

GUARANTEE EVALUATION GUIDELINES

Solomon Islands Government

Approved by Minister of Finance

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GUARANTEE EVALUATION GUIDELINES

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ABBREVIATIONS

| | |
|-------|--|
| ABL | Annual Borrowing Limit |
| ABLP | Annual borrowing limit pool |
| ABP | Annual borrowing pool |
| CAPEX | Capital expenditure |
| DMAC | Debt Management Advisory Committee |
| DMS | Debt Management Strategy |
| DMU | Debt Management Unit |
| EBIT | Earnings before interest and tax |
| IRD | Inland Revenue Division |
| IRR | Internal Rate of Return |
| MDPAC | Ministry of Development Planning and Aid Coordination |
| MoFT | Ministry of Finance and Treasury |
| NDS | National Development Strategy |
| NIIP | National Infrastructure Investment Plan |
| NIIP | National Infrastructure Investment Plan |
| NPF | National Provident Fund |
| PFMA | Public Financial Management Act |
| SIG | Solomon Islands Government |
| SOE | State Owned Enterprise |

1. INTRODUCTION

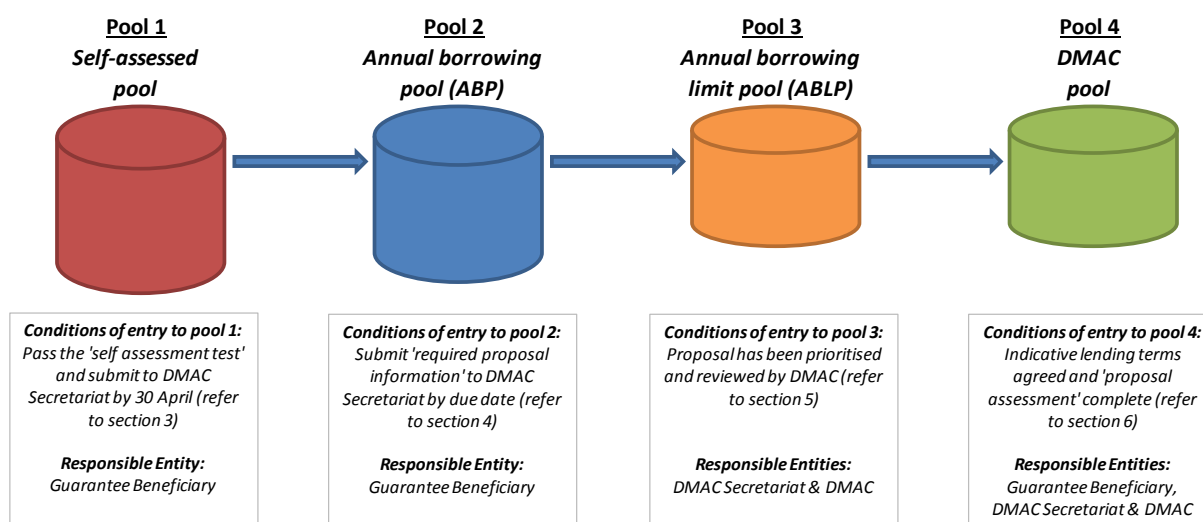
These Guarantee Guidelines outline the evaluation process that should be followed by stakeholders (e.g. prospective Guarantee Beneficiaries, the DMAC Secretariat¹ and DMAC²) for guarantee proposal evaluation. This process aims to establish a fair, efficient and transparent process for assessing and prioritising proposals so as to optimise the expected broader economic and social returns to be derived from Solomon Islands' limited borrowing capacity. These Guidelines should be read in conjunction with the Guarantee Policy.

Any reference to Policy in these Guidelines refers to the Guarantee Policy.

2. EVALUATION PROCESS – FOUR POOL APPROACH

SIG will utilise a four pool approach to identify and evaluate projects that seek to be supported through the provision of a SIG guarantee. This approach is depicted in Figure 1 below. An indicative evaluation process timeline is shown in Appendix 2.

