

SOLOMON ISLANDS

**GOVERNMENT ECONOMIC AND FINANCIAL REFORM PRIORITIES
JOINT ASSESSMENT MISSION**

ASSESSMENT REPORT

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CONTENTS

ABBREVIATIONS

EXECUTIVE SUMMARY

I. INTRODUCTION

- A. BACKGROUND
- B. PURPOSE
- C. ASSESSMENT FRAMEWORK AND METHODOLOGY

II. CURRENT ENVIRONMENT

- A. ECONOMIC AND FISCAL CONTEXT
- B. POLITICAL UPDATE

III. ASSESSMENT

- A. CEWG INSTITUTIONAL ARRANGEMENTS
- B. PROGRESS AGAINST ECONOMIC AND FINANCIAL REFORM PRIORITIES
 - (i) Public Financial Management
 - (ii) Enabling Environment for Businesses and Investment
 - (iii) Protecting the Vulnerable

III. ISSUES

- A. COORDINATION
- B. CAPACITY
- C. COMMUNICATION
- D. SCOPE

IV. NEXT STEPS AND RECOMMENDATIONS

- A. INSTITUTIONAL ARRANGEMENTS
- B. DOCUMENTATION
- C. 2011 POLICY MATRIX

V. CONCLUSIONS

APPENDICES

- 1. Terms of Reference
- 2. Assessment of Progress Against the 2010 Matrix of Economic and Financial Reform Priorities
- 3. Possible Future Template for Documentation
- 4. Possible Future Timelines
- 5. List of Persons Met

ABBREVIATIONS

ADB	–	Asian Development Bank
AJR	–	Annual Joint Review
AusAID	–	Australian Agency for International Development
CBSI	–	Central Bank of the Solomon Islands
CEWG	–	Core Economic Working Group
COA	–	Chart of Accounts
EFRP	–	Economic and Financial Reform Program
ERSP	–	Economic Recovery Support Program
EU	–	European Union
FI	–	Financial Instruction
IAS	–	International Accounting Standard
IPSAS	–	International Public Sector Accounting Standards
IMF	–	International Monetary Fund
JRM	–	Joint Review Mission
MDPAC	–	Ministry of Development Planning and Aid Coordination
MEHRD	–	Ministry of Education and Human Resource Development
MHMS	–	Ministry of Health and Medical Services
MID	–	Ministry of Infrastructure Development
MOFT	–	Ministry of Finance and Treasury
MTDS	–	Medium-Term Development Strategy
NSP	–	National Strategic Plan
NTF	–	National Transport Fund
NTP	–	National Transport Plan
NZ MFAT	–	New Zealand Ministry of Foreign Affairs and Trade
OAG	–	Office of the Auditor General
PER	–	Public Expenditure Review
PFM	–	Public Financial Management
PMO	–	Prime Minister's Office
PSDI	–	Pacific Private Sector Development Initiative
RAMSI	–	Regional Assistance Mission to Solomon Islands
SIG	–	Solomon Islands Government
SOE	–	State-owned enterprises

EXECUTIVE SUMMARY

The Solomon Islands Government in March 2009 established a Core Economic Working Group (CEWG) to improve coordination and dialogue between SIG and development partners to meet the economic and fiscal challenges facing the country. SIG's Economic and Financial Reform Priorities (EFRP) are articulated in a matrix, and development partners have to date provided the equivalent of US\$9.0 million in funds to SIG in support of progress. The reform priorities have focused on three areas: strengthening public financial management, promoting priority structural reforms, and giving priority to the needs of the most vulnerable members of the community. The first Annual Joint Review since the inception of the CEWG was conducted in August 2010. The purpose of the AJR was to review overall progress against SIG's 2010 EFRP, to explore how the CEWG is currently functioning, and to identify possible steps for 2011.

The Annual Joint Review has concluded that progress towards the 2010 reforms has been good, particularly in the area of public financial management. A few reform measures where progress has been slower than anticipated could be addressed by the end of the year pending actions by the new Government. The Review believes that to ensure reform momentum is maintained, significant continuity into 2011 in terms of the reform priorities would be helpful.

The CEWG has been an effective and valuable mechanism for all stakeholders. It is promoting improved information for SIG on progress across its overall reform agenda and enabling SIG to have a coordinated discussion with development partners on how they can best support SIG's economic and financial reform priorities. Some key factors underpinning the success of the CEWG have included the strength of SIG leadership, commitment and support; high-level engagement by development partners; and the CEWG's focus. Looking forward there are opportunities to consolidate and streamline some of the operations of the CEWG. Further alignment of donor contributions and processes with SIG processes will be important. This report includes some specific recommendations for the CEWG to consider in further streamlining and strengthening the functioning of the CEWG.

The Mission considers there would be value in the CEWG articulating a medium-term vision of its operations, which could align more strongly with achieving effective and accountable service delivery to secure improved development outcomes for Solomon Islanders. The new National Strategic Plan under formulation could provide a tool to more closely align budget support operations to the SIG's key development priorities. This will require a well-prepared and widely-consulted document and efforts to strengthen the link between policy and planning and the budget. The pace of any change in the CEWG needs to be driven by SIG's capacity and its own belief in the benefits of extending the focus of CEWG.

In light of the progress made, and supposing that the new Government remains committed to the reform agenda and macroeconomic stability, the conditions are set for the disbursement of the budget support funds attached to this review and for a continuation of budget support operations in Solomon Islands. The commitment of the new Government towards three areas will be particularly key: support to the IMF Stand-by Agreement; confirmation of the process to finalize the National Strategic Plan; and the underlying PFM agenda.

I. INTRODUCTION

a. Background

1. The Solomon Islands economy was significantly affected by the global economic crisis of 2008-2009, which exacerbated the already anticipated structural slowdown in forestry. After growing at an average annual rate of close to 7% from 2003 to 2008, real economic growth in 2009 was close to zero. The lack of growth put further pressure on the Solomon Islands Government (SIG)'s fiscal position.

2. Recognizing the severity of the challenges the Solomon Islands faced, in March 2009 the Government established a Core Economic Working Group (CEWG), comprising central government agencies and the central bank, and key development partners.¹ The purpose of the CEWG is to improve coordination and dialogue between SIG and development partners to meet the economic and fiscal challenges facing the country. The CEWG is a SIG-led process, chaired by the Minister of Finance and Treasury (the Permanent Secretary of Finance and Treasury chairs the technical level sub-committee) with the Financial Economic Development Unit (FEDU) of MOFT the Secretariat. The Government articulates its economic and public financial management reform plans through the CEWG, which informs the dialogue between SIG and development partners regarding the provision of budget support and associated Technical Assistance in support of SIG's priorities.

3. A broad ranging reform agenda was articulated in the 2009 Matrix of SIG's Economic and Financial Reform Priorities (EFRP) focusing on efforts to stabilize the fiscal position, strengthen public financial management, promote priority structural reforms, and to give priority to the needs of the most vulnerable members of the community. The 2010 EFRP matrix was developed, continuing these key themes.

4. Based on the timely accomplishment of the reform priorities identified in the 2009 EFRP, CEWG development partners have to date provided the equivalent of US\$9.0 million in funds to SIG for the fiscal year 2010.² In June 2010, the Executive Board of the International Monetary Fund also approved an arrangement under the Standby Credit Facility for the Solomon Islands, to support SIG's priority economic reforms. The European Union (EU) is expected to provide an additional budget support grant of Euro15.2 million during the remainder of 2010 subject to progress towards achieving the 2010 EFRP, together with satisfactory implementation of the IMF Stand-by Agreement and satisfactory progress in the preparation of the new National Strategic Plan (NSP).

5. The CEWG has established a timeline for reporting on progress against the 2010 EFRP, the provision of budget support, an Annual Joint Review and the formulation of a 2011 EFRP and associated budget support. These timelines have been set to better align over time with the formulation, reporting and disbursement cycles of SIG's budget.

¹ The SIG members of the CEWG include the Ministry of Finance and Treasury (MOFT), Ministry of Development Planning and Aid Coordination (MDPAC), Central Bank of the Solomon Islands (CBSI), and the Prime Minister's Office (PMO). The development partner members are the Asian Development Bank (ADB), Australian High Commission, European Union (EU), New Zealand High Commission; and World Bank (WB).

² The New Zealand Aid Program and AusAID provided sector-specific grants of SBD29.0 million and SBD 22.3 million respectively in January 2010. ADB provided a general budget support grant of US\$5 million in April 2010.

6. As part of this annual cycle, the CEWG commissioned the first Annual Joint Review to be conducted in August 2010 by a joint SIG-development partner team. The terms of reference (TOR) for the CEWG Joint Assessment Mission (the Mission) are attached as [Appendix 1](#). The Mission comprised representatives from SIG and CEWG development partners.³ The Mission was timed so that its findings could usefully inform the new Government about the progress of the CEWG and possible future steps in the reform agenda.

7. The Mission prepared outputs in close consultation with all CEWG members. On 10 September 2010, the Mission submitted to the CEWG the Aide Memoire that recorded the Mission's initial findings, observations, issues, and recommendations synthesized from discussions with various stakeholders, including government agencies, development partners, the private sector, and civil society. Following the Aide Memoire, the Mission has prepared this report to further elaborate the findings and recommendations from the Annual Joint Review.

b. Purpose

8. The purpose of the Mission is to review the progress in implementing the SIG EFRP, with particular attention to the priority reform actions in the 2010 Matrix. As the CEWG is a relatively new mechanism and this is the first Annual Joint Review, CEWG members at initial briefings also directed the Mission to explore how the CEWG is currently functioning, areas for improvement and possible future directions, as well as to comment on potential areas to be considered in the 2011 EFRP.⁴

c. Assessment Framework and Methodology

9. The Mission drew on interviews with government officials, development partners, private sector, and civil society, as well as secondary sources from government and development partner reports, to assess the progress on the reforms. Progress against the EFRP was assessed by examining each of the 49 policy actions (including the 17 'Triggers' or 'priority actions') included in the 2010 Policy Matrix.

CURRENT ENVIRONMENT

a. Economic and Fiscal Context

10. The Solomon Islands economy is showing a solid recovery from the zero growth experienced in 2009. The most recent forecast was produced by the IMF during its review of the Standby Facility Credit in mid-September (i.e. subsequent to the Annual Joint Review Mission). The IMF has revised up its forecast of GDP growth to 4.5% in 2010 (consistent with the Central Bank of Solomon Islands' (CBSI) forecast) and further raised its 2011 forecast as the Goldridge goldmine is now expected to re-

³ The Mission comprised (i) Kanokpan Lao-Araya, Senior Private Sector Development Specialist, ADB (Mission Leader); (ii) Vicki Plater, Senior Economic Advisor, NZ Ministry of Foreign Affairs and Trade; (iii) Jonathan Wolsey, Program Officer – Budget Support and Economic Governance, EU; (iv) Darcy Tozaka, Director of Finance Economic Development Unit, Ministry of Finance and Treasury; and (v) Luke Forau, Chief Manager - Economics, Central Bank of the Solomon Islands. Paula Ulucivena, Development Coordinator, ADB and Milovan Lucich, Economic Officer, ADB provided technical and logistical support to the team.

⁴ MOFT set out their expectations that the Mission would assess how the CEWG is working as a whole including the quality of dialogue, coordination of donors, predictability and timeliness of support. Development partners (specifically WB and RAMSI) expressed an interest in how the CEWG might move (over time) to deepen relationships beyond MOFT and focus on issues of service delivery, potentially through aligning with a medium-term development strategy.

open in mid-2011, 6 months earlier than previous expected. As reported by the CBSI, logging, cocoa, fish, and palm oil all experienced higher production and exports in the first 7 months of 2010, assisted by modest increases in world market prices for most of these commodities.⁵ Logging in particular has shown stronger than expected growth, possibly due to logging companies bringing exports forward ahead of the planned adjustment in logging prices scheduled for October 2010. Some forecasts now expect logging output could rise from 1.06 million cubic meters in 2009 to 1.1-1.2 million cubic meters in 2010, compared with earlier expectations of a decline in logging this year.

11. The current recovery has not been evenly spread across all sectors however. A recent ADB business expectations survey showed that 61% of businesses surveyed in June reported flat or declining sales compared with the same quarter the previous year. However, 56% of businesses expect sales to improve over the next 3 months. Inflation remains subdued, declining to 1.0% in May (3-month moving average), down from 1.1% in April and 1.6% in March. Upside risks remain, however, from higher fuel and food prices in source countries as well as accelerating domestic inflation. Foreign reserves remains at very comfortable levels due to high levels of donor inflows including the first tranche of the IMF Standby Credit Facility, and were the equivalent of 6.7 months of imports in June.

12. Reflecting the uneven nature of the recovery, government finances continue to be strained. Revenue collections were below budget in the six months to the end of June by around SI\$19.7 million. This has been significantly offset by substantial underspending, mainly in development expenditures. Payrolls have been around 10% over budgeted levels, partly reflecting cost of living adjustments awarded after the 2010 Budget was passed. The total deficit at end-May was SI\$9.2 million and cash flow remains tight. A supplementary appropriation is currently being prepared to meet additional budgetary requirements arising from the 2010 general election; the increments to public service payroll awarded after the 2010 Budget was passed by Parliament; and some other pressing expenditure commitments.

13. The new government will face significant challenges as economic prospects remain uncertain due to the medium-term decline in logging. Careful monitoring of expenditure and revenues, together with the timely disbursement of the EU budget support, will be required in order for the Government to meet its fiscal targets under the IMF Standby Credit facility and the second subprogram of the ADB Economic Recovery Support Program Grant. It will be important for the incoming government to develop and implement programs and policies that maintain short-term fiscal responsibility and continue to place the economy on a sustainable growth path.

b. Political Update

14. Solomon Islands is still considered a fragile country. In the last decade, it has progressively emerged out of periods of "ethnic tensions" (2000-2003) and political instability (2006). This is largely attributed to the presence of the Regional Assistance Mission to Solomon Islands (RAMSI), which has helped restore law and order and strengthen governance in the country. The recent general elections were held in an orderly and peaceful manner according to international election observers. This was a positive sign of stability in the country and could set a strong platform for advancing towards a longer term development focus. This was illustrated in the lead up to the elections, where several political parties expressed the need for a long term

⁵ CBSI Monthly Economic Bulletin, July 2010.

development strategy for the country. However the Mission took place when uncertainty remained as to the composition of the new Government. This may influence the directions and policy priorities of the CEWG. Recent budget support operations have been assessed to be appropriate to support the stabilization process,⁶ together with reducing fiscal gaps resulting from the global economic crisis. The improved political and security environment, combined with continued progress towards fiscal stabilization, would enable the CEWG over time to focus more on the long term development strategy and budget support to be aligned to this strategy, although the immediate focus is likely to remain on strengthening fiscal management.

15. Subsequent to the Mission, Parliament elected Danny Philip as the new Prime Minister and a new Cabinet has been formed. The new Coalition for Reform and Advancement Government (CRAG) released its Policy Framework on 5 October to outline the Government's overall policy. This will set policy directions to inform the development of the National Strategic Plan (NSP) to replace the Medium-Term Development Strategy (MTDS), which expires at the end of 2010. In order to ensure the government budget reflects the new Government's priorities, the 2011 Budget is now expected to be presented to Parliament in the first quarter of 2011.

16. The new Government has assured development partners of its commitment to continue the strong dialogue mechanism of the CEWG and the implementation of the agreed policy reform actions.

II. ASSESSMENT

a. CEWG Institutional Arrangements

Overall assessment

17. The CEWG has been successful to date in achieving its intended purpose; the CEWG has clearly stimulated improved communication and coordination between SIG and development partners around key economic and financial management challenges facing Solomon Islands. It is promoting improved information for SIG on progress across its overall reform agenda and enabling SIG to have a coordinated discussion with development partners on how they can best support SIG's economic and financial reform priorities, including through the provision of some budget support. The CEWG is strongly led by SIG and is generally well coordinated across SIG members and development partners. CEWG meets quarterly to discuss budget support issues and reform priorities under the SIG EFRP. The meetings' minutes are prepared and circulated to members for comments and record. MOFT is the secretariat of the CEWG and prepares quarterly progress reports on the policy matrices for the group.

