

JOINT REVIEW OF THE SOLOMON ISLANDS NATIONAL TRANSPORT FUND

Solomon Islands Government

Asian Development Bank

Department of Foreign Affairs and Trade, Government of Australia

FINAL REPORT

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JOINT REVIEW OF THE SOLOMON ISLANDS NATIONAL TRANSPORT FUND

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List of Abbreviations and Acronyms

ADB	Asian Development Bank
ADB TA 7715	ADB TA 7715 Supporting TSDP
ANZ	Australia and New Zealand Bank
AUD	Australian Dollar
AMU	Asset Management Unit (MID TMS)
AWP	Annual Works Plan (CPIU)
CBSI	Central Bank of the Solomon Islands
CDP	Capacity Development Plan (of MID)
CPIU	Central Project Management Unit
CTB	Central Tender Board (SIG)
DFA	Direct Funding Agreement between GoA and SIG - DFAT 20 May 2011 (Agreement 59114)
DFAT	Department of Foreign Affairs and Trade (of GoA)
DMF	Design and Monitoring Framework
EU	European Union
FM	Financial Management
GoA	Government of Australia
GPN	General Procurement Notice
IPSAS	International Public Sector Accounting Standards
JICA	Japan International Cooperation Agency
LBES	Labour based equipment supported (road maintenance)
MCA	Ministry of Communications and Aviation (SIG)
MDPAC	Ministry of Development Planning and Aid Coordination (SIG)
M & E	Monitoring and Evaluation
MID	Ministry of Infrastructure Development
MoFT	Ministry of Finance and Treasury
MoU	Memorandum of Understanding (ADB)
MTEF	Medium Term Expenditure Framework (SIG)
MTR	Mid Term Review of TSDP
NOL	No Objection Letter
NTF	National Transport Fund
NTF Board	National Transport Fund Board
NTP	National Transport Plan 2010-2030
NZMFAT	New Zealand Ministry of Foreign Affairs and Trade
O & M	Operations and Maintenance (Unit of MID)
PAM	ADB Project Administration Manual (for TSDP)
PFM	Public Financial Management
PSC	Project Steering Committee (or Public Service Commission)
PMI	Project Management and Implementation (Consultants)
PS	Permanent Secretary
RRP	Report and Recommendations of the President (ADB)
SBD	Standard Bidding Documents
SIG	Solomon Islands Government
SPN	Specific Procurement Notice
SWAp	Sector Wide Approach
TA	Technical Assistance
TEC	Tender Evaluation Committee
TIMS	Transport Infrastructure Management Services (Department of MID)
TOR	Terms of Reference
TSDP	Transport Sector Development Project
WB	World Bank
3YAP	2011-2013 Transport Sector Action Plan (of the NTP)

Executive Summary

1. The Solomon Islands National Transport Fund (NTF) was established in 2010. The Solomon Islands Government (SIG) and its development partners in the transport sector undertook a joint review of the governance, management and operations of the NTF from September 9th to 20th, 2013 in Honiara. This Review was supported by a team of three independent consultants¹. The Review met with senior officials of SIG and its development partners, and their consultants. In addition a Stakeholder Workshop was held on Monday September 16th. The Review Team wishes to thank all those who participated in the Review for affording the time to meet the Team and providing their views.

Purpose of the Review

2. The purpose of this Review was to:
 - (i) Assess the effectiveness and efficiency of existing governance, management and operational arrangements after an initial two years of operations (from the first contribution to the fund in January 2011); and
 - (ii) Make recommendations to SIG on any identified weaknesses or areas for strengthening to ensure the provision of adequate support for future operations.
3. This Review is focused on the NTF, as set out in the Terms of Reference (TOR). However the Review Team acknowledges that the NTF (with the NTF Board and Secretariat) is only one element in what is called the “Sector Wide Approach” (SWAp) to all aspects of transport infrastructure and services in Solomon Islands. The Review Team acknowledges that the other key elements in the Sector Wide Approach are the National Transport Plan (NTP) - including the three year Action Plan (3YAP), the Transport Sector Development Project (TSDP), and the activities of donors including the Asian Development Bank (ADB), Government of Australia (GoA) Department of Foreign Affairs and Trade (DFAT)², European Union (EU), Japan International Cooperation Agency (JICA), New Zealand Ministry of Foreign Affairs and Trade (NZMFAT) and the World Bank (WB).
4. The restructuring of the Ministry of Infrastructure Development (MID), the creation of the Central Project Implementation Unit (CPIU) in the MID Transport Infrastructure Management Services Department (TIMS) and can also be considered as part of this approach. The approach is also supported by the Project Management and Implementation (PMI) Consultant support provided to the CPIU, and the technical assistance (TA) activities of the ADB TA 7715 supporting TSDP.

¹ Edward Dotson Transport Sector Specialist/Team Leader, Peter Heijkoop Financial Management Specialist and Michael Gilman, Procurement Specialist.

² On 1 November 2013 the staff and functions of the Australian Agency for International Development (DFAT) were integrated with those of DFAT. For simplicity, ‘DFAT’ is used throughout this report to refer to the Government of Australia agency/department managing official development assistance, including when that agency was the former AusAID.

Overall Perceptions

5. The overall perception of NTF gained by the Review was that it is not performing as SIG and its development partners expected; nor as required by law and under agreements. More importantly, needed maintenance and rehabilitation works (especially of roads) were not being carried out to the extent required.
6. A further perception was that the “NTF Procedures” were in part to blame. These are in practice procedures introduced by TSDP and include international good practice procedures required by development partners in relation to community consultation, environment, procurement and allocation of funds. In an understandable attempt to get needed works done, MID has reverted to using SIG procedures and previous MID practices (which do not include some of these requirements) and funding from SIG MID budget rather than from NTF.

Approach

7. The Review has taken the view that in responding to the TOR, it should find ways and make recommendations on practical means to bring the basic concept of NTF (as the single source of funding for transport activities) to fruition, or if that is not possible, to ensure that the Sector Wide Approach can be maintained and improved, with NTF as a major funding source. The Review was also concerned to find ways to get results in terms of more infrastructure maintained or rehabilitated, and thereby to provide the people of Solomon Islands with improved access to socio-economic opportunities, education and health facilities.

Overarching Concerns

8. Based on its own assessment, and bearing in mind comments made by the persons met during the visit to Honiara and on the Draft Report, the Review Team found four areas of overarching concern:
 - (i) **Board Governance and Administration** – The limited direction given by the NTF Board, the lack of a fully functional Secretariat, and the weakness of reporting systems are contributing to lower than required delivery of works, and increasing concerns about the effectiveness of the NTF.
 - (ii) **MID CPIU and PMI Consultant Support to MID** – The support that is currently being delivered is not well aligned with the current requirements of the NTF Board and MID, and is not focused on the achievement of the targets for maintenance and rehabilitation works. Substantial adjustments are required to make the support more effective.
 - (iii) **Financial Management and Reporting** - The current arrangements are not delivering the financial information and controls to meet the needs of the NTF Board, TSDP and SIG regulations, and pose serious risks for SIG and its development partners.
 - (iv) **Procurement** - The Review has less concern in relation to Procurement than with the other topics. The current arrangements contribute towards the slow delivery of maintenance and rehabilitation. However the risks associated with procurement are less serious than those associated with Financial Management and so overall have a lower priority for action.

Sections 3 -6 of the Main Report present the Findings and Recommendations of the Joint Review in each of these areas. The key findings of the Review are presented below.

Board Governance and Administration

9. **The NTF has not realised its' original objective to become the sole source of funding by SIG and its Donor Partners (a Pool Fund) for the Sector Wide Approach to transport in the Solomons.** DFAT is currently the only Donor contributing to NTF. Other Donors have indicated they are considering contributing to the NTF. A number, (JICA in particular) have indicated that they may be prepared to support the NTF, but without funding the NTF. SIG has also shown itself unwilling to place all funds for transport in to the NTF. The Review has noted two streams of activity for project preparation – one “NTF funded” and the other “SIG funded”. The Medium Term Expenditure Plan makes explicit reference to funding the Rural Transport Infrastructure Program directly by SIG.
10. Faced with this reality, SIG and Donors need to have frank and open discussions about the future of the NTF. In particular SIG and Donors need to discuss whether the objectives of the SWAp can be achieved with the NTF not as the sole source of funds, but as one of multiple sources of sector funding. The Review considers that the more important factors in delivering the SWAp are that SIG and Donors agree to:
 - (i) Abide by a single agreed plan (the National Transport Plan), and to the SIG policies and programs within the Plan.
 - (ii) Selection of investments for funding only in accordance with the priorities set out in the agreed 3 Year Annual Rolling Program of Works, which is updated annually
 - (iii) Implementation of works under the management of the CPIU in MID TMS, with provision as required of extra TA resources to the CPIU to support implementation
 - (iv) Bringing SIG procedures, particularly for Financial Management, Procurement, Social and Environmental Safeguards, and Monitoring and Evaluation to the level of good practice required by Donors. This will include putting in place checks and balances/compliance mechanisms to ensure the procedures are respected and followed.
 - (v) Use of NTF Board and Secretariat procedures (when fully implemented to meet the provisions of the NTF Act and Regulations) to assess and verify that transport expenditures proposed by SIG and Donors meet criteria (i) to (iii)
11. **The NTF Board is not yet functioning as intended** and is not fulfilling its roles and responsibilities as set out in the NTF Act and Regulations. The Review considers The Board could operate more as intended if it were to:
 - (i) Provide advice on key issues, development options and prioritisation of activities relating to the transport sector and the National Transport Plan (NTP)
 - (ii) Undertake annual reviews or updates of the 3YAP
 - (iii) Be more proactive in decision making on Resource Allocation and Financial Management.
12. **There is not a functional NTF Secretariat as intended by the Regulations** The Review considers that this situation can be rectified by a combination of:

- (i) Staffing the Secretariat,
- (ii) Provision of TA Advisor support to the Secretariat
- (iii) Training of Secretariat staff (when appointed)
- (iv) Development of procedures

MID CPIU and PMI Consultant Support to MID

- 13. The Review finds that a redesign of the current PMI support to MID CPU is required to better align the support with current MID needs.** The most pressing needs are for support for project management, contract management, reporting on physical and financial progress of projects to NTF Board, development of Feasibility Study and safeguards documentation that is commensurate with the scale and complexity of the works being undertaken and institutional development of the CPIU/TMIS, as well as ongoing financial management. This redesign should be undertaken within the limits of the remaining value of the contract. Initial discussions took place between MID, ADB and the PMI Consultant during the midterm review (MTR) of TSDP in November 2013.

