

THE SOLOMON ISLANDS CORE ECONOMIC WORKING GROUP

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REPORT OF THE  
ECONOMIC & FINANCIAL REFORM PROGRAM  
SECOND ANNUAL JOINT REVIEW

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## ABBREVIATIONS

ADB	Asian Development Bank
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
IRD	Inland Revenue Division
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
MPS	Ministry of Public Service
MTDS	Medium-Term Development Strategy
NDS	National Development Strategy
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
RAMSI	Regional Assistance Mission to Solomon Islands
SIG	Solomon Islands Government
SIEA	Solomon Islands Electricity Authority
SIWA	Solomon Islands Water Authority
SOE	State-owned enterprise

## EXECUTIVE SUMMARY

The Second Annual Joint Review Mission found the Core Economic Working Group (CEWG) to be a successful model for joint government-donor dialogue for the advancement of key economic and financial policy reforms.

The success of the CEWG reflects the strong leadership of the Minister of Finance and senior Solomon Islands Government (SIG) officials, and the commitment of donors to support the Government's economic and financial reform program, including the policy reform actions captured in the Economic and Financial Reform Program (EFRP) 2011-2013.

## PROGRESS IN ACHIEVING EFRP PROGRAM ACTIONS IN THE PAST 12 MONTHS

The Joint Review Mission (JRM) found progress in many important areas:

- ▶ The EFRP has contributed to the **achievement of fiscal stability and a stronger external position**. The IMF benchmarks were met;
- ▶ **The SIG has adopted the National Development Strategy**, which provides the framework for Solomon Islands' longer-term development;
- ▶ **SIG's revenue base has been strengthened** through more effective Inland Revenue Division (IRD) administration, a new focus on integrity in collecting import and export duties at Customs, the design of a new natural resource tax framework, and progressing candidature under the Extractive Industries Transparency Initiative (EITI);
- ▶ **Improving the budget preparation process** by deeper engagement with line ministries and consultations with Solomon Islands' civil society organizations
- ▶ **Ongoing improvements in budget transparency** through greater use of press releases and MoFT's website to share information on the government's finances;
- ▶ **Greater control over government expenditure** through improved cash management, and ongoing development of Public Financial Management systems including payroll, financial tracking (through the Chart of Accounts and Financial Management Information System) and internal audit;
- ▶ **Improved management and oversight of SOEs**, improvements in their financial reporting, and development of a Community Service Obligation policy.

## SUGGESTED PRIORITIES IN THE REFORM PROGRAM

The JRM recommends the following be priorities for the CEWG-supported reform program. These combine areas of progress the currently addressing, and areas which the JRM believes would benefit from a raised emphasis.

### *Priority reform areas high on SIG's current agenda*

- ▶ **Continued engagement with the IMF**. Continued IMF engagement, through a Fund-monitored program, will support the further strengthening of the SIG's macroeconomic framework, and will provide confidence to development partners and the private sector.
- ▶ **Public financial management reform**. There has been significant progress in improving MoFT's systems. The JRM, however, believes there would be considerable merit in the government developing a comprehensive medium-term PFM road-map that identifies, prioritizes and sequences a PFM program to

address deficiencies that may be identified by the forthcoming Public Expenditure and Financial Accountability (PEFA) assessment.

- ▶ **Budget documentation and planning processes.** The SIG should seek to fast track processes aimed at the reprioritization of SIG's expenditure program in order to align with its development strategies. The current EFRP matrix's broad nominal financial targets for education and health are excessively aggregated and could be more narrowly defined to target basic education and primary healthcare. The quality and transparency of the budget documentation could be improved by the introduction of a new budget volume which outlines the government's policy framework (fiscal and sectoral), and presents fiscal and economic summary data in accordance with international standards (i.e., Government Finance Statistics format).
- ▶ **Continued efforts to improve the quality of the Solomon Islands investment climate,** including through the economic reform measures contained in the IMF program. The government has engaged in a number of initiatives to improve the Solomon Islands business climate. These efforts should be continued, with a focus on further efforts to address constraints to private sector investment while avoiding excessively sector-specific targeting of public-sector interventions.
- ▶ **Maintaining progress on improving the performance of state-owned enterprises.** Gains in SOE governance, financial planning and reporting need to be sustained under a medium-term program, while immediate attention to the financial position of the Solomon Islands Water Authority (SIWA) is required through the introduction of a one-off tariff increase and the introduction of an automatic tariff adjustment mechanism.
- ▶ **Provision by donors of comprehensive and timely estimates of development project expenditure.** Current incompleteness in SIG reporting is due in part to late and/or incomplete provision of expenditure estimates by donors. Donors should meet international and regional commitments on this matter.

#### *Reform areas the JRM recommends be given priority in the CEWG reform program*

- ▶ **Procurement.** Sound procurement is essential to ensure public monies are spent in the most cost-effective manner. SIG's procurement function could be strengthened by immediately increasing oversight of the tender process, consolidating the procurement function by establishing a Procurement Unit within MoFT, and preparing a medium-term procurement action plan.
- ▶ **Public Service.** The success of the PFM, budgetary and economic reform program, and of ensuring improved delivery of public services, will be constrained unless it is complemented by reforms to the Public Service. In this light, it is recommended that consideration be given to the implementation of wide-ranging, but incremental, reform to the administration of the Public Service, which could include a review of staffing levels, skill requirements and training needs, pay levels and allowances, and the current 35% cap on payroll (while avoiding increases in aggregate payroll expenditure as a share of recurrent expenditure).
- ▶ **Internal audit.** This is an essential control mechanism to guard against inappropriate practices in the use of public monies throughout SIG. While good progress has been made by MoFT's Internal Audit Unit over the past year, it is recommended considerable additional support be provided to the Unit to further strengthen and expand its operations.
- ▶ **Commencing a comprehensive revenue study, as a medium-term action.** Building on the achievements in revenue reform to date, the revenue study would help ensure the comprehensiveness and consistency of future policy actions. The study could assess the integrity of the SIG's revenue base, the appropriateness of the various tax and duty rates (including by reference to regional benchmarks) and the effectiveness of user charges for various entities (e.g., airport and wharf fees, etc).

## **THE CEWG REPORTING REQUIREMENTS AND COMPOSITION**

The JRM did not receive any views and/or recommendations that a different approach is needed to SIG's current reporting undertakings. In response to the desire to ensure the EFRP can be consistent with individual donors' requirements for providing budget support, the Mission made recommendations regarding the formulation of the language around individual policy actions, and suggested that both the documentation required to show completion of individual policy actions be made explicit, and that a description of the longer-term outcomes intended to be affected by the actions be developed.

The JRM received a relatively consistent view that the strength of the CEWG has been underpinned by like-minded development partners, and that this arrangement should be maintained. Development partner membership should be based on commitments i) to provide budget support, and ii) to PFM and economic policy dialogue with associated technical support. The JRM supports this approach and believes that it is a matter for the CEWG to determine whether other development partners that only partially meet these criteria should be accorded an intermediate role in the Group (e.g., observer status).

On the issue of line ministry participation, the Mission received a range of views held with varying degrees of strength. In, general the Mission distilled options ranging from maintaining the status quo to expanding full membership to include line ministries responsible for key service delivery programs. The Mission believes that the issue of line ministry membership is one for the SIG to determine in consultation with the larger CEWG membership.

## **THE ANNUAL JOINT REVIEW PROCESS**

The Second Annual Joint Review comprised representatives of SIG (MoFT, MDPAC, CBSI) and the CEWG development partners (World Bank, AusAID, EU). The Review met with many units within MoFT, other central agencies, line ministries, SOEs, development partners, and the private sector. It assessed the achievements against the EFRP Matrix's 2010/11 Policy Actions, and consulted with implementing agencies and development partners on reform priorities for 2011/12 and 2012/13. The Mission also sought stakeholder views on the CEWG process and membership.

This report was prepared following discussions among the full membership of the JRM, with the team discussing substantive points and specific text as a group. , The outcome of those discussions were transcribed onto a large screen for further discussion and refinement. A draft version of this report was circulated to the CEWG membership for reactions and comments. This, final version synthesizes those comments and seeks to reflect the consensus position.

## 1. BACKGROUND TO THE REVIEW

In March 2009, the Solomon Islands Government (SIG) established a Core Economic Working Group (CEWG) to improve coordination and dialogue between SIG and its development partners to meet the economic and fiscal challenges facing the country. SIG's economic and financial reform priorities were articulated in a policy reform matrix (the 'EFRP matrix') and development partners subsequently provided budget support to assist SIG achieve the objectives presented in the matrix.

As the effects of the global economic crisis waned, SIG's reform priorities shifted to take on a more medium-term view. In 2011 SIG's economic and fiscal reform priorities were articulated in the first of a rolling three-year matrix with a focus on three areas: public financial management, budget reform and economic growth. The matrix was developed through a process of dialogue between SIG and the CEWG development partners at a working level in the first instance, before review and senior-level approval. Through this dialogue, priority reforms that would directly benefit from development partner support, including technical assistance and explicit inclusion of policy actions to be associated with budget support programs, were identified from SIG's corporate plans.

The purpose of the second annual Joint Review Mission (JRM) is to review progress in implementation of the Economic and Financial Reform Program with particular attention to the priority reform actions. (The Terms of Reference of the JRM are reproduced in Appendix 1.) The mission findings will specifically serve to inform donor decisions regarding the provision of budget support in 2012. It seeks to support individual donors' budget support assessment processes, but recognizes that it is not a substitute for these processes. This report will also help inform the design of the next EFRP matrix and is accompanied by a separate document that includes some suggestions for future policy actions that may be a starting-point for the development of the next matrix. The Review has sought to build on existing SIG processes and reporting, and has been flexible relative to the terms of reference regarding, for example, timing and deadlines, bearing in mind stretched capacity and the competing demands on SIG.



## 2. THE SOLOMON ISLANDS IN MID-2011

In mid-2011, the Solomon Islands enjoyed a markedly more secure macroeconomic footing relative to recent years. Surging logging, support from the government's development partners, improved external conditions, and gains in macroeconomic management lifted growth rates, built foreign exchange and government cash reserves.

Solomon Islands' GDP growth recovered in 2010 from the 2009 global contraction brought about by the global economic crisis. The economy is estimated to have expanded by about 7 percent in 2010 (far stronger than earlier anticipated) following a 4½ percent contraction in 2009. By Q3 2010 overall economic output had surpassed its peak in 2008. This momentum continued through the first months of 2011, with the earlier-than-expected first gold pours at the Goldridge mine and logging activity exceeding the record levels of late 2010 (SIG now expects log exports of 1.75 million m<sup>3</sup> in 2011, compared with 1.43 million m<sup>3</sup> in 2010). Based on first-half-year information, authorities expect 2011 growth to approach 8½ percent, with the surge in forestry activity contributing 2.2 percentage points of this and the opening of Goldridge another 2.0 percentage points. Much of the strength in the rest of the economy is attributed to cocoa and copra production, and prices returning to the highs of early 2008. The significant contribution to overall economic growth from the commodities sector also reflects favorable external developments, particularly the strength of the international prices of Solomon Islands' exports. The uncertainty in the global economic outlook, however, and likely volatility in these prices suggests caution should surround the immediate outlook for the Solomon Islands economy. Further, even with the recent recovery in the Solomon Islands economy, over a longer horizon real income has barely kept pace with the 2½ percent average annual population growth.

