



Australian Government
Department of Foreign Affairs and Trade



SOLOMON ISLANDS GROWTH PROGRAM INVESTMENT DESIGN DOCUMENT

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Acronyms and Abbreviations

ADB	Asian Development Bank
AIP	Aid Investment Plan
ADRA	Adventist Development and Relief Agency
CLIP	Cocoa Livelihoods Improvement Program
DCED	Donor Committee for Enterprise Development
ECF	Enterprise Challenge Fund
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GEWD	Gender Equality and Women's Development
GPPOL	Guadalcanal Plains Palm Oil Limited
HIES	Household Income and Expenditure Survey
IFC	International Finance Corporation
IWDA	International Women's Development Agency
MDF	Market Development Facility
MWYCFA	Ministry of Women, Youth, Children and Family Affairs
NGO	Non-Governmental Organisation
NIIP	National Infrastructure Investment Plan
NTF	National Transport Fund
ODE	Office of Development Effectiveness
PHAMA	Pacific Horticultural and Agricultural Market Access
RAMSI	Regional Assistance Mission to Solomon Islands
SB	Strongim Bisnis
SIG	Solomon Islands Government
SIMSA	Solomon Islands Maritime Safety Authority
SIVB	Solomon Islands Visitors Bureau
SIWIBA	Solomon Islands Women in Business Association
TTFT	Tugeda Tude Fo Tumoro program
UN	United Nations
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
WEE	Women's Economic Empowerment
WTO	World Trade Organisation

All \$ figures refer to Australian dollars

1. EXECUTIVE SUMMARY

The Solomon Islands Growth Program (SIGP) will be the flagship for Australian support to increase private sector investment in a more inclusive economy.

Australia is already supporting growth in Solomon Islands through a portfolio of bilateral and regional programs targeting infrastructure, market access, trade facilitation, governance, skills, private sector environment reform and women's economic empowerment. Taken together with the new investments proposed in this design, the Australian aid program will be equipped to:

- address economy-wide constraints to growth through activities such as infrastructure, government capacity for policy and risk analysis, workforce productivity and business capacity to advocate for change.
- promote growth in specific sectors (initially tourism, cocoa and coconuts products) through activities that catalyse business innovation, change practices, strengthen collaboration, manage risks, build resilience and increase women's participation and empowerment.
- influence change in the business environment through advocacy and engagement with the private sector, government, the public and other organisations.

SIGP complements Australia's existing investments in economic growth. It will:

- fund additional economic infrastructure projects that address constraints to business development or catalyse investment.
- through a new mechanism, "Strongim Bisnis" (Strengthen Business) work in selected markets (initially cocoa, coconut and tourism), primarily with the private sector and also with Government and statutory agencies on business practice, market development, risks and resilience, and women's participation in the economy.
- continue existing Australian support for economic reform within the Ministry of Finance and Treasury.

SIGP is an umbrella initiative for Australia's new \$50m contribution to growth rather than a separate entity. Only Strongim Bisnis will be contracted as a result of this design. The remainder will be managed through existing partnerships and management arrangements.

Strongim Bisnis, will work with the private sector to seed ideas, provide start up support and stimulate collaboration. It will aim to operate mainly through the provision of knowledge, ideas and encouragement, not by providing recurrent operational costs for business.

Strongim Bisnis will take a market systems approach to strengthen value chains and connections to international markets. Strongim Bisnis activities may include, developing and testing new business models, reducing the risk to new investors through risk or information

sharing arrangements, strengthening the capacity of the private sector to advocate for reform, and support for marketing and investment promotion.

This design recognises the fundamental importance of accelerated and inclusive economic growth for Solomon Islands, and the internal political, cultural and institutional issues that discourage it, on top of the fixed constraints of size and distance to markets. It identifies Australia's comparative advantage in support for infrastructure and economic reform, and adds a capacity for Australia to work directly with those who are doing business despite the constraints. It also increases Post's capacity to understand the factors limiting women's participation in the economy and to help develop market opportunities and skills for women and unemployed youth.

Summary Schematic – Key Elements of the Solomon Islands Growth Program

Increased private sector investment in a more inclusive economy

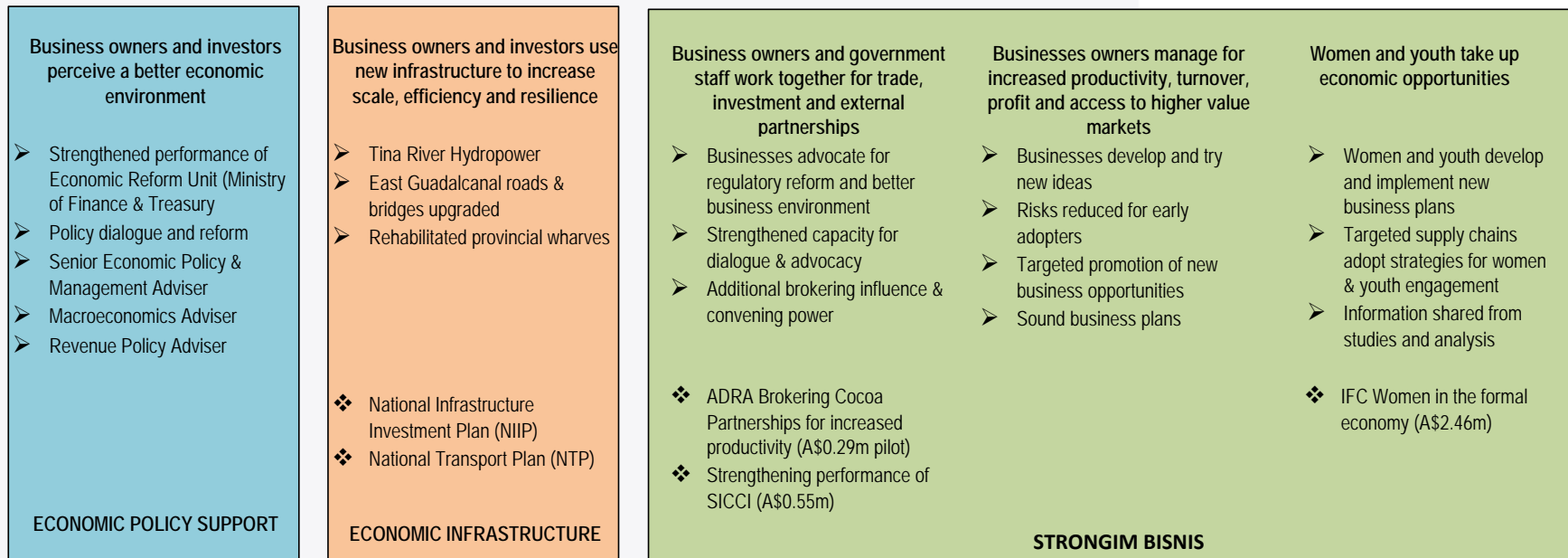
Goal
(Australia, AIP Growth
Pillar to 2025)

Objectives
(DFAT Honiara
Growth PAF)

Solomon Islands economic operating environment is more attractive to business

More men and women are able to earn a cash-based income

End of program outcomes
(June 2020)



Services and advisers from Solomon Islands Resource Facility

2. PURPOSE OF THE DOCUMENT

This document sets out the design for a new \$50m investment to support economic growth in Solomon Islands: The Solomon Islands Growth Program (SIGP). It establishes criteria for allocating the \$50m available and provides a tool for prioritising activities.

Table 1: Funding allocation for SIGP

	16/17	17/18	18/19	19/20
Total SIGP funding	\$15,300,000	\$16,200,000	\$10,000,000	\$9,250,000

The SIGP will be implemented through two separate mechanisms:

1. Targeted additions to existing DFAT programs that address economy-wide constraints to growth
2. A new mechanism to deliver sector specific support, working mainly with the private sector.

This document sets out management arrangements for the first mechanism, and full management and implementation arrangements for the second. These investments will form part of a wider Australian contribution to growth which will increasingly be managed together with advocacy and brokering by DFAT staff as a single portfolio working under a set of investment criteria and to common objectives.

3. INTRODUCTION

Australia's aid to Solomon Islands has been strongly concentrated since 2003, the year of RAMSI's arrival, on supporting the stability of the country and the rebuilding the state following the ethnic tensions of the early 2000s ("the Tensions"). The Solomon Islands Aid Investment Plan (AIP) 2015-2019 has three strategic objectives; supporting stability, enabling economic growth, and enhancing human development. DFAT is gradually shifting towards a greater focus on promoting economic growth.

Solomon Islands needs sustained and accelerated growth if it is to build a more diversified economy and one that is more resilient to the remaining potential for conflict and to external and natural shocks. Current relative economic and political stability presents opportunities to lay the foundations for a stronger economy. The country is endowed with natural resources that, well managed, are capable of contributing to economic development. It produces and exports agricultural products, has small but established palm oil and tuna processing industries and offers better opportunities to realise economies of scale than much of the Pacific. Change is needed at a number of levels: public policy, governance, legislation, infrastructure, global connections, investment and skills and behaviours in individual businesses, and capacities to manage the risks of climate change in weather sensitive industries. The starting point in terms of institutional capacity and personal skills and motivation is low. As described below, there are strong countervailing pressures to sustained and inclusive growth. There are few entry points for external support and the prospects for success are mixed. This design concentrates on areas of existing Australian experience, such as infrastructure, while proposing new directions in collaboration with the private sector.

DFAT's 10 year goal in supporting economic growth is increased private sector investment in an inclusive economy¹.

To support this objective, all Australian supported activities promoting growth (the "growth portfolio"), including existing activities as well as those established by this design, will have a clear link to one or both of the growth objectives in the Performance Assessment Framework for the AIP period to 2019:

- Solomon Islands' enabling environment is more attractive to business
- More men and women can earn a cash-based income.

Australia's growth portfolio will focus on three output areas:

- Addressing economy-wide constraints to growth through activities that seek to alleviate constraints such as infrastructure, government capacity for policy and risk analysis, workforce productivity and business capacity to advocate for change.
- Stimulating growth in specific sectors through activities that catalyse business innovation, change practices, strengthen collaboration, manage risks, build resilience and increase women's participation and empowerment.
- Influencing change in the business enabling environment through advocacy and engagement with the private sector, government, the public and other organisations.

¹ Where inclusivity means a balanced and diversified expansion of productive sectors including those where the majority of the population can participate

Within this framework, SIGP (this design) includes:

- Investments in alleviating economy wide constraints to growth where Australia has a comparative advantage or a clear opportunity to directly affect a constraint (about 75% of the \$50m SIGP allocation):
 - targeted infrastructure investments (in the Tina River Hydropower Project, East Guadalcanal roads and bridges and maritime infrastructure)
 - continuation of advisory support to the Economic Reform Unit, Ministry of Finance and Treasury, to underpin macroeconomic stability and encourage growth supporting policy
- A new mechanism, “Strongim Bisnis” (Strengthen Business), to work in specific sectors, with the private sector and with selected parts of Government and statutory agencies on business practice, market development, risk management and women’s participation in the economy (about 25% of the SIGP allocation).

To avoid duplication and streamline management arrangements, the first group of SIGP activities above will be implemented through existing DFAT programs with additional program management support. New management and implementation arrangements are needed for the second.

This Investment Design Document (IDD):

- establishes the links between new and existing investments to support growth
- sets priorities for new expenditure through existing programs
- specifies implementation arrangements for new activities
- identifies where activities have already started (following the approval of the investment concept note by DFAT’s Aid Investment Committee).

The figure below situates the new investment in the context of Australia’s existing portfolio of growth-related investments.

Figure 1: Mapping Australia's growth investments

AUSTRALIA'S INVESTMENT IN ECONOMIC GROWTH IN SOLOMON ISLANDS 'GROWTH PORTFOLIO' (APPROX. \$39M/YEAR)				
<i>Solomon Islands Growth Program (up to \$50m/4 years)</i>			<i>Advocacy</i>	<i>Other Bilateral Growth spend (approx. \$20m/year)</i>
<i>Bilateral funding</i>	<p>Addressing economy-wide constraints (\$37m)</p> <p>East Guadalcanal Bridges</p> <p>Tina River hydropower project</p> <p>Wharves</p> <p>Economic Reform Unit advisor support</p> <p>Women's Economic Empowerment</p> <p>Support to Solomon Islands Chamber of Commerce and Industry</p>	<p>Stimulating growth in specific sectors (\$13m)</p> <p>'Strongim Bisnis'</p> <ul style="list-style-type: none"> - tourism - cocoa - coconuts - women's participation <p>IFC tourism</p> <p>SOUL cocoa</p>	<p>Influencing change (nominal financial commitment, human resource intensive)</p> <p>Advocacy</p> <p>Brokering</p> <p>Convening</p>	<p>Transport infrastructure</p> <p>Urban Water Skills</p> <p>Rural Development Program</p> <p>Biosecurity</p> <p>Seasonal Worker Program</p> <p>Governance (growth)</p> <p>Land Urbanisation</p>
<i>Regional funding</i>	<p>Private Sector Development Initiative</p> <p>Pacific Financial Inclusion Program</p>	<p>Business Investment Facility</p> <p>Pacific Horticulture and Agriculture Market Access (PHAMA) program</p> <p>Markets for Change</p>	<p>PACER+</p> <p>Trade</p>	<p>PHAMA bilateral top-up</p> <p>PFIP bilateral top-up</p>
<i>Global funding</i>	<p>Enhanced Integrated Framework (trade facilitation)</p>	<p>Resources hub</p>		

The market systems approach proposed for Strongim Bisnis is supported by a number of major donors, including Australia in its Indonesia and Pacific Regional programs. They seek to understand and respond to how poor men and women participate in markets and the reasons why they are excluded or exploited. The experience of programs working directly with poor people is that concentration on production, or on a single service such as micro-finance, may yield results that are not sustainable if other parts of the market chain do not respond². The market systems approach seeks to build in sustainability by recognising interdependencies in the market chain and creating self-reinforcing incentives within it. Major market development programs in Africa, Asia and Latin America are generating development results that continue to be sustained and scaled up without the need for continued donor funding.

The first generation of market system programs applied a normative view of the conditions needed to make markets work. However, subsequent experience suggests that it is better to consider what 'good enough' changes in the operating environment might be to allow business to grow. Getting to 'good enough' changes involves developing an understanding of how businesses operate and therefore what mixture of feasible and/or important change should be supported both within the private sector and in its relations with the public sector.

