

THE SOLOMON ISLANDS CORE ECONOMIC WORKING GROUP

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

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## ABBREVIATIONS

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BERT	Budget Execution and Reporting Tool
CBSI	Central Bank of Solomon Islands
CEWG	Core Economic Working Group
COA	Chart of Accounts
CTB	Central Tender Board
DBI	Doing Business Indicator
DMS	Debt Management Strategy
EFRP	Economic and Financial Reform Program
EITI	Extractive Industries Transparency Initiative
ERSP	Economic Recovery Support Program
EU	European Union
FI	Financial Instruction
FMIS	Financial Management Information System
FOPA	Festival of Pacific Arts
IAS	International Accounting Standard
IPSAS	International Public Sector Accounting Standards
IMF	International Monetary Fund
IRD	Inland Revenue Division
JRM	Joint Review Mission
MAL	Ministry of Agriculture and Livestock
MDPAC	Ministry of Development Planning and Aid Coordination
MDG	Millennium Development Goals
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
NCRA	National Coalition for Reform and Advancement
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
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PMO	Prime Minister's Office
RAMSI	Regional Assistance Mission to Solomon Islands
SBD	Solomon Islands Dollar
SICHE	Solomon Islands College of Higher Education
SIEA	Solomon Islands Electricity Authority
SIEINSG	Solomon Islands Extractive Industries National Stakeholder Group
SIG	Solomon Islands Government
SIGAS	Solomon Islands Government Accounting Services
SIWA	Solomon Islands Water Authority
SOE	State-owned enterprise
USD	United States Dollar

## EXECUTIVE SUMMARY

The Third Annual Joint Review Mission (JRM) found that the Core Economic Working Group (CEWG) continues to be a successful model for joint government-donor dialogue for the advancement of key economic and financial policy reforms. This model is considered to represent best practice of donor-government coordination in the Pacific and is being replicated in a number of other Pacific Island countries.

As the CEWG enters its fourth year of operation, and after supporting important policy achievements, CEWG members should guard against complacency. A significant reform agenda remains to be completed, including:

- ▶ Embedding existing reforms
- ▶ Continuing ongoing reforms to address significant social and economic challenges, especially in light of the weakening global and domestic economic outlook
- ▶ Addressing institutional weaknesses, strengthening corporate governance and building local staff skills and leadership throughout the public sector
- ▶ Ensuring better quality development and recurrent spending by line ministries, particularly given tightening fiscal conditions

The maturing of the CEWG reflects the strong leadership of the Minister of Finance and Treasury and his Permanent Secretary, support from the Prime Minister, other ministers 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) 2011-2014). A number of interlocutors indicated that the EFRP matrix was a powerful instrument for ensuring that difficult reforms could be progressed, because of the heightened political, bureaucratic and donor focus.

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

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

- ▶ **SOE reform and resolution of the solvency and debt issues surrounding key state-owned utilities**, most notably the debts from SIWA to SIEA and ensuring sustainable tariffs and community service contracts.
- ▶ **Development of a new debt management strategy** (which has been incorporated in the Honiara Club agreement) **and the ongoing improvement in debt sustainability**. This significant improvement in SIG's fiscal balance sheet will enable renewed access to concessional financing (from the International Financial Institutions) to fund the necessary infrastructure for improved service delivery and stronger private-sector led economic growth.
- ▶ **Ongoing macroeconomic consolidation and the continued enhanced engagement with the IMF**. The JRM noted, however, that Solomon Islands remains highly vulnerable to volatile external conditions, and tax revenues in the first half of 2012 were below budget projections. Meanwhile, the JRM was alerted to significant expenditure pressures (to the end of July) including in relation to payroll in several departments and the Festival of Pacific Arts.
- ▶ **Gains in public financial management**, including fewer virements, a substantial upgrading of the SIG financial management information systems, ensuring contingency warrants are fully funded, and deeper analysis of line ministry spending, more notably for the recurrent budget.
- ▶ **Strengthening the accountability and transparency around the use of public resources**, including a more detailed presentation of the annual budget through a 'Volume 1' overview paper; deepening consultations with civil society around the budget, and consultations between the Ministry of Finance & Treasury (MoFT), Ministry of Development Planning and Aid Coordination (MDPAC) and line ministries around annual budget submissions.
- ▶ **Improvements in the private sector investment climate**, including improvements in the time to register new companies and land transactions, as indicated by the increase in the number of registered companies and the large gains in Solomon Islands' *Doing Business* survey ranking.

- ▶ **Progress towards Solomon Islands' candidacy for the Extractive Industries Transparency Initiative (EITI)**, with a multi-stakeholder steering group (Solomon Islands Extractive Industries National Stakeholder Group, SIEINSG) formed and a work plan being finalized.

## SUGGESTED PRIORITIES IN THE REFORM PROGRAM

The JRM recommends the following be considered as priorities for the forward-looking CEWG-supported reform program. These priorities combine reform programs currently being progressed, and reform areas that the JRM believes would benefit from a strengthened focus.

- ▶ **Maintain recent gains in macroeconomic stability and fiscal management**, especially as global conditions become less supportive and downside risks increase.
- ▶ **Strengthen public sector management**, to ensure established, vacant positions are filled in priority areas, subject to budgetary resources. Into the medium-term, performance management systems need to create appropriate incentives for the development of public servants, especially senior management. As an immediate step, this can be advanced through a review of the current public sector remuneration framework (salaries and allowances), building on the introduction of performance management contracts for Permanent Secretaries on 1 January 2013.
- ▶ Develop an assessment of, and a roadmap for, **addressing institutional weaknesses and capacity needs** across central fiscal agencies and key implementing agencies.
- ▶ Across the overall EFRP, enhance efforts to ensure that the reform program has a **greater focus on capacity building and Solomon Islander leadership**.
- ▶ **Strengthen budgetary planning and execution processes to improve the quality of spending**, by:
  - costing recommended Development projects before submission to Cabinet for approval;
  - assessing spending proposals for consistency with the National Development Strategy (NDS), especially with respect to the poverty reduction objectives;
  - integrating the Recurrent and Development budget formation processes more closely, including by strengthening the budget screening process and ensuring MoFT and MDPAC are both involved in the budget prioritization processes;
  - improving linkages between line ministries and central agencies with respect to budget planning;
  - improving the linkages between the planning and budget preparation functions within line ministries to better support policy-focused budget requests; and,
  - completing preparation of multi-year investment pipelines and recurrent forward estimates, with SIG seeking support for this through multi-year commitments from development partners.

These reforms could be organized through the proposed PFM strengthening roadmap.

- ▶ **Develop a comprehensive PFM reform strategy and roadmap** that identifies, prioritizes and sequences PFM reforms, consistent with SIG capacity and commitments of assistance from development partners.
- ▶ **Operationalize the recently-created procurement unit in MoFT**. Staff positions have been established and are now being filled. But the institutional reforms are incomplete, and it is important that the Central Tender Board secretariat is co-located within the Procurement Unit. While the Unit's staff are brought on board, completion of the Financial Instructions (including adoption of a procurement manual and standard bidding documents) should be fast-tracked (drawing on development partner assistance as required).
- ▶ **Continue prioritized legislative reforms** (e.g., *Public Finance Act*, *Audit Act*, customs, duty and taxation exemptions, income tax, customs and excise tax, and goods tax legislations that are related to the proposed new mining tax regime, *National Provident Fund Act*, etc.), with plans developed and resources mobilized to support both the drafting of the Acts and their implementation after they have been passed by Parliament, including through training programs (this could form part of the PFM Roadmap).

- ▶ **Support strong gains in financial inclusion.** Steps include appropriate measures to ensure the regulatory framework supports the development of low-cost financial innovation. Some regulatory provisions will be needed to support the rapid development of mobile and branchless banking and other financial innovations, which will support increased access to finance, especially among micro and small-enterprises and in rural areas. In addition, SIG plans on pursuing a Financial Inclusion Access Strategy jointly with CBSI, and exploring legislative and other approaches that ensure current or entering financial institutions provide financial services to communities currently under-served, especially in rural areas with emerging economic activities in a financially sustainable and non-politicized manner.
- ▶ **Ensure Solomon Islands receive a fair return from its natural resources.** Key to this is to complete the development and legislation of a standard template for the taxation arrangements for future mining projects. Meanwhile, there need to be ongoing efforts to ensure that significant resource-sector investments by transnational corporations are not able to benefit from aggressive tax planning, for example through maintaining robust estimates of these investments' transfer and capital investment pricing.
- ▶ **Continued enhanced engagement with the IMF,** potentially through a renewed standby credit facility or a Fund-monitored program.

## PRIORITIZING AND RATIONALIZING THE CEWG-EFRP MATRIX

A trade-off is evident between focusing the EFRP matrix on a limited number of policy actions and providing explicit CEWG support for the breadth of SIG's reform program. On balance, the JRM recommends rationalizing the EFRP matrix from the current 77 individual policy actions (including 14 direct triggers for budget support)<sup>1</sup> to include only those actions that are in line with the general principles for constructing EFRP policy actions enumerated on page 10 of this report. In agreeing on future EFRP matrices, the CEWG will have to take into account the implications of the transfer of RAMSI development programs to other development partners (together with the nature of additional technical assistance that is likely to be forthcoming from development partners).

To support the consolidation of the appraisal requirements for development partners' budget support grants, the JRM recommends continuing to present the full cabinet-endorsed 2011-2014 EFRP matrix as the "CEWG EFRP Matrix". Development partners wishing to provide budget support with respect to the completion of specific policy actions would formally appraise only the budget triggers shaded grey in the CEWG EFRP matrix whereas JRM would need to formally appraise the completion of full set of SIG's policy reform actions in the whole matrix. This would serve the assessment and support requirements for both development partners and SIG.

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<sup>1</sup> In contrast, the 2011-12 policy reform program contained 31 policy actions, of which 19 were specific budget support triggers.

## 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 of the matrix.

Having successfully stabilized its immediate macroeconomic and fiscal position, and having made good progress on improving PFM systems, SIG's priorities have increasingly shifted to a medium-term program to consolidate and advance its ongoing Economic and PFM reform program while at the same time putting in place the necessary supporting reforms that would promote institutional and human capacity development to improve development outcomes and strengthen economic growth.

The policy matrix, which is the central reform instrument of the CEWG, 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 Cabinet-level approval.

The purpose of the third annual Joint Review Mission (JRM) is to review progress in the implementation of the Economic and Financial Reform Program with particular attention to the priority reform actions<sup>2</sup> (The Terms of Reference of the JRM are reproduced in Appendix 1.) By doing so, it should seek to support local capacity to participate in the development, implementation and review of the reforms to promote their sustainability. The mission findings will also serve to inform donor decisions regarding the provision of budget support in calendar 2012 and 2013. It seeks to support individual donors' budget support assessment processes, but recognizes that it is not a substitute for all donors' processes. Its conclusions and recommendations will guide the next iteration of the EFRP matrix.

The Review has sought to build on existing SIG processes and reporting, and recognized the stretched capacity and the competing demands on SIG (for example, preparations for the 2012 PEFA self-assessment).

### THE ANNUAL JOINT REVIEW PROCESS

The Third Annual Joint Review comprised representatives of SIG (MoFT, MDPAC, CBSI) and the CEWG development partners (World Bank, AusAID, ADB, and an EU-funded public financial management/budget systems expert). 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 2011/12 Policy Actions, and consulted with implementing agencies and development partners on reform priorities for 2012/13 and beyond. Particular attention was paid to capacity and development partner support issues.

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 outcomes 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.

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<sup>2</sup> The 'priority reform actions' are those explicitly assessed for budget support, and are shaded grey in the EFRP 2011-2014 matrix (Appendix 2), so as to make a clear distinction between these actions and the full CEWG EFRP matrix.

## 2. SOLOMON ISLANDS IN MID-2012

Recent years' turn-around in Solomon Islands economic conditions continued into mid-2012, although recent drivers of growth are waning and fiscal pressures are building. The earlier momentum to the Solomon Islands economy continued through the final months of 2011 and into early 2012, although by mid-year the peak in the current growth cycle appears to have been passed. SIG has been able to expand spending plans significantly while maintaining recent gains in fiscal buffers and debt sustainability due to strong revenue growth, reflecting both higher activity and prices and large gains in collections.

The remarkable and sustained strength in logging and gradual move to full production capacity at the Gold Ridge mine continued to make the largest contributions to growth. Of the approximately 10 ½ percent<sup>3</sup> expansion in the Solomon Islands economy in 2011, around 3 percentage points are estimated to have come from logging, another 2 percentage points from the start of production at the Gold Ridge mine, and strong government spending and donor support explaining much of the remainder. Log exports totaled almost 2 million m<sup>3</sup> in 2011, compared with just over 1.4 million m<sup>3</sup> in 2010, itself a record year. Logging rates continued near these levels through the first half of 2012. (In contrast, Papua New Guinea, with a far larger land mass and forest stock, exported around 3 million m<sup>3</sup> in 2011.) Gold production totaled around 39,500 oz in 2011. The mine is expected to produce around 90,000 oz in 2012 and around 95,000 oz each year over the mine life. This is less than the earlier expectation of 100,000 to 110,000 oz, but with a longer operating life expected. Output of other agricultural commodities was strong in late 2011 and the first half of 2012. Palm oil production reached 31,592 tons, 10 percent more than 2010. Improved fishing performance in the second half of 2011 raised the 2011 fish catch to 28,200 tonnes, almost one-third more than 2010. Production in some of Solomon Islands key agricultural sectors (especially copra) is highly price sensitive, and just as the strength in prices in recent years prompted farmers to raise production, the weakening in prices since the start of 2012, especially in USD terms, may slow production.