Financial Management and Reporting

14. The Review concludes that CPIU, with PMI Consultant and ADB TA 7715 support, is yet to build any functional or sustainable capacity in project management for either MID or NTF activities. Consequently, the NTF Board does not yet receive appropriate costing, funding and cash flow information to support its strategic decision making role. Most critically, there is no SIG-approved capacity development plan for CPIU project management after two years. The Review reaches the overarching conclusion that CPIU is not yet an effective financial management partner to the NTF Board.
15. The Review considers that CPIU has been reactive in its attempts to satisfy NTF project management and reporting needs to date. Project contract management is yet to be formalised. Project financial management is done by the PMI consultants using MYOB accounting software, which is also used by the PMI Consultants for internal accounting and reporting.
16. While the most recent NTF Board financial reports are satisfactory and unqualified audits were given for both 2011 and 2012 NTF Statements of Receipts and Payments; the Review notes that MoFT does not endorse or support MYOB as a SIG accounting tool and the TSDP consultancies will conclude in 2016. The approach taken to CPIU project management to date is neither technically viable, nor sustainable.
17. A structured plan to build CPIU project management capacity needs to be developed, agreed and resourced. This tool needs to be updated with timely and reliable financial data supplied by a MoFT-approved, sustainable MID accounting tool; this new initiative will also need additional resources.

18. Control weaknesses in the SIG accounting system prevent preparation Financial Statements compliant with international standards, which does not satisfy ADB or other donor's minimum accountability standards. These control weaknesses increase risk levels to the point where use of Partner Government Systems by DFAT requires require special additional support measures to be taken around enhancement and acceleration of financial reforms in MID and CPIU.

Procurement

19. The Review finds that many of the constraints and recommendations cited in the ADB Procurement Capacity Assessment of 2010 remain valid today, as few of the recommendations of the review appear to have been acted upon. MID has a procurement unit in the CPIU which is operating effectively in accordance with SIG Guidelines and Contract Documents. However this Unit is staffed almost entirely with consultants. MID also lacks a fully functioning contract administration unit which is resulting in delayed payments to contractors for NTF funded contracts, and a consequence contractors having an unfavourable view of the NTF.
20. Two matters outside the control of MID are a cause for concern. The reviews of procurement by MoFT are a cause of delay and not warranted with MID to the extent they may be required for other SIG agencies. Some attempt should be made to streamline the procedures. CTB procedures for Bid Opening do not appear to be fully in accordance with international good practice and require review.

NTF Act, Regulations & Procedural Guidelines, and other SIG legislation and policies (TOR 4.2)

21. The review has not found any significant non compliance with the NTF Act, Regulations and Procedural Guidelines, except for the area of financial reporting. The Review finds that the performance of the Secretariat against the responsibilities set out in clause 9 (3) of the Regulations has been extremely limited, and that there is currently not a functional Secretariat as intended by the Regulations.
22. The Review has not recommended any changes to legislation, but has recommended changes to governance and financial management procedures and a review of the policy on the role of the NTF (Recommendations 1, 5 & 30).

GoA/SIG Direct Funding Agreement (TOR 4.3)

23. The Review has not found any substantive areas of non-compliance with the Agreement, but notes that SIG co-contributions cannot be accurately determined due to weaknesses in SIG financial management and reporting.
24. The Review considers that MoFT accounting systems represents a significant accounting and fiduciary risk to DFAT funds placed in the NTF. Managing this risk to DFAT funds will require special measures to be taken to strengthen the efficiency, effectiveness and probity of MoFT management systems.

25. The Review has found some non compliance in relation to Board Meetings. Paragraph 39 of the Agreement lists items to be discussed at Board meetings. The Review finds that Board Minutes do not record any discussions on item (a) Review of performance against the Performance Assessment Framework, item (e) Review/update of the Program Risk Management Plan/Strategy or (i) Progress on strengthening Public Financial Management and procurement systems or developing the Medium Term Expenditure Framework. The Review finds in addition to not being discussed, that the Risk Management Plan has not been updated.

Requirements of other development partners (TOR 4.4)

26. DFAT and ADB have placed a number of requirements on NTF funded projects in relation to social and environmental safeguards, financial management, procurement, gender, and anti corruption. In some areas these requirements are to progressively raise SIG procedures to international good practice. The recent ADB MTR for TSDP highlighted a number of areas where procedures still do not meet the required standards. The Review has also made its own assessments on FM and procurement, as set out below.
27. The Review considers that other development partners who may wish to contribute to the NTF are likely to treat a contribution to the NTF as if it were a grant/loan loan they were making directly to SIG for a project. The development partners would therefore assess whether the systems in place for the implementation of works meet their requirements, including those for social and environmental safeguards, FM, procurement, gender, and anti corruption. In so doing they would use the ADB and DFAT experience as a starting point.
28. **Financial Management** In the opinion of the Review Team, NTF resource management does not meet accounting standards acceptable to ADB⁷ and is unlikely to meet most other development partners standards for accounting or financial management of funding. Control weaknesses in the SIG accounting system prevent preparation of Financial Statements compliant with the required international standards which does not satisfy ADB or other development partners minimum accountability standards
29. **Procurement** The Review notes that the processes and procedures would better meet the standards of other development partners (particularly ADB and EU) if the recommendations of the ADB Procurement Assessment 2010 were to be fully implemented. The review considers that the procedures for review of documents, Bid Opening by the CTB and contract administration would better meet the standards of development partners if the recommendations of the Review were accepted and implemented (Recommendations 43-45).

Recommendations

30. The Recommendations of the Review are presented in **Table ES1**. There are 45 Recommendations in total. As indicated in the table, the Review considers that a start should be made on implementing many of these recommendations as soon as practical, with a start on the remainder by end February

2014. The Review suggests that the NTF Board, SIG and its development partners should focus their initial efforts on 10 recommendations. These address key weaknesses in the current arrangements, and therefore offer the highest potential to improve the effectiveness and efficiency of NTF governance, management and operations. **These 10 recommendations are shown in red in Table ES 1.**

Table ES1 NTF Review Executive Summary of Recommendations

NTF Review Recommendation	Responsible	Timing
Board Governance and Administration		
National Transport Fund		
1. SIG and it's development partners should have frank and open discussions about whether the NTF can be the only source of funding for the SWAp	SIG and Development Partners	As soon as practical. Complete prior to finalisation of the design of proposed ADB STIIP ³
NTF Board (TOR 4.1 a)		
2. Review and Clarify NTF Board Roles and Responsibilities	Board Chair and PS MID	As soon as practical
3. Strengthen NTF Board Procedures and Strategic Focus of NTF Board Meetings	NTF Board	For staged introduction starting with Board Meeting in Feb 2014
Project Steering Committee (PSC) (TOR 4.1 b)		
4. Review and Clarify Project Steering Committee (PSC) Roles, Responsibilities and Procedures	Head of NTF Secretariat	Starting with first PSC meeting post TSDP MTR mission
NTF Secretariat (TOR 4.1c)		
5. The NTF Secretariat should be formally established, with staff designated and budget provided and donor support provided for capacity building and transport policy and strategic transport planning	NTF Board	As soon as practical
Planning and Prioritisation Processes – Undertaken by the Board and Secretariat - (TOR 4.1d.)		
6. The NTF Board should increase consultation with SIG colleagues and provide greater direction to MID in the preparation of Annual Work Plans (AWP) and annual updates of the 3YAP	NTF Board	Starting with 2014 AWP
7. Prepare a 2014-2016 Transport Sector Action Plan for the 2011 – 2030 National Transport Plan	NTF Board	Starting as soon as practical
NTF Expenditure (TOR 4.1 e)		
8. Infrastructure maintenance (including emergency works) should always to be the top priority for NTF expenditure, followed by rehabilitation and then new works	MID TIMS	As soon as practical, including during the formulation of the 2015 Budgets
9. SIG and it's Development Partners Expenditure should consider whether projects not funded by NTF can be considered as contributing to the NTP and 3YAP	SIG and Development Partners	Prior to finalisation of the design of the proposed ADB STIIP
Processes for Management of NTF and their Practical Application (TOR 4.1 f)		
10. The processes required for the management of NTF funds and projects should be developed and documented, including appropriate progress reporting Recommendations 21 & 22 address more detailed aspects of this recommendation.	Head of NTF Secretariat	Starting as soon as practical
Human Resources available to support Board functions and NTF management (TOR 4.1 g.)		
See Recommendation 5 on NTF Secretariat and Recommendations 23-26 on CPIU		
Relationship between the NTF Board and Key Stakeholders		

³ Sustainable Transport Infrastructure Investment Program (formerly Transport Sector Development Program, Phase 2)

11. The NTF Board (through the Secretariat) should increase the outreach to Stakeholders, with a view to enabling Stakeholders to have a better understanding of the role and responsibilities of the NTF and the Board, and to better manage the expectations of Stakeholders of what the NTF and the Board can do for them	NTF Secretariat	As soon as practical, starting with the Feb 2014 Board Meeting
MID TMS/CPIU and (PMI) Consultant Support to the CPIU		
12. The project management and implementation (PMI) consultant team supporting MID should be redesigned to better align the support to current MID needs.	ADB and PMI Consultant	Started during TSDP MTR Complete by Feb 2014 NTF Board
Planning and Prioritisation Processes undertaken by MID		
13. The CPIU should not be undertaking Transport Policy and Planning (Strategic/Long Term) or be getting advice on these matters from the PMI Consultant	ADB, DFAT and PMI Consultant to agree	Started during TSDP MTR Complete by Feb 2014 NTF Board
14. MID TMS should focus on Operational (Annual) and Tactical (1-5 years) Planning with PMI Consultant support adjusted to reflect this focus	MID, ADB, DFAT and PMI Consultant	Started during TSDP MTR, Complete by Feb 2014 NTF Board
15. MID TMS should continue to use the 3YAP as a starting point for the Planning and Prioritisation Processes (for sub projects)	MID, ADB, and DFAT to agree	Preparation of 2014 AWP
16. MID should continue to base prioritisation of works (for which funding will be sought from NTF) on a rational assessment of needs, (using as a starting point the 3AYP), and adjusting relative priorities based on the results of the Asset Management Surveys.	MID CPIU with PMI Consultant support	Preparation of 2014 AWP
17. The AMU should be tasked with ensuring that the priorities from other SIG policies are reflected in the development of the 3 Year forward estimates of budgets needed for asset management.	MID CPIU with PMI Consultant support	Preparation of 2014 AWP
18. The CPIU (with PMI Consultant support) should focus more on implementation of the current priorities, increasing outputs, and shortening the overall delivery time from scoping to completion of works.	MID CPIU with PMI Consultant support	Started during TSDP MTR
19. The CPIU (with PMI Consultant support) should ensure that the work load and work flow and priorities of all members of the CPIU match the overall priorities of work being undertaken by the CPIU, and be reviewed and adjusted on a regular basis to ensure that timelines for delivery of CPIU priorities are met.	MID CPIU	Started during TSDP MTR
20. MID should develop a prioritization process for the use of resources, and for determining the movement of projects through the different stages of planning, design, procurement and implementation based on the AWP.	MID CPIU	Started during TSDP MTR
Processes for Management of the NTF and Practical Applications (TOR 4.1 f)		
21. The Manuals, guidelines, business processes and procedures required by MID to meet SIG and Donor requirements should defined and	CPIU Consultants and MID	Complete by Feb 2014 NTF Board

documented.		
22. Examples of the contents, level of detail and style of FS reports required for the NTF Board and to satisfy Donor requirements should be established.	PMI Consultants and MID to produce. ABD/DFAT to review	Complete by Feb 2014 NTF Board
Human Resources available to support Board functions and NTF management (TOR 4.1 g.)		
23. MID should develop a more functionally based organizational structure for MID TIMS/CPIU	ADB TA 7715 and MID	Started during TSDP MTR.
24. MID TIMS should develop new business processes to match the roles and responsibilities of the functional units in the revised organisational structure	ADB TA 7715 and MID	Started during TSDP MTR.
25. MID TIMS Core Functions should be established and staffed – or contracted out if the positions cannot be filled in the short term.	MID, ADB TA 7715 and PMI Consultants	By Feb 2014
26. The CPIU Capacity (with PMI Consultant support) to deliver NTF, SIG and other donor funded works should be assessed and mechanisms required to meet any shortfall put in place	Director CPIU and PMI Consultant	Started during TSDP MTR.