The key learning points from international experience of market systems approaches, and from Australian efforts to promote growth in the Pacific, are:

- Private sector collaboration works... With the right skills and approaches, it is possible to develop relationships with the private sector that work for wider development ends.³
- ...but it is not just about individual partnerships: A recent review of DFAT's Market Development Facility (MDF) underlined that individual partnerships need to be explicitly located in sector strategies and market development activity more widely.
- The need for flexibility and speed of response: In small and undeveloped markets change is usually non-linear, but modest changes in policy or behaviour, where they happen, can make a big difference. Development programs that move with the grain of change and are agile and opportunistic rather than having to deliver a predetermined set of outcomes are more likely to be relevant and effective.
- Strong knowledge and relationships: Programs that aim to influence behaviour need to be immersed in the politics and culture of their environment and to be astute in building a wide range of relationships beyond funding. Rather than starting with an offer of aid, they need first to understand how change is playing out and what the role for external support might be.
- The importance of internal and external knowledge management: Responsive and flexible programs need to work harder to reflect on progress towards objectives and to know what is working and not working. They also need to be able to adapt internal learning and other experience into knowledge products to enhance evidence based decision making by those they wish to influence.
- Australian aid is not yet delivering consistent and strong outcomes for women in its economic investments: Despite stronger policy commitments, not enough understanding has been developed of the factors affecting women's economic empowerment beyond increased access to incomes and resources and to power in decision-making.
- Staff matter: The quality of staff deployed on relationship-based, opportunistic programs is essential to success. Despite pressures to keep the perceived staffing to operations ratio within standard limits, staff time and skills should be regarded as part of the benefits of the program.

² Such as the Cocoa Livelihoods Improvement Program (CLIP) 2009/12

³ As in, for example, Australian support for the reshaping of the textiles, clothing and footwear industry in Fiji up to 2009, and more recently in relationships developed through the Market Development Facility.

- Risk management: Some interventions within a portfolio of activities with the private sector will fail. The portfolio needs to be managed with a focus on balancing risk and filtering out activities that develop unacceptable risks.
- Emerging risks: Potential growth sectors in the Pacific (cash crops, tourism) are highly weather-sensitive. Australia's investment in climate science across the Pacific provide sound modelling that can inform sector-specific risk management strategies to lessen the economic shocks of extreme weather and climate change.⁴

These lessons are incorporated in this design document and will inform implementation of the program.

⁴ *SI is getting hotter with more extreme cyclones; sea levels are rising, threatening assets and the productivity of fisheries, tourism and agriculture;*
http://www.pacificclimatechangescience.org/wp-content/uploads/2013/06/13_PACCSAP-Solomon-Islands-11pp_WEB.pdf

4. ANALYSIS AND STRATEGIC CONTEXT

In 2015, the Solomon Islands economy grew at around 3 per cent. With a population growth rate of approximately 2.5 per cent per annum, the economy cannot currently support an improvement in overall living standards. Growth was driven by high levels of government expenditure and record increases of log exports. Agriculture and raw materials (including logging) accounted for 69 per cent of exports, leaving the narrow-based economy vulnerable to shocks.

Macroeconomic fundamentals remain sound—debt levels remained at an enviable 8 per cent of GDP, allowing Solomon Islands the capacity to borrow for emerging opportunities for productive investment. However, the Government ended the 2015 fiscal year with a deficit of \$172 million, reversing the surplus recorded in 2014. Driving this negative outturn was high expenditure relative to revenue collections across the year⁵ leading to a deterioration in cash reserves. Solomon Islands was ranked 112 out of 189 on the World Bank's Doing Business Index in 2016⁶ – remaining a challenging place to do business.

Inclusive growth remains a challenge for Solomon Islands. Nearly 80 per cent of the population lives in rural areas, dependent on a combination of subsistence farming and informal employment for livelihoods⁷. Only 21 per cent of adults are employed in the formal sector, and of those, 38 per cent are public servants⁸. Men are more than twice as likely as women to hold a job in the formal sector.

A stable, prosperous Solomon Islands is in Australia's national interest. While the pathways to the new, credible foreign investment that Solomon Islands needs remain unclear there is a role for development partners in influencing the enabling environment, stimulating innovation and working with the private sector on specific constraints to growth. Australia is a trusted partner in Solomon Islands and is in a position to use not only technical inputs but also relationships and influence within and outside the country to promote the emergence of new thinking in this area.

Economic growth is one of the three pillars of the AIP, under which Australia will bring together support for the private sector with economic infrastructure, advice on the business enabling environment, rural livelihoods and efforts to combat corruption. The AIP is also underpinned by a commitment to improve the status of women and promote their participation in the economy. This is consistent with the Australian aid program's wider policy on supporting economic growth and trade across a broad range of activities, applying the energies of the private sector to development problems, building resilience, promoting gender equality and empowering women and girls.

4.1 PRIVATE SECTOR ENVIRONMENT

Solomon Islands currently ranks 112 out of 189 countries in the World Bank's 2016 Doing Business Index. It performs better than neighbouring PNG (145), but trails other Melanesian countries Fiji (88) and Vanuatu (94).

⁵ Central Bank of Solomon Islands Central Bank of Solomon Islands, Quarterly Economic Review, December 2015.

<http://www.cbsi.com.sb/publications/quarterly-reviews/>

⁶ <http://www.doingbusiness.org/data/exploreeconomies/solomon-islands/>

⁷ Solomon Islands census, 2009

⁸ Household Income and Expenditure Survey, 2015

Despite improvements in the business environment since 2005,⁹ the conditions for private sector led growth in Solomon Islands remain difficult. Decision-making on policy and allocation of resources is largely dominated by Government and MPs, many of whom have their own business interests. There are greater rewards to those in power from being seen to distribute resources or concessions or to have persuaded development partners to underwrite new investment than from less visible policy reform. Thus much national planning for stimulating private sector led growth consists of proposals for public expenditure for grants and subsidies and eye-catching suggestions such as special economic zones or the revival of the failed Development Bank. Infrastructure investment is not fully aligned to the potential for growth, and is increasingly diverging from the Government's own national plans for infrastructure priorities.¹⁰ There is little incentive to explore the involvement of the private sector in delivering services or managing national assets.

Counterweights to Government, and the political elite generally, are weak. The private sector is fragmented. Broadly, it is divided into:

- Large foreign owned businesses (mainly Australian and Papua New Guinean-owned, including banks, hotels, agri-business and the palm oil plantations)
- Retail and service businesses, largely owned by long term Chinese expatriates
- Medium and small businesses owned by Solomon Islanders
- A very large number of informal businesses.

Regular exchange and dialogue between business collectively and Government is infrequent, and expertise in focused advocacy is low. The private sector groupings engage with Government in different ways. The Solomon Islands Chamber of Commerce and Industry, representing its membership mainly drawn from larger businesses, relies on occasional interaction on specific issues with Ministers, and has recently commenced a regular structured dialogue (with Australian support). Chinese businesses have their own association, which lobbies Government informally. All businesses are obliged to make day-to-day accommodations with the Government or the public service, using their economic muscle, reciprocal favours or alliances for protection. The difficulties attached to developing trust beyond the immediate family, enforcing contracts, developing new markets or planning in a politically uncertain environment can encourage risk-minimising behaviours that suppress entrepreneurship. Conservative lending practices by banks together with social and cultural depressants to risk-taking mean that overall levels of domestic investment are low, and the prospects for foreign investment uncertain.

Informal businesses, including family farms, face multiple obstacles to expansion, including poor linkage to markets, lack of knowledge or influence that makes them price takers and lack of access to finance or new technology. Informal businesses rarely become formalised because of the real and perceived complexities of raising capital, registering and complying with tax systems (especially for women – see below). Moreover, there is emerging evidence that programs seeking to promote economic activity in the Pacific do not know enough about the way that rural families and individuals view participation in business.¹¹ Apart from the disincentives to women to earn more money if it will be taken by their husbands, there are more general family and community obligations that increase as income increases; and jealousy of perceived success. Free distribution of goods and cash by MPs and the custom of supporting wantoks combine to undermine motivations to increase incomes.

⁹ For a survey of improvements, see A private sector assessment for Solomon Islands, ADB, 2016, Appendix C.

¹⁰ Ibid, Appendix D

¹¹ For example, in the mid-term review of the Market Development Facility.

4.2 POLICY CONTEXT

Both the Solomon Islands National Development Strategy 2016-2035 and the Democratic Coalition for Change (current government, DCC) policy statement emphasises the importance of inclusive growth based on the development of the country's natural resources (agriculture, fisheries, tourism and mining). However, the specific policies contained in the document are not prioritised or sequenced.

The formal growth target is 5% a year, to be achieved largely by better performance in the private sector. Both policies recognise the need for Government to provide a stable macro-economic and regulatory environment for business and to provide rural people with the encouragement and resources to go into business and link to markets. However, both also focus on actions by Government to provide services or subsidies to business that are unlikely to be affordable in the short term and may add to the disincentive for businesses to invest in their own future. This suggests that part of the value of a growth program working with the private sector is to provide experience of different ways of stimulating private sector led growth within the country's limited public budgetary resources.

Solomon Islands has signed a number of international and regional conventions and treaties that espouse women's economic empowerment. The Government's Gender Equality and Women's Development (GEWD) policy has five priority outcomes, including improving the economic status of women. In 2015, the Government developed a National Strategy for the Economic Empowerment of Women and Girls, with the Ministry of Women, Youth, Children and Family Affairs as the focal point. It adopts a twin track approach, investing in women's agency and efforts would along with overcoming attitudinal and institutional barriers through mainstreaming and targeted interventions. As a policy it is commendable, but capacity to implement it, and particularly to create the networks that would be required to roll it out throughout the country, is low. The Family Protection Act, which explicitly criminalises acts of family violence, took effect in April 2016. Australia is supporting its implementation through its programs in Law and Justice, policing, health and support to first response services.

The focus of this design on a new approach to growth underpins and complements elements of the Australian program in Solomon Islands which are already focused on the management of the economy and promotion of business activity, including:

- rehabilitation and maintenance of roads
- support for macro-economic stability and economic reform
- support through the Asian Development Bank's Private Sector Development Initiative for measures to make it easier to do business
- addressing skills shortages by reforming technical education
- strengthening utilities provision through support for Solomon Water and supporting SIG's preparation for investment in the Tina River Hydropower Project
- improvement of financial skills and access to financial services by poor people
- improving access to markets through the Pacific Horticultural and Agricultural Market Access (PHAMA) program
- increasing the quantity and quality of export crops
- promoting participation in the seasonal workers' scheme
- specific support for women entrepreneurs.

There is therefore a strong understanding within the program of the constraints to growth and the strengths and weaknesses of the institutions on which it depends; and a range of existing engagements which can be expanded, adapted or partnered with to help deliver a new initiative.

4.3 SUPPORT FOR GROWTH BY OTHER DONORS

Australia remains Solomon Islands' largest donor, providing almost three-quarters of Solomon Islands' aid¹²; equivalent to almost 11 per cent of Solomon Islands' GDP¹³; and more than 25 per cent of Solomon Islands Government's budget. In 2015-16, Australia's official development assistance to Solomon Islands was \$170.2 million; approximately \$91.2 million of this was expended through the bilateral program; \$53.9 million through RAMSI; \$16.6 million through regional programs; \$7.7 million through global programs; and \$0.9 million through other government departments.

DFAT has programs working with government to maintain macroeconomic stability through prudent fiscal management, and support for economic policy making, including revenue policy. This work provides the foundation on which efforts to grow the economy will be built. Other programs seek to address some of the identified constraints in road and wharf access, utility prices and supply, productive skills, agricultural value chains, financial inclusion and some work on the business enabling environment, such as company registration and business law reform.

New Zealand development assistance is smaller and well aligned to Australia's. It includes infrastructure, aviation, fisheries, tax administration and some new support for energy and tourism. Japan is a significant donor, investing in discrete infrastructure projects in Honiara. The Asian Development Bank (ADB) is a key partner for Australia with investments in infrastructure and private sector development.

The World Bank Group (including the International Finance Corporation) has a strong presence, but does not have the same breadth of investment as Australia. The focus is rural development, fisheries, energy and telecommunications.

Existing and planned activities by other stakeholders present possible coordination and partnership opportunities. For example:

- ADB-managed regional Private Sector Development Initiative (PSDI) has helped to introduce a number of regulatory and business service reforms, as well as supporting financial inclusion and developing insights into the working of the private sector. The ADB has also been active with Australia in funding economic infrastructure and supporting shipping services to remote locations.
- Australia co-finances the World Bank's Rural Development Program to improve basic infrastructure and services in rural areas, and to strengthen the linkages between smallholder farming households and markets; and the Bank is heavily involved in analytical and advisory work for the energy and mining sectors.
- The IFC is supporting basic infrastructure to give people access to reliable services, such as electricity; and improving supply-chain linkages to increase the participation of local companies in the natural resource and agribusiness sectors.

¹² Ministry of Development Planning and aid coordination, 2016

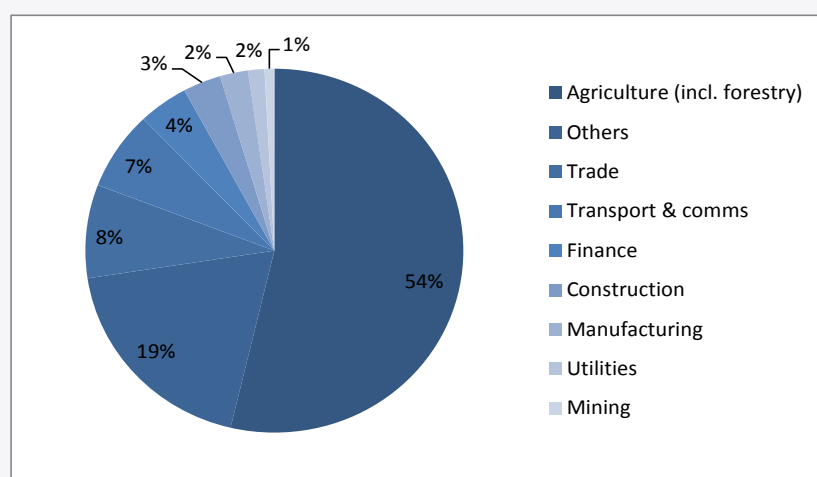
¹³ ADB Private Sector Development Initiative (PSDI) "Private Sector Assessment of Solomon Islands 2016". Solomon Islands GDP in calendar 2015 was approximately AUD\$1,527,000,000 using an exchange rate of A\$1.32 = US\$1. ODA assistance by Australia in 2015/2016 was AUD\$172,000,000. Therefore, assistance amounted to the equivalent of 11 per cent of GDP.

- Solomon Islands receives support from the WTO Enhanced Integrated Trade Framework for implementation of its national trade policy, which has included project financing for eco-tourism and handicraft sales.
- New Zealand supports economic development through assistance for fisheries management and is considering a further program of aviation infrastructure investment to boost tourism.
- FAO is increasing its investment in rural development and nutrition, with an emphasis on climate change.

4.4 SOURCES OF ECONOMIC GROWTH IN SOLOMON ISLANDS

The main economic drivers in Solomon Islands are natural resources, which contribute over 50% to Gross Domestic Product (GDP)—the forestry sector contributes around half of this—and public administration which contributes over 30% of GDP¹⁴. The search for diversification in the economy has attracted a good deal of analytical attention, but the consensus is that the country should look for growth in a more balanced use of its natural resources – tourism, agriculture, fisheries, more sustainable forestry, and better regulated mining.

