

SCHEDULE 2: IMPLEMENTATION STRATEGY FOR PARTNERSHIP PRIORITY
OUTCOME 3 – IMPROVED ECONOMIC INFRASTRUCTURE

The Solomon Islands-Australia Partnership for Development was formalised by Prime Minister Dr Derek Sikua and Prime Minister Kevin Rudd in Port Moresby on 27 January 2009. The Partnership for Development initiative represents a new era of cooperation between Australia and Solomon Islands and other Pacific Island nations. The initiative provides the guiding and practical framework for the implementation of the Port Moresby Declaration that was announced by Prime Minister Rudd on 6 March 2008.

The Solomon Islands-Australia Partnership for Development is founded on the principles of mutual understanding, mutual respect and mutual responsibility for improved development outcomes. The Partnership reflects the shared vision of the two Governments to work together in close cooperation to meet our common challenges and to achieve improved development outcomes and sustainable improvements in the quality of life of all Solomon Islanders as articulated in the Medium Term Development Strategy 2008 – 2010 or its successors and national sectoral plans. Specifically, this Partnership seeks more rapid progress towards poverty reduction and the other Millennium Development Goals by 2015. To this end the Solomon Islands-Australia Partnership has identified an initial four priority outcomes that will help secure the end objective of improved living standards for all Solomon Islanders.

(i) Aim of the Partnership

The Partnership will improve market access and service delivery through improved access to reliable transport, energy and telecommunications services.

Economic infrastructure in Solomon Islands is of poor quality and without significant improvement has the potential to restrict opportunities for economic growth and even impact on efforts to progress towards the achievement of the Millennium Development Goals. Infrastructure is critical for access to markets and to allow government to deliver services. However recent estimates suggest that only 15 per cent of Solomon Islands' rural population has access to good quality roads, more than 90 per cent of the population has no access to electricity and availability of telecommunications services is amongst the lowest in the region.

This Partnership will deliver improvements in economic infrastructure consistent with Solomon Islands Government priorities as highlighted in sections 4.3 and 4.5 of the Medium Term Development Strategy 2008-2010 (MTDS) and related sectoral plans. Economic infrastructure improvements will provide Solomon Islanders with increased access to income generating opportunities and services, particularly for those living in rural areas. Improvements in economic infrastructure will also facilitate achievement of targets under Partnership Priority Outcomes 1 and 2.

(ii) Measurement

The following indicators will measure progress toward Priority Outcome 3: Improved Economic Infrastructure:

- Increased proportion of the rural population with reliable transport access to markets and services.
- Growth in household incomes in areas targeted by transport programs.
- Increased proportion of the population with access to reliable and affordable energy.
- Increased proportion of rural population with access to affordable telecommunications.

Performance indicators and targets to determine progress toward Priority Outcome 3 should be consistent with the MTDS and related sectoral plans including the National Transport Plan and Rural Electrification Master Plan. However, many of these major sectoral plans are currently under development or being updated. Therefore the indicators in the interim performance framework for this Priority Outcome may need to be revised to reflect future national plans and to incorporate updated baselines.

The performance framework for this strategy and related sectoral plans will use a variety of existing data sources such as the Household Income and Expenditure Survey and the RAMSI People's Survey to determine macro level impacts as well as more detailed activity level monitoring to determine progress against agreed targets.

Joint review of progress against agreed targets will take place annually and consistent with planned schedules of review for the overall Partnership, the MTDS, and monitoring frameworks of relevant sectoral plans. This review will be considered by a committee comprising representatives of implementing ministries as well as the Ministries of Development Planning and Aid Coordination (MDPAC), Finance and Treasury (MOFT), and Provincial Government. This committee will also be the primary mechanism for considering future priorities under this Priority Outcome.

(iii) Implementation Approach

Australia will work with Solomon Islands Government ministries, provincial governments, state-owned enterprises (particularly the Solomon Islands Electricity Authority (SIEA)), donor partners and civil society in delivering this Partnership.