Imports grew faster than exports in the first stages of the economic turnaround, before slowing as the recovery matured. One-off capital equipment imports for specific investment projects explain much of the surge and subsequent decline in imports – e.g., much of the 83 percent increase in 'machinery and transport equipment' in Q4 2010 was destined for Goldridge; while new mobile phone providers and logging companies have also been importing more capital equipment. A recovery in foreign investment and increased ODA funded an increase in imports, allowing a balance of payments surplus<sup>1</sup> and an increase in foreign exchange reserves. Foreign investment inflows almost doubled to SBD 2.2 billion in 2010 compared with 2009. Together, these factors allowed reserves to increase from a low of USD 82 million in Q1 2009 to USD 350 million by June 2011.

Increases in global energy prices have passed into Solomon Islands' urban consumer prices. CPI inflation rose to 8.3 percent over the year to July 2011, after being stable through 2010. Higher fuel prices, which usually impact on the Solomon Islands with a lag of one to two quarters, also fed into other prices. Much of the uptick in inflation appears to be due to external developments or idiosyncratic price movements (e.g., a 37 percent increase in chicken wing prices made the greatest contribution to the food index's 4.7 percent monthly inflation rate in April 2011); it does not appear to be symptomatic of demand growth exceeding new supply. The country's dispersed population suggests that higher fuel prices, however, have a larger impact on poorer households than may be expected for a country at its income levels.

The government budget ended 2010 with a sizable surplus and with all short-term obligations met – contrasting with the severe cash shortages at the start of 2009. The 2010 surplus totaled SBD 390 million. Below-budget spending and spending reservations at the start of the year contributed to the surplus. Revenues were above budget, mostly due to the unexpected strength in logging. These trends continued through the first half of 2011: revenues continued to exceed expectations, attributed to improvements in collections and the strength of logging, while SIG-funded development spending in particular was below budget.

The importance of supportive external conditions in driving the turn-around in the 18 months to mid-2011 highlights the risks to the Solomon Islands' fiscal position from external developments, and the importance of limiting the impact of potentially adverse domestic developments on the macroeconomic framework. These could include substantial extra-budgetary expenditure pressures for public service wage increases, out-of-court

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<sup>1</sup> Solomon Islands' balance of payments accounts are calculated using both BPM5 and BPM6 standards; the latter shows a balance of payments deficit in 2010.

settlement regarding RIPEL (Russell Island Plantation Estates Limited), and the cost of the growing cadre of high-level public sector positions unrelated to service delivery. If these risks are realized, particularly in the context of a possible sharp deterioration in global economic conditions and associated adjustment in commodity prices and exchange rates, the recent gains in Solomon Islands' macroeconomic framework would be placed at risk.

Government debt continued to decline, resulting in an improvement of the country's debt sustainability risk rating to 'yellow light' status (moderate risk of debt distress) from 'red light' status (high risk). Government debt fell to SBD 1,376 million, around 24 percent of GDP, at the end of 2010, and to SBD 1,271 million in Q2 of 2011. With adherence to the conditions of the Honiara Club Agreement (including no new borrowing), fully funded recurrent budgets, and growth in the nominal economy, public debt is expected to fall towards 20 percent of GDP by the end of 2011. SIG has also eliminated its external arrears following a payment of SBD 14.6 million to the European Investment Bank and the Bank's decision to write-off the SBD 5.4 million arrears balance.

On balance, monetary conditions eased in the 18 months to mid-2011. The interest rates banks charge on loans fell as did those received on short-term paper (while deposit rates rose as interest margins narrowed). A modest revaluation of the exchange rate against the USD in June 2011 did not offset a weakening on an overall trade-weighted basis, as the SBD continued to depreciate against the AUD. With the improvement in macroeconomic conditions, under the new monetary policy framework, the central bank commenced regular auctions of short-term paper, the 28 day 'Bokolo Bill'.

Notwithstanding the recovery in economic growth, which was largely centered on logging and mining, general conditions in the formal private sector remained difficult. The level of credit to the private sector has been stagnant and the private sector continues to be constrained by poor infrastructure, high cost of utilities (electricity, water, gas and telecommunications). The latest World Bank Group 'Ease of Doing Business' assessment (2011) ranked Solomon Islands 96<sup>th</sup> out of 183 countries. While this is an improvement of 10 places compared with the previous year's assessment, it compares with rankings of 60, 61, and 103 for Vanuatu, Samoa and Papua New Guinea respectively. A recent report by the Asian Development Bank (ADB) commented that decades of poor governance led to chronic underperformance by Solomon Islands' state-owned enterprises. That said, the report also acknowledged recent positive reforms in relation to board appointments and other governance initiatives (discussed below). The ADB is currently finalizing its latest private sector assessment for the Solomon Islands, which will provide an update on the issues confronting the private sector.

Solomon Islands held elections for the country's 9th Parliament in August 2010. Following a period of political negotiation to form a coalition, Danny Philip emerged to head the National Coalition for Reform and Advancement (NCRA) in September 2010. However for its first six months, the NCRA government remained unstable as a number of MPs repeatedly changed sides between Government and Opposition. This led to a number of months of very little government activity. In March 2011, government stabilized with several figures from the opposition joining the Government. This resulted in the replacement of several key ministers and has created a stronger cabinet. With the new stability, there has been a tangible increase in activity and renewed attention to reform and the other stated priorities of the government. These include financial and economic reform, restructuring of several SOEs (KFPL and Soltai), EITI, resolution of RIPEL land use issues, and infrastructure investment (Munda airport, road maintenance). A challenge is that Parliament has met for only brief periods, delaying key pieces of new and reformed legislation.

### 3. THE CEWG AND THE 2010-2011 ECONOMIC AND FINANCIAL REFORM PROGRAM PERFORMANCE OVERVIEW

The Second Annual Joint Review Mission (JRM) has found the Core Economic Working Group (CEWG) to be a successful model for joint government-donor dialogue promoting SIG's key public financial management and economic policy reforms. The success of the CEWG and its reform program reflects the strong leadership of the Minister of Finance and senior Solomon Islands Government (SIG) officials, and the commitment of donors to support the Government's economic reform program (including the public sector reform program outlined by the Minister of Finance in the 2011 Budget Address), particularly the policy reform actions captured in the Economic and Financial Reform Program (EFRP) 2010-2013.

The JRM noted important progress in many key areas of the EFRP matrix in the year to August 2011. (Table 1 summarizes performance across the three pillars of actions.) Overall, the Mission found that by the time the Mission's draft report was finalized, the Government had completed the roster of 2010/11 policy actions that were associated with budget support at the time of the 2010/11 EFRP matrix's preparation. This progress was also complemented by advances in significant areas outside of the 2010-2011 EFRP matrix. Nonetheless, not all of the policy reform actions listed in the matrix for completion by August 2011 were achieved. These slippages were often attributed to staff shortages and capacity constraints, however others appear to have not been met due to issues which may be related to the strength of commitment in certain areas of government.

**Table 1: Summary of JRM Assessment of EFRP 2010-2011 Performance**

	All Policy Reform Areas					Pre-identified Triggers for 2010/11				
	Total	On Track	Concern	Not On Track	Not scored	Total	On Track	Concern	Not On Track	Not scored
I. Public Financial Management	10	7	2	1	0	6	5	1	0	0
II. Budget Reform	10	6	1	2	1	7	7	0	0	0
III. Economic Growth	11	5	4	2	0	6	6	0	0	0
<b>EFRP</b>	<b>31</b>	<b>18</b>	<b>7</b>	<b>5</b>	<b>1</b>	<b>19</b>	<b>18</b>	<b>1</b>	<b>0</b>	<b>0</b>

Notes: The assessment is based on the evidence provided to the JRM team by the closure date for comments on the draft report. Those policy actions that have been completed and the JRM team are able to verify this are marked as 'on track'. Where the JRM team has not been able to verify progress on a policy action, the action is marked as 'not on track'. Where a policy action comprises sub-actions, the scoring method adopts the 'weakest link' approach – i.e., where one sub-action is assessed as 'on track' and another is assessed as 'not on track', the overall policy action is assessed as 'not on track'. The application of 'not scored' assessment as the weakest link only applies in the event that the other sub-actions received were assessed as 'green'.

#### A. PROGRESS IN 2010-2011<sup>2</sup>

##### i. Budget Planning and Preparation and the National Development Strategy

There were significant achievements over 2010-2011 in strengthening SIG's budget planning and preparation. The JRM noted SIG has achieved fiscal sustainability in the 2011 budget. While stronger than expected logging exports and significant general budget support contributed to this outcome, SIG's discipline in adhering to its medium-term fiscal strategy and IMF benchmarks (under the EFRP) were also very important contributing factors.

The development and adoption of the **National Development Strategy (NDS)** was also a significant milestone for SIG, and provides direction on the development priorities and a framework for preparation of longer-term policies in support of Solomon Islands' economic and social development. The NDS provides the framework for the development of prioritized and costed multi-year sector strategies that can guide spending allocation decisions

<sup>2</sup> The JRM's detailed assessment of the individual 2010-2011 reform actions is presented in Appendix 3. The presentation of the 2010-2013 EFRP matrix is based on the MoFT's organizational structure, with actions grouped by responsibility area. To synthesize this detail into larger themes, the following groups the policy actions into three themes of strengthening budget policy and planning, building more robust systems for budget execution, and microeconomic reforms to promote Solomon Islands' longer-term economic growth. (Box 1 summarizes the core aspects of public financial management in the Solomon Islands.)

within the annual budget process. Further, the adoption of the NDS draws MDPAC more deeply into the policy and budgetary processes, and will strengthen its role as an integral member of the CEWG.

Preliminary expenditure data suggest that the Government maintained its share of total SIG-funded recurrent spending devoted to health and to education above the EFRP specified thresholds for 2010, and in the 2011 budget. The JRM also noted the mainstreaming of climate change into the NDS and the 2011 budget.

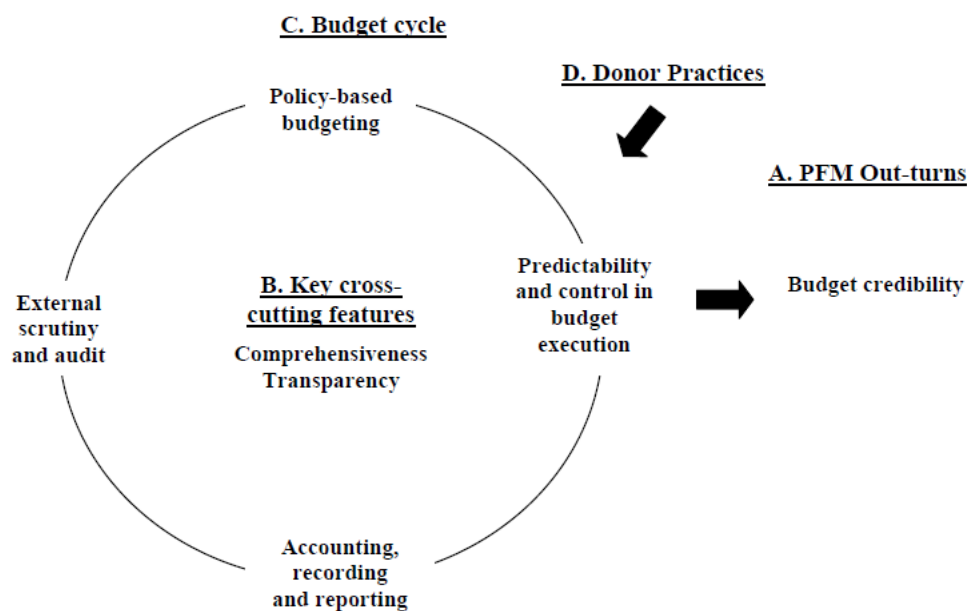
### **Box 1. Budget Policy and Budget Execution: Implications for the SIG**

**Budget Policy and Planning** (C and D in Figure 1) should ensure the maintenance of fiscal sustainability, and that public monies are focused on programs that provide the highest returns (economic and social) under the SIG's development strategy. Budget planning and policy should also ensure that taxes, duties and charges are raised efficiently and equitably, and that the overall level of the tax burden is appropriate given the Solomon Island's level of economic development and development needs.