The strength in production from these tradable sectors combined with high prices to create a remarkable turn-around in Solomon Islands' trade position over 2011, to record surpluses in every quarter since Q2 through mid-2012. Over 2011 as a whole, Solomon Islands recorded a trade deficit of just SBD 23 million, compared with SBD 1102 million in 2010 and the strongest performance since the 1990s. At the same time, export values reached SBD 3156 million, 75 percent more than 2010. Much of the improvement in the economy's trade balance was partly attributable to finalization of earlier investments in the Gold Ridge mine, with capital equipment imported over several years now generating around 20 percent of Solomon Islands' exports. The trade surplus is all the more notable given strength in the value of fuel imports and vehicles and other basic machinery imports over the past year.

This stronger trade position, ongoing transfers from development partners, and fishing license payments, lifted foreign exchange reserves to USD 480 million. This is equivalent to approximately 11 to 12 months of imports; import coverage has exceeded 10 months since late 2010. Foreign investors' interest in the Solomon Islands (as indicated by foreign direct investment applications) spiked in late 2011 and remained high through early 2012, and was focused on forestry, wholesale and retail trade, other services and mining. The growth in reserves continues to be the main factor increasing the money supply and adding to the structural surplus liquidity in the banking system; banks show modest signs of starting to lend these funds again, with credit to the private sector in Q1 2012 at its highest level since Q3 2010. Banks continue to report difficulties in identifying acceptable credit requests, while private sector representatives report smaller businesses continue to have difficulties accessing credit. While structural factors continue to constrain lending, and domestic financial markets remain at a very early stage of development, and government financial management remains sound, the JRM does not believe that current high levels of liquidity are likely to lead to an inflationary outbreak.

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<sup>3</sup> This figure is estimated by the MoFT. The most recent GDP figures published by the official Statistician cover 2010. 2011 GDP estimates are based on partial surveys conducted separately by CBSI and MoFT. CBSI estimates that the economy expanded by 11 percent in 2011. The IMF, which calculates real GDP from a 2010 base year, estimates that the economy expanded by 10.7 percent in 2011, with the non-mining and non-timber economy expanding by 7.3 percent.



Honiara consumer price inflation gradually moderated over the year to mid-2012, although fresh food prices, reflecting a particularly wet rainy season, created some volatility in the overall inflation rate. The year-on-year rate peaked at 10.8 percent in October 2011. By June 2012 it had slowed to 6.1 percent. A particularly wet rainy season is likely to impact fresh food prices through the first quarter of 2012. In line with recent modeling work by CBSI, the IMF and PFTAC, inflation in the Solomon Islands is predominately driven by movements in imported prices, reflecting trends in global prices and the SBD exchange rate.

While accumulating reserves, the Central Bank allowed the SBD to appreciate a further 2.6 percent against the USD between June 2011 and November 2011, before fixing the SBD at SIs\$7.36 per USD ever since. This builds on the 4.1 percent revaluation implemented in June 2011. Across other exchange rates, the SBD has generally moved with the strengthening and weakening of the USD against other currencies through this period. After accounting for such movements across currencies and differences in inflation rates, the SBD appreciated by 4.6 percent overall between August 2011 and May 2012, although it is still 15 percent weaker than its high in real effective terms recorded in March 2009. The exchange rate is assessed to be the most important determinant of inflation in the Solomon Islands, making exchange rate management the key tool of monetary policy.

Solomon Islands Government's (SIG) budget position benefited from the strength in export values and donor support and improvements in tax collections. According to IMF calculations, the budget balance is expected to be near SBD 40 million in 2012, well down on the SBD 146 million estimated surplus in 2011. In 2011, recurrent, particularly payroll, expenditure were in line with budget projections, while SIG-funded development expenditure fell way short of budget-time plans, in part attributable to the late adoption of the 2011 budget.

The 2012 SBD 3 billion budget includes a near 50 percent increase in planned SIG-funded spending. It maintains SIG funding in core service delivery for health (at above 10 percent of recurrent SIG spending), education (over 22 percent), and a large increase in funds for infrastructure. However most of the increase is associated with SIG's contribution to the development budget, an area that has suffered from poor realization rates in the past. The allocation in the development budget to parliamentarians' rural constituency development funds has been increased, with a number of development projects, ranging from cocoa farmer support to tertiary scholarships to rural electrification, now including 'constituency fund' components. These funds can be spent largely at the MP's discretion in their constituency, and the disbursement rate on these funds is generally very high, although systems for ensuring that these funds are spent on the purposes of the described development project are under-developed. The government has also allocated additional funds to various activities that will not generate ongoing demands on the budget, such as funding for the Festival of Pacific Arts (FoPA) that Solomon Islands was hosted in July. Preliminary reports in July 2012 indicated that the spending on the FoPA exceeded budgetary allocations by a considerable margin, and the Internal Audit and Auditor General offices are reviewing these expenditures for compliance with the Financial Instructions.

Debt levels continued to decline, to about one-quarter of GDP. This has freed fiscal space from debt servicing, with debt service falling to 4 percent of revenues in 2011. These gains have also improved Solomon Islands debt sustainability, although the IMF-World Bank Debt Sustainability Analysis indicates that Solomon Islands remains at moderate risk of debt distress.

High rates of turnover in senior political and bureaucrat positions continued. The Gordon Darcy Lilo, became Prime Minister in mid-November 2011, after The Hon Danny Philip stood aside. Prior to becoming Prime Minister, Mr. Lilo had been Minister for Finance and Treasury, and was succeeded by The Hon Rick Houenipwela. A change in a number of Ministers was announced in February 2012 and in Permanent Secretaries in March. The National Coalition for Reform and Advancement (NCRA) continued to form the government. Interlocutors indicated that these changes slowed but did not significantly alter work programs. Parliament continued to sit infrequently, passing four Bills in 2011 while sitting 34 days. Up to the end of July 2012, it sat for 22 days and passed three Bills.

The outlook is for a moderation in the rate of growth of the Solomon Islands economy. While the continued commissioning of the Gold Ridge mine will again contribute to output growth in 2012, recent logging rates are not sustainable and are likely to unwind, subtracting from overall GDP growth, as the weakening in global timber prices and improvements in revenue collection would reduce the profitability of logging. After 2013, the EU will

require that the sustainability of wood products imported into the region be certified. This may impact some of Solomon Islands log exports. While much is destined for construction and products that are used especially in East Asia, some is processed into products destined for the EU. The value of certified, sustainability harvested timber is likely to rise, such as that produced by plantations on Kolombangara island. Demand in the non-resource economy has benefited from both donor flows and the rising receipts flowing to cash crop producers; both are likely to be near their peak or to fall over the coming years, given projections for commodity prices, Consensus Forecasts of global exchange rates and IMF staff projections. This weaker outlook emphasizes the importance of the government's current efforts to rebuild foreign exchange and government account balances during the current positive economic conditions, such that there are reserves to draw on in the case of the growing downside risks to the global economy being realized.

### 3. THE CEWG AND THE 2011-2012 ECONOMIC AND FINANCIAL REFORM PROGRAM PERFORMANCE OVERVIEW

The Third Annual Joint Review Mission (JRM) found that the Core Economic Working Group (CEWG) continues to be a successful model for joint government-donor dialogue for the advancement of key economic and financial policy reforms. Consistent with international and regional agreements on development effectiveness (the Paris and Accra Conventions and Forum Compact), the principles underpinning the CEWG are:

- ▶ Strong government leadership, ownership and close dialogue with development partners.
- ▶ Development partner coordination, harmonization and alignment with SIG, with particular focus on facilitating the provision of budget support.
- ▶ Comprehensive approach to policy challenges in addressing partner governments' socio-economic and financial development priorities.

The CEWG is considered to represent best practice in the Pacific of development partner-government coordination and is being replicated in a number of other Pacific Island countries.

As the CEWG enters its fourth year of operation, and after supporting important policy achievements, CEWG members should guard against complacency. A significant reform agenda remains to be completed, including:

- ▶ **Embedding existing reforms** such as the updated financial management information systems, or new legislative requirements. In many respects the reforms are the first steps in the process (with implementation to follow), but to deliver results they must be embedded and acted on in SIG's day-to-day working processes.
- ▶ **Ongoing reforms to address significant social and economic challenges**, especially in light of the weakening economic outlook. For example, by realizing further improvements in the quality of expenditure by ensuring SIG funding targets MDG outcomes (basic education, primary healthcare), and pro-growth infrastructure, and continuing improvements in the performance of SOEs.
- ▶ **Ongoing reform to improve public financial management (PFM) systems and processes**, including SIG developing and executing a strategy and roadmap to strengthen PFM. A well-functioning PFM system is a necessary technical condition for ensuring expenditures support Solomon Islands' social and economic needs.
- ▶ **Addressing institutional weaknesses**, including inconsistent inter-agency coordination and communication, strengthening corporate governance and placing considerable emphasis on building local staff skills and leadership throughout the public sector.

The maturing of the CEWG reflects the strong leadership of the Minister of Finance and his Permanent Secretary, support from the Prime Minister, other ministers 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) 2011-2014). A number of interlocutors indicated that the EFRP matrix was a powerful instrument for ensuring that difficult reforms could be progressed, because of the heightened political, bureaucratic and donor focus.

The JRM noted important progress in many key areas of the EFRP matrix in the nine months to July 2012. (Table 1 summarizes performance across the three pillars of actions.) Overall, the Mission found that by the time the Mission's report was finalized, the Government had completed eight of the fourteen 2011/12 policy actions associated with budget support, and was in the process of completing the remaining six. It was put to the JRM that the delay in completing these six budget support actions was due to capacity constraints, delays in processes, and even logistical constraints. In core areas, questions were raised in SIG's self-assessment of the EFRP matrix relating to the level of priority given to these reforms by MoFT management and by development partners; significant examples include procurement and competition policy.

Table 1: Summary of JRM Assessment of EFRP 2011-2012 Performance

	All Policy Reform Areas				Budget Support Policy Reform Triggers			
	Total	Accomplished	Progressing	Off track	Total	Accomplished	Progressing	Off track
I. Budget preparation and planning	28	16	11	1	8	3	5	0
II. Budget execution	29	12	16	1	4	1	3	0
III. Environment for private sector investment	20	11	7	2	2	2	0	0
EFRP	77	39	34	4	14	6	8	0

Note: The assessment is based on the evidence provided to the JRM team over the course of its mission. Those policy actions that have been completed and the JRM team are able to verify this are marked as 'accomplished'. Where the JRM assesses that progress has been made but the action is not formally completed and interlocutors expressed confidence that the action would be completed within a reasonable time frame (generally before the end of calendar 2012), the JRM marked the action as 'progressing'. Actions that have not been completed, and showed little or no progress are marked as 'off track'.

## A. PROGRESS IN ACHIEVING EFRP PROGRAM ACTIONS IN THE PAST NINE MONTHS

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

### i. Budget Planning, Systems and Preparation

A core achievement in the past year as viewed by the JRM was the **development and approval of a new debt management strategy**. The new debt management strategy (DMS), which was endorsed by Cabinet in May 2012 and by representatives of the Honiara Club in July 2012, has been incorporated into the Honiara Club Agreement. It specifies guidelines for all aspects of debt management and stipulates mechanisms for exercising maximum prudence in borrowing and the utilization of public debts. The Government is considering incorporating these principles in the *Financial Instructions* developed as part of the redrafting of the *Public Finance and Audit Act*. Together with SIG's significantly improved debt position, the DMS will greatly enhance SIG's capacity to fund the necessary infrastructure for improved service delivery and economic growth through access to concessional finance from International Financial Institutions. MoFT has also established a Debt Management Advisory Committee which will advise the Minister of Finance and Treasury on new borrowing proposals in accordance with the guidelines laid down under the DMS and the new Public Finance Management Act.

(I-7)

The JRM found evidence of improved and deepening consultations between the MoFT and other agencies within SIG, and with the greater Solomon Islands community. Key line agencies confirmed discussing baseline budgets and budget bids with the Budget Unit, and of greater engagement with Treasury around operational issues and policy developments. Representatives of the private sector also commented favorably on the improvement in communications over recent years. While welcoming these developments, the JRM believes that further improvements could be made by publicizing the results of the consultations with civil society, and to fully brief relevant line ministries on the core messages expressed by civil society and provincial officials. The JRM also notes that the ability of civil society to monitor budget execution is at an early stage of development.