Implementation at the sectoral level will, where appropriate, use Solomon Islands Government systems in partnership with the responsible line ministry, including the Ministries of Infrastructure Development (MID), Mines, Energy and Rural Electrification (MoMERE) and Communications and Aviation (MoCA). Planning under this Priority Outcome will consider long term maintenance and other costs resulting from the provision of infrastructure. This will be supported by the Solomon Islands Government's work to improve budgeting processes and incorporate ongoing

asset maintenance funding in forward estimates, as well as broader budget reforms as articulated under Priority Outcome 4: Addressing Economic and Fiscal Challenges.

Implementation approaches for assistance to each of the key sectors – transport, energy and telecommunications infrastructure – are outlined below.

Transport Infrastructure

Australian assistance to the transport sector will increasingly shift from a project based approach focussed on land transport into a sector-based approach that looks at connectivity across the entire transport network. Maximising connectivity across multi-modal transport links will increase the effectiveness of Australian assistance to improve access to services and income earning opportunities. This network focus will consider levels of future sustainability for the Solomon Islands Government and accordingly prioritise maintenance of the core network in preference to rehabilitation and new construction. Australia will also maximise local employment opportunities through the use of labour-based methodologies for the implementation of works.

In the short term, Australia will continue to rehabilitate and maintain roads through existing commitments to the Solomon Islands Road Improvement Project and through targeted assistance for Malaita delivered through AusAID's Community Sector Program. Capacity building assistance for MID and the private sector will also continue through these projects.

In the future, Australia will look to increasingly deliver assistance through a sector-based approach reflecting feedback from stakeholders including Solomon Islands Government, provincial governments, donors and the private sector. This sector-based approach, to be implemented in partnership with Solomon Islands Government, the Asian Development Bank and NZAID, will assist in delivering priorities identified in the Government's National Transport Plan. Accordingly, Australia will increasingly consider contributions to improve maritime and aviation infrastructure in addition to road infrastructure where identified as priorities under the plan.

It is intended that funding for the rehabilitation and maintenance of infrastructure would be delivered through annual contributions to the National Transport Fund once established, with relative Australian, Solomon Islands Government and other donor contributions to be reflected against three-year rolling annual plans. Implementation of works under the sector-based approach will be delivered consistent with current Solomon Islands Government policy for private sector delivery of road works, with MID playing a key transport network policy and management function.

Under this approach, it is also intended that donors will support the Solomon Islands Government to engage a scaleable engineering services consultancy to boost capacity in delivery of infrastructure services. Support would also be provided to improve transport policy development (including road safety), financial management capacity and other corporate functions within MID.

Australia will ensure that future transport infrastructure assistance adequately incorporates climate change assessments to improve adaptation of infrastructure towards an increased frequency of extreme weather events.

Energy Infrastructure

Australian assistance to the energy sector will look to increase access to and improve affordability of electricity for Solomon Islanders living in both urban and rural areas. A key aspect to improving affordability will be to increase renewable energy generation capacity in place of price-volatile fossil fuels. In improving access Australia will look to partner with existing energy sector operators including by expanding the state-owned electricity grid and by partnering with the private sector to expand small-scale off-grid access for rural users.

In support of this Australia will continue existing assistance to the Sustainable Energy Finance Project under which rural households across the Solomon Islands have the opportunity to purchase solar energy systems on a concessional loan basis administered through the Central Bank of Solomon Islands.

In the short term, Australia will also provide support to the establishment of a Project Management Unit to oversee the development of a hydro-power plant on the Tina River in eastern Guadalcanal in partnership with MoMERE and the World Bank. Subject to satisfactory development progress, including in land negotiations, this plant could be operational within three to four years. Once established this plant would replace Honiara's diesel generation capacity leading to potential reductions in production costs of up to 90 per cent and reduced reliance on fuel imports.