**Public financial management systems** (A in Figure 1) should ensure that in **budget execution**, public monies are administered in the most efficient manner. Sound PFM practices include ensuring value for money in procurement and minimizing the risk of expenditure 'leakage' (whereby monies are redirected away from budgeted activities to unbudgeted activities, or monies being illegally used for personal gain). An efficient and effective PFM system is essential to support budget policy and planning functions.

(See also Appendix 2 for SIG's institutional framework for PFM management.)

**Figure 1: The six core dimensions of a PFM System**



*Source of Figure: Public Financial Management Performance Measurement Framework, June 2005*

The JRM noted significant advances in the consultative process for the 2011 budget and in the preparation of the 2012 budget, both within SIG and with civil society. Discussions with line ministries regarding 2011 budget allocations were informed by a new level of analysis of past spending. Subsequently MoFT undertook consultations with civil society organizations as part of an enhanced budget preparation calendar. The objective of these consultations is to engender greater community awareness of the annual budget as a core policy tool for SIG.

Notwithstanding the above achievements, the JRM also identified a number of areas of budget planning which were not adequately progressed in 2010/2011. Turning the high-level objectives laid out in the NDS into workable policy actions requires, as a first step, developing templates for line ministries to design their medium-term strategies and detailed and costed corporate plans. These templates are yet to be developed.

The absence of output data continues to impair the quality of resource allocation. While MoFT has moved to adjust line ministries' allocations on the basis of previous year's *actual* expenditure (rather than budgeted), this has been with reference to the 2010 financial year, when reservations were applied. According to several interlocutors, this process has limited ministries' ability to fund core functions. Some line ministries reported that they currently produce certain output data that are included in their annual reports and may inform the budget process, but these data were not captured by MoFT.

Progress against the 2010-2011 EFRP debt management objectives of designing a new debt management strategy to support a renegotiated Honiara Club agreement has been slow. MoFT officials advised the JRM that this was due to the unanticipated decline in staff numbers in the relevant section of the Ministry. MoFT officials also noted that debt management arrangements, including the management of liabilities, guarantees and commitments, are to be incorporated into a revised Public Finance and Audit Act.

[EFRP 2010-2011 actions: 5, 6, 11, 12, 13, 15, 17, 18, 20, 31]

## **ii. Public Financial Management Systems (Budget Execution)**

### ***Revenue administration***

The JRM noted efforts to expand and deepen SIG's revenue base through strengthening its revenue collection agencies. The EFRP 2010-2011 policy actions focused on strengthening the legal framework for the treatment of exemptions to customs duties and goods tax. The initial stages of the process of preparing a new Customs Act have been completed as anticipated. Proposed legislative amendments regarding exemptions have been delayed due to cabinet directions on the initial proposal that were being considered by the Minister of Finance at the time of the Mission.

[EFRP 2010-2011 actions: 3, 9, 23, 24, 25, 26, 27, 30, 31]

### ***Cash management***

The strengthening in SIG's cash position compared with 2009 is notable. The achievement of fiscal sustainability (and the absence of reservations) has also contributed significantly to other budget measure objectives, such as the credibility of the budget appropriations. In contrast to previous years, the 2011 budgetary framework is credible, expenditures are fully funded and line agencies should be in a position to plan expenditure in a more considered and effective way than in previous years.

The establishment of a cash coordination committee has facilitated improvements in cash flow forecasting. The JRM noted that T-Bills are currently being used primarily as a means of rebuilding confidence in government securities, rather than for cash management purposes.

Notwithstanding the above, the JRM identified confusion at line ministry level over Treasury's cash management practices. Contrary to MoFT's advice to the Mission (ie, that there had been no through-the-year cash management constraints in 2011), line agencies claimed that payments were continuing to be delayed because of cash management considerations. The JRM believes that this confusion may have arisen because Treasury has delayed or withheld payment on the basis of incomplete and inaccurate paperwork (including recording errors in budget coding) and concerns over the integrity of certain supporting documentation received from suppliers of goods and services (tender and procurement are discussed in detail below). Treasury advised the Mission that while it has been providing training to line ministries' Chief Accountants to improve practices, these skills do not appear to be transferring to other offices within the ministries.

[EFRP 2010-2011 actions: 1, 2, 31]

### ***Procurement***

Despite improvements since the 2008 PEFA, the JRM found significant concerns regarding procurement practices. Development-partner sponsored procurement reviews have also identified serious deficiencies in the present procurement regulatory framework and poor compliance. The Mission noted several recent cases where procurement irregularities have been detected and pursued through to ongoing police investigation. These cases involved alleged corruption, collusion and fraud.

The JRM noted that MoFT has taken preventative steps in addition to these remedial actions. For example, in June 2011 MoFT issued a circular drawing line ministries' attention to their general financial management obligations and the implications of noncompliant actions. In August 2011 MoFT increased the disclosure requirements for tenders valued between SBD 20,000 and SBD 100,000. The MoFT published lists of the tenders awarded by the Central Tender Board in 2010 and up to September 15 2011 on its website after the JRM completed its draft assessment and before the report was finalized. It is not clear if awarded tenders will continue to be posted (this is a specific policy action of the EFRP 2010-2011 matrix and is directly associated with budget support).

[EFRP 2010-2011 action: 10]

### ***Payroll***

MoFT advised the JRM that the introduction of a new payroll information system (Aurion) and the progressive cleansing of the establishment list, have improved the integrity of the payroll system. The cleansing of payroll systems is being undertaken in conjunction with the Ministry of Public Service (MPS) and line ministries, and MPS expects it to be completed by the end of September 2011. MoFT is planning additional payroll reform that will review overtime payments and the structure of staff allowances. The JRM were advised of delays with respect to MPS providing remuneration-related information to MoFT regarding changes in personnel, conditions and promotions (discussed further below).

[EFRP 2010-2011 actions: 2, 16]

### ***Internal controls***

In the current EFRP matrix, the primary mechanisms for strengthening SIG's internal controls are through reviews and revisions to the Public Finance and Audit Act. The JRM was advised by MoFT and the Auditor General that the twinning arrangements for the review of the legislation is in place, and moreover, separate auditing legislation has been drafted.

The Mission also received comments from the Internal Auditor of activities by line ministries that fail to comply with the Financial Instructions. These weaknesses suggest that additional effort is required to raise the overall level of awareness within Line Ministries about the application of the Financial Instructions beyond Treasury's efforts to build the capacity of Line Ministries' Chief Accountants.

Existing systems are also constraining internal control. For example, the JRM also noted that improvements in cash management have been hindered by the current manual system for recording expenditure commitments in Line Ministries (this is planned to be phased out during 2012 as the FIMS is upgraded and commitments are recorded directly in the new system).

[EFRP 2010-2011 actions: 3, 4, 6, 8, 9, 16]

### ***Accounting and reporting***

MoFT has continued its upgrading of its financial information (FMIS) computer systems. The upgrading program is largely on schedule. The general ledger and accounts receivable modules were operating by the time of the Mission, and the accounts payable module is expected to be operational by the end of October. The budget information system (BERT) and FMIS systems are now integrated, however the development budget continues to be prepared and managed outside of these systems. Nonetheless, based on feedback received, the BERT and FMIS upgrades do not appear to be contributing to improvements in the timeliness and quality of information provided to line ministries at this stage of the development program. Treasury advised the Mission that the enhanced range of reports required to provide this information will become available in early 2012, with consultations with line ministries on the format, content and availability of such reports ongoing at the time of the JRM.



State owned enterprises have achieved more timely submission of financial statements to the MoFT for review than had been the case in previous years. The JRM notes, however, that the use of private outside audit firms has not led to the expected improvement in the timeliness of completing audited financial statements (and hence their submission to responsible Ministers). The JRM could not find any SOE financial statements from any year published on the MoFT website.

The Treasury and Auditor-General's office disagree about the format to be employed in preparing SIG's financial statements. The Auditor-General considers that internationally recognized formats should be applied, whereas Treasury considers that it is meeting (and is required to meet) the current requirements as outlined in the Public Finance and Audit Act and supporting Instructions. The Treasury has again prepared the 2010 financial statements in two forms, one based on the 2009 legislative format (which attracted a disclaimer audit opinion) and one based on IPSAS Cash Accounting methodology. The 2010 financial statements were submitted to the Auditor-General on 1 July 2011 but were not prepared on a consolidated basis as the accounts of SOEs had not been finalized. Consolidated financial statements will be prepared after the receipt of all SOE financial statements for the 2010 financial year.

MoFT informed the JRM of some progress in the revision of the Chart of Accounts (CoA), but less than had been anticipated in the 2010-2011 year, due to staffing constraints. The revision process, previously expected to be completed in 2010-2011, is now not expected to be completed until 2012-2013. MoFT plans to include a spare digit, which may be used in the future to record expenditure at additional levels of disaggregation, for example, at the subnational level.

[EFRP 2010-2011 actions: 3, 4, 5, 6, 7]

### ***External oversight***

Disclosure of information regarding government finances and policies has been adopted as a means of increasing external oversight of SIG's financial and budgetary practices and performance. The JRM noted MoFT's website, launched in early 2011, and the ongoing publication of a range of reports on government finances and policies, together with the increased flow of press releases disseminating these statements.

[EFRP 2010-2011 actions: 5, 11]

## **iii. Economic Growth**

In addition to the government's progress on the economic reform and macroeconomic stability components of the IMF's program, the JRM noted the following developments:

### ***Resource revenues***

Natural resource revenues are SIG's key domestically-sourced revenues. MoFT has built on the recommendations of the IMF's Technical Assistance Mission on natural resource taxes, with cabinet approving the proposed framework in early September. (Assessment of the requisite legislative changes is expected later in September.) In order to further protect the transparency and integrity of these revenues, SIG has also taken the required steps for candidature to the EITI, and enhanced community understanding of the role of natural resources production to the country through community forums. These developments are complemented by efforts to strengthen SIG's systems governing mineral extraction, which fall outside the remit of the CEWG.

[EFRP 2010-2011 actions: 23, 30, 31]

### ***State-owned enterprises***

The performance of Solomon Islands' SOEs has implications both for SIG's public financial management and for the development of the economy. The EFRP matrix includes actions to strengthen SOE governance by supporting the independence of their Boards, and by improving the quality and timeliness of financial reporting. The JRM found these undertakings had been largely met.