The JRM also welcomes **steps to improve transparency and policy analysis**, such as the introduction of the Budget Strategy & Outlook Budget Paper (Volume 1), which provides an overview of macroeconomic developments and sectoral policies, and an extended presentation of each ministry's objectives, key programs and budget allocations and realized spending. This, in part, has been enabled by the growing skills of the public expenditure analysis section, and improved IT infrastructure (rolling out of BERT and improvements in the FMIS). However the JRM noted limited progress in developing forward estimates, as required to more effectively operationalize the National Development Strategy (NDS) and the emerging medium-term sectoral development strategies. Capacity constraints are a reason for this. It also found scope for deeper assessments of the appropriateness of baseline

expenditure by line agencies, and of line agencies' budget bids especially around the development budget. To a large extent, this reflects capacity weaknesses in line ministries. The recently conducted Line Ministry Expenditure Analysis carried out in MAL suggests a practical and user-friendly tool for analyzing baseline expenditure of both development and recurrent budget, and prioritising budget allocations. This should be rolled into the major social service delivering ministries, including Education, Health or Infrastructure Development.

A number of interlocutors expressed concern that certain proposals being approved for the development budget were not subject to the normal standards of project development and appraisal. The JRM was informed that many projects are approved by Cabinet before detailed costing and appraisal. This tends to occur via two channels: new projects are introduced at the final (i.e., political) approval stages; and projects are modified in a manner which undermines their original objectives. (The JRM's recommendations of reform priorities suggest steps to address these issues, to further recent gains in budget policy analysis such that resources more effectively reach target sectors.)

(I-1, I-2, I-3, I-5, I-6, I-9)

**Work continues on preparing a new *Public Financial Management Act***, which among other areas will lay out in legislation management of public debt and public resources, principles of sound public financial management including requirements that all budgets and budgetary variations are fully funded, and financial reporting requirements. The first in a sequence of discussion papers on the Act was circulated in March 2012, and SIG expects to circulate the remaining three papers shortly after the completion of the JRM. It plans to present the Act to Parliament late in calendar 2012.

(II-9)

The JRM welcomed that **SIG continues to exceed the baseline minimum allocation targets for its recurrent appropriations to prioritized social sectors** (Education and Healthcare), and the 2012 budget targets payroll spending below the policy action threshold. That said, the JRM received a consistent view that these targets were comparatively blunt instruments that did not clearly protect SIG's contribution to basic education and primary healthcare.<sup>4</sup>

In line with the 2011 JRM's views, MoFT has prepared assessments of recent years' spending in these areas and has begun to consider thresholds with a view of forming the basis of more targeted policy actions. It is worth noting that capacity in key line ministries has been unable to support the analysis of spending. The assessment on regular transport infrastructure maintenance allocations was yet to be completed at the time of the JRM due to capacity constraints and data issues. While MID officials indicated that recent years' expenditure is a poor guide to ongoing needs, and rehabilitation has been prioritized over regular maintenance, analysis has the potential to identify resources required to maintain and rehabilitate run-down infrastructure.

(I-5, I-9)

## ii. Budget Execution

The JRM noted continued improvements in budget execution:

- with fewer virements (in 2011, 323 virements were processed compared to 359 in 2010, indicating some improvement in estimating Ministry needs in determining budget allocations);
- following a substantial upgrading of the SIG financial management information system. This involved the establishment of automatic links between the budget preparation system (BERT) and the budget execution system (AX), which now provides the Budget Unit with real time information on budget execution and the capacity to address emerging problems;

<sup>4</sup> Note that the Second JRM raised this concern about the excessive aggregation of the expenditure targets for Health and Education, and the bluntness of the payroll target as a means of ensuring expenditure on personnel is sustainable

- ensuring contingency warrants are fully funded (see below), which reduces the risk that program execution is disrupted by unbudgeted expenditure decisions and that fiscal targets are breached, while also managing the risks around exhausting the allocation early in the year and through use for non-priority expenditure;
- with ongoing gains in payroll management through the implementation of the Aurion payroll system; and,
- through more training programs to both ensure SIG officers can use these new systems, and to improve compliance with the Financial Instructions.

(II-2, II-3, II-4, II-8)

While the MoFT Cash Coordination Committee continues to meet and helps ensure cash reserves are available to process anticipated payments on schedule, problems continue with some large, unanticipated payment requests being presented with little forward notice. Electronic funds transfer systems are being implemented, and this will reduce risks associated with manual payment systems, especially in more remote areas, as branchless-banking systems develop. The JRM noted increasing use of constituency funds to implement development programs. Experience in other countries in the region indicates that without strong reporting and accountability mechanisms, these funds can be spent in a manner that does not maximize development outcomes.

(II-1)

A number of interlocutors, including from SIG, expressed **concern over execution of the development budget** by implementing ministries (see also Budget Planning above). In part, this is attributed to weaknesses in project planning, implementation and monitoring capacity. As well, the JRM believes that a major contributing factor is that projects are approved for the development budget, including at the political level, before full design and appraisal has been completed (see section i. above).

The JRM understands the Public Finance & Audit Act (1996) does not make a distinction between the Development and Recurrent Budgets, and the Minister of Finance is responsible for presenting the consolidated budget to Parliament. The JRM noted that for the 2013 Budget process MoFT, MDPAC and MPS have been improving coordination. Together they are conducting consultations with Ministries, from the outset of the Budget Launch, to discussions on baseline budgets and bid formulation, with the aim of ensuring budget bids as a whole meet appropriate standards of budget quality. MoFT, should continue working in conjunction with MDPAC to strengthen coordination and oversight of the development budget's preparation, to ensure budget bids are in line with policy objectives, costings, and implementation plans.

In the key area of **procurement, overall progress has been slow**. A procurement reform plan has been formulated and approved by senior MoFT management. In line with this plan, a dedicated procurement unit has been formed, although staffing was delayed with a freeze on new recruitment. Three graduates (RAMSI-funded) have recently been appointed, however, according to MoFT officials, the procurement unit will not be able to perform effectively until the secretariat of the Central Tenders Board (CTB) is co-located within the Unit. The view put to the JRM was that weaknesses in the procurement process start at the beginning and compliance issues are compounded through subsequent stages. As a consequence, a procurement unit which incorporates the CTB Secretariat can ensure compliance issues are managed before procurements reach final approval and payment stage. In addition, other interlocutors informed the JRM that the lack of a Procurement Manual and Standard Bidding Documents has resulted in different interpretations of the Financial Instructions, making it more difficult for the CTB and Accountant-General to perform their roles. Developing and implementing these documents is viewed as an opportunity for relatively fast improvements in SIG's procurement effectiveness.

Notwithstanding the above, the JRM notes improvements in the wider procurement reform program. Preferred supplier arrangements have been put in place and endorsed by the CTB for IT purchases but not yet office supplies. MoFT continues to publish tenders awarded by the CTB on its website, although sometimes with a lag of several months. It intends to continue publishing advertised tenders on its website on a more regular basis.

(II-10)

The resources of the **Internal Audit Office** within MoFT have been broadly maintained, with two officers moving to establish internal audit branches in MEHRD and MHMS, which has boosted the internal audit skills and capacity in these two ministries. The departing officers have been replaced by two graduates to maintain resources within the unit. Overall payroll appropriations for the MoFT Internal Audit Office increased between 2011 and 2012. An external advisor position has not been renewed, although terms of reference for a new advisor have been prepared. The office has prepared a charter specifying roles and responsibilities of the audit committee to assist the Internal Audit Office in making collaborative decisions for the MoFT Executive and SIG. This awaits approval by the MoFT executive. In addition, interlocutors reported some concerns about resourcing and with limited responses to internal audit reports and recommendations.

(II-11)

### iii. Fiscal Consolidation and Economic Growth

The JRM noted the **ongoing fiscal consolidation**, with the 2012 budgets targeting a modest surplus and a fully-funded expenditure program, including a SBD 45 million provision for contingency warrants. Treasury cash flow management continues to use cash reserves as the smoothing mechanism rather than short-term borrowings from the banking sector (T-Bills). The IMF Standby Credit Facility First Review was successfully concluded in June, and the program is scheduled to remain in place for the remainder of 2012. A multi-year successor program would likely commence in December 2012, subject to Governments approval.

(III-9)

**Efforts to improve the integrity of SIG's revenue framework continued.** Taxation baselines for the Gold Ridge mine were considered restrictive to certain secrecy provisions, although a revised mining taxation framework continued to be drafted, stronger processes around discretionary taxation and duty exemptions have been prepared, and Solomon Islands achieved EITI candidacy status. The JRM noted, however, that after some initial steps towards addressing SIG's collections of 'other' (non-tax and non-duty) revenues in 2011, these efforts appear to have stalled (this represents a key example of thin capacity within SIG). In particular, little progress appears to have been made with respect to improving SIG's rental revenues from State-owned urban land. Interlocutors indicated that poor communications between MoFT and Ministry of Lands contributed to the lack of progress. Current rental returns may be as low as 0.012 percent, meaning that as much as SBD 200 million of potential revenue is foregone each year. In addition, the current system of extraordinarily low urban land rentals represents a significant barrier to mobilizing land for its most productive use.

(III-3, III-4, III-5, III-6, III-8)

Notwithstanding these continued achievements, the JRM noted that **Solomon Islands remains highly vulnerable to volatile external conditions**, and tax revenues in the first half of 2012 were below budget projections, although significantly higher than in the same period of 2011. Meanwhile, the JRM was alerted to significant expenditure pressures, to the end of July, including in relation to payroll in several departments and the Festival of Pacific Arts. SIG will need to continue to monitor fiscal developments closely and be prepared to take corrective action in a manner that protects fiscal stability while maintaining core expenditure programs.

(I-8)

A key success of the government's reform program has been **ongoing SOE reform, especially the resolution of the solvency and debt issues surrounding key state-owned utilities**. The agreement to resolve the outstanding SBD 37 million debt owed by SIWA to SIEA (through capital injections of SBD 20 million, an interest-free loan of SBD 7.5 million to SIWA, debt forgiveness of SBD 9.2 million, and an exemption granted to SIWA on goods taxes for 24 months from the signing of the debt settlement agreement) has been a major achievement, and ensures these utilities can now focus on longer-term improvements in efficiency and service delivery. Also important to SIWA's ongoing financial viability and commercialization has been the Cabinet decision to incrementally raise water tariffs to ultimately cover the cost of providing services and tariffs are re-assessed quarterly to move with SIEA's fuel



price adjustments. In accordance with the reform program, the government now provides community service obligation payments to subsidize the services provided in provincial centers.

(III-7)

The JRM also noted **ongoing improvements in the private sector investment regulatory environment**, as evidenced by Solomon Islands' strong growth in the number of companies registered (from 265 in 2011 to 196 in mid 2012) and advance in the *Doing Business* survey rankings, and through discussions with private sector representatives. These are attributable to improvements in the operations of the companies registrar, in registering land transactions in alienated land, and improved access to utility connections in urban areas (Box 1).

### Box 1: A Summary of Gains in the Management of State-owned Enterprises Achieved in Recent Years

- **Improved SOE Accountability and Performance.** A number of important SOE reforms have been implemented since 2009. A new *SOE Act* passed in 2007, together with its accompanying regulations issued in April 2010, provide a robust framework for the governance and monitoring of the SOEs. These include rules on

- (i) appointment and removal of SOE directors,
- (ii) specification of directors duties; and
- (iii) economic functions and community service obligations (CSOs) of SOEs.

All of the 2011 SOE financial accounts were audited. However, the audited accounts have not yet been cleared by the Auditor General and the Boards of SOE board to make the information available to the public. Most SOEs appoint board members in accordance with provisions of the new *SOE Act*. A few SOEs including Home Finance, Sasape Marina, and Soltai Fishing and Processing Limited were privatized and the boards of Solomon Islands Electricity Authority (SIEA) and Solomon Islands Water Authority (SIWA) were restructured. In 2011, a new MOFT SOE Monitoring Unit began work to implement the SOE regulations governing CSOs. The Monitoring Unit has prepared a template contract for CSOs, signed one contract in 2011 and is finalizing two more in 2012. The accounting and financial reporting systems of the SOEs are being upgraded in order to effectively implement the CSO regulations. Building on previous reform actions included in earlier iterations of the EFRP policy matrix, the government has also moved in 2012 to increase water tariffs and settle arrears to return two of the largest SOEs, SIEA and SIWA to solvency. The government has also continued the reforms by liquidating Solomon Island Printers and implementing a financial restructuring plan for Solomon Island Airlines. Collectively, the reforms have led to a drastic improvement in the rate of return on equity for the SOE portfolio. The ROE in 2010 was 3.15%, a substantial improvement over -5.3% for 2009 and -24% for 2008

- **Lower Costs of Doing Business.** To reduce the cost of doing business, the *Companies Act* 2009 and the *Companies (Insolvency and Receiverships) Act* 2009 were passed. Since the *Companies Act* came into force in 2010, there has been a near doubling of the number of new companies incorporating each year, indicating the simplified incorporation processes with lower fees have encouraged greater participation in the formal private sector. The positive impacts of the new Solomon Islands company laws continued to be observed through 2011, with almost 1,200 companies successfully re-registering under the new company registry. The new *Companies Act* supports the formation of single shareholder companies, and introduces the concept of community companies. Minority shareholder protections in the *Companies Act* have been substantially strengthened. To register a new company now takes only 1–2 days compared to up to 4 months under the previous *Companies Act* (1948) and the old Registry. *Doing Business Indicators 2012* reflect that Solomon Islands has consistently improved its ranks from 106<sup>th</sup> in the 2010 DBI, 81<sup>st</sup> in 2011 DBI, and 74<sup>th</sup> in 2012 DBI.
- **Improved Access to Finance.** In 2009, the new *Secured Transactions Act* became operational. An electronic registry to record security interests registered under the Act was established in 2009. The new lending framework has had a transformational impact on lending in Solomon Islands. Loan approvals, which previously could take up to 4 weeks are now processed in 1 to 2 days. There has been a significant improvement in enforcement of security interests under the new Act. Since commencement over 9,000 security interests have been registered with each security interests representing a loan.



