

Department of Foreign Affairs and Trade



Aid Investment Plan

Solomon Islands

2015-16 to 2018-19

Strategic priorities and rationale

Australia has an enduring interest in a stable Solomon Islands, underpinned by economic growth and viable institutions. The conflict known as the Tensions (1998-2003) led to the near collapse of the Solomon Islands state. Australia's substantial contribution to the Regional Assistance Mission to Solomon Islands (RAMSI) and its bilateral development cooperation has since been instrumental in restoring law and order, laying foundations for macroeconomic stability and beginning the task of rebuilding national institutions. RAMSI's non-policing development programs were merged into Australia's bilateral aid program in 2013.

This Aid Investment Plan (AIP) sets the strategic framework for the provision of Official Development Assistance (ODA) administered by the Department of Foreign Affairs and Trade (DFAT) with a focus on bilateral aid directly allocated to Solomon Islands as well as a proportion of Australia's aid to Pacific regional organisations and initiatives that benefit Solomon Islands. Other Australian Government agencies will provide strategic input to policy development and oversight programs in particular sectors in consultation with DFAT.

The purpose of this Aid Investment Plan is to inform discussions between the Government of Solomon Islands and the Government of Australia to develop an Aid Partnership between Australia and Solomon Islands. This AIP will be updated to reflect the finalisation and the signing of Aid Partnerships where appropriate.

Australia implements an integrated set of foreign, trade, security and development policies to advance our interests in Solomon Islands. It is in Australia's interest to support Solomon Islands' development and strengthen its economic prosperity.

Context

Solomon Islands has made significant political and economic gains in the last decade and stability in 2015 presents opportunities for development.

Solomon Islands is endowed with natural resources that, properly managed, are capable of contributing to economic development. Nonetheless, Solomon Islands produces and exports agricultural products, has small but established palm oil and tuna processing industries and offers better opportunities to realise economies of scale than many other economies in the Pacific. However, consequences of conflict are still being felt and the country remains fragile. The economy remains small, narrow and vulnerable to shocks, and development outcomes lag behind the rest of the region.

Public sector administration and financial management remain weak, hindering government's ability to maintain law and order, manage the economy and deliver services.

The business environment is challenging. Lack of infrastructure, low labour skills and low productivity, high utility costs and land tenure issues are major constraints to growth and private sector investment. Government regulation is burdensome and difficult to navigate. Tax rates are high and unequally applied, reducing incentives for success and innovation by local firms and making Solomon Islands less competitive to international investors. Deep gender inequality constrains the opportunities available to women, to the detriment of the economy and society more broadly. Rates of violence against women are among the highest in the world. Corruption is considered endemic.

An increasing population and a limited formal labour market mean that employment growth is unable to keep up with demand. About 80 per cent of the population lives in rural areas and is dependent on a combination of subsistence farming and informal employment for its livelihood. Education levels are improving but fewer than one in five adults are literate. Water and sanitation is poor and preventable disease and death, especially in women and children, remain a challenge for the health system.

Australia's aid objectives

Australia is in a unique position to support Solomon Islands to realise its potential. We are the country's largest donor (Australia provides three-quarters of Solomon Islands' aid in 2015-16) and are able to draw upon our experience and partnerships across a broad range of sectors to help promote and support change.

Australia's aid program in Solomon Islands will focus on three strategic objectives:

- 1. Supporting stability,
- 2. Enabling economic growth,
- 3. Enhancing human development.

These three objectives are closely connected and mutually reinforcing; each of them is dependent on the other two. We will continue to adjust the relative weight of our programming between these three objectives as Solomon Islands continues down the path of recovery from conflict. Over the life of this AIP, Australian assistance will shift to provide greater support for enabling growth. This will be achieved mainly through a gradual and careful shift out of aid investments that underpin stability and prevent wealth destruction and into investments that directly facilitate economic growth and enable wealth creation.

Objective 1: Supporting stability

Stability is critical to both economic growth and human development. A stable Solomon Islands also bolsters regional security. Australia will continue to provide support for policing through RAMSI in accordance with the agreed Drawdown Strategy.

Australian support for the formal justice sector will focus on enabling courts and justice agencies to exercise their core functions. It will prioritise functionality of the Magistrates' Court, including provincial circuits. We will complement our focus on formal institutions with support to invigorate traditional justice structures.

