implementation and operational stages and, for the sub-loans over SI\$100,000, the DBSI will submit semi-annual reports on the utilization of the sub-loan, and the operation and financial performance of sub-borrowers and sub-projects under implementation. The format of the reports shall be pre-approved by the ICDF. Notwithstanding this, the ICDF shall reserve the right to carry out independent inspections of sub-borrowers and sub-projects.