The matrix also sought to place SOEs on a clearer financial footing through government funding for community service obligations. The JRM notes the SBD 10 million funding in 2011 for this purposes, although none of this amount has been disbursed as no SOE had entered into a CSO contract with the government at the time of the Mission; the Electricity Authority was negotiating on the terms of a CSO contract in late August.

[EFRP 2010-2011: #28, #29]

### *Promoting efficient markets*

The reform program sought to improve the operation of key markets, namely urban land and access to finance, and through competition policy. The taskforce on urban land governance has been delayed at the cabinet approval stage, although the associated TA has been mobilized. CBSI has established a taskforce on financial inclusion, the private sector continues to maintain a mobile banking service, although progress on the Credit Union legislation is now not expected until calendar 2012. Little progress has been made in adopting regional competition policy legislation due to a lack of resources within the SIG and slow progress at the regional level in developing a “model” legislative framework.

[EFRP 2010-2011 actions: 21, 22, 27]

## **iv. Constraints in implementing the reform program**

The JRM was advised by interlocutors that in a large number of instances where progress against benchmarks had been slower than expected, this was due to institutional capacity constraints, especially the shortage of qualified staff and unanticipated staffing changes. Human resource management constraints are a significant impediment to improving the quality of spending and in advancing the overall CEWG reform program (discussed further below). In the view of the JRM, the adverse impact of capacity constraints was accentuated by weak dialogue within and across implementing agencies and with development partners. In hindsight, the breadth of the EFRP matrix may have been optimistic given the ongoing issues with capacity in the Solomon Islands.

## **B. JRM RECOMMENDED PRIORITIES FOR THE FORWARD REFORM PROGRAM**

The JRM recommends the following set of reform activities be given priority in the updated EFRP matrix. These activities build on existing reform efforts, and were judged to be priorities during the course of the Mission’s discussions with CEWG members (both SIG agencies and development partners) and other core service delivery agencies. Many of these activities feature on the government’s current reform program, and the JRM commends the focus they are receiving. Others are lower in the government’s program. The JRM recommends that these efforts are brought forward with the support of the CEWG partners. The following lists the full set of reforms by suggested order of priority.

### **Recommended Policy Priorities:**

1. Continued engagement of the IMF under a Fund-monitored program
2. Strengthening procurement practices and processes
3. Public service reform
4. PFM reform roadmap
5. Developing an economic reform program
6. Audit and monitoring
7. Budget documentation and planning processes, linking to the NDS via sector strategies
8. Ongoing improvements in the performance of state-owned enterprises
9. Comprehensive revenue study
10. The provision to SIG of comprehensive estimates of expected development expenditures by development partners.



## Priority reform areas high on SIG's current agenda

### *Continued engagement of the IMF under a Fund-monitored program (1.)*

All stakeholders consulted by the JRM expressed support for the ongoing enhanced engagement of the IMF on SIG's macroeconomic policy framework and to bolster key economic policy frameworks. That said, in light of the current strength of Solomon Islands' external position (balance of payments and external reserves) it is questionable whether the IMF's engagement would need to involve a new credit facility. At a minimum, the IMF should be requested to maintain its current level of surveillance and advisory support for macroeconomic management and economic reforms through a Fund-monitored program. Continued IMF engagement, through a Fund-monitored program, will support the further strengthening of SIG's macroeconomic framework and gains in the quality of economic governance, and will provide ongoing confidence to development partners and the private sector.

### *PFM reform roadmap (4.)*

While there has been significant progress in improving MoFT's financial management systems, the JRM is of the view that there remain numerous material weaknesses in these systems. These weaknesses should be addressed in a holistic manner, building on existing work plans and diagnostic work of the SIG. Accordingly, the JRM believes there would be considerable merit in the government developing a comprehensive medium-term PFM road-map that identifies, prioritizes and sequences a PFM program to address deficiencies, including those that may be identified by the forthcoming Public Expenditure and Financial Accountability (PEFA) assessment. The proposed PFM roadmap should include a more targeted approach to capacity building.

### *Audit and monitoring (6.)*

Internal audit is an essential control mechanism to guard against inappropriate practices in the use of public monies throughout SIG. In a context of patchy procurement outcomes, an effective Internal Audit unit can create strong incentives to ensure practices are consistent with the Financial Instructions. Indeed, good progress has been made by MoFT's Internal Audit Unit over the past year, notably in identifying deficiencies in particular procurements.

Internal Audit has not been in the EFRP matrix in the past, and the JRM notes the lack of progress in establishing an Audit Committee. The Mission commends the government's plan to include in the revised Public Finance & Audit Act, provisions supporting Internal Audit and the role of an audit committee, and this further emphasizes the importance of advancing the work to draft the revised Act. In addition, the JRM recommends that the CEWG supports the establishment of an Audit Committee and at a minimum the maintenance of SIG's recent gains in its centralized Internal Audit functions. These efforts should be in parallel and complement the strengthening of SIG's external audit function through the Office of the Auditor-General.

Separately, IRD will need to build its capacity to correctly assess the full revenues due to SIG. This will become increasingly important with the growing role of internationally integrated companies in the Solomon Islands economy. This development will increase the importance for IRD of being able to monitor complex financial transactions, such as those involving transfer pricing and the valuation of capital investments.

### *Budget planning and documentation processes (7.)*

The JRM received various comments that budgetary processes are still overly biased towards a year-on-year incremental budgeting approach. In this regard, the JRM is of the view that the SIG should seek to fast-track processes aimed at the reprioritization of SIG's expenditure program in order to align programs with its development strategies. Key initiatives that could be fast tracked include the development of costed sector strategies and the progressive development of a medium-term perspective on expenditure. As a first step, components of the education or health budget could be used to develop this approach to budgeting. The end objective is to ensure that over time, poor quality and ineffective expenditure programs are phased out, with the

freed resources redirected to activities that provide the highest economic and social returns under the SIG's development strategy.

It was put to the JRM that the current broad nominal expenditure targets in the current EFRP matrix are excessively aggregated, and do not necessarily reflect the intended purpose of targeting expenditure in the core development areas of education and health. The JRM agrees with this viewpoint, and believes that the current chart of accounts and budget presentation are adequate to allow a finer disaggregation to identify, for example, basic education and primary healthcare programs. The JRM believes that the CEWG should reach agreement to apply a finer disaggregation for the next version of the EFRP. This would remain an intermediate step until SIG is able to link these expenditures to an approximate output monitoring framework.

The JRM is of the view that the SIG should provide information that outlines fiscal and sectoral policies, and the overall fiscal position and summary of the economic position in a consolidated document (eg a 'Volume One' to the budget). Specifically, the new volume should include an assessment of the Solomon Islands macroeconomic situation, fiscal policy, expenditure priorities and sectoral policies. Fiscal data should be presented on a Government Finance Statistics (GFS) basis, and include forward projections and the actual outcomes of earlier years. The new volume could also usefully include an appendix of core economic data (e.g., national accounts, balance of payments, financial indicators). Over time, the new volume could be expanded to include sectoral costings (reflecting the NDS) and a Medium Term Expenditure Framework that is integrated with the Medium Term Fiscal Framework. The JRM notes that the SIG's 'Budget Strategy and Outlook' statement (that is currently delivered by the Minister of Finance and Treasury) provides a sound basis for the development of the new budget volume.

#### ***State-owned enterprise governance and tariff policy (8.)***

An immediate focus on achieving financially sustainable SOEs is essential to protecting the provision of core services in Solomon Islands' urban centers. Embedding a commercial focus in SOEs' operations should continue as a medium-term goal. Currently SIWA tariffs are assessed to be 30 to 40 percent below operating costs, and increases require Ministerial approval. Water tariffs have not been increased since 2008, while SIWA has accumulated debt of around SBD 30 million (as at August 2011), and there appears to be no forward-looking plan for capital maintenance and investment. In this light, the JRM recommends that, after an immediate, one-off adjustment to bring SIWA's tariffs into line with delivery costs, a tariff assessment to provide the parameters for future tariff policy, including the application of an automatic tariff (price) adjustment mechanism (similar to that applying for the Solomon Islands Electricity Authority (SIEA)). The tariff adjustment mechanism needs to cover ongoing recurrent costs (including ongoing maintenance and investment), however mechanisms may be needed to protect the poor.

While an initial alignment of SIWA's tariffs with costs, followed by an automatic tariff adjustment mechanism will assist SIWA's return to financial sustainability, the JRM notes with concern that SIWA's substantial level of indebtedness to SIEA threatens the viability and performance of both entities, and their capacity to provide basic water and electricity services to the community. In this regard, the JRM believes that SIG will need to monitor closely progress on the debt restructuring program of the outstanding debts owed to SIEA.

As noted above, the forthcoming private sector assessment (by the Asian Development Bank) may provide additional guidance on SOE reform measures, and should be reviewed by the CEWG as it prepares future EFRP matrices.

#### ***The provision to SIG of comprehensive estimates of expected development expenditures by Development Partners (10.)***

The quality and comprehensiveness of SIG budget documentation is undermined by the incomplete coverage of development partners' activities and expenditure, especially those provided on an in-kind basis. The JRM was informed that this reflects the lack of complete and timely information provided by development partners to SIG.

In this regard, the JRM calls on development partners to fulfill their obligations under the various international and regional aid effectiveness accords to provide this information in a timely fashion. MDPAC advocates the use of the Development Assistance Database (DAD) as the primary repository of these data for the development budget. To ensure consistency in information and to minimize coordination and reporting burdens, the JRM recommends that the various SIG agencies that collect development partner disbursement data (MDPAC, MoFT, CBSI) coordinate and centralize their data requests such that consistent and timely information can be provided to meet all monitoring and planning needs.

### **Reform areas the JRM recommends be given priority in the CEWG reform program**

#### ***Strengthening SIG's procurement practices and processes (2.)***

Based on a range of interviews, the JRM is of the view that there are serious weaknesses in the structure of PFM systems and compliance, especially in relation to procurement and internal controls (e.g., audit). While the SIG (with the support of donors) is continuing to strengthen procurement and audit, at this point the JRM assesses that there are significant fiduciary risks to public monies and donor-provided budget support. To address this concern, both immediate and medium term actions should be considered. The JRM recommends that the SIG's existing medium term program to improve PFM systems, including those for procurement, be strengthened. To ensure that reforms are appropriately identified (and as noted below), prioritized and sequenced, the JRM supports the MoFT's intention of developing a comprehensive PFM and procurement roadmap to guide reforms actions and to build on current sectoral and whole-of-government procurement assessments.

As an immediate risk mitigation measure, the JRM believes that the CEWG could consider funding and appointing an independent procurement expert, to act as an observer to the procurement process, as conducted by the Central Tenders Board and other SIG departments as deemed appropriate. This activity would serve as an intermediate step while stronger institutional measures for strengthening SIG's procurement system are being designed and implemented. The role of the independent observer could be to provide reports to the Minister of Finance and the CEWG on the integrity of the procurement process and the decisions and recommendations of the tender board. More generally, the observer could provide advice to the SIG and support and complement other actions to improve procurement systems and compliance. Over the medium-term, as SIG's procurement systems and compliance are strengthened, the observer position would be phased out.