## **B. JRM RECOMMENDATIONS FOR ROLLING FORWARD THE ECONOMIC AND FINANCIAL REFORM PROGRAM**

As noted above, the JRM finds the CEWG to be a successful model of Government-development partner engagement to progress key fiscal and economic reforms consistent with the Government's reform agenda. However, during this third review, the JRM detected some evidence of complacency, or at least a 'business as usual' approach to the work of the CEWG and the JRM itself. Given this is the fourth year of operation of the CEWG, and economic conditions in Solomon Islands have moved to a more normal footing (in part through CEWG-supported efforts), this may be an expected outcome. That said, the JRM wishes to emphasize to the SIG and to donor members that the CEWG is a highly effective model of Government-development partner engagement, and it has achieved significant milestones since its inception. The CEWG is also seen as best practice in the Pacific, and a number of Pacific Island Governments are committed to implementing a similar model. The JRM believes that the members of the CEWG should guard against complacency and continue to nurture this institution as it matures<sup>5</sup>. For example, an area in which it could improve is the engagement of working level staff in the development, implementation and reviewing of policy reforms.

Although the JRM was not explicitly asked to examine the membership of the CEWG, the question of extending the focus of the CEWG EFRP to line ministries' policy reform programs remains relevant. This issue was raised by a number of interlocutors including at the Ministerial level. In the view of the JRM, the question of membership is likely to become more important as the CEWG reform shifts more strongly to its underlying objective of improved service delivery and stronger economic development. As was recommended by the second JRM, this Review believes that issues such as the composition of the CEWG are for SIG to determine in consultation with the CEWG. That said, an immediate improvement in coordinating policy and PFM reforms that extend beyond the normal remit of MoFT, MDPAC and MPS could be achieved through the more active engagement of the Prime Minister's Office. In this context the third JRM was asked to meet with the Prime Minister, who indicated his strong support for further growth and development -promoting reforms.

The terms of reference for the JRM requested the mission to provide advice on the rationalization of the policy reform matrix for its next iteration. All interlocutors (and the JRM itself) were of the firm view that the 77 policy actions in the current matrix far exceeded the scope of a matrix that should be targeting the Government's very core policy reform actions. That said, at the individual level, it was often difficult for interlocutors to agree on which actions should be removed from the matrix. A number of interlocutors stated firmly that the removal of policy actions within their particular reform area would place at risk these actions being implemented. This in itself is a tribute to the role of the matrix in harnessing Government and donor commitment and resources to ensure difficult reforms are progressed. Where views were expressed on the deletion of reform actions, they were generally around actions that were underway, were technically comparatively easy to implement or were adding to, rather than drawing on, existing capacity.

Aside from endorsing the need to reduce the number of policy actions within the matrix, the JRM believes it is the responsibility of the SIG members to determine the government's policy reform priorities, hence to develop the matrix, in consultation with development partner members of the CEWG. SIG and the CEWG have a more detailed understanding of the core policy reforms that need to be actioned, consistent with the institutional capacity of the Government and that of development partner-supported technical assistance. In agreeing on future EFRP matrices, the SIG and CEWG will also have to take into account the implications of the transition from RAMSI to bilateral development partner support to MoFT (together with the nature of additional technical assistance that is likely to be forthcoming from development partners). That said, policy actions selected for inclusion in the EFRP matrix should generally have the following attributes: <sup>6</sup>

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<sup>5</sup> All parties should also ensure that the formal meetings of the CEWG remain a priority, are attended at an appropriate level, and that the agreed reporting arrangements of the EFRP matrix are adhered to.

<sup>6</sup> In addition to these general attributes, the report of the Second Joint Review Mission includes suggestions for the formulation of individual policy actions.

1. Reflect SIG's agreed high-level priorities that otherwise would be difficult to implement;
2. Can directly benefit from development partner support, if requested by SIG;
3. Can feasibly be achieved in the designated timeframe, given SIG's capacity and development partners technical support and sustained into the future; and
4. Progress against policy actions should be verifiable (where verification sources should draw on SIG's normal business processes, including Cabinet decisions, circulars, memorandums, minutes of meetings, etc., subject to confidentiality)

To support the consolidation of the appraisal requirements for development partners' budget support grants, the JRM recommends continuing to present the full cabinet-endorsed 2011-2014 EFRP matrix as the "CEWG EFRP Matrix". Development partners that disburse budget support to SIG on the basis of completion of specific reform actions would formally appraise the pre-identified triggers highlighted in grey in the CEWG EFRP matrix, while the JRM would continue to assess and report on progress and slippages on the full set of SIG's policy reform actions highlighted through the CEWG process.

The following provides the JRM's recommendations of policy reforms that could guide the CEWG in determining the next iteration of the matrix. In broad terms, the recommendations can be group into two categories: embedding the achievements to date; and priorities in rolling forward the current reform program. The reforms are sequenced into an approximate order of priority.

#### **i. Embedding the achievements to date by strengthening institutional capacity**

Across the overall EFRP, greater efforts are needed to ensure that the reform program increasingly focuses on capacity building and Solomon Islander leadership and ownership. One way of doing this is to make capacity development of local staff an explicit component of each reform activity. This will go some way to embedding these important cross-cutting issues. Substantial progress has already been made in some areas, such as building Line Ministry capacity to use the SIGAS accounting system, to monitor economic developments, or to analyse expenditures. Remaining issues and weaknesses include:

##### **Strategic staffing:**

- Address immediate issues in public sector management, to ensure established, vacant positions are filled in priority areas, particularly in management and middle-management roles, or are removed if surplus to requirements, subject to budgetary resources.
- Develop an assessment of, and a plan to address institutional weaknesses and capacity needs across central fiscal agencies and key implementing agencies. Address the absence of any assessments of the extent to which MoFT currently relies on advisors for key PFM and economic functions, and the extent of key person risk, especially where skill transfer to local staff has occurred. Such assessments would guide targeted capacity strengthening to embed SIG ownership of recent reforms.
- Senior management structures in both central and line ministries would benefit greatly from strengthening executive management processes.

##### **Harnessing scarce skills:**

- A general shortage of skilled personnel, in both the public and private sectors (such as accountants). This requires a strategic response, such as consideration of an allowance for specific skilled staff similar to that received by doctors, or consideration of a cadet scheme for supporting undergraduates in areas of skill shortages, or prioritization of these areas in awarding scholarships to applicants.
- In light of the narrow skill base that currently exists in the Solomon Islands, consideration should be given to options for recruiting contract staff from overseas (especially from lower-cost source countries). These positions should include a process of transferring and developing expertise among permanent staff.

- While at the same time long term capacity development and skills transfer mechanisms would be the most appropriate way to upgrade and expand the scarce and narrow base of skills in the public service.

#### *Creating a competitive pay structure:*

- The need for the payment and remuneration framework to motivate performance and create incentives to develop specialized skill sets. As a first step, introduction of this framework would require a review of public sector salaries and allowances and personnel management. (Such a review is also likely to identify areas for significant budgetary savings, particularly around overtime payments.)
- Scope for improving the substantial benefits flowing from the RAMSI-funded graduates in MoFT and extending this to other Ministries, through development of a MoFT and SIG-wide graduate training program and facilitation of entry of existing graduates (including diploma-level graduates from SICHE) to established positions.

## **ii. Rolling forward the current reform program**

The JRM recommends the following be considered as priorities for the forward-looking CEWG-supported reform program. These priorities combine reform programs currently being progressed, and reform areas that the JRM believes would benefit from a strengthened focus.

- ▶ **Continue prioritized legislative reforms** (e.g., *Public Finance Act*, *Audit Act*, income, customs and duty taxation and exemptions legislation, legislation related to the proposed new mining tax regime, *Customs Act*, *National Provident Fund Act*, etc.). As important as drafting and passing the legislation is ensuring that SIG officers are in a position to ensure the legislation is implemented. This will require training programs on the legislative reform process in addition to administrative requirements of the legislation, supported by the preparation of documented administrative processes, manuals or guides.
- ▶ **Maintain recent gains in macroeconomic stability and fiscal management**, especially as global conditions become less supportive and downside risks increase. This will include the **continued enhanced engagement with the IMF**, potentially through a renewed standby credit facility or a Fund-monitored program.
- ▶ **Operationalize the recently-created procurement unit in MoFT**. Staff positions have been established and are now being filled. But the institutional reforms are incomplete, and it is important that the Central Tender Board secretariat is co-located within the Procurement Unit. While staff are engaged, development of a procurement manual and standard bidding documents should be fast-tracked, drawing on development partner assistance.
- ▶ **Strengthen budgetary planning processes to improve the quality of expenditure**, by:
  - ensuring only carefully costed and designed Development budget project proposals are submitted to Cabinet for consideration;
  - assessing spending proposals for consistency with the National Development Strategy (NDS), especially with respect to the poverty reduction objectives;
  - integration of the Recurrent and Development budget formulation processes, including by strengthening the budget screening process and ensuring MoFT and MDPAC are both involved in the review of Ministries' spending proposals;
  - improving budget policy coordination between the central agencies, MoFT, MDPAC, MPS and PMO;
  - improving linkages between line ministries and central agencies with respect to budget planning;

- improving the linkages between the planning and budget preparation functions within line ministries to better support policy-focused budget requests; and,
  - completing preparation of multi-year investment pipelines and recurrent forward estimates.
- ▶ **Enhance the poverty focus of SIG expenditure** by prioritizing SIG allocations to MDG outcomes, such as primary healthcare, basic education, and regular infrastructure maintenance. Decisions on appropriate allocations should, in the first instance, be guided by the MoFT's assessment of recent expenditure allocations (see I-9). Future work should entail an assessment of the funding requirements to meet MDG targets.
  - ▶ **Operationalize the intent of the recently-adopted new Debt Management Strategy**, by ensuring new Government loans are on a concessional basis only, for a fit purpose, from an acceptable source with acceptable terms and conditions, are rigorously assessed, and are subject to international-standard procurement practices. Commercial loans for borrowing by SOEs will only be considered under certain circumstances. SOE debt policy and on-lending and guarantee policy is currently being developed and it is anticipated that the DMS will be reviewed accordingly.
  - ▶ **Develop a comprehensive PFM reform strategy and roadmap** that identifies, prioritizes and sequences PFM reforms, and that is well-adapted for SIG capacity (and commitments of assistance from development partners).
  - ▶ **Support the development of the non-resource productive sectors** and the public revenues they can generate, to ensure broader economic development and fiscal sustainability.
  - ▶ **Ensure the regulatory framework supports the emergence of low-cost financial innovation** in Solomon Islands. Some regulatory provisions will be needed to support the rapid development of mobile- and branchless banking and other financial innovations that will support increased access to finance, especially among micro- and small-enterprises and in rural areas.
  - ▶ **Support strong gains in financial inclusion.** Steps include appropriate measures to ensure the regulatory framework supports the development of low-cost financial innovation. Some regulatory provisions will be needed to support the rapid development of mobile and branchless banking and other financial innovations, which will support increased access to finance, especially among micro and small-enterprises and in rural areas. In addition, SIG plans on pursuing a Financial Inclusion Access Strategy jointly with CBSI, and exploring legislative and other approaches that ensure current or entering financial institutions provide financial services to communities currently under-served, especially in rural areas with emerging economic activities in a financially sustainable and non-politicized manner.
  - ▶ **Ensure Solomon Islands receive a fair return from its natural resources.** Key to this is complete the development and legislating a standard template for the taxation arrangements for future mining projects. Meanwhile, there needs to be ongoing efforts to ensure that significant resource-sector investments by transnational corporations are not able to benefit from aggressive tax planning, for example through maintaining robust estimates of these investments' transfer and capital investment pricing.