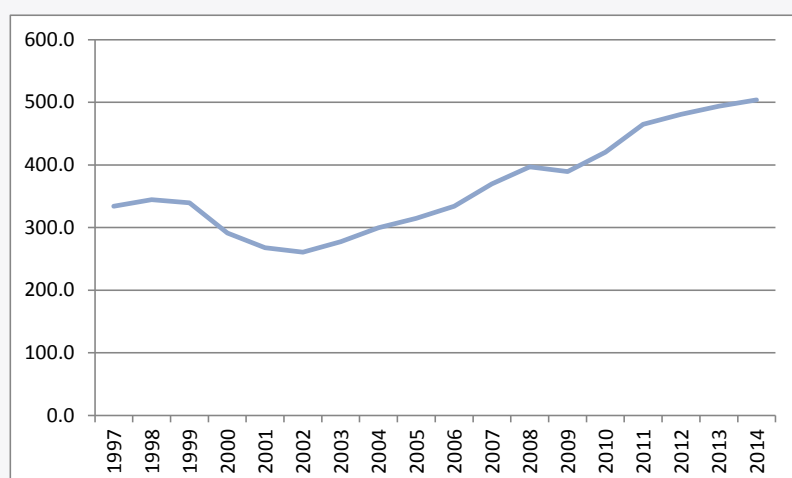
Figure 2a: Sectoral share of GDP, 2014



Source: Key Indicators for Asia and the Pacific 2015, ADB

¹⁴ Tobias Haque, 2013, Economic Transition in Solomon Islands, Canberra: SSGM, p5

Figure 2b: Real GDP, 1997 to 2014 (in 1985 prices)



Source: *Key Indicators for Asia and the Pacific 2015*, ADB

Forestry has been the main driver of growth. The sector accounted for 58% of exports in 2014, up from 53% in 2009. Forestry, logging and sawmilling have grown at an average annual real rate of 14% from 2009 to 2014. Logging production is now more than double the level in terms of volume relative to 2009, with exports in 2014 worth 275% more than in 2009. The decline of the sector has been much predicted but has so far failed to materialise. Apart from its unsustainability it is subject to widespread illegal operations, poor environmental practice, corruption, and a lack of attention to landowner interests.

Mining can deliver economic growth but presents government with a range of management challenges and has a chequered past in Solomon Islands. Growth in the mining sector and the related economic transition may exacerbate problematic impacts of natural resource rents on political governance; this has been the experience globally, and in the Solomon Islands logging industry¹⁵. Whether or not mining expands in the country will be a matter for SIG and for individual investors, and the role of development partners can only be to support and /or influence at the margin. Mining is especially affected by poor governance, corruption, political capture and complex land tenure systems, but also by non-existent or insufficient sector related policies and legislation. If the policy environment becomes more promising, there may be scope for selective technical assistance.

The value of fisheries production (mainly processed tuna) has risen very strongly since 2009, growing on average by 28% a year. The value of production was SBD 459m in 2014 – larger than the combined value of copra, coconut oil, cocoa and palm oil. Fisheries contributes to 2.4% of GDP and access fees are equivalent to 7.6% of SIG revenue. 12% of formally employed people in Solomon Islands work in the fisheries sector.¹⁶ The large increase in the value of fish exports continued during the first six months of 2015, with values higher than in the same period in previous years. However, high input costs mean that Solomon Islands cannot compete globally in tuna processing; the country's ability to maintain the current level of export earnings depends on continued application of European Union preferences, which is under threat because of the country's loss of Least Developed Country (LDC) status and concerns over illegal, unregulated and under-reported (IUU) fishing. Establishing another processing plant could contribute to further growth, but its

¹⁵ Tobias Haque, 2013, *Economic Transition in Solomon Islands*, Canberra: SSGM

¹⁶ *Fisheries in the economies of Pacific Island countries and territories*, Robert Gillett, published by the Secretariat of the Pacific Community (2016).

prospects are uncertain. Artisanal fisheries are important for the domestic market, but there appears to be no strategy for dramatically improving productivity or linking to export markets. Small-scale aquaculture ventures exist but do not at present have strong prospects for expansion. Extreme weather, ocean warming and acidification are all expected to impact negatively on fisheries; both on the primary productivity of breeding sites and habitat and on ocean species including tuna.

Agriculture, particularly cash crops, suffered under the Tensions but has potential for growth. Weak market systems and unreliable and expensive transport links, particularly in domestic shipping, along with extreme weather events and shifting weather patterns have affected performance of the sector. Cocoa, coconut and coffee are all smallholder crops where investments are not generally beyond the means of families and returns accrue directly to them. Cocoa is grown widely throughout the country, but despite extensive investment in skills and equipment at grower level, production fluctuates according to price and ease of getting to market and product quality is low by world standards. Prices are mainly set by international commodity brokers who buy the bulk of the country's output, reducing the incentive to increase quality or production. Recent moves to improve processing techniques and connect growers through exporters more directly with niche manufacturers are promising, but require more investment in market intelligence and sales capacity. The creation (or restoration) of linkages through the market chain to generate common incentives to maintain quantity and quality are key to the sustainable future of cocoa production. Coconut trees cover half the cultivated land in Solomon Islands, and because there are few alternative income earning opportunities in rural areas, copra has been a traditional stand-by for rural families. However, production is sensitive to the farm gate price, which is in any case low for Solomon Islands because of distance to markets, and reliable supply is a problem. Future prospects for copra are poor; over half of the country's palm trees are reaching the end of their lives, and returns undermine the incentive to replant. Introducing new varieties, building local demand and adding value domestically have been the priorities for some time. There has been some success with small-scale virgin coconut oil production, which has recorded strong growth in recent years. However, extraction facilities have performed sporadically and the business model and social organisation around them needs more attention. Coffee is a largely unexploited crop in the highlands of Guadalcanal and Malaita. Smallholder growers have been encouraged to plant coffee as a diversification strategy, but have never been effectively linked to markets. Palm oil (only viable on a large scale) is grown successfully in plantations and by out growers on Guadalcanal, where the operator (Guadalcanal Plains Palm Oil Limited, GPPOL) is considering a significant expansion.

The tourism sector is undeveloped compared to many other Pacific Island countries. It has performed consistently poorly, generating approximately 5,000 leisure visitors and 2,000 cruise passenger visitors in 2015, less than 1% of leisure visitors to the region. Evidence from key competitor destinations is that growth in tourism, including cruise ship arrivals, can lead to broad based employment and income generation, as well as support the retention of cultural traditions and the sustainable management of natural assets. Solomon Islands is unlikely to develop a market in mass resort tourism, not least because of the difficulty of acquiring land. But the country has a number of advantages as a destination, including that it is one of the last 'undiscovered' tourist destinations offering an authentic experience for adventurous travellers. With investments in marketing and minor infrastructure the country could see modest rises in numbers of leisure tourists and significant cruise passenger arrivals. Management of risks associated with climate change may be needed to protect coastal tourism assets, including reefs and shorelines, and coastal infrastructure; including diversification beyond coastal areas.

Tourism is a declared priority of the Government, but high taxation rates and the lack of any legal framework or regulation (such as official standards), hamper its development. The Ministry of Culture and Tourism has generated momentum on this and plans to introduce new legislation in the near future. The under-resourced Solomon Islands Visitors Bureau has made efforts to raise the profile of the country, but Solomon Islands has so far not generated a reputation as a tourist destination in its natural markets. The industry is

fragmented and lacks a common vision. It is estimated that there are over 300 tourism businesses, many of which are micro businesses such as home stays. Many have been started as a result of the availability of tourism grants, and most are inactive or unprofitable (the few profitable businesses are mainly hotels in Honiara and Western Province). Tourism businesses in Malaita have been effectively strangled by the prolonged closure of the airstrip, although some may now recover. With high input costs, the main opportunities for offering better value for money and so attracting more visitors lie in improving the offer based on better understanding of demand: a more accessible online presence, greater collaboration among operators around specific destinations and market segments (such as diving, adventure and heritage), upgrading outdated accommodation, restoring tourism assets, and developing business and hospitality skills. Following the upgrading of the wharf in Honiara, Carnival Cruises expects to start regular operations to Honiara and Gizo in September 2016, and may consider other Solomon Islands destinations in 2017. This development is supported by SIG, which sees cruise ship arrivals as a way of growing tourism income with limited on-land infrastructure. It offers a potential fast track to developing diversified business in one segment of the market, with opportunities for handicraft sales and local tours.

Given its importance to the development of agriculture and tourism, domestic shipping has been a focus sector during the SIGP design. The sector is characterized by low profit margins and thus an ageing fleet and poor safety standards. There are multiple inefficiencies: many operators have single vessels and do not collaborate with others serving the same routes to pool cargo capacity or to coordinate timetables; and there is virtually no inter-island container traffic, so that goods are subject to high handling costs. Ships operating under transport grants to MPs compete with the self-financed private sector. Routes to remote locations have been subsidised under an ADB grant and have been successful in maintaining the services, but owners complain that the process for awarding the subsidies is not transparent. Regular shipping services, combined with feeder services by small craft, are essential to incentivise farmers to produce for the market and to encouraging small scale traders. The Ministry of Infrastructure Development has recently prioritised the construction of wharves with container handling capacity; this may be the nucleus for developing greater collaboration on certain routes. The Solomon Islands Maritime Safety Authority (SIMSA) needs further strengthening to enforce safety standards.

4.5 CONSTRAINTS TO GROWTH

The endogenous constraints to growth in Solomon Islands have been extensively documented, most recently in DFAT's own analysis for the AIP. The constraints commonly identified fall into six categories:

- the quality of public provision to support business activity, primarily in the form of infrastructure but also in more intangible areas such as the ability to enforce contracts or the Government's investment promotion efforts, or, more indirectly, educational levels in the workforce. These can be addressed with development partner support (for example, development partner support for infrastructure is a large proportion of total aid flows), but progress will only be made in the medium to long term;
- the quality of public policy and administration and levels of corruption. These arise from deep-seated political structures and incentives. Change is largely internally driven and will take a long time;
- poor operation of markets, with low incentives to collaborate, innovate or seek new market opportunities;
- the difficulty of acquiring land and dealing with a compensation culture. Land issues can be nudged with external support but again are unlikely to undergo widespread change in the medium term;
- the systematic exclusion of women from decision making roles in the family and community economies;

- “technical” gaps in services for business, including training, access to finance, business registration and business associations. These are amenable to change in the medium term and are well covered by development partners.

Development partner support for growth has concentrated on long term growth enablers such as infrastructure and education, on fixing gaps in services, on trade policy and (especially in the context of stability) improving macro-economic management and public sector governance. There have been some gains on this front in the areas of public enterprise reform, mining taxation reform, customs administration and changes in the tax regime for log exports. However, the underlying reasons for poor governance in economic management are deeply rooted in collective behaviours by decision makers that do not prioritise a national interest, and alienation and low expectations on the part of the rural poor. Policy and legislative reforms and capacity support have been driven by a view that political and private interests will diminish in influence if the systems and the regulatory capacities of central agencies are improved. However, incentives have not changed¹⁷. This suggests that neither a governance approach nor the selection of parts of the business environment is sufficient in itself to influence growth.

The provision of growth-enhancing infrastructure is a clear role for Government, and one that in principle it is anxious to carry out. The road system is largely unsealed and in poor condition, and maintenance budgets are inadequate (and still largely donor-funded). In rural areas less than 60% of the population has access to roads. Airstrips and wharves are also in need of significant upgrading and more consistent management. Access to grid electricity is limited, there is over-reliance on imported fuels and power tariffs are among the highest in the region. Australia and the Asian Development Bank (ADB) have worked closely together on the establishment of the National Transport Fund (NTF), which is in principle the vehicle for joint funding with Government of transport priorities identified through a careful national prioritisation process. Despite conflicting policies and budgetary uncertainty, capacity has been built within the Ministry of Infrastructure Development and the contracting industry through years of development partner support.

Development partners in environments such as Solomon Islands are increasingly used to identifying where change is feasible through technical interventions (where Solomon Islands wants to change but lacks resources or expertise) and where the obstacles to change are more deeply rooted in politics, conflict, culture and vested interests. The former may be amenable to a structured set of investments with more predictable results; the latter may need more opportunistic interventions informed by circumstance. In practice each problem has an element of both to different degrees. Existing Australian programs supporting growth have evolved to provide a range of interventions according to the nature of the constraint, and are in a good position to take on some of the initiatives proposed in this program. The program also proposes new forms of intervention to widen the range of engagement. However, the constraints to growth are complex and fluid; this underlines the need for development partners to develop an understanding of the political and social dynamics of growth, as well as using more conventional growth diagnostics, and test and prioritise interventions regularly against that understanding.

4.6 INCLUSIVE GROWTH

The last few years of growth with stagnant social indicators and limited geographical spread demonstrates that in the Solomon Islands context particularly there is a high risk of exclusion of the rural population and of anybody with low skills and facing social barriers to participation in the economy, including women, young

¹⁷ The 2014 review of DFAT’s governance program in Solomon Islands found that the intervention “...delivered macro-economic stability but found it difficult to influence or improve the mechanics of expenditure efficiency. It contained a large number of disparate activities which did not, collectively, seem to improve the overall functioning of the central agencies in a way which led to observable improvements in performance or outcomes.”

people and people with disability. Any external support for growth in Solomon Islands, if it is not to exacerbate underlying tensions, needs to deal not only with expanding output but also with the issue of inclusion. Inclusive growth includes increasing jobs and incomes and fostering broad-based economic participation with specific provision for those who will not benefit automatically, and ensuring that people can realise their economic, social, cultural, civil and political rights. It also includes supporting the provision of high quality public services and infrastructure that can reduce poverty and increase well-being. UNDP's Asia Pacific Chief Economist recognised the following common features of inclusive economic growth, namely: "Growth is inclusive when it takes place in the sectors in which the poor work (e.g. agriculture, service industries); occurs in places where the poor live (e.g. undeveloped areas with few resources); uses the factors of production that the poor possess (e.g. unskilled labour); and reduces the prices of consumption items that the poor consume (e.g. food, fuel and clothing)."¹⁸

Inclusive growth requires emphasis on subsistence agriculture and smallholder cash cropping. Growth performance in this area has been disappointing. The annual real growth performance of 1.5% is less than the relevant population growth rate — in agricultural income terms, people in rural areas are going backwards. It also requires emphasis on industries likely to employ poor people and those that will generate incomes for women or provide goods and services that improve women's lives.¹⁹ Poor people work the land and earn the majority of their income (cash or subsistence) from agriculture and engage in service industries like tourism. The program will take a pragmatic approach to inclusion — its beneficiaries are private sector companies, but it will target activities where it appears most likely that poor households, and especially women, will participate in the benefits of growth, directly or indirectly.

4.7 POVERTY

Sources of growth and income have been largely limited to Honiara and enclave projects in forestry and mining, as well as one large tuna processing facility in Western Province. 80% of people live in rural areas and engage in low value agriculture and fisheries. Analysis of the 2009 census showed that the main source of income for households came from the sale of fish, crops and handicrafts. Wages and salaries were the next primary source of income, concentrated in households in Honiara. Income from own business enterprise was the next largest source of income but is only 5.6%. In 2009, 85% of all households grew some of their own food, and 60% caught fish for their own consumption. Most households grow their own food as well as producing something for the cash sector. In rural areas, 93% of all households have some cash income from crop sales. Rural communities are extremely vulnerable to external shocks including extreme weather and climate change, which compromise food and water security, access to markets and incomes, with trends getting worse and challenging efforts to reduce rural poverty.