18. Members of the CEWG spoke of the value of the mechanism: it has enabled increased donor support through SIG's budget; provided greater predictability of donor funding for SIG; helped advance progress on SIG's reform priorities; promoted the alignment of support from development partners (e.g. Technical Assistance) with SIG's overall reform priorities; and fostered honest dialogue to promote accountability among CEWG members. CEWG members also commented on the level of trust that exists within the group, enabling candid conversations among partners.

⁶ See for instance the EU's Risk Analysis of Budget Support to Solomon Islands (2010).

19. The main reasons underlying the success of the CEWG have been the strength of SIG leadership, commitment and support; high-level engagement by development partners; the CEWG's focus; and coordination around a regular cycle in support of the EFRP including budget support.

20. Despite its success to date, the Mission did identify a number of issues and areas where the operations of the CEWG could be improved and streamlined as the mechanism matures. Using coordinated budget support can provide for regular, multi-year operations, and lower transaction costs for government. Achievements towards this objective have been more modest to date. Initial transaction costs for SIG have been quite significant, particularly in terms of preparing documentation and quarterly reporting for the new mechanism (without necessarily commensurate reductions in other transaction costs to date) and development partner's operations have not been as aligned with a regular SIG timetable as would be desirable.

Documentation

21. The current documentation associated with the Economic and Financial Reform matrix is complex with multiple matrices and different reporting documents. The Mission's view (and that of SIG) was that it would be desirable to adopt a simpler structure for the reform matrix and reporting against.

22. In terms of the content in the SIG EFRP matrices, the general impression is that the level of detail included is useful to provide the necessary clarity for all members. In some instances, however, tighter drafting of individual EFRP policy actions could better convey what was intended (and help in assessing whether it has been met or not), especially to partners who are not as familiar with the detail as SIG officials clearly are. One potential area for further clarification is when what might be progressed within a given year for a particular reform may be only an interim step towards a longer-term objective. Indicative 'outcomes' could have been identified for each policy action to indicate progress against the expected targeted 'outcomes.' The number of reforms included in the matrix could also be streamlined to focus on key reform priorities.

23. Development partners and SIG expressed different views on the quarterly reporting requirements adopted to date. SIG expressed concerns that the reporting is not sufficiently streamlined with MOFT's own reporting systems and processes. Development partners (particularly Australia and WB) indicated they would like to see more details including a narrative description to enhance reporting on overall progress. The value of quarterly as opposed to semi-annual reporting was also questioned by SIG and members of the Mission team.

Alignment of development partner operations with SIG

24. In the operations of the CEWG and associated budget support, several issues have emerged where there is potential to improve coordination amongst development partners and alignment with SIG processes. Some specific weaknesses identified in the operation of the CEWG to date have included late notification of some funding commitments, slow disbursement by some development partners, a SIG perception that development partners are not sufficiently prioritizing the additional conditions they wish to (collectively) see added to the reform matrix, poor coordination with technical assistance programs, and that development partner commitments have (largely) been on an annual basis, not providing medium-term predictability for SIG. A further example arose in the context of the Annual Joint Review (AJR); SIG expected that the

AJR outcomes would be sufficient for the second tranche release of the ADB's ERSP and the EU's budget support operation but this is not the case with the ADB's ERSP.

25. With respect to the timing of the AJR, conducting the Mission part way through the year means that the AJR is not able to confirm that all of the conditions for 2010 have been met. As an additional complication, some development partners have released funds on the existence of the matrix or overall progress towards it, whereas other development partners tend to release funds once the milestones have been achieved. Greater consistency could help add clarity to the appropriate role and timing of the AJR. Irrespective of this, the key is to ensure that development partners are able to make their funding commitments in a timely way to inform SIG's budget formulation process. To achieve this, the agreed timelines need to provide sufficient time for development partners to meet their internal verification processes. The CEWG has developed a timeline that meets SIG's needs (for development partners to provide funding commitments by the end of Q3 to inform SIG's budget formulation process). However, the Mission is concerned that it may overestimate how quickly development partners are able to complete their internal processes, and so not provide sufficient time between the AJR and SIG's budget formulation to facilitate alignment with SIG's processes. Looking forward, development partners will need to adapt their processes to accommodate SIG's requirements and CEWG processes, and the CEWG will have to fix a timetable that can best deliver on the objective of providing SIG certainty on future funding in a timely way.

b. Progress Against Economic and Financial Reform Priorities

26. In general, the reform momentum achieved under the 2009 EFRP matrix has continued and been built on into 2010. The achievements are particularly commendable given they have taken place despite the constraints of a public service recruitment freeze and the limitations of some political uncertainty (e.g. Ministerial change and then a caretaker government prior to the general elections).

27. SIG had provided a preliminary assessment to the Mission of the progress against the 2010 EFRP matrix as of end-June 2010. The Mission has verified and updated the progress based on open discussions with the responsible government agencies and taking into account recent developments. The Mission's assessment is that progress towards the 2010 reform priorities has been good, particularly in public finance management. The few areas where progress has been slower than anticipated could be addressed by the end of the year pending decisions on policies and priorities and actions by the new Government. **Attachment 2** summarizes the Mission's assessment of progress against each aspect of the EFRP matrix.

28. With the remaining time until December 2010, it is reasonable to expect that all of the 49 policy actions (of which 17 are priority actions) under the 2010 EFRP matrix will be achieved. In order to meet this expectation, special attention should be given to a few policy actions where progress to date has been slower.⁷ These include (i) application of financial reporting under the State Owned Enterprises (SOE) Act 2007

⁷ The assessment relates to the targeted outcomes included in "Matrix 2 - 2010 SIG Economic and Financial Reforms: Triggers." The final assessment is based on the Mission's assessment whether the triggers are likely to be achieved while MOFT reported against specific targeted outcomes. The Mission identified some discrepancies between the triggers and the outcomes and the linkage between the two. Further discussion among CEWG members would be valuable to clarify this issue. Some of the specific recommendations included later in this report with regards to documentation are intended to help address this issue.

(No. 24); (ii) Resource Rent Framework developed (No. 40) and (iii) review of the Custom Act commenced (No. 42), the latter two of which have been affected by delays in fielding technical assistance. The Mission notes that continued progress in formulating the National Strategic Plan depends greatly on the new Government. An early priority for members of the CEWG will be to engage with the new Government as to its reform priorities and how the CEWG can usefully contribute to further progress in securing priority outcomes for Solomon Islands. Early consideration of SIG's economic and financial reform priorities for 2011 (e.g. 2011 EFRP) can also help to ensure sufficient and timely resource allocation in support of those priorities.

i. Public Financial Management

Overall Assessment

29. SIG has continued to steadily implement its Public Financial Management (PFM) reform program. A vast majority of reforms in this area under the 2010 EFRP matrix have already been achieved. Progress has been particularly notable in terms of strengthening fiscal discipline, with SIG committed and likely to meet the 2010 fiscal targets of the IMF Stand-by Agreement, including a 2.5% overall surplus. Progress has been visible in both expenditure and revenue management – an area that had received less attention up to recently. On the expenditure side, the withdrawal of warrants is one of the measures undertaken that should yield greater savings, while on the revenue side, the adoption of guidelines to increase compliance to exemption guidelines is an important step forward, together with the strengthening of customs enforcement at the wharf. Further work is still required over the coming months on the development of a resource rent framework, with the IMF's technical assistance. This, together with other planned measures on the revenue side over 2011, including those related to logging, will be a key test ahead of the new Government's commitment to fiscal strengthening.

Budget reforms

30. Regarding budget reforms, the development of a new budget management system to deliver more timely and accurate budget documentation and analysis is probably the most important development over the past six months. This should better enable development of a medium-term approach to budgeting and could be consistent with any future efforts to more strongly align the recurrent and development budgets and their respective systems and processes. (The Mission's view is that the current lack of integration presents important PFM challenges for Solomon Islands.) In parallel, work has commenced on a new Chart of Accounts (COA), with the objective of having a new COA for the 2012 budget. Close alignment between the development of the new COA, the new budget system, and the work started under the Public Expenditure Review (PER) will be essential to ensure the resulting systems best meet SIG's needs.

31. The commencement of the PER, with the aide memoire from the July Mission now finalized and the Portfolio Expenditure Analysis Section (PEAS) established, is a useful and important process for the new Government to continue to engage with, particularly to help SIG achieve better quality outcomes with its expenditure. The PER will identify options for improving budget processes to improve alignment between planned expenditure and government priorities, and reducing variations from the budget (for example, through the extensive use currently of virements). The Mission encourages the World Bank and SIG to continue efforts to progress this analysis in a meaningful way and to adopt and implement results and recommendations, taking into account ongoing reforms and capacity constraints. In parallel to the PER, the

completion of a medium-term national development strategy (the National Strategic Plan) that clearly outlines policy goals of the new Government, can also play a vital role in ensuring that development expenditure is aligned with key policy goals.

32. Regarding budget execution, the development and successful implementation of a new cash forecasting framework has been a significant development over the last year, bearing in mind that no cash forecasts were made less than a year ago. A six month cash forecasting model has now been established and is reviewed and updated each week. The operationalization of the new Financial Instructions (FIs) on 1 July 2010 and the training provided by MOFT to line ministries should strengthen compliance, including in the area of procurement. Revised/expanded Procurement Checklists have been developed and provided to line ministries, which, it is reported, has already helped increase compliance. Changes have also been made to purchasing thresholds. For example, the threshold for verbal quotes has now been raised to SBD 20,000, rising from the previous limit of SBD 2,000. Opportunities for further analysis of procurement information and publication of tender outcomes will be important to ensure effective implementation and compliance with the Financial Instructions. Meanwhile, the development of an asset management framework should help contribute to a stronger, more accountable budget structure. MOFT has now commenced recording of all new assets. In addition to asset management, an area within budget execution that will require further attention by year end is payroll, in particular the work on data quality and integrity.

Accounting, Reporting, and Auditing

33. The new Financial Instructions should help achieve an appropriate balance between facilitating business and financial processes and ensuring a robust compliance and control environment to provide assurance over the use of public money. Continuous training to support the revised FIs is being planned for Public Officers through SIGAS. The new FIs constitute a particularly important development in order to strengthen the quality of accounting in SI, and improve compliance with financial procedures and regulations, in particular at the line ministries. The 2008 Office of the Auditor General (OAG) report provides examples of lack of documentation and previous weaknesses in the administration of internal controls, and completion of bank reconciliations. Against this background, it is encouraging to see that 2009 SIG annual accounts were signed and provided to OAG 2 days after June 30 2010. This is a significant improvement compared to previous years.⁸ Monitoring to ensure effective and appropriate implementation of the FIs will be important in the coming months.

34. With regards to accounting, the adoption (from FY 2010/11) of the International Public Sector Accounting Standards (IPSAS) on a Cash Basis of Accounting for the Provincial Governments of SI is also an important development. This can help streamline the financial reporting system with Central Government systems in keeping with the appropriate International Accounting Standard (IAS).

35. The progress made recently by OAG in strengthening its capacity and its audit process has been noticeable. Over the past 3 years, OAG has effectively addressed a huge backlog of audits. This is partly the result in the progress made in submitting the SIG Accounts on time, with the 2007 and 2008 Accounts having been submitted within

⁸ The SIG accounts for the years ending in 2004 and 2005 were not signed until 5 November 2007, and those for 2006 were completed on 15 May 2008, while those of 2007 were signed at the end of 2008.

the legislative timeframe. SIG has been assessed as having "...a rigorous and transparent audit process in place", as evidenced by the EU-funded 2008 Public Expenditure and Financial Accountability (PEFA) report. As a result, agencies now prepare transparent action plans to address issues raised in audit reports. OAG has also authored a separate report naming public officials who might have engaged in corrupt acts, and has given the report to the Director of Public Prosecutions.

ii. Enabling Environment for Businesses and Investment

36. SIG has maintained progress on its reform agenda to create and maintain an enabling environment for business and investment. The reform agenda has been well supported by the Business Law and Administration Reform Committee, which is a public-private dialogue task force. The momentum of SOE reform continues with the gazettal of the SOE Act 2007. Although the legislative side of the reforms has progressed as planned, implementation has been slower. The Mission held detailed discussions with the responsible government agencies to identify specific steps to successfully address implementation issues, which could be considered in developing the 2011 reform priorities.

State-Owned Enterprise Reform

37. In the past year, progress has been made to begin implementing the provisions of the 2007 SOE Act and to restructure a number of SOEs. The Regulations for the SOE Act 2007 were gazetted and became effective in April 2010. These include rules on (i) the appointment and removal of SOE directors; (ii) specifying directors' duties; and (iii) economic functions and community service obligation of SOEs. MOFT sent new letters to all the Chairs and General Managers of SOEs advising them of the new regulations. Key provisions of the SOE Act requiring the preparation of SOEs financial accounts are being implemented, with the completion of the audits of the 2008 accounts and preparation of 2009 accounts for a number of SOEs. This work continues to be supported by RAMSI.

38. To ensure compliance, the Mission and MOFT discussed concrete steps such as auditing the SOEs' compliance to the Regulations as well as submitting SOE's 2009 financial accounts to MOFT to review and consolidate. Some specific actions that have been subsequently discussed and identified jointly by MOFT and ADB to be prioritized include (i) a stock-take or audit of current compliance with director term limits and prohibition of any compensation or benefits for directors who are members of parliament, public servants, or hold any other public office; (ii) a stocktake identifying whether all new board appointments since the SOE regulations took effect have been made according to the process outlined in the regulations, (iii) establishing an interests register to record potential conflicts for SOE directors; and (iv) a stock-take of community service obligations currently being undertaken by the SOEs.

39. SOE restructuring has also progressed, in particular through: (i) the completion of the tender process for the assets for Sasape Marina Ltd., (ii) the appointment of a new general manager, commercial manager and independent director for the Solomon Islands Electricity Authority (SIEA) and preparation of a commercialization plan, (iii) implementation of a financial restructuring plan for Solomon Airlines and (iii) the privatization of Soltai, which was completed in the third quarter of 2010, reducing the shareholding of the Government to 20%. Progress has also been made to improve governance practices in selected SOEs, in particular at the SI Water Authority (SIWA), with the appointment of a new chairman of the board and board members in August 2010. In the mobile telecommunications sector, a new license was issued to a private

provider which is introducing competition into the sector for the first time and is resulting in downward pressure on mobile telecommunications rates.

Legal Reform for Business Enabling Environment

40. The Companies Act 2009 and the Companies (Insolvency and Receiverships) Act and associated regulations were gazetted and commenced on 1 July 2010. The new Company Registry commenced operation on the same day. The registry is currently manual and is receiving applications for new incorporations as well as re-registrations. Under the Companies Act 2009 all existing companies have 9 months to re-register. After almost three months, approximately 185 companies have re-registered and more than 85 new companies registered at the Registry. This implementation of the new Companies Act together with the operation of the new Registry has had a significant impact on reducing the time taken to register a new company. New company registration now takes only 1-2 days compared to up to 4 months under the previous Companies Act (1948) and the old Registry. In addition the cost of registration has been reduced significantly as a flat fee has been introduced, legal advice is not necessarily needed, there is no fee payable for re-registrations and there is no requirement to pay stamp duty on the authorized capital of new companies. This has been a promising start to the new Registry. However, additional staffing and equipment resources are required to ensure the full operation of the Registry, especially for the transition from manual to electronic registration, due to come into effect in late 2010. The current staffing complement is inadequate to keep pace with the current workload and when the electronic registry commences additional hardware resources will be needed.

41. The contract for the electronic registry was awarded to the New Zealand IT Company, Foster Moore IT (FMIT). It has significant registry development experience in the Pacific and is regarded as the paramount supplier of registry services. They have commenced work on the electronic registry including a number of visits to Honiara, conducting training sessions for users, and they have worked closely with the Solomon Islands staff and the ADB to develop and finalise specifications. The registry will create a streamlined and accessible company registry at lower cost, as well as improve the accuracy and currency of data. To date this has not been available in Solomon Islands. It is anticipated that the new electronic registry will go 'live' in December 2010.