**Box 2: Lessons learned**

The JRM's review of progress in realizing the policy reforms in the 2011-2012 EFRP matrix drew the following lessons:

- ▶ Inclusion of specific policy reforms in the EFRP matrix, especially those highlighted as triggers for budget support, can be pivotal to ensuring SIG leadership and ownership in their implementation and success.
- ▶ Despite institutional capacity constraints being highlighted as a cause of slippage from earlier iterations of the EFRP matrix, the EFRP reform timetable still needs to better reflect what is feasible given available policy development and implementation capacity. More can be done to ensure local staff engagement in the development of reforms.
- ▶ Solutions need to be found to ensure genuine SIG engagement in the detail of the CEWG process (including the JRM), especially in the current highly resource-constrained environment.
- ▶ Central agency leadership is integral to ensuring policy reforms, especially those involving multiple agencies, are successful.
- ▶ In framing the timetable for policy reform actions, inadequate consideration was given to the prevailing political dynamic of infrequent sittings by Parliament.
- ▶ Actions agreed by the CEWG must be realistic and achievable within nominated timeframes. Development partners have signaled their intention to disburse funds against agreed actions, and when actions are not completed on time it delays and/or jeopardizes these disbursements. Reinstatement of regular progress reports (ie quarterly reporting) to CEWG members on implementation of agreed reforms would help to ensure agreed actions remain on-track.
- ▶ Meeting reporting commitments can be an effective means of maintaining reform momentum and identifying, at an early stage, where slippages are growing. The JRM noted that reporting on the EFRP matrix was below the level achieved in earlier years and recommended by the Second Joint Review Mission. This makes it difficult for all members of the CEWG to be able to assess progress and allocate additional resources where needed. This may explain the number of 'ongoing' actions in the current matrix. The JRM recommends a return to MoFT reporting bi-annually to the CEWG members on progress completing the EFRP Matrix.

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

### **SOLOMON ISLANDS ECONOMIC AND FINANCIAL REFORM PROGRAM CORE ECONOMIC WORKING GROUP JOINT ASSESSMENT MISSION JUNE 2012**

#### ***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 an avenue for better management of economic and fiscal challenges facing the country. SIG's Economic and Financial Reform Program (EFRP) was discussed in this forum and development partners provided budget support to SIG in support of progress achieved against a set of agreed priority reform actions contained within. 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 EFRP is articulated in a multi-year matrix with a focus on three areas: (i) strengthening SIG's budget preparation and planning systems, (ii) improving the quality of budget execution and reporting, and (iii) improving the environment for private sector investment. The 2012 Annual Joint Review will assess overall progress made against SIG's 2011-2014 EFRP matrix, explore how the CEWG is currently functioning, and identify appropriate steps to rationalize and develop the content of the next 2012-2015 EFRP matrix.

##### **Purpose**

2. The purpose of the mission is to review progress in implementation of the EFRP with particular attention to the priority reform actions, and to make recommendations about the matrix going forward. The mission findings will specifically serve to inform development partner decisions regarding the provision of budget support for the 2013 budget, and will also help inform the design of the next EFRP matrix.

##### **Scope of Work**

3. As a joint Government-Development Partner 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 an overview 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 agreed 2011-12 reform actions as laid out in the 2011-2014 Solomon Islands Government Financial and Economic Reform Program Matrix. 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 against agreed 2011-12 actions, including progress toward targets and success in meeting reporting requirements;
- A detailed assessment of progress made for each agreed 2011-12 priority action in the EFRP matrix including evidence of progress and discussion of what led to progress or lack of progress in each case.

c) Provide specific recommendations, for consideration, regarding the development and rationalization of the 2012-15 EFRP matrix, applying lessons learned from the current matrix and identifying appropriate overall priorities and outcomes. In doing so, the review team will take into

account (i) the capacity of SIG to complete actions and provide suggestions in relation to the prioritization and sequencing of actions contained in the matrix; and (ii) the anticipated level of development partner technical support in progressing policy reform actions, given the scaling-down of RAMSI Advisors within MoFT. During this process, the review team will also take account of specific eligibility criteria for budget support as applied by various development partners when considering the 2012-15 matrix.

#### Deliverables

4. The appraisal mission will prepare a *Narrative Report* detailing:
  - a) Country context between 1 July 2011 and 30 June 2012, including macroeconomic stability;
  - b) Progress made by the Solomon Islands Government in implementing agreed actions, including specific sections on (i) strengthening SIG's budget preparation and planning systems, (ii) improving the quality of budget execution and reporting, and (iii) improving the environment for private sector investment;
  - c) A traffic light report for all actions agreed for 2011-12, highlighting whether individual actions are on track (green), are of concern (amber), or are not on track (red);
  - d) Recommendations for future priority actions, including how the CEWG might best incorporate actions relating to development planning and public sector management;
  - e) Recommendations for the rationalization and prioritization of future policy reform actions.

#### Mission Arrangements

5. The mission will be composed as follows:
  - Up to three development partner representatives (World Bank, Asian Development Bank and AusAID), including one representative from the lead development partner (World Bank)
  - 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 2011-14 matrix;
    - ii. Proposed review of the 2011-14 matrix;
    - iii. Proposed broad 2012-15 reform priorities;
    - iv. Proposed rationalization of the 2012-15 matrix.

*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 development partners.

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

Team selection	Late May/Early June 2012
Initial briefing from CEWG	16 July 2012
Review Mission <sup>1</sup>	16 – 27 June 2012
Plenary meeting	Late July 2012
Draft deliverables provided to SIG and development partners for comment	26/27 June 2012
Comments provided by development partners and SIG	Late August 2012
Deliverables finalized	Early September 2012

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













## Appendix 2: Assessment of 2011-2012 Actions

### TRAFFIC LIGHT REPORT ON CEWG ECONOMIC AND FINANCIAL REFORM PROGRAM 2011-2012 CYCLE

















The primary focus of the EFRP Matrix is to articulate SIG's program of reforms to improve public financial management in the Solomon Islands. SIG's 2011-2014 economic and financial reform program (EFRP) is based around three themes, namely (i.) strengthening SIG's budget preparation and planning systems, (ii.) improving the quality of budget execution and reporting, and (iii.) improving the environment for private sector investment. The policy reform actions contained within each theme build on the progress achieved in recent years and are targeted at forging stronger linkages with the wider objectives outlined in the National Development Strategy. This report details the progress in completing the agreed upon policy reform actions as of April 2012.















Policy Reference	Policy Area	Reform	Proposed Policy Reforms 2011/12 Completed in the year to 2012-Q2	SIG Assessment			JRM Assessment		
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Theme I: Strengthening SIG's budget preparation and planning systems to ensure resources are applied to sustainably and effectively support better quality public services for Solomon Islands									
Strengthen resource allocation processes to improve SIG's ability to deliver services.  4.3.4.3 Government Budgets: 'Reformed budget process'	I-1. Building community and broader awareness of the budget process and engagement in the appropriate use of public resources.	a. Publish a summary of the consultations with civil society organizations that occurred in preparing the 2012 budget and solicit similar consultations in the formation of the 2013 budget.  <i>[Volume I of the budget papers; Budget calendar in the form of a finance circular; Minutes from consultations]</i>  (Budget Unit; RAMSI, WB)		<u>2012 Budget:</u> For 2012 Budget, summary of feedback from CSO's reported in Solomon Islands Budget 2012, Budget Strategy and Outlook (BSO), Budget Paper Volume 1, pp3- 4. Budget Consultations were also mentioned in 2012 Budget Flyer		Very brief summary of <b>2012</b> consultations appears in Volume 1. A fuller summary could be posted on-line, circulated to stakeholders (including key implementing ministries), and provided to participants (perhaps ahead of the following year's consultations).			
				<u>2013 Budget:</u> CSOs consultations for the 2013 Budget were conducted in all provinces (except Makira) between May to June 2012. Summary of Feedbacks are being compiled ready to be published in 2013 Budget Strategy and Outlook		Budget unit reported conducting consultations in all but 1 province, with civil society organizations and provincial government authorities. As noted, the JRM encourages SIG to publish a more comprehensive summary of the consultations in conjunction with the publication of draft 2013 budget, and distributes this to participants and key stakeholders (eg, major implementing ministries).			
NDS Objective 8 (National Level: Executive, Finance)  NDS Part II Implementing		b. SIG invites provincial premiers to develop a joint communiqué on their suggestions for improving the quality of service delivery in the provinces in the 2013 Budget.  <i>[Communiqué]</i> (MDPAC, MPGIS, Budget Unit)		For 2013 Budget, provincial premiers were not invited to develop a communiqué; however, they were invited to participate in budget consultations held by Budget Unit, MoFT in the provinces during May and June 2012.		Budget unit proposes to seek such a communiqué from the annual Premiers' conference, to be held in September or October and so it is likely to be too late for the 2013 budget deliberations. The communiqué could, however, feed into later years' budget deliberations.			

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the Strategy  NDS Objective 7 (Effectively Respond to Climate Change and Manage the Environment and Risk of Natural Disasters)			c. Production of Volume 1 Budget Statement, to be tabled in Parliament with the 2012 Budget Papers, outlining summary of fiscal position, both previous budget and spending and projections for budgeted year, and overall macroeconomic and fiscal position.  <i>[Volume I of the budget papers]</i> (Budget Unit)				A		
	I-2. Improve linkages between policy priorities, budgets and service delivery outcomes.	a. SIG establishes a process for the prioritization of projects in the NDS within a 3-5 year pipeline.  <i>[Documents indicating adopted process]</i> (MDPAC, PMO, Line Ministries)		Work on improving and strengthening linkages will be an activity under the implementation phase and is expected to commence in April 2012. Current processes will be reviewed to identify areas for improvement and strengthening. A detailed work schedule will be discussed and finalized with the TAs as soon as they are dispatched to the Ministry in April 2012.			A		
		b. Formulation and adoption of monitoring and evaluation framework and processes for NDS.  <i>[Monitoring and evaluation report]</i> (MDPAC; EU, ADB)		Work on the M&E framework will start in April 2012. A draft M&E framework should be ready by mid 2012.			P		
	I-3. Improve the capacity of Line Ministries to develop robust and implementable budgets  (Also refer to II-7 for related matters)	a. Implement ongoing program of training and support for finance staff and other members of Ministries to assist with developing budgets and tracking and reporting on spending against budget.  <i>[Capacity building program outline; List of attendees]</i> (Budget Unit, SIGAS, IPAM)		SIGAS has ongoing training for Chief Accountants and Financial Controllers on budgeting, business case etc. and this will develop capacity in budget development and management (Treasury). The Line Ministries Expenditure Analyses project with the assistance from the World Bank aims to build the capacity of MoFT, MDPAC and line ministries to analyze spending in relation to Government/Ministry objectives. This should help build capacity in ministries to develop better budgets and prioritize spending. This project is expected to roll out to other Ministries as it already commenced with, Ministry of Agriculture and Livestock (MAL) during March to June 2012. The next proposed ministry is Education later in 2012.			A		













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	I-4. Establish forward estimates to better manage budgets and provide greater certainty around budgets and service / project delivery (in conjunction with policy reform area I-2)	a. Develop a framework to establish forward estimates, in consultation with Line Ministries.  <i>[Consultation correspondence; Draft framework]</i>  (Budget Unit, LMs; RAMSI, WB)		Framework for forward estimates is yet to be developed. The budget system, BERT includes capacity for forward estimates. A modified approach to estimating budget baselines for 2012 Budget may provide the method for forward estimates.  ADB is also working with MDPAC on a Medium Term Expenditure Framework as part of the National Development Strategy. Resources for training packages on costing, forward estimates and business case development yet to be allocated by MoFT				Work developing the framework is progressing, through the Budget Unit and the work preparing the implementation of the NDS.  The MTEF framework will not be ready for the 2013 recurrent budget, and it is unclear that it is will be feasible for the full 2013 development budget.  Other elements of preparing forward estimates are in place, including budget development software and some sectoral MTEFs.	
	I-5. Improve Accountability Framework for Budget Outcomes/ Outputs	a. Present outputs identified against Ministry divisions and resource levels in budget papers in 2012 Budget.  <i>[Volume I of the budget papers]</i> (Budget Unit)		In Solomon Islands Budget 2012, Budget Strategy and Outlook, Budget Paper Volume 1, Ministry outputs and resources levels are provided by ministry divisions.				For the first time, narrative descriptions of outputs are included in the budget documents, alongside expenditure allocated to the associated divisions.  Over time,. these descriptions could be further refined and improved in the years ahead. To constitute 'outputs' as conventionally intended in the PFM literature, these descriptions need to provide greater clarity around the outputs that will be achieved in the pursuit of each Ministry division's objectives. For example, the number of vaccinations administered, children schooled, cocoa farmers supported, or new businesses incorporated.	