We will assist Solomon Islands to maintain economic stability and build a platform for growth. This will include support to Solomon Islands Government for maintaining core economic functions, such as budget and debt management and the ability to respond to economic shocks.

Australia will become more targeted and innovative in improving public sector management and accountability. We will move from a focus on formal legislative and regulatory changes, to addressing key constraints to better government services for business and citizens.

Support for the electoral system in Solomon Islands will continue, to assist government in the conduct of credible elections.

Objective 2: Enabling economic growth

Australian assistance will address constraints to growth in Solomon Islands' economy. We will establish a new Growth Support Initiative to respond to emerging needs in potential growth sectors. Activities to be supported will be identified in consultation with stakeholders, but could include public-private partnerships, promoting dialogue and coalitions for reform between government and business, or establishing a business incubator to assist the growth of local business and provide targeted assistance to women entrepreneurs. It is expected that infrastructure will be a priority of the Initiative.

Promoting economic growth, job creation and poverty reduction through aid for trade will be another focus of the Growth Support Initiative. It will help steadily lift aid for trade from a baseline of 12 per cent of bilateral development assistance in 2014-15.

The Growth Support Initiative will complement continued support to deliver improvements to urban water and sanitation services and transport infrastructure. Work in these sectors will be contracted out to build the capacity of the private sector and generate direct employment, including for rural women. Australia will also increase efforts to build an enabling environment for growth and investment in Solomon Islands. We will advocate for tax reform, look for opportunities for Solomon Islands Government to make greater use of technology to reduce the regulatory and compliance burden on business, and support improvements in public financial management so that contracting and bill payments are more timely. This will reduce constraints on business efficiency and help ensure government is a more reliable partner for the private sector. Our support will strengthen systems to fight corruption. Australia will continue to be an active member of the Core Economic Working Group, to improve coordination and dialogue between Solomon Islands Government and its donor partners on meeting the economic and fiscal challenges facing the country and assisting Solomon Islands Government to enhance management of its own financial resources.

Australia will partner with the World Bank to support rural development and livelihoods by funding priority village infrastructure, agricultural extension and rural business development across the Solomon Islands. A new focus will be aid for trade including public-private partnerships in the agriculture sector to optimize economic growth and trade opportunities, particularly in cocoa and coconut products. Our support will model a credible and accountable mechanism for channelling funds directly to rural communities for public goods, assisting our advocacy for more efficient and transparent use of Constituency Development Funds. Through regional programs, Australia will provide support for fisheries management –

including effective regional cooperation with the Forum Fisheries Agency and the Secretariat of the Pacific Community – and improved market access for Solomon Islands' exports.

We will maintain support for financial inclusion in Solomon Islands by working to extend financial services to rural populations, in particular rural women, mainly through innovations in mobile phone and branchless banking technologies.

We will provide support to increase Solomon Islanders' participation in existing seasonal labour mobility opportunities in Australia. Support will be focussed on responding to employers' needs, ensuring that Solomon Islanders are well placed to compete for seasonal work.

Australia will also support urban land reform in Honiara – to help manage its growth – and seek opportunities to support any Solomon Islands-led customary land reform agenda.

At the regional level, Australia will look for Solomon Islands' opportunities to fully benefit from the Pacific Agreement on Closer Economic Relations (PACER) Plus, when finalised.

Objective 3: Enhancing Human Development

Australia will continue support for improved education outcomes in Solomon Islands, which will ultimately underpin stability and boost economic growth. Australia will adjust its resources within the education sector and invest in a new skills program. This program will be industry-led and demand-driven. In the informal sector, we will link short courses to small business development and rural income generation. This will include dedicated support for female traders and we will develop a broader strategy to support women in business.

Basic education will remain a focus of a trilateral partnership with New Zealand and Solomon Islands Government. We will continue our assistance to improve literacy and numeracy for girls and boys at primary school. We will prioritise investments to improve teacher quality and resources for teaching and learning in schools. We will also support improved school-based management through pilots in social accountability.