A poverty analysis based on the 2012/13 Household Income and Expenditure Survey (HIES)²⁰ confirms that poverty is a largely rural phenomenon in Solomon Islands. 87% of households living below the basic needs poverty line live in rural areas, and almost all households below the lower food poverty line do so. Poverty levels are most severe in Guadalcanal and Makira provinces. Poverty levels in Malaita are below the national

¹⁸ "What does inclusive economic growth actually mean in practice?" UNDP (2015)

¹⁹ Note that reducing inequality is not a specific target of this program during the initial phase. For inclusiveness to occur there needs to be growth in sectors that benefit the poor (regardless of what is happening in other sectors). To reduce inequality there needs to be a transfer of wealth to the poor at a higher rate than the rich either from higher rates of per capita income growth for the poor and/or the allocation of wealth to the poor via the tax system or through the provision of public services. For a discussion of inclusivity that covers reducing inequality, see Klasen, S., 2010, Measuring and Monitoring Inclusive Growth: Multiple Definitions, Open Questions, and Some Constructive Proposals, ADB

²⁰ Solomon Islands Poverty Profile based on the 2012/13 Household Income and Expenditure Survey, SIG, 2016

average but because of its higher relative population the province contributes significantly to numbers of households in poverty. Three quarters of households in poverty live in Guadalcanal, Makira and Malaita. Taken together with the finding that the vast majority of rural households produce some surplus for the market, and the fact that these provinces are centres of production for Solomon Islands' main cash crops, it is likely that a market development approach linking farmers to markets for agricultural produce will have some effect on poverty, provided that the costs and incentives for the poorest households to increase their production are well understood and addressed.

Poverty in Honiara is above the national average, because the basic needs poverty line is adjusted for prices. Increasing urbanisation will provide increased opportunities for many, but the city also attracts migrants with low skills who will struggle to make a living. Creating the large number of stable jobs that will absorb excess labour in Honiara will require vastly increased investment that is unlikely during the lifetime of this program, although some of the elements that will encourage it can be put in place.

4.8 GENDER EQUALITY

There is strong evidence that gender equality can promote economic growth but the converse relationship—that economic growth promotes greater equality in participation—is more mixed. It cannot be assumed that growth will be inclusive without efforts to understand the gender-related factors that constrain women's economic participation and empowerment. In many countries, "systematic discrimination against women and girls is the most pervasive cause, and consequence, of the inequality in power relations that drives poverty."²¹ This discrimination manifests as gender inequalities in access to and control over key economic resources and pressures associated with the distribution of unpaid as well as paid work. The outcomes of growth are more positive where it is accompanied by an expansion in women's employment and education and other context specific factors such as finance or assets. Solomon Islands rates poorly on the Women's Economic Opportunity Index: in 2012 it ranked 124th of 128 countries. According to an IFC study on Solomon Islands, gender inequality and discrimination intersect with, and negatively impact on, women's economic participation in a range of ways: a lack of decision-making power and limited control over financial resources or collateral undermines women's ability to become economically active; women are less educated and have lower literacy and numeracy skills than men; they lack business knowledge, financial literacy and opportunities; they are less likely to be chosen for training opportunities and will be considered a higher risk for many investors and banks; and they provide most of the labour within family businesses but often do not share in the financial rewards. Women are particularly vulnerable to disasters (such as extreme weather) and may lack access to financial resources needed to rebuild businesses and livelihoods.

Australia is supporting the IFC to investigate and work with the private sector to encourage women's participation in the workplace; but development partner and Government support for women's economic empowerment has more generally been directed to women's organisations and NGOs as core funding or for small scale projects, few of which are effective in providing an increased voice for women in the economy or promoting systemic change that goes beyond a few individuals.

4.9 YOUTH INCLUSION

The lack of access to economic opportunities for young people aged between 14 and 29, about 30% of the population, is a particular problem for the SIG. Because of the disruption of the Tensions and poor

²¹ Wakefield, Shawna (2014) 'The G20 and gender equality', Oxfam Briefing Paper 183, Oxford: Oxfam GB.

educational provision at secondary and tertiary level they frequently do not have the skills and knowledge that employers require. Despite the difficulty of finding work, young people are migrating to the provincial urban centres and Honiara, competing for education, training and work opportunities. Young people now make up a third of Honiara's population; they are disproportionately at risk of falling into anti-social behaviour, crime and violence. The teenage pregnancy rate in Solomon Islands is the highest in the Pacific. Much of the discussion around agricultural growth centres on the need to get young people back to the villages. However, it is not clear whether this is an attractive option, particularly if they are returning to family businesses where they may have the same difficulty as women in being paid. At present the policy response from government is centred on entrepreneurship and work-readiness training and temporary employment. There is some evidence of young people starting their own businesses, but in the medium-term the issues of a growing number of entrants to the job market can only be addressed by growth in employment in the formal economy.

4.10 DISABILITY

Consultations were held during the design process with the leading organisation for people with disability. The evidence base for access by people with disability to livelihoods in Solomon Islands is relatively poor. While there has been analysis of requirements for rehabilitation, health and education services, and for integration into society more generally, no figures are available on people with disability in employment or seeking employment. A 2005 disability survey identified around 14,000 people living with disability, about 3.5% of the population, although international comparisons suggest that prevalence is under-reported. People with disability will generally have less schooling than their contemporaries and have less access to wider family support networks that might see them into a livelihood; and they struggle with social attitudes about their value in society and to assert their rights.

Traditional attitudes to disability mean that it is unlikely that people with disability would benefit from a general rise in employment or income generation opportunities. However, large employers are willing to take on staff with disability but lack experience of recruitment and in-work support systems to make it happen. There is also a lack of appropriate role models for people with disability who might want to start a business. There are no clear locally led strategies for developing livelihoods for people with disability. To develop such a strategy would be outside the scope of this investment, but there will be openings to work with representative organisations to understand how the opportunities available under the program can be extended to people with disability and used to highlight their abilities in a business setting.

5. OBJECTIVES

The goal for the next 10 years of Australian support for growth is increased private sector investment in a more inclusive economy.

Honiara Post has developed a Performance Assessment Framework (PAF) to accompany the Aid Investment Plan, including objectives against which Australia's bilateral program will be judged. The growth related objectives in the PAF are:

- Solomon Islands' enabling environment is more attractive to business
- More men and women can earn a cash-based income.

Significant change in growth and opportunities for poor people will take time to emerge, and is likely to be driven by foreign investment and links to export markets. This type of change goes beyond the timeframe of the SIGP and current AIP. The proposed four-year outcomes for SIGP are:

Growth-related infrastructure

- Efficiency and resilience for business increased by targeted investments, measured primarily by implementation of Tina River Hydropower Project and/or East Guadalcanal Infrastructure.

Economic Reform Unit

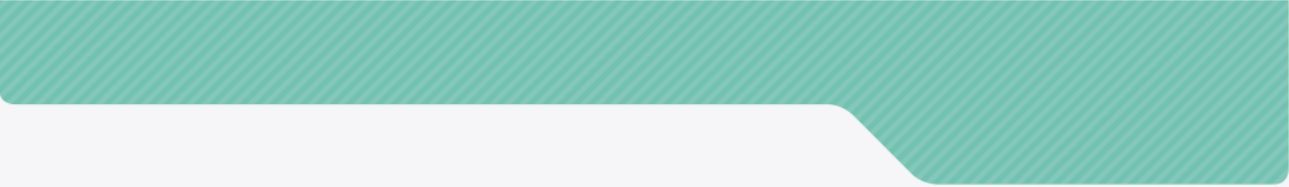
- Economic policy promotes business confidence, measured by business perceptions of the economic environment.

Strongim Bisnis

- Businesses are demonstrating potential for increased productivity, more income earning opportunities, greater resilience, better risk management and access to higher value markets, measured by higher agricultural yields, more efficient use of assets and labour, and new business models that favour employment, incomes or trade.
- The private sector and Government work together to increase opportunities for trade and investment, and form external partnerships that accelerate business growth, measured by a more favourable investment climate and external partnerships that accelerate changing business practice;
- Women and youth have increased economic opportunity, measured by women's and youth participation in the above outcomes, and specific measures for women's and youth economic empowerment.

The program will aim, over its four years, to operate in the space between the current low levels of private sector activity and infrastructure provision, and the persistent structural constraints. Local and expatriate businesses are succeeding in doing business in Solomon Islands despite these constraints. SIGP will seek to emulate, expand and drive an increase in such business activity. Given the existing state of the private sector, some inclusive growth can occur without structural change.

Experience of the constraints to growth described in section 4.3 above suggests that two (the availability of land and the prevalence of corruption) are unlikely to be significantly influenced by external intervention, although Australia remains involved through small-scale activities. Others may be partially influenced within the SIGP planning period. The SIGP investment criteria (see section 6.2) will be used to filter priority investment areas. The choice of entry points will be determined by an assessment of where Australia is best positioned in respect of influencing or navigating the constraints to growth and of the gaps in the existing growth portfolio.



SIGP will mainly support interventions that can encourage growth within existing constraints, while building evidence and experiences that will help the country move beyond them in subsequent years. But experiences and coalitions for change within SIGP will also, where necessary, be directed towards incremental change (for example, in tax policy) where wholesale reform is not in prospect.

The design aims to build on existing strengths rather than to take a list of constraints as an agenda for action. It will exploit Australia's experience of infrastructure provision to target priorities for supporting growth; and work with groups who are already trying to make markets work better or to influence elements of the business environment.

Some of the barriers to private sector led growth are 'technical' in the sense that infrastructure and services are lacking. The infrastructure element of SIGP will be directed at addressing one aspect of those barriers. But many are not the result of a lack of public provision or formal institutions. Lack of confidence, of access to information, of inclination or time to consider other business models, of habits of collaboration and of sustained dialogue between Government and the private sector, and distortions arising from special interests, are at least as important as formal institutions. To deal with this complexity, theories of change for each element of SIGP (see Annex 1) will be regularly revisited to check progress and assumptions.

6. INVESTMENT DESCRIPTION

6.1 APPROACH AND RATIONALE

The Solomon Islands Growth Program (SIGP) will have three components:

- fund additional economic infrastructure projects that address constraints to business development or catalyse investments
- through a new mechanism, “Strongim Bisnis” (Strengthen Business) work in selected markets (initially cocoa, coconut and tourism), primarily with the private sector and also with Government and statutory agencies on business practice, risk management, market development, and women’s participation in the economy.
- continue existing Australian support for economic reform within the Ministry of Finance and Treasury.

The program is unified with a set of investment criteria (see below), which inform choices within the three discrete components; they will be managed coherently towards Australia’s overall growth objectives.

The target beneficiaries of SIGP are poor people in Solomon Islands. The program will partner with actors who are best able to reach a large number of people. For example, while cocoa farmers with low incomes are a target group, cocoa buying intermediaries already have strong transport and market connections to those groups. Larger numbers of farmers can be reached and wider reaching change enacted, with a limited budget by working with intermediaries.

6.2 INVESTMENT CRITERIA

Criteria for investment for all SIGP activities are set out below. They will be used to filter, prioritise and tailor investments made through the SIGP. They will also inform DFAT’s approach to advocacy and engagement. The criteria have been adapted from those used in market development approaches and should be reviewed over the lifetime of SIGP to ensure that they cover the most relevant issues for choice of investment, and that suitable weightings are developed in the light of experience.

Purpose of the investment criteria

Investment criteria (set out below) have been used to prioritise investments under the SIGP for initial investigation and in the longer-term, provide the basis for a coherent and focussed SIGP. The questions about risk and timing are relative to the rest of the growth portfolio (that is, asking how the assessed investment would affect the risk or the timing of delivery in the entire portfolio).

The criteria will be used through the lifetime of SIGP to inform the choice of activities, particularly under Strongim Bisnis where most of the allocation decisions will be taken. But they are also designed to be applicable across the range of Australian support for economic growth in Solomon Islands.

The criteria are supplementary to DFAT’s normal investment criteria. All activities proposed for financing under SIGP should meet the required quality standards and be consistent with DFAT’s policies, including on gender, disability, environment and value for money

Table 2: SIGP Investment Criteria

Strategic criteria	
Demand side analysis	Is there evidence of demand or a link to sustainable markets?
Potential for transformational growth	Does the intervention have the potential to transform the way business operates in the sector, or the environment or costs for business? Does it facilitate/support use of “scale agents” or investments of such size to foster growth in the sector? What is the scale of the change it might generate?
Potential for enhanced productivity	Is there opportunity for technological change or upgrading of labour skills so that labour productivity can rise in the sector?
Effect on women and youth	Does the proposal offer opportunities for women and/or youth to be involved as entrepreneurs or employees? Does it offer a product or service that would positively influence the lives of women or youth?
Implications for poor people	How important is the sector for poor people? Do they participate as entrepreneurs or workers, or are there indirect benefits for them?
Feasibility	Is there opportunity to either address the main binding constraints affecting the sector or to “work around” existing constraints during the lifetime of the project?

Assuming strategic consistency, the program will also apply operational criteria to structure and balance its set of interventions.

Operational criteria	
Strength of entry point	Who wants the intervention? Is it broadly supported by the industry or by the Solomon Islands Government or is it backed by a single interest?
Additionality and neutrality	Who benefits from the aid subsidy? Is the proposal something the private sector might have done anyway? Does the proposal give an operator an unfair advantage or crowd out other potential operators? Will it change the nature of an existing activity to be more inclusive? Will our involvement secure buy-in from other actors?
Sustainability	Does the proposal strengthen producers or operators and lessen their dependence in the medium term on external intervention? Will it build resilience to external shocks including the impacts of climate change?
Timeline	How quickly will it produce results? If it is accepted, how will it affect the trade-off in the whole program between long term and short-term results?

Risk	How risky is the proposal? If it is accepted, how will it affect the trade-off in the whole program between high, medium and low risk interventions? What are the safeguards risks and can they be managed? Will it create or deepen grievances, or increase the risk of conflict?
Partnerships	Does the proposal promote the creation of networks, flow of information or collaboration between market players?
Social and cultural feasibility	Does the proposal take account of the social environment in which it is to be implemented? Has the potential for conflict been assessed?

For each proposed activity, an assessment against the investment criteria will involve the following process:

1. For each criterion, qualitative responses to each question are provided to inform a quantitative assessment.
2. A rating of strong, moderate, weak or unknown is assigned for each criteria
3. A corresponding score is allocated, using the following scale:
 - Strong = 3
 - Moderate = 2
 - Unknown = 1
 - Weak = 0
4. Scores are aggregated and activities with the highest scores are prioritised.

The outcomes for the initial pipeline of activities are presented in table 3.

As with any aggregate quantitative assessment, the qualitative analysis must inform the final evaluation. Application of the criteria will require judgement if, for example, a low score on one criteria becomes a deal-breaker for the success of the activity, or safety of personnel or the reputation of partners is unduly threatened. Similarly, an activity may be particularly desirable and prioritised despite a relatively low score if it opens doors for meaningful engagement on a more complex constraint to growth (e.g. land, corruption) or the benefits of the program are very well targeted to marginalised people.