42. The public awareness campaign has commenced and will continue throughout the remainder of 2010 and early 2011. There have been a number of presentations to stakeholder groups, e.g. Solomon Islands Women in Business, Chamber of Commerce, all Banks and several Ministries. A public awareness campaign will be delivered in the key provinces with the initial presentation in Auki and presentations in Gizo and Noro scheduled for October 2010. In addition, ADB has continued to provide advice on issues arising out of the new Acts to professional groups. The awareness campaign also involves the distribution of materials which are tailored to the various stakeholders. The materials are prepared in a manner which will allow the registry staff to continue to use them over a period of time. The training programs will continue to be rolled out by the registry staff on an ongoing basis. It appears from the relatively high number of new and re-registrations that the awareness campaign is effective and reaching many groups.

National Transport Fund

43. To promote efficient and safe transport, the National Transport Fund (NTF) has been established to improve the predictability of resources and the sustainability of

transport operations and maintenance. The NTF Regulations were gazetted in June 2010, establishing the operations of the fund including payment and performance monitoring and evaluation mechanisms. In addition, the 2006 National Transport Plan (NTP) has been updated to integrate planning, protection of environmental and social sustainability, and increase resilience to natural disasters. The Ministry of Infrastructure Development (MID) confirmed that an updated NTP has been completed and will be ready to be submitted to Cabinet for endorsement in October 2010.

iii. Protecting the Vulnerable

44. SIG has largely met its commitment to ensure priority is given to spending on key social services to support the vulnerable, particularly in health, education and rural transport. Budget allocations for health and education in 2010 received some modest increase from 2009 levels. While the 2010 EFRP focuses on the budget allocation, how this is reflected in actual spending is also important, particularly given the pressure on cash flow that SIG has faced during 2010. The Ministry of Education and Human Resource Development (MEHRD), the Ministry of Health and Medical Services (MHMS) and MID have been impacted by the measures introduced to manage cash flow (the spending reservations introduced by MOFT in April 2010 and the hiring freeze), albeit the spending reservation on these sectors was less severe than for other departments. The measures to manage cash flow have had implications for service delivery; for example, it is difficult to plan activities under the reservation and difficult to then spend funds once the reservation is lifted given absorptive capacity constraints (including in the private sector in the case of infrastructure spending), while the inability to recruit for key positions can also limit progress. This risks undermining efforts to ensure the vulnerable receive key social services and recent progress in strengthening planning and improved outcomes in the education and health sectors. MEHRD and MHMS both indicated that the sectoral budget support they receive from bilateral development partners has been important to help them manage the uncertainty of SIG funding flows.

45. Early indications for the 2011 Budget suggest that there may be pressure to reduce the health budget following previous “one-off” spending (for example, funding for Cuban medical professionals and/or students). Decisions on 2011 Budget allocations for these sectors (health, education and rural transport) are pending the new Government’s decisions on priorities and the 2011 budget process.

III. ISSUES

a. Coordination

46. The SIG EFRP is focused, concentrating mainly on fiscal management and structural reforms. As such, the priority reforms fall mostly under the purview of MOFT. However, the third key reform area of the SIG EFRP – to address national needs by ensuring all Solomon Islanders benefit from development - requires SIG to prioritize budget allocations to protect the vulnerable by giving priority to basic education, health and rural transport. Achieving this goal requires coordination and interactions with government agencies outside of the current CEWG.

47. On the development partners’ side, efforts to strengthen coordination both within and beyond the CEWG are also crucial for the continued success of the CEWG mechanism and coordinated budget support. Concern was expressed that development partners’ processes could be better aligned with SIG budget processes

and timing, and that development partners' processes are not fully harmonized among themselves. Particular areas where there is potential to improve coordination are with respect to documentation and reform priorities, timing, and the Annual Joint Review.

b. Capacity

48. Following the period of 'tensions', and in particular with the presence of RAMSI, the focus over the last few years has been on rebuilding the state and ensuring its functioning. The presence of foreign staff in key ministries, including in line management positions, has been essential in that respect. 'Capacity supplementation' has played a positive role and capacity development of local staff has also taken place. But the Mission is of the view that a stronger and renewed focus on capacity development would now be warranted as the process of stabilization and rebuilding the machinery of government has matured.

49. An assessment of capacities across ministries may be an important step forward that would provide an anchor for capacity development strategies. The success of such strategies may also require a shift in the way government approaches key reforms, with the main focus turning to capacity development. Development partners do realize that in order for aid modalities such as budget support to be truly beneficial in a context like Solomon Islands, those have to be accompanied by credible capacity development strategies. Development partners should also take into account that the speed, scope and emphasis of some reforms may need to be adapted as a consequence, at least in the near-term.

c. Communication

50. SIG has demonstrated strong ownership and commitment to the CEWG and to progressing SIG's reform agenda. But this is largely confined to SIG members of the CEWG and there is very limited understanding among line ministries and other stakeholders, even though some of them have a role in advancing particular reform priorities. The Mission's sense is that Cabinet Ministers who are not directly members of the CEWG have also been relatively unaware of the CEWG or its relevance to them, despite Cabinet having approved the reform matrix. Development partners who are not members of the CEWG are receiving some updates on progress, via the regular monthly donor coordination meetings. The Mission believes that the CEWG could introduce a number of reasonably "light" initiatives to build awareness and an appreciation of the work and relevance of the CEWG among a broader group of stakeholders.

51. Nevertheless, the potential risks of increasing the profile of the CEWG and SIG's reform agenda are clearly recognized by CEWG members and would need to be carefully managed. For example, communication with other stakeholders cannot be allowed to risk damaging the high-trust environment that exists within the CEWG, as this could inhibit the honest and open dialogue currently valued by all CEWG members. Furthermore, increased communication with others needs to be careful not to risk compromising the value of the CEWG and sustainable progress on SIG's economic and financial reform priorities, but rather to broaden ownership and commitment by building understanding about how the reform agenda (and the CEWG mechanism) is contributing to SIG's priorities and supporting Solomon Islands' development.

d. Scope

52. The operations of the CEWG to date have been (appropriately) driven by a set of extreme fiscal circumstances. With continued progress against SIG's economic and

financial reform priorities and fiscal responsibility, the fiscal imperative may become less critical. This could allow greater consideration to be given to the ultimate objective of budget support; to support SIG secure improved development outcomes for Solomon Islanders through SIG's role in providing services and in ensuring an environment conducive to broad-based economic growth. The view expressed by development partners and various SIG Ministries (including line ministries not presently involved in the CEWG) is that there is merit in the CEWG over time becoming a broader mechanism aligned more strongly with achieving effective and accountable service delivery. Strengthening the policy planning, budgeting, and reporting linkages are critical if the budget is to provide a useful tool to discuss service delivery. The National Strategic Plan (NSP) has the potential to support this.

IV. NEXT STEPS AND RECOMMENDATIONS

a. Institutional Arrangements

53. The strength of the CEWG is based on strong SIG leadership, the trust that exists amongst the small group of partners, and the focused agenda. There is clearly a desire among some partners to expand the CEWG and its agenda over time, to promote a greater discussion about outcomes and service delivery. It is the assessment of the Mission that the CEWG should focus in the short-term on consolidating the progress achieved to date, ensuring strong SIG ownership and relationships with the new Government and streamlining where appropriate the processes and practices of the CEWG to provide a solid framework into the future. A number of recommendations are included below that could help achieve these objectives. The Mission does, however believe that there would be value in the CEWG considering its medium term vision of how it might work and what it might focus on, and outlining steps over the next two years that would help achieve this.

i. Medium-term vision

54. The Mission's view is that it would be desirable for the CEWG to have a medium-term vision of its operations aligning more strongly with achieving effective and accountable service delivery to secure improved development outcomes for Solomon Islanders. This approach could promote an increased focus on what is being achieved with the resources available to the Government, and demonstrate to a broader constituency the importance of effective budget planning, implementation, and reporting, and the value of budget support. A quality NSP that helped strengthen the policy budget linkages would be an effective tool to better align priority reforms and budget support.

55. Moving to multi-year funding arrangements with development partners is also desirable to better support sustained reform efforts and improve the predictability of funding for SIG. Work such as the PER can help support this. This could also be supported by adopting an approach that focuses on fewer but substantial multi-year reform priorities, with the annual reform matrices focused on critical interim steps to achieve these multi-year reform priorities.

56. Over the medium term, the ideal cycle would be for the CEWG to review progress against the reform matrix after the completion of the relevant year. The Mission's view is that it would be desirable to move the Annual Joint Review (AJR) to earlier in the year – Q2 or even end-Q1 if the CEWG wanted to align the AJR with the

calendar year of the reform matrix.⁹ Development partners should then complete internal processes in a timely fashion in order to confirm their budget support for the following year so that it can feed into SIG's budget formulation process.

57. This approach in the Solomon Islands context could imply the following timelines:

March/April:	<ul style="list-style-type: none"> • Annual Joint Review to assess progress against the previous year's reform matrix
June/July:	<ul style="list-style-type: none"> • Development partners complete internal processes and able to confirm to SIG budget support figures for the following calendar year
July/August:	<ul style="list-style-type: none"> • SIG budget process begins • CEWG develops reform priorities for the subsequent calendar year
Q1 of following year:	<ul style="list-style-type: none"> • Development partners disburse in keeping with the commitments made

58. The existing CEWG timeline and budget support arrangements do not align with this type of timetable, so a transition period would be required if the CEWG decides to move towards this. We recognize this there might be processes in the short-term that cannot be changed. Some recommendations on what a transition period may look like are referred to in the next section.

59. The pace of any change needs to be driven by SIG's capacity (across a number of ministries) and its own belief in the benefits of extending the focus of CEWG. The development of a new NSP (underway) that will reflect the new Government's priorities is a necessary step.

ii. Strengthening and Streamlining the Operations of the CEWG in the Short-term

60. To streamline and strengthen the functioning of the CEWG, the Mission believes that there is scope to improve aspects of documentation, alignment with SIG timeframes and operations (including through the Annual Joint Review), and build on communication with other stakeholders. The Mission is proposing a number of short-term recommendations for the CEWG to consider in order to improve the effective and efficient functioning of the CEWG. These would also help provide a stronger platform for any future CEWG expansion (potentially from 2012).

b. Documentation

61. The Mission considers that there is significant potential to streamline and simplify the current documentation in a way that will meet SIG's operational needs and the reporting needs of the broader CEWG in a more user-friendly way.

62. From discussions during the Mission, the key requirements that documentation needs to be able to meet are to:

⁹ An alternative of holding the AJR at a particular time and looking at progress over the 12 months to that point would require assessing progress with respect to parts of two reform priority matrices, which would add another level of complexity. Not all of the Trigger outcomes in the 2010 EFRP had an indicative timeframe for completion, which could also complicate the assessment.

- demonstrate the link between the reform priorities and SIG's overall priorities and development agenda
- provide sufficient information and clarity for all stakeholders on what is expected to be achieved under each reform, to support implementation and accurate reporting on progress
- link easily to MOFT (and other implementing departments) internal reporting and management systems so as to reinforce those systems, avoid duplication, and minimize the extent of additional work required to prepare documentation and reporting (i.e. be as efficient as possible)

63. Suggestions on how the Reform Matrix and Reporting could be improved are therefore based on the following principles: simplicity, clarity, quality, and efficiency.

64. In order to achieve this, the Mission is proposing amendments to the Reform Matrix and Reporting template to:

- incorporate all the necessary information on the **reforms and triggers** as well as **reporting on progress into one document**
- incorporate some brief **narrative reporting** and a table summarizing the traffic lights to help provide a sense of overall progress (the "trajectory of reform") against the Government's overall objectives
- explicitly include **indicators** against each of the reforms (currently provided for the Triggers only). This can help ensure there is a clearer sense of knowing what will be achieved under the reform in a particular year (and measuring if it has been achieved). It could also give a sense of the intermediate steps required to achieve a multi-year reform – the 'reform' could feature in successive years' matrices but the indicators would change each year recognizing previous progress. This would be consistent with shifting the focus towards fewer, substantial multi-year reforms.
- ensure the **language** used to describe reforms and indicators (interim steps) is **clear and accessible** to those not familiar with the detail.

65. These proposals are reflected in a suggested template, which is attached in Appendix 3 including illustrating how the template could be applied using an example loosely based on the 2010 matrices and reporting.

66. The amendments suggested should reduce the current burdens on MOFT to add a number of columns of additional information for the CEWG matrix over what is collected through internal reporting (although the Finance and Economic Development Unit within MOFT will still need to compile information from other Ministries). It is also hoped that the amendments suggested would help reduce the need for additional reporting and explanations later, by ensuring clarity. Reducing some of the current burden of reporting should free some capacity within MOFT to include the additional brief narrative reporting suggested. It is recognized, however, that including indicators and suggesting the language of some reforms be clarified, could have implications for the workload of SIG CEWG members (e.g. currently indicators are only provided for the Triggers, not other reforms; and if SIG CEWG members choose to revisit language used in internal systems to maximize alignment between reporting systems).

67. In addition, the Mission's view is that (formal) quarterly reporting is unnecessarily burdensome. Furthermore, a report at the end of Q1 is not likely to offer much value as there may be limited information to report that early in the year. And if the AJR is moved into this type of timing, it would also consume resources during this period. In the view of the Mission, a 6-monthly report (prepared in July) and the Annual Joint Review should be sufficient for formal reporting. The CEWG may find value in supplementing formal reporting with a discussion at the end of the third quarter on progress, to help ensure all CEWG members are able to contribute to achieving SIG's reform matrix to the best of their ability. It is hoped that CEWG members would focus on the overall trajectory of reform in formally assessing progress, although clearly this will need to be underpinned by assessments of progress at the individual reform level.

68. The Mission also proposes that the CEWG should also look to more significantly prioritise the number of reforms and triggers that are included in the matrix of Economic and Financial Reform Priorities. There would be benefits in the matrix focusing on a small number of key priorities rather than a large number of small reforms. This discipline needs to apply to all CEWG members, to prioritise those reforms of critical or strategic value in promoting development outcomes.

Alignment of Development Partner Operations with SIG

69. The Annual Joint Review (AJR), which looks at progress against the reform priorities, is for the benefit of all CEWG members. The CEWG's intention is that the AJR should provide development partners with sufficient information to complete their internal verification or due diligence requirements so that development partners can confirm future funding commitments and approve their disbursements to SIG. This ensures that SIG are not faced with additional burdens of reporting or hosting Missions but benefit from lower transaction costs. It also should provide SIG with predictability of funding in time for their budget formulation process. This intention is not currently being achieved. Development partners should move into alignment with SIG budget processes. To support this the Mission recommends:

- Development partner members of the CEWG should clarify their own internal verification processes; coordinate their requirements with each other; and adapt their own processes in order to streamline those requirements.
- Ensure all CEWG members understand each other's requirements so that the AJR can best provide benefit to all.
- Undertake the AJR earlier in the year so that funding commitments can be provided to SIG in a timely fashion for their budget formulation processes.

70. With respect to timing, the Mission recommends that the CEWG should consider how the timing of the processing cycle including the Annual Joint Review could be improved to better meet SIG's and development partners' needs. As outlined in the previous section, the Mission considers that it would be preferable if the AJR assessing progress made in a particular year be conducted early in the second quarter of the subsequent year. This would then provide three months for development partners to complete their internal processes (typically in consultation with headquarters) to be able to confirm to SIG in the third quarter what funding development partners will contribute to SIG's budget in the subsequent year.

71. Two options are provided for the CEWG to consider to transition to this type of timeframe. The first would immediately transition to the new cycle, with another AJR of

the 2010 EFRP conducted in March-April 2011 to inform development partner's decisions vis a vis the 2012 budget. (This would be in addition to the 2010 AJR just completed that is informing decisions for 2011.) The second option would be for a slightly slower transition. This would see the next AJR conducted in June 2011 (rather than the third quarter as intended in the current CEWG timeline) to undertake a final review of the 2010 EFRP and consider progress to date on the 2011 EFRP. Then in 2012 the AJR would be held in March-April to review overall progress against the 2011 EFRP. These two options are outlined in more detail in Appendix 4.