#### ***Public sector management reform (3.)***

The JRM noted that human resource management weaknesses are constraining the ongoing success of the PFM, budgetary reform and economic policy programs, and this is likely to continue to be the case unless there are substantial reforms in public sector management. Most SIG agencies, including central agencies, expressed concern over the rigidity currently being experienced in relation to recruitment and promotion. As well, the general 'uncompetitive nature' of the conditions of employment was also cited as constraint in the recruitment and retention of skilled staff. In this light, the JRM recommends that consideration be given to the implementation of wide-ranging but incremental reform to the administration and management of the Public Service, which could include a review of the current 35 percent cap on payroll, pay levels and allowances. In proposing this review it is noted that:

- The reform program should be incremental to address the immediate constraints inhibiting the performance of the public sector while seeking to avoid the unnecessary disruption that could arise if the program moved too quickly. Thus the first priority could be breaking the recruitment bottleneck, before moving to longer-term issues of salary levels and compensation schemes.
- Recent reforms to payroll, including improved payroll management, have the potential to free resources that could be usefully directed into high priority areas;

- The forthcoming sector-based public expenditure reviews will also identify resources that could be directed from low priority to high priority areas, including in relation to the recent proliferation of high-level public sector positions unrelated to service delivery;
- A review of public sector salaries and allowances and personnel management is also likely to identify significant savings particularly in the area of overtime payments, while ensuring positions requiring equivalent skills receive equivalent remuneration;
- In light of the narrow skill base that currently exists in the Solomon Islands, any review would also need to consider options for recruiting contract staff from overseas as an interim measure.
- Overall, a public sector management reform program, if carefully implemented, should not add to the aggregate pressure on expenditure from personnel expenses (i.e., as a share of total SIG recurrent expenditure). The recommendation to review the 35 percent payroll cap is based on the Mission's perception that an undue focus on this quantitative measure may inadvertently divert attention from the above mentioned reforms that could achieve improved public sector capacity without adding to the burden on public expenditure through payroll.
- In light of the widespread concerns expressed to the Mission that the MPS was not responding to SIG-approved increases or decreases in public service positions, the JWG recommends that the role and responsibilities of all the SIG agencies responsible for public service issues (payroll, recruitment, training) be reviewed and clarified.
- The JRM recognizes the importance of SIG ownership in this area, and of building on existing diagnostic work, and so suggests that this reform program be led by the MPS.

#### ***Developing an integrated economic reform program (5.)***

The JRM noted the range of reform activities underway focused on improving the quality of the economic environment in the Solomon Islands towards enabling private sector investment and development. (Especially important reforms are highlighted elsewhere in the JRM's suggested reform priorities.) The Mission suggests that these efforts be integrated into a prioritized program. This program can draw on existing activities (including those mandated under the current and future IMF programs), various priorities described in the NDS, and the themes and specific recommendations in various development partners' analytical work (eg, the themes identified in the World Bank in the Solomon Islands' *Sources of Growth* report, or the specific priorities identified in the ADB's forthcoming private sector assessment). By integrating these various activities into one program, implementing agencies and supporting development partners will be better positioned to prioritize reforms, and so identify where capacity constraints are especially binding and additional support is needed, and also which reforms may be best deferred to the medium-term. Such a program can also link to activities occurring outside the immediate CEWG, including the efforts to improve governance in the mining and fisheries sectors and in urban land management.

#### ***Comprehensive revenue study (9.)***

The JRM heard a wide range of views on SIG's non-resource revenue policies and mechanisms. A number of responsible agencies also highlighted the limited application of user fees for particular services. While the JRM is not in a position to assess the appropriateness of SIG's current revenue framework, the mission believes there would be merit in the SIG commissioning a comprehensive revenue study, as a medium-term action. The study would assess the integrity of the SIG's revenue base, the appropriateness of the various tax and duty rates (including by reference to regional benchmarks with the possible assistance of the Pacific Financial Technical Assistance Centre) and the effectiveness of user charges for various entities (e.g., airport and wharf fees, etc). This would complement the implementation of revisions to SIG's resource revenue framework, and appropriate management of SIG's urban land holdings; both of which the JRM supports.

## 4. THE CORE ECONOMIC WORKING GROUP COMPOSITION AND REPORTING REQUIREMENTS

The Second Annual Joint Review Mission found the Core Economic Working Group (CEWG) to be a successful model for joint government-donor dialogue on the advancement of key public financial management and economic policy reforms. It noted the deepening dialogue between the CEWG's members around substantive economic and fiscal reform, and the efforts to integrate SIG's internal reporting with those for the CEWG. The JRM offers the following comments as suggestions for furthering this progress.

### A. REPORTING AND STRENGTHENING THE PRESENTATION OF THE EFRP POLICY ACTIONS

The current CEWG agreement regarding reporting of progress in implementing the EFRP matrix is:

- quarterly 'traffic light' reports;
- half-yearly qualitative reporting; and,
- a joint SIG-development partner annual review.

The JRM did not receive any unfavorable comments on this arrangements, or suggestions for significant changes, beyond concerns that the secretariat of the CEWG (FEDU) faces ongoing capacity challenges. As noted below, any decision to expand the CEWG needs to account for these constraints. In light of this, the Mission recommends continuing the current reporting arrangements.

In response to requests from the CEWG, the JRM suggests the following general guideposts in constructing the EFRP matrix and specifying EFRP individual policy actions.

#### *General principles for constructing the EFRP matrix*

The policy actions selected for inclusion in the EFRP matrix need to:

1. Reflect genuinely agreed priorities.
2. Can directly benefit from development partner support.
3. Would benefit from the enhanced focus that arises from being within a budget support program.
4. Can feasibly be achieved in the timeframe given capacity constraints and development partner support.
5. Policy actions should draw on at least the substantive content of actions in SIG corporate or strategic plans or the NDS. This will ensure that the actions are consistent with government priority, and serve to reduce the reporting burden on government, by allowing reporting to the CEWG to synergize with the government's internal reporting.
6. Progress against policy actions should be verifiable. Verification sources should draw on SIG's normal business processes, such as Cabinet Decisions, circulars, memorandums, minutes of meetings, etc.

#### *Guidelines for drafting individual policy actions*

The JRM proposes the following drafting guidelines for specifying individual policy actions. These will strengthen the role of the CEWG EFRP matrix as a source of policy actions to be incorporated into CEWG development partners' budget support operations:

1. Policy actions should be expressed as specific actions relating to a change in policy, and be in clear and unambiguous language. They should be easily understood by parties not closely associated with the CEWG.
2. Regulatory framework policy actions should express the intention of those actions (e.g., an action to amend legislation should express the objectives of that amendment).

3. Policy actions should be intended to ensure a change in activity in a specified area (for example, training programs are generally enabling actions necessary for achieving policy actions, but rarely, in themselves, ensure behavioral change).
4. Policy actions should relate to new actions (i.e., it is to be assumed that gains achieved in earlier years will be maintained unless specified to the contrary).
5. Policy actions should be measurable. As much as possible, they should be measurable through SIG's existing reporting systems.
6. With the description of each policy action should be listed: the agency within SIG that is responsible for implementing that policy action; the supporting development partner(s) (if any) associated with the policy action or substantive areas; and an indicative list of the evidence that would demonstrate completion of the policy action, based on the documentation generated by SIG in the course of its normal business processes.

In conjunction to revising the EFRP policy action matrix, the JRM recommends developing a matrix reporting donors' specific engagements in the various activities associated with the CEWG economic and financial reform program.

## B. COMPOSITION

Upon commencing the Mission, CEWG members asked the Review to assess issues relating to the functioning of the CEWG, including the membership of the Group. This latter issue relates to both development partner representation and line ministry inclusion.

With respect to development partner membership of the Group, the JRM received a relatively consistent view that the strength of the CEWG was derived in part from the representation of like-minded development partners, and this quality should be maintained. In this regard, it was put to the JRM that the two requirements for development partner membership should be:

1. a commitment to provide budget support; and,
2. a commitment to PFM and economic policy dialogue and a program of technical support in these areas.

The JRM supports this approach and believes that it is a matter for the CEWG to determine whether other development partners that only partially meet these criteria should be accorded an intermediate role in the Group (eg, observer status).

On the issue of line ministry participation, the Mission received a range of views held with varying degrees of strength. In general the Mission distilled four possible options.

1. The *status quo* be maintained.
2. Enhanced dialogue mechanisms between the core membership of the CEWG and line ministries responsible for key service delivery programs, including through formal meetings scheduled after the core-level meetings.
3. Co-opting line ministries responsible for key service delivery programs on a needs basis as relevant issues arise.
4. Expand full membership to include line ministries responsible for key service delivery programs, so as to give wider coverage of sectoral level reform efforts and expose the CEWG to sectoral-level budget issues.

The Mission believes that the question of line ministry membership is one for the SIG to determine in consultation with the CEWG membership, but the following observations are offered, representing the limits of the varying views:

- Maintaining the current membership will help preserve the core focus on PFM and budget reforms, consistent with the responsibilities and duties of SIG's central agencies;
- Expanding the membership to include core line agencies will strengthen the focus of the CEWG on service delivery, integrate sectoral budget support issues into the dialogue of the Group, and will broaden the Group's understanding of the wider reform programs that are centered at line agency level.

The Mission also notes that expanding the membership and coverage of the CEWG will increase the workload of FEDU as the CEWG's secretariat. FEDU is already experiencing capacity constraints. The success of CEWG is dependent on the capacity of the Group's secretariat to fill that function.



## Appendix 1: Terms of Reference of the Joint Review Mission

### SOLOMON ISLANDS ECONOMIC AND FINANCIAL REFORM PRIORITIES CORE ECONOMIC WORKING GROUP JOINT ASSESSMENT MISSION AUGUST 2011

#### *TERMS OF REFERENCE*

##### **Background**

1. In March 2009, the Solomon Islands Government (SIG) established a Core Economic Working Group (CEWG) to improve coordination and dialogue between SIG and development partners and to provide avenue for better management of economic and fiscal challenges facing the country. SIG's Economic and Financial Reform Priorities (EFRP) were discussed in this forum and development partners provided budget support to SIG in support of progress achieved in various reforms. As the effects of the global economic crisis have waned, SIG's reform priorities have shifted to take on a more medium term view. This year SIG's Economic and Financial Reform Priorities are articulated in a multi-year matrix with a focus on three areas: public financial management, budget reform and economic growth. The Annual Joint Review will assess overall progress against SIG's 2011-2013 EFRP, explore how the CEWG is currently functioning, and identify possible steps for 2012-2014.

##### **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 findings will specifically serve to inform donor decisions regarding the provision of budget support in 2012, and will also help inform the design of the next EFRP matrix.

##### **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. In particular, provide estimates of real GDP growth, inflation, interest rates, exchange rates, fiscal outcomes, balance of payments outcomes, and a status report on domestic and foreign debt.
- b) Assess progress in implementation of the 2011 reform actions as laid out in the 2011-2013 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.
  - A general overview of Solomon Islands progress with key reform actions, including progress toward targets and success in meeting monthly reporting requirements.
  - A detailed assessment of progress made for each agreed 2010/11 trigger in the EFRP matrix including evidence of progress and discussion of what led to progress or lack of progress in each case.
- c) Assess current reporting and monitoring arrangements, and provide recommendations on how these could be improved and/or 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 SIG management and planning systems.
- d) Begin preliminary discussion of the content for the development of 2012-14 EFRP matrix, applying lessons learned from the current matrix and 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 2012-14 matrix.