Where activities are prioritised for reasons other than the investment criteria, a sound rationale must be presented and approved through the governance arrangements outlined in section 7.1. The mid-term and final evaluations will assess the effectiveness of the criteria.

During the design process, the investment criteria were used to filter and prioritise activities for initial investment through SIGP. Results of the process are identified in the following sections, and implementation arrangements for proposed investments are outlined.

6.3 INVESTMENT DESCRIPTIONS

Implementation arrangements for the three components are set out below. In approving the concept note for the SIGP, the AIC agreed that Post should use the proposed funding envelope to expand existing

programs in advance of investment approval in order not to miss suitable funding opportunities. Opportunities were identified where there was a clear link to the SIGP's objectives and priorities, where partners had a strong performance history and governance arrangements and where the risks were low. This section notes where allocation decisions have already been made and those where decision points have not yet been reached. The allocations in this section contain an element of over-commitment to take account of possible slippage in infrastructure projects.

6.3.1 Economic infrastructure

Allocation	\$32 million (60% of the SIGP allocation; individual investments to be approved according to delegated authority levels)
Modalities	Contributions to National Transport Fund Co-funding with multilaterals
Managed by	First Secretary Infrastructure

Australia currently spends approximately \$7.3 million a year on economic infrastructure investments, including contributions to the National Transport Fund (NTF), support for the preparation of the Tina River Hydro Project, and support to Solomon Water. Allocations from SIGP will increase the expected annual level of investment by around 60%.

The infrastructure proposals submitted to the Aid Investment Committee as part of the investment concept for SIGP (Tina River Hydropower Project and East Guadalcanal Roads and Bridges) are consistent with the overall approach set out in the design, and are included in the initial activities to be undertaken by SIGP. Both activities score highly against the criteria set out in Table 2. The rationale for each is:

- The **Tina River Hydropower Project** involves building a 15MW dam and power station on an uninhabited section of the Tina River, east of Honiara. It has the potential to replace all of the current diesel-powered energy demand for Honiara with renewable energy, thereby mitigating climate change by reducing emissions of greenhouse gases by an estimated 64,800 tCO₂-eq per year, in approximately 90% of the country's entire grid electricity production. The project will enable the government to meet their international emissions reduction commitments under the UNFCCC²². The World Bank and the IFC, with Australian financial support, are reducing the investor risk and costs by helping to design and negotiate the investment, and attract concessional financing. Australia has contributed \$9.2 million to preparations for this project since 2009. A further capital contribution to construction costs, enabling a reduction in the tariffs the operator will need to charge, is envisaged in the two financial years, subject to progress on the negotiation of the public-private partnership and to satisfying environmental and resettlement safeguard standards. Australia's contribution to the project will assist to leverage approximately \$140 million in private sector investment. The project is supported for inclusion because:
 - the reduction in power costs and improvements to reliability from transitioning to climate-smart renewable energy is potentially transformative for all Honiara based business and
 - the demonstration effect of a successful new investment will enhance the likelihood of attracting others.

²² Unconditional commitment to reduce emissions to 12% below 2015 levels by 2025 and 30% by 2030. Further commits to reduce emissions by 27% by 2025, 45% by 2030 and 50% by 2050 with sufficient donor assistance

The final decision on this investment will be taken in late 2016 subject to Australian environmental and financial approvals and the initialling of the power purchase agreement.

- The Government is committed to upgrading **transport infrastructure in East Guadalcanal**. This will catalyse a USD200 million expansion by Guadalcanal Plains Palm Oil Limited (GPPOL), which is a leading producer of certified sustainable palm oil. GPPOL estimates the expansion would create 4,000 new direct employment opportunities and 3,000 indirect employment opportunities through the local private sector. As well as the clear economic benefits of the expansion, GPPOL's approach to engaging with customary landowners is a rare success model. Their success would provide a clear demonstration to foreign investors that large scale agriculture that is socially and environmentally sensitive can be profitable in Solomon Islands. Subject to endorsement by DFAT's Aid Investment Committee (October 2016) the investment would commence in 2016.

The **rebuilding of provincial wharves** features in the country's National Infrastructure Investment Plan (NIIP) and National Transport Plan (NTP). Taken together with action to improve markets in agricultural production and work with domestic shippers to rationalise services to the main provincial centres, these projects have the potential to encourage production and to reduce the cost and risk of internal shipping. The NIIP is being revised and a different set of projects may emerge. Australia is a contributor to the National Transport Fund, used by development partners to implement the NTP (which includes elements of the NIIP), and so has ready-made procedures for the design and implementation of such works, including factoring in the rising risks of extreme weather and climate change. Decisions to invest in new wharves will be taken within current delegated decision making arrangements at Post, and subject to space being available within the SIGP budget.

Regular reporting to FAS PAD on the progress of infrastructure investments will be provided in line with commitments made in the investment concept note.

6.3.2 Economic policy support

Allocation	\$3 million (approved and under procurement)
Modality	Contracted technical assistance for Economic Reform Unit in Ministry of Finance and Treasury (through SIRF)
Managed by	First Secretary Growth

Australia has supported policy dialogue and reform, and capacity building in the Economic Reform Unit of MoFT over the past 13 years. It has been central to the macroeconomic stability of the country, which underpins the private sector's confidence to invest in Solomon Islands. A small amount of support to maintain and protect the gains made through past interventions, and to influence future policy, is central to DFAT's strategy to support growth in Solomon Islands. Three positions are being provided: Senior Economic Policy and Management Adviser, Macroeconomics Adviser and Revenue Policy Adviser. The support will account for approximately five per cent of the SIGP budget allocation.

6.3.3 Strongim Bisnis

Allocation	\$12.5 million (to be tendered)
Modality	Contract

To stimulate sector-level growth, a market system approach will be implemented through the “Strongim Bisnis” program. This involves working throughout a value chain to remove constraints (e.g. absence of bulk storage facilities) in a way that is self-sustaining (e.g. private operator charges a fee to use the facility). Multiple interventions are made throughout the value chain. The common element is that interventions are one-off and sustained by market forces. It will aim to operate mainly through the provision of knowledge, ideas and encouragement. It will not provide recurrent operational costs for business or business organisations.

This program will focus its support on a limited number of market systems that have significant growth prospects. In the first instance, Strongim Bisnis will focus on tourism, cash crops (cocoa and coconut products) and inter-island shipping.²³ Sectors may be added or removed throughout the program as the operating environment changes.

Sectors were chosen based on the following criteria:

- Priority of the Solomon Islands Government
- Ability to grow from an existing base without the need for large scale foreign direct investment from the outset
- Good potential to be inclusive (tourism and cash crops are rooted in family and community systems of production)
- A sufficiently diverse set of actors present to make it likely that new ideas and attitudes can emerge
- Ability to tap into global demand or support connections to international markets.

Strongim Bisnis will also have a strong focus on the role of women and men in markets, and on markets which provide products that improve women’s participation in the economy (e.g. the market for child care).

Sector selection is not based solely on the potential contribution to growth. Mining, fisheries and timber may have a greater growth potential over the life of SIGP but do not at present offer the same range of entry points for the program. Strongim Bisnis will support Honiara Post to monitor the state of these sectors and be ready to intervene if circumstances change, or to mobilise other forms of Australian assistance through regional or global programs. The mining sector will require a watching brief with close engagement with the World Bank and technical advisers in the Ministry of Finance and Treasury.

Market maps and theories of change for the three cash crops, tourism and inter-island shipping are attached at Annex 6. They are living documents and will be constantly updated as more information becomes available and the markets evolve.

What Strongim Bisnis will do

The activities to be delivered through Strongim Bisnis will include, but not be limited to:

- Development (and co-funding where appropriate) of new sustainable business ideas, or innovations in existing businesses. This may include: collaboration within industry groups, mentoring of individual businesses, reducing the cost or risk to the entry of external scale agents (e.g. investors who bring new technologies). Grants to match investment by individual entrepreneurs will be one modality available to

²³ Palm oil production should also benefit from SIGP infrastructure investments; but because it is only produced by a single large investor it is unlikely to need other SIGP support in the short term.

Strongim Bisnis, but it should not become the dominant one. More generally, in the context of Solomon Islands where the prospect of access to donor grants can become the most influential factor in behaviour, Strongim Bisnis should aim not to be known as a grant making facility.

- Reducing the risk to ‘first movers’ in new markets through the provision of information, resources or other innovative risk sharing arrangements. This may include co-funding market research with the private sector, minimum purchase guarantees (piloting the ‘advance market commitment’ model developed for vaccine research), purchasing commercial insurance products for businesses undertaking risky investments, and other novel approaches.
- Strengthening capacity for dialogue within and outside industry groups to encourage private sector advocacy for policy change. Strongim Bisnis can provide intellectual capital, brokering influence and evidence to facilitate dialogue;
- Support for targeted marketing and investment promotions initiatives, and for improved regulation where this will lead to greater competition or boost consumer confidence;
- Communications activities to promote business as an individual livelihood and recognise its contribution to society. Communications activities will also emphasise the specific role of Strongim Bisnis to reduce the risk that the activity is misunderstood.

Strongim Bisnis will embrace the risk of failure. It is expected that 50–100 individual interventions will be made throughout the four-year program. Failure in one or more of the activities will not indicate that the whole program is failing. Strongim Bisnis will maximise the benefits of each failure by examining the causes and sharing case studies within DFAT and with other donors.

Who Strongim Bisnis will partner with: The primary target of partnership building by Strongim Bisnis will be companies, business associations and NGOs. The program will work with individuals and organisations that provide the best entry points into target sectors and into women’s economic empowerment, and that allow outreach to as many small operators as possible. Business associations offer intervention areas linked with the business environment, and access to larger numbers of small operators. The principal criterion for selection of partners should be that they have, or can be helped to develop, sound business plans that contribute to the program’s objectives. In the first instance these are likely to be existing entrepreneurs, companies or organisations since these are the ones with energy, experience and networks, but emerging SMEs may also be suitable partners as the program progresses.

Parts of Government that provide a service for the private sector (rather than subsidies), such as regulation, risk reduction, information, investment promotion, one stop shops for investors and promotion of the country as a business and tourist destination will be a secondary focus. Links will be made with, among others, the Ministry of Infrastructure Development, the investment promotion arm of the Ministry of Commerce, SIMSA, the Commodities Marketing Board and the Solomon Islands Visitors Bureau. This builds on past investments through PSDI in reforming the Foreign Investment Act and Company Haus, and will engage with PACER+ when an agreement is reached.

Lessons learned from other programs using market system approaches and how they will be incorporated into Strongim Bisnis are provided in Annex 2.

Where appropriate, Strongim Bisnis will engage with the meteorological services to enable transfer of climate and weather-related information to businesses to inform their risk management and investment planning. This may help to ensure that the economic impacts and risks of climate change, a major threat to agriculture and tourism, are reduced.

Gender and inclusiveness in Strongim Bisnis

Strongim Bisnis will adopt a twin-track approach to integrating gender into its programs. Gender will be mainstreamed across the portfolio of interventions and be evident in program objectives, activities, and monitoring and evaluation. Alongside mainstreaming efforts, Strongim Bisnis will invest in specific measures to increase women's agency. In practical terms this will mean developing strategies for women to move up value chains and take greater control of resources in selected sectors; undertaking research and consultation on the interplay between domestic roles and participation in the economy; developing strategies for dealing with social and cultural barriers in the formal and informal economy; investigating markets in products of special benefit to women (for example, the childcare industry); and collaborating with others working on behaviour change in economic environments. In the first phase concentrating on a few interventions and sharing the lessons learned is more important than attempting to work on all the problems at once.

Partnerships with a potential for increasing employment or livelihoods, for example in cash crops or tourism supply chains, will provide demand side opportunities for the involvement of young people and people with disabilities to complement the supply side approaches being taken in other programs. Private sector operators considering expanded or new business models will be assisted to undertake a structured analysis of the potential for involvement of these groups. Strongim Bisnis will use its communications activities to highlight successful youth entrepreneurs and businesses run by or employing people with disability. Once it is established, Strongim Bisnis will also explore the commercial opportunities for one or more employment agencies to facilitate entry into the job market by selected groups (these may include returning graduates who are not used to their full potential, but may also provide opportunities to target priority groups such as people with disability).

Program responsibilities

Strongim Bisnis will also have a responsibility to contribute more widely to the objectives of the Australian aid program by:

- Developing market analysis that informs the Post on economic benefits of infrastructure options beyond those specifically targeted by SIGP;
- Using transport infrastructure investment by Australia as an entry point for working with users to exploit improved transport links;
- Supplying a market perspective to work on public financial management reform and tax policy;
- Providing advice to groups of young people or people with disability who are being assisted under other Australian programs and wish to commercialise products or services;
- Working with the skills program to identify solutions to skills shortages experienced in focus markets and outside of Honiara;
- Ensuring complementarity with elements of the Rural Development Program that relate to market development;
- Assisting health and education programs to increase the involvement of the private sector in service delivery;
- Deepening analysis and expertise across the program on women's economic empowerment;
- Integrating the risks of extreme weather and climate change in the target investment sectors to support climate resilient livelihoods and businesses.

Activity pipeline

Through the design process, an initial pipeline of activities was developed. These are identified and prioritised below using scoring derived from the criteria in Table 2 and will be a starting point for implementation. As Strongim Bisnis develops a deeper knowledge of markets and the context, the pipeline will be updated to include new opportunities, move activities up or down the list according to changes in the operating environment and drop completed or unachievable activities. Further details on initial activities are included from page 32.

Table 3: Ranking proposals for Strongim Bisnis intervention

Proposal title and summary	Average score (max 39)
Tourism: Support for targeted marketing; support to inbound tour operators to collaborate and improve their offer to tourists	32.3
Childcare industry: Investigation of the potential for expanding and commercialising childcare provision for under 3s	32.3
Cocoa: Research into markets for premium cocoa exports; mapping of production in selected provinces with a view to establishing relationships in the supply chain	31.3
Gizo market: Refurbishment of the market to provide an attractive experience for tourists and improve conditions for vendors	30.7
Coffee: Linkage between coffee producers in Malaita and a potential importer in Australia	30.0
Coconut processing: Research into functioning of oil extraction units with a view to better understanding women's role in production and reasons for variance in productivity	29.3
Women's business incubation: Identification of women entrepreneurs in informal sector with potential for expansion, followed by mentoring and investigation of barriers they face in growing their business	29.0
Employment: Investigation of the potential for commercial employment agencies to facilitate access to work by selected groups	28.7
Micro-insurance: Investigation of the potential for a market in affordable insurance products covering risks faced by poor households	28.0
Shipping: Work with operators on a selected route to encourage collaboration, a more efficient use of assets and better service for travellers: assistance with enforcement of safety standards	27.5
Horticulture: Testing the potential for horticultural products from Malaita to be bulk shipped and marketed, reducing inefficiencies faced by producers.	26.7
Investment promotion (land): Marketing to investors parcels of land known to have no land ownership issues	26.0

6.4 OTHER APPROVED ACTIVITIES

The activities described below are early implementation activities approved to generate momentum in the growth portfolio. They will be rolled into other management arrangements as they are put in place.