FIGURE 1: FOUR POOL APPROACH



Pool 1 - 'Self-assessed pool'

The onus is on the prospective Guarantee Beneficiary to complete the 'self-assessment test' (refer to part 3.1 of these Guidelines). If a proposal passes the self-assessment test, then it is eligible to be supported by a SIG guarantee and therefore qualifies for inclusion in the 'self-assessed pool'.

¹ Refer to section 8.1 of the Debt Management Strategy (DMS)

² Refer to section 3.2.1.1.5 of the DMS.

Pool 2 - 'Annual borrowing pool (ABP)'

To progress a proposal from the self-assessed pool to the **'annual borrowing pool (ABP)'**, the proposed Guarantee Beneficiary has to satisfy the requirements of entry into the ABP (refer to section 4 of these Guidelines for further information on the ABP).

Pool 3 – 'Annual borrowing limit pool (ABLP)'

The **'annual borrowing limit pool (ABLP)'** is a subset of the ABP (refer to section 5 of these Guidelines for further information on the ABLP). The MoFT will prioritise and rank proposals in the ABP against a set of criteria through a 'prioritisation process' (refer to part 5.1 of these Guidelines for further information on the prioritisation process), resulting in a prioritised ABP. This prioritised ABP will then be referred to and evaluated by the DMAC, which will advise the Minister of Finance on which proposals should proceed for further consideration to the ABLP. The most highly ranked proposals that can be funded within the annual borrowing limit (ABL) will progress to the ABLP.

Pool 4 – 'DMAC pool'

To progress from the ABLP to the **'DMAC pool'**, SIG and the proposed guarantee counterparts (i.e. Guarantee Beneficiary and Guaranteed Entity) must agree indicative guarantee terms and the DMAC Secretariat must have completed the 'proposal assessment' (refer to part 6.1 of these Guidelines for further information on the proposal assessment). Should the requirements of the proposal assessment be met, then the proposal will progress to the DMAC pool where it will be reviewed through the DMAC process and a recommendation to the Minister of Finance will be made.

2.1. Exempt proposals from the four pool approach

Only in exceptional circumstances may a proposed SIG Guarantee be exempt from being evaluated through the four pool approach. A proposal may by-pass the four pool approach if for example:

1. A financier has indicated that funding is due to expire before a proposal can be evaluated through the four pool approach; or
2. There is a strong commercial imperative to quickly progress a proposal to take advantage of prevailing market conditions; or
3. There are key strategic project specific milestones that need to be achieved before a proposal can be evaluated through the four pool approach.

This list of examples is by no means exhaustive and the onus is on the proposed Guarantee Beneficiary to make a case for a proposal to be exempt from the four pool approach.

3. POOL 1 - SELF-ASSESSED POOL

Proposals are only eligible to be included in the self-assessed pool if the prospective Guarantee Beneficiary:

1. Completes and passes a 'self-assessment test' (refer to test template included as Appendix 1 to these Guidelines); and
2. submits the completed 'self-assessment test' to the DMAC Secretariat by **30 April** of the year preceding the year in which the Guaranteed Entity expects to sign the Guarantee Agreement (refer to the indicative evaluation process timeline at Appendix 2).

3.1. Self-assessment test

The self-assessment test enables a prospective Guarantee Beneficiary to self-determine if a proposal is eligible to be supported by a SIG guarantee.

Further information on the 'self-assessment test' is contained below in Box 1.

BOX 1: 'SELF-ASSESSMENT TEST'

The self-assessment test consists of two steps, being an 'entity test' and a 'project test'.

Step 1 (Entity test) – Determine if your **entity** is eligible to be a Guarantee Beneficiary under section 4.1 of the Policy.

If your entity self-determines eligibility, then your entity passes the 'entity test'.

If your entity passes the 'entity test', then proceed to step 2 (Project test).

If your entity fails the 'entity test', then your proposal **fails** the 'self-assessment test' and is not eligible for a guarantee arrangement.

Step 2 (Project test) – Determine if your **project** is eligible under section 4.2 of the Policy.

If your entity self-determines that your project is eligible, then your project passes the 'project test'.

If your project passes the 'project test', then your proposal **passes** the 'self-assessment test'.

If your project fails the 'project test', then your proposal **fails** the 'self-assessment test' and is not eligible for a guarantee arrangement.