72. The Mission has some recommendations about how the logistics of the AJR (aside from the timing issue noted above) could be improved into the future:

- **Duration:** It is the view of the 2010 Mission that there was insufficient time allocated for the Mission to address the TORs to the extent desired. If the AJR also needs to include more rigorous verification of reforms to limit administrative burden on the Government from additional missions (which could be part of the outcome of the work proposed in para 70), this is also likely to require a slightly longer review. The Mission recommends that 2 weeks would be appropriate for conducting the AJR.
- **Participation:** The inclusion of SIG members of the Mission team was extremely valuable and should be built on in subsequent years. The SIG participants did not, however, wish to have a 'heavy hand' in the drafting of the Mission's outputs, conscious of their own individual roles vis a vis the CEWG. The CEWG may wish to consider if there are ways to address this in the future.
- **Logistics:** The Mission believes that it would be valuable if the Annual Joint Review Mission begins and ends with meetings that are open to all members of the CEWG, to collectively brief and de-brief the Mission team. There was some confusion about the attendance of different members at such meetings during the 2010 Mission (admittedly not helped by Mission members having different travel dates).

73. Within the reform process, a greater focus on capacity development is required. Based on an assessment of capacity across ministries, this could encompass a number of aspects, including: (i) flexibility to reallocate human resources according to reform priorities; and (ii) possible adaption of the emphasis and pace of reform processes.

Communication with other Stakeholders

74. The Mission team recognises that there are issues that need to be considered carefully with respect to increasing the engagement with other stakeholders in the activities of the CEWG. Nevertheless, on balance the Mission believes that there would be value in introducing some modest communication initiatives to build awareness and an appreciation of the work and relevance of the CEWG among a broader group of stakeholders. These could include:

- SIG preparing a 1-2 page simple narrative note outlining what is being achieved and how this relates to the Government's overall objectives;
- PS MOFT ensuring Permanent Secretaries receive updates on the CEWG and the EFRP matrix via the regular fortnightly meeting of PS;

- SIG exploring opportunities for other stakeholders to be informed about the CEWG, e.g. the Premiers' Conference, or publishing the reform matrix.
- Development partner CEWG members ensuring other development partners, receive updates via their regular donor meetings.

Summary of Recommendations for CEWG Consideration:

- Introduce a simplified document template that incorporates all the reforms and triggers, as well as reporting on progress (including some 'narrative' reporting) into one document, (an example is provided in Appendix 3).
- Reduce formal reporting to a 6-monthly report and the Annual Joint Review, supplemented with discussions on progress (e.g. end Q3).
- Seek to reduce the number of reforms and triggers included in the EFRP matrix to ensure a focus on those of critical or strategy value.
- Ensure that the substance of the AJR meets the needs of all parties in order to provide timely input into SIG processes.
- Consider changes to the CEWG timelines to hold the AJR earlier in Q2 (options detailed in Appendix 4).
- Ensure the composition and logistics of the Annual Joint Reviews effectively facilitate the involvement of CEWG members.
- Allow flexibility to reallocate resources according to reform priorities.
- Introduce a number of measured initiatives to build awareness of the CEWG among a broader group of stakeholders.

c. 2011 Policy Matrix

75. The CEWG has built up momentum to progress reforms under the current SIG EFRP. At CEWG's request, the Mission has identified a number of potential areas of focus as well as some possible principles for determining actions in the 2011 Policy Matrix.

76. The new Government will want to ensure that its priorities are appropriately reflected in the 2011 Economic and Fiscal Reform Priorities matrix. The Mission believes that significant continuity from year to year will be helpful to ensure reform momentum is maintained. Furthermore, given the Mission timing preceded the formation of the new Government (and its Policy Framework was released as this report was being finalised) the Mission has identified further incremental reform efforts under the existing key reform areas. The view of the Mission is that for the most part, actions to be included in the 2011 EFRP should be a continuation of existing reform efforts, including priorities from the MOFT strategic plan and the IMF Standby Agreement.

77. The Mission recommends that 2011 Matrix should continue to focus on the three main pillars of the EFRP. The inclusion in the matrix of external audit, which has

received little attention so far within the EFRP, but which is particularly critical for budget support donors, should also be considered. In parallel, and especially taking into account the fiscal situation in SI, the focus on revenue/taxation in the matrix may need to be strengthened. A priority action that could help support the process of operationalizing the new National Strategic Plan, once finalized, may also be useful. A modest number of possible new reform actions that could be included relate to climate change. The Mission notes that climate-change related funds are likely to grow in importance as a share of aid flows to the Pacific, and SIG's mainstreaming of this issue could help achieve the most effective access to and use of these resources.

78. In line with the above, the overall view of the Mission is that for 2011, the main focus of the Policy Matrix should remain fiscal management and PFM, but that opportunities to expand it to a few other key areas with a limited number of reform actions can be envisaged. This could also help start a medium-term process towards a closer alignment of the Policy Matrix to priority outcomes such as outlined under the National Strategic Plan. The Mission suggests the inclusion of additional reform actions, which are still consistent with the overall recommendation that it would be desirable to streamline and prioritize the EFRP matrix.

79. Per the interview and sectoral analyses, potential incremental reform efforts in key areas under the EFRP are synthesized below for CEWG's review and possible inclusion in the 2011 Policy Matrix.

Pillar 1: Public Financial Management Reform

80. Overall, the number of measures and reforms undertaken, and the new and strengthened focus in areas such as taxation, has been a sign of the continued momentum of the PFM reform process. Looking ahead, though, there are a number of challenges that pose risks to the outcomes and sustainability of the process. In particular, the speed of the reforms should not be at the detriment of capacity development, an area which may require a more aggressive focus within the context of the EFRP.

81. With a view to ensuring sustainability, particular attention should also be given to the consolidation and broadening to line ministries of the large number of PFM reforms recently undertaken, as the next stage of major reforms is being considered. It is accepted that in Solomon Islands a case can be made for a centralized accounting/expenditure management service around MOFT. However, this does not mean that the significant progress made in MOFT, particularly in the Treasury Division, will be fully effective without parallel progress in accounting and expenditure management at the line agency level. There is a risk otherwise that the reforms with MOFT will not fully reap the gains possible. The planned new PEFA in 2011, together with the PER, will be an important development in taking stock of the progress made and informing the future reform agenda. These diagnostic assessments will be in particularly critical in determining the further work on the budget system and the Chart of Accounts.

82. The further strengthening of oversight bodies, including for procurement and external audit, will also be critical to support the sustainability of these reforms and to increase accountability. Progress made in developing the capacity of the audit office has been impressive over the last few years. A next step may be to grant it further autonomy. Specifically, until its budget is determined by Parliament or by an

independent commission rather than by MOFT, OAG will continue to face the risk of being underfunded. The adoption of a National Audit Bill or measures towards that could be instrumental to strengthen the OAG and enhance transparency and governance of the public administration. Regarding procurement, sound implementation of the new guidelines in the FIs will be an important next step. A taking-stock exercise in about a year's time, such as an OECD/DAC procurement assessment, could be considered with a view of helping to inform new reform steps.

83. Partly given the fiscal context, measures to strengthen domestic revenues will remain key in 2011. The development of a proper resource tax regime will be particularly central in that respect, so progress to further advance the 2010 measures will be valuable.

84. The NSP should improve policy coordination and cohesiveness which would guide priorities and resources allocation and ultimately improve economic performance and help address the challenges that Solomon Islands faces. In order to achieve this there could be a process established to link the NSP to the medium term fiscal framework, sectoral plans, annual budget allocation and departmental corporate plans.

Pillar 2: Enabling Business Environment

State-Owned Enterprise Reform

85. Continuing efforts to reduce the fiscal strain generated by the SOE sector are likely to remain important in 2011.¹⁰ Next steps could usefully focus on effectively implementing the provisions of the 2007 SOE Act and 2010 Regulations. This could be supported by an awareness-raising campaign for SOE directors, management, civil servants and members of parliament. Such a campaign could be structured to ensure that all stakeholders understand the key provisions of the SOE Act and Regulations, in particular the roles, responsibilities and liabilities which they convey on SOE directors and managers, and the obligation to publicly disclose SOE financial performance on a timely basis. Following on discussions held between the Mission, SOEs and the Ministry of Finance to evaluate current compliance with the SOE regulations (e.g. director term limits, appointment process, compensation, and maintaining an interests register), full compliance with these provisions could be monitored and achieved by end 2011.

86. In the area of financial account preparation and disclosure, the Government could commit to a program of capacity building within the SOEs to facilitate the more timely preparation of accounts. In addition, the 2009 accounts should be completed, tabled in Parliament and published in a major local newspaper, in accordance with sections 17 and 18 of the SOE Act. To further support SOEs to achieve their mandate to operate as profitable businesses, MOFT could develop a framework for implementing the SOE Regulations relating to the delivery of community service obligations (CSOs). This framework - once developed and agreed by the SOEs, the line ministries and the Ministry of Finance - could be piloted in selected SOEs.

87. It is expected that actions to implement the provisions of the SOE Act and Regulations will have a direct impact on the financial performance of the SOEs and

¹⁰ In the 7 years from 2002-08, accumulated losses from the SOEs totaled SBD183 million, net of periodic asset donations, debt forgiveness and other cash infusions which the Government has transferred to the sector, which are estimated at over SBD300 million.

thereby reduce their strain on SIG's budget. Specifically, policy actions that could be achieved in 2011 include (i) Compliance of all SOEs with SOE regulations on director term limits, appointment process, compensation and maintenance of an interests register; (ii) Compliance with sections 17 and 18 of the 2007 SOE Act on the publication of SOE accounts and director appointments in the local newspaper; and (iii) Development and endorsement of a community service obligation framework for SOEs.

Legal Reform for Business Enabling Environment

88. As stated above the Companies Act 2009 and Companies (Insolvency and Receiverships) Act 2009 came into effect in July 2010. A key objective of the ongoing work to improve the business environment is to ensure the new Company Registry is working effectively and servicing the private sector. The Registry must be sustainable in the long term. Once the electronic registry is operational the Solomon Islands registry should be the most efficient in the Pacific region. An awareness campaign will continue through 2011 after which the registry staff will take over this responsibility without the ongoing assistance from ADB. The continuing effective operation of the Registry will require the Government to allocate adequate resources to the registry.

89. There would be merit in reviewing the functioning of the Secured Transactions Act, passed in 2008 and commenced in 2009, to ensure it is working appropriately and that the key policy objectives of the Act are being achieved. The electronic secured transactions registry is currently undergoing an upgrade and the administrative responsibility for the registry is due to be transferred to the company registrar in early 2011, coinciding with a further public awareness campaign (with support from ADB).

90. Incremental reform efforts in the area of business legal reform could be included as potential 2011 policy actions/ priorities. A review of the current Customs and Excise Act is scheduled to start in late 2010 under the assistance from AusAID-funded, ADB-administered Pacific Private Sector Development Initiative (PSDI). The 2009 diagnostic study by RAMSI recommended that a new Bill (instead of amendments) was required because the current Act is outdated, does not support collection of revenue and is poorly enforced. The process of drafting a new Customs Bill is currently envisaged to be carried out in 2011 and a new Act could be adopted by early 2012. The PSDI is supporting this reform, involving a review of the customs and revenue policy supporting the proposed new legislation, and will collaborate closely with the existing customs modernization program which is being managed by Australian Customs and Border Patrol and RAMSI. A public-private dialogue task force has been established to champion and steer this reform. Current plans are to commence this work by the end of 2010 with the work to progress throughout 2011.

National Transport Fund

91. Until recently, transport infrastructure has generally been deteriorating due to poor maintenance, low government and contractor capacity for planning and implementation, and natural disasters. Prior to recent projects, about 65% of roads required rehabilitation; that figure is now about 50% and projected to improve to 15% within five years. The government's National Transport Plan (NTP) set out a goal to improve transport infrastructure to strengthen equitable private sector-led economic growth and create an enabling business environment. Investment in rehabilitation and maintenance¹¹ of existing transport infrastructure is given high priority with the aim to

¹¹ Investment is defined as any use of resources intended to increase future production output, which includes rehabilitation and construction. Rehabilitation will restore existing infrastructure to acceptable

preserve the infrastructure remaining in acceptable condition. To respond to the aim, the government has been rehabilitating and maintaining transport infrastructure with the help of ADB and other development partners.

92. Economic growth can be promoted by improved transport infrastructure, which will reduce user costs, improve accessibility to socio-economic opportunities, facilitate improved basic social services in rural areas, and build rural economies. Measures that could be included in the 2011 EFRP could focus on the successful implementation of the NTP, such as (i) establishing a centralized PIU for transport project implementation (handling all donor infrastructure projects) to harmonize the process of project implementation; (ii) piloting the inclusion of climate change adaptation for designing of civil work, applying adaptation methodology to rehabilitation; (iii) issuing guidelines for climate change adaptation projects; (iv) developing a midterm framework for infrastructure implementation including strengthening human resources in the MID; (v) ensuring that the NTF is fully staffed and operational and (vi) conducting a training need assessment and determining individual training plans for MID staff.

Pillar 3: Protection of the Vulnerable

93. The Mission envisages that protecting the vulnerable through provision of key social services will remain an important area looking forward, not least as this helps promote a focus on whether resources are being used to good effect in delivering improved outcomes. It is the view of the Mission that any future actions should focus not simply on budget allocations to the health, education and rural transport sectors, but also on actual expenditure in these sectors (relative to budget). Similarly, consideration could also be given to ensuring that these Ministries are able to recruit staff for key positions (and similarly other Ministries responsible for implementing priority actions are resourced to do so). These types of indicators can help ensure that the principle of prioritising these sectors is reflected in actual resources.

94. A tighter connection between budget allocations and actual flows can also help support a greater connection between planning and budgeting. The health and education sectors have put considerable effort into strategic planning and costing their plans, to help improve their effectiveness and efficiency in delivering services. It is useful to reinforce the value of this work, in conjunction with the PER and the planned changes to the Chart of Accounts, in strengthening the quality and the content of SIG's Budget. Capacity not simply to implement but also to account for finances and services remains crucial, particularly at the provincial and/or school/clinic level. This reinforces the importance of ensuring that relevant financial reforms appropriately address the needs and capacity of line ministries and provinces.

95. In line with the above, the overall view of the Mission is that in 2011, the EFRP Matrix should continue to focus on the existing three pillars, but that opportunities to expand it to a few other key areas with a limited number of reform actions should be considered. This could also help start a medium-term process towards a closer alignment of the Policy Matrix to priority outcomes such as outlined under the National Strategic Plan.

condition, while construction will build new infrastructure. Maintenance will keep existing infrastructure in proper condition.

V. CONCLUSIONS

- Progress towards the 2010 reforms has been good, particularly in the area of public financial management. A few reform measures where progress has been slower than anticipated could be addressed by the end of the year pending actions by the new Government.
- The CEWG has been an effective and valuable mechanism for all stakeholders. Looking forward, further alignment of donor contributions and processes with SIG processes will be important. There are also opportunities to streamline some of the current documentation requirements.
- The new National Strategic Plan under formulation could provide a tool to more closely align budget support operations to the SIG's key development priorities. This will require a well-prepared and widely-consulted document and efforts to strengthen the link between policy and planning and the budget.
- In light of the progress made, and supposing that the new Government remains committed to the reform agenda and macroeconomic stability, the conditions are set for the disbursement of the budget support funds attached to this review and for a continuation of budget support operations in Solomon Islands. The commitment of the new Government towards three areas will be particularly key: support to the IMF Stand-by Agreement; confirmation of the process to finalize the National Strategic Plan; and the underlying PFM agenda.

APPENDIX 1: TERMS OF REFERENCE

Background

1. Background – Government reform program and priorities, what is being assessed, by whom, CEWG background and origins.

Purpose

2. The purpose of the mission is to review progress in implementation of the economic and financial reform program with particular attention to the priority reform actions. The mission will specifically serve to confirm eligibility for the second tranche of the Asian Development Bank's ERSP, as well as for the European Union's budget support operation.