6.4.1 Cocoa Pilot

Allocation	\$0.29 million (agreement in place)
Modality	Grant to Adventist Development and Relief Agency (ADRA)
Managed by	Second Secretary Growth

This NGO project aims to work with cocoa growers in North Malaita and East Guadalcanal to help them to break out of the cycle of low quality, low choice of markets and low prices by improving the quality of processed cocoa and linking them to markets for premium cocoa which have the best potential for growth. The rationale is similar to the wider approach to the cocoa market envisaged for Strongim Bisnis, but was financed separately to build on existing momentum. In the first, funded, phase, ADRA will develop a business plan for a social enterprise for cocoa purchase, processing and marketing which will be the main vehicle for the intervention. Experience from this planning phase will be used to inform Strongim Bisnis' discussions with other market players.

6.4.2 Women's participation in the formal economy

Allocation	\$2.46 million (agreement in place)
Modality	Agreement with IFC
Managed by	Second Secretary Economics and Trade

DFAT is working with the IFC to address key productivity and participation barriers for women who work in the formal sector. It will provide tools and support for businesses seeking to take a more proactive approach to supporting their female staff. The outcomes of the program will be to achieve greater gender equality in the workplace, to improve public attitudes of women's participation in non-traditional roles, increased opportunities for women and having businesses that are better equipped to attract and retain women employees. The program will start with the country's second largest private sector employer, SolTuna, a tuna processing company with over 1500 employees, the majority of whom are female. SolTuna has sought assistance from DFAT and the IFC to develop a set of evidence-based policies and procedures to improve the company's record on women's economic empowerment. Using SolTuna as a business case and an example of leadership, we will seek to engage another large employer in the program's second and third years.

The collaboration with IFC is only the first step in strengthening the gender element in Australia's support for growth. Strongim Bisnis will have a strong mandate to work with women entrepreneurs, to encourage the employment of women and to stimulate growth in areas of the economy likely to benefit women as workers and consumers.

At this point, activities that directly target women's participation in the formal economy equate to five per cent of the total budget. However, as investment through Strongim Bisnis increases, it is expected that these activities will expand significantly.

6.4.3 Strengthening the Solomon Islands Chamber of Commerce and Industry

Allocation	\$0.55 million (agreement in place)
Modality	Grant to SICCI
Managed by	Second Secretary Economics and Trade

A vibrant and active business community can be a driving force for reform that strengthens the business enabling environment. DFAT is funding the Solomon Islands Chamber of Commerce and Industry (SICCI) to become a more effective voice for the local private sector. The funding will strengthen SICCI so it can focus on its core function of economic advocacy, in line with SICCI's Strategic Plan 2015-2019. This support accounts for less than one per cent of the SIGP budget.

7. MANAGEMENT AND IMPLEMENTATION ARRANGEMENTS

Each component of the program will have separate management arrangements with strategic direction being set by a SIGP Steering Committee. DFAT will contract a Program Coordinator (through the Solomon Islands Resource Facility, SIRF), to support coordination and alignment of the three components of the SIGP.

SIGP is an umbrella initiative for Australia's new \$50m contribution to growth in Solomon Islands rather than a separate entity. As described above, new funds programmable within it will be allocated to existing implementation mechanisms wherever possible. To avoid confusion, SIGP will not be promoted externally under that name. The only new externally visible entity will be Strongim Bisnis. Strongim Bisnis will not be known as a grant making facility to avoid influencing behaviour contrary to private sector incentives.

The components addressing economy wide constraints to growth (economic policy and infrastructure) will largely be managed by Honiara Post within the arrangements for existing programs. Allocating additional SIGP funds to existing programs is a means of tying them more closely into the implementation of the growth portfolio rather than creating new isolated activity. It should also allow the program to avoid proliferation, to build on existing expertise and relationships and obtain better value for money. Strongim Bisnis will be contracted out and managed by the Second Secretary (Economics).

7.1 MANAGEMENT AND IMPLEMENTATION: WHOLE OF PROGRAM

The Counsellor (Economics and Strategy) will be responsible for the management of all funds allocated through SIGP, with oversight from the Deputy High Commissioner and High Commissioner.

A Steering Committee, to be chaired by the High Commissioner (or delegate), will provide strategic oversight for the SIGP (and by extension, provide best practice guidance to the implementation of other programs in DFAT's portfolio of investments in economic growth). The local reference group constituted for the design phase of SIGP will be retained as a Consultative Group for SIGP. Terms of reference for the group are at Annex 12.

The primary relationship with SIG will be through the Ministry of Development Cooperation, Planning and Aid Coordination. The Permanent Secretary will lead this engagement through the following channels:

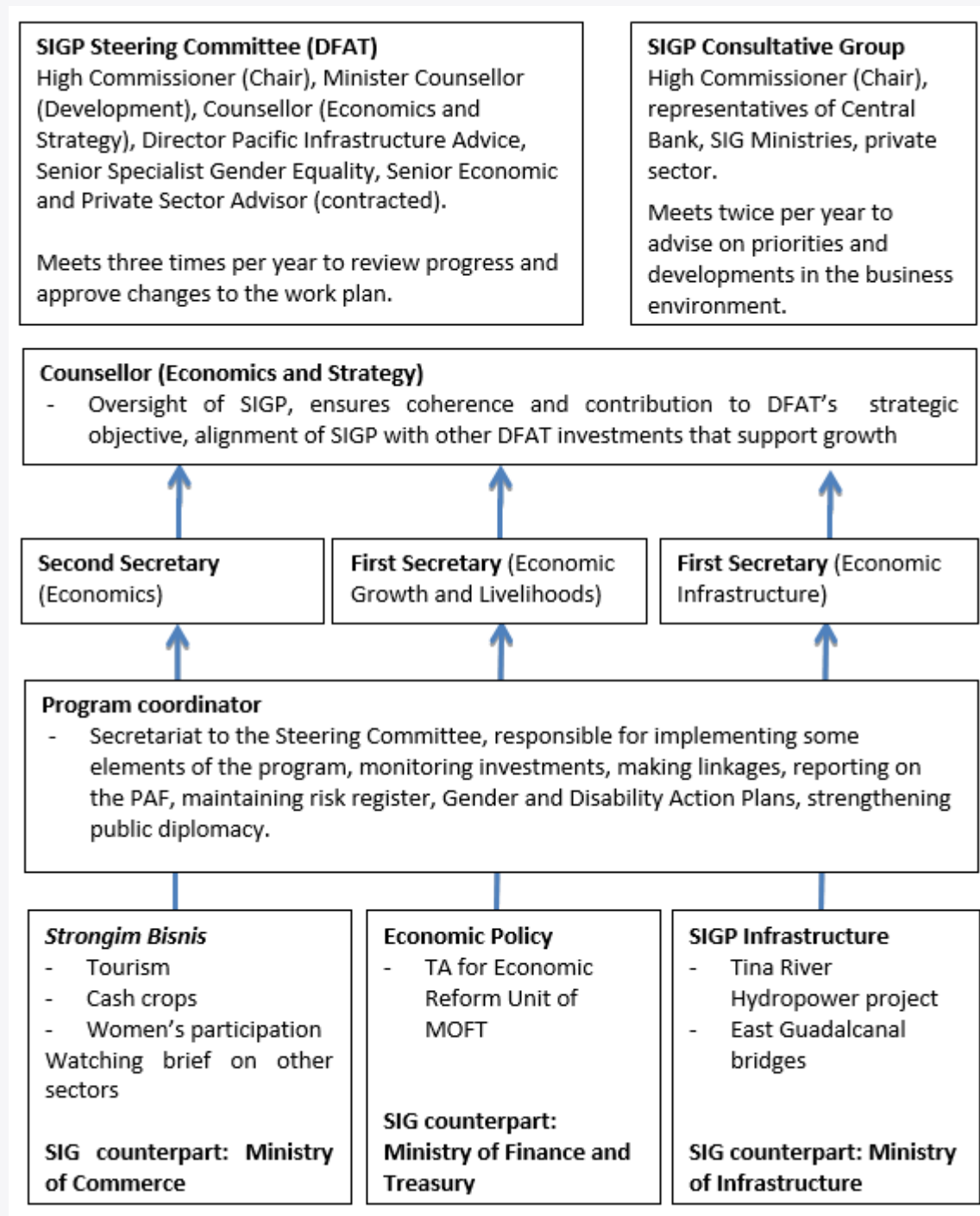
- feedback on SIGP work plan (three times per year, in advance of Steering Committee meetings)
- member of SIGP Consultative Group
- routine advice to DFAT on SIG's priorities related to Strongim Bisnis activities
- sharing lessons learned.

Each of the three program components will have a different SIG contact point for day to day liaison and coordination:

- Infrastructure will be delivered in close alignment with MID, as is the case for the existing Transport Infrastructure program.
- Support to the ERU will be provided in close consultation with MOFT, where it is situated.
- Strongim Bisnis will be delivered in close consultation with MCILL.

The management arrangements for SIGP are set out in the diagram below.

Figure 3: Solomon Islands Growth Program management arrangements



Beyond the new resources being contracted to deliver Strongim Bisnis, DFAT will separately contract two new positions to assist with the management and oversight of the SIGP:

- A Senior Economic and Private Sector Development advisor (ARF level: D4) will provide strategic advice on the implementation of the SIGP. Structured inputs will be provided in advance of each Steering Committee meeting, and ad hoc advice or support will be provided as needed.

- A Program Coordinator (ARF level: C2/3) will ensure the discrete components of the SIGP are well coordinated to maximise the value of our investment. The position will be full time, based in Honiara and located in the SIRF office. The program coordinator will be an integral part of the DFAT team and have lead responsibility for SIGP monitoring.

The Second Secretary (Economics), with support from the Program Manager, will coordinate the budget allocation to SIGP activities, monitor and report on results, and support coordination across the whole portfolio of DFAT's bilateral and regional investments in growth.

7.2 MANAGEMENT AND IMPLEMENTATION: ECONOMIC INFRASTRUCTURE AND ECONOMIC POLICY SUPPORT

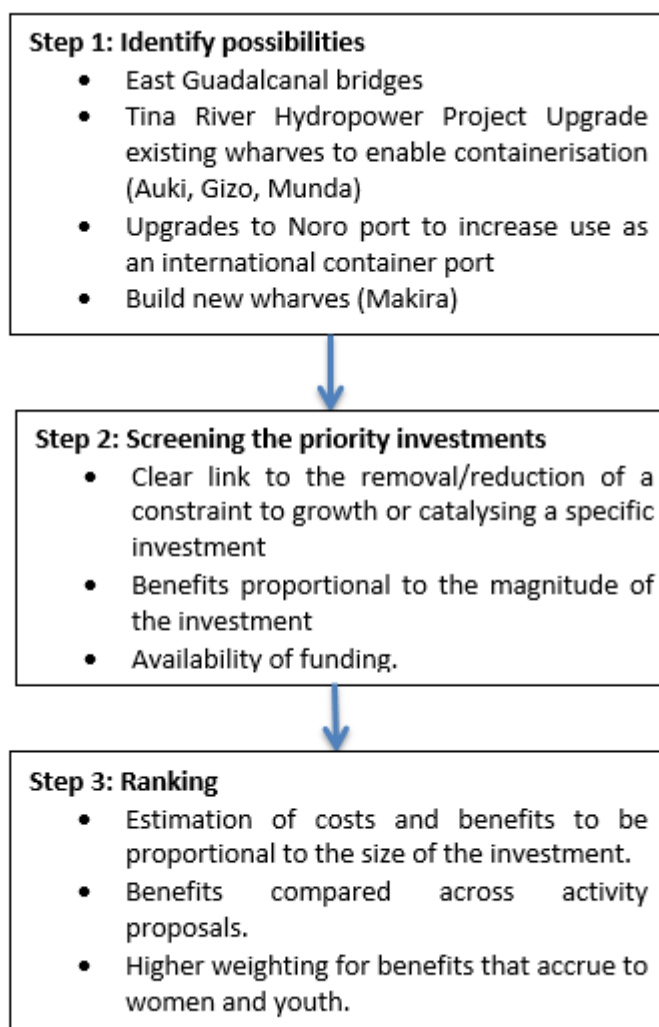
7.2.1 Economic infrastructure

Infrastructure projects selected for additional investment using SIGP funds will be based on the SIGP investment criteria in addition to the requirements of the implementing program. There should be a clear link to the removal or reduction of a constraint to growth – this may be sector specific (e.g. to unlock a value chain or enable a specific investment) or economy wide (e.g. reducing electricity prices) or involve a catalysing effect on a specific investment that has the potential to substantially boost incomes, employment and trade without posing significant environmental or social risks. The benefits should be proportional to the magnitude of the investment and established through a cost-benefit analysis or equivalent assessment of the rate of return to the investment.

Where possible information on the criteria will be drawn from analysis available within Government infrastructure plans or, if not, by a specific externally contracted ranking exercise. Post staff, with the advice of Strongim Bisnis and DFAT infrastructure advisers, will identify infrastructure proposals, generally within the National Infrastructure Priority Plan, with potential for contribution to growth for financing from SIGP funds. They will work with the Ministry of Infrastructure Development to establish their economic benefits, and implement and manage the results so as to maximise those benefits. DFAT will also seek to influence the allocation of pooled NTF funds towards activities that enable growth, e.g. maintaining main roads that impose additional costs on nearly every transaction because of long delays in moving people and goods around Honiara. Additional measures to promote growth through the NTF may include routine consultations with private sector users, private sector involvement in delivery and management of the investment (e.g. independent supervision of construction), and long-term sustainable and affordable tariff arrangements.

New wharf investments to be funded through SIGP will be initially screened using the investment criteria (table 2). Following the screening, priority projects will undergo further analysis of the economic benefits through a cost-benefit analysis that estimates a rate of return or establishes a business case for DFAT investment.

Figure 4: Process for allocating SIGP funds to infrastructure investments



Support for transport infrastructure through SIGP will be implemented in accordance with the approved Gender Action Plan (GAP) for DFAT's Transport Infrastructure program. This incorporates a gender mainstreaming approach in all parts of program implementation; actions include employment of a social development officer to manage the GAP, ensuring participation of women in community consultations, collection of sex-disaggregated data, project performance systems that capture progress against the GAP, targets for women's inclusion in contracting and employment (30% female), ensuring feasibility studies identify women's access and mobility needs, training on gender equality, ensuring equal pay for equal work and ensuring women's pay is paid directly to them.

The World Bank is currently leading the development of a GAP for the Tina River Hydropower Project. It proposes to focus on mainstreaming gender equality in the land acquisition and livelihoods restoration plan, environmental and social management plan, community benefit sharing pilot project, community consultation and decision making, and organisational capacity within the project team. DFAT's project monitoring will include routine reporting on implementation of the GAP.

Support for integrating climate change and enabling the program to address a major constraint to economic development, and to build climate-smart investment and businesses in energy, agriculture, tourism, shipping and other sectors, will be available through the Pacific Climate Change Support Unit (currently under design and expected to mobilise in late 2017/early 2018). The Support Unit will provide access to expertise, knowledge brokering and practical guidance for taking the risks and opportunities for building resilience into account.