Consultations with the Solomon Islands Government and the World Bank have identified a number of feasibility studies that will assist in determining appropriate options to increase access to and affordability of energy supply particularly through the conversion and expansion of existing provincial grids managed by SIEA in Malaita, Western, Central and Makira. Australia will provide assistance to undertake these studies as well as provide support to the Rural Electrification Unit to improve planning capacity, undertake legislative review and assist in the development of a Rural Electrification Master Plan. A Rural Electrification Master Plan would assist the Government to identify and prioritise options for improving off-grid access to energy, particularly in isolated areas.

In the longer term, Australia will provide additional assistance to implement recommendations of these feasibility studies and support implementation of the Rural Electrification Master Plan. Implementation modalities for this assistance will be considered at design phase, however where appropriate existing Solomon Islands Government systems and processes will be used.

Telecommunications Infrastructure

The MTDS and consultations with MoFT and MoCA have highlighted improving access to, and affordability of, telecommunications as a priority for Solomon Islands. Consistent with these aims the Solomon Islands Government has recently negotiated the end of monopoly rights in telecommunications to enable increased competition.

In partnership with the World Bank and with policy support from the Regional Assistance Mission to Solomon Islands, Australia will support a transition to a

competitive market in the telecommunications sector through support for the establishment of an independent regulator. Australia will also consider options for supporting improved access to telecommunication services in rural areas in a competitive market including subsidisation of private sector delivery through the establishment of a universal access fund.

Implementation approaches for both of these modes of support will be informed by the outcomes of recent negotiations and the passage of a new telecommunications bill. A decision on appropriate modalities will be developed following consultations with the Solomon Islands Government at the conclusion of this process.

Paris Declaration and Accra Agenda for Action

Consistent with the Paris Declaration and the Accra Agenda for Action, Australia will increasingly shift from project-based approaches to using Solomon Islands Government systems and processes and, where appropriate, deliver assistance through a sector-based approach. However this shift to use of Solomon Islands Government systems will need to be accompanied by a comprehensive analysis of Government financial and procurement systems at the program's design phase.

The Solomon Islands and Australian Governments will ensure that economic infrastructure assistance is well coordinated with other government and donor activities. Australia will consider providing support through other donors to minimise the coordination burden on the Solomon Islands Government.

The Solomon Islands and Australian Governments will also ensure participation of civil society, including the private sector, in the development and implementation of activities to improve economic infrastructure under this Partnership.

Consistent with the move to a sector-based approach, Australia and other donors will formalise a regular policy dialogue with the Solomon Islands Government to consider how to address key issues in the transport sector. The experience and effectiveness of this mechanism should inform the development of similar mechanisms in the energy and telecommunications sectors.

Cross-cutting issues

Experience has shown men, women and youth access economic infrastructure for different purposes and in different ways, whether to access wage earning employment, to sell goods at markets or through the relative frequency of access to health and education services. In addition, men, women and youth also face different risks from infrastructure development such as the increased risk of the spread of HIV/AIDS, risks from increased traffic flows and risks that arise from improved access to urban centres.

Programs under this Priority Outcome will therefore need to be developed on the basis of sound gender analysis and in accordance with the principles of inclusive development. Where possible, sector level performance indicators will be disaggregated by gender to determine impacts of assistance and specific gender and youth impacts and risks will be considered at all phases of design. Australia will also

look to engage closely with civil society organisations in considering how to address these risks.

Programs will aim to generate employment in both rural and urban areas, for men, women and youth. Subject to value for money considerations, this will be achieved by maximising local procurement through small and medium enterprises and community contracting and the increased use of labour-based infrastructure maintenance techniques. Consistent with this approach, from 2009 up to 1000 additional part-time positions will be created through the expansion of labour-based methods under existing activities.

A number of infrastructure activities included in this Implementation Strategy are likely to contain environmental impacts or risks that may affect the long term sustainable development of the country. Therefore, both existing and proposed areas of assistance will be developed consistent with donor partner environmental safeguards or through independent AusAID analysis to ensure adherence with Solomon Islands and Australian Government requirements including the *Environment Protection and Biodiversity Conservation Act*. Ensuring that Australia's infrastructure investments are resilient to climate change impacts will underpin all activities.