#### Deliverables

4. The appraisal mission will prepare the following documents:
  - a) *Narrative Report* detailing:
    - a. Country context over the reform period, including macroeconomic stability;
    - b. Progress made by the Solomon Islands Government in implementing reforms, including specific sections on national development strategy, public financial management and budget reform;
    - c. A traffic light report for overall 2011 matrix;
    - d. Assessment of and any recommended changes to existing reporting and monitoring arrangements.
  - b) Short *Indicative Outline of 2012-14 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
  - A representative of the Central Bank of Solomon Islands (CBSI)
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 2011-13 matrix,
    - ii. proposed review of the 2011-13 matrix,
    - iii. proposed broad 2012-14 reform priorities.

*This meeting will provide a forum for substantive discussion and revisions prior to the formal wrap up meeting.*
  - c) *Wrap-up Meeting*: During this meeting the Mission will present its draft deliverables to SIG and donors.

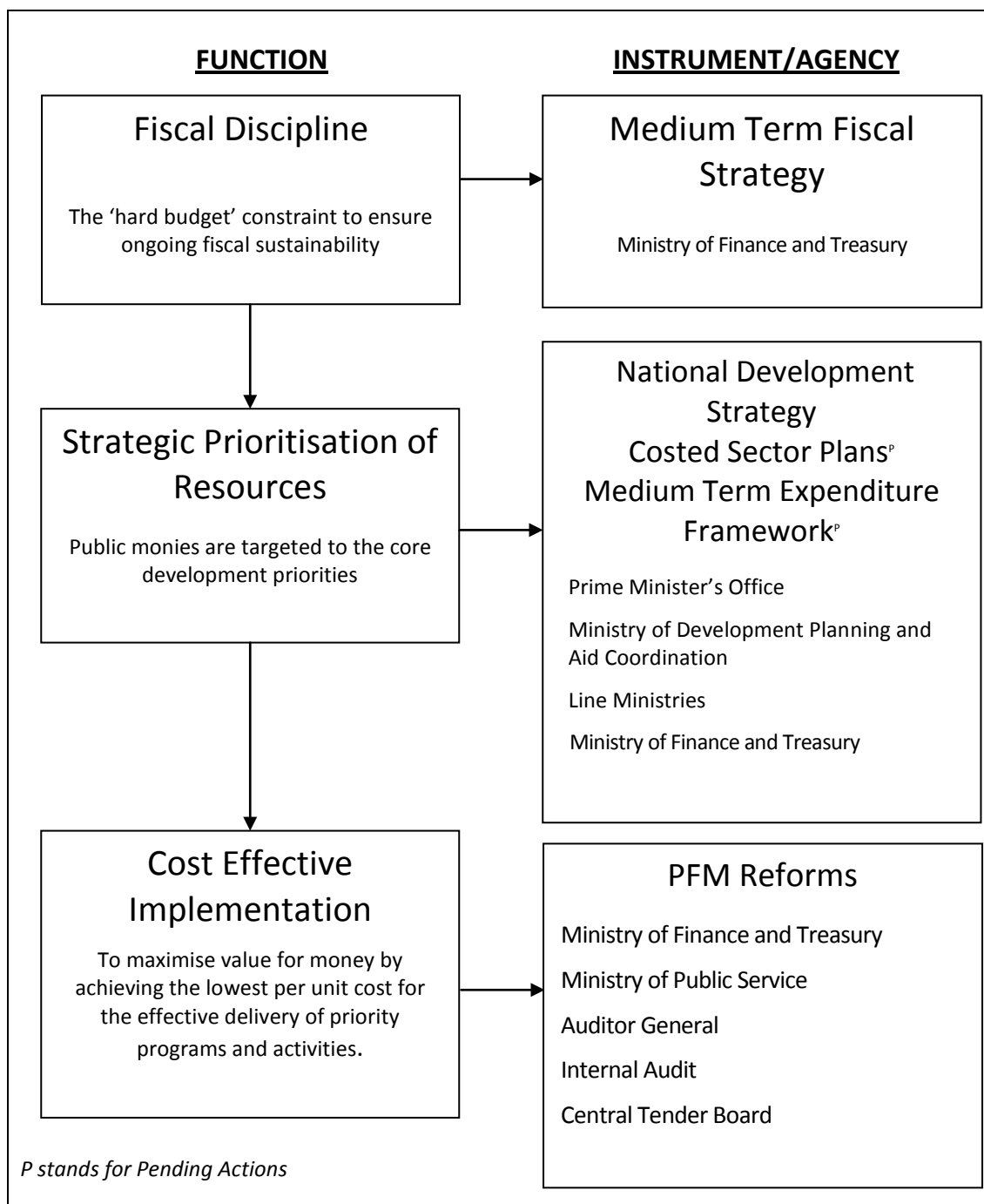
7. The Review will take place according to the following indicative timeline:

Team selection	Early July 2011
Initial briefing from CEWG	24 August 2011
Review Mission <sup>1</sup>	24 August – 7 September 2011

<sup>1</sup> Estimated time for the Review Mission to be in the Solomon islands is 10 working days

Plenary meeting	Late August/Early September 2011
Draft deliverables provided to SIG and donors for comment	6/7 September 2011
Comments provided by donors and SIG	Late September 2011
Deliverables finalized	Early October 2011






## Appendix 2: SIG's institutional framework for PFM management









### **Appendix 3: Assessment of 2010-2011 Actions**







### SIG Economic and Financial Reform Program 2011 – 2013 JOINT REVIEW MISSION ASSESSMENT OF 2010/11 ACHIEVEMENTS

SIG's 2011-2013 economic and financial reform program (EFRP) is based around three pillars of public financial management, budget reform and economic growth. It builds on progress achieved in recent years and is targeted at achieving the two overarching financial and economic policy objectives outlined in the Medium Term Fiscal Strategy (MTFS): (i) structural reform to make Solomon Islands a reliable place to do business and invest and for industries to grow; and (ii) an affordable and sustainable budget that limits debt to a manageable level, improves decision making processes and focuses on achieving the development goals of Solomon Islands.








Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			<b>SIG</b>		<b>JRM</b>
<b>Improve resource management processes and practices.</b>  4.3.4.3 Government Budgets  SIG-RAMSI 2.2.1 Extend use of MoFT systems	1. Continue to improve cash management, forecasting and controls in order to minimize disruptions to public service delivery from spending reservations, and to cover cyclicalities in revenue and expenditure flows, potential contingent liabilities, and large shocks	Cash coordination committee established and meeting weekly to discuss expected revenue, anticipated expenditure requests and status of T-Bills.		The Cash Co-ordination Committee continues to meet and improvement strategies are being progressed. Discussions have commenced with line ministries to be able capture large payment information at least a week prior to payment. At the SIGAS workshop held on 4/5 July a one hour presentation on cash forecasting processes and the need for early indication of large payments for cash forecasting purposes was provided by the Cash Management Team.  All IMF cash targets have been achieved.	Agree. <i>[committee meeting minute sighted]</i>
		Quarterly updates of cash flow forecasts produced			Agree. <i>[forecasts sighted by JRM]</i>
		Continue to use the cash forecasting tool to manage cash, receipts, expenditures and use of T-bills			Agree overall. T-Bill issuance appears not to be linked to cash management needs, but as a measure of developing confidence in the government securities market.  <i>[committee meeting minutes sighted]</i>
		Build and maintain cash reserves to cover no less than two months of forward recurrent spending			Agree. <i>[IMF assessment]</i>
<b>Strengthen budget financial accountability and reporting systems</b>  4.3.4.1 d. Public Sector Reform Program  4.3.4.3. a. Government Budget Reforms 4.3.4.1.c Restructure Government Operations p. 42 Matrix	2. Expand use of Aurion payroll system to provide a more accurate record of whole of government payroll, improve controls, reduce opportunities for fraud and mismanagement and establish capacity to model payroll and establishment behavior and affordability.	All remuneration related transactions and casual staff payroll are consolidated on Aurion to support line ministries.		Since 1 January 2011 all employee remuneration related expenses have been paid through Aurion. These payments include allowances such as housing, clothing and special duties and appointment and gratuity payments to established and casual officers. This has enabled MOFT and line agencies to more effectively monitor payroll and all other employment related payments.	Agree overall. Reported issues in linking to Teacher Service Commission's databases appear to be issues with MPS not processing staff changes promptly.  <i>[warrant and circular]</i>
		Work with MPS to make the Aurion Establishment data the primary source of employee information and the data remains current and accurate.			MPS reportedly maintaining separate (manual) systems, not linked to Aurion on employee information [but this is still to be confirmed].









Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			SIG		JRM
					Assessment of the data's ongoing accuracy will need to be made after the system has run for some time – future payroll audit may be appropriate.  <i>[discussions with MPS]</i>
	3. Complete upgrade of FMIS to enable tracking of agencies' actual expenditure relative to budget and provide critical spending controls.	Phase 1 and 2 of the FMIS upgrade complete, including installation of replacement hardware and General Ledger and Accounts Payable		Phase 1 is now complete. Scoping documentation for the implementation of Stages 2 and 3 has been agreed with Procurements and Payments, Revenue and the Imprest Sections. Phase 2 and 3 will go live around September /October 2011.	Phase 1 (general ledger) implemented. Phase 3 (accounts receivable) now operational; Phase 2 (accounts payable) expected to be operational by October. (Definitions of Phases 2 and 3 have been swapped.)  <i>[MoFT media release]</i>
	4. Operationalize BERT to streamline budget preparation process, provide greater and timelier controls over funding allocation processes and introduce capacity for the development of forward estimates and a medium term expenditure framework.	Interactions between BERT and FMIS operationally effective and efficient for exchange and update of information on Budget allocations, virements, projections and actual results.		BERT interfaces to/from AX now operational (May 2011) with virement, reservation, bid, and warrant data passed to AX in order to maintain accurate budget values against which PVs and LPOs may be verified at point of entry. 2011 recurrent budget was prepared on BERT. 2011 development budget was not entered into BERT. The development budget was prepared separately by Ministry of Planning and development budget data is being loaded into BERT.	Agree.  <i>[discussions with MoFT payroll systems advisor]</i>
		2011 recurrent budget prepared using BERT and 2011 development budget entered in BERT			JRM informed that 2011 development budget data yet to be entered into BERT.  <i>[reported to JRM by MoFT Budget Unit]</i>
	5. Improve information available to the public to assist understanding and access to information	Medium Term Fiscal strategy updated and published to SIG web site.		Budget Strategy and Outlook are released with annual budget publicly and can be accessed from the MoFT website. 2011 Budget is published on the MoFT Website.	Agree. <i>[website]</i>
		Budget Strategy and Outlook prepared and publicly released along with the annual Budget.			Agree. <i>[website]</i>
		2011 Budget published on the MoFT website			Agree. <i>[website]</i>
		National Accounts published on the MoFT website			Agree. <i>[website]</i>






Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			<b>SIG</b>		<b>JRM</b>
		SIG financial data publicly released monthly and published on the MoFT website.			Agree. [website]
		Quarterly debt statistics bulletin published on the CBSI website.			Agree. [website]
<b>Strengthen public financial management structures and standards</b>  4.3.4.3. a. Government Budget Reforms  SIG-RAMSI 2.7.4. Introduction of Accounting Standards	6. Review and update the Chart of Accounts to enable SIG to begin tracking expenditures by programs, activities.	Revise the chart of accounts to enable SIG to track expenditures by programs and activities.		The first draft of COA has been received but further work is required. Lack of SIG resources in the Financial Management Services Section is impacting on the progress.	Agree with progress description. Work on revising the CoA is continuing. Indicated that the structure would be completed by 2013, in time for the 2014 budget.  [discussions with MoFT Treasury Unit]
	7. Progress towards compliance with international accounting standards	2009 comparative draft statements prepared in the IPSAS Cash format. 2010 financial statements prepared in the IPSAS Cash format.		The 2010 National Accounts and IPSAS Compliant statements for the General Government Sector were submitted to the Auditor General on 1 July 2011. The fully consolidated IPSAS national accounts (including eliminations) will be completed once the 2010 state owned enterprises financial statements have received audit clearance from the OAG.	MoFT and the OAG expressed different opinions on the IPSAS cash accounting format. The current PFM legislation does not require accounting standards to be specified in the financial statements.
<b>Strengthen the financial capacity of SIG officers</b>  SIG-RAMSI 2.4.4; 2.5.1; 2.5.2. "SIGAS Reinvigoration"	8. Improve the financial capacity of SIG accounting officers and Ministries.	Publish the annual SIGAS training program on the website and distribute to line ministries.		Modules and documentation developed and workshops conducted for accounting staff to improve their understanding of key financial processes and the obligations of themselves and other public servants.	Agree [discussions with MoFT]
		Develop two new training modules including financial framework, managing public finances or cash management			







Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			SIG		JRM
		Introduce modules and courses through IPAM for non-accounting staff on financial rules, processes and responsibilities.		Packages developed and delivered for non-accounting staff across ministries to raise awareness of financial and legislative requirements in the management and use of public funds and property.	Agree <i>[discussions with MoFT]</i>
<b>Strengthen financial management legislation</b>  4.3.4.3. a. Government Budget Reforms	9. Strengthen the legal and regulatory framework for fiscal responsibility and discipline.	Twinning arrangement commenced to build capacity of SIG official to undertake review of Public Finance and Audit Act 1978 and future reviews.		On April 6, 2011, PSF issued a circular reminding all accounting officers of their obligations and responsibilities under the PFA Act and FIs, and of the Minister of Finance's authority to place a surcharge on officers who are derelict in carrying out their duties. The PFA Act Cabinet Submission was presented to Cabinet on Thursday, 14 July 2011.	Agree. <i>[discussions with MoFT]</i>
		Circular issued reminding Accounting Officers of their obligations and responsibilities as set out in the Public Finance and Audit Act and the Financial instructions.			Agree. <i>[MoFT Circular]</i>
<b>Strengthen the Government's Procurement Process</b>  4.3.4.1 (h)	10. 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.	Successful tenders awarded by the Central Tender Board, including name and amount, published on the MoFT website.		On June 24, 2011, PS Finance issued Financial Circular 2011/05 – Corruption and Fraud in Government Procurements as a result of MOFT uncovering discrepancies in the procurement practices of several Ministries when procuring information technology and stationery items. Issues found were: (i) public officers undertaking private business in core work hours; (ii) fraudulent quotes being submitted; (iii) excessive procurement of goods far in excess of amounts that could be reasonably used by Ministries. To try reduce some of the risks associated with procurement, MOFT has: increased compliance activities on all IT and stationery procurement; collected information from reputable dealers of the real cost 'value for money' prices of IT equipment and	Tenders awarded in 2010 and through to September 2011 posted on MoFT website during the course of the JRM. Acknowledge SIG's comments on Circular 2011/05 on progress in identifying inappropriate procurement practices. Acknowledge Circular 2011/06 on disclosing transactions between SBD 20,000 and SBD 100,000, and on general progress in identifying incidents of noncompliant procurement.  <i>[Circular 2011/05]</i>














Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			SIG		JRM
				stationery; suspended trading with some of the questionable suppliers until a review of their operations has been undertaken by Internal Audit; and referred all suspect or unusual purchases to Internal Audit. Internal Audit has referred some of this information to the RSIPF for investigation.	
<b>Strengthen resource allocation to improve SIG's ability to deliver services through the budget process</b>  4.3.4.3. Government Budgets: "Reformed budget process"	11. Broaden engagement with the community on budget priorities and allocations	Minister for Finance and Treasury writes to broad cross-section of civil society organizations inviting submissions that relay information on quality of service delivery and identify ideas for what the government could do to improve as part of the 2012 budget process.		Budget Unit met with churches and NGOs in June 2011 seeking their input into the 2012 budget. Initial focus of submission is on social sector, health and education. Feedback from CSOs primarily focuses on access, quality and gaps in the sector. The next step is to have their responses summarized into briefs for cabinet consideration towards the 2012 budget. Cabinet then request ministries to consider CSO views in their budget. We have issued 30+ submissions forms and expect to have them back by June 2011. So far only 5 submissions have been received, mainly churches we consulted. Majority of NGOs are yet to make their submission. Submission date still open.	Agreed.  Summary of 7 submissions received submitted to Cabinet.  <i>[documentation from consultations provided]</i>
	12. Link Policy Priorities to Budgets and service performance outcome	National Development Strategy (NDS) consistent with the MTFs developed by June 30 through a consultative process with inputs from SIG ministries, civil society and provinces.		Consultations on the NDS are complete. The line ministries, Donors, civil society and NGOs were consulted then later had provincial consultations throughout the all the provincial centres whereby provincial governments, civil societies, NGOs and other stakeholders were also	Agreed (noting slightly later completion date).  <i>[copies provided to JRM]</i>









Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			<b>SIG</b>		<b>JRM</b>
		Seek feed-back from line ministries on design of template for corporate plans that are better linked to SIG policy priorities and budget.			Templates yet to be prepared.
	13. Improve the Capacity of Line Ministries to form budgets	Commence consultation process with key line ministries on planned reforms and capacity building needs. Identify capacity gaps relative to planned reforms over 2011 – 2014.			Agree. Some work done on identifying capacity gaps. <i>[JRM representative participated in consultations]</i>
		Commence design of capacity building program in collaboration with SIGAS and development partners.			Agree. <i>[discussions with MoFT]</i>
	14. Improve Accountability Framework for Budget Outcomes/Outputs				No action marked for 2010/11.








Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			SIG		JRM
	15. Improve alignment of allocations and line ministry needs through improved MOFT procedures and analytical capacity	Establish budget consultations between central agencies and line ministries to discuss quality of ministry expenditure and new policy proposals as part of the Budget deliberation.		Budget Unit consult with line ministries to discuss their baseline for 2012 budgets and new policy proposals. Expenditure analysis is developed to support discussions. Previous year's analysis of ministries expenditure used by Finance Minister in 2011 budget consultation with line ministries. The next step is to prepare analysis for the 2012 budget consultations.	Agree. <i>[invitations to consultations]</i>
		Develop an analytical capability within MoFT to provide budget performance analysis in the budget process and enable an assessment of the reasonableness of ministry baselines for the 2011 budget.			Agree. <i>[analytical outputs]</i>
	16. Improve Fiscal Discipline and Management	Establish tighter controls on spending through upgrades to FMIS and Aurion that prevent spending in excess of warrant authorities.		2011 Budget Accounting warrants for payroll budget. Ministries issued with warrants to manage their payroll budgets.  Provision made in 2011 budget for contingency warrants \$26.5 million for the recurrent budget and \$26.5 million for the development budget. Despite the issuing of payroll warrants, there is no mechanism by which the payroll application can verify whether sufficient budget exists prior to payments being made. In effect, payroll charges in their entirety are still treated in process terms as statutory payments.	Agree. Note that the control is via a Circular and Warrant, and not an automatic block on payments in excess of warrant.  <i>[MoFT Circular, and Warrant authority at front of Budget brick]</i>
		Include payroll budget in warrant authorities issued to ministries.			Agree <i>[Warrant authority provided at front of Budget brick]</i>
		2011 budget fully funds contingency warrants through establishing a budget surplus that is equal to or greater than the combined value of the contingency warrants.			Agree. Note that the 2011 Budget does not include the CW amount in the Appropriation Act, but does include funding in the context of the overall fiscal framework. <i>[2011 Budget documents and IMF Second Review]</i>

Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			SIG		JRM
<b>Achieve public debt sustainability and affordability</b>  4.3.4.3 Government Budgets "Public debt sustainability"	17. Maintain sustainable and affordable levels of public debt	Distribute draft debt management strategy for comment.			Agree with SIG's comments.
		Commence Honiara Club Agreement Review			Agree with SIG's comments. Unanticipated staff shortages noted.
		2011 Budget targets a sustainable debt ratio with debt to GDP less than 30% and affordable debt ratio with debt service cost to revenue less than 10%			Agree with SIG's comments. Budget surplus, progressive repayment of existing debt stock, and nominal GDP growth ensure continued decline in debt to nominal GDP ratio to continue to decline towards 20 percent.
<b>Achieve aggregate fiscal discipline and mitigate negative social and economic effects of public expenditure adjustments</b>  Budget performance indicators	18. Continue fiscal consolidation	2011 budget is fully funded and has an overall surplus on a GFS basis			Agree. <i>[Budget documents and IMF assessment]</i>
		2011 budget restrains payroll charges at no more than 35% of the total recurrent budget.			Agree. <i>[Budget documents]</i>
		2010 actual expenditure retains payroll charges at no more than 35% of total recurrent expenditure.			Preliminary estimates of actual expenditure suggest that 'Salaries and wages' was 33.8% (SBD 551 m) of recurrent SIG Expenditure. Including 'Social contributions (NPF)' of SBD 37 m raises the ratio to 36.1% of recurrent expenditure. The tables in the IMF's Second Program Review report (p 20) report realized expenditure on compensation of employees of SBD 588 m relative to recurrent expenditure of SBD 1,548 m, or a 38%; this ratio also includes additional social security payments. <i>[preliminary estimates of actual 2010 expenditure; IMF program document]</i>






Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			<b>SIG</b>		<b>JRM</b>
	19. Retain allocation and expenditure in health and education and protect to the extent possible the delivery of core social services, including education, health and transport.	2011 budget retains SIG's allocation for education at no less than 22% of total SIG funded recurrent budget.		2011 Budget SIG allocated 28% of total SIG's funded recurrent budget for education. 2010 actual expenditure, SIG spends 26% of SIG's funded recurrent spending on education. 2011 Budget SIG allocated 14% of total SIG funded recurrent budget towards health. 2010 actual expenditure, SIG spending on health was 14% of SIG funded recurrent spending \$51 million was channeled to the National Transport Fund in the 2011 Budget. Looking ahead, the intention is for 2012 budget to retain SIG's allocation for education at no less than 22% of total SIG funded recurrent budget, for education at no less than 10% of total SIG funded recurrent budget, and to allocate SBD10 m to climate change activities in support of NAPA priority 1. 2011 actual expenditure is tracking SIG's spending on education at more than 22% of total SIG funded recurrent spending, and health at more than 10% of total SIG funded recurrent spending.	Agree. <i>[Budget documents]</i>
		2010 actual expenditure retains SIG's spending on education at no less than 22% of total SIG funded recurrent spending.			Agree <i>[Preliminary estimates of actual 2010 expenditure]</i>
		2011 budget retains SIG's allocation for health at no less than 10% of total SIG funded recurrent budget.			Agree. <i>[Budget documents]</i>
		2010 actual expenditure retains SIG's spending on health at no less than 10% of total SIG funded recurrent spending.			Agree <i>[Preliminary estimates of actual 2010 expenditure]</i>
		SIG commits to contribute SBD51 million to the National Transport Fund in 2011			Agree. <i>[Budget speech]</i>
	20. Mainstream climate change in SIG policies and budgets	2011 budget allocates SBD10 million to climate change activities in support of NAPA priority 1.		SIG has committed \$27.1 million into the 2011 Budget for Climate Change Adaptation and Disaster Reduction Programs	Agreed. <i>[2011 Budget Speech includes listing of Climate Change related projects]</i>






Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			SIG		JRM
<b>Better access to credit</b>  4.3.3.a. Private Sector Growth Reforms  4.3.3.c. Growth centers: microfinance and savings schemes	21. Remove access to finance as a barrier to the creation of locally owned new businesses.	Establish a financial inclusion taskforce in collaboration with CBSI.		The financial inclusion task force has been set up in collaboration with CBSI and work is progressing to develop a workable model to support critical financial services. The budget bid for rural mobile banking services was rejected in the 2011 budget. Work on the credit union legislation will commence following ADB review of legislation (July 2011)	Taskforce established and meeting. <i>[evidence from CBSI]</i>
		Continue rural mobile banking services.			Agree. ANZ continues to operate this. No SIG funding. <i>[communication from JRM member]</i>
		Review Credit Union legislation to improve governance security and service standards and develop policy recommendations to put to Cabinet for consideration.			ADB TA is arriving mid-September to conduct the Review. <i>[ADB representative advice]</i>
<b>Well-functioning markets</b>  3.2.1.c. Economic Security  4.3.4.a. Fiscal Policy Reforms	22. Encourage competitive markets.	Begin to explore model competition law in the Pacific as a way of encouraging competitive markets, empowering the SIG to take action against real or perceived market distortion or manipulation by targeting anti-competitive conduct rather than relying on price controls and other direct measures.		Resourcing is limited and other Pacific Islands are cautious about progressing at this stage. If FEMM does not progress a Pacific approach it will be difficult to proceed. Other developments: • A staff from ERU has attended a workshop on competition law and policy at Samoa early this year to learn from the experiences of other Pacific Island countries. • Upon the request of the Ministry of Commerce (MCIL), the chairperson of the Fiji's Commerce Commission visited the country early this month and gave a presentation on Fiji's experience in implementing competition policy and law. Also, the achievements in establishing the competition authority were discussed.	MoFT has reviewed current progress on developing regional legal framework, and found limited progress. MoFT views this action as dependent on model legislation to be prepared by Forum Secretariat.  Ministry of Commerce believes this is a priority area, and action should not be contingent on regional models.
<b>Fair and transparent taxes</b>  4.3.4.1.e. Tax reforms aimed at diversifying the tax base 4.3.4.a. Fiscal Policy Reforms	23. Receive a fair share from resources by developing and implementing a new resource tax framework	Review IMF recommendations to determine where additional TA will be necessary.		IMF mission successfully completed and final report received. Policy proposal has been developed, incorporating inputs from the IMF report. The paper has been distributed to Permanent Secretaries of Forestry, Fisheries and Mines for comments. A wider consultation with	Agree. <i>[discussions with MoFT ERU]</i>
		Undertake consultations with key stakeholders.			Agree. Mining Forum held in August. <i>[MoFT press release on Forum]</i>
		Prepare draft policy paper outlining proposed tax reforms and submit to Cabinet.			Agree. <i>[policy paper provided]</i>

Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			SIG		JRM
4.3.4.1.b. Increase domestic revenue generation		Identify which reforms will require amendments to existing legislation and which require new legislation.		stakeholders (Landowners, mining Companies, including other Government ministries) will be conducted once Cabinet approval is sought. We anticipate the policy to be finalized before mid-August at which stage we will receive legal TA from the IMF to draft legislation.	IMF TA arriving mid-September to conduct assessment.  <i>[discussions with MoFT]</i>
	24. Review duty remission and tax exemption guidelines to ensure that the exemptions granted are done in accordance with the law and not on a discretionary basis.	Policy proposal developed in consultation with revenue collection agencies and submitted to the Cabinet.		The draft Bill was approved by Cabinet but with additional changes made. Cabinet requested that these changes be incorporated into the Bill and then resubmitted to Cabinet for final approval before it can be finalized for Parliament.	Agree.  <i>[submission provided]</i>
		Legislative changes drafted, including provision to merge the existing committees and exemption procedures, improve consideration of exemption proposals, codify the criteria under which exemptions are granted and require the public gazettal of exemption decisions.		These changes have now been incorporated into the Bill and Cabinet will soon meet on it. This is an important Bill and we want to make sure that the changes requested by Cabinet does not in any defeat or change the policy objectives of the reform, hence, the length of time it takes to finalize the Bill and resubmit to Cabinet. Customs and Inland revenue exemption committees are actually keeping track of the records of exemptions that have been granted.	Close to completion. Legislation previously presented to cabinet returned with instructions that altered the intent of the Bill. MoFT is amending the submission to ensure it achieves the intended objectives.  <i>[draft Bill provided]</i>
	25. Improve duty collection and Customs enforcement	High level steering committee to manage policy review of Customs legislation established.		TA has arrived and a high level steering committee has been formed.	Agree.  <i>[ToR of committee provided]</i>
		Technical Assistance to examine the existing law, identify gaps and draft a replacement law, secured and underway.		Consultation has commenced through concept papers	Agree.  <i>[discussion with MoFT]</i>

Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status					
			 On track	 Concern  Not on track				
			SIG	JRM				
	26. Review gaming taxes	Review gaming taxes including analysis of current arrangements and consultation of industry.			Not currently a priority, and issues with coordination with relevant line ministry have made progress difficult.			
		Present Cabinet with a paper discussing the most appropriate tax rates and suggestions to improve administration and enforcement.						
	27. Improve revenue from “Other Ministries”	Taskforce on urban land governance formed.						Taskforce on ‘other revenues’ approved by cabinet and established, but the proposed taskforce on urban land management continues to await submission to cabinet.
		Expert scoping mission fielded						Expert mission currently in country.
					<i>[WB statement of mission objectives]</i>			



Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			SIG		JRM
<b>Well managed SIG businesses</b>  4.3.4.2. State Owned Enterprise Reforms	28. Improve SOE monitoring and performance	SOE's submit financial statements within 6 months of their 2010 financial year.		All SOEs 2010 accounts (SIBC, Printers, CEMA, Post, SIPA, and SAL) are already with the OAG for auditing except (SIWA, SIEA (contacted to KPMG Fiji for audits) and ICSI yet to be audited). Looking to input the first SOE account in the website early next year 2012. Most SOEs (Sol air, SI Post, , SIEA, CEMA, SIBC) now follow the SOE Regs board appointment process with the rest looking to follow later. Currently the SOE Team is working with the remaining SOEs to follow the process except SI Printers which is in the process of liquidation thus no need for reappointment of new directors.	Agree.
		Audited SOE's financial accounts made available to the public in line with SOE Act and made available on the MoFT website.			No SOE financial statements currently on website.  SolAir's financial statements are the only 2010 SOE financial statements to have been audited. They are awaiting a Board meeting for approval ahead of submission to the website (expected within the next month).
		New appointments to SOE Boards made in accordance with the regulations under the SOE Act.			Agree. <i>[letter from MoFT PS to relevant PS reiterating the regulations relating to board appointments]</i>
		Community Service Obligation policy agreed to by Cabinet and funding set aside in the current Budget for CSOs.			CSOs have been funded in the budget. None have been disbursed to date as contracts have not yet been entered in with the SOEs. <i>[budget documents and budget speech show allocation in budget in support of policy]</i>
		SOEs comply with new SIG regulation by presenting their Statements of Corporate Objectives to the SIG as required under the SOE Act.			Agree.  <i>[discussions with MoFT and SOE representatives]</i>
	29. Liquidate Solomon Islands Printers Limited	Cabinet's support secured to begin liquidating the Solomon Islands Printers Ltd and disposing of its assets.		SIPL liquidation process already begins with Cabinet already approving the liquidation	Agree.  <i>[affirmed by MoFT]</i>

Policy Reference	Policy Reform Area	Policy Reform Actions For 2010/11	Status		
			 On track	 Concern	 Not on track
			SIG		JRM
<b>Establish Revenue Transparency in the Extractive Sector</b>  5.1.7.d. Mining Development	30. Attain EITI Candidate Status in order to facilitate revenue transparency.	EITI Policy Paper presented and approved by Cabinet (with TA from WB).		Cabinet and policy papers already submitted to Cabinet. Cabinet has approved the EITI proposal and agree to start the work towards fully compliant. The next step would be to make a formal announcement of the Government's commitment to join the EITI, appoint the focal point of contact and establish the steering committee.	Agree.  <i>[MoFT press release, Minister of Finance speech, documentation from WB]</i>
		Unequivocal public statement endorsing implementation of EITI and commitment to work meaningfully with civil society organizations and extractive industry companies made by SIG.			
		Senior SIG EITI Focal Point appointed.			
4.3.1.a Macroeconomic and Fiscal Framework	31. Maintain macroeconomic stability and fiscal sustainability to help the planning and implementation of effective public service delivery while ensuring price stability (consumer prices, exchange rate, interest rates) and also ensuring that there is no need to borrow on non-concessional terms.	Strive to meet all benchmarks agreed with the IMF			Agree.  <i>[positive IMF review]</i>

	All Policy Reform Areas					Pre-identified Triggers for 2010/11				
	Total	On Track	Concern	Not On Track	Not scored	Total	On Track	Concern	Not On Track	Not scored
I. Public Financial Management	10	7	2	1	0	6	5	1	0	0
II. Budget Reform	10	6	1	2	1	7	7	0	0	0
III. Economic Growth	11	5	4	2	0	6	6	0	0	0
EFRP	31	18	7	5	1	19	18	1	0	0

Notes: The assessment is based on the evidence provided to the JRM team by the closure date for comments on the draft report. Those policy actions that have been completed and the JRM team are able to verify this are marked as 'on track'. Where the JRM team has not been able to verify progress on a policy action, the action is marked as 'not on track'. Where a policy action comprises sub-actions, the scoring method adopts the 'weakest link' approach – i.e., where one sub-action is assessed as 'on track' and another is assessed as 'not on track', the overall policy action is assessed as 'not on track'. The application of 'not scored' assessment as the weakest link only applies in the event that the other sub-actions received were assessed as 'green'.

## Appendix 4: List of Organizations Met

### Ministry of Finance & Treasury:

- Budget Unit
- Chief Accountant
- Customs Office
- Economic Reform Unit
- Financial & Economic Development Unit
- Inland Revenue Division
- Internal Audit Unit
- Office of the Auditor General
- Treasury Unit

Central Bank of the Solomon Islands

Ministry of Development Planning

Ministry of Education

Ministry of Environment

Ministry of Health

Ministry of Infrastructure Development

Ministry of Mines

Office of the Attorney General and of the Legislative Draftsman

Solomon Islands Electricity Authority

Solomon Islands Telecommunications Regulator

Solomon Islands Water Authority

### Development Partners:

- Asian Development Bank
- Australian High Commission and AusAID
- New Zealand High Commission and NZ AID
- World Bank

RAMSI

Solomon Islands Chamber of Commerce