Financial Management		
27. NTF Board should seek assistance to conduct a rapid appraisal and design of more transparent and timely processes for NTF resource management.	NTF Board, DFAT	As soon as practical
28. DFAT Honiara to formally advise CBSI of its responsibilities to provide notification of funds movements into and from the two NTF bank accounts.	DFAT Honiara	Immediate
29. NTF Board Agenda should include a standing item for the Board to consider whether, or not, to invest any surplus NTF funds	NTF Board	Starting with the Feb 2014 Board Meeting
30. NTF Board should conduct a frank and open dialogue with stakeholders to adjust all party's expectations concerning realistic levels of NTF cash contribution from SIG Budgets; and that future SIG Budgets and NTF Board plans reflect this adjusted reality. (See also Recommendation 1)	NTF Board Chair	Starting with Feb 2014 Board Meeting
31. ADB should clarify whether the PMI Consultants or ADB TA 7715: Supporting TSDP is responsible to enhance/ increase CPIU project management and implementation capacity; and how this strategically important role is to be resourced. (See also Recommendations 12, 23 & 24)	ADB Honiara	Following ADB TSDP MTR
32. The CPIU should design and agree a single, structured contracts register for all MID contracts awarded.	PS MID and CPIU Director	By Feb 2014 Board Meeting
33. The TOR for the CPIU/TSDP Financial Management Specialist should be revised. (See also Recommendation 12)	Director CPIU and PMI Consultants	Following ADB TSDP MTR
34. NTF Board should seek donor support for a rapid appraisal and design mission to determine a technically sound and sustainable approach to improved resources management and accounting information flows to support timely and complete updates of the CPIU project management system;	NTF Board Chair	Following ADB TSDP Mid-Term Review.

and to provide better financial management reporting to NTF Board.		
35 CPIU and NTF Board should seek MoFT agreement to certain amendments to MoFT procedures for NTF contract approvals, contract payments and accounting reports to facilitate NTF operations.	NTF Board Chair, CPIU Director and SIG Accountant General	As soon as practical
Procurement		
36. A National Counterpart should be nominated as Head of the Procurement Unit in the CPIU. (See also Recommendation 25)	MID	As soon as practical
37. Procurement Training should be provided for MID Staff	MID	As soon as practical
38. SIG should prepare User Guides for Procurement to supplement the SIG Procurement Manual	MID and MoFT	As soon as practical
39. Procurement Ceilings should be reviewed with a view to increasing the levels in line with inflation.	MoFT	As soon as practical
40. Shopping Procedures should be introduced for small value contracts, using the MoFT documents for small and very small contracts	MoFT	As soon as practical
41. Advertising/Procurement Notices NTF should consider issuing General Procurement Notices (GPN) and Specific Procurement Notices (SPN) advertising for bids.	NTF Board	Board Meeting in Feb 2014
42 Streamlining of Procurement Procedures to reduce steps, checks and NOL in the procurement process which do not add value, while still ensuring the integrity of these processes and value for money of procurements.	GoA and MoFT	As soon as practical
43. MoFT should be asked to remove the requirement for MoFT review of contracts prepared by MID using standard bidding documents (See also Recommendation 35)	MoFT	As soon as practical
44. The CTB should undertake a thorough review of the Bid Opening process.	CTB	Immediate
45. Contract Administration A functioning contract administration unit needs to be established within the CPIU or within MID and properly staffed and equipped as a matter of urgency. (See also Recommendation 32)	MID	Immediate

1. Introduction

1. The Solomon Islands National Transport Fund (NTF) was established in 2010. The Solomon Islands Government (SIG) and its development partners in the transport sector undertook a joint review of the governance, management and operations of the NTF from September 9th to 20th 2013 in Honiara. The Terms of Reference (TOR) for the Review are provided in **Annex 1**. This Review was supported by a team of three independent consultants⁴. The persons met during the Joint Review are listed in **Annex 2**. In addition a Stakeholder Workshop was held on Monday September 16th 2013. The Review Team wishes to thank all those who participated in the Review for affording the time to meet the Team and providing their views.

2. The purpose of this Review was to:

- (i) Assess the effectiveness and efficiency of existing governance, management and operational arrangements after an initial two years of operations (from the first contribution to the fund in January 2011); and
- (ii) Make recommendations to SIG on any identified weaknesses or areas for strengthening to ensure the provision of adequate support for future operations.

3. This review is focused on the NTF, as set out in the TOR. However the Review Team acknowledges that the NTF (with the NTF Board and Secretariat) is only one element in what is called the “Sector Wide Approach” (SWAp) to all aspects of transport infrastructure and services in Solomon Islands. The Review Team acknowledges that the other key elements in the Sector Wide Approach are the National Transport Plan (NTP) - including the three year Action Plan (3YAP), the Transport Sector Development Project (TSDP), and the activities of donors including the Asian Development Bank (ADB), Government of Australia (GoA) Department of Foreign Affairs and Trade (DFAT)⁵, European Union (EU), Japan International Cooperation Agency (JICA), New Zealand Ministry of Foreign Affairs and Trade (NZMFAT) and the World Bank (WB). The restructuring of the Ministry of Infrastructure Development (MID), the creation of the Central Project Implementation Unit (CPIU) in the MID Transport Infrastructure Management Services Department (TIMS) and can also be considered as part of this approach. The approach is also supported by the Project Management and Implementation (PMI) Consultant support provided to the CPIU, and the technical assistance (TA) activities of ADB TA 7715 supporting TSDP.

4. To ensure these aspects of the SWAp were considered, the documents studied by the Review Team included:

- a. NTF Act, Regulations, and Procedural Guidelines

⁴ Edward Dotson Transport Sector Specialist/Team Leader, Peter Heijkoop Financial Management Specialist and Michael Gilman, Procurement Specialist.

⁵ On 1 November 2013 the staff and functions of the Australian Agency for International Development (AusAID) were integrated with those of DFAT. For simplicity, ‘DFAT’ is used throughout this report to refer to the Government of Australia agency/department managing official development assistance, including when that agency was the former AusAID.

- b. NTF Board Agendas and Minutes: Project Steering Committee (PSC) Agendas and Minutes, including associated reports and other documents submitted to the Board and PSC
- c. National Transport Plan (NTP) and associated Draft 2011-2013 Transport Sector Action Plan (3YAP)
- d. Government of Australia/SIG Direct Funding Agreement (DFA) and associated DFAT documents
- e. Transport Sector Development Project (TSDP) documents, including the Asian Development Bank (ADB) Report and Recommendations to the President (RRP) and linked documents; ADB TA 7715 Supporting TSDP; and Memorandum of Understanding (MoU) of ADB Missions.
- f. SIG Development and Recurrent Budgets, NTF Audits, SIG Financial Instructions and related documents
- g. SIG and MID Procurement Manuals, ADB and World Bank Procurement Guidelines, bidding documents and Tender Evaluation Committee (TEC) reports for NTF and SIG funded contracts.⁶

5. The overall perception of NTF gained by the Review was that it is not performing as SIG and its development partners expected; nor as required by law and under agreements. More importantly, needed maintenance and rehabilitation works (especially of roads) were not being carried out to the extent required. A further perception was that the “NTF Procedures” were in part to blame. These are in practice procedures introduced by TSDP and include international good practice procedures required by development partners in relation to community consultation, environment, procurement⁷ and allocation of funds. In an understandable attempt to get needed works done, MID has reverted to using SIG procedures and previous MID practices (which do not include some of these requirements) and funding from SIG MID budget rather than from NTF.

6. The Review has taken the view that in responding to the TOR, it should find ways and make recommendations on practical means to bring the basic concept of NTF (as the single source of funding for transport activities) to fruition, or if that is not possible, to ensure that the Sector Wide Approach can be maintained and improved, with NTF as a major funding source. The Review was also concerned to find ways to get results in terms of more infrastructure maintained or rehabilitated, and thereby to provide the people of Solomon Islands with improved access to socio-economic opportunities, education and health facilities.

7. It was not the purpose of the review to examine in depth the other elements of the Sector Wide Approach described above. However in order to fulfil the TOR, the Review Team has found it necessary to consider and comment on aspects of the governance and management arrangements between these other elements of the SWAp and the NTF. In particular these comments relate to the arrangements between the NTF Board and Secretariat, MID CPIU and the TSDP. These aspects are discussed in Section 2 of this Report.

8. Based on its own assessment, and bearing in mind comments made by the persons met during the visit to Honiara and on the Draft Report, the Review found four areas of overarching concern:

⁶ The Review also studied drafts of the National Infrastructure Investment Plan (NIIP) and the Medium Term Development Plan 2014-2018 (MTDP).

⁷ The Review notes that Procurement will be in accordance with SIG established rules, procedures and legislation, but that SIG will seek a letter of “no objection” from GoA for all procurement using GoA funds with a value equivalent to or greater than AUD 250,000. (DFA paragraphs 51 & 54.)

- (i) **Board Governance** – The limited direction given by the NTF Board, the lack of a fully functional Secretariat, and the weakness of reporting systems are contributing to lower than required delivery of works, and increasing concerns about the effectiveness of the NTF.
- (ii) **MID CPIU and PMI Consultant Support to MID** – The support that is currently being delivered is not well aligned with the current requirements of the NTF Board and MID, and is not focused on the achievement of the targets for maintenance and rehabilitation works. Substantial adjustments are required to make the support more effective.
- (iii) **Financial Management and Reporting** - The current arrangements are not delivering the financial information and controls to meet the needs of the NTF Board, TSDP and SIG regulations, and pose serious risks for SIG and its development partners.
- (iv) **Procurement** - The Review has less concern in relation to Procurement than with the other topics. The current arrangements contribute towards the slow delivery of maintenance and rehabilitation. However the risks associated with procurement are less serious than those associated with Financial Management and so overall have a lower priority for action.