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	I-6. Improved alignment of allocations and line ministry needs through improved MOFT procedures and analytical capacity	a. To assess the full content of individual ministry spending proposals for the recurrent and development budgets, adopt formal consultation mechanisms between central agencies and line ministries as part of the budget formation process.  <i>[Meeting schedules, Announcement of new policy in the Budget Circular for the 2013 budget]</i>  (Budget Unit, MDPAC, Line Ministries)		For the 2012 Budget, Budget Unit held the Budget launch with line ministries (LMs) and central ministries (CMs) on 15 July 2011. Budget Unit, MoFT, consulted with LMs and CMs during the budget process to determine baseline (ongoing) budgets, new bid (expenditure) proposals, and output specifications. Final spending allocations were approved by Cabinet in November 2011.  The 2013 Budget cycle was launched on June 6, 2012. Consultations with Ministries to assist them with baseline and bid development and output specification in preparation for inputs into 2013 Budget is commencing during July to August 2012.				Agree with comments from Budget Unit with respect to the Recurrent Budget. (Engagement around the development budget has been more limited.) Although adjustment of each ministry's overall baseline recurrent budget appears to have been mechanical, there appears to have been some consultation regarding the distribution across sub-ministry spending heads. This was collaborated with discussions with LMs. Non-government interlocutors also commended MoFT for increasing consultations with LMs on the budget.  Further improvements in future years to formalize this could include stipulating in legislation (eg. the revised <i>Public Finance Act</i> or the Financial Instructions) that consultations on line ministry budget submissions are to be included in the annual budget formulation calendar.  See comment on I-6-b below regarding the development budget.	
		b. Assess the full content of individual spending proposals for the recurrent and development budgets.  <i>[briefs]</i>  (Budget Unit, WB)		For the 2012 Budget, Budget Unit MoFT assessed baseline and new spending proposals for the recurrent budget and submitted recommendations to Cabinet for approval. The baseline budget envelope is provided to Ministries so they can adjust allocations within the same budget envelope to reflect their spending priorities.  For the 2012 Development Budget, see MDPAC.				Agree regarding the recurrent budget.  MDPAC reported assessing development budget bids, although this assessment occurred before detailed project plans (including costing) were developed. Finance's role in assessing the development budget is unclear. The JRM understands that, under the <i>Public Finance &amp; Audit Act</i> (1996), the MoFT is responsible for the full budget (including the Development Budget). MoFT, working in conjunction with MDPAC, should provide greater oversight of the development budget's preparation, to ensure that budget bids meet appropriate standards of budget quality (eg, in line with policy objectives, costings, implementation plans).	
	I-7. Maintain sustainable and affordable levels of public debt	a. Finalize debt management strategy.  <i>[Debt Management Strategy]</i> (DMU)		The Debt Management Strategy has been finalized and was endorsed by Cabinet on 21 May 2012 and by the Honiara Club.				Agree.	













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			b. Complete Honiara Club Agreement Review and reach agreement on incorporation of key features within Public Finance & Audit Act and subsidiary legislation.  <i>[Review documents; New agreement]</i> (DMU; Creditors)				 A		Agree. Honiara Club members have agreed that SIG can resume borrowing in line with the Debt Management Strategy that has been endorsed by SIG Cabinet, however it was also agreed that the Honiara Club Agreement would stay in place until new debt provisions (that are proposed for the new PFA Act) come into effect.
			c. Establish a Debt Management Advisory Committee.  <i>[Circular or cabinet minute establishing the committee]</i> (DMU)				 A		Agree.
			d. 2012 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%.  <i>[Budget documents]</i> (DMU)				 A		Agree (confirmed by assessment in the May 2012 IMF first review of standby credit facility).
	I-8. Continue fiscal consolidation		a. 2012 budget is fully funded and has an overall surplus.  <i>[Budget documents – fiscal table]</i> (Budget Unit)				 A		Agree regarding the 2012 budget.  However, the JRM was informed by a number of interlocutors that projections of tax revenue especially may prove optimistic and that there may have been a significant degree of over-expenditure up to mid-July.
			b. 2012 budget fully funds contingency warrants through establishing a budget surplus that is equal to or greater than the combined value of the contingency warrants.  <i>[Budget documents]</i> (Budget Unit)				 A		Agree that the 2012 budget projects a surplus after accounting for a buffer of funds ear-marked for contingency warrants (Table 4.1 of Budget Paper Volume 1 and Volume 2).  In future years, a more sustainable approach may be to formally create a small, appropriated fund that finances contingency payments that are not on a list of payment types not to be funded in this way.

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	I-9. Protect resource allocation to key service delivery and infrastructure areas of expenditure, and improve quality of government spending generally.	a. SIG continues to support delivery of education services by spending and allocating no less than 22% of total recurrent expenditure in the 2011 and in the 2012 budgets respectively.  [Budget documents] (SIG, Budget Unit)		Targets met in 2011 actual spending and 2012 Budget.  SIG 2011 education spending amounted to \$485.0m, or 29% of SIG total recurrent spending of \$1,654.6m.  SIG 2012 Education Budget amounted to \$461.7 m, or 23% of the total SIG recurrent budget of \$1,994.2m.			 A	Agree. In 2011 (unaudited), MEHRD was appropriated SBD 461.7 m, which represents 22.9% of the 2011 SIG recurrent budget (including contingencies provision). This amount includes SDB 46.3 m allocated to tertiary scholarships, SDB 10 m for constituency scholarships awards, and SBD 141.2 m for 'primary', 'education service- primary', and 'early childhood'.	
		b. Ministry of Education and Human Resource Development (with MoFT) report on current and recent years' expenditure allocated to primary, secondary, TVET and tertiary subsectors to support agreement on target for minimum percentage of expenditure of SIG recurrent budget for basic education. <sup>7</sup> [Report] (MEHRD, Budget Unit)		Budget Unit has produced an analysis of the Education budget and expenditure showing the size of expenditure and budget with respect to relevant subsectors.  In producing the report, Budget Unit (PEAS) has consulted with MEHRD and will seek further comments on the draft analysis report in order to support expenditure targets.			 P	Preliminary reports have been prepared. The JRM has received a useful expenditure analysis that enables the development of a baseline target for minimum percentage of expenditure of SIG recurrent budget for basic education.	
		c. SIG continues to support delivery of health services by spending and allocating no less than 10% of total recurrent expenditure in the 2011 and in the 2012 budgets respectively.  [Budget documents] (SIG, Budget Unit)		Targets met in 2011 and 2012 budget. In 2011 total spending on health amounted to \$233m – equivalent to 14% of the total SIG recurrent budget spending \$1,654.6 m.  The 2012 Budget allocated \$247.3m for health, equivalent to 12% of the total recurrent budget (\$1,994.2m).			 A	Agree. In 2011 (unaudited) MHMS spent SBD 237.1 m, which exceeds 10 percent of 2011 SIG recurrent budget (preliminary estimates, including contingencies provision).  In 2012 MHMS was appropriated SBD 247.3 m, which represents 12.2% of the 2012 SIG recurrent budget (including contingencies provision).	
		d. Ministry of Health and Medical Services (with MoFT) report on current and recent years' expenditure allocated to primary, healthcare and hospitals, and propose a target for minimum percentage of SIG recurrent budget allocated to primary health care.  [Report] (MHMS, Budget Unit)		Budget Unit has produced an analysis of the Health budget and expenditure showing the size of expenditure and budget with respect to relevant subsectors.  Budget Unit has consulted MHMS to prepare the report and will consult further to estimate spending targets.			 P	The JRM has received a preliminary expenditure review that includes a proposed baseline target for minimum percentage of SIG recurrent budget allocated to primary health care. This analysis has the potential to develop further in coming years.	











<sup>7</sup> 'Basic education' is defined as School Years 1 through 9 in Cabinet Paper.

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			e. Ministry of Police, National Security and Correctional Services (with MoFT) report on current and recent years' expenditure for RSIPF, CSSI, and Ministry, and propose targets for minimum percentage of SIG recurrent budget allocated to these entities in future years.  <i>[Report]</i> (MPNCS, Budget Unit)						The JRM has received preliminary analysis, which includes suggested baseline targets for minimum percentage of the SIG recurrent budget allocated to these entities in future years.
			g. Ministry of Finance and Treasury (with the Ministries of Infrastructure Development, Communication and Aviation, and Rural Development) report on current and recent years' expenditure on transport infrastructure maintenance costs for existing and planned infrastructure assets, as a basis for agreeing on targets for minimum SIG budget allocated to maintenance costs in future years.  <i>[Report]</i> (MID, Budget Unit)						The JRM has received recent years' preliminary expenditure data, enabling some assessment of these costs. However the coverage of these data needs further analysis, particularly in regards to donor contributions to the roads transport fund.  Further, MID officials indicate to the JRM that recent years' SIG spending is a poor indicator of ongoing regular maintenance needs as the recent focus has been on rehabilitation ahead of maintenance; as this is completed, maintaining ongoing maintenance will become more important and should receive a share of spending larger than has been the case in recent years. So the analysis should cover both SIG spending in recent years on transport maintenance (not rehabilitation), as well as the projected cost of maintenance for the network (including both existing & newly maintained transport infrastructure). The Central Project Implementation Unit of Ministry of Infrastructure Development could help assess this with MoFT, drawing on new software capacity.
			h. 2012 budget restrains wages and salary charges at no more than 35% of the total recurrent budget.  <i>[Budget documents]</i> (Budget Unit)						Based on the 2012 Budget Paper Volume 2, total payroll expenditure of SBD 655.1 m constitutes 28.7% of SBD 2282.6 m (including contingency provision) budgeted recurrent expenditure.

















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			i. 2011 actual expenditure retains payroll charges at no more than 35% of total recurrent expenditure.  <i>[Budget documents]</i> (Budget Unit)						Agree with assessment (based on preliminary 2011 expenditure data). From available data, in 2011, total payroll expenditure of SBD 587.7 m constitutes 36.9% of SIG-funded recurrent expenditure of SBD 1594.3 m.
	I-10. Create and maintain the enabling environment to effectively respond to climate change and manage the environment and risks of natural disasters.	a.	2012 budget allocates SBD10 million to climate change activities in support of NAPA priority 1.  <i>[Budget documents]</i> (Budget Unit, MDPAC; EU)						Agree with assessment. Other interlocutors indicated that at least SBD 10 million has been allocated to NAPA priority 1.  The JRM was provided by MoFT with a list of projects which purportedly have a climate-change connection, totaling SBD 57.7 m. The projects include: the National Referral Hospital disaster & emergency preparedness and relocation (SBD 2.8 m); provincial emergency center building (SBD 3.0 m), Tina River Hydro development (SBD 4.0 m), environment information center (SBD 0.8 m), and reforestation (SBD 13.0 m). The list also includes constituency renewable rural electrification projects (SBD 10 m) and a survey and assessment of crocodiles (SBD 0.5 m).  Separately, the Ministry of Environment nominated a number of SIG-funded expenditures that relate to climate change issues, and indicated that the Ministry of Energy is managing climate change mitigation projects and development of renewable energy sources.
		b.	A Solomon Islands National Climate Change Policy is developed by the Climate Change Division and submitted to Cabinet by the Minister responsible for approval.  <i>[Strategy and documents showing cabinet submission]</i> (MoEnvironment; NDC; EU)						Ministry of Environment indicated that the Policy has received Cabinet approval and has been launched.


























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Theme II: Improve the quality of budget execution towards ensuring resources intended for better delivery of public services achieve their intended purpose									
<b>Improve resource management processes and practices</b>  4.3.4.1 Government Budgets  SIG-RAMSI 2.2.1 Extend use of MoFT Systems	II-1. Continue to improve cash management, forecasting and controls in order to minimize disruptions to public service delivery from spending reservations, and to cover cyclicity in revenue and expenditure flows, potential contingent liabilities, and large shocks	a. Work with key spending Ministries (MEHRD, Health, Foreign Affairs, Police and National Security and Rural Development) to develop processes to ensure sufficient warning is provided on the size and timing of significant payments.  <i>[Monthly cash management and commitment reports]</i> (Treasury, Major Line Ministries)		Cash Co-ordination Committee continues to meet and improvement strategies are being progressed.  MEHRD provides advice when substantial payments are due to occur. However work needs to continue with other Ministries, as payment requests from MRD, Provincial Government and MID for substantial amounts continue to be received with no advance notice.		Agree. Further efforts need to be made with and by line ministries to ensure that MoFT is given appropriate notice of large and ad hoc (unexpected) invoices, to facilitate timely payment. A simple model of when over the course of the year expenses are likely to be incurred may also assist.			
		b. Scope and introduce use of electronic funds transfer (EFT) as part of FMIS upgrade to tighten controls on the use of cash as a means of payment.  <i>[ETF goes live; Agreements with Bank]</i> (Treasury)		MOFT is working with the ANZ bank to develop the specifications for the EFT transfer application.  Since the implementation of the new FMIS system, fewer cheques are being produced, and EFTs have commenced through written advice to the ANZ Bank. The ANZ EFT application is ready for but has been deferred until the new FMIS is fully embedded and staff are ready to deal with another new application.		Agree.			













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	II-4. Complete upgrade of FMIS to enable tracking of agencies' actual expenditure relative to budget and provide critical spending controls.	a. Phase 2 and 3 of the FMIS upgrade complete, including installation of replacement hardware, Accounts Payable, and Accounts Receivable modules to increase efficiency and allow real time revenue transactions.  <i>[Report]</i> (Treasury)		The new FMIS went live in January 2012. All modules are now in operation and donor funds are being processed through the new system.  Work on embedding system processes is now underway.		A	Agree.
		b. Development plan prepared to identify other modules to be implemented for the operation of the FMIS with full range of standard functions, including requirements for compliance with IPSAS Cash reporting standards.  <i>[Development plan]</i> (Treasury)		This work is scheduled to be completed by early-August 2012.		P	Agree with assessment. Interlocutors indicated that the priority is to ensure recent changes become part of standard practice, before considering the next phase of development.
		c. Funding source identified for the next stage of development of FMIS.  <i>[Report completed and sent to SIG for consideration]</i> (Treasury)		Funding for any future development will be considered at the same time other modules are identified.		P	Agree. This action is contingent on b) above, which is currently not a priority.
	II-5. Operationalize BERT to streamline budget preparation process, provide greater and timelier controls over funding	a. Interactions between BERT and FMIS operationally effective and efficient for exchange and update of information on Budget allocations, virements, projections and actual results, and will remain so  <i>[Report on integration of BERT and FMIS included in end of FMIS project report]</i> (Budget Unit, Treasury)		BERT and the FMIS are fully integrated. BERT holds all budget information and transfers this data to the FMIS. No payment can now be made without sufficient available budget. The FMIS is able to produce financial reports based on the budget and actual information.		A	Agree with assessment. Currently the two systems reconcile automatically every 2 hours, shortly to become a real-time connection.

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












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			<p>d. Map monthly receipts and expenditure against new Chart of Accounts as part of preparation for dual reporting of 2012 financial year and as validation exercise for accuracy of Budget mapping process.</p> <p><i>[Budget documentation]</i> (Treasury)</p>		As above.		Agree, as above. Was informed that tables allowing mapping between the old and new CoA had been prepared, and will be used to enable consistent expenditure analysis across months.
			<p>e. Consultations with Ministries on material activities / programs as part of developing whole of government reporting structure and related governance arrangements.</p> <p><i>[Minutes of meetings]</i> (Treasury)</p>		As above.		Consultations with LMs around strategy for the use of the new Field 3 codes are ongoing. Current thinking sees these being used for project codes for the development budget, with possibly activity or program codes used for the recurrent budget.
			<p>f. Adopt a new Chart of Accounts to enable SIG to track expenditures by programs and activities.</p> <p><i>[Letter from Minister, Cabinet decision accompanied by implementation and training schedule and a technical summary of the new COA]</i> (Treasury)</p>		This reform will not be progressed until the base requirements for a new COA has been developed. It is anticipated that work on program/activity reporting will not commence until 2014.		<p>New chart of accounts has been partially developed and will be used for the 2013 budget. Ambiguities in the existing CoA have been resolved. In regard to the broadening of the CoA, the full use of the additional fields added to the CoA is yet to be finalized. That a project code has been developed without a mirroring activity code (ie, relating between the development and recurrent budget aspects of a project/activity) reflects issues the ongoing development and implementation of the CoA, reflecting local capacity and implementation constraints, and the connection with the ongoing financial management and reporting reforms in the line ministries.</p> <p>(Note that the goal of the policy action is to track expenditures by programs, OR by projects and activities.)</p>











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			g. Chart of Accounts Manual developed and training provided to all Line Ministries to support the use of the new COA from the 2013 budget onwards.  <i>[COA manual; Record of Line Ministries who received training]</i>  (Treasury)		Consultations with Line Ministries have occurred and Chief Accountant Workshops have been held to discuss COA issues and to keep line Ministries informed.			 P	Agree with assessment, especially around efforts to train line ministry officers. However the interim manual is still being finalized.
	II-7. Progress towards compliance with international accounting standards	a. 2011 financial statements prepared in the IPSAS Cash format.  <i>[Financial statements]</i>  (Treasury)		The 2011 General Government Sector financial statements were prepared in IPSAS Cash format and presented to the Office of the Auditor General on time.  The 2011 National Accounts, incorporating SOE financial information, will be completed when audit cleared financial statements have been provided by the OAG.			 A	Agree. However the Auditor-General is still completing the audit.	
		b. Legislative basis for Finance Minister to issue financial reporting standards included in proposed replacement for Public Finance and Audit Act.  <i>[Progress report on PFA review]</i> (Treasury)		This will be considered as part of the PFA Review.			 P	Agree with assessment. The relevant consultation papers, containing this provision, are scheduled to be circulated in August or September.	
<b>Strengthen the capacity of SIG officers</b>  SIG-RAMSI 2.4.4; 2.5.1; 2.5.2 'SIGAS Reinvigoration'  NDS Objective 8	II-8. Improve the financial capacity of SIG accounting officers and Ministries.  (Linked to I-3 above, with training on	a. Develop and publish training program for finance and accounting staff in relation to work responsibilities as well as resource awareness and management courses offered to all public servants through IPAM.  <i>[MoFT website; IPAM training prospectus]</i> (Treasury)		Financial training for all the public sector is being delivered through IPAM.  Training includes Financial and Legislative Framework and Budget and Financial Management.			 A	IPAM prospectus is now available, which contains the training program. Treasury reported ongoing training programs being delivered to technical-level and senior staff. The JRM understands that this has been focused on Chief Accountants, and there have been some issues with the extent to which the knowledge gained has been transferred to other officers within ministries.	

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(National Level: Executive, Finance)	budget and financial management matters coordinated and delivered through SIGAS area of Treasury)	b. Deliver two new training modules to SIG public officers through IPAM on the financial framework and Budget management.  <i>[IPAM prospectus; Delivery of courses]</i> (Treasury)		See above.		A	Treasury reported ongoing training programs being delivered to technical-level and senior staff. Selected line ministries indicated staff are engaged in this training.
		c. Ensure compliance with revised FIs by Line Ministries by courses delivered by IPAM for non-accounting staff on financial rules, processes and responsibilities.  <i>[Course materials; List of students who attended]</i> (Treasury)		Training and updates are provided at Chief Accountant Workshops. Information on Financial Instructions is also provided through the IPAM courses. Additional training has been provided to line Ministries, teachers and schools on request.		A	Agree with assessment.
		d. Regular and ongoing workshops and consultations with Chief Accounts as part of skills development and input on reform efforts.  <i>[Increased number of workshops delivered]</i> (Treasury)		Chief Accountant workshops occur on a regular basis. Three workshops were held in 2011.  Two Chief Accountant Workshops have been held in 2012. A two day workshop (financial regulation updates and training) and a half day workshop on changes to the Chart of Accounts. Two further workshops are scheduled for 2012, one in September and the final workshop early November.		A	Agree with assessment.

Policy Reference	Policy Area	Reform	Proposed Policy Reforms 2011/12 Completed in the year to 2012-Q2	SIG Assessment			JRM Assessment		
				 On track	 Concern	 Not on track	 A Accomplished	 P Progressing	 O Off track
<b>Strengthen financial management legislation</b>  4.3.4.3.a Government Budget Reforms  NDS Objective 8 (National Level: Executive, Finance)	II-9. Strengthen the legal and regulatory framework for fiscal responsibility and discipline.		a. Cabinet endorses policy positions consistent with sound Public Financial Management principles, to be incorporated in a new Act, including the requirement that all budgets and budgetary variations are fully funded.  <i>[Gazetted legislation]</i>  (Treasury)		Cabinet has endorsed the Review of the PFA Act and agreed that the draft legislation will include principles for responsible fiscal management, more effective explanation of the responsibilities of public officials in their management and use of public funds and, providing for a greater range of information to be made available to the public to better explain the Government's fiscal strategy and how services are being delivered to and on their behalf.  Further consultations were held in July for Permanent Secretaries and Chief Accountants. All sessions were well attended and the views and recommendations will be incorporated in Consultation Papers 2 and 3.			 P	Consultation papers for the <i>Public Finance Act</i> are proposed to be circulated for consultations in September, with draft legislation to be presented to cabinet by November. Content and likely effects of the legislation will be able to be assessed when background papers are circulated.
<b>Strengthen the Government's procurement process</b>  4.3.4.1.h  NDS Objective 8 (National Level: Executive, Finance)	II-10. Strengthen and control procurement processes to reduce opportunity for corrupt practices and leakages that affect service delivery, allocative efficiency and aggregate fiscal discipline in procurement.		a. Develop Procurement Reform Plan for 2011 to 2015 to strengthen and control procurement process to improve quality and efficiency of SIG expenditure.  <i>[Procurement Reform Plan]</i> (Treasury)		Cabinet has endorsed the Review of the PFA Act and agreed that the draft legislation will include principles for responsible fiscal management, Reform Plan has been developed.			 A	A procurement reform overview has been developed, and is the basis of reforms to date. This is likely to be further elaborated into a more detailed roadmap, especially through a program of workshops bringing together officers engaged in procurement throughout SIG.
			b. Implement Procurement Reform Plan 2011 – 2015.  (Treasury)		The Procurement Reform Plan is behind schedule as a result of the need to embed the new FMIS, lack of space and executive and CTB buy-in.  The CPGF will provide short term technical assistance to MoFT to plan and hold a number of workshops with key stakeholders. These workshops will be to identify procurement priorities. These workshops will be the first opportunity to bring together key stakeholders to discuss Government Procurement Systems.			 P	Initial actions have been taken to implement the Procurement Reform Plan, including creating a dedicated Procurement Unit within MoFT and, as of mid-July, initial staffing of that unit. However this process is behind the schedule indicated in the Plan, most notably, important institutional components of the creation of the Unit are yet to be implemented, including the transfer of the secretariat of the CTB, and development of a procurement manual.



Policy Reference	Policy Area	Reform	Proposed Policy Reforms 2011/12 Completed in the year to 2012-Q2	SIG Assessment		JRM Assessment	
				 On track  Concern  Not on track		 Accomplished  Progressing  Off track	
			<p>c. Create and begin staffing a dedicated Procurement Unit within the Treasury, to provide Policy and Training, Tender Support, and Operational Procurement across Government.</p> <p><i>[Enabling legislation, Regulation and confirmation of staff hiring and/or appointments]</i> (Treasury)</p>		Additional staff have been allocated in the 2012 Establishment for Procurement positions. Three graduates have been assigned to the Procurement Section. Treasury will work with the CSS to fill vacant procurement positions.		<p>The Unit has been created, with a fraction of the intended establishment now recruited. According to MoFT officials, procurement reforms require not only an increase in staffing numbers, but also the collocation of the Central Tenders Board (CTB) secretariat with the MoFT Procurement Unit.</p> <p>Technical deficiencies in the procurement process originate at an early stage of procurement preparation. Co-locating the CTB secretariat and development of a procurement manual will enhance MoFT's capacity to support line ministries' procurement from the earliest stages of the procurement chain.</p>
			<p>d. Introduction of first stage of preferred supplier arrangements for IT and office supplies.</p> <p><i>[Draft policy]</i> (Treasury)</p>		Preferred supplier arrangements for IT have been completed and endorsed by the CTB.		Agree with assessment with respect to a preferred supplier arrangement for IT, while a preferred supplier arrangement for office equipment is not expected to be developed until late in 2013.
			<p>e. Inclusion of additional tender information on MoFT website including tender notices and results.</p> <p><i>[Website]</i> (Treasury)</p>		Additional information will be included on the website as this reform progresses.		<p>The MoFT website publishes tenders awarded by the CTB up to the end of February 2012, and was updated in late July to include tenders awarded up to July 25. Advertised tenders have not been posted since late 2011.</p> <p>Implementing this action is constrained by the lack of personnel with web management skills. Into the longer-term, a staff dedicated to maintaining the website is needed to ensure this gain in transparency continues to be realized.</p>
			<p>f. Commence review of tender practices and processes to identify weaknesses in current systems and formulate new guidelines in line with requirement under the Financial Instructions.</p> <p><i>[Review; Procurement Guidelines]</i> (Treasury)</p>		The Procurement Reform Plan is behind schedule and this particular reform has not progressed.		According to MoFT officials, procurement reforms require not only an increase in staffing numbers, but also the co-location of the Central Tenders Board secretariat with the MoFT Procurement Unit. Other interlocutors identified the absence of a procurement manual as another important constraint.











Policy Reference	Policy Area	Reform	Proposed Policy Reforms 2011/12 Completed in the year to 2012-Q2	SIG Assessment		JRM Assessment	
				 On track  Concern  Not on track		 Accomplished  Progressing  Off track	
<b>Strengthen Governance Institutions</b>  4.3.4.1.d  NDS Objective 8 (National Level: Executive, Finance)	II-11. Provide internal audit services, training and advisory support to MoFT and other Ministries, SOEs and Provincial Governments.		a. Finalize plan to establish and progress in a structured manner an Audit Committee in MoFT to promote proper governance, better controls and management practices across government.  <i>[Work plan]</i> (Internal Audit)		Audit Committee Charter drafted and presented to the Permanent Secretary and Minister of Finance for endorsement. The Charter lays out the roles and responsibilities of the new Audit Committee. The Charter is currently pending endorsement by the Minister of Finance and Treasury.		Audit Committee Charter has been drafted and presented to the PS of Finance, but is yet to be approved.
			b. Internal audit resources within MoFT are maintained.  <i>[Staff count; Letters offering and showing acceptance of positions]</i> (MoFT; Commonwealth Secretariat)		The Commonwealth Secretariat decided not to fund a new Technical Advisor after MoFT having submitted terms of reference. AusAID will fill the gap under its bilateral program with SIG, pending budget deliberation.		While 2 graduates have been employed (RAMSI-funded), 2 more-senior staff have moved to Internal Audit positions in key line ministries. SIG-funded payroll allocation to Internal Audit has increased between 2011 (revised budget) and 2012 (budget). Internal Audit officials indicated that a specialist to review IT procurement and an investigator are especially needed. The Comsec-funded advisor position was yet to be replaced; officials in the Internal Audit section indicated that the previous advisor was valued, but was yet to be replaced, and that a new terms of reference has been drafted but is spending approval from the PS.

Policy Reference	Policy Area	Reform	Proposed Policy Reforms 2011/12 Completed in the year to 2012-Q2	SIG Assessment			JRM Assessment		
				Concern	On track	Not on track	Accomplished	Progressing	Off track
Theme III: Improve the environment for private sector investment									
<b>Fair and transparent taxes</b>  4.3.4.1.e Tax reforms aimed at diversifying tax base  4.3.4.a Fiscal Policy reforms  4.3.4.1.b Increase domestic revenue generation  NDS Objective 8 (National Level: Executive, Finance)  NDS Objective 5 (Enabling Environment for Private Sector Led Growth: Mainstream Private Sector Economic Leadership)	III-3. Receive a fair share from resources by developing and implementing a new resource tax framework	a. New Legislation for a mining tax regime is put before Parliament.  <i>[Bill]</i>  (ERU)		The IMF-provided TA has provided a draft bill which MoFT is happy with. The draft bill has been circulated to mining companies and Line Ministries as part of a consultation process. The consultation process is expected to be completed by end of July 2012 and should be submitted to Cabinet for endorsement by end of September 2012, subject to consultation comments.		Agree with description of progress, which is collaborated by the IMF program assessment. (Note that the policy reform action envisages the bill being presented to Parliament by end of Q2-2012.) The JRM noted risks around the timeframe slipping due to the time required for adequate consultation and Parliament’s infrequent sitting.			
		b. Complete a taxation baseline for Gold Ridge. <i>[Report]</i> (IRD)		Work being progressed in this area, however, cannot provide tax-payer specific information.		JRM was assured by the Inland Revenue Commissioner that the baseline assessment had been completed.			
	III-4. 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.	a. Legislation to reduce discretionary tax and duty exemptions is presented to Parliament.  <i>[Bills]</i> (ERU, CED, IRD; RAMSI)		The bill will be amended to form part of the new Customs and Excise bill which will be submitted to Parliament in the next sitting.  The proposed bill (exemption) has consequential amendments to the Income tax, Goods tax, Sales tax and the Stamp duties Acts. Officials are also looking into the option of introducing a separate bill for exemption using the current draft Bill.		Agree with description of progress. (Note that the policy reform action envisages the bill being presented to Parliament by end of Q2-2012.) Interlocutors indicated that in the event of an ongoing delay in presenting the consolidated bill to parliament, that SIG intends to present the exemption bill to parliament. Separately, CED officials noted that the Attorney General has indicated that there may be issues with the proposed (standalone) exemptions amendment bills.			
	III-5. Improve duty collection and Customs enforcement	a. New and revised Customs Act to improve duty collection and customs enforcement drafted, approved by Cabinet and presented to Parliament.  <i>[Draft legislation]</i> (ERU, CED; ADB)		Steering committee formed to oversee the existing Customs legislation. Consultations are being performed through concept papers.  A draft bill is currently being prepared, after which it will be submitted to Cabinet for endorsement. The bill will be presented to Parliament in next sitting.		Agree with description of progress, which is collaborated by the IMF program assessment. (Note that the policy reform action envisages the bill being presented to Parliament by end of Q2-2012.) The JRM noted risks around the timeframe slipping due to the time required for adequate consultation and Parliament’s infrequent sitting.			

Policy Reference	Policy Area	Reform	Proposed Policy Reforms 2011/12 Completed in the year to 2012-Q2	SIG Assessment			JRM Assessment		
				Concern	On track	Not on track	Accomplished	Progressing	Off track
			b. Review of Customs policy, procedures and documentary process to ensure ICT reform through the development of a functional system prototype compliments the operational environment. <i>[Report]</i> (CED; AusAID)				A		Agree. Progress confirmed by CED officials. Officials acknowledge the lengthy process, noting that this is typical of many countries undertaking these reforms.
	III-6. Improve revenue from "Other Ministries"		a. Proposal for National Taskforce on Public Properties submitted to Cabinet. <i>[Cabinet minute]</i> (Ministry of Lands, PMO, ERU; WB)				A		Agree.
			b. Options paper prepared for consultations with public and private tenants on improving urban land governance to be considered by taskforce and presented to cabinet. <i>[Cabinet submission]</i> (Ministry of Lands, PMO, ERU; WB)				O		Agree with assessment. Although the JRM was not able to meet with the Ministry of Lands, this was collaborated by discussions with development partners engaged in these issues.
			c. Taskforce appointed and convenes <i>[Minutes of meetings]</i> (Ministry of Lands, PMO, ERU, WB)				P		Agree with assessment. Although the JRM was not able to meet with the Ministry of Lands, this was collaborated by discussions with development partners engaged in these issues.
			d. Taskforce work plan developed and approved. <i>[Minutes of meetings]</i> (Ministry of Lands, PMO, ERU, WB)				P		Agree with assessment. Although the JRM was not able to meet with the Ministry of Lands, this was collaborated by discussions with development partners engaged in these issues.

Policy Reference	Policy Area	Reform	Proposed Policy Reforms 2011/12 Completed in the year to 2012-Q2	SIG Assessment			JRM Assessment		
				Concern	On track	Not on track	Accomplished	Progressing	Off track
			f. Establish ‘Other Government Revenue’ Taskforce comprising the Ministry of Finance and Treasury with the key Ministries of Lands, Fisheries, Forestry, Mines, and Aviation, as well as representatives of the Attorney General Chambers.  <i>[Minutes of meeting]</i> (FEDU, ADB)			No work progressed in this area.			Agree with assessment. Although the JRM was not able to meet with the Ministry of Lands, this was collaborated by discussions with development partners engaged in these issues.
<b>Well-managed SIG businesses</b>  4.3.4.2 State Owned Enterprise Reforms  NDS Objective 5 (Enabling Environment for Private Sector Led Growth: Mainstream Private Sector Economic Leadership)	III-7. Improve SOE monitoring and performance	a. SIWA tariff study recommendations considered by Cabinet, with assistance provided by the Pacific Infrastructure Advisory Centre.  <i>[Cabinet decision]</i> (ERU)			Technical Assistance work completed and SIWA explained the rationale for change with Ministers. Cabinet approved the change on May 30, 2012.			Agree. Tariff reforms approved, through a series of four sizable discrete increases (two of which have been implemented to date), to be followed by a regular, formula-based adjustment to reflect changes in input costs (electricity tariffs and consumer price inflation).	
		b. SIEA and SIWA, in collaboration with MoFT, agree on a mechanism for the reduction of SIWA’s debts to SIEA.  <i>[Signed agreement between parties]</i> (ERU)			Final debt settlement agreement signed on 31 May 2012.			Agree. Signed debt settlement agreement includes provisions for: a capital injection to SIWA, to be paid directly to SIEA (one component of which has been paid); a long-term, interest-free loan from SIEA to SIWA; and a write-off of SBD 9 m of the cross-debt. Both SIEA and SIWA indicated their strong support for the agreement.	
		c. Fiscally sustainable Community Service Obligation agreements are in place for at least two SOEs.  <i>[Signed CSO contracts]</i> (ERU)			CSO agreements for 2012 for SIWA and SIEA have been signed. Seeking some direction from the Minister on financing options for Solomon Airlines.			Agree. SIEA reported fully meeting its service obligations and receiving full payment on its initial CSO contract.	

Policy Reference	Policy Area	Reform	Proposed Policy Reforms 2011/12 Completed in the year to 2012-Q2	SIG Assessment			JRM Assessment		
				Concern	On track	Not on track	Accomplished	Progressing	Off track
			d. An increasing number of SOEs progressively comply with SOE Act regarding presenting their Statements of Corporate Objectives to SIG. MoFT will focus on increasing the quality of the SCOs (statements of corporate objectives) so they can provide a better understanding to government of SOE plans going forward and as an accountable tool against SOE results.  <i>[Letter from PS]</i> (ERU)		MoFT is focusing on the bigger SOEs initially (SIEA, SIWA and Solomon Airlines), given their strategic importance, importance of their services and greater value. It is hoped that if their SCOs improve, they can also assist the remaining SOEs in preparing worthwhile SCOs.		Agree. Interlocutors indicated that while SCOs had been completed, their quality was mixed and some needed further work to achieve the objectives.		
			g. The Minister of Finance reports annually to Parliament that all Director appointments have been made in accordance with the SOE Act.  <i>[Report tabled in Parliament]</i> (MoFT)					MoFT reported that appointments are now in compliance with SOE Act. This is a recent development as existing boards remained in place. MoFT proposed to include a report to Parliament to this effect at the budget session.	
Establish revenue transparency in the extractive sector  5.1.7.d Mining development	III-8. Attain EITI Candidate Status in order to facilitate revenue transparency.	a. EITI Multi-stakeholder Steering Group formed by SIG.  <i>[Minutes of meetings, Press Release?]</i>  (ERU; WB)		EITI Multi-stakeholder group formed on January 2012, known as the Solomon Islands Extractive Industries National Stakeholder Group (SIEINSG).		Agree.			
		b. EITI Work plan consulted and finalized.  <i>[Minutes of meetings; Final work plan]</i>  (ERU; WB)					Agree.		
		c. Application for Candidate Status to EITI International Secretariat completed.  <i>[application documents]</i>  (ERU,WB)						Agree. The JRM noted international commendation of Solomon Islands’ candidacy status.	

Policy Reference	Policy Area	Reform	Proposed Policy Reforms 2011/12 Completed in the year to 2012-Q2	SIG Assessment			JRM Assessment		
				 Concern	 On track	 Not on track	 Accomplished	 Progressing	 Off track
<b>Continuation of IMF program</b>  4.3.1.a Macroeconomic and fiscal framework	III-9. 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.	a. Ongoing enhanced engagement by SIG with the IMF through a staff-monitored program.  [IMF documentation]  (FEDU; IMF)		Currently engaged in precautionary Standby-Credit Facility Agreement.				Agree. IMF first review of Standby Credit Facility was completed June 2012. JRM noted revised Letter of Intent and ongoing IMF support for Solomon Islands macroeconomic stabilization and SIG's reform program.	
	III-10. Revise the National Provident Fund Act to improve the long-term financial viability of the NPF and reduce financial risks.	a. Obtain cabinet approval and submit to Parliament a revised NPF bill and associated regulations, to improve the long-term financial viability of the NPF and reduce financial risks.  [Bill] (ERU)		Policy paper prepared, approved by Cabinet, and review team established. Community and stakeholder consultations scheduled for August 2012. Awaiting Cabinet endorsement of drafting instructions (initially scheduled for June 2012). Drafting instructions have been submitted to Cabinet. Draft legislation submission to Parliament in late 2012 (next Parliament sitting).				Agree with description of progress, which is collaborated by the IMF program assessment. (Note that the policy reform action envisages the bill being presented to Parliament by end of Q2-2012.) The JRM noted risks around the timeframe slipping due to Parliament's infrequent sitting.	



Joint Review Mission Assessment of Completion of EFRP 2011-12 Cycle	All Policy Reform Areas				Budget Support Policy Triggers for 2011/12			
	Total	Accomplished	Progressing	Off track	Total	Accomplished	Progressing	Off track
I. Budget preparation and planning	28	16	11	1	8	3	5	0
II. Budget execution	29	12	16	1	4	1	3	0
III. Environment for private sector investment	20	11	7	2	2	2	0	0
EFRP	77	39	34	4	14	6	8	0

*Note: The assessment is based on the evidence provided to the JRM team over the course of its mission. Those policy actions that have been completed and the JRM team are able to verify this are marked as 'accomplished'. Where the JRM assesses that progress has been made but the action is not formally completed and interlocutors expressed confidence that the action would be completed within a reasonable time frame (generally before the end of calendar 2012), the JRM marked the action as 'progressing'. Actions that have not been completed, and showed little or no progress are marked as 'off track'.*

## Appendix 3: 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 Solomon Islands

Ministry of Development Planning and Aid Coordination

Ministry of Education and Human Resources Development

Ministry of Environment, Conservation and Meteorology

Ministry of Health and Medical Services

Ministry of Infrastructure Development

Ministry of Mines and Energy

Office of the Attorney General

Solomon Islands Electricity Authority

Solomon Islands Water Authority

Telecommunications Commission of Solomon Islands

### Development Partners:

- Asian Development Bank
- Australian High Commission and AusAID
- New Zealand High Commission and the New Zealand Aid Programme
- World Bank
- British High Commission
- European Union
- Japan International Cooperation Agency

Regional Assistance Mission to Solomon Islands

Solomon Islands Chamber of Commerce