7.2.2 Economic Policy Support

Support for the positions will be contracted through the Solomon Islands Resource Facility that also manages advisers under other governance programs. The team will operate under the direction of the Senior Economic Policy and Management Advisor (SEPMA), reporting to the Director of the ERU and Undersecretary Economics (MOFT). The team will establish work programs aligned to the outcomes proposed in the theory of change and will provide reports against these plans to both the head of ERU and the First Secretary (Economic Growth and Livelihoods). The team will contribute to the policy advice given to MoFT senior management on economic, budgetary, taxation and state-owned enterprise reform and to continuing capacity development within the unit. Two positions will have specific responsibilities for advice on the macro-economy and on revenue respectively.

On commencement, each advisor will be required to develop an indicative work plan to identify priorities for engagement. However, advisory support will need to be opportunistic and flexible to support emerging appetite for positive reform, and provide advice and information where negative policy decisions may undermine growth prospects for Solomon Islands.

Advisors in each position will be required to identify areas where gender equality can be promoted through their work and provide progress updates to the Program Coordinator for inclusion in program reporting.

7.3 MANAGEMENT AND IMPLEMENTATION: STRONGIM BISNIS

7.3.1 Management

Proposals to implement Strongim Bisnis will be invited from the market. Assuming a procurement period of around 6 months from the Request for Tender, the first staff should be in place by early 2017. Strongim Bisnis will be managed by a team of specialists working in a Program Unit, who report to a single unit head. The unit will need to include adequate expertise in private sector development and women's economic empowerment, capacity to interpret and influence the political and cultural environment, and provision for routine monitoring and management of grants. Back-up skills will also be needed, whether as permanent or intermittent inputs, in economics for sector analysis and monitoring and evaluation. Communications within Solomon Islands and to share lessons with DFAT, other donors, SIG and others will be an important function within the unit. Strongim Bisnis will also need research and knowledge management skills for structured internal learning and to prepare materials that promote evidence based dialogue within the private sector and with Government.

As outlined in the description of the Strongim Bisnis management arrangements, the unit will develop an annual plan for investments in: management of specific business innovation or business enabling activities; scoping of new initiatives; relationship-building and investigation of the business environment; and advocacy and research support to partners. The responsibilities of the unit will be to:

- maintain a portfolio of activities balanced for risk and time to yield results
- support business planning and innovative business practice among entrepreneurs and groups of businesses by mentoring, introducing new thinking and incentivising behaviour change;
- build relationships of trust with private sector operators, business associations, public sector providers of services and organisations working on women's and youth economic empowerment;
- bring together experience and research into coherent and evolving sector strategies;
- manage communications activities that promote entrepreneurship and learning from the program;
- produce and disseminate evidence-based policy briefing in line with the advocacy priorities of partners;
- monitor the results of activities and manage reflection processes;
- coordinate with other DFAT programs;
- report progress to DFAT
- provide advice to DFAT on the prioritisation of non- Strongim Bisnis activities.

Strongim Bisnis may be located separate to the High Commission with an easily accessible 'shop front'. It will need careful branding to position itself as a business-oriented advisory and support organisation that does not duplicate the activities of existing organisations or other donor interventions.

The head of the unit will report to the Counsellor (Economics and Strategy) or her nominee. The unit will produce an annual plan and budget for approval by DFAT. Activities included in the plan will be justified with reference to the program framework and contribution towards end of program outcomes. The approved plan will be the basis for the unit entering into agreements to spend money over the year. It will set the total budget envelope for the year, but may be altered at any time with written agreement from DFAT. Any proposal for expenditure under AUD20,000 within the total budget allocation will be subject to approval by the head of the unit under a delegation from the Post. Above this limit approval will be required from the Post.

The annual plan will in effect form the agreement between Strongim Bisnis and the Post on the direction of the program and its specific interventions. However, each annual plan will contain an unprogrammed amount to allow for initiatives that arise in the course of the year. The Post may request Strongim Bisnis to consider initiatives arising in the course of their contacts with the Government and private sector for financing from the unprogrammed element.

7.3.2 Division of responsibility with the Post

Strongim Bisnis will make relationships over a range of contacts that are also natural contacts for the Post, leading to some risk of duplication and confusion. The Strongim Bisnis team will be responsible for working with DFAT to resolve any duplication. The following table suggests a preliminary division of responsibilities.

Table 4: Division of responsibilities

IN RESPECT OF...	DFAT	STRONGIM BISNIS
ALLOCATIONS FROM SIGP FUNDS	Decision	Advice and implementation of Strongim Bisnis allocation
STRONGIM BISNIS ACTIVITIES	Policy guidance, requests to consider specific proposals, annual approval	Preparation of annual plan and implementation, management of contingency
CONSULTATIVE GROUP	Chair	Reporting, noting guidance
STRONGIM BISNIS PARTNERS	Sharing information regularly	Primary contact, operational relationship
PRIVATE SECTOR	Advance Australian policy, understand business operations, assess business environment	Assess drivers of change, scope Strongim Bisnis support, socialise new business approaches, mentor and encourage, support prioritised advocacy themes, encourage and shape dialogue with Government
GOVERNMENT	Advance Australian policy, understand emerging policy and capacity, influence policy and practice, encourage dialogue with private sector	Selected contact following consultation with Post. Operational relationship with specified agencies.

It is likely that the DFAT will want to draw on the expertise of the program unit for background information and formal briefings for the day to day business of the Post. This will need to be recognised as an additional task and provided for in annual planning.

7.3.3 Early implementation

In the period before Strongim Bisnis is contracted, Post may supervise a continuing design process to allow the Strongim Bisnis -related initiatives in the present design to maintain the momentum of the design while procurement for Strongim Bisnis is underway. A separate work program will be developed for this period, for which ad hoc technical assistance will need to be contracted. Because most identified activities need further refinement, negotiation or investigation, this period will in effect be a continuation of the design process. DFAT will seek quotes through the Aid Advisory Services standing offer panel to ensure value for money is achieved in progressing the work.

Activities that may be conducted during early implementation include:

- Conducting a gender and power analysis to understand: how power and politics in the private sector shape power relations at all levels of society; how gender hierarchies mark wider economic, political and social structures and institutions; what empowerment means for women who are economically active; and to fine tune key women's economic empowerment entry points and causal relationships. A capacity

and vulnerability analysis will accompany the gender and power analysis. This will help identify where the program may do harm or increase inequality and where additional assistance to mitigate this is required, or to ensure women are able to benefit equally. The results of these pieces of analysis will be combined into the program's gender and inclusion strategy to be developed during the inception phase.

- Commence implementation of tourism activities prioritised in the SIGP Design and IFC's cruise tourism sector study. The first step will be to consider a sequencing of interventions and encourage other actors to drive implementation, such that Strongim Bisnis provides only the necessary and catalytic support. Activities may include: working with the Tourism Association to revise its marketing strategy, conduct market research and develop a work plan and marketing tools; developing the capacity of inbound tour operators to offer attractive products and to collaborate with other parts of the industry to extend their range of services to clients; improving signage at and to tourism destinations; improving public sanitation facilities; improving amenities at wharves (e.g. shaded areas, seating, accessibility for people with disability); upgrading facilities and safety of attractions (e.g. Gizo Market – see below); reaching out to women in business to help them capture a larger share of the benefits and participate in decision making in the sector; provide business and financial management training to ensure the viability and sustainability of businesses in the sector; support product development (e.g. quality of food, accommodation, transport and tour offerings); facilitate market connections between the tourism and agricultural sectors. The team will also explore options to engage with the Seasonal Worker Program.
- Commence implementation of cocoa sector support and develop a sector strategy that aligns and supports the activities of SIG and other donors. Initial activities include: identifying and connecting additional international niche cocoa buyers to existing bulk buyers of cocoa in Solomon Islands, establish and maintain a register of quality suppliers to provide certainty to buyers; carry out a survey (with interested bulk buyers) of areas where cocoa is grown, but where cocoa is not produced to re-establish links with dormant growers, and explore options to coordinate information availability of cocoa in more remote areas to reduce the risk to buyers of visiting, and encourage growers to coordinate supply.
- Conduct an assessment of priority investments in wharf infrastructure, to advise DFAT on the specific wharves and sequencing of investments in sea transport. The current SINIP prioritises investment in improving inter-island sea connections, but does not investigate specific priorities. The cost benefit analysis will provide a prioritised list of investments that can be delivered through the NTF.
- Conducting a climate-smart business analysis to understand how extreme weather and climate change will impact on the target sectors and locations; how businesses are currently responding; to assess vulnerabilities and risks; to identify climate-resilient management strategies that reduce risks; and to identify partnerships with private sector to enable innovation, information and technology transfer, and communication/brokering of complex technical information for practical application in business planning and investment profiling.
- Childcare industry: Affordable and reliable childcare is a concern for many working Solomon Islanders and one reason for women's low participation in the economy. This warrants further research into the types of arrangements available and the demand for different types of affordable childcare, which will vary in urban and rural areas. A combination of research into the few examples of working childcare and a feasibility study on the options for commercialising childcare would inform further support. This work would also inform decisions around child protection in Strongim Bisnis cash cropping activities.
- Coffee: Coffee growing in Central Malaita started in 2011, when government distributed seedlings to a group of 300 farmers. The program, however, failed to connect farmers to suitable markets. As a consequence, sales of the crop have never taken off, although it is estimated that between 300,000 and 500,000 coffee plants are today in production. A family owned and operated boutique coffee roaster based in Brisbane has shown interest in sourcing coffee from this group of farmers and may be prepared to support them to improve quality and volumes of production. Further investigation of this possible link

and support required from Strongim Bisnis is needed and there may be potential to engage with coffee growers in a similar manner to cocoa growers.

7.4 MONITORING, EVALUATION AND LEARNING

Progress towards the end of program outcomes will be collated by the Program Coordinator from annual program reporting. Reporting to the SIGP Steering Committee (three times per year) will cover progress against annual work plans, changes in the operating environment, emerging risks and expenditure information.

7.4.1 Economic infrastructure

Infrastructure activities financed under SIGP will be monitored and evaluated according to the arrangements established for the Economic Infrastructure Program (responsibility: First Secretary Infrastructure). Where relevant, information on planning, implementation and cost of infrastructure investments will be available from systems established either within the Tina River Hydropower Project office or through the NTF. Strongim Bisnis can provide additional support to the Transport Program, including understanding market systems that may be affected by proposed infrastructure investments and estimating the benefits of proposed investments. The specific arrangements for gathering monitoring data and assessing outcomes will be determined by the appropriate Delegate at the time of approval.

7.4.2 Economic Policy Support

Monitoring and evaluation for economic policy support to MoFT has traditionally been centred on the quality of policy advice given and on its visible results. With the move to contracted technical assistance staff, areas of enquiry will be broadened to test assumptions about how policy is made in Solomon Islands and the role of external advisers in stimulating change. Because the outcomes of this component will depend on the openings that arise within the program period to influence the policy environment, the major indicators of success for monitoring purposes will measure better process, including intra-government consultation and transparency, and stakeholder satisfaction with policy development. The implementation of better policy and beneficial effects on the economic environment will primarily be identified through periodic evaluation.

Building on experience from previous phases of support to the ERU, there will be a greater focus on the distinction between the personal accountabilities of the advisers (for quality of outputs, knowledge, understanding, relationships and breadth of contacts) and the outcomes of better economic policy. There will also be a clearer shared understanding of the advisers' personal responsibilities in respect of capacity building and of realistic outcomes for the period of their assignments.

Along with the first annual work plan, the advisors to the Economic Reform Unit of MOFT will co-design with DFAT (led by the First Secretary, Economic Growth and Livelihoods) a set of indicators to capture success within their own personal level of accountability and in respect of wider contextual outcomes. Primary responsibility for monitoring the outputs and outcomes will rest with the Senior Economic Policy and Management Advisor (SEPMA) who will prepare regular reporting on progress against work plans and against annual forecasts of outcomes to the First Secretary Growth.

The SEPMA will agree work plans and planned first year outcomes and a format for reporting against them with Post within six weeks of mobilisation. Monitoring and evaluation practice will also draw on arrangements to be established for the new Governance program currently under design.

7.4.3 Strongim Bisnis

A consistent approach to monitoring and evaluation (by way of regular collective assessment of results and formal evaluation events) will be essential for:

- structuring periodic reflection and planning;
- exercising accountability to DFAT and providing information for quality processes; and
- managing the risks of the program.

The M&E system will be consistent with the Donor Committee on Enterprise Development (DCED) Standard for Results Measurement,²⁴ and with DFATs' M&E standards. A fuller description of the M&E arrangements for Strongim Bisnis is at Annex 5. Within the broad principles set out in the Annex, and within a deliberate and properly resourced knowledge management and learning effort that brings together monitoring, evaluation and research, the implementation team will propose detailed monitoring and evaluation arrangements within ten weeks of commencement.

The success of the program will be measured broadly at three levels:

- the deliverables of Strongim Bisnis: the quality and breadth of its relationships, ideas generated and implemented, the quality of research and analysis, the balance of its portfolio, its systems for learning and adaptation, the advice and information provided to DFAT and coordination with other DFAT programs; these elements will be measured through a set of performance indicators/standards to be developed jointly between the implementation team and DFAT;
- the outcomes from its activities; each activity will have a results chain as part of the process of approval and inclusion in annual plans, which will specify the assumptions made about the potential partners and the likelihood of positive change. At the outset, each activity will have an identified definition of success and failure. It will therefore be possible to report annually on success or otherwise of each element in the portfolio;
- end of program outcomes: indicators for these outcomes will be developed jointly between the team and DFAT. They will depend on the available entry points and will be subject to change over time. Examples include: proportion of selected exports fetching premium prices, volumes of exports of selected products, changes in tourism offers, instances of effective dialogue and collaboration, numbers of women in non-traditional roles, numbers of women with greater economic opportunity. Further examples of indicators at this level are listed in the Annex.

Changes in business practice and the operating environment will depend on a range of factors including changes in policy, the international economic climate and investment decisions taken outside Solomon Islands. Not all change in the areas targeted by the program will be attributable to Strongim Bisnis interventions. However, the program will have a responsibility to locate the outcomes of its activities in the overall picture of change and to draw reasonable conclusions about attribution. It will also track the validity of the assumptions behind the theory of change (see section 5.3 above).

²⁴ enterprise-development.org/page/measuring-and-reporting-results

At the level of activities, the program unit will prepare for each discrete activity in its annual work plan a results chain with associated indicators that covers the immediate results of the activity and links them to the work stream outcome, and identifies the systemic change they might lead to if the activity is successful. The predicted results and indicators will be specified at the point of commencement to ensure they are realistic and achievable in a highly fluid context. Because of the range of possible interventions, and to promote flexibility, it is not proposed to specify core indicators, such as numbers of jobs created, for the purposes of aggregation across the program. Each results chain will consider measures of additionality where collaboration with the private sector is involved and include measures for DFAT's Aggregate Development Results where some impact is likely. There will be a gender specific results chain developed from an initial gender and power analysis to ensure the program achieves strategic gender targets.