9. Sections 3-6 present the Findings and Recommendations of the Joint Review in each of these areas. Key Recommendations are presented in the text, with details including those responsible and the timing, presented in tables at the end of each section.

Sections 3 and 4 in particular respond to the topics listed in the TOR of the Review - Section 4 Scope, paragraph 4.1. To aid understanding, references are provided to the sub paragraphs of Section 4 paragraph 4.1, as appropriate.

The Review was also asked in paragraphs 4.2 – 4.4 of the TOR to consider three higher level factors: the NTF and SIG policy and legal framework; the GoA/SIG Direct Funding Agreement and the requirements of other development partners. Section 7 Concluding Remarks summarises the findings and recommendations of the Review on these factors.

2 National Transport Fund Governance and Relationships

2.1 Introduction

10. This Review concerns the operation of the National Transport Fund (NTF). The NTF is only one part of the Sector Wide Approach (SWAp) to all aspects of transport infrastructure and services in Solomon Islands, which involves a number of different stakeholders, and activities

11. During the Review, the Review Team became aware that there was an incomplete understanding amongst the stakeholders (SIG Agencies, Donors and Consultants) of the contribution the different stakeholders and activities (NTF) Board, NTF Secretariat, TSDP and MID CPIU) were making to the SWAp, and how the arrangements for the SWAp were influencing the operation of the NTF. This appears particularly acute in relation to the scope of the TSDP and the role of the Project Management and Implementation (PMI) Consultants funded through TSDP. Lack of knowledge of the stakeholders of the details of all these activities appears to be the main cause. This Section of the Report therefore sets out the overall framework within which the NTF operates. It outlines the different activities, and the functions and responsibilities of different stakeholders.

12. The key items in this framework that are described below are:

- a) The Sector Wide Approach (SWAp), which provides the overall concept and context.
- b) The National Transport Plan (NTP) 2010 - 2030 and the associated Three Year Action Plan 2011 – 2013 (3YAP), which elaborate transport sector policy and investment priorities.
- c) The National Transport Fund (NTF) which is the funding mechanism for the NTP
- d) The NTF Board, Board Sub Committees (in particular the Project Steering Committee which also guides implementation of TSDP) and the NTF Secretariat which provide the governance mechanism for the NTF.
- e) The Direct Funding Agreement between the Government of Australia and the Solomon Islands Government (Agreement No. 59114) which provides the funding for the NTF (DFA).
- f) The Transport Sector Development Project (TSDP) which is seen as the implementation vehicle for the transition from projects to a SWAp, and the associated ADB TA 7715 Supporting TSDP
- g) The Central Project Implementation Unit (CPIU) supported by the Project Management and Implementation (PMI) Consultants funded by ADB.
- h) The Ministry of Infrastructure Development (MID) Transport Infrastructure Management Department (TIMS), in which the CPIU is located.

13. Some initial findings are presented, particularly in relation to the SWAp, NTP and the 3YAP are presented in this Section. Further findings and recommendations of the Review in relation to NTF Governance and Administration are presented in Section 3, and in relation to the MID TIMS/CPIU and PMI Consultant support to the CPIU, in Section 4.

2.2 Sector Wide Approach

14. Australia has been working closely with SIG, NZMFT, ADB and EU to implement the sector wide approach to provision of transport infrastructure and services in Solomon Islands from 2011 onwards⁸. The SWAp will be based on long-term partnerships (between SIG and donors), sector coordination, and reliance on government systems to determine policies and priorities and implement transport projects⁹.

NTP is seen as the policy instrument of this approach, NTF is the funding mechanism, and TSDP as the implementation vehicle for the transition from project based approach to a SWAp.

2.3 National Transport Plan 2010 - 2030 (October 2010)

15. The National Transport Plan (NTP)¹⁰ provides the strategic framework and direction for achieving the Government's mission for the transport sector by:

- developing transport sector services,
- developing and maintaining transport sector physical infrastructure,
- improving the competency and capacity of Government agencies, and
- developing the transport private sector.

16. The Plan was prepared by the Transport Policy and Planning Division of the MID in coordination with the Ministry of Development Planning and Aid Coordination (MDPAC). The Plan was intended to be updated every five years and be supported by a series of three-year rolling works programs which will be updated annually.¹¹ These programs are known as the Three Year Action Plans (3YAP).

17. Transport sector investment priorities were developed using Multi Criteria Analysis (Chapter 2)¹². This analysis is outlined in Annexes A & B of the Plan, and described in more detail in the 2011-2013 Transport Sector Action Plan (3YAP). The system was not used to identify absolute priorities, but rather was used to categorise expenditure as one of:

- Essential expenditure
- Desirable expenditure
- Luxury projects

The GoA/SIG Direct Funding Agreement for the NTF refers to this categorisation of priorities.

The Review finds that the projects presented to the NTF Board for approval so far have all be in the category of essential expenditure.

18. The Plan provides (Chapters 3 -7) the policies for each subsector of transport, as well as discussing institutional reform (Chapter 8), private sector development (Chapter 9), and management (Chapter 11). There is limited discussion on social and environmental safeguards (Chapter 10), and no reference to gender.

19. Total estimated costs of the Plan to 2015 are provided (Chapter 12), with expenditure divided into Essential and Desirable Categories, with average annual budgets of US\$ 27M and 3.25M. **Funding** sources are

⁸ GoA/SIG Direct Funding Agreement for NTF (Agreement No. 59114) May 2011

⁹ ADB PAM

¹⁰ NTP Section 1.4 The Plan

¹¹ NTP Section 1.6 Responsibility for the Plan

¹² The references are to Chapters in the NTP

identified – with the majority of the new funding to 2015 being for TSDP and coming from ADB, DFAT and NZMFAT. A funding gap of US\$23 M to 2015 is identified. The Review notes that these estimates do not include any works in the Luxury Category.

In relation to revenue, the NTP notes¹³ that the levels of revenue that the Government currently raises directly from transport users are relatively small. These sources are fuel tax and levies, road vehicle registration fee and domestic shipping taxes. These revenues currently pass to the SIG Consolidated Fund. The NTP assumes that for the foreseeable future, there will be no increase in the funding available to the transport sector from transport revenues.

***The Review finds** that this assumption restricts any consideration of making the source of funding for NTF predominantly from users in the style of a “Second Generation Road Fund”.¹⁴*

20. A Performance monitoring and evaluation system is described (Chapter 13) with **Output and Outcome Performance Indicators and Targets**. (These are also adopted as part of the Program Performance Assessment Framework in the SIG/GoA Direct Funding Agreement). Under Section 13.3, it is stated “To provide a mechanism to report on the progress in implementing the Plan, an annual progress report will be produced by the NTF Board.”

***The Review finds** that there have been no annual progress reports on the NTP presented to the NTF Board.*

21. Based on the expected funding a **3 Year Rolling Action Plan for 2011 – 2013** was proposed (Chapter 14), which was to be reviewed annually. This Action Plan is presented as a separate volume of the NTP, and is therefore discussed separately below.

***The Review finds** that there have been no annual reviews or updates of the 3YAP¹⁵. This is due in part to slow implementation of the 3YAP reducing the need for reviews and updates.*

22. The NTP also provides in Chapter 14 an **Implementation Risk Analysis**¹⁶.

***The Review finds** that the description of risks remains valid, but that the likelihood and potential impact of the risks, and progress with mitigation measures merit review based on the experience since 2011.*

2.4 National Transport Plan 2010 – 2030 Draft 2011-2013 Transport Sector Action Plan (3YAP)

23. The 3YAP was presented in a separate volume to the NTP. It provides a prioritised list of activities in Appendix D, while Appendix F translates this into a year by year program of works.

***The Review finds** that the broader prioritisation implicit in the year by year program of works in Appendix F should be the basis for selecting projects for implementation.*

¹³ NTP Section 12

¹⁴ See **Annex 3** for further discussion on this topic

¹⁵ The Review notes the emerging shift to 5-year planning, in line with the work MDPAC is doing on 5-year planning for the Development Budget, which would impact future updates of the 3YAP.

¹⁶ As shown in **Annex 4**

The prioritisation was undertaken using Multi Criteria Analysis. The key criteria used were¹⁷:

- Achieve the Millennium Development Goals (MDG)¹⁸
- Ensure value for money for Solomon Islanders and Development Partners
- Promote National Integration and Unity
- Achieve or Maintain Statutory Requirements
- Protect the Environment
- Support Climate Change Adaption
- Minimise the risk associated with projects and maximise the feasibility of project implementation

Based upon the analysis of the likely performance of each type of expenditure against each of the criteria, a simple scoring system produced a total score to be used in prioritisation.

The Review finds that

- (i) *Few of the criteria used were based on transport sector policy (such as increasing overall rural accessibility or reducing transport costs) or indicators. (such as traffic flows of people, goods or vehicles, or journey times)*
- (ii) *The Multi Criteria Analysis, while robust, is overly detailed for the activities in the NTP, and not easily updated on an annual basis. The Review therefore considers that a simpler prioritisation process should be developed for the annual updates of the 3YAP.*

2.5 National Transport Fund

24. The NTF Act (May 2009)¹⁹ established the NTF as a special fund for the purposes of developing, maintaining and managing transport infrastructure and services in Solomon Islands. Funds to be paid in to the Fund are those provided by donors and development agencies, and other sources in accordance with section 21(1) of the Public Finance and Audit Act – in other words the SIG Budget. Further details of the NTF are presented and discussed, together with the findings and recommendations of the Review, in Section 3.2.

2.6 National Transport Fund Board

25. Clause 7 of the NTF Act provides for the Minister of Finance and Treasury to make regulations for the establishment of a Board or Fund Manager to manage the Fund, or for any other appropriate Fund management measures. The NTF (Fund Management) Regulations 2010²⁰ provide a clear statement on the membership, responsibilities and functions of the NTF Board and provide a sound framework within which the Board can operate. Further details of the NTF Board are presented and discussed together with the findings and recommendations of the Review, in Section 3.3.

¹⁷ 3YAP Section 2.2.2

¹⁸ Adopted by 189 countries (including GoA) in 2000, the eight MDG are 1. Eradicate extreme poverty and hunger; 2. Achieve universal primary education; 3. Promote gender equality and empower women; 4. Reduce child mortality; 5. Improve maternal health; 6. Combat HIV/AIDS, malaria and other diseases; 7. Ensure environmental sustainability; 8. Develop a global partnership for development.