4. POOL 2 - ANNUAL BORROWING POOL (ABP)

A proposal in the self-assessed pool is only eligible to progress to the ABP if the prospective Guarantee Beneficiary provides the 'required proposal information' (refer to section 6.1.3 of these Guidelines):

1. to the DMAC Secretariat; and
2. by the due date (refer to section 4.2 of these Guidelines).

4.1. Required proposal information

A prospective Guarantee Beneficiary must submit the 'required proposal information' to the DMAC Secretariat if they would like their proposal to progress to the ABP.

The prospective Guarantee Beneficiary, at the time of providing the required proposal information, must be compliant with the reporting and disclosure requirements outlined in the MoFT's 'SOEs Guide to the Preparation of Statements of Corporate Objectives'. This applies even if the prospective Guarantee Beneficiary is not a State Owned Enterprise (SOE).

4.2. Due date to provide required proposal information

The 'required proposal information' must be provided to the DMAC Secretariat by the due date. The due date will be the '**Bid due date**' that is set each year as part of the Development Budget process.

Note that key dates for the annual Development Budget process (e.g. issuance of Budget circular and Bid due date) change from year to year.

A prospective Guarantee Beneficiary should maintain regular communication with the DMAC Secretariat to be aware of the due date for submitting the 'required proposal information'.

Typically, the due date (i.e. Budget bid due date) for submitting the 'required proposal information' will be around August of the year, preceding the year in which the prospective Guaranteed Entity expects to sign the Guarantee Agreement.

4.3. Responsibility for compiling ABP

The DMAC Secretariat will be responsible for compiling the ABP. The compilation processes shall occur annually.

5. POOL 3 - ANNUAL BORROWING LIMIT POOL (ABLP)

A proposal in the ABP is only eligible to progress to the ABLP if it has been:

1. prioritised and ranked through the 'prioritisation process' (refer to section 5.1 of these Guidelines); and
2. reviewed by the DMAC.

5.1. Prioritisation process

The DMAC Secretariat, in consultation with the Ministry of Development, Planning and Aid Co-ordination (MDPAC), will undertake a preliminary assessment to prioritise and rank all Government borrowing proposals in the ABP. A prioritised ABP will result from this preliminary assessment. This prioritised ABP will be presented, with supporting evidence to justify the ranking, to the DMAC for evaluation.

5.1.1. Criteria for prioritising and ranking proposals in the ABP

Government borrowing proposals in the ABP will be prioritised and ranked by conducting a comparative evaluation of how well each proposal:

- meets the objectives of debt management in the Solomon Islands (refer to section 6 of the DMS); and
- complies with DMS Rules 18 and 19 (refer to sections 8.14 and 8.15 of the DMS).

5.1.2. Annual borrowing limit (ABL)

ABLs are to be determined annually and disclosed annually as part of the annual Budget process (refer to section 8.8 of the DMS).

5.2. Review by DMAC

DMAC will evaluate the prioritised ABP against the ABL. Each proposal in the prioritised ABP will be assigned an amount that reflects the SBD value of the Government borrowing (refer to sections 8.2 and 8.3 of the DMS for more information of the SBD value of Government borrowing).

The DMAC will effectively review the priority assigned to each proposal and then cull the prioritised ABP to a point where the cumulative assumed Government borrowing obligation of the proposals for the year is less than the ABL for the specified year. Prioritisation will be checked against the 'Criteria for prioritising and ranking proposals in the ABP' referred to above in section 5.1.1 of these Guidelines.

The culling process is demonstrated in Box 2 below. In this example, five proposals have been prioritised by the DMAC in the prioritised ABP and the ABL has been set to SBD \$200 million. Only the top three prioritised proposals progress to the ABLP. Proposals prioritised 4 and 5 are culled as they do not fit within the ABL.