Scope of Work

3. As a joint Government-donor effort under the auspices of and reporting to the CEWG, the mission will be led by the MOFT and will:
 - a) Review country context during the period under review.
 - b) Assess progress in implementation of the 2010 reform actions as laid out in Solomon Islands Government the Matrix of Financial and Economic Reform Priorities. This will include:
 - An assessment of the implementation requirements of the program, particularly as regards the realism of targets, the implementation time-frame, and technical assistance requirements.
 - An assessment of Solomon Islands progress with key reform actions, including development of a National Development Plan, progress in public financial management as reflected in the reform matrix, and the implementation of the IMF program, including progress toward targets and success in meeting monthly reporting requirements.
 - c) Assess current reporting and monitoring arrangements, and provide recommendations on how these could be streamlined while ensuring adequate content for accurate tracking of progress by donors and SIG. This should include an assessment of options for integrating reporting requirements with existing MOFT and SIG management and planning systems.
 - d) Begin preliminary discussion of the content of the 2011 matrix, identifying appropriate overall priorities and outcomes. During this process, the review team will take account of specific eligibility criteria for Budget Support as applied by various donors when considering the 2011 matrix.

Deliverables

4. The appraisal mission will prepare the following documents:
 - a) *Narrative Report* detailing:
 - a. Country context over the reform period
 - b. Progress made by the Solomon Islands Government in implementing reforms
 - c. A traffic light report for overall 2010 matrix

- d. Assessment of and any recommended changes to existing reporting and monitoring arrangements
- b) Short *Indicative Outline of 2011 Reform Priorities Matrix*, identifying appropriate overall priorities and outcomes, and suggesting potential specific policy measures

Mission Arrangements

5. The mission will be composed as follows:
 - Up to three donor representatives
 - Up to three SIG representatives

6. The Mission program will be as follows :
 - a) *Launch Meeting*: Government will launch the Mission with a meeting of the CEWG, including mission team and MOFT officials.
 - b) *Plenary Meeting(s)*: During these meetings, the Review Team will discuss:
 - i. key findings – including preliminary assessment of SIG progress in achieving key reform priorities included in the 2010 matrix,
 - ii. proposed review of the 2010 matrix,
 - iii. proposed broad 2011 reform priorities.

This meeting will provide a forum for substantive discussion and revisions prior to the formal wrap up meeting.
 - c) *Wrap-up Meeting*

7. The Review will take place according to the following indicative timeline:







Team selection	Late June 2010
Initial briefing from CEWG	Mid August 2010
Review Mission ¹²	Mid August 2010
Plenary meeting	Late August 2010
Draft deliverables provided to donors and SIG for comment	Early September 2010
Comments provided by donors and SIG	Early October 2010
Deliverables finalized	Mid October 2010









¹² Estimated time for the Review Mission to be in the Solomon islands is 10 working days

APPENDIX 2: ASSESSMENT OF THE PROGRESS AGAINST THE 2010 MATRIX OF ECONOMIC AND FINANCIAL REFORM PRIORITIES

	MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms <div> <div></div> On track <div></div> Concern <div></div> Not on track </div>	Progress to Date	Next Steps	Status on set of 2010 Reforms <div> <div></div> On track <div></div> Concern <div></div> Not on track </div>	Additional Comments
<i>I. Public Financial Management: An affordable and sustainable Government budget that improves Government decision making processes and achieving the development goals of the Solomon Islands</i>				
1. Increasing compliance with Cabinet requirement for MOFT to cost and brief on all budget bids and cabinet submissions by 2011 Budget		<ul style="list-style-type: none"> ▪ New Cabinet to direct MOFT to cost and brief on all Budget Bids and Cabinet Submissions 	<ul style="list-style-type: none"> ▪ Agree. Revisions to Cabinet handbooks underway, training for new MPs planned 	
2. 2011 budget process commence with strategy meeting of Cabinet to establish spending priorities and recurrent and development budget envelopes		<ul style="list-style-type: none"> ▪ Achievable but depends on the new government. ▪ Plan to launch the budget process in July ▪ New Cabinet to direct MOFT to cost and brief on all Budget Bids and Cabinet Submissions. 	<ul style="list-style-type: none"> ▪ Agree. Initial preparations for 2011 budget process commenced, although progress awaiting new Government. Direction on costing Budget Bids as above. 	<ul style="list-style-type: none"> ▪ Decisions on overall budget and priorities will reflect new Government's policy priorities.
<div> 3. A National Strategic Framework (NSF) is developed for 2010 for the Government's consideration which would set the framework for the long term National Strategic Plan as a successor to the MTDS. </div>		<ul style="list-style-type: none"> ▪ Cabinet endorsed National Strategy Framework and a Task force consists of Finance, PMO, MDPAC, and CBSI in May 2010 to develop & coordinate the draft Framework. ▪ ADB TA is assisting MDPAC and the taskforce on SIG's invitation ▪ NSF will eventually be developed into the NSP after the formation of a new government. After the election the preparation of the MTFS will inform the resource envelope for the NSP. ▪ Further consultations between the task force 	<ul style="list-style-type: none"> ▪ Agree. NSF agreed by previous Government, Focal Report being prepared to brief incoming Government. 	<ul style="list-style-type: none"> ▪ To help maintain momentum, SIG might consider developing timeframes for interim steps, e.g. establish schedule for preparation of full NSP including consultation plan ▪ Consistency with MTFS as both are finalised will be critical.







		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
<div> <div></div> On track <div></div> Concern <div></div> Not on track </div>				<div> <div></div> On track <div></div> Concern <div></div> Not on track </div>	
			and donors to establish the donor's resource envelope for the duration of the NSP.		
<div> 4. New Budget Management System entrenched to support the government's ability to deliver more timely and accurate budget documentation and analysis. </div>		<ul style="list-style-type: none"> ▪ A new Budget system implemented with the capacity to compile & prepare budget more efficiently and effectively. ▪ Budget Unit can produce GFS statements manually. 	<ul style="list-style-type: none"> ▪ Budget Unit working to automatic production of GFS ▪ Future reforms will aim at incorporating the development budget on to the same system, enhancing consistency and analysis of the two Budgets. Further the new system allows the Budget Unit to continue prepare for forward estimates. ▪ Regular training required to maintain skills. Training will need to be delivered to new staff. 'How To' guides being developed. 	<ul style="list-style-type: none"> ▪ Agree. New budget management system entrenched and providing reporting documentation. 	

		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
<div>5. Release of 2010 Medium Term Fiscal Strategy outlining the economic outlook and broad fiscal policy directions.</div>		<ul style="list-style-type: none"> Work ongoing to regularly update the macroeconomic model and the IMF macroeconomic framework. 	<ul style="list-style-type: none"> Drafting team to develop the structure of the 2010 MTFS version by end June. July to September drafting team to collect, compile and produce first draft of the 2010 MTFS. End September the PS to endorse the report, with an aim for early October for Cabinet to approve the report to be published. 	<ul style="list-style-type: none"> Agree. Work advanced so that once the priorities of the new Government are included a draft MTFS can be presented to Cabinet. 	<ul style="list-style-type: none"> While progress is on track, further monitoring will be needed to confirm if the timeframes intended for presentation to and endorsement by PS MOFT and Cabinet are met.
6. Debt Management Unit produces planned quarterly statistical bulletin and makes it accessible on the MOFT website.		<ul style="list-style-type: none"> With recent development of DMU Debt Portfolio Analysis Tool, DMU is now able to produce the required monthly reports. 	<ul style="list-style-type: none"> Publish timely production of monthly Statistical Bulletin on MOFT website. 	<ul style="list-style-type: none"> Agree. Debt statistics have been published on CBSI website (not MOFT) since beginning 2010. 	
<div>7. Commence Public Expenditure Reviews to ensure that information is available to enable a more and effective matching of resources to improve budget execution and service delivery</div>		<ul style="list-style-type: none"> The Portfolio Expenditure Analysis Section (PEAS) established and resourced. PEAS preparing to support World Bank to conduct stage 1 of PER in line with progressive broader reforms for the new incoming 	<ul style="list-style-type: none"> Incoming government to support a PER to be conducted July 2010 – June 2011. PER will include consultations with ministries on budget components and spending, rules 	<ul style="list-style-type: none"> Agree. PER underway; draft Aide Memoire from July Mission presented to MOFT. 	<ul style="list-style-type: none"> Encourage the WB and SIG to continue efforts to progress this analysis in a meaningful way and to adopt and implement results and recommendations.











	MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms  On track  Concern  Not on track	Progress to Date	Next Steps	Status on set of 2010 Reforms  On track  Concern  Not on track	Additional Comments
	Government.	governing budgetary resource allocation and usage. ▪ Stage one of the PER to start with a WB mission in July which will conduct preliminary reviews of key Ministries with the view to (i) inform incoming government about issues surrounding status of SIG budgeting and (ii) get cabinet decision to continue the reviews including all Ministries.		
8. Commence pilot to develop forward estimates by costing the National Education Action Plan for 2011 Budget.	 ▪ NEAP costed and will be used for 2011/2012 Budgets.	▪ Prepare for next NEAP	 ▪ Agree. NEAP costed and informing policy and planning for 2011 Budget.	









		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
<div> <div></div> On track <div></div> Concern <div></div> Not on track </div>				<div> <div></div> On track <div></div> Concern <div></div> Not on track </div>	
<div> <div> <div>9. An asset register established for all new assets to build strong links between recurrent and capital costs and better visibility of total costs.</div> </div> </div>		<ul style="list-style-type: none"> An asset management framework has been developed for the collection of asset information. MOFT has commenced recording of all new assets value equal to or greater than SBD 10,000 on a monthly basis into the assets register as per the payment vouchers via the financial management system, the Maximise System. 	<ul style="list-style-type: none"> To record existing assets and to begin to collect assets information at a lower threshold. This will allow the maintenance of these assets to be incorporated into future budget planning. 	<ul style="list-style-type: none"> Disagree – consider this should be yellow. While the register is technically established, focusing on high-value assets (at least SBD10,000), a delay in recruiting SIG staff and TA) means <u>application</u> of the new asset register is slow. 	<ul style="list-style-type: none"> Constraints in the ability to recruit staff risk undermining the progress achieved on this to date
10. WB assisted project to improve cash management and develop linkages with debt management commenced in 2010.		<ul style="list-style-type: none"> Collaboration with World Bank in production of Debt Management Performance Assessment (DeMPA) Performance Improvement Plan is progressing with reform action plan drafted and feedback/comment has been provided on by Debt Unit. Awaiting final report from WB after DMU submitted comments for further consideration. 	<ul style="list-style-type: none"> Debt Unit to implement the action plan as appropriate once it is finalised 	<ul style="list-style-type: none"> Agree. Per the Accounting unit's verification, the action plan to improve cash management that links to debt repayment schedule is underway. 	<ul style="list-style-type: none"> The specific wording used could be phrased to better convey what was intended, e.g. "Improve cash management through preparation of weekly forecasts with linkages to debt management" or "Strengthening debt management and debt assessments". Reforms 10 and 11 currently seem very similar.











		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms <div><div></div> On track</div> <div><div></div> Concern</div> <div><div></div> Not on track</div>		Progress to Date	Next Steps	Status on set of 2010 Reforms <div><div></div> On track</div> <div><div></div> Concern</div> <div><div></div> Not on track</div>	Additional Comments
11. Continue to develop a comprehensive cash forecasting framework.	<div></div>	<div>▪ A 6 month cash forecasting model has been established and is reviewed and updated each week.</div> <div>▪ DMU and Treasury are continuing to develop the cash forecasting framework. Distribution of regular cash balance forecasting reports (at least fortnightly)</div>	<div>▪ To extend the model’s duration and breadth in terms of what it captures.</div> <div>▪ 3rd generation cash forecasting to be introduced late July.</div>	<div>▪ Agree.</div> <div>Significant progress being made to ensure regular (and informed) cash flow forecasts are prepared, incorporating Debt Analysis.</div>	<div></div> <div>▪ We recommend further liaison and communication with line ministries to refine model.</div>
12. Strengthen and control procurement processes to reduce opportunity for corrupt practices, and leakages that affect service delivery, allocative efficiency and aggregate fiscal discipline controls in procurement	<div></div>	<div>▪ The revised Financial Instructions became operational on 1st July 2010.</div>	<div>▪ Revised/Expanded Procurement Checklist developed and provided to Ministries together with the 2010 Financial Instructions to be implemented.</div> <div>▪ Ongoing training of public service in the updated Financial Instructions</div>	<div>▪ Agree.</div> <div>New Financial Instructions including a chapter on procurement have come into effect, with training and tools like checklists developed.</div>	<div></div> <div>▪ Opportunities for further analysis of procurement information and publication of tender outcomes will be important to ensure effective implementation and compliance with the Financial Instructions.</div>










		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
<div style="border: 1px solid black; padding: 5px;"> 13. 2011 Budget provides for a continued fiscal consolidation, including: adherence to the principals of the Honiara Club agreement, and balanced budget or overall surplus (on a Government Financial Statistics basis) </div>		<ul style="list-style-type: none"> Permanent withdrawal of Warrant combined with revenue measures implemented in May 14th 2010 to ensure 2010 remains fully funded. Existing and Contingency Warrants are being met through savings and offsets. Expected future pressures are being considered and if required a plan for further potential savings and revenue measures are in place. Permanent withdrawal of warrant did not apply to Health or Education. Savings requirements reduced for police. 	<ul style="list-style-type: none"> Policy position will need to be considered by the incoming government. That is: <ul style="list-style-type: none"> i. Incoming government to be provided with a proposed Budget which maintains debt to GDP and payroll to GDP below target levels and is balanced. ii. The Government plans to launch its Budget preparations in July to set the overall framework for a new Government to consider. 	<ul style="list-style-type: none"> Agree Measures such as reductions to baselines and freezing payroll proposed in commencing 2011 Budget preparations. 	<ul style="list-style-type: none"> The challenge will be to ensure the 2011 Budget addresses the new Government's policy priorities whilst continuing fiscal consolidation
14. 2011 Budget restrains payroll charges as ratio to GDP at no more than the 2010 ratio		Same as 13	Same as 13	<ul style="list-style-type: none"> Agree As per 13 	<ul style="list-style-type: none"> As per 13
15. Upgrade to FMIS procured in 2010		<ul style="list-style-type: none"> The Maximize upgrade project is initiated, the project structure and business case defined, 	<ul style="list-style-type: none"> Work to continue on developing the work plan and funding agreement for the 	<ul style="list-style-type: none"> Agree The project manager will shortly start (contract negotiations with the 	

		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
<div><div></div> On track</div> <div><div></div> Concern</div> <div><div></div> Not on track</div>				<div><div></div> On track</div> <div><div></div> Concern</div> <div><div></div> Not on track</div>	
	<div></div>	project scope and module implementation sequence agreed with stakeholders, supplier/contract evaluation completed, contracts let, and is achieving progress against agreed stages/milestones.	upgrade. ▪ Upgrade the current Financial System. ▪ Contract signed and feasibility study been carried out by the Technical Advisor.	consulting firm (Intergral) are underway) and on-track to move the general ledger online from January 2011.	<div></div>
<div><div>16. Revised Financial Instructions (FI)</div><div>effected and enforced. The revised FI should ensure appropriate balance between facilitating financial management and effective business process while retaining a robust compliance and control environment to provide assurance over the use of public money</div></div>		<div><div>▪The revised Financial Instructions became operational on 1st July 2010.</div><div>▪Continuous training to support .the revised financial instructions is being scheduled for Public Officers through SIGAS.</div></div>	<div><div>▪SIG officers to be provided with regular training on Financial Instruction obligations.</div><div>▪Training for ministries accountants.</div></div>	<div><div>▪Agree.</div><div>New Financial Instructions including a chapter on procurement have come into effect, with training and tools like checklists developed.</div></div>	<div><div>▪Monitoring to ensure effective and appropriate implementation will be important.</div></div>
17. Cleansing of payroll data to improve accuracy complete by end 2010		<div><div>▪Series of meetings have been held and a process to continue work has been agreed with Public Service Ministry to provide measurable improvements</div></div>	<div><div>▪Aurion is operational and work is continuing on data quality and data integrity.</div></div>	<div><div>▪Disagreed – consider this should be green.</div><div>Approx 75% of the payroll data for major payroll recipients (teachers, police, and health workers) has</div></div>	<div><div>▪Consider there would be benefits in rolling out Aurion system to contractors/casuals, and potentially beyond (e.g. SOEs).</div></div>












		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
		to data quality (numbers of incorrect data items), and data integrity (matching incumbents to positions, and allowance eligibility issues to ensure legislative compliance and consistency of application across the public sector).		been verified.	
18. Project to strengthen Internal Audit scoped and commenced by end 2010.		<ul style="list-style-type: none"> First awareness program with MOFT executive done on 16/06/10, thus, development of internal audit division strategic development plan pending further approval of the type of model to employ. 	<ul style="list-style-type: none"> Internal Audit Division Strategic Development Plan approved and implemented. 	<ul style="list-style-type: none"> Agree. The Internal Audit Division has developed a strategic development plan that focuses on risk-based auditing instead of compliance-based auditing. The plan has not yet been approved. There is no specific timeline on when the plan will be approved. However, the Division established a network of internal auditors called Solomon Islands Government Internal Audit Network (SIGIAN) throughout the line ministries and state-owned 	

		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
				enterprises, to share ideas and access to training on international auditing standards.	
19. Ministry of Finance and Treasury website established to provide transparency in fiscal management and budget information accessible to the public		<ul style="list-style-type: none"> A private company is finalising costing for a MOFT website. 	<ul style="list-style-type: none"> Seek financial support to fund network infrastructure 	<ul style="list-style-type: none"> Agree. Per MOFT's verification, the website is soon to established pending the negotiation on cost. 	<ul style="list-style-type: none"> Recognize there is some concern about the ongoing costs to maintain a website.
20. Update chart of accounts (COA) by end 2010		<ul style="list-style-type: none"> Commenced with Financial Framework Adviser and counterpart liaising with line Ministries and MOFT and have reviewed and commenced work on the development of the new COA. 	<ul style="list-style-type: none"> Upgrade FMIS to accommodate the new COA. Transferring the updated COA to the FMIS. COA updated and in time for the revised COA framework to be incorporated into the 2011 budget. 	<ul style="list-style-type: none"> Agree. Work underway to establish framework for new Chart of Accounts. 	<ul style="list-style-type: none"> Consultation with line ministries on this activity is important in order to meet MOFT's objective that a new structure of codes be in place for the 2012 Budget. The specific wording used could be phrased to better convey what was intended, and acknowledging these are interim steps, e.g. "Establish the comprehensive Chart of Account (COA) framework that links to FMIS with accounting plan and budget allocation."