¹⁹ NTF Act May 2009

²⁰ NTF Regulations 2010

2.7 Board Sub Committees

26. During 2012 the NTF Board resolved to establish two sub-committees:

A Project Steering Committee (PSC) would include representatives from the Ministries represented on the Board and the three TSDP development partners (ADB, Australia and New Zealand) and provide guidance on work priorities for CPIU and TSDP.

A Finance Working Group would include representatives of MID (including Financial Controller, CPIU staff and PMI consultants), Ministry of Finance and Treasury (MoFT) and DFAT with a mandate to improve and review financial processes and reporting for the NTF.

27. The PSC was established during 2012 to provide guidance on work priorities for the CPIU and TSDP. The PSC has met on three occasions in May, July and October 2013 – with the second and third meetings being two weeks before a Board Meeting. The July and October meetings of the PSC reviewed and discussed the Agenda items for the NTF Board Meeting. Further details of the PSC are presented and discussed together with the findings and recommendations of the Review, in Section 3.4.

28. **The Review finds that** the Finance Working Group has not been formally established, but MID, MoFT and DFAT had met several times to discuss NTF financial management. In Section 5, the Review recommends (Recommendation 34) that a separate initiative be launched to strengthen NTF financial management; and considers that PSC can directly monitor the impact of this initiative itself. Accordingly, the Review finds that there is no compelling need or clear value-add for PSC to establish the Finance Working Group; and proposes that the task of establishing of terms of reference for, and membership of, this Board Sub Committee be deferred until a clear need emerges.

2.8 National Transport Fund Secretariat

29. Part 3 Clause 9 of the NTF Regulations describes clearly the functions of the Secretariat and provides a sound framework within which the Secretariat can operate. Further details of the NTF Secretariat are presented and discussed together with the findings and recommendations of the Review, in Section 3.5.

2.9 Direct Funding Agreement between the Government of Australia and the Solomon Islands Government (May 2011)

30. This Agreement covers the provision of funding to the NTF. The Agreement states (paragraph 18), that GoA will contribute up to a maximum of AUD 30 Million over a 4 year period (paragraph 15) from 2011 to 2014. Indicative funding (in AUD) is shown in **Table 1** (presented below). The money held in the NTF may only be used for the purposes set out in clause 5 of the NTF Act (see above). The Agreement notes that ADB will provide (under a separate agreement) TA to support SIG to implement the program of civil works agreed by the NTF Board.

Table 1 Indicative Funding – GoA/SIG Direct Funding Agreement

Year/Funding AUD	2011	2012	2013	2014
GoA Direct Funding	9,000,000	7,000,000	7,000,000	7,000,000

SIG (Budget)	2,500,000	2,500,000	2,500,000	2,500,000
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31. Board Discussions The Agreement (paragraph 39) lists the items shown in **Box 1** as the key subjects to be included in Board discussions

Box 1

Key Subjects to be Discussed at the NTF Board

- a. Review of performance/budget execution and expenditure priorities on the basis of indicators described in the *Performance Assessment Framework*.
- b. Annual review of action plans, budget, procurement plan, revenue and expenditure priorities; implementation of the Agreement.
- c. Audit Reports
- d. Regular Financial/expenditure reports
- e. Review/update of the NTF risk management plan
- f. Monitoring. Evaluation and review plans or reports
- g. Requirements for additional TA for implementation
- h. Procurement Plan
- i. Progress on other NTF related initiatives and other related TA such as strengthening Public Financial Management (PFM), or developing a Medium Term Expenditure Framework (MTEF).

The Review finds that Board Minutes do not record any discussions on item (a) review of performance against the Performance Assessment Framework, item (e) Risk Management or (i) Progress on strengthening PFM and procurement systems or developing the MTEF.

This matter is discussed further in Section 3 NTF Governance and Management.

32. Program Risk Management Paragraph 44 states that SIG will develop a plan for endorsement by the Board, and once endorsed will form part of the Agreement, and then be reviewed annually (paragraph 45). The Review understands that the Risk Management Plan for TSDP²¹ has been adopted, for risk management of the Agreement.

The Review finds that the Risk Management Plan has not been updated. The Review also notes that this Plan shows as High Risks issues that the Review has also identified as such, which suggests that no mitigation measures have yet been implemented. This matter is discussed further in Section 3.9.

33. Performance Monitoring and Evaluation Framework Paragraph 46 states that the evaluation of work undertaken through the NTF is to be performed in line with the framework in the NTP.

34. Environment The Agreement states (paragraph 49) that ADB's safeguards policy will be applied for civil works funded through NTF.

35. Procurement The Agreement states (paragraph 51) that SIG will be responsible for all procurement in accordance with its rules, procedures and legislation. SIG has to provide to the NTF Board an Annual Procurement Plan (paragraph 52), for procurements greater than AUD 500,000. However SIG is to seek

²¹ ADB TSDP RRP Linked Document Risk Assessment and Risk Management Plan

(paragraph 54) a “No Objection” letter (NOL) for all procurements using GoA funds with a value equivalent to or greater than AUD 250,000 (SBD 1.7 Million equivalent).

The Review finds that the Procurement Plan threshold is inconsistent with the NOL threshold, if prepared in accordance with the Agreement; the Plan would provide no forewarning of the potential NOL workload on DFAT. In practice, the Procurement Plan includes all procurement irrespective of value, so this situation does not arise.

2.10 Transport Sector Development Project (TSDP)

36. As noted in the Introduction to this chapter, TSDP is seen as the implementation vehicle for the sector wide approach in transport. The design of TSDP is based on earlier TA provided to SIG by ADB to assist in the preparation of the Project. The documentation for TSDP has all been prepared by ADB²². This includes the RRP and linked documents. The scope of TSDP is set out in **Box 2**.

Box 2 SCHEDULE 1 – ADB Grant Agreement Description of the Project

1. The objective of the Project is to provide sustainable transport infrastructure in the provinces of the Recipient.
2. The Project shall comprise of:
 - (a) establishment and integration into MID of the CPIU encompassing MID staff and Consulting Services to assist with the efficient and effective implementation of the Sub-projects; and
 - (b) training of government staff, contractors and community members on maintenance and rehabilitation of transport infrastructure.
3. The Project is expected to be completed by 31 January 2016.

37. The Outputs of the Project are stated as

- (i) **Project Implementation and management** - Efficient and effective project implementation and management provided by a Central Project Implementation Unit (CPIU) and financed by ADB and SIG
- (ii) **Transport infrastructure rehabilitation and maintenance** as prioritized in the NTP – financed by DFAT, NZMFAT and SIG
- (iii) **Upgraded technical and managerial capacity** of MID staff – financed by ADB, DFAT and NZMFAT.

The Review finds that while the term TSDP is used to describe all three outputs listed above,

- (i) *ADB is only funding Project Management and Implementation (PMI) Consultant Services²³ to support the CPIU and Capacity Building and Training for MID staff, as is clearly stated in the ADB Grant Agreement. This funding is provided to SIG not the NTF*
- (ii) *The civil works of rehabilitation and maintenance to be funded are not explicitly defined in the TSDP documents, but are to be selected by NTF Board from the priorities in the 3YAP and the NTP.*

²² As agreed by the three donors – GoA, NZ and ADB.

²³ The TOR for the consultants is provided in the ADB PAM.

38. The TSDP is stated as being the implementation vehicle for a sector wide approach, with “reliance on government systems to determine policies and priorities and implement transport projects”.

The Review finds that TSDP is not relying solely on SIG systems.

- (i) ADB Safeguards and Gender requirements are being applied (with DFAT support).
- (ii) While SIG systems are used for procurement of civil works, DFAT requires reviews of documents and issuing of NOL.
- (iii) Procurement of Consulting Services is undertaken according to ADB not SIG procedures.

This situation should be reflected in the descriptions of TSDP and SWAp.

The Review finds that

- (i) The TSDP Design and Monitoring Framework (DMF) shown in Appendix 1 of the RRP (and subsequently updated) could be better integrated with NTP Performance Indicators and Targets shown in Section 13 of the NTP.
- (ii) The TSDP Risk Assessment and Management Plan could be better integrated with the NTP Summary of Risk Analysis shown in Section 14 of the NTP.

2.11 ADB TA 7715 Supporting TSDP

39. In addition to the Capacity Building provided as part of the PMI Consultant support to the CPIU, ADB is also providing TA for the Capacity Development of MID, funded by a Grant from the Japan Fund for Poverty Reduction. Building on earlier ADB TA, this TA comprises the development of a proposed MID Organisational Structure with associated Job Descriptions, and an accompanying Capacity Development Plan (CDP).

40. The ADB TA 7715 has identified training needs for MID particularly TIMS/CPIU and Corporate Services which are focused on:²⁴

- a. Recently issued SIG General Orders and Financial Instructions including the updated SIG Procurement Manual
- b. Management skills particularly on project and contracts
- c. Annual budget preparation
- d. Review and enforcement of policies
- e. Technical skills and their effective application in daily work activities

41. The proposed MID capacity development focuses on:

- (i) Developing strategic thinking
- (ii) Ensuring compliance on public service and financial instruction requirements
- (iii) Developing management and supervision skills
- (iv) Improving financial management and reporting skills
- (v) Developing executive skills such as conflict management, time management, presentation and reporting
- (vi) Introduction of and/or training on application of required work technologies particularly on asset management, road design and hydrology software
- (vii) Development of technical skills related to feasibility studies

²⁴ ADB TA SOL 7715: Supporting Transport Sector Development Project, MID Training Needs Analysis and Capacity Development Plan (2013 – 2015), Executive Summary, September 2013

- (viii) Improvement of safeguard and climate adaptation application
- (ix) Communication planning/implementation.

42. The MID CDP is scheduled to be implemented by the end of February 2014. It is proposed that the MID CDP be the master training plan and that the training to be provided by the PMI Consultant be based on it. It is proposed that about 2/3rds of the funding required be from the NTF, with the remainder from ADB TA 7715 and SIG²⁵.

²⁵ ADB TA SOL 7715: Supporting Transport Sector Development Project, MID Training Needs Analysis and Capacity Development Plan (2013 – 2015), Sections V J & K, September 2013

The Review finds

- (i) *That these activities are not reported in the TSDP Quarterly Progress Reports.*
- (ii) *The assessment of the Review confirms the training needs identified above, and supports the capacity development proposed.*

Further details of the activities of the ADB TA 7715 are discussed together with the findings and recommendations of the Review, in Sections 2.14 and 4.8.

2.12 Central Project Implementation Unit (CPIU)

43. The CPIU for TSDP is intended as the name implies to serve as the single central PIU to consolidate the separate PIU that have existed on previous donor financed Projects in the transport sector in Solomon Islands. The CPIU is intended to implement and manage all transport sector activities, whether funded by the Project (that is through NTF) or other resources. The CPIU sits within the MID TMS²⁶ and is staffed by existing MID personnel supported by the PMI consultants financed by ADB to provide the required expertise to implement the NTP. SIG is meant to increase the number of MID (counterpart) staff in the CPIU in order to ensure “timely and effective implementation”, as set out in the ADB Grant Agreement - see Box 3 below.