Australia will provide around 40 scholarships per annum for Solomon Islanders to undertake tertiary study in Australia and the region. Our focus on ensuring merit-based selection and gender parity will continue. We will narrow selection criteria to better link scholarships to filling skills shortages and supporting economic growth in Solomon Islands.

Australia will continue to support the health sector. We will prioritise spending to support maternal and child health, reduce the disease burden and strengthen the Solomon Islands health system to deliver essential medicines and better health services to communities. We will continue to support rural water and sanitation to build a foundation for a healthier population.

Social inclusion

We will partner with the World Bank to undertake poverty mapping to help inform our aid programs, particularly where they have a human development focus.

Australia's efforts to integrate effective responses to gender inequality into development programming have met with some success, however structural and systemic change is

needed in Solomon Islands to improve outcomes for women and girls. Gender will be integrated into all new program designs and existing programs reviewed to strengthen the gender focus. Targeted programming will focus on preventing family violence and implementing the landmark *Family Protection Act 2014*, which criminalises domestic violence. This will be complemented by RAMSI's work to ensure the Royal Solomon Islands Police Force is adequately trained and equipped to respond to domestic violence issues and to educate communities on how to address the problem.

Australia is committed to ensuring our development cooperation efforts are inclusive of people with disabilities and progress has been made in integrating disability considerations into sectoral programs. For example, in education, Australia will continue to support local organisations such as People with Disabilities Solomon Islands to advise the Ministry of Education and Human Development on the implementation of its inclusive education policy. The challenge during the life of the AIP is to achieve a systematic approach to this work. This will be realised through an early and deliberate focus on the needs of people with disabilities in program design, with subsequent follow-up through the program cycle.

Implementation approaches

Australia will work with the Government of Solomon Islands, regional organisations and private sector to deliver the aid program. The fragile, post-conflict context in Solomon Islands means that the political and institutional environment is highly variable across the sectors in which Australia works. Accordingly, delivery mechanisms will vary across programs in Solomon Islands to reflect their specific objectives, technical requirements and political economic considerations.

Working through Government systems

A strong partnership with Solomon Islands Government is key to achieving Australian aid objectives. Ongoing support for rebuilding institutional capacity – to maintain stability, manage the economy and deliver services to the citizens of the Solomon Islands – will be critical to success. Where government systems are sufficiently robust, using them is the most effective and sustainable way to deliver development assistance and build institutional capacity. Targeted budget support will be the delivery mechanism of choice for Australia's relatively mature health and education programs. Our support for transport infrastructure will also be delivered using government systems, under a pooled funding arrangement.

A greater role for the private sector; a carefully selected mix of partners

Australia will seek to increase support to the private sector. Business partners will play an integral role in Solomon Islands' and Australian support to promote financial inclusion, including through a direct partnership to expand financial services to rural populations. We will also engage the private sector in assisting rural development by leveraging private sector expertise to deliver agricultural extension and connect smallholder farmers to markets, and supporting agribusiness to access commercial finance for business improvement and expansion. Our 'mainstreaming' of private sector engagement in supporting aid delivery will be complemented by targeted direct support, including for women in business.

We will draw on the expertise of the development banks in sectors where they play a leadership role. Our support for rural development and livelihoods will be delivered under a pooled funding arrangement managed by the World Bank. Australian support for a public-private partnership to build the Tina River Hydropower project will also be delivered through the World Bank. In transport infrastructure, we will work closely with the Asian Development Bank.

We will coordinate with other donors and selectively partner with United Nations and non-government organisations (NGOs) where they have a competitive advantage, including in the health sector and in supporting our work on gender.

Targeted technical assistance

With Solomon Islands, Australia will develop a principles-based approach to technical assistance. All adviser positions will continue to be agreed with Solomon Islands Government. Advisers will be accountable to both Solomon Islands and Australia. There will be a greater focus on role clarity, in particular on whether an advisor's role is to build local capacity, provide expert advice, or undertake a specific job or task themselves. Technical assistance will continue to be Australia's principal aid delivery mechanism in the law and justice and governance sectors, where skills shortages and staff retention pose particular challenges. We will work to identify and utilise expertise among local or regional advisers where possible.