		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
21. 2009 SIG Annual Accounts updated within six months of end of year.		<ul style="list-style-type: none"> ▪ SIG Annual accounts is completed, signed and provided to OAG 2 days after 30th June. 	Work continues in mapping the 2009 Annual Accounts into the IPSAS Template.	<ul style="list-style-type: none"> ▪ Disagree - consider this should be green The action is considered complied with as it is only a couple days past the deadline.	
22. Commence Public Expenditure Review in 2010		<ul style="list-style-type: none"> ▪ The Portfolio Expenditure Analysis Section (PEAS) is established and resourced to progress the work of a PER. ▪ EAS is preparing to support World Bank to conduct stage 1 of PER in line with progressive broader reforms for the new incoming Government. 	<ul style="list-style-type: none"> ▪ Preparing briefing for the incoming government to support a PER to be conducted July 2010 – June 2011. PER will include consultations with ministries on budget components and spending, rules governing budgetary resource allocation and usage. ▪ Stage one of the PER has been to start with a WB mission in July which will conduct preliminary reviews of key Ministries with the view to (i) inform incoming government 	<ul style="list-style-type: none"> ▪ Agree. As per 7, verified with the World Bank and SIG that PER underway; draft Aide Memoire from July 2010 Mission presented to MOFT.	 <ul style="list-style-type: none"> ▪ Reforms 7 and 22 appear identical. Are both necessary? ▪ As per 7, encourage the WB and SIG to continue efforts to progress this analysis in a meaningful way and to adopt and implement results and recommendations..

		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
			about issues surrounding status of SIG budgeting and (ii) get cabinet decision to continue the reviews including all Ministries.		
23. Commence reviews of key ministry budgets and performance.		<ul style="list-style-type: none"> Got base information from key Ministries (MOFT, MDPAC, Public Service, Health, Education, Justice, Police, OAG, Parliament, and PMO/Cabinet) about the current budget practice. 	<ul style="list-style-type: none"> Budget process for 2011 Budget endorsed by Government and proceed by MOFT & MDPAC Depending on new Government decision and what can practically be done, incremental changes (reforms) will start to happen in the 2011 budget papers and reporting requirements.. To use the stage 1 PER information and work with the budget Unit to brief incoming Government about current problems and suggest reforms starting 	<ul style="list-style-type: none"> Agree. The July PER Mission carried out a 3-week consultation with the key ministries and a seminar in Honiara in July 2010. The scope of the exercise included reviewing issues related to budget execution and quality of public financial management. 	<ul style="list-style-type: none"> Encourage the WB and SIG to continue efforts to progress this analysis in a meaningful way that can help inform decisions related to budget allocation and performance.







		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
<div> <div></div> On track <div></div> Concern <div></div> Not on track </div>				<div> <div></div> On track <div></div> Concern <div></div> Not on track </div>	
			possibly in 2011.		
24. Commence reviews of key ministry budgets and performance.		<ul style="list-style-type: none"> Got base information from key Ministries (MOFT, MDPAC, Public Service, Health, Education, Justice, Police, OAG, Parliament, and PMO/Cabinet) about the current budget practice. 	<ul style="list-style-type: none"> Budget process for 2011 Budget endorsed by Government and proceed by MOFT & MDPAC Depending on new Government decision and what can practically be done, incremental changes (reforms) will start to happen in the 2011 budget papers and reporting requirements.. To use the stage 1 PER information and work with the budget Unit to brief incoming Government about current problems and suggest reforms starting possibly in 2011. 	<ul style="list-style-type: none"> Agree. The July PER Mission carried out a 3-week consultation with the key ministries and a seminar in Honiara in July 2010. The scope of the exercise included reviewing issues related to budget execution and quality of public financial management. 	<ul style="list-style-type: none"> Encourage the WB and SIG to continue efforts to progress this analysis in a meaningful way that can help inform decisions related to budget allocation and performance.













		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
II. Enabling Business Environment: Structural Reform to make Solomon Islands an easy and reliable place for businesses to invest and for industries to grow					
25. Application of financial reporting under the State Owned Enterprises Act 2007		<ul style="list-style-type: none"> Letter has been sent from PSF to all Chairs and General Mangers of SOEs advising them of the new obligations SOEs have been updated and audited financial accounts up to 2007. 	<ul style="list-style-type: none"> All 2008 SOE accounts have been audited 2009 accounts is still to be compiled. 	<ul style="list-style-type: none"> Disagree – consider this should be yellow. SOE's 2009 financial accounts are still to be submitted to MOFT for review and consideration. 	 <ul style="list-style-type: none"> This is to be supported by RAMSI technical assistance through a roving accountant to support preparation of accounts for small SOEs with weak capacity.
26. Tender process for sale of Sasape Marina underway in 2010		<ul style="list-style-type: none"> Tender Process commenced 	<ul style="list-style-type: none"> SML Board to choose the new owner based on Sales Taskforce recommendations Transferring of titles to new owner Winding up of the company Sale of SML is expected to conclude in Q3 of 2010. 	<ul style="list-style-type: none"> Agree. Bids received. The subsequent tendering steps are on track. 	
27. As part of SIEA commercialisation project, new General Manager and Board Director are employed by end of 2010		<ul style="list-style-type: none"> Commercialised manager, new GM employed, and Director employed 	<ul style="list-style-type: none"> Improve financial and operation performance of SIEA 	<ul style="list-style-type: none"> Agree. New GM in place. SIEA commercialization plan outlined. 	<ul style="list-style-type: none"> Concern heard about SIWA's outstanding debt of SBD22 million.











		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
<div> <div></div> On track <div></div> Concern <div></div> Not on track </div>				<div> <div></div> On track <div></div> Concern <div></div> Not on track </div>	
<div> <div>28. Implement appropriate regulations that would support the implementation of the State Owned Enterprise (SOE) Act 2007, particularly to improve management and governance of SOEs to be better business operators. Regulations include rules on the: Appointment and removal of SOE directors; and Directors' duties; economic regulatory function and ; Community Service Obligations</div> </div>		<ul style="list-style-type: none"> Regulations gazetted in April 14th 2010 Regulations include rules on appointment and removal of SOEs' Directors and their duties, SOEs' Economic functions, and on Community Service Obligations. Letter has been sent from PSF to all Chairs and General Mangers of SOEs advising them of the new obligations and providing details of the regulations. 	Training on further strengthening of the SOEs accounting capacity, corporate governance, and government oversight is set to commence in August 2010.	<ul style="list-style-type: none"> Disagree – consider this should be yellow. Whjle regulations have been gazetted and a letter to SOEs circulated, further actions are required in order to implement the regulations and monitor compliance. 	<ul style="list-style-type: none"> To ensure effective implementation, the following measures could be considered: <ol style="list-style-type: none"> a stock-take or audit of current compliance e.g. compliance with director term limits and prohibition of any compensation or benefits for directors who are members of parliament, public servants, or hold any other public office; ministerial certification that all new board members have been appointed according to the process outlined in the regulations establish interests register and record potential conflicts for SOE directors; and complete an inventory of community service obligations currently provided by SOEs.











	MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms <div> <div></div> On track <div></div> Concern <div></div> Not on track </div>	Progress to Date	Next Steps	Status on set of 2010 Reforms <div> <div></div> On track <div></div> Concern <div></div> Not on track </div>	Additional Comments
29. Effective private investment in Soltai.	<div></div> <ul style="list-style-type: none"> On track for completion of shares restructure. Capital injection has been made available through new shares being offered to private investors. 	<ul style="list-style-type: none"> Board is issuing new shares, calling up capital and finalising loan from SINPF. 	<div></div> <ul style="list-style-type: none"> Agree. On track with the SI National Provident Fund signing the loan agreement to refinance Soltai's debt of SBD50 million on 24 August 2010. The shareholder agreement was finalized and expected to be signed by all parties so that the majority of shareholders are private sector, leaving 20% of the shares owned by Western Province. 	
29. Current monopoly provider issued new non-exclusive licence (April 2010)	<div></div> <p>29 & 30. Telecommunications Act passed in 2009 relinquishing Telekom's Exclusive License on mobile.</p> <p>29& 30. B-mobile Company issued new non-exclusive license for mobile.</p>	<ul style="list-style-type: none"> B-Mobile to start operating. Cost of mobile services started to reduce and coverage improved. 	<div></div> <ul style="list-style-type: none"> Agree. B-Mobile issued new non-exclusive license for mobile. B-Mobile has so far failed to launch a mobile service network in accordance with the agreed timeline. The Telecom Commission is, however, confident that B-Mobile will start operating this year. 	









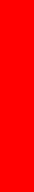
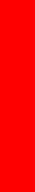




	MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms <div> <div>On track</div> <div>Concern</div> <div>Not on track</div> </div>	Progress to Date	Next Steps	Status on set of 2010 Reforms <div> <div>On track</div> <div>Concern</div> <div>Not on track</div> </div>	Additional Comments
30. Second mobile licence issued by 2010			<div> <div>Agree.</div> <div>As per 29 above, the license was issued but there have been delays in the commencement of B-Mobile operations.</div> </div>	
31. Independent telecommunications regulator, the Telecommunications Commission is established by late 2010.	<div> <div>Regulator employed beginning of the year 2010</div> </div>		<div> <div>Agree.</div> <div>Telecommunications Commission established and functioning with independence and a mandate to be a self-funding agency.</div> </div>	
32. Companies Act Implemented modernising the company registration process.	<div> <div>Both the Act and Regulations are now active.</div> </div>	<div> <div>Government to open new computerised company filing registry by Q4 2010.</div> <div>If new computerised registry is expected not to be implemented by Q4, registrations will be done manually</div> </div>	<div> <div>Agree.</div> <div>The Company Registry has been open and operational since early July, but is constrained by inadequate resources.</div> </div>	<div> <div>Constraints in the ability to recruit staff risk undermining the progress achieved on this to date. The freeze in new recruitment means the Ministry of Commerce needs to review current positions and then reallocate staff to the new Registry. Equipment purchases will resume after the expected lift of the Budget reservation.</div> </div>

		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
33. Update of the National Transport Plan completed providing strategic guidance to the funding of transport.		<ul style="list-style-type: none"> Review on the NTP is in progress with a recruitment of a new consultant two consultants left before their contract expired. 	<ul style="list-style-type: none"> Expect the NTP to be reviewed by September 2010. 	<ul style="list-style-type: none"> Agree. The update was to be completed by September, and submitted for Cabinet approval by Oct 2010. 	
34. National Transport Fund (NTF) Regulations implemented to provide a long term sustainable mechanism to fund the development, maintenance and rehabilitation of transport infrastructure and to support the provision of inter- island shipping services.		<ul style="list-style-type: none"> NTF Regulations gazetted and commenced on 14/6/2010. MOFT in process to prepare documents to request to open bank accounts at the CBSI. 	<ul style="list-style-type: none"> Bank accounts to become operational MID to hold a meeting with all stakeholders to explain the process for utilizing the Fund. NTF Board to meet to discuss how the Fund is to managed in accordance with any requirements under the Act 	<ul style="list-style-type: none"> Agree. The first meeting of the NTF Board was held on 18 August. NTF bank accounts being set up 	
35. Solomon Islands Maritime Safety Administration operational		<ul style="list-style-type: none"> ADB TA to support MID for the establishment of SIMSA is in progress. TA assisting MID to develop loan program for safety equipments to be handed over to shipping operators through MID with Attorney General's office advice 	<ul style="list-style-type: none"> SIMSA operating and effective 	<ul style="list-style-type: none"> Agree. SIMSA is currently operational. 	

		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
36. Shipping Franchise Scheme operational by 2010		▪ FSS first voyage expect on 15/6/2010	▪ Second voyage on 15 July when school begins	▪ Agree. Some delays but first voyage now expected on or around 20 August. 	
37. Implementation of Solomon Airlines restructure plan on schedule		▪ Solomon Airlines internal restructuring progressing smoothly	▪ Airline's financial and operational performance continue to improve sustainably	▪ Agree. The SOE monitoring Unit of MOFT confirmed that the cabinet-endorsed restructure of Solomon Airlines was implemented. 	
38. Increase compliance to exemption guidelines.		▪ Cabinet endorsed the policy proposal.	▪ To finalise the policy framework/strategy for the new Government to increase compliance to exemption guidelines.	▪ Agree. Efforts to tighten up revenue exemption guidelines and improve consistency between IRD and Customs approaches, although fully meeting this will require actions by the new Government. 	▪ Completion of this will require early attention by the new Government. We note this is also a Dec 2010 benchmark under the IMF Standby Program. ▪ The specific wording of this action could be phrased to better convey what was intended, e.g. "Improve the quality and transparency of decisions on exemptions."

		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
39. Recommendations of point operation at port report implemented in 2010		<ul style="list-style-type: none"> ▪ Wharf operations effective in revenue collections in 2009. April 2010 wharf operations revitalise with an Audit Adviser and two Staff from IRD to support operations. ▪ Assistance is provided to revenue collection outposts with processing and training 	<ul style="list-style-type: none"> ▪ Review assessment at ports and implement recommendations for greater ports resources ▪ Revenue management continues to be monitored with a new Deputy comptroller in charge of revenue appointed. 	<ul style="list-style-type: none"> ▪ Agree. Joint Customs-IRD taskforces has led to IRD and Customs revenue in 2010 to date being ahead of budget. 	
40. Resource rent framework developed to ensure fair return for the extraction of the national resources		<ul style="list-style-type: none"> ▪ IMF currently advising that on the ground TA/scoping mission will not be available to commence until September 2010. 	<ul style="list-style-type: none"> ▪ ERU to prepare work and consultation with IMF adviser. ▪ TA on the ground to begin drafting framework. 	<ul style="list-style-type: none"> ▪ Agree. Progress is pending the arrival of IMF TA. The intention is that a scoping paper will be prepared for Cabinet by the end of the year. 	 <ul style="list-style-type: none"> ▪ High priority is given to this under the IMF Standby Program. Progress will also require attention by the new Government. If there is support for the scoping paper, regulations may be developed in 2011. ▪ To better convey the 2010 interim step towards the longer-term objective of developing a resource rent framework, the 2010 reform could more appropriately be worded "Scoping paper on a Resource Rent Framework presented to and endorsed

		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms		Progress to Date	Next Steps	Status on set of 2010 Reforms	Additional Comments
 On track  Concern  Not on track				 On track  Concern  Not on track	
					 by Cabinet.”
41. Cabinet endorsement of the adoption of the Extractive Industries Transparency Initiative for the mining industry		<ul style="list-style-type: none"> ▪ Achievable but depend on new government and the IMF TA available to draft framework 	<ul style="list-style-type: none"> ▪ Resource rent framework developed including securing funding for international technical assistance if necessary. 	<ul style="list-style-type: none"> ▪ Agree. Progress is pending the arrival of IMF TA. 	
<div style="border: 1px dashed black; padding: 5px;"> 42. Review of the Customs Act commenced to ensure legislation is efficient and effective and reflects current international trade practices to support economic growth, and improve Government revenue </div>		<ul style="list-style-type: none"> ▪ A list of sections of the Act that needs to be analysed has been prepared. 	<ul style="list-style-type: none"> ▪ Legal Team on the ground to review the Act and Steering Committee established ▪ Representative from ADB to meet with Customs on the 5th July 2010. Advertisement of the project team will be done in August and thereafter an interview to appoint the team will take place. 	<ul style="list-style-type: none"> ▪ Agree. The ADB legal expert has worked closely with relevant agencies. The next consultation will be held in September 2010. Further work will be carried out by a new TA project. ADB is selecting the firm and will field the consultants in November. 	

	MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms  On track  Concern  Not on track	Progress to Date	Next Steps	Status on set of 2010 Reforms  On track  Concern  Not on track	Additional Comments
43. Implement post clearance audit (PCA) function		<ul style="list-style-type: none"> Customs Modernisation Program (Australian Customs) is assisting to establish a PCA program In Customs. Amendment to the current Customs Legislation to include powers of auditors or external auditors. Staff and resources are identified and trained Implement PCA 	<ul style="list-style-type: none"> Agree, subject to further detail being provided. 	<ul style="list-style-type: none"> More information required.
44. Customs Valuation and Offences Legislation come into force, with staff and stakeholders trained to understand and enforce the new legislation		<ul style="list-style-type: none"> The implementation has been postponed until the new government is formed. This issue will be part of the briefing to the incoming Minister of Finance. Amendment of the legislation is submitted and passed in Parliament by the end of the year. 	<ul style="list-style-type: none"> Agree. Legislative amendment drafted and pending Ministerial approval to present to Parliament. 	<ul style="list-style-type: none"> This will require early attention by the new Government. It is, however, a minor technical correction that should not be contentious.
45. Working with Customs on cross agency collaborative initiatives.		<ul style="list-style-type: none"> See 38, 39, 42, 44, 46 Report being prepared for MPS for the 2011 budget bids to ensure adequate resources to manage compliance and increase revenue. 	<ul style="list-style-type: none"> Agree, as per 38,39, 42, 44, 46 	<ul style="list-style-type: none"> The Mission understands that there is an exemption from the recruitment freeze for revenue-enhancing activities and notes the importance of adequate resourcing to reform priorities.
46. Legislation adopted to improve the administration of tax exemptions administered by IRD and Customs		<ul style="list-style-type: none"> Cabinet endorsed ERU, IRD & CED and officials have developed the policy proposal in improving the exemption process. To return to Cabinet for final To finalise the policy framework/strategy for the new Government to increase compliance to exemption guidelines. Legislation is in place 	<ul style="list-style-type: none"> Agree. Drafting instructions have gone to the Attorney General's office in order to meet the 31 Dec 2010 timeframe to submit to 	<ul style="list-style-type: none"> We believe this timing is still achievable, in keeping with the relevant IMF Benchmark. However, early attention by the new Government will be important to achieve this

		MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms <div> <div>On track</div> <div>Concern</div> <div>Not on track</div> </div>		Progress to Date	Next Steps	Status on set of 2010 Reforms <div> <div>On track</div> <div>Concern</div> <div>Not on track</div> </div>	Additional Comments
		approval.	that guides the administration of the exemption process. <div> <div>Where appropriate exemption work in Customs and IR is harmonised.</div> </div>	Parliament.	
47. Conduct a review of options to increase revenue collection through increased compliance with Customs and Taxation regulations.		<div> <div>See 38, 39, 42, 44, 46</div> </div>		<div> <div>Disagree - consider this should be green.</div> <div>A range of work is underway that is supporting increased revenue collection.</div> </div>	
III. Protecting the Vulnerable: Address national needs by ensuring all Solomon Islanders benefit from development					
48. 2011 Recurrent Budget protects to the extent feasible the delivery of core social services (especially basic education, rural health and rural transport services).		<div> <div>See 13</div> </div>	See 13	<div> <div>Agree.</div> <div>Education, health and rural transport were relatively protected in the 2010 Budget and have faced slightly less severe measures during 2010 by SIG to manage overall cash flow. Decisions on 2011 await the new Government.</div> </div>	<div> <div>This action is pending the new Government's policy priorities and decisions on 2011 Budget allocations.</div> </div>

	MOFT Assessment (Q2)		JRM Assessment	
Status on set of 2010 Reforms <div><div></div> On track</div> <div><div></div> Concern</div> <div><div></div> Not on track</div>	Progress to Date	Next Steps	Status on set of 2010 Reforms <div><div></div> On track</div> <div><div></div> Concern</div> <div><div></div> Not on track</div>	Additional Comments
<div><div><div>49. A public release of a mid-year fiscal update</div><div>outlining the current economic situation; including growth estimates and (expenditure/revenue YTD) indicators.</div></div></div>	<div><div></div><div>▪ Financial data is up to date enabling an overall update to be produced.</div></div>	<div><div></div><div>New report to be approved by the new incoming government</div></div>	<div><div><div>▪ Agree.</div><div>Mid-year fiscal data released.</div></div><div><div></div></div></div>	

Summary Progress Assessment by Joint Review Mission toward the December 2010 Reform Targets (as of 20 August 2010)

Key Reform Areas	All Policy Actions				Triggers			
	Total	Green (on track)	Yellow (concern)	Red (not on track)	Total	Green (on track)	Yellow (concern)	Red (not on track)
I. Public Financial Management	24	20	4	0	10	10	0	0
II. Business Enabling Environment	23	14	8	1	6	3	3	0
III. Protection of the Vulnerable	2	1	1	0	1	1	0	0
All Areas	49	35	13	1	17	14	3	0

APPENDIX 3: POSSIBLE FUTURE TEMPLATE FOR DOCUMENTATION

The current documentation associated with the Economic and Financial Reform matrix is complex with multiple matrices and different reporting documents. The issues identified by the Mission with respect to the current documentation include:

- There are separate matrices for all the Reforms (Matrix 1) and the Triggers (Matrix 2). Furthermore, separate (but cross-referenced) reporting matrices are prepared for both Matrix 1 and 2. The number of matrices (4 including reporting) adds complexity to the management of the reform agenda and reporting and review of progress.
- The CEWG matrices include some substantial additions over and above what is readily available through MOFT's own internal corporate management systems, meaning producing the CEWG matrices is quite resource-intensive for MOFT.
- There is some overlap between reforms listed (e.g. both 7 and 22 in the 2010 EFRP refer to commencement of a PER) adding to the length without adding any clear value to the reform agenda. This is irrespective of MOFT's concern that development partners could rationalize the additional reforms they seek to include more (than has been the case to date).
- The way in which some of the reforms are described does not always make it clear to those not close to the issue exactly what is intended, and what the interim steps indicating progress in this area will be. (This could explain why there has been a demand from development partners for additional reporting information).
- It is recognized that there is merit in the level of detail currently being provided on the reforms, to help provide clarity and momentum across the broad range of reforms underway. This can also help promote connections across MOFT, particularly as a number of the reforms are interlinked if they are to be sustained and successful (e.g. new budget management system and revising the Chart of Accounts).
- Development partners have indicated it would be valuable if the reporting included some brief narrative that could help provide a sense of the overall trajectory of reform.

The principles of simplicity, clarity, quality, and efficiency, underpin the Mission's proposals to on how the Reform Matrix and Reporting documentation could be revised. The specific changes proposed are to:

- incorporate all the necessary information on the **reforms and triggers** as well as **reporting on progress into one document**
- incorporate some brief **narrative reporting** and a table summarising the traffic lights to help give a greater sense of overall progress (the "trajectory of reform") against the Government's overall objectives
- explicitly include **indicators** against each of the reforms (currently provided for the Triggers only). This can help ensure there is a clearer sense of knowing what will be achieved under the reform in a particular year (and measuring if it has been achieved). It could also give a sense of the intermediate steps required to achieve a multi-year reform – the 'reform' could feature in

successive years' matrices but the indicators would change each year recognising previous progress. This would be consistent with shifting the focus towards fewer, substantial multi-year reforms.

- ensure the **language** used to describe reforms and indicators is **clear and accessible** to those not familiar with the detail.

A suggested template reflecting these proposals follows on the next page. How it could be applied is then illustrated using an example loosely based on the 2010 matrices and reporting.

The amendments suggested should reduce the current burden on MOFT to add a number of columns of additional information for the CEWG matrix that is not collected through internal reporting (although the Finance and Economic Development Unit within MOFT will still need to compile information from other Ministries). It is also hoped that the amendments suggested here would help reduce the need for additional reporting and explanations later, by ensuring clarity. Reducing some of the current burden of reporting should free some capacity within MOFT to include the additional brief narrative reporting suggested. It is recognized, however, that including indicators and suggesting the language of some reforms be clarified could have implications for the workload of SIG CEWG members (e.g. currently indicators are only provided for the Triggers, not other reforms; and if SIG CEWG members choose to revisit language used in internal systems to maximize alignment between reporting systems).

The template proposed does not include several columns included in the current documentation. These are:

- Key Issues - this gives the rationale why particular reforms are included in the priority matrix but does not itself need to be included in the matrix (and the Mission considers is probably fairly well understood).
- Donor assistance column – this is currently only included in the Triggers matrix. Where donor assistance is relevant to achieving progress on a particular reform this could be included in the indicators column and reported against e.g. ADB-funded TA to support Review of Customs Act; or RAMSI-funded roving accountants to assist small SOEs prepare their financial accounts. Including reference to development partners' assistance that is relevant to particular reform priorities could also be useful for other stakeholders.
- Next Steps – the Mission presumes that those people most likely to use this information would be those implementing the reform. But MOFT does not automatically collect this suggesting they do not see value in it and/or are confident in their own internal management systems. Ensuring clear and accessible information should help minimize the need for this column.

Depending on how the Government's priorities are articulated, there may be an overlap between the Outcomes and Intended Outputs columns, or the Themes (rows), under which different reforms are grouped. So these could potentially be rows or columns.

The indicators can provide a shared understanding for the CEWG to know if the reform has been met, or illustrate the intermediate steps to achieve a reform.

Forms part of the template from the beginning of the year but sections are only completed according to the agreed reporting cycle.

Traffic lights

SIG Priority Outcomes <i>[or National Strategic Plan priorities]</i>	Objectives/Intended Outputs	[year] Reforms Trigger	Indicators and Milestones		Progress On track Concern Not on track
<i>[As per SIG statement/NSP]</i>	<i>[Reflect intended output from related reforms e.g. sub-themes]</i>	<i>[Identify priority reform]</i>	<i>[e.g. As per Outcomes currently listed for each of the Triggers.]</i>		<i>[Provides support for traffic light assessment]</i>
Key Theme I					
Summary of progress: <i>[Summary paragraph to give overall sense of general progress under this theme]</i>					
		<i>[shading indicates Triggers; no separate matrix required]</i>			
Key Theme II					
Summary of progress: <i>[Summary paragraph to give overall sense of general progress under this theme]</i>					
		<i>[* denotes relevant to a non-CEWG (e.g. IMF) program]</i>			
		<i>[shading indicates Triggers; no separate matrix required]</i>			

* denotes benchmark for *[IMF Standby Credit Arrangement]*

Summary Progress Assessment as at [date]







Key Theme	All Policy Actions				Triggers			
	Total	Green (on track)	Yellow (concern)	Red (not on track)	Total	Green (on track)	Yellow (concern)	Red (not on track)
I. <i>[e.g. Public Financial Management]</i>	A	A1	A2	A3	X	X1	X2	X3
II.	B	B1	B2	B3	Y	Y1	Y2	Y3
All Themes	A+B	A1+B1	A2+B2	A3+B3	X+Y	X1+Y1	X2+Y2	X3+Y3









Overall Comment on Progress:









[Summary paragraph, to give overall sense of general progress and trajectory of reform]


Example







To illustrate how this proposed template could look when populated, the following is loosely based on excerpts of the 2010 Matrices and Q2 reporting on them, with some fictional additions (e.g. what potential indicators for some of the reforms could have been). It is for illustrative purposes only. The Mission is **not** proposing that the 2010 Matrix be revised to fit this format, but rather that any changes to documentation adopted by the CEWG be introduced for the 2011 Matrix.


SIG Priority Outcomes [or National Strategic Plan priorities]	Objectives/Intended Outputs	2010 Reforms	Indicators and Milestones		Progress
		 Trigger			 On track  Concern  Not on track
<i>An affordable and sustainable Government budget that improves Government decision making processes, and focuses on achieving the development goals of the Solomon Islands</i>					
Summary of Progress: Substantially on track; 20 of 24 reforms are identified to be on track, with the remaining 4 of concern. Those not on track largely relate to the 2011 Budget process and the areas of internal audit and the asset register, where additional resources are needed to support implementation. All the Triggers in this section are “on track”. Improvements to budget processes, financial rules and implementation are increasing transparency and should ultimately support the efficient delivery of government services.					
4.6 Improved Budget processes, presentation and economic forecasting	Strengthen resource allocation processes	1. Increasing compliance with Cabinet requirement for MOFT to cost and brief on all budget bids and cabinet submissions by 2011 Budget	<ul style="list-style-type: none">• Cabinet directive to cost and brief all budget bids and Cabinet submissions• Training provided to line Ministries• PMO/MOFT confirm that over 90% of all 2011 Budget bids are costed		Achievable but depends on new Government. Revisions to Cabinet handbooks underway, training for new MPs planned
		2. 2011 budget process commence with strategy meeting of Cabinet to establish	<ul style="list-style-type: none">• MOFT provide advice to Cabinet on recurrent and development budget		Achievable but depends on new . Initial preparations for 2011 budget process commenced, although

SIG Priority Outcomes [or National Strategic Plan priorities]	Objectives/Intended Outputs	2010 Reforms  Trigger	Indicators and Milestones		Progress  On track  Concern  Not on track
		spending priorities and recurrent and development budget envelopes	envelopes, and 20101 allocations • Cabinet meeting held on 2011 budget process and minute provided to MOFT		progress awaiting new Government.
		3. A National Strategic Framework (NSF) is developed for 2010 for the Government's consideration which would set the framework for the long term National Strategic Plan as a successor to the MTDS.	• Task force set up and work plan, including planned consultations, to formulate a National Strategic Framework approved by Cabinet. (Q2) • The NSP is consistent with the Medium Term Fiscal Strategy		Cabinet endorsed National Strategy Framework and a Task force consists of Finance, PMO, MDPAC, and CBSI in May 2010 to develop & coordinate the draft Framework. ADB TA is assisting MDPAC and the taskforce on SIG's invitation
		4. New Budget Management System entrenched to support the government's ability to deliver more timely and accurate budget documentation and analysis.	• Budget system automatically producing GFS statements for the recurrent budget. (Q2) • 2011 Budget developed and produced using the new Budget System (Q4)		A new Budget system implemented with the capacity to compile & prepare budget more efficiently and effectively. Budget Unit can produce GFS statements manually.
		5. Release of 2010 Medium Term Fiscal Strategy outlining the economic outlook and	• 2010 MTFS released. (Q4) • Published on the Ministry		Work advanced so that once the priorities of the new Government are included a draft MTFS can be

SIG Priority Outcomes [or National Strategic Plan priorities]	Objectives/Intended Outputs	2010 Reforms  Trigger	Indicators and Milestones		Progress  On track  Concern  Not on track
		broad fiscal policy directions.	of Finance and Treasury's website. (Q4)		presented to Cabinet
		...	• ...		...
		...	• ...		...
4.12 Stable government finances including a medium term fiscal and debt management strategy and less complicated budget format	Improve structural weaknesses in budget	8. Commence pilot to develop forward estimates by costing the National Education Action Plan for 2011 Budget.	<ul style="list-style-type: none"> • NEAP costing completed • NEAP costings underlie 2011 Budget bids 		NEAP costed and will be used for 2011/2012 Budgets.
	