BOX 3

Counterpart Support – ADB Grant Agreement

15. The Recipient shall

- (a) make available all counterpart funds required for timely and effective implementation of the Project, including any funds required to meet additional costs arising from unforeseen circumstances;
- (b) appoint additional eleven (11) counterpart staff for the Project (of which four (4) shall be appointed by end of 2011, additional two (2) by end of 2012, additional four (4) by end of 2013 and the 11th staff by end of 2014); and
- (c) provide office space for the CPIU and ensure that these resources are available throughout the Project duration.

44. The CPIU is intended to implement and manage all transport sector activities, whether funded by the Project (that is through NTF) or other resources. In practice the Review understands that the CPIU is implementing projects with three sources of funding;

- (i) NTF
- (ii) SIG Budget (recurrent and development budget)
- (iii) Donors not paying funds into NTF (such as NZMFAT for the Munda airport project)

45. The Outputs that the CPIU is to produce are stated in Section VI (iii) of the ADB Project Administration Manual (PAM), as:

- (i) subproject assessments, including technical, economics, environmental, and social impact assessments, for all prioritized subprojects;
- (ii) detailed engineering designs, technical specifications and environmental management and monitoring plans for all civil works under infrastructure investment component;
- (iii) evaluation reports for all proposed civil works contracts;
- (iv) executed civil works contracts;

²⁶ See The Project Organisation Chart in ADB PAM Section III C.

- (v) project reports;
- (vi) detailed project performance monitoring system including detailed indicators; and
- (vii) public communications plan.

The Review finds that the PAM is clear that these outputs are the responsibility of the CPIU, not the PMI Consultant providing support to the CPIU.

Further details of the CPIU are presented and discussed together with the findings and recommendations of the Review, in Section 4.3.

2.13 CPIU PMI Consultants

46. The TOR for the PMI Consultants supporting the CPIU is contained in Section VI D of the ADB PAM (and included in **Annex 5**). The TOR provides for a total of 321 person months of International Consultants and 1092 person months of National Consultants. The TOR shows that the Consultants have two key tasks:

- (i) Project Implementation and Management – *“the design and day to day implementation, financial management, and monitoring and evaluation of the Project”²⁷.*
- (ii) Capacity Building and Training – *“to strengthen the technical and managerial capacity of MID, national consultants and national contractors to effectively manage the Project”.*

47. TOR for individual consultant positions for these two key tasks are provided, for International and National Consultants, with indicative person months of inputs. The overall TOR also includes community awareness raising and various surveys (including topographical and bathymetric surveys, infrastructure condition surveys, and monitoring and evaluation).

48. No specific outputs are listed for the Consultants. It appears to be implicit that the Consultants would support the CPIU in the delivery of the outputs listed in the section above describing the CPIU.

49. The Consultants are required to support the MID with reporting requirements, but these relate to reports required by ADB on the progress of the Project. The only reference to reporting to NTF is in item (g) of the Transport Policy and Coordination Advisor position. The same advisor is also tasked (item f) to *“Review the current budgetary needs and processes and identify affordable future funding projection through the NTF”.*

50. The only other references of relevance to the NTF are in the TOR for the Asset Management and Transport Planning Advisor at items (j) Assist MID staff in regular updates of the NTP and related Action Plan and (k) Assist MID in the development of annual departmental budgeting with a specific focus on maintenance funding.

The Review finds that the TOR do not provide to the Consultant Firm:

- (i) *An overall Scope of Work listing key tasks to be undertaken*
- (ii) *Specific technical outputs for the project implementation component – in addition to the outputs for the CPIU or the individual consultants listed in the TOR.*

²⁷ Text in quotation marks and italics is taken from the ADB PAM Section VI D Consultants Terms of Reference

- (iii) *Specific outputs for the capacity development component, with indicative timelines*
- (iv) *Any requirement to assist in achieving the targets listed in the monitoring indicators.*

51. This has led to a basic approach of providing consultants to fill the positions defined, and an understanding that the consultants would support/train MID staff. The problem noted by both MID and the Consultant Firm has been the lack of MID staff to support. This creates a tension (not unusual in such projects) of whether the consultants are to assist and capacity build the Client (MID) in project implementation or should actually do the implementation work. In other words, should consultant staff undertake all the activities necessary to prepare certain sub-projects, in parallel with supporting MID staff to prepare other subprojects²⁸?

52. The focus in the TOR on TOR for Positions rather than TOR for the firm reduces the ability of the firm to change/combine the scope of work of positions or to change the person months of inputs in relation to changes in circumstances that inevitably occur during the course of the assignment. The TOR also remove the responsibility from the Consultant Firm to ensure that CPIU Outputs are achieved. In other works, the risk that the CPIU will not operate as required is not with the Consultant Firm, but with MID (as the Client) and with ADB (as authors of the TOR).

53. These findings contributed to the assessment that the performance of the CPIU and PMI Consultants was the second key issues to be addressed by the Review, as discussed in Section 4. The PMI Consultants are discussed, with the findings and recommendations of the Review, in Section 4.4.

2.14 MID Transport Infrastructure Management Services (TIMS)

54. As noted above, the CPIU sits within the MID TIMS, which is the department within MID responsible for the maintenance and rehabilitation of roads, wharves and jetties and the construction of new facilities. MID is in the process of reform to a service orientated organization. A proposed new organizational structure of MID has been developed by ADB TA 7715, together with Job Descriptions and an MID Capacity Development Plan²⁹.

55. The proposed organisational structure of MIDS has three units:

- (i) **Operations/Maintenance (O & M) Unit** – divided into four sections, covering Honiara, Western, Central and Eastern Regions.
- (ii) **Policy and Planning Unit (PPU)** – this includes Asset Management, planning, policy, safeguards, and procurement of goods and services.
- (iii) **Quality Assurance Unit (QAU)**

The current establishment (number of staff authorised by the Public Service Commission) of TIMS is 25 staff and the proposal establishment being sought by MID is 51 staff.

The Review finds in relation to NTF Board activities, based on the proposed structure, that TIMS should be the department responsible for preparing:

²⁸ Sub Project is a term used by ADB to describe individual schemes of civil works within the TSDP

²⁹ ADB TA SOL 7715: Supporting Transport Sector Development Project MID Training Needs Assessment and Capacity Development Plan (2013-2015) September 2013

- (i) Proposals for the NTF Board, and reporting on the physical and financial progress of implementation (through the NTF Secretariat).*
- (ii) The initial estimates of funding required to be included in the budget requests submitted to MoFT for SIG Budget allocations to NTF from the recurrent budget (for maintenance) and from the development budget (for rehabilitation and new works).*

3. Findings and Recommendations – NTF Governance and Management

3.1 Introduction

56. This Section of the Report presents the more detailed findings and the recommendations of the Review concerning NTF Governance. These findings build on the comments made in Section 2 in relation to the NTF, NTF Board and Secretariat and the Project Steering Committee. It responds in particular to the items listed in Section 4 Scope of the TOR of the Review. To aid understanding, references are provided to the subsections of Section 4, as appropriate.

3.2 National Transport Fund

Functions

57. The NTF Act (May 2009)³⁰ established the NTF as a special fund for the purposes of developing, maintaining and managing transport infrastructure and services in the Solomon Islands. Funds to be paid in to the Fund are those provided by donors and development agencies, and other sources in accordance with section 21(1) of the Public Finance and Audit Act – in other words from the SIG Budget.

58. Donors and development agencies may specify specific purposes for the use of their funds. The NTF Act makes no specific reference to aviation, except that “This Act does not affect the operation of the Aviation Special Fund established under the Civil Aviation Act 2008”.

59. The NTF Act also does not preclude SIG from funding directly from the SIG Budget activities that can be funded from the NTF. (In fact the MTDP 2013 proposes direct SIG funding of the Rural Transport Infrastructure Project). The experience to date is that MID have chosen to fund certain activities direct from the SIG Budget. This is not likely to encourage donors to contribute to the NTF. The CPIU prepares the projects irrespective of the source of funding.

The Review finds that the Act does not make any provision for funding from the SIG Budget to come from particular sources of revenue. In other words there appears to be no application of the concept that the funds for the maintenance and rehabilitation of existing assets or the construction of new assets should be linked to the amounts paid by users of these assets in fees, charges and taxes.

Performance

60. The original concept was that to implement a Sector Wide Approach all donor contributions to the Transport Sector would be channelled through the NTF. To date the only donor making payments into the fund has been the Government of Australia (GoA), through an agreement dated May 2011³¹. In this agreement, GoA agreed to provide AUD 30 million for the period 2011-2014. SIG agreed to provide a

³⁰ NTF Act May 2009

³¹ GoA/SIG Direct Funding Agreement for NTF (Agreement No. 59114) May 2011

minimum amount of AUD 10 million over the same period from the Budget. In practical terms, contributions of other development partners are reliant on partners including transport as one of the sectors included these partners own development agreements with SIG, as much as by donors agreeing to use NTF and NTF procedures for transport projects.

Findings

61. The Review finds that the NTF has not realised its' original objective to become the sole source of funding by SIG and its Donor Partners (a Pool Fund) for the Sector Wide Approach to transport in Solomon Islands. DFAT is currently the only donor contributing to the NTF.

No other Development Partners of SIG have made any firm commitments to put funds into the NTF. The current situation regarding possible support for NTF is as follows:

- (i) Asian Development Bank are developing a Concept for a project³² with a tentative financing plan of US\$414 million. It is proposed that the proceeds would be disbursed through NTF.³³
- (ii) EU are interested in principle, but whether this eventuates will be determined by ongoing discussions on activities to be included in the EU/SIG Agreement.
- (iii) NZMFAT might consider putting money into the NTF in future – however, when, and under what sort of conditions, is not clear at this point.
- (iv) JICA implements projects directly with counterparts (in this case MID) and is prepared to consider funding projects that are within the NTF and the 3YAP; JICA is in discussion with the MID/CPIU on potential projects
- (v) World Bank – Program includes continuation of the Rapid Employment Project (REP). Activities in Aviation and Maritime Safety are in early stages of discussion with SIG. However WB Country Office considers that it would be difficult for WB to put money into a mechanism such as NTF as WB would most likely impose all their fiduciary and safeguard requirements upon all partners which would most likely take time to negotiate (or harmonise with the requirements of other partners).

The Review finds while this situation may provide future funding for the transport sector, it calls into question the original objective of the NTF.

Recommendation

62. The Review recommends that SIG and its development partners need to have frank and open discussions about the future of the NTF, and in particular whether the NTF can be the only source of funding for the SWAp (**Recommendation 1**). Further details of this recommendation are provided in **Table 2** at the end of this Section.