BOX 2: DETERMINING THE ABLP

Annual borrowing limit (SBD \$m) 200

| Prioritised ABP | | | | ABLP | | | |
|-----------------|-------------------------------------|---|--|-----------------|-------------------------------------|---|--|
| <i>Priority</i> | <i>Type of Government borrowing</i> | <i>Amount of Government borrowing (SBD \$m)</i> | <i>Cumulative Government borrowing (SBD \$m)</i> | <i>Priority</i> | <i>Type of Government borrowing</i> | <i>Amount of Government borrowing (SBD \$m)</i> | <i>Cumulative Government borrowing (SBD \$m)</i> |
| 1 | On-lend to SOE | 55 | 55 | 1 | SOE On-lend | 55 | 55 |
| 2 | Guarantee of SOE | 26 | 81 | 2 | SOE Guarantee | 26 | 81 |
| 3 | SOE direct borrowing | 70 | 151 | 3 | SOE Borrowing | 70 | 151 |
| 4 | SIG direct borrowing | 72 | 223 | | | | |
| 5 | On-lend to private | 60 | 283 | | | | |

If in the above example the ABLP included the proposal prioritised 4, the cumulative assumed debt obligation recognised by SIG (i.e. SBD \$223 million) would exceed the ABL (SBD \$200 million) and would therefore constitute a breach of the DMS.

The DMAC will determine which proposals progress to the ABLP and notify the Minister of Finance of which proposals are to be included in the ABLP.

5.3. Notification process of inclusion in ABLP

Should a proposal, that seeks the provision of a SIG guarantee, be included in the ABLP, the prospective Guarantee Beneficiary will be notified of the proposal's status by the DMAC Secretariat.

If the entity receives notification, then they should regard this as representing SIG's 'de facto' commitment to the proposal and in-principle consent for the entity to proceed with feasibility studies or similar.

6. POOL 4 - DMAC POOL

A proposal in the ABLP is only eligible to progress to the DMAC pool if it meets the following requirements:

1. Indicative guarantee terms have been agreed by all parties (refer to section 6 of the Policy for 'Guidance on acceptable Guarantee Agreement terms); and
2. DMAC Secretariat has completed a 'proposal assessment' (refer to section 6.1 of these Guidelines).

If a proposal meets the above requirements and is included in the DMAC pool, then the:

1. DMAC Secretariat will present the proposal to the DMAC for evaluation; and

DMAC will, subsequent to evaluation, make a recommendation to the Minister of Finance on whether to provide consent for the Government guarantee.

6.1. Proposal assessment

The 'proposal assessment' will include:

1. a 'Guarantee Beneficiary credit risk assessment', to be undertaken by the DMAC Secretariat; and
2. a 'project assessment', to be undertaken by the DMAC Secretariat.

A prospective Guarantee Beneficiary must provide the DMAC Secretariat with the 'required proposal information' (refer to section 6.1.3 of these Guidelines for required proposal information) to facilitate the proposal assessment.

6.1.1. Guarantee Beneficiary credit risk assessment

A Guarantee Beneficiary's credit worthiness will be determined by the DMAC secretariat that will conduct a 'Guarantee Beneficiary credit risk assessment'.

The Guarantee Beneficiary credit risk assessment will be conducted by evaluating entity specific:

1. financial ratios;
2. cash flow forecast; and
3. other factors.

The aim of this assessment is to determine an entity's ability to:

1. manage its finances; and
2. service the underlying guaranteed obligation.

The DMAC secretariat will assign the entity with one of the following credit ratings to characterise the likelihood of the proposed guarantee being called, due to entity insolvency:

1. credit worthy; or

2. not credit worthy.

This credit rating will be referred to when calculating the applicable Guarantee fee to be charged by SIG (refer to section 6.10 of the Policy).

6.1.1.1. Financial ratios and cash flow forecast

Table 1 below lists the financial ratios and cash flow forecast that will be evaluated by the DMAC Secretariat as part of the Guarantee Beneficiary credit risk assessment. These ratios and forecast will be evaluated pre-project and including the project.

The DMAC secretariat will also conduct a sensitivity analysis on the financial ratios and cash flow forecast where relevant. For instance, if the entity has existing foreign currency denominated debt or proposes a foreign currency denominated direct borrowing, then the financial ratios should be stress tested for adverse movements in the relevant exchange rate/s. Other sensitivity analysis could test the impact of changes to sales revenue, driven by price and/or volume, for example. Relevant sensitivity analysis on entity financial ratios will depend on the entity being assessed.

TABLE 1: GUARANTEE BENEFICIARY CREDIT RISK ASSESSMENT - FINANCIAL RATIOS AND CASH FLOW FORECAST

| REVENUE INDICATORS | |
|--|---|
| Rate of return on net fixed assets in service | $\frac{\text{Net operating income} \times 100}{\text{Average of net fixed assets in service}}$ |
| Operating ratio | $\frac{\text{Total operating expenses} \times 100}{\text{Total operating revenues}}$ |
| Self-financing ratio | $\frac{\text{Cash from internal sources}}{\text{Average annual capital expenditure}}$ |
| Return on equity | $\frac{\text{Net profit}}{\text{Owners' equity}}$ |
| CAPITAL STRUCTURE INDICATORS | |
| Debt to equity ratio | $\frac{\text{Total debt}}{\text{Total Equity}}$ |
| Debt service coverage ratio | $\frac{\text{Net revenues (excluding interest charges)}}{\text{Estimated annual debt service requirement}}$ |
| LIQUIDITY INDICATORS | |
| Quick ratio | $\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$ |
| CASH FLOW FORECAST | |
| 5 year cash flow projection, assuming the project goes ahead | |

6.1.1.2. Other factors

The DMAC Secretariat will also consider the following factors as part of the Guarantee Beneficiary entity credit risk assessment:

- other significant entity financial obligations that are likely to hinder its ability to repay the guaranteed loan or contract;
- the entity's history of default on financial commitments;
- any future losses that the entity is expected to incur due to an exposure to current or future exceptional/risk events;
- exceptional factors that may have contributed to good performance in recent years; and
- any credit assessment that has been undertaken by any commercial lenders that may be involved in funding the project.

6.1.1.3. *Guarantee Beneficiaries not credit worthy*

Typically, if a Guarantee Beneficiary credit risk assessment deems the entity to be 'not credit worthy', then the proposal will not progress to the DMAC pool.

However, in exceptional circumstances, not credit worthy entities may progress to the DMAC pool if it can be demonstrated, by the entity, that the proposed project will significantly improve the entity's:

- operating performance such that the entity is expected to earn profits in the future; and/or
- financial capacity to meet the future debt service costs associated with the underlying obligation that is to be guaranteed; and/or
- management structure through the provision of technical assistance; and/or
- operational capacity through the provision of technical assistance.

6.1.2. *Project assessment*

A project's viability will be determined by the DMAC secretariat that will conduct a 'project assessment'.

A project assessment will be conducted by evaluating the project's:

1. financial viability;
2. non-financial characteristics; and
3. net economic return.

6.1.2.1. *Financial viability*

To evaluate a project's financial viability, the DMAC secretariat will require the Guarantee Beneficiary to:

1. calculate a set of project specific forecast financial ratios;
2. complete project capital expenditure (CAPEX) analyses; and
3. complete a sensitivity analysis on the project's financial ratios and CAPEX analyses.

The relevant project specific financial ratios and CAPEX analyses referred to above are listed in Table 2 below.

TABLE 2: PROJECT ASSESSMENT – FINANCIAL VIABILITY - FINANCIAL RATIOS AND CAPEX ANALYSES

| FINANCIAL RATIOS | FORMULAE |
|--|--|
| Interest coverage ratio | $\frac{\text{Earnings before Interest and tax (EBIT)}}{\text{Interest expense}}$ |
| Return on investment ³ | $\frac{\text{Gain from investment} - \text{cost of investment}}{\text{Cost of investment}}$ |
| CAPEX ANALYSES | COMMENTS |
| Net Present Value (NPV) analysis | NPV should be positive and a plausible discount rate should be used. |
| Internal Rate of Return (IRR) analysis | The DMU will form a view as section of the IRR analysis on what is an appropriate IRR for the type of project. |

The sensitivity analysis should test the project's financial ratios and CAPEX analyses by:

1. shocking the key assumptions around; and
 - a. Pricing structure;
 - b. Exchange rates;
 - c. Depreciation;
 - d. Inflation; and
 - e. Interest rates.
2. assuming the realisation of non-financial shocks (e.g. the provision of land for the project is thwarted because of land owner issues).