Australia recognises that assistance in contexts that have been affected by violent conflict has the potential to impact on that conflict. Activities implemented under this strategy will therefore be carefully designed to contribute to continuing stability in the Solomon Islands, and to avoid harming the complex process of consolidation of peace between the parties to the former conflict.

Financial Arrangements

Australia will provide up to A\$8 million annually to deliver economic infrastructure activities in the Solomon Islands to 2015.

Funding will initially be delivered bilaterally, although increasingly funding will be allocated on a demand basis through Australian contributions to the multi-donor Pacific Regional Infrastructure Facility.

Funding allocation to this Priority Outcome will be determined in the context of the Solomon Islands annual budget development process and will take into account progress in implementing mutually agreed commitments under the Partnership.

It is intended that multi-year funding projections will be developed for inclusion in this Implementation Strategy as costed sectoral plans are updated or finalised and these will be updated annually.

The funding requirement for achieving the objectives in the Partnership can be derived primarily from: (a) redirection of Solomon Islands' recurrent and development expenditures towards Partnership priority outcomes and away from lower priority programs; and (b) increased levels of development assistance from Australia, consistent with the Partnership commitment as well as assistance from other development partners through increased aggregate development assistance and/or a reprogramming of existing activities.

Commitments

In addition to financial commitments, Australia will commit to increased use of Solomon Islands Government systems and processes as well as improved alignment of assistance with the MTDS and relevant sectoral plans.

In addition to these commitments by Australia, the Solomon Islands Government will commit to the following:

- The development and delivery of annual maintenance plans for transport infrastructure and increased budget allocations for maintenance of the network as a proportion of the budget.
- An update of the National Transport Plan to include costing and prioritisation of roads, wharves and aviation infrastructure by 2010.
- A National Transport Fund to be established and operational by January 2010.
- Progress towards the commercialisation of SIEA and over time recurrent budget funding to be used only to fund SIEA's community service obligations.
- Legislation passed for the regulatory structures to be put in place to allow for competition in the telecommunications market by September 2009.

SOLOMON ISLANDS – AUSTRALIA PARTNERSHIP FOR DEVELOPMENT

SUMMARY PERFORMANCE FRAMEWORK

PRIORITY OUTCOME 3 – IMPROVED ECONOMIC INFRASTRUCTURE			
Improved market access and service delivery through improved access to reliable transport, energy and telecommunication services.			
Solomon Islands Medium Term Development Strategy Outcomes	Partnership Outcomes	Indicators*	2009 Milestones
<ul style="list-style-type: none"> • Increase in rural population with access to roads rated as good. • Improved access and increased frequency of shipping services to outlying provinces. • Numbers of households with access to electricity supplies substantially increased. • Improved access across all provinces to mobile services. 	<ul style="list-style-type: none"> • Increased proportion of the rural population with reliable transport access to markets and services. • Growth in household incomes in areas targeted by transport programs. • Increased proportion of the population with access to reliable and affordable energy. • Increased proportion of rural population with access to affordable telecommunications. 	<ul style="list-style-type: none"> • Change in percentage of road network rated as good or above. • Number of roads rated satisfactory or above retain minimum rating of satisfactory • Change in travel times to health clinics and markets for road users in rural areas. • Change in incomes for provinces with improved road access. • Change in numbers of households with access to electricity supplies. • Change in proportion of Solomon Islands energy generation capacity from renewable energy sources. • Change in proportion of population with access to telecommunications services 	<ul style="list-style-type: none"> • Transition plan for Community Sector Program Roads project agreed and implementation commenced • Transport Infrastructure Sector Based Approach design team mobilised. • National Transport Plan update commenced. • National Transport Fund agreed by Parliament • Tina River Hydro-Power Project Management Unit Mobilised • Telecommunications bill passed by Parliament

*Indicators may be revised to align reporting with monitoring frameworks of sectoral plans under development or review.