³² Sustainable Transport Infrastructure Investment Project (STIIP), formerly known as Transport Sector Development Program, Stage 2.

³³ ADB Consultation Aide Memoire signed 20, November 2013.

3.3 NTF Board (TOR 4.1 a)

Responsibilities and Functions

63. Clause 7 of the NTF Act provides for the Minister of Finance and Treasury to make regulations for the establishment of a Board or Fund Manager to manage the Fund, or for any other appropriate Fund management measures. The NTF (Fund Management) Regulations 2010 provide a clear statement on the membership, responsibilities and functions of the NTF Board and provide a sound framework within which the Board can operate. Some provisions of particular relevance to the Review are discussed below.

64. The Board membership consists of the Permanent Secretaries (PS) of the five SIG Ministries with direct responsibilities for transport infrastructure and services from national economic planning to infrastructure implementation and service delivery, plus one representative of the donor community. There are no representatives from the private sector or transport users.

65. The Review was asked to consider the international experience with similar financing mechanisms, in particular the responsibilities, functions and performance of what are known as “Second Generation Road Funds”. The results of this desk review are presented in **Annex 3**. Based on this exercise, **the Review finds that:**

(i) *The NTF Board does not meet a basic objective of such funds as it cannot be considered as independent of Government.*

(ii) *Given this lack of independence, that NTF is not the sole source of funding for transport, and the lack of user funding to NTF discussed above, there is limited potential to transform the NTF into a form of Second Generation Road Fund and limited value in adding a Board member from the private sector at the present time³⁴.*

66. The NTP states that “The NTF Board will advise on key issues, development options and prioritisation of activities relating to the transport sector and the (National Transport) Plan³⁵.” The Board functions include ensuring that projects are in accord with the NTP and listed in the 3YAP – or if not listed in the 3YAP – can be considered to meet the overall objectives of the NTP. Thus the Board has both a policy implementation role to see that the NTP is respected, and a strategic planning role to see that projects follow the NTP and the 3YAP. But it also has the ability to approve projects not in the 3YAP. These functions are currently only applied to projects proposed for NTF funding.

The review finds that

(i) *The same skills and responsibilities that are being exercised for NTF funded projects could be exercised with respect to projects, (and in particular donor funded projects), that are not being funded from the NTF.*

(ii) *The Board review of Projects, to ensure that a project respects the NTP and 3YAP, is not simply a quality control exercise. The Board could place greater emphases on one or several NTP policies and could change the relative priorities, timing and resource allocations*

³⁴ For further discussion of this topic, see **Annex 3**

³⁵ NTP Paragraph 1.6, page 3.

to projects in the 3YAP. The Board should also advise on how use of the NTF should respond to changes in SIG Policies and Programs, such as the Medium Term Development Program (MTDP) and the National Infrastructure Investment Plan.

67. The NTF Procedural Guidelines³⁶ March 2011 were developed as stated in paragraph 1.1.2 “to complement the Act and Regulations and provide more details on the processes to be followed by the Board and its Secretariat.” **The Review finds** that these procedures are limited to Financial Management, General Purchase and Tendering, Code of Conduct, Fraud, and Anti Corruption.

The Review finds that no training or capacity building appears to have been given to the Board.

Performance

68. Within this clearly defined framework, the Review considers the Board is not using the powers provided.

69. **The Review finds** that the Board could operate more as intended if it were to:

- i) *Provide advice on key issues, development options and prioritisation of activities relating to the transport sector and the National Transport Plan NTP (as assigned to the Board in the NTP).*
- ii) *Call for annual reviews or updates of the 3YAP (as also assigned to the Board in the NTP).*
- iii) *Be more proactive in Resource Allocation and Financial Management – Further details in relation to this finding are provided in Section 5.*
- iv) *Overall, be more pro-active in giving advice/direction to the Secretariat, and therefore to the MID CPIU and the Ministry of Communications and Aviation (MCA), rather than simply endorsing recommendations put to it (which appears to be the current practice). The direction to the Secretariat should cover Strategic issues such as policy, budget, programs, stakeholder communications and resource allocation.*
- v) *Focus Board discussions on the Strategic issues noted above, rather than detailed operational matters (which appears to be the current practice).*
- vi) *Use the ability provided in the NTF Regulations Clause 7 to make decisions between meetings.*

Recommendations

70. **The review recommends** that the NTF Board Roles and Responsibilities should be reviewed and clarified (**Recommendation 2**) and that the NTF Board Procedures and the strategic focus of NTF Board Meetings should be strengthened (**Recommendation 3**). Further details of these recommendations are provided in **Table 2** at the end of this Section, and in **Annex 6**.

³⁶ National Transport Fund Procedural Guidelines March 2011

3.4 The structure and functions of Board sub-committees – Project Steering Committee and Finance Working Group (TOR 4.1b)

Functions and Responsibilities

71. The Project Steering Committee (PSC) was established during 2012 to provide guidance on work priorities for the CPIU and TSDP. The PSC has met on three occasions in May, July and October 2013 – with the second and third meetings being two weeks before a Board Meeting. The July and October meetings of the PSC reviewed and discussed the Agenda items for the NTF Board Meeting.

72. During the Mid Term Review (MTR) Mission for TSDP, ADB stated³⁷ that “the NTF Board is no longer the Project Steering Committee (PSC) for TSDP, as it can only consider approving NTF funded activities within the project”, and referred to the creation of the PSC described above.

The Review finds that the way in which the PSC is to provide guidance on TSDP merits discussion and clarification, for these reasons

(i) *Given that only one donor currently contributes to NTF, the Review suggests that the PSC could assist in the coordination of the activities of other donors within the SWAp. This is particularly relevant given the current JICA initiatives in the sector.*

(ii) *The PSC could also be considered as a “technical” group of persons under PS level (or equivalent) which advises the NTF Board but does not have the decision making role of the NTF Board. In this context the Review suggests the only NTF Board members should be allowed to take part in discussions at the Board. (The minutes of the July 2013 meeting record interventions by “Observers”). The PSC could then become the forum for discussion by donors and SIG agencies who are not NTF Board members.*

(iii) *The ADB statement that the PSC is now (formally) the PSC for TSDP in the implementation arrangements for that project.*

Recommendation

73. **The Review recommends** that the role, responsibilities and procedures of the Project Steering Committee should be reviewed and clarified (**Recommendation 4**). Further details of this recommendation are provided in **Table 2** at the end of this Section, and in **Annex 6**.

3.5 NTF Secretariat (TOR 4.1c)

Functions

74. Part 3 Clause 9 of the NTF Regulations describes clearly the functions of the Secretariat and provides a sound framework within which the Secretariat can operate.

³⁷ MoU MTR Paragraph 25, Honiara Solomon Islands, 5-15 November, 2013

These functions can be summarised as:

1. *Administrative* – Call meetings, assemble and circulate papers, take minutes, circulate decisions/resolutions, report back on action taken on resolutions and ensure Board resolutions are implemented.
2. *Receiving and checking proposals for funds* – receive proposals, etc
3. *Ensuring a Preliminary Report is prepared* on each proposal for funding
4. *Progress Reporting* – Financial accounts and reports, progress reports, implementation reports
5. *Certifying Projects* – Certifying that projects comply with the NTP, sufficient funds, meet donor requirements, Financial Management (FM) arrangements, reporting formats and schedules, and payment schedules

Performance

75. *The Review finds that*

- (i) *Within the framework described above, how the functions should work in practice, the processes for submitting papers to the Board, and the timelines for doing so have not been documented.*
- (ii) *An Under Secretary in the MID has been appointed to head the Secretariat. However no other resources have been provided to the Secretariat. The ability of the Secretariat to perform the responsibilities set out in clause 9 (3) of the Regulations has therefore been extremely limited.*
- (iii) *Support to the Secretariat is not included in the overall scope of work or outputs in the Terms of Reference (TOR)³⁸ of the PMI Consultants. (However the TOR for the Transport Policy and Coordination Advisor position in the Capacity Development and Training component of the TSDP Consultant includes a task (g) to support MID staff in undertaking responsibilities in management, reporting and monitoring of the NTF). There appear to be no proposals for Capacity Building/Institutional Strengthening of the Secretariat in ADB TA 7715.*
- (iii) *No provision has been made for any support to the Secretariat on Financial Management. The type of support required is at the MID level since advice should cover both NTF and SIG funding and expenditure, and so should be provided through MID DoF, not through the TSDP Consultants. Implementation of the recently announced by DFAT requirements make be of assistance in providing this support.³⁹*
- (iv) *In addition to administrative responsibilities for Board Meetings, the Secretariat has a role in ensuring papers presented to the Board are consistent with the NTF Act and the NTP, and meet technical criteria related to the NTP and 3YAP. In the short term at least, the Board therefore requires technical/professional support to review documents submitted by MID and MCA, as well as to provide advice to MID and MCA on the meeting Board resolutions.*
- (v) *Reports on project proposals have been included in Board papers (at least for the July 2013 Meeting), although they do not cover all the topics suggested by the NTF Regulations.*
- (vi) *Project progress reporting is covered to a certain extent in the Board Papers for the July 2013 Meeting, but standard physical and financial reports are not being produced. (This matter is discussed in more detail below in Section 5).*

³⁸ As set out in Section VI-D of the ADB TSDP Project Administration Manual October 2010 (See Annex 5)

³⁹ New FAT oversight requirements for all Australian funds expended through Partner Government Systems mean that in future DFAT will directly perform compliance checks on all payments made and included in monthly reports of NTF balances and acquittals due on the 12th of each month, if possible.

Overall, the Review finds that the performance of the Secretariat against the responsibilities set out in clause 9 (3) of the Regulations has been extremely limited, and that there is currently not a functional Secretariat as intended by the Regulations.

76. The Regulations refer to the NTF Board making Cabinet Submissions for approval of proposed project expenditures. **The Review finds** that the Board has determined that Cabinet approval of the 3YAP is sufficient so individual projects have not been submitted to Cabinet for approval.

Recommendation

77. The Review recommends that the NTF Secretariat should formally be established, with staff designated, budget provided and donor support provided for capacity building and transport policy and strategic transport planning (**Recommendation 5**). Further details of this recommendation are provided in **Table 2** at the end of this Section.

3.6 Planning and Prioritisation Processes undertaken by the Board, the Secretariat, and MID (TOR 4.1d.)

Responsibilities and Functions

78. The Review considers there is a need to separate discussion of the processes undertaken by the Board and Secretariat (which should be at a Strategic Level) from those undertaken by MID-TMIS/CPIU (which should be more at a tactical and operational level). Accordingly, this section discusses Planning and Prioritisation Processes undertaken by the NTF Board and Secretariat. Similar processes undertaken by the MID-TIMS/CPIU are discussed in Section 4.