Policy dialogue

Working through partner systems where practicable helps us deepen our understanding of the challenges facing Solomon Islands in managing its economy and delivering services to its citizens. It also places Australia in a good position to engage Solomon Islands Government on evidence-based policy making, and budget priorities and execution, to improve the quality of Solomon Islands' own expenditure. This will continue to be a focus of Australian policy dialogue over the life of the AIP, complementing our support for Solomon Islands' donor coordination efforts.

The Core Economic Working Group will remain the main vehicle for policy dialogue with Solomon Islands Government and other donors, on Solomon Islands' national economic and financial management reform agenda and on improving the enabling environment for business and growth. Australia and Solomon Islands will review progress in delivering on mutual commitments and program performance at annual formal consultations.

Regional and global programs

Regionalism and regional investments in economic growth, development and security represent an important part of the Pacific's present and future, and Australia recognises that some development issues (e.g. fisheries management) are best approached regionally in the Pacific. Australia supports the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the development efforts of NGOs through the Australian NGO Cooperation Program. We will work with Solomon Islands Government to ensure Australia's regional and global programs complement Australia's bilateral assistance and promote achievement of Australia's aid objectives in Solomon Islands.

Performance management

Performance benchmarks

Australia proposes the following performance benchmarks to assess progress towards the strategic objectives of the Aid Investment Plan. Australia will report on progress against these benchmarks through annual Aid Program Performance Reports (APPRs). Future year performance benchmarks will be determined following the review and analysis of the APPRs.

		2015-16	2016-17	2017-18	2018-19
Aid objective	Stability				
Performance benchmark	Number of police and other law and justice officials trained	1700	1600	800#	800#
Aid objective	Stability				
Performance benchmark	Courts and justice agencies are better able to deliver their core functions	550 cases heard and disposed of in the Magistrates Court	600 cases heard and disposed of in the Magistrates Court	650 cases heard and disposed of in the Magistrates Court	650 cases heard and disposed of in the Magistrates Court
Aid objective	Economic growth				
Performance benchmark	Women able to gain business or income- generating skills	2,200 women are trained in business or income- generating skills			
Aid objective	Economic Growth				
Performance benchmark	Improved transport infrastructure to support increased economic activity.	600km of roads rehabilitated or maintained	700km of roads rehabilitated or maintained	750km of roads rehabilitated or maintained	800km of roads rehabilitated or maintained

Numbers of other law and justice officials only

		2015-16	2016-17	2017-18	2018-19
Aid objective	Economic Growth				
Performance benchmark	Improved environment for private sector investment, economic growth and trade.	50% of Core Economic Working Group Economic and Financial Reform Program actions achieved for 2015-16	50% of Core Economic Working Group Economic and Financial Reform Program actions achieved for 2016-17	50% of Core Economic Working Group Economic and Financial Reform Program actions achieved for 2017-18	50% of Core Economic Working Group Economic and Financial Reform Program actions achieved for 2018-19
Aid objective	Human Development				
Performance benchmark	Improved functioning of health system	Availability of critical and essential medicines (includes contraceptives) at the rural clinic level to 61 per cent	Availability of critical and essential medicines (includes contraceptives) at the rural clinic level to 64 per cent	Availability of critical and essential medicines (includes contraceptives) at the rural clinic level to 67 per cent	Availability of critical and essential medicines (includes contraceptives) at the rural clinic level to 70 per cent
Aid objective	Human Development				
Performance benchmark	Year 4 literacy and numeracy rates - SISTA	N/A*	66.4%	N/A*	N/A*
Performance benchmark	Increase in percentage of teachers trained	70% of teachers trained	72% of teachers trained	74%** of teachers trained	76%**of teachers trained

*Solomon Islands Standardised Test of Achievement (SISTA) survey takes place every three years

** 2015 target is a National Education Action Plan target, supported by Australia. Targets beyond 2015 will depend on the new NEAP targets.

Mutual obligations

Australia will deliver development assistance in support of the aid objectives and performance benchmarks identified in this AIP, and consistent with the priorities set out in the Solomon Islands Government's *National Development Strategy* and *Medium Term Development Plan*. Our sectoral support will be linked to agreed contributions from Solomon Islands Government. We propose Australia and Solomon Islands agree a set of mutual obligations for the aid program, to be confirmed through discussions on a future Aid Partnership.

