

Report on Quality at Entry and Next Steps to Complete Design for Solomon Islands Performance Linked Aid Program

A: AidWorks details

Initiative Name:	Solomon Islands Performance Linked Aid		
AidWorks ID:	INJ046	Total Amount:	\$3,000,000
Start Date:	1 January 2010	End Date:	30 June 2010

B: Appraisal Peer Review meeting details

Initial ratings prepared by:	– Not applicable – activity was designed by AusAID staff including Activity Manager
Meeting date:	– 7 December 2009
Chair:	– Robert Tranter
Peer reviewers providing formal comment & ratings:	– Laurence McCulloch, Working in Partner Systems Section, Operations Policy and Support Branch
Independent Appraiser:	– Jane Lake, ADG/Senior Associate, Pacific Branch
Other peer review participants:	<ul style="list-style-type: none"> – Alison Duncan, A/High Commissioner, Solomon Islands – Paul Kelly, RAMSI Development Coordinator – Kamal Azmi, Counsellor (Development), Honiara Post, AusAID – Anna McNicol, Senior Development Program Specialist, Governance and Partnerships, Honiara Post, AusAID – Jim Downey, Senior Development Program Specialist, RAMSI Economic Governance – Kate Dooley, Adviser, RAMSI Economic Governance Pillar – Deanna Easton, Third Secretary, Honiara Post, DFAT – Tobias Haque, World Bank, Honiara – Barbara Williams, Counsellor (Development), NZAID Honiara – Paula Uluinaceva, Asian Development Bank, Honiara – Nicola Ross, Partnerships Unit, Pacific Branch, AusAID – Julien Barbara, A/Director, Melanesia Section, Pacific Branch, AusAID – Sarah Kernot, Melanesia Section, Pacific Branch, AusAID – Sarah Bilney, Melanesia Section, Pacific Branch, AusAID – Chris Bleakley, Senior Development Program Specialist, Port Vila Post, AusAID – Heidi Bootle, Director, Solomon Island Section, DFAT – Rosie Wagner, Executive Officer, Solomon Islands Section, DFAT – David Spencer, Pacific and Assistance Division, Treasury – Dylan Roux Policy and Evaluation Analyst, Asia-Pacific Partnership Branch, Finance

C: Quality Rating Assessment against indicators

completed by Activity Manager / Peer Reviewers / Independent Appraiser

Quality	Rating (1-6) *	Comments to support rating	Required Action (if needed)
1. Clear objectives	5	<p>The design sensibly and appropriately uses a small flexible incentive based mechanism to support and encourage the engagement of the SIG on key economic reform matters (through the SIG-Donor Core Economic Working Group processes).</p> <p>This incentive based arrangement complements and enhances the capacity of development partners to strengthen SIG planning and economic management, and its objectives appropriately reflect the broader SIG reform framework and <i>Australia-Solomon Islands Partnership for Development</i> Priority Outcome 4.</p> <p>This arrangement complements the longer term and larger support that can come through the multi-partner arrangements linked to more substantive and longer term reform actions by government as set out in the <i>Matrix of Priority Government Policy Actions</i>.</p> <p>The associated performance measures for the high level outcomes are appropriate, although achievement of the objectives will need to be viewed in a long term perspective.</p> <p>Specific priority reform objectives (to achieve the overall objectives) will be determined on a "rolling" annual basis. 2010 milestones for the activity will not be agreed until early 2010; annex 2 provides considerable detail on specific future priority outcomes/achievements (together with prior enabling actions) with time frames between 2010 and 2012.</p>	
2. Monitoring and Evaluation	5	<p>Sensible arrangements linked appropriately to the larger reform framework, and SIG reform <i>Matrix</i>. This is a best practice approach in line with the Cairns Compact on Aid Effectiveness.</p> <p>The design indicates that progress will be monitored on a routine basis via the CEWG. It is presumed that donor representation on the CEWG will include representatives with appropriate expertise in financial reform (but this is not clearly stated in the document).</p> <p>The risk analysis identifies a potential risk to the program if AusAID Honiara does not have PFM expertise to monitor performance; reference is made to leveraging off expertise of other donors and Canberra-based AusAID officers.</p>	Risk matrix to more explicitly address how post will ensure it has access to appropriate public financial management expertise to support program implementation.
3. Sustainability	5	<p>This initiative is a part of a broader multi-partner process of engagement (CEWG) and support to the SIG to improve its economic and financial management. The key to sustainability is the quality of the process, and how this initiative supports the quality and effectiveness of that engagement. This activity has the potential to improve the sustainability of <i>all</i> assistance to the Solomon Islands by improving the quality and effectiveness of the engagement process, as well as SIG confidence in and engagement with the reform process overall.</p> <p>Presumably the program will have a significant (medium to long term) impact in developing sustainability at the whole of government level through a variety of reforms to the SIG budget to provide a "platform" for "incremental" development of sustainability.</p>	