Project financial viability is important because if a project is unprofitable, then there is a greater likelihood that the guarantee will be called. Furthermore, a project that is not financially viable is more prone to default on the underlying debt or contract when the broader economy is weak. It is at such a time, when SIG is also prone to budgetary pressures, that a call on a guarantee is likely to be most undesirable.

If the financial viability of the project is based on unsupportable or doubtful assumptions, then the project is unlikely to be viable and the guarantee should not be authorised by the Minister because it will pose too high a risk for Government.

6.1.2.2. Non-financial characteristics

To evaluate a project's non-financial characteristics, the DMAC secretariat will require the Guarantee Beneficiary to provide a business plan that includes, for example, a:

- pricing structure policy;

³ This can be difficult to measure and subject to manipulation so the assumptions behind this measure will need to be carefully scrutinised.

- statement explaining whether the lender is proposing to impose any tied procurement⁴;
- statement explaining who is responsible for project management;
- statement of non-financial assumptions (e.g. around land provision);
- non-financial risk assessment;
- project plan showing a timeframe for project implementation;
- statement of contingency measures to account for unexpected delays in project implementation;
- competitive neutrality statement; and
 - should a prospective Guarantee Beneficiary not be the sole provider of a good or service in the Solomon Islands, then they should provide evidence that they will not be unfairly advantaged if their financial obligation is guaranteed by SIG.
- due diligence report.

The DMAC secretariat will assess the business plan for reasonableness.

6.1.2.3. Net economic return

Refer to Appendix 3 of the DMS for more information on net economic return.

The DMAC secretariat will evaluate the expected net economic return of the project and will assign the project with one of the following ratings, which will characterise the project's expected net economic return:

1. no return;
2. small;
3. moderate; or
4. large.

This rating will be referred to when calculating the applicable Guarantee fee to be charged by SIG (refer to section 6.10 of the Policy).

6.1.3. Required proposal information

The proposed Guarantee Beneficiary is required to provide the 'required proposal information' to the MoFT to facilitate the proposal assessment outlined above in these Guidelines. This information should be provided by the due date prescribed in the Appendix 2 (Indicative financial evaluation timeline).

The required proposal information should include:

1. The entity's current audited financial statements;
2. The entity's current past two years financial statements;
3. A summary of all entity financial ratios that will be assessed in the entity credit risk assessment (refer to section 6.1.1 of these Guidelines):
 - a. Pre-project; and

⁴ If a lender is proposing to impose tied procurement (i.e. in the form of materials, equipment and/or labor), then negative impacts of this need to be evaluated by the DMAC Secretariat and presented to the DMAC for evaluation.

- b. Including the project
- 4. A 5 year entity cash flow projection, including the project, that will be assessed in the entity credit risk assessment (refer to section 6.1.1.1 of these Guidelines);
- 5. A summary of the relevant sensitivity analysis conducted on the financial ratios and cash flow projection that will be assessed in the entity credit risk assessment (refer to section 6.1.1.1 of these Guidelines);
- 6. A summary of project specific (refer to section 6.1.2.1 of these Guidelines):
 - a. Financial ratios; and
 - b. CAPEX analyses.
- 7. A summary of the sensitivity analysis conducted on the project's financial ratios and CAPEX analyses (refer to section 6.1.2.1 of these Guidelines for appropriate sensitivity analysis);
- 8. Business plan (refer to section 6.1.2.2 of these Guidelines for what should be included in the business plan); and
- 9. Any evidence that will assist DMAC Secretariat in determining the broader economic benefit of a project (refer to section 6.1.2.3 of these Guidelines).

6.2. Review by DMAC

The DMAC Secretariat will only present proposed guarantees to the DMAC for evaluation if: 1) indicative guarantee arrangement terms have been agreed by all parties; and 2) the 'proposal assessment' has been completed.

6.3. DMAC recommendation to Minister

Pursuant to review, the DMAC will provide a recommendation to the Minister of Finance on whether to authorise the proposed SIG Guarantee. This is consistent with the DMS and the *Public Financial Management Act* (PFMA) that requires all Government borrowing proposals to go through the DMAC process.

6.4. Notification of Minister's decision

The prospective Guarantee Beneficiary shall be notified, in writing, by the Minister of Finance on whether their proposed SIG Guarantee has been authorised.

APPENDIX 1 - Self-assessment test template

If you are a prospective Guarantee Beneficiary seeking support through a SIG Guarantee, then you are required to complete the ‘**self-assessment test**’ contained in this self-assessment test template. The self-assessment test includes an ‘entity test’ (step 1) and a ‘project test’ (step 2).

If your entity fails the self-assessment test, your proposed project will not be eligible to be supported by a SIG Guarantee.

If your entity passes the self-assessment test, then you must submit this completed self-assessment test template to the Debt Management Unit (DMAC Secretariat) by the deadline date for checking. If the DMAC Secretariat confirms your self-assessment test result, your proposal to be supported through a guarantee arrangement will progress to the ‘self-assessed pool’ of the evaluation process.

Deadline date: The deadline date to submit your self-assessment test template is **30 April** of the year preceding the year in which your entity expects to enter into a Guarantee Arrangement. This date roughly aligns with the annual issuance date of the Budget Circular that outlines the annual budget timetable and line agency responsibility in the budget process.

Begin filling in the self-assessment test template below:

| Question Number | Question | Answer |
|-----------------|---|--------|
| 1 | In which calendar year do you expect SIG to commit to the proposed SIG Guarantee? | |

If you are an SOE, go to **Step 1 – SOE ‘entity test’**

If you are a Provincial Government, go to **Step 1 – Provincial Government ‘entity test’**

If you are a private domestic company, go to **Step 1 – Private domestic company ‘entity test’**

If you are a foreign entity, go to **Step 1 – Foreign ‘entity test’**

Step 1 – SOE ‘entity test’

| Question Number | Question | Answer |
|-----------------|---|----------|
| 1 | Has your SOE failed to submit your ‘Statement of Corporate Objectives’ to the Ministry of Finance and Treasury (MoFT) by the deadline date? | Yes / No |
| 2 | Is your SOE currently in default on any formal debt obligations? | Yes / No |
| 3 | Does your SOE currently have any National Provident Fund (NPF) arrears? | Yes / No |
| 4 | Does your SOE currently have any Inland Revenue Division (IRD) arrears? | Yes / No |

If you answered ‘Yes’ to any of the above questions, then your SOE **fails** the ‘self-assessment test’ and is not eligible to be a Guarantee Beneficiary.

If you answered ‘No’ to all of the above questions, then you should proceed to **Step 2 – SOE and Provincial Government ‘project test’** of this template.

Step 1 – Provincial Government ‘entity test’

| Question Number | Question | Answer |
|-----------------|--|----------|
| 1 | Is your Provincial Government currently in default on any formal debt obligations? | Yes / No |
| 2 | Does your Provincial Government currently have any trade creditor arrears? | Yes / No |
| 3 | Does your Provincial Government currently have any NPF arrears? | Yes / No |
| 4 | Does your Provincial Government currently have any IRD arrears? | Yes / No |

If you answered ‘Yes’ to any of the above questions, then your Provincial Government **fails** the ‘self-assessment test’ and is not eligible to be a Guarantee Beneficiary.

If you answered ‘No’ to all of the above questions, then you should proceed to **Step 2 – SOE and Provincial Government ‘project test’** of this template.

Step 1 – Private domestic company ‘entity test’

| Question Number | Question | Answer |
|-----------------|--|----------|
| 1 | Is your company currently in default on any formal debt obligations? | Yes / No |
| 2 | Does your company currently have any NPF arrears? | Yes / No |
| 3 | Does your company currently have any IRD arrears? | Yes / No |

If you answered ‘Yes’ to any of the above questions, then your company **fails** the ‘self-assessment test’ and is not eligible to be a Guarantee Beneficiary.

If you answered ‘No’ to all of the above questions, then you should proceed to **Step 2 – Private domestic company ‘project test’** of this template.

Step 1 – Foreign ‘entity test’

| Question Number | Question | Answer |
|-----------------|--|----------|
| 1 | Does your entity currently have any employee pension contribution arrears? | Yes / No |
| 2 | Does your entity currently have any tax arrears? | Yes / No |

If you answered ‘Yes’ to any of the above questions, then your foreign entity **fails** the ‘self-assessment test’ and is not eligible to be a Guarantee Beneficiary.

If you answered ‘No’ to all of the above questions, then you should proceed to **Step 2 – Private domestic company or foreign entity ‘project test’** of this template.

Step 2 – SOE and Provincial Government ‘project test’

| Question Number | Question | Answer |
|-----------------|--|----------|
| 1 | Does your project comply with sections 8.14 and 8.15 of the Debt Management Strategy? | Yes / No |
| 2 | Has your intention to implement the project previously been reported in your Statement of Corporate Objectives submitted to the MoFT?* | Yes / No |
| 3 | Does your project exhibit commercial like characteristics (refer to section 4.2.3 of the Guarantee Policy)? | Yes / No |
| 4 | Do you expect your project to deliver a net positive broader economic benefit (including social benefits) to the Solomon Islands? | Yes / No |

** This question only applies to SOEs*

If you answered ‘Yes’ to all of the above questions, then your SOE or Provincial Government project **passes** the ‘self-assessment test’. It is therefore eligible to be considered to be a Guarantee Beneficiary and will be included by the DMAC Secretariat in the ‘self-assessed pool’ of the evaluation process.

If you answered ‘No’ to any of the above questions, then your project **fails** the ‘self-assessment test’ and is not eligible to be a Guarantee Beneficiary.

Step 2 – Private domestic company or foreign entity ‘project test’

| Question Number | Question | Answer |
|-----------------|---|----------|
| 1 | Has your project been identified in the National Development Strategy (NDS) or National Infrastructure Investment Plan (NIIP) as being of national strategic importance? | Yes / No |
| 2 | Does your project <u>not</u> exhibit only commercial characteristics (refer to part 4.2.3 of the Guarantee Policy)? | Yes / No |
| 3 | Do you expect your project to deliver a net positive broader economic benefit (including social benefits) to the Solomon Islands? | Yes / No |
| 4 | If your company does not implement your project, do you expect that the project would <u>not be</u> implemented by the Solomon Islands Government, a SOE, a provincial Government or another private company? | Yes / No |

If you answered ‘Yes’ to all of the above questions, then your company project **passes** the ‘self-assessment test’. It is therefore eligible to be considered to be a Guarantee Beneficiary and will be included by the DMAC Secretariat in the ‘self-assessed pool’ of the evaluation process.

If you answered ‘No’ to any of the above questions, then your project **fails** the ‘self-assessment test’ and is not eligible to be a Guarantee Beneficiary.

If you have completed the self-assessment template and passed the ‘self-assessment test’, please sign below and submit to the DMAC Secretariat by the deadline date.

Name of person completing this template:

Title of person completing this template:

Contact details of person completing this template:

Date this template submitted to DMAC Secretariat:

APPENDIX 2 - Indicative evaluation process timeline

| Timeline | Guarantee Beneficiary | DMAC Secretariat and |
|-----------|--|--|
| | action | DMAC action |
| January | Conduct 'Self-assessment test' (refer to section 3.1 of the Guidelines) Due date to submit 'Self assessment test template': 30 April | Liaise with and field queries from Implementing Agencies and lenders (DMAC Secretariat) |
| February | | |
| March | | |
| April | | |
| May | Submit 'required proposal information' to DMAC Secretariat (Refer to sections 4.1 and 4.2 of the Guidelines) Due date: To be confirmed annually | Check submitted 'Self-assessment template' (DMAC Secretariat) |
| June | | Compile Annual Borrowing Pool (DMAC Secretariat) |
| July | | Establish Annual Borrowing Limit Pool (DMAC Secretariat & DMAC) |
| August | | |
| September | Liaise and collaborate with the DMAC Secretariat Negotiate terms of direct borrowing (Ongoing) | Establish DMAC Pool (DMAC Secretariat & DMAC) |
| October | | DMAC review and recommendation to Minister (Ongoing) |
| November | | |
| December | | |