Through the Solomon Islands' Core Economic Working Group, Solomon Islands Government and donors mutually agree priority actions to address the economic and fiscal challenges facing the country. To maintain support for stability, Solomon Islands has committed over time to increase funding for policing and rearmament of the Royal Solomon Islands Police Force.

Across the health, education, transport and rural development sectors, Australian funding will be linked to complementary Solomon Islands Government funding contributions for agreed priorities. In 2014-15 these included a Solomon Islands Government matched allocation to the recurrent health budget; an increase over time in Solomon Islands Government expenditure on primary education and a Solomon Islands Government contribution to a World Bank-managed pooled fund for rural development and livelihoods. Australia will seek to renew these agreements as they expire, including renegotiating commitments where appropriate. Australian assistance may also be linked to progress mutually agreed policy priorities or reforms.

Solomon Islands has committed to implementing legislation to improve public financial management and quality of expenditure, and help reduce family violence: the *Public Financial Management Act, Constituency Development Fund Act* and *Family Protection Act* and supporting regulations.

Solomon Islands' commitment to effectively and accountably manage its human resources is reflected in its agreement to maintain performance contracts for Permanent Secretaries, recruit independent candidates to key compliance roles such as Accountant-General, and fill at least 50 per cent of public sector vacancies each year.

Solomon Islands and Australia continue to operate under a mutually agreed Joint Statement on Zero Tolerance to Fraud in Solomon Islands.

Monitoring, review and evaluation

This AIP follows a period of significant change for Australia's aid program in Solomon Islands. RAMSI development programs were merged into our bilateral aid program in 2013 and RAMSI's policing mission is scheduled to draw down toward mid-2017. As a result, there is a need to take a fresh look at whole-of-program performance arrangements.

A monitoring and evaluation review will be undertaken in 2015 and a new whole-of-program Performance Assessment Framework (PAF) developed. Pending completion of this work we will use an interim PAF, drawing on existing sectoral program quality arrangements. Strategic evaluations at the mid-point and completion of all major investments will test whether we

are adopting sound implementation approaches and making adequate progress towards objectives. An independent, whole-of-program performance assessment, undertaken in partnership with Solomon Islands Government, will take place during the second half of this AIP cycle.

A mid-term review of the current phase of RAMSI will be undertaken in 2015 and be followed by regional and bilateral consultations on the future of RAMSI post-2017. This work will be directly relevant to decisions on post-2017 support to the Royal Solomon Islands Police Force.

We will adopt a more systematic approach to the gathering and use of evidence to inform programming decisions. This will include disaggregation of data by gender and disability wherever possible. We will also support Solomon Islands National Statistics Office to address gaps in national and regional data, establish credible baselines and undertake poverty mapping.

To implement the AIP, an updated 'Aid Partnership Arrangement' on development assistance between the Australian and the Solomon Islands Governments will be prepared. Under this agreement, we will continue annual high level consultations with Solomon Islands Government representatives to assess progress and adjust the program where necessary. Australian assistance will be linked to program performance and mutual obligation.

Established annual aid quality processes, including Aid Program Performance Reports, will synthesise performance information and inform future programming decisions.

Program management

Governance and resource management

Australia's aid to Solomon Islands will be principally managed by the Department of Foreign Affairs and Trade (DFAT) staff in the Australian High Commission in Solomon Islands and Canberra. Overall responsibility for the strategy and the Pacific aid budget will lie with DFAT's First Assistant Secretary, Pacific Division. Australia's High Commissioner to Solomon Islands will have responsibility for in-country leadership and delivery of the bilateral aid program against the objectives of this AIP.

DFAT in Canberra is responsible for policy development and guidance, drawing on the expertise of thematic specialists. Other Australian Government agencies—the Australian Federal Police, the Treasury and Attorney General's Department— will provide strategic input to policy development and oversight of programs in particular sectors in consultation with DFAT.

Designing, implementing and evaluating aid investments requires highly skilled staff. We will maximise our capability through innovative and flexible use of resources and by investing in staff training and development. Where appropriate we will procure specialist expertise to assist with our changing program.