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4. Implementation & Risk Management	5	<p>Use of a multi-donor small incentives based mechanism to support and deepen the quality of the broader policy engagement process is both well considered and an excellent example of the Cairns Compact in action. The frequency of meetings (4/year) also appears appropriate although a critical risk factor is level of ongoing SIG commitment.</p> <p>The risks involved in this program are limited, particularly when the size of the initiative is compared with the overall commitment of Australian resources through RAMSI and the bilateral development cooperation program (let alone the resources from all development partners). The potential benefits in terms of enhancing and strengthening the broader engagement process with SIG and SIG's attention to reform is substantial and far outweigh the limited risks.</p> <p>There are always risks involved in reform on economic management, particularly in a country such as the Solomon Islands, with its limited capacity politically fragmented approach. If this was a stand alone initiative not linked to the broader reform process, the proposed 'transaction' could have been questioned as to the dangers of moral hazard. But this is not a stand-alone transaction. It is a clear and transparent part of a broader program of strengthening this substantial CEWG engagement and reform process.</p> <p>This mechanism has the potential to strengthen the quality of the engagement and SIG confidence in the process in a manner that is sensible and incremental and which can enhance the effectiveness of broader programs – such as the RAMSI economic program.</p> <p>Implementation sensibly provides support in the form of targeted support to identified priority basic education programs, linked to a sector based education program led by NZAID. The design appears to "rely" on the NZ assessment of risk in the sector; the potential fiduciary risk and appropriate risk management strategies are not elaborated in the risk matrix. Similarly the risk matrix does not cover follow up reporting/auditing on the use of the funds.</p> <p>The risk of divergent assessments (SIG vs donors) of performance and possible withholding of payment is a potentially serious risk that could undermine the program. The mitigating factor in the risk matrix is not particularly convincing. This is a difficult issue: withholding payment(s) could result in a lack of commitment from SIG. Achievability would therefore appear to be a key principle is setting the milestones</p> <p>The document does not describe the capacity of MOFT to undertake reform work (and whether it is currently being provided with TA or whether additional TA may be required). It would have useful to have a brief description of MOFT capacity (and, if relevant, TA being provided).</p> <p>The risk analysis does not assess risk levels and lists mitigation factors rather than mitigation measures.</p> <p>The political risk associated with a change of government/minister is high and requires stronger measures than those articulated in the design.</p> <p>The design proposes that an annual performance assessment be conducted in November; this will not align well with SIG budget processes.</p>	<p>Risk analysis to be further developed to specify risk levels and clearly articulate mitigation measures.</p> <p>Risk matrix to include the risk (fiduciary) of the performance payment being appropriately used by the education sector together with associated risk mitigation measures. Details on reporting/auditing of the AusAID funds through the sector to be included in the document and/or the eventual funding agreement.</p> <p>Risk matrix to include the risk that MoFT does not have the capacity to implement reforms together with risk mitigating (including the TA provided by other donors such as RAMSI).</p> <p>Design to more clearly articulate the approach to releasing performance linked aid payments if Australia, other donors and/or SIG have divergent views on extent to which triggers / milestones are met.</p> <p>The design's mitigating factor relating to the political risk associated with a change of government/minister should be expanded to include early donor engagement if these changes occur.</p> <p>Cycle for reform dialogue to be altered so that the annual performance review occurs mid-year, not in November, to align better with SIG budget processes.</p>
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C: Quality Rating Assessment against indicators*completed by Activity Manager / Peer Reviewers / Independent Appraiser*