For the level of deliverables, the contractor implementing Strongim Bisnis will agree with DFAT a set of service standards that will define its obligations. Potential means of verification are included in the Annex. These will be reported on at least annually and will inform performance discussions with the Post.

Alongside the M&E process the research program will be managed so as to provide regular quantitative and qualitative inputs to the performance management process, for example through baseline and repeat studies of specified market actors or action research on women and youth participation.

The program unit will include a focal point for M&E whose responsibility will be to ensure that the three level program framework is maintained, understood and regularly reviewed; that results chains conform to consistent quality standards; that information is being regularly collected; and that it is available in a useable form to inform annual and tri-annual reporting.

DFAT will exercise its oversight role through regular meetings with the program unit. It will exercise quality control over the monitoring system by examination of the results chains for activities proposed in the annual plan, and through discussion with the team of monitoring results. DFAT will participate in the annual reflection process that leads to the production of the annual report. Independent mid-term and end of program reviews will be commissioned by DFAT for the whole SIGP, including Strongim Bisnis.

A full monitoring and evaluation plan will be developed by the contractor delivering Strongim Bisnis within 10 weeks of mobilisation and agreed with DFAT, drawing on decisions that will have been made by then on priority work streams. Given the similar practice and information requirements of the Market Development Facility, the Strongim Bisnis contractor will consult with MDF management to incorporate best practice developed under the Program.

Learning in Strongim Bisnis

The M&E focal point will support the unit head in using monitoring information for regular reflection on the questions:

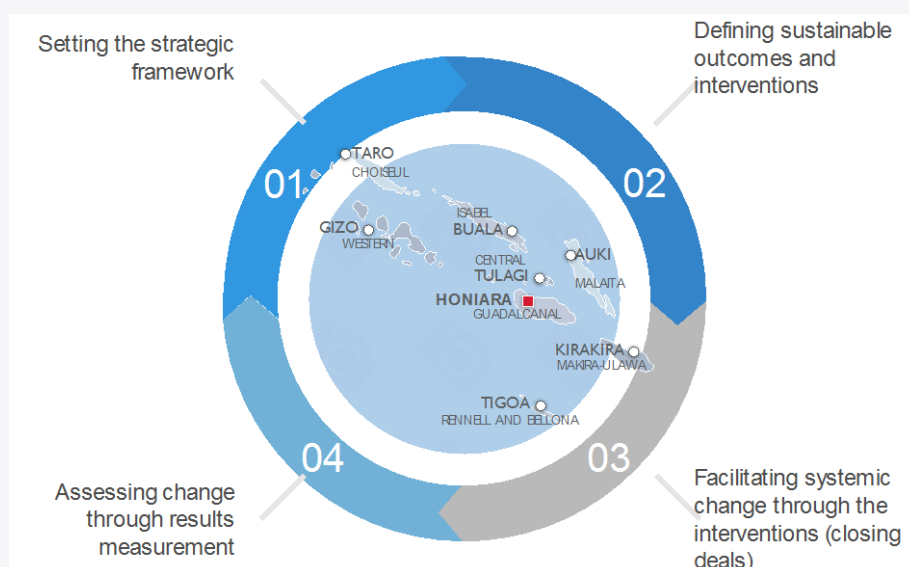
- Is our knowledge of our selected markets good enough?
- Are we identifying the right opportunities for intervention?
- Are all our current interventions potentially leading to end of program outcomes? Do they have the potential for contributing to systemic change?
- What are we learning about the factors for successful intervention?
- Is our portfolio balanced for risk and time to return?
- What are we learning about the way poor people, women and youth relate to markets?
- What do we need to drop?

Experience of other flexible programmatic interventions is that regular reflection that leads to portfolio refreshment (dropping non-performing activities) is essential for managing the risk of resource capture by less effective partners.

Strongim Bisnis has been conceived with lessons from international experience of market systems approaches, and Australian efforts to promote growth in the Pacific, in mind. Strongim Bisnis staff are not an administrative expense but a set of technical resources.

The program cycle for Strongim Bisnis is illustrated in the diagram below and developed in the following paragraphs.

Figure 5: Strongim Bisnis program cycle



The first step in the program cycle is to build an understanding of selected markets and contacts with the (mainly) private sector actors within them, and to develop sector strategies based on realistic change pathways. In the fluid context described in this IDD, a sector strategy is a continuous process rather than a one-off plan, building in understanding of the relationships, incentives and cultural norms that govern the behaviour of market players. A market analysis is a useful starting point, and such analyses were carried out for tourism and shipping in the course of the design.

The second step is to identify within the market drivers for systemic change towards greater productivity, higher value or growth in incomes for poor households, and to determine to what extent external support can help. As a result of early analysis, a number of entry points have been proposed in the IDD for further development and screened for consistency with the program framework. They may lead to substantive activity in future, but part of their value at this early stage is to test the commitment of potential market players to innovation.

The third step will be to facilitate the piloting, assessment and adaptation of innovations that are in line with the market strategy and that have buy-in from market participants. The structure proposed for Strongim Bisnis provides the capacity for staff to make rapid appraisals of opportunities and to make decisions on support quickly. Activities undertaken by Strongim Bisnis may be small scale but will relate potential outcomes to the market strategy and the possibility of change at scale. The criteria in the program framework will be used to prioritise activities. Designing and implementing activities will be relationship-based and transaction-intensive and will depend on Strongim Bisnis capacity to negotiate deals with partners that leave the leadership with the market players and do not undermine ownership and sustainability.

Market based activities will be accompanied by a communications capacity that explains the Strongim Bisnis approach and collaborates with private sector companies to promote business as a way of making a living.

In the fourth step, clear expectations will be set for each activity and monitoring will take place regularly to inform management decisions and adapt sector strategies or expand sectors. Strongim Bisnis will run its monitoring and research activities together to generate useable knowledge about what works and will invest in collective assessment and decision making processes that make the most of the accumulated information.

Strongim Bisnis will have a strong gender analysis capacity and a mandate to explore maximum outcomes for women from all its activities, mainstreamed and specific.

7.5 SUSTAINABILITY

7.5.1 Infrastructure

SIG has made slow but steady progress with development partner support in increasing its budgetary and planning capacity for infrastructure maintenance. Although SIGP funds will increase the Australian spend on transport by up to 60% in 2017/18, the one-off increase does not translate into an equivalent increase in maintenance costs. Maintenance costs of the proposed specific projects can, on current projections, be covered through existing SIG provision.

The Tina River Hydropower Development Project is intended to be built, operated and maintained by the private sector partner (a consortium led by Korea Water Resources Corporation) for 30 years. The public portion of the access road (13.3km) will be maintained by MID. DFAT is advocating for this to be delivered through the National Transport Fund, so we can help to ensure maintenance of the access road is prioritised. The private portion of the access road will be maintained by K-Water and its contractor.

GPPOL has indicated that it is willing to maintain the road in East Guadalcanal using machinery that it uses to maintain plantation roads. Bridge maintenance will be absorbed into MID's maintenance program, which is supported by the NTF using pooled Australian, ADB and SIG funds. Australia will maintain close involvement in the construction design and supervision arrangements to ensure high quality construction and to reduce future maintenance bills.

7.5.2 Economic Policy

The aim of support to ERU is to influence positive policy change that is accepted by political and business stakeholders and, as such, is not easily reversible. This will involve careful choice of areas for intervention and a strong understanding of the coalitions of interest that need to be formed for reform to succeed.

Capacity building for the ERU is a secondary objective to be pursued though explicit personal responsibilities of advisers within a realistic projection of the local skills likely to be available in the planning period. The prospects for sustainable SIG staffing of ERU are still low, despite 13 years of support. A significant cause is low staff retention by ERU; as staff are promoted (e.g. the current Permanent Secretary of MOFT), or move to other roles in Government (e.g. Central Bank) and the private sector (e.g. current CEO of SICCI). While this erodes the capacity of ERU, the capacity for good policy making in Solomon Islands is strengthened and contestability by other institutions is encouraged.

7.5.3 Strongim Bisnis

Strongim Bisnis aims to be sustainable by working with the private sector to seed ideas, provide start up support and stimulate collaboration. It will aim to operate mainly through the provision of knowledge, ideas and encouragement. It will not provide recurrent operational costs for business or business organisations. Part of its mandate is to change current business strategies of grant seeking and to promote long term business planning, and its marketing will make clear that its main business is not to provide subsidies. Program M&E will provide information on the extent to which interventions have been successful and therefore sustainable at least in the short term, and the extent to which business attitudes to subsidies are changing.

7.6 RISKS

SIGP faces both external and internal or operational risks, developed further in the risk matrix at Annex 13. Overall the proposed approach is novel for Solomon Islands but elements of it exist in DFAT programs in other countries, and an important part of managing the risk of innovation is to maintain learning links with similar programs.

There is a risk that the SIGP approach, particularly Strongim Bisnis, may be misunderstood by Government or the private sector. Government may want it to support Government capacity or interventions in the economy. The private sector may see it as another source of grant funding. Strongim Bisnis will need strong branding and communications, and the support of prominent Solomon Islanders through the consultative group, to protect itself against or manage pressures in either direction.

DFAT and other donors have existing programs in the targeted sectors, which presents the risk of duplication. Preventative action has been taken by mapping existing programs and designing Strongim Bisnis to target the gaps. DFAT will take a leading role in coordination of activities with technical leadership being provided by Strongim Bisnis.

The two initial infrastructure programs have their own set of risks, which may result in either or both not going ahead or not achieving their objectives because of a failure of negotiations or a commercial decision by the investor. At present, there are no other candidates for a large credible investment that Australia could support in the time frame. The Tina River Hydropower Project in particular has associated land tenure and environmental risks. Each has a risk management strategy that involves close DFAT monitoring of and support for preparation processes.

There is a strong risk of unintended consequences from activities to promote innovations in markets where incentives and roles of market actors may not be clear. These risks range from association with unsuitable partners which may damage Strongim Bisnis's reputation, through entrenchment of vested interests, to unforeseen harm to women and children from greater exposure to exploitation, drudgery or gender based violence as a result of participation in market development activities. The program will adopt a "do no harm" approach to all its activities, ensuring due diligence and analysis of the likely effects on those it will work with, drawing on its own research and other relevant investigations. More generally, the program will invest in knowledge generation to ensure that it develops an understanding of the social context in which it operates, to mitigate the risk that its activities are ineffective because they fail to understand incentives and constraints to action.

Because some activities will be experimental, it should be expected that some will fail. As noted above, the program will maintain an overall balance in degree of risk of activities to manage this probability. Each annual plan will contain a discussion of risk and justification for the degrees of risk accepted. It will be equally important to maintain a balance between grant management and other activities. Experience with other

programs that aim to operate flexibly is that flexibility is rapidly reduced when staff time is tied up managing the fiduciary requirements of grants. Monitoring will feed into management decisions on non-performing or high intensity activities.

Staff quality is a key risk for the program. Skills and experience in private sector development and women's economic empowerment, linked to the ability to maintain relationships and develop political and social insights, are not widespread. The contractor providing staff for Strongim Bisnis will need to be held to high standards and arrangements put in place in the contract to remove non-performers.

Extreme weather and climate change pose risks across the target sectors, which are all weather sensitive. The projections and trends are well understood but this information is not widely accessible to sector agencies or businesses. Climate-smart investment will require transfer of information and technology to enable adaptation to changes in weather patterns and the risks of extremes.

7.7 SAFEGUARDS

Child protection

The program will not work directly with children. However, there will likely be contact with children during implementation and indirect effects on children. This may be a result of different working patterns by either or both parents, increased demand for their labour in support of a family enterprise (e.g. children traditionally do much of the cleaning of land around cocoa trees with their mothers), or potential for sexual exploitation of children associated with increased tourism. Child protection will be an essential factor in any proposal to develop childcare businesses.

The head of Strongim Bisnis will be responsible for ensuring that all activity proposals consider the potential effects on children and contain mitigating measures. Because of the specific role of children in cocoa production, a partnership may be developed with a consortium of Solomon Islands based NGOs to monitor the status of children in cocoa producing areas. Children in tourism areas face an increased risk of sexual exploitation due to increased visitor numbers and out of town workers. There is opportunity to review current networks and develop an activity leveraging off the best parts of other child safe tourism initiatives, while making it relevant to the Pacific. This possibility is being pursued with DFAT's Child Protection Safeguards Section.

Initial scoping of the capacity of different NGOs to provide support for monitoring the impact of SIGP on children in each province is underway.

Resettlement

Although it seems likely that only the first two infrastructure investments will have land use implications, each major investment will have a land use and resettlement management policy where required. Post will be guided by DFAT's policy on displacement and resettlement policy in determining if further work is required and will seek advice from specialists in Canberra where uncertainty exists. Land for the Tina River Hydropower Project has so far been acquired without the need for resettlement, and compensation packages have been agreed with landowners, although these are fragile as elsewhere in the country. The expansion of GPPOL would require access to and use of privately owned and customary land, with no involuntary resettlement of people. GPPOL has proven experience in successful landowner relations and benefit sharing arrangements, and will negotiate with landowners on an individual basis. A preliminary safeguards assessment for the East Guadalcanal infrastructure has been prepared and outlines next steps required.

Environment

The need for environmental safeguards is related to the funding of infrastructure under the SIGP, and possibly to increases in agricultural production and promotion of tourism. In each case the degree of environmental risk either has been or will be (where interventions are as yet undefined) assessed case by case. Both the initial infrastructure projects are undertaking social and environmental impact assessments that will need to be approved by the Government of Solomon Islands before funding is confirmed.

Investment in the Tina River Hydropower Project is being referred to the Department of Environment for review. Other infrastructure, including wharf construction, will follow the environmental assessment provisions of the National Transport Fund, if it is used or similar provisions if it is not. These are already used for the Australian economic infrastructure program in the country.

For each proposed activity that does not involve infrastructure, initial screening according to DFAT operating procedures will be undertaken as part of the case for the activity, and a subsequent assessment made of likelihood of significant impact. In most cases activities will involve simply changing business behaviours or the operating environment. Some activities may lead to more intensive use of agricultural assets (such as cocoa plantations) or to increases in tourist arrivals. They are unlikely to lead to unsustainable agricultural practice, changes in land use, or significant rises in visitor numbers or change in visitor activities (except in the circumstances of cruise ship arrivals for which operators have effective policies and standards). However, these changes could lead to environmental and social impacts, for example agricultural intensification could affect water quality through use of agricultural chemicals and cruise tourism could impact on small communities. Where potential environmental or social impacts are identified an assessment and management plan proportionate to the risks will be developed in line with DFAT's Environment Protection Policy.

7.8 CONTRACTING

The Strongim Bisnis unit will be procured by open tender. As for the design process, parameters and deliverables will be specified but not the configuration of staff or split between full time and intermittent inputs. Given the requirements to make and maintain relationships and the degree of credibility required to work effectively with the private sector, strong emphasis will be placed on the quality of staff offered, and provisions put in place for non-performing staff to be removed quickly.