Risk management

DFAT staff in Canberra and Solomon Islands will monitor and manage risks at the implementing country level. DFAT staff in Canberra and Solomon Islands will be responsible for identifying and managing risks and elevating risks to the attention of senior management when appropriate. The governments of Solomon Islands and Australia will maintain a zero-tolerance approach to fraudulent and corrupt actions against Australia's development program with Solomon Islands. Key risks over the period of 2015-2018 and proposed mitigation strategies are outlined below.

Solomon Islands experiences a return to conflict – The history of conflict in Solomon Islands carries with it a risk of relapse into violence. Australia's aid program will continue to support Solomon Islands' efforts to address the underlying causes of conflict in the country and the capacity of Solomon Islands Government to maintain law and order. Institutional strengthening will help build resilience and capacity to manage any crisis that may arise. The programming shift out of aid investments that underpin stability and into investments that directly facilitate economic growth will be gradual. Flexibility will be retained to slow this transition should circumstances warrant. Over time, our efforts to promote economic growth and human development will help create an environment in which all Solomon Islanders have a stake in the country's ongoing stability.

Dynamic political context leads to changes in development priorities and loss of program momentum - Australia's aid program in Solomon Islands is premised on our strong relationship with Solomon Islands Government, a shared understanding of development priorities, and a longstanding, deep engagement in Solomon Islands Government systems. This means that Australia is well placed to respond to changes in the political environment; but a major shift could still have implications for program momentum.

We will monitor the political context closely and maintain strong communication with key Solomon Islands Government decision-makers. This will be complemented by formal policy dialogue through annual development assistance consultations and the Core Economic Working Group, and regular working-level sectoral contact. This will help ensure aid program priorities are shared, commitments to support reform are mutual, and the relationship can be sustained through periods of change. Maintaining programming options with partners other than government also provides in-built flexibility to respond to changed political circumstances.

A major fraud against the Australian aid program occurs - Fraud is an inherent risk in delivering aid programs in many developing countries and Solomon Islands is not exempt. Solomon Islands and Australia have mutually agreed to a zero tolerance approach to the issue.

The program has a fraud plan to strengthen procedures for overseeing expenditure of Australian funds. There is a dedicated fraud officer and a procurement adviser based in Honiara to assist programs in risk mitigation and program implementation.

In response to previous instances of fraud, improved financial controls and compliance measures for Australian funds (and also other donor and Solomon Islands Government funds) have been introduced where the program is using partner government systems. Australia will continue to use internal audit and public financial management specialists within relevant ministries, with the program procurement advisor providing additional oversight of procurement risks. The health and education programs will make payments on a reimbursable basis to further reduce financial risks.

Australia's aid program fails to achieve its stated objectives – The fragile, post-conflict context and broad range of structural development impediments pose challenges for effective aid implementation. Australia is pursuing an ambitious partnership with Solomon Islands Government to lay the foundations for a recovery that can over time become self-sustaining. This includes a reorientation of the program towards growth, a broadening of partnerships to better engage the private sector and innovative approaches to aid delivery. There is an inherent risk of failure or of progress towards objectives being slower than anticipated.

This risk will be mitigated chiefly through expanded use of performance incentives within the program and robust monitoring and evaluation arrangements. These measures will ensure that underperformance is detected early, remedial action taken and programs discontinued in a timely manner where such action is ineffective. The pace of programmatic change will be calibrated to mitigate the risk of unintended consequences. Strengthened sectoral alignment with whole-of-program objectives, and with regional programs will enhance program coherence.

Humanitarian crisis or natural disaster affecting Solomon Islands - Solomon Islands is one of the most disaster-prone countries in the world, with a perennial risk of cyclones, floods, storm surges, earthquakes, tsunamis and consequent humanitarian impacts.

Firsthand experience delivering Australia's strong response to the devastating April 2014 floods has reinforced staff capacity to manage humanitarian assistance. Post preparedness is routinely stepped up each cyclone season. Australian-based support and expertise from the Australian Civilian Corps (ACC) can be drawn on where the extent of a disaster warrants it. Responses are agreed on a case by case basis.

Risk Monitoring and Communication Schedule

Process	Frequency
Update of program-level risk register	Quarterly
Update of sector-level risk registers	Quarterly
Mission senior management team discussion on progress of risk treatments, escalation of country aid risks and any new risks	Monthly
Country program senior management team discussion on progress of risk treatments, escalation of sector risks and any new risks	Monthly