5. Analysis and lessons	5	<p>Excellent approach based on a good understanding of the importance of strengthening the process of engagement on reform, rather than focussing on limited 'tick the box' actions and donor led conditionality.</p> <p>The document does not have a section on lessons learned in respect of donor experience in "macroeconomic" reform in the Solomon Islands. It is not clear whether there are or are not relevant lessons learned available. It is assumed that Australia has had involvement with SIG macroeconomic reforms and that there would be some lessons learned to draw on.</p> <p>The design could more clearly articulate its approach to "cross cutting" issues.</p>	<p>Separate section on lessons learned (including those more broadly across the aid program) to be included in the design.</p> <p>Design to more clearly articulate approach to cross-cutting issues.</p>
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*** Definitions of the Rating Scale:**

Satisfactory (4, 5 and 6)		Less than satisfactory (1, 2 and 3)	
6	Very high quality; needs ongoing management & monitoring only	3	Less than adequate quality; needs to be improved in core areas
5	Good quality; needs minor work to improve in some areas	2	Poor quality; needs major work to improve
4	Adequate quality; needs some work to improve	1	Very poor quality; needs major overhaul

D: Next Steps

Provide information on all steps required to finalise the design based on <i>Required Actions</i> in "C" above, and additional actions identified in the peer review meeting		Who is responsible	Date to be done
1. Risk matrix to be strengthened by: a) stating the level for each identified risk; b) including specific actions to mitigate against risks; and c) addressing specific risks associated with disbursement of funds into the education sector, public financial management capacity at post, capacity of MoFT to implement reforms and change of government/minister.		Anna McNicol / Honiara Post	31 December 2009
2. Design to more clearly articulate how program will seek to address cross-cutting issues.		Anna McNicol / Honiara Post	31 December 2009
3. Design to more clearly articulate the approach to releasing performance linked aid payments if Australia, other donors and/or SIG have divergent views on extent to which trigger/milestones are met.		Anna McNicol / Honiara Post	31 December 2009
4. Cycle for reform dialogue to be altered so that the annual performance review occurs mid-year, not in November, to align better with SIG budget processes.		Anna McNicol / Honiara Post	31 December 2009
5. Separate section on lessons learned (including those more broadly across the aid program) to be included in the design.		Anna McNicol / Honiara Post	31 December 2009

E: Other comments or issues *completed by Activity Manager after agreement at the APR meeting*

A very good and pragmatic approach in a difficult context.
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F: Approval *completed by ADG or Minister-Counsellor who chaired the peer review meeting*

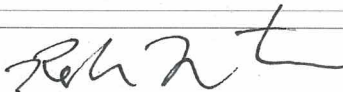
On the basis of the final agreed Quality Rating assessment (C) and Next Steps (D) above:

- ☒ **QAE REPORT IS APPROVED**, and authorization given to proceed to:
- ☒ **FINALISE** the design incorporating actions above, and proceed to implementation
- or: ☐ **REDESIGN** and resubmit for appraisal peer review

☐ **NOT APPROVED** for the following reason(s):

Robert Tranter

signed:



18 / 12 /2009

When complete:

- Copy and paste the approved ratings, explanation and actions (table C) into AidWorks
- The original signed report must be placed on a registered file