Structural reform to make Solomon Islands an easy and reliable place for businesses to invest and for industries to grow					
Summary of Progress: Good progress is being made in the majority of reforms in this area. There are some concerns with respect to progress on about one-third of the reforms, largely in the performance of SOEs and adequate resourcing to ensure the effective implementation of the Companies Act. Some areas where progress has been slower relate to delays in the provision of development-partner supported TA (e.g. resource rent framework, Customs Act). Changes to SIEA and the telecommunications market have the potential to improve access to electricity and telecoms services, once fully effected. Progress is being made in the area of revenue collection, which will support the government's overall expenditure priorities.					
4.11 "Improved performance by state owned enterprises" 4.17 "Review Acts of financial institutions and other State Owned Enterprises and any	Improve performance of State Owned Enterprises	24. Application of financial reporting under the State Owned Enterprises Act 2007	<ul style="list-style-type: none"> • Letter from PSF to all Chairs and General Managers of SOEs advising them of their obligations • SOEs submit financial reports to MOFT within 4 		Letter sent from PSF to all Chairs and General Managers of SOEs advising them of their obligations SOE's 2009 financial accounts are still to be submitted to MOFT for review and consideration.

SIG Priority Outcomes [or National Strategic Plan priorities]	Objectives/Intended Outputs	2010 Reforms  Trigger	Indicators and Milestones		Progress  On track  Concern  Not on track
other related Acts with regard to Finance” ...			months of the end of the financial year.		
...	
...
4.9 “Improved revenue collection with tax reforms (including both inland, customs and excise policies) that support economic growth, and are more efficient and fairer”	Stronger revenue collection through improving compliance within the Government tax structure and improving administration of revenue laws	*42. Review of the Customs Act commenced to ensure legislation is efficient and effective and reflects current international trade practices to support economic growth, and improve Government revenue	<ul style="list-style-type: none"> • High level steering committee established (Q2) • Consultation and drafting commenced (Q3) • ADB-funded TA to support Review in place mid-2010 		A list of sections of the Act that needs to be analyzed has been prepared. The next consultation will be held in September 2010. Further work will be carried out by a new TA project, expected to be fielded in November.

To address national needs by ensuring all Solomon Islanders benefit from development					
Summary of Progress: Efforts within this area are largely on-track, with decisions on the 2011 Budget (for education, health and rural transport) providing the only uncertainty. Progress in this area will help to ensure improvements in rural people’s opportunities and well-being.					
To further strengthen development through a bottom-up and holistic approach	Support the vulnerable through targeted actions	48. 2011 Recurrent Budget protects to the extent feasible the delivery of core social services (especially basic education, rural health and rural transport services).	<ul style="list-style-type: none"> • Funding provided in 2010 in line with Budget • 2011 Budget to education, health and rural transport is at least the same as the 2010 allocations. 		Education, health and rural transport were relatively protected in the 2010 Budget and have faced less severe measures during 2010 by SIG to manage overall cash flow. Decisions on 2011 await the new Government.

SIG Priority Outcomes [or National Strategic Plan priorities]	Objectives/Intended Outputs	2010 Reforms	Indicators and Milestones		Progress
		Trigger			
	Bring about genuine economic, political and social transformation, partnerships between stakeholders	49. A public release of a mid-year fiscal update outlining the current economic situation; including growth estimates and (expenditure/revenue YTD) indicators.	• A release of a mid-year fiscal update. (Q3)		Mid-year fiscal data released

* denotes benchmark for IMF Standby Credit Arrangement

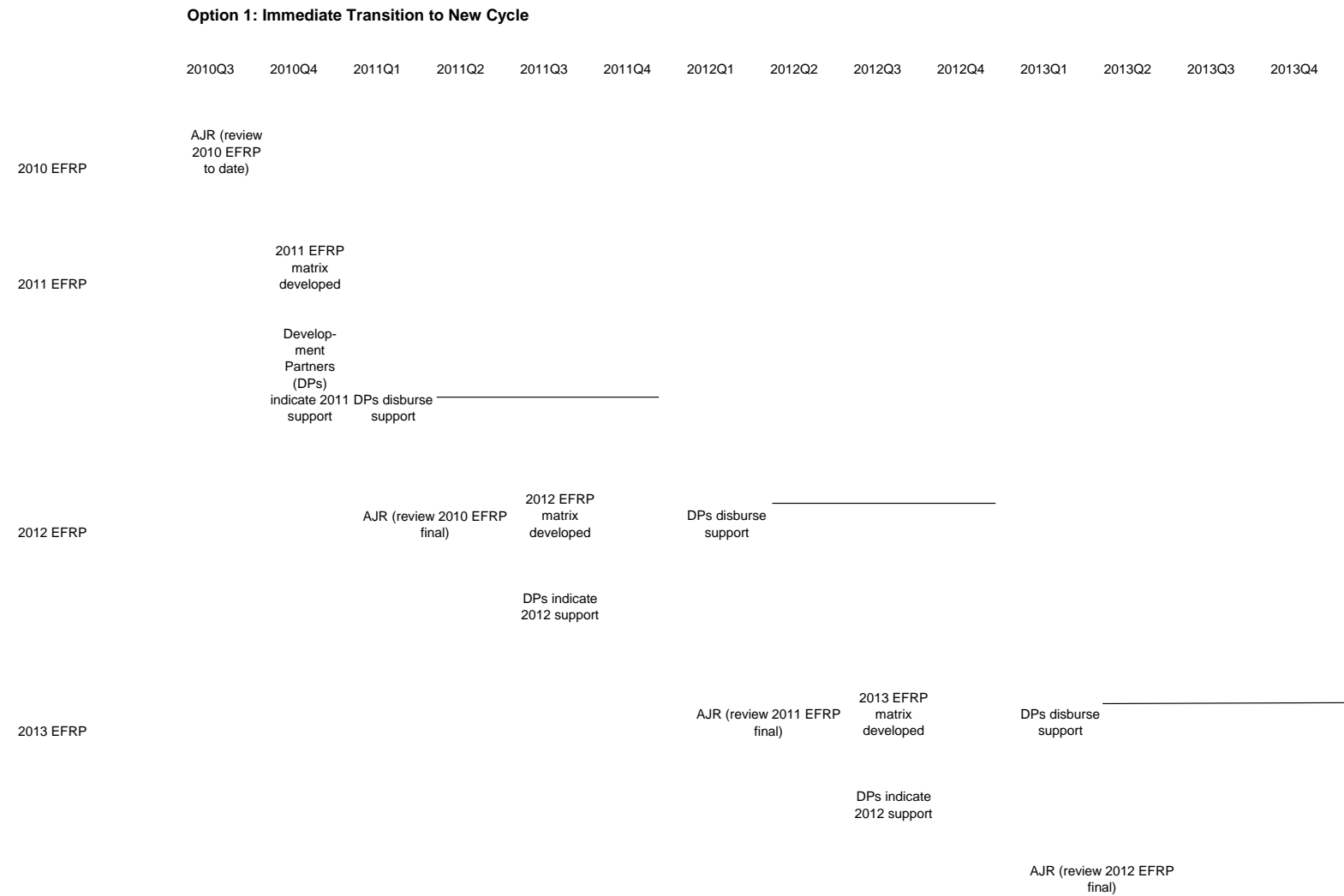
Summary Progress Assessment (as at 20 August 2010)¹³

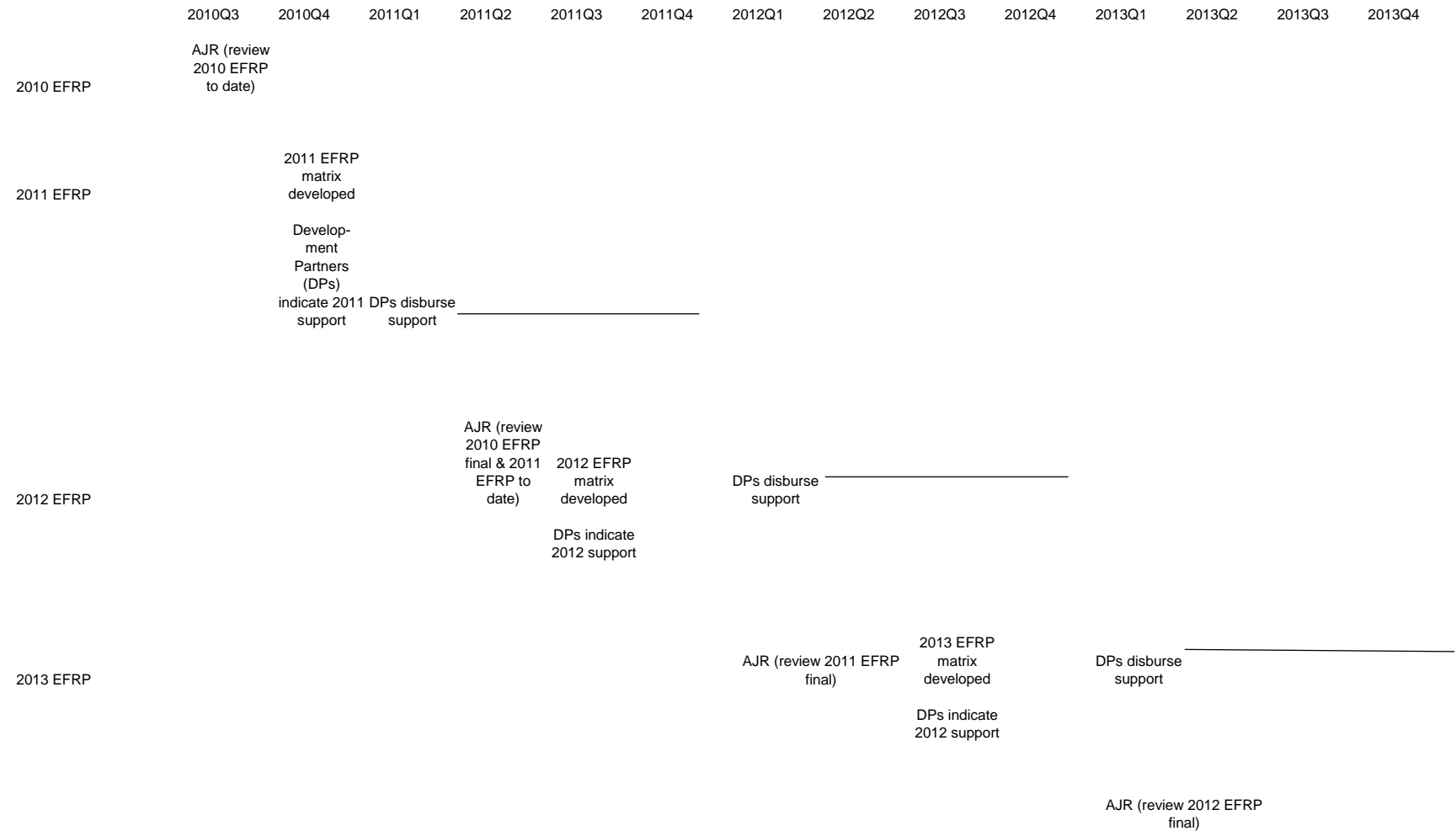
Key Theme	All Policy Actions				Triggers			
	Total	Green (on track)	Yellow (concern)	Red (not on track)	Total	Green (on track)	Yellow (concern)	Red (not on track)
I. Public Financial Management	24	20	4	0	10	10	0	0
II. Business Enabling Environment	23	14	8	1	6	3	3	0
III. Protecting the Vulnerable	2	1	1	0	1	1	0	0
All Themes	49	35	13	1	17	14	3	0

Overall Comment on Progress: In general, reform momentum is being maintained in 2010. Progress against the 2010 reform matrix is generally on track, particularly in the area of Public Financial Management. A few areas where progress has been slower are awaiting the new Government and decisions on policies and priorities. Nevertheless, it is reasonable to expect that all of the 49 policy actions (including the 17 priorities).

¹³ The figures in this table are based on the Mission's assessment, as are the examples of narrative comments.

APPENDIX 4: POSSIBLE FUTURE TIMELINES



Option 2: Slower Transition to New Cycle

APPENDIX 5: LIST OF PERSONS MET

Central Bank of Solomon Islands

Denton Rarawa	– Governor
Gane Simbe	– Deputy Governor
Donald Kiriau	– Senior Analyst, Economics Department
Tom Coward	– Senior Researcher, Economics Department
Louisa Baragamu	– Senior Analyst, Economics Department

Office of the Prime Minister

Jeremiah Manele	– Secretary to the Prime Minister and Cabinet
Chris Hunupauo	– Deputy Secretary to the Prime Minister and Cabinet

Ministry of Finance and Treasury

Shadrach Fanega	– Permanent Secretary
Richard Williams	– Economist, FEDU
McKinny Dentana	– Director, Economic Research Unit (ERU)
Hayley Kuoto	– Policy Analyst, ERU
Norman Qurusu	– Policy Analyst, ERU
Matt Hodge-Koppa	– Advisor (State-Owned Enterprise Reform), ERU
Shaun Anthony	– Senior Advisor, Treasury Division
Mathew Pitavato	– Chief Economist
Andrew Idutee	– Acting Director, Budget Unit
David Saywell	– Senior Advisor, Budget Unit
Donna Hargreaves	– Accountant-General, Financing Reporting Section
Haggai Arumae	– Assistant Accountant General, Financial Reporting Section
Douglas Sade	– Chief Financial Manager
Terry Layton	– Financial management Services Advisor, Financial Reporting Section

Ministry of Commerce

Barnabas Anga	– Permanent Secretary
James Apato	– Under Secretary
Edwin Saramo	– Registrar of Companies
Veronica Manedika	– Administrative Assistant

Ministry of Education and Human Resources Development

Mylyn Kuve	– Permanent Secretary
Timothy Ngele	– Under Secretary
Aseri Yalangono	– Acting Under Secretary (Secondary)
Peter Potter	– Coordinator & Technical Advisor, Education Sector
Mathew Abel	– Advisor, Education Sector
Thomas Misibini	– Financial Controller, Accounts Division

Ministry of Health and Medical Services

Lester Ross	– Permanent Secretary
Kate Keane	– Advisor, Accounts
Clyde Funusui	– Chief Accountant

Ministry of Infrastructure Development

John Ta'aru	– Permanent Secretary
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- Moses Virivolomo – Under Secretary
 Ambrose Kirei – Director, Transport Management Services Division

Ministry of Development Planning and Aid Coordination

- Jane Waitara – Permanent Secretary
 Allan Daonga – Under Secretary
 Lyn Legua – Director, Strategic Planning Division

Development Partners

- Abdoul-Aziz Mbayo – Charge d'Affairs, European Union (EU)
- Jane Lake – Development Coordinator, RAMSI
 Juliette Brassington – Counsellor, Development Cooperation, Australian High Commission
 Anna McNichols – Senior Development Program Specialist, Governance & Partnerships, Australian High Commission
- Jacqueline Lees – Second Secretary, Australian High Commission
 Deeana Easton – Second Secretary, Australian High Commission
 Mark Ramsden – New Zealand High Commissioner
 Kirsty Burnett – First Secretary-Development, New Zealand High Commission
 Nicci Simmonds – First Secretary – Development, New Zealand High Commission
- Edith Bowles – Country Manager, World Bank
 Tobias Haque – Economics & Governance Specialist, World Bank
 Akira Iwanade – Charge d'Affairs a.i., Japanese Embassy
 Akira Ichioka – Advisor, Japanese Embassy

Solomon Islands Chamber of Commerce

- Calvin Zirui – Chief Executive Officer

Telecommunication Regulatory Commission

- Kathleen O'Kane – Project Coordinator
 Ethel Frances – Finance Manager

Solomon Islands Electricity Authority

- Norman Nichols – General Manager

Transparency Solomon Islands

- Steward Tabo – Executive Officer