79. As noted above, the NTP states that The NTF Board will advise on key issues, development options and prioritisation of activities relating to the transport sector and the (National Transport) Plan. The Board functions include ensuring that projects are in accord with the NTP and listed in the 3YAP – or if not listed in the 3YAP – can be considered to meet the overall objectives of the NTP. Thus the Board has both a policy implementation role to see that the NTP is respected, and a strategic planning and decision making role to see that projects follow the NTP and the 3YAP. But it also has the ability to approve projects not in the 3YAP.

Performance

80. The Board does not appear to have had any substantive discussions on the prioritization processes for proposed expenditures for works, projects, or transport services, or for the annual updating of the 3YAP. Nor do they appear to have issued any instructions to MID on prioritization of proposals (which would detail or amend the prioritization and processes used in the NTP).

81. MID CPIU has been preparing draft programs of investments for Board approval based on the 3YAP, asset management data and available funding. Finalisation and ratification of such programs by the Board requires the Board to make decisions on priorities between (amongst other things), maintenance and rehabilitation, allocations to modes and allocations by location. However to date the Board appears to be simply ratifying the proposals put to it, without any substantive discussion.

82. The Review considers that this situation should be rectified in part with the strengthening of the Secretariat, so that it ensures the Papers presented to the Board assist the Board in making “strategic level” decisions. The Secretariat can both define the scope and contents lists for Board papers, and act as a mechanism to ensure the appropriate focus of the papers. The Project Steering Committee could also assist by shaping key information to be presented to the Board (in brief Executive Summaries of Reports) and framing the draft resolutions for Board decision (to be further developed by the Secretariat).

83. The Review considers that the updating of the 3YAP can be addressed if the Board and Secretariat (once strengthened) make the process for annual updating of the 3YAP, (as indicated in the NTP), a key task.

***The Review finds** that as the current 3YAP was prepared in October 2010, and covers the period 2010 – 2013, a major update to produce a 2014 -2016 3YAP⁴⁰ is particularly urgent and could involve significantly more work than subsequent annual updates (of the 2014-2016 3YAP)*

84. The Review was advised that there is considerable interest from Ministers, MPs and other community leaders in the prioritizations of schemes for Annual Works Plans.

***The Review finds** that currently there appears to be no formal process for stakeholders to provide their views and for these to be taken into account in planning and prioritization of schemes. This situation could also be addressed if the process of annual updating of the 3YAP were to include a process of community involvement in the prioritization (selection) of schemes for year on year Annual work Plans.*

Recommendations

85. **The Review recommends that** the NTF Board should increase consultation with SIG colleagues and provide greater direction to MID in the preparation of Annual Work Plans (AWP) and annual updates of the 3YAP (**Recommendation 6**). The Review also recommends preparation of the 2014 – 2016 Transport Sector Action Plan for the 2011 – 2030 National Transport Plan (**Recommendation 7**). Further details of these recommendations are provided in **Table 2** at the end of this Section.

3.7 NTF Expenditure (TOR 4.1 e)

Responsibilities and Functions

86. Article 5 of the NTF Act specifies the purposes for which the money from the NTF may be used, within the overarching purpose of developing, maintaining and managing transport infrastructure and services in Solomon Islands.

Performance

87. As noted above, DFAT is currently the only Donor providing funding to the NTF. ADB is considering funding for NTF through a proposed new program, but it is currently envisaged this funding would be linked to Policy Reforms.

⁴⁰ In line with emerging SIG practice, the time period for this plan may need to be extended to 5 years.

The Review finds therefore that the NTF is not performing as intended. This raises the question of whether support for the SWAp in the transport Sector can be achieved through other means. Other Development Partners appear willing to support the SWAp and the implementation of the NTP, but through parallel financing.

The Review finds that the procedures for selection (from the NTP and 3YAP, verification (by the NTF Secretariat) and approval (by NTF Board) of projects for NTF funding could also be applied to projects which will be implemented through parallel financing. Preparation and implementation of such projects should be managed through the CPIU. The Development Partner funding the works could also provide TA support to the CPIU for project preparation and construction supervision.

88. The expenditures to date of NTF have been on:

- (i) Maintenance and rehabilitation of roads and bridges, with upgrading of river/stream crossings (including construction of new bridges) included as part of the rehabilitation works
- (ii) Maintenance and upgrading of wharves and jetties.
- (iii) Training of MID staff, national consultants and contractors

The allocation by subsectors has been largely to roads with a small amount to wharves and jetties. The allocation has been determined by MID CPIU and endorsed by the Board.

90. There has been no expenditure on:

- (i) "New roads", meaning roads on new alignments, as maintenance and rehabilitation has been a higher priority.
- (ii) Shipping services⁴¹ or other activities described in Clause 19 h, i & k of the GoA /SIG Direct Funding Agreement. **(See Box 4)**

BOX 4

Direct Funding Agreement – Paragraph 19

h. matters which are necessary to achieve compliance with the Shipping Act 1998, and with international obligations under maritime conventions and agreements.

i. transport related safety projects and

k. research, education and training related to maintenance, operation or development of transport infrastructure; and retaining professional services for the proper financial management of the Fund.

- (iii) Aviation activities which are the responsibility of the Ministry of Communications and Civil Aviation⁴².

⁴¹ Shipping services are currently funded through a Franchise Shipping Scheme that subsidises certain non-economical shipping routes. The FSS is currently funded as part of the ADB-led Domestic Maritime Support Project with funds from SIG, ADB and EU (DFAT and NZMFAT have also funded this project but only for its other component which is building wharves). It is anticipated by DFAT that when this project finishes the shipping scheme may transfer to the NTF (or it could be funded by SIG outside the NTF).

⁴² However NZMFAT is providing parallel financing for civil works at Munda and Nusa Tupe Airports, for which MID is the Implementing Agency.

91. The expenditure on road and wharf maintenance is recurrent expenditure. Road rehabilitation and construction of new bridges is capital expenditure. For long-term sustainable maintenance of transport infrastructure, the objective should be that these recurrent expenditures are funded out of the SIG recurrent budget.

The Review finds that SIG recurrent budget allocations are currently inadequate for all maintenance so it is appropriate that SIG and donor funds support maintenance under the NTF at least in the medium term. In addition it should be noted that the recurrent budget includes an allocation for the NTF of almost SBD12m (which has been largely contributed to the NTF in 2013) which could be deemed to cover some of the maintenance undertaken through the NTF.

This aspect is discussed in more detail in Section 5 Finance.

Recommendations

92. **The Review recommends** that Infrastructure Maintenance (including emergency works) has always to be the top priority for NTF expenditure, followed by rehabilitation and then new works (**Recommendation 8**). **The Review also recommends** that SIG and its Development Partners should consider whether Expenditure on projects not funded by NTF should be considered as contributing to NTP and 3YAP (**Recommendation 9**). Further details of these recommendations are provided in **Table 2** at the end of this Section.

3.9 Processes for Management of the NTF; and their practical application (TOR 4.1 f)

Responsibilities and Functions

93. Part 4 Management of the Fund of the NTF Regulations describes a number of processes that are required, including:

- (i) Submissions to be prepared by MID or MCA
- (ii) Submission to be certified by the Head of Secretariat as consistent with NTP
- (iii) Sufficient funds in the NTF to cover the entire period of implementation of the project
- (iv) Adequate FM arrangements
- (v) Formats and schedules to enable effective monitoring of projects

94. The NTF Procedural Guidelines⁴³ referred to above are limited to Financial Management, General Purchase and Tendering, Code of Conduct, Fraud, and Anti Corruption.

Findings

95. **The Review finds** that there are weaknesses and limitations in the overall list of processes for management of NTF. The result is that it is not possible for the NTF Board and Secretariat (or the MID CPIU) to have a clear picture at any time of the financial position of the NTF, or the physical and financial status of works being implemented using allocations from the NTF.

⁴³ National Transport Fund Procedural Guidelines March 2011

96. The Review considers that the Board should be primarily responsible to ensure that robust processes are put in place, and to define the policy frameworks within which the details of the processes can be developed and put into operation by MID (and MCA). In exercising this responsibility the Board should be drawing on SIG processes⁴⁴ and generally be instructing MID to be following these SIG processes, or SIG processes as modified by the requirements of development partners. Detailed findings on the processes for Board Meetings, Allocation of Works between NTF and SIG funding, and Program Prioritisation are discussed in sections 3.3 – 3.6 above. The detailed findings and recommendations of the Review on Financial Management are discussed in Section 5. Findings and recommendations on Procurement are contained in Section 6.

97. **Risk Management Plans** were included in the NTP and the ADB RRP for TSDP. ***The Review finds that Risk Management does not appear to have been discussed at the NTF Board, nor reviewed by DFAT or ADB since the start of TSDP.*** This is unfortunate as the Plans identify the risks of the operation of the NTF and the implementation of TSDP, as well as proposing sound mitigation measures.

The Review finds that the mitigation measures proposed are still valid. Their application would assist in strengthening the processes for management of the NTF.

98. **Monitoring and Evaluation (M&E) Plans** and key performance indicators were also included in the NTP (October 2010), in the Design and Monitoring Framework (DMF) of the TSDP (November 2010), as well as in the DFA. The “final” DMF for TSDP was only agreed in May 2013, nearly two years after the start of the Project.

The Review finds:

- (i) *There could be better integration of the indicators used between the three documents cited above.*
- (ii) *The Board does not appear to have been provided with a set of Output and Outcome Indicators with which to judge progress, or to have reports provided of progress towards targets.*
- (iii) *Reporting to the Board is based on the requirements of TSDP as a whole rather than the NTF, and includes items primarily of interest to ADB. Annex 10 makes an assessment of reporting against DFAT requirements in the DFA; and finds that this reporting has been both incomplete and not timely until mid-2013, when financial reporting requirements have been met.*

Recommendations

99. **The Review recommends that** the processes required for the management of NTF funds and projects should be developed and documented, including appropriate progress reporting (**Recommendation 10**). Further details of this recommendation are provided in **Table 2** at the end of this Section. Details of the processes and their practical application should be the responsibility of MID-TIMS/CPIU, so recommendations 21 and 22 in Section 4 address more detailed aspects of this recommendation.

3.10 Human Resources available to support Board functions and NTF management (TOR 4.1 g.)

⁴⁴ Such as the Procurement and Contract Administration Manual April 2013

Findings

100. *The Review finds the resources available in SIG are limited.* As noted above the Secretariat is currently only the Head. The current MID proposals to the Public Service Commission appear to make no provision for providing other SIG staff for the Secretariat. There are no dedicated resources for NTF governance and management

Recommendations

101. The recommendations on human resources to support Board functions and NTF management are those relating to the staffing of the Secretariat (Recommendation 5 above) and the operation of the CPIU (discussed in Section 4 below).

3.11 Relationship between the NTF Board and Key Stakeholders

Findings

102. *The Review finds that the relations between the NTF Board and key stakeholders are extremely limited, