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Working collaboratively for economic reform in Solomon Islands

A CASE STUDY OF THE CORE ECONOMIC WORKING GROUP



ODE EVALUATIONS & REVIEWS

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Taylor Brown | Emily Rudland | Peter Bazeley

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For further information, contact:

Office of Development Effectiveness

AusAID

GPO Box 887

Canberra ACT 2601

Phone (02) 6206 4000

Facsimile (02) 6206 4880

Email ode@ausaid.gov.au

Internet www.ausaid.gov.au

www.ode.ausaid.gov.au

Cover image: Children and their teacher in Aimela primary school, Solomon Islands. AusAID has provided performance-linked aid to Solomon Island's education fee-free initiative, which reinforces policy dialogue on economic reform through the Core Economic Working Group. Photo: Rob Maccoll, AusAID.

Office of Development Effectiveness

The Office of Development Effectiveness monitors the performance of the Australian aid program, evaluates its impact and contributes to the international evidence and debate about aid and development effectiveness.

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Leonard Fenowae, a cutter, harvests pineapples at Bina Pineapple Farm in Auki, Solomon Islands. As part of the donor-government Core Economic Working Group, AusAID engages in policy dialogue to support reform in the Solomon Islands that helps industries to grow. Photo: Rob Maccoll, AusAID.

About this case study

This case study forms part of an evaluation of the Australian Agency for International Development's (AusAID's) approach to policy dialogue.

The case study was conducted by Peter Bazeley (Explication Ltd), Taylor Brown (theIDLgroup) and Emily Rudland (the Office of Development Effectiveness). It is based on a review of program documents, a political-economy analysis of policy making in the Solomon Islands, and a one-week visit to Honiara in October 2011. The evaluation team interviewed a wide range of stakeholders from the Solomon Islands Government, the donor members of the Core Economic Working Group, the Australian High Commission, AusAID staff and Solomon Islands civil society.

The full evaluation report, *Thinking and Working Politically: An evaluation of policy dialogue in AusAID*, is available from www.ode.ausaid.gov.au

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Introduction

The Core Economic Working Group (CEWG) is the primary platform for policy dialogue on financial and economic reform between donors (including AusAID) and the Solomon Islands Government (SIG). CEWG aims to support SIG's efforts to improve spending, promote economic growth, and institutionalise sound public financial management. It also provides a forum for coordination of budget support, performance-linked aid and related technical assistance.

This case study uses the evaluation's Theory of Success framework¹ to explore the internal and external factors that contribute to effectiveness of CEWG policy dialogue and to identify lessons that CEWG might provide for AusAID staff engaged in policy dialogue in other contexts.

The origins of CEWG

CEWG was **born out of the global financial crisis**. As Solomon Islands' export earnings dried up in 2008 and 2009 so did government revenues and foreign reserves. As a result, SIG faced a profound fiscal and balance of payments crisis—at one point budget reserves reportedly amounted to less than a weeks government spending. This fiscal crisis was exacerbated by years of procyclical spending and weak public financial management. The fiscal shortfalls created an immediate incentive for SIG to engage with donors as a means of boosting its foreign reserves, to address financial shortcomings and to secure on-budget financing.

At the height of the global financial crisis, SIG called a meeting of donors to ask for assistance. Six donors—the World Bank, the Asian Development Bank, the European Union, Australia, New Zealand and the Regional Assistance Mission to Solomon Islands (RAMSI)—agreed to provide financial and technical support on the condition it was managed as part of a coordinated response to the fiscal crisis. CEWG was formed to oversee this coordinated response.

CEWG is comprised of representatives from its six donor partners as well as SIG counterparts including the Minister and Permanent Secretary for the Ministry of Finance and Treasury, the Governor of the Central Bank, representatives from the Ministry of Development Planning and Aid Coordination, and the Office of the Prime Minister. In late 2011, CEWG members invited the Ministry of Public Service to join the group.

CEWG first met in April 2009. It held five formal meetings in 2009—with a brief hiatus for the national elections. Two meetings were held in 2010, and four in 2011. Annual Joint Reviews were held in 2010 and 2011.

How CEWG works

CEWG is centred on a **Matrix of Economic and Financial Reform Priorities** (the EFRP matrix). This matrix provides the basis for CEWG dialogue and action. It identifies and prioritises reform in three areas: public financial management reform, budget reform and economic reform. The matrix sets out specific reforms, the actions required to achieve progress, and evidence and indicators of progress. It is linked to the Ministry of Finance and Treasury's (MoFT's) corporate plan and is currently focused primarily on reforms within that ministry.

¹ Peter Bazeley et. al., *Theory of Policy Dialogue Success*, September 2011. Available from www.ode.ausaid.gov.au

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Specific financial and economic reforms are identified as triggers to release budget support or performance-linked aid. This aims to provide financial incentives for SIG to continue with the reform process. By late 2011 the Asian Development Bank (ADB) had provided US\$10 million and EU15 million in budget support. AusAID had provided \$6 million in performance-linked aid to the education fee-free initiative.

The formal dialogue process centres on quarterly high-level meetings chaired by the Minister for Finance and Treasury. These formal meetings discuss progress against the matrix and agree on amendments. AusAID is represented in these meetings by the High Commissioner. Annual Joint Reviews—comprised of both SIG and donor representatives—monitor progress against the matrix, assess whether trigger actions for budget support have been met, and set out future priorities for CEWG.

As will be highlighted, much of CEWG’s substantive dialogue takes place in the less formal meetings and interactions that lead up to meetings. These include meetings of a ‘core-core’ group of donors and SIG (the Permanent Secretary and representatives from key CEWG donor members); donor group meetings; and ad hoc meetings between SIG and donor technocrats.

CEWG goals and mandate

SIG–donor dialogue itself is seen as an important outcome of CEWG—particularly by donor members. The formal and informal exchanges embodied in the dialogue build relationships and mutual trust between donor and SIG actors. Having one shared forum for dialogue also helps to reduce duplication and transaction costs and embodies both sides’ commitments to the Paris Declaration and aid effectiveness agenda.

However, the real test of CEWG’s success is its ability to deliver improved fiscal and economic outcomes. More specifically, CEWG aims to deliver a stronger more developmental budget process and structural reforms. In doing so, CEWG participants are seeking to create better government systems that can manage budget support, create an enabling environment for business investment and development, and provide basic services to the people of Solomon Islands.

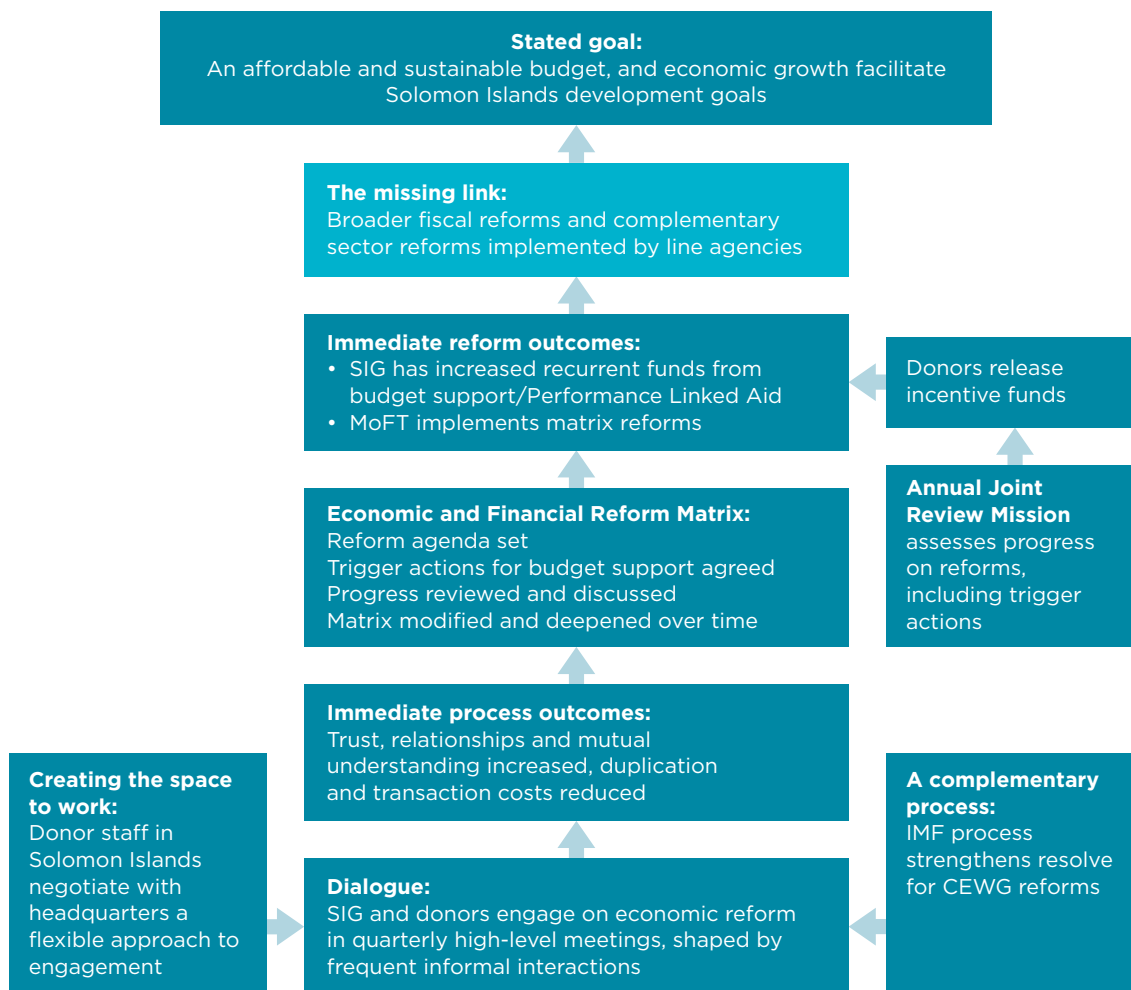
CEWG Goals

- **An affordable and sustainable government budget that improves government decision-making processes, and focuses on achieving the development goals of Solomon Islands.**
- **Structural reform to make Solomon Islands an easy and reliable place for businesses to invest and for industries to grow.**

MoFT-centred reforms are necessary but may not be sufficient to achieve these goals. As will be discussed, there may be a need to expand the scope of CEWG dialogue to embrace line ministries (particularly those engaged in service delivery) if there is to be deeper progress on structural reform.

The overall causal logic of CEWG is set out in the Figure 1.

Figure 1: Causal Logic of the Core Economic Working Group



Achievements

SIG, AusAID and other donors see CEWG as an important and effective forum for policy dialogue. The second CEWG Annual Joint Review in August 2011 found CEWG to be “a successful model for joint government–donor dialogue on the promotion of key public financial management and economic policy reforms”.² CEWG’s key achievements include the following:

- There have been numerous attempts to develop and sustain SIG–donor policy dialogue since the ‘tensions’ of 1998–2003. CEWG is the first dialogue forum (beyond limited sectoral working groups) that has had **sustained success on dialogue around broader economic development issues**.
- CEWG has helped to **build trust and improve the quality of working relations** between parts of SIG and key donors, including AusAID, in a context in which relations were previously strained.
- CEWG has helped to **improve donor coherence and coordination**. As a result CEWG donors are better able to speak with one voice and to forge consensus on key financial and economic priorities. This has reduced the transaction costs for MoFT counterparts, who can now deal with donors collectively rather than individually. For AusAID it has also provided a way to engage with SIG without the baggage associated with being the dominant donor in Solomon Islands.
- The focus of CEWG has evolved from its crisis-focused beginnings to a **multi-year dialogue** underpinned by a **shared framework for reform** (the EFRP matrix).
- CEWG has provided a framework through which donors have been able to provide US\$37 million in **budget support** and **performance-linked aid**.
- CEWG has contributed to improvements in Solomon Islands macro **fiscal management** including reforms in budgeting, forecasting and financial management.
- Partially as a result of these reforms, SIG’s **foreign exchange reserves** have risen from less than one week’s worth of spending in 2009 to six month’s worth in mid-2011.
- CEWG dialogue has contributed to the development of the **National Development Strategy**, a framework for longer-term development in Solomon Islands.
- CEWG has proven to **be relatively robust**. It has continued to operate through one election cycle, and several changes of Prime Minister and Finance Minister.

² Solomon Islands Consultative Economic Working Group (2011) *Report of the Economic and Financial Reform Program Second Annual Joint Review*.

Political economy factors shaping policy dialogue

A number of political economy factors fundamentally shape the ways in which fiscal and economic policy-making and donor-government dialogue take place in Solomon Islands. It is against this difficult context that the relative success of CEWG should be measured. These factors include the following:

- Solomon Islands is a fragile state, whose institutions are only now starting to emerge from irregular post-conflict constructs and influences. Formal state institutions are not robust or deeply rooted and informal institutions, such as personal patronage networks, are prominent.
- External actors, and particularly Australia, play a fundamental role in governance in Solomon Islands. The Regional Assistance Mission to Solomon Islands was responsible for securing the peace that followed the tensions of 1998–2003 and has continued to serve as guarantor of peace in the years since.
- Solomon Islands is one of the most aid dependent countries in the world. International aid flows are equivalent to almost half of the Solomon Islands' economy with approximately US\$250 million of non-military aid entering the country each year.
- Solomon Islands has tended to suffer from a form of the resource curse in which abundant and valuable natural resources have fuelled weak governance and feckless economic behaviour. The profits from the timber trade, in particular, have helped generate high levels of rents and unearned income for the political elite financing individual patronage networks rather than state goods and services.
- Members of Parliament (MPs) seldom gain and retain power by delivering on issues of broad national or even regional interest. They are elected and re-elected based on their ability to deliver resources to their locality and to their immediate supporters. Localised political affiliations, wantokism, and electoral realpolitik therefore provide little space for issue-driven politics.
- Politicians face perverse incentives against longer-term planning and policy-making. The high turnover of governments and office holders means that time horizons for MPs and ministers are very short: less than 50 per cent of MPs are re-elected and ministerial posts are reshuffled in an effort to maintain a viable coalition government. This, as well as the 'grasshopper politics' in which MPs regularly jump from government to opposition, means that politicians face strong incentives to maximise short-term gains in office and few incentives to deliver more substantive public goods and services.
- Key political decisions in Solomon Islands are often made through the Caucus, a parallel system of government comprised of the supporters of the ruling government in Parliament.
- Civil servants face few incentives to develop and deliver policies and programs. Job insecurity, poor pay and conditions, limited technical capacity and a deeply hierarchical administrative culture limit the scope for policy reform. MoFT has greater capacity to develop and implement policies than most other SIG ministries and departments.

Building blocks of CEWG dialogue

The Theory of Policy Dialogue Success outlines five building blocks that can shape the character of a policy dialogue:

- the extent to which is clear what is to be achieved through dialogue—or **‘clarity of intent’**
- the balance of power, knowledge and ownership, or **‘negotiating capital’**
- the capabilities and **characteristics of the actors**, or individuals, involved
- the **fora used in dialogue**: the formal and informal spaces and opportunities to understand each other’s values and interests
- **evidence**: the extent to which data and analysis inform dialogue, and who owns it.

The sections below examine each of these building blocks and their interaction in relation to CEWG.

Clarity of intent

The degree to which participants are clear about what they want to achieve through dialogue

From the beginning, both SIG and the donors were **clear about what they wanted to achieve through CEWG**—even if each wanted to achieve somewhat different objectives. This clarity of intent resulted from Solomon Islands’ perilous fiscal situation in 2009. The fiscal crisis focused the minds of both key Solomon Islands Government officials and donors on the importance of getting money into government coffers and addressing fundamental fiscal shortcomings. This clarity of intent ensured that there was a high degree of initial ownership and engagement on the part of SIG and a coordinated and swift response on the part of donors.

On SIG’s side, senior MoFT officials initially engaged in CEWG as a means to build up government cash reserves and encourage donors to provide more of their assistance ‘on budget’. As one observer noted: “the link [between CEWG and budget support] has been key—it has been the most important carrot for dialogue”.

While the dialogue was first and foremost about addressing SIG’s fiscal shortfall, senior government officials also viewed CEWG as a way to decrease the transaction costs of dealing with donors separately. They saw CEWG as a mechanism that allowed them to deal with all donors more systematically and at the same time. As one official noted: “CEWG makes the donors work together and put their views together”.

Australia (and other donors) were also clear about what they wanted to achieve through CEWG and were able to coordinate their actions and resources accordingly. From the donors’ side, CEWG was seen as a means to:

- **Coordinate timely and appropriate support to SIG** at a moment of fiscal crisis. CEWG donors wanted to ensure that SIG received the financial assistance needed to weather the fiscal crisis. This support came in the form of performance-linked aid (AusAID), additional sector budget support (New Zealand) and direct budget support (European Union and ADB). Donors also helped to bolster SIG’s reserves by putting existing and pending project funds into the Central Bank and boosting local cash earnings by using more labour intensive forms of construction and public works. The fact that donors were able to draw on existing funds helped to ensure that CEWG was financially backed from the start; AusAID had just launched a new program of performance-based aid and the ADB and the European Union could draw on funds aimed specifically at supporting Pacific countries response to the global financial crisis.

- **Improve the quality of relations with SIG.** CEWG also provided donors with the opportunity to reset relations with SIG. At the time of CEWG’s launch in 2009, substantive and regular dialogue was constrained and SIG-Australian relations were improving but often fraught. The donors’ ability to deliver timely and appropriate financial resources at a time of fiscal crisis helped to bolster relations and build trust between SIG and key donors, especially Australia.
- **Promote key public financial management reforms in the short and medium term.** Donors saw CEWG as more than a means to provide swift and direct support to SIG at a time of crisis. They saw it as an opportunity to initiate and sustain more substantial discussions about medium- and longer-term fiscal and economic policy. As one donor highlighted: “CEWG was always about building the foundation for future dialogue”.
- **Develop a new way of working.** CEWG donors also shared a broad vision that they needed to work in a way that differed from past practice. The core donor partners were like-minded in their recognition that substantive financial and economy reforms would require an approach that was flexible and worked to SIG’s lead and at SIG’s pace.

The fact that all donor partners in CEWG shared these broad objectives enabled the core group of donors to coordinate their agendas and actions and to ‘speak with one voice.’ This shared intent has been crucial to the dialogue’s success.

Negotiating capital

The balance of power, knowledge and ownership between dialogue participants

There is a **fundamental imbalance of negotiating capital** between Australia and other donors and between the donors and SIG.

Given the scale of the Australian presence, there is a risk that negotiating capital between Australia and other donors could be unbalanced. Australia is the dominant donor in Solomon Islands in terms of both financial commitments and expatriate presence. This dominance could potentially swamp or marginalise the efforts of other donors and breed resentment. It could also put SIG on the defensive. The joint-donor approach embodied in CEWG and the technical strength of the ADB and World Bank on financial policies, however, has put other donors in the lead. AusAID has been willing to take a less prominent role in the process and to put its voice forward as part of the donor group. In doing so, it has helped to temper the effects of Australian aid dominance and strengthened both interdonor dialogue and donor–SIG dialogue.

As a group, AusAID and other donor offices are well endowed with human and financial resources, technical skills and systems, and comparative experience (although AusAID itself does not have public financial management expertise at Post). Donors are also able to draw on the expertise of their own organisations’ headquarters staff as well as hired international analysts and consultants.

On the other hand, most SIG ministries and departments have very limited internal resources and technical capacity. Ministerial staff are poorly paid and turnover among both elected officials and administrators is high. This creates few incentives to promote or implement reforms or to deliver broader public goods and services.

This lopsided negotiating capital can and does skew dialogue between SIG and donors. It helps to explain why many proposed government reforms (outside of CEWG) fail to get off the ground or remain unimplemented. It also helps to explain why SIG counterparts often agree to policy and program changes they have little ownership over and have little intention or capacity to implement.

A nod is not enough

“You [donors] may say something and the Solomon Islands official nods his head [in agreement]. But don’t go by the head nodding: it may be that they do not agree with you at all.”

“When aid is offered we say yes—even if we have some misgivings”

Senior SIG Officials

A significant reason that CEWG dialogue has been able to deliver sustained and substantive dialogue is that **Australia and other CEWG donors have worked with SIG to strengthen MoFT’s negotiating capital**. In particular, the secondment of RAMSI staff, Overseas Development Institute fellows, and other technical expertise to MoFT has helped to bolster the Ministry’s technical capacity and to develop more robust financial management systems and procedures. This capacity has allowed SIG to engage more effectively at a technical level with bilateral and multilateral partners and has

served to reassure donors about MoFT’s systems and procedures. As a close observer of CEWG noted: “without RAMSI staff, SIG and donors wouldn’t be on even footing”.

SIG’s negotiating capital is also boosted through the use of the EFRP matrix. The matrix is linked to the priorities identified in MoFT’s corporate plan. As a result, key Ministry officials broadly own the matrix and the key reforms it identifies.

To some extent, CEWG also provides the Minister of Finance and MoFT’s Permanent Secretary with credibility at home and abroad. On the domestic stage, CEWG and the resources it delivers to MoFT bolster the credibility and political resources of the Minister of Finance within the governing coalition. On the international stage, the Minister has used CEWG as a means to build his regional credibility. During a recent Pacific Forum meeting, he presented CEWG as a case study of how to successfully work with and manage donors. In November 2011 at the Fourth High Level Forum on Aid Effectiveness in Busan, Korea, CEWG was presented by the Solomon Islands delegation as a case study in aid effectiveness.

Actors and their characteristics

The capabilities and characteristics of the individuals engaged in policy dialogue

The interests, incentives, skills, knowledge and personality of key actors fundamentally shape the character and effectiveness of a policy dialogue.

A range of SIG and donor actors have played a crucial role in initiating and sustaining CEWG’s policy dialogue. Overall, key actors on both sides have been **capable**, committed, collaborative and entrepreneurial. They have been capable in that both SIG and donor counterparts have had enough technical knowledge and experience to ensure that the dialogue can explore and act on technical, financial and economic issues. They have been **committed** in that they have invested in, and to a great extent, own the CEWG dialogue process. The core group of donor actors invests a significant amount of time and resources into CEWG process. The Minister of Finance at the time of the launch of CEWG was willing to change fundamentally the ways in which MoFT engaged with donors and followed through on reforms. This commitment has been maintained through subsequent changes in government.

Donor actors have also taken an inherently **collaborative** approach to policy dialogue. A core group of like-minded donors (Australia, the World Bank and ADB) has worked closely as a team to coordinate their actions. The donors in this core group were able to provide the catalyst for collective action and have also actively supported one another where needed. The World Bank Country Manager, for instance, has travelled to Canberra on a number of occasions to build support for CEWG among Government of Australia officials. As one participant noted: “we [the

core group] have helped to manage one another's institutional baggage" in order to deliver coordinated action.

CEWG donors have been able to effectively pool their technical capacity. For instance, the AusAID team in Solomon Islands lacks technical public financial management expertise. However, by working closely with the ADB and World Bank, the donor group, collectively, has the skills and experience to engage appropriately and constructively with SIG officials.

Both SIG and CEWG donors have been **entrepreneurial** in their approach to policy dialogue. Core donor group members invested significant amounts of time, energy and creativity in launching and sustaining CEWG. In so doing they have worked in ways that both stretch the narrow confines of their job descriptions and put aside their own institutional incentives in favour of achieving collective results. Key donors have also been opportunistic; they worked with each other and their own agencies to respond swiftly to the opening for policy dialogue that SIG's fiscal crisis represented. The current Minister of Finance and his two predecessors have also been entrepreneurial in their approach to policy dialogue. They have been willing to depart from past practice and to argue the case for a CEWG approach within SIG.

The **stability** and **continuity** of actors has been an important feature of CEWG. Turnover at both the Ministerial and administrative levels is pervasive in Solomon Islands. Donor offices are also prone to relatively high turnover of staff. This churning of actors can make sustained dialogue extremely difficult. In the case of CEWG, however, there is a great deal of stability among the main actors engaged in the policy dialogue. Key AusAID, World Bank and ADB officials remained in place for a sustained period following CEWG's inception. While there have been several changes of Finance Minister (and government), the same Permanent Secretary has remained in place. Moreover, the current Prime Minister was, until November 2011, the Minister of Finance and a key supporter of CEWG. This continuity and commitment of key actors has enabled sustained dialogue and fostered trust between participants.

CEWG has **benefited from the combination of bilateral and multilateral donor engagement**. Both the ADB and World Bank Offices were only opened in the months leading up to the launch of CEWG. Their status as 'new kids on the block' allowed them to build fresh relations with SIG and bilateral donors, and for their staff to operate in ways that might not have been possible if their offices had been more established. While the ADB and World Bank have been directly engaged in CEWG dialogue, the International Monetary Fund (IMF) has played a useful external role. The IMF has an ongoing Standby Credit Facility with SIG. This Facility was initially developed as a means to ensure that European Union budget support could be granted to Solomon Islands. Over time, however, the periodic IMF missions in support of the Facility have provided a source of external advice and helped to reinforce the importance of key CEWG reforms. As one government official noted: "the IMF gives structure and direction to our approach".

The **technical expertise** and backgrounds of key actors also contributed to CEWG's ability to sustain policy dialogue. The World Bank Country Manager (in post from 2009 to 2011) had previously worked in East Timor and was able to draw on the experience of donor-government dialogue there. The ADB lead is a respected former Fijian public official who brings not only a technical understanding of public financial management to CEWG, but also a rooted understanding of Melanesian society and politics. He is therefore able to bring regional credibility to his engagement with SIG and to operate as a genuine peer to high-level SIG officials.

Dialogue fora

The formal and informal spaces and opportunities to understand each other's values and interests

CEWG dialogue entails an **effective mix of formal and informal, technical and higher level dialogue fora**. As highlighted above, there are two formal CEWG fora: a quarterly CEWG meeting chaired by the Minister of Finance and an Annual Joint Review. The quarterly meetings provide a regular forum through which donors and SIG can review ongoing progress against the EFRP matrix and allow both SIG and donors to discuss fiscal or economic issues of mutual concern or interest. The Annual Joint Review assesses progress made in the implementation of the EFRP matrix, with particular focus on priority reform actions. The Annual Joint Review also identifies future priorities and revisions to the matrix and informs donor decisions regarding the provision of budget support for the coming year. The formal CEWG meetings include government ministers and high-level government officials as well as senior representation from donor missions (for example, the Australian High Commissioner).

While these formal fora provide the mechanism through which joint analysis and reform priorities can be officially endorsed, **the effectiveness of these fora hinges on the informal dialogue that underpins them**. Informal technical and administrative discussions within the donor group, and between the donor group and SIG provide a foundation on which higher level decisions can be built. Informal discussions between CEWG donors in the lead up to quarterly meetings also ensure that donors iron out their differences and explore new priorities and proposals. As one donor participant noted: “informal meetings help to gather information, test ideas and plant seeds in ways that more formal dialogue cannot”. These informal meetings also reduce SIG’s transaction costs. The core group of donors also meets regularly, but informally, with MoFT officials. Both SIG and donors noted this allows for key discussions to be ‘precooked’ before more formal meetings.

Honiara is a small place and CEWG participants are likely to encounter one another in a wide range of informal contexts. As a result, CEWG donors and SIG officials report that they are able to exchange ideas and explore progress in an almost continuous manner over “cocktails, coffees and school runs”.

At a bilateral level, high-level talks for the Solomon Islands – Australia Partnership for Development also provide an opportunity to discuss and reaffirm commitment to the CEWG process and its goals.

Evidence

The extent to which data, research and analysis inform policy dialogue, and who owns it

Shared evidence and analysis provide the foundation for CEWG dialogue. There are two kinds of evidence underpinning CEWG. First, there is periodic or commissioned analysis. This analysis includes broad fiscal and economic analysis (for example, the World Bank-led Public Expenditure Reviews or the IMF’s Mission Reports) and commissioned studies related to specific economic sectors and reforms. CEWG provides a forum through which donors and SIG are able collectively to exchange and explore these analyses and factor them into reform priorities and strategies. As a high level government official highlighted: “CEWG creates an environment in which good analysis [can be created and then] feed into policy-making”.

The second category of evidence that helps to shape CEWG dialogue is the EFRP matrix. As noted above, the matrix provides the basis for CEWG to prioritise and sequence reforms. It also provides the basis for the Annual Joint Review to assess progress.

“When we [CEWG] started, there was not much trust between government and donors. There was lots of key information that was withheld...Now we have won [SIG’s] confidence and this information flows.”

Donor partner

The matrix has provided the basis for dialogue and policy reform for one significant reason: it has taken an incremental and ‘good enough’ approach. Rather than develop an overly ambitious, tightly sequenced and technically flawless matrix of reforms, SIG and the donors developed a matrix that is broad, open to significant revision and leaves some more contentious reforms out. As one donor noted: “it’s not perfect; it’s not ideal; but it does provide a start for an important process”. This approach allowed CEWG to make some initial swift

progress on ‘low-hanging fruit’ and to avoid getting bogged down in more complex and politically sensitive reforms. As one participant noted, this approach made it possible “for participants to build trust and relationships and to demonstrate tangible changes [through CEWG]”.

Shortcomings and sustainability

CEWG has marked a significant improvement on the quality and depth of policy dialogue that preceded it. CEWG's achievements, however, should be tempered with an appreciation of its shortcomings and future challenges. These include the following:

- While both SIG and donors had strong clarity of intent about the aims and approach of CEWG during the first several years of its existence, the **future focus and composition of CEWG is currently less clear**. CEWG is in a period of transition. As its fiscal situation has stabilised and improved, SIG faces less of an immediate incentive to invest in fiscal and economic dialogue and reform than when it was staring into a fiscal abyss. There is also less clarity about CEWG membership and the group's future focus.
- CEWG members are debating whether or not (and if so, how) to **expand CEWG's mandate beyond MoFT to support coordination and reform in sector ministries**. As noted above, strengthening MoFT systems and processes is necessary but not sufficient to achieve CEWG's goals. If SIG is to improve its budgeting and financial management, and ultimately the delivery of services, there needs to be effective and coordinated dialogue not just with MoFT, but with key line Ministries (particularly those that provide basic services). In other words, improving the financial plumbing within MoFT will make a difference, but without improved coherence and capacity in other ministries, reforms will have limited impact on the lives and livelihoods of Solomon Islanders. On the other hand, there is a risk that expanding CEWG's mandate could dilute the focus and coherence of CEWG dialogue.
- So far, CEWG is very **dependent on the personalities involved**. This has its advantages: dialogue can be built and sustained on personal relationships between government and donor participants. This approach, however, also carries some risk: it is unclear how CEWG will cope with changes to key donor and government actors. The recent change of staff among long-standing World Bank and ADB staff will, for instance, test CEWG's resilience.
- Similarly, a key strength of the CEWG approach has been the engagement that takes place between donors and the Minister of Finance, the Permanent Secretary and a few other high level officials. However, there is a risk that CEWG dialogue has focused too much on **working with these individual champions of change** rather than fostering a broader coalition of change around economic and fiscal reform. There is, for instance, little civil society or private sector engagement in CEWG process—despite the group's focus on economic management and growth. There is also a potential lack of engagement among mid-level and lower-level government administrators. As one official explained: “it doesn't get to our level much ... lots [of information and discussion] goes up, but not much comes down”.
- There is a sense that while CEWG has improved the quality of dialogue between SIG and donors, it could do more to address some of the more **deep-seated fiscal and economic challenges** facing Solomon Islands. As one observer noted: “donors were so focused on getting a seat at the table [with SIG] that they didn't push on difficult issues”. This may, however, be changing—the most recent Annual Joint Review began to prioritise more difficult issues including procurement processes. However, it may be challenging for CEWG members to make progress on these more politically sensitive reforms.

- While MoFT has greater capacity than most SIG Ministries, **the limited depth and breadth of its staff constrains** the ability of **MoFT** to lead and deliver reforms. The expatriate staff working in MoFT have helped to boost the Ministry's capacity and negotiating capital in the short run. However, reliance on outside technical assistance is not a permanent solution to MoFT's human resource constraints and in many cases appears to be contributing little to building longer-term capacity within SIG ministries and departments. There is also a concern that the number of expatriate staff working in MoFT has created a situation in which expatriate donor staff engage primarily with expatriate seconded staff rather than Solomon Island civil servants.
- AusAID's lack of technical capacity within Solomon Islands has been compensated for by close working relationships with World Bank and ADB staff. In addition, staff at Post have drawn on the expertise of Canberra-based advisers. However, in the longer term, AusAID's ability to engage substantively in policy dialogue may be limited by its lack of in-country technical capacity on public financial management and budgeting.

Conclusions and insights

CEWG has provided donors and SIG with a strong basis for substantive dialogue on public financial management and economic policy reforms. It has not only helped Solomon Islands weather its fiscal crisis, it has helped to improve the quality of debate and evidence-based decision-making in MoFT. CEWG has also contributed to improvements in MoFT's budgeting, forecasting and financial management. These achievements have occurred in a difficult and unstable policy environment, and CEWG has so far managed to survive one election cycle and several changes of Prime Minister and Finance Minister.

Elements of the approach taken by CEWG are specific to the Solomon Islands context. However, the overall approach may provide a useful framework for fostering donor–partner government dialogue in some contexts—particularly where budget support is being considered. At a broader level, there are a number of factors that have contributed to its overall ‘success’ which may provide lessons for other AusAID Posts and programs. These include:

- **Be opportunistic:** AusAID and other CEWG donors were opportunistic. They were able to respond swiftly to SIG's request for financial assistance during the global financial crisis and leverage this opening into a more substantive dialogue about fiscal and economic management.
- **Be fleet and flexible:** AusAID and other donors were relatively fleet and flexible in their response to SIG's request for support. AusAID was particularly responsive and was able to release its performance-related aid just when government finances were most stretched. Other donors have been able to stagger their funds to provide a steady stream of resources to SIG as it sought to rebuild its balance sheet. This fleet and flexible response helped to build a store of good will and trust that provided the basis for subsequent dialogue.
- **Invest in strengthening partner government negotiating capital:** AusAID and other CEWG donors actively invested in bolstering the negotiating capital of SIG by providing advisers, technical support and shared and commissioned analysis. While this did not quite put the parties of the dialogue on equal footing, it did make it possible for SIG to have greater ownership of the dialogue and to engage at a technical level with donor counterparts. As noted above, however, more could be done to develop the longer-term capacity and negotiating capital of SIG counterparts.
- **Use finance to incentivise dialogue:** The link between dialogue and financial resources was key to initiating and sustaining CEWG dialogue. The ability of AusAID and other donors to provide budget support to SIG has been a crucial incentive for government engagement in CEWG.
- **Step back and take a joint approach:** A joined-up donor approach in which Australia is merely one of several donors driving the dialogue has been central to CEWG's success. In a context in which AusAID is by far the dominant donor, the willingness of AusAID to step back and let ADB and the World Bank take much of the lead in the dialogue has allowed for a more balanced and trusting approach to dialogue.
- **Start small:** The relatively small size and like-mindedness of the core donor group have made achieving and maintaining collective action much easier. This has made it possible for the donor group to coordinate their engagement with SIG, and enabled them to develop an effective division of labour in which different actors play different roles in the dialogue process and mutually support one another's efforts.

- **Work for continuity and competency:** The technical expertise and continuity of actors have also been central to CEWG's effectiveness and sustainability. In a context in which turnover is high, key government and donor actors have been able to build and deepen their engagement with one another and reform processes. This has helped to build a strong and trusting working relationship within CEWG.
- **Be incremental:** AusAID and other donors have sought to build engagement with SIG incrementally. Rather than push a hard reform agenda at the start of the CEWG process, they worked with SIG to address some easier wins. This has built confidence in and ownership of the CEWG process. It is only now that donors are beginning to raise more thorny issues (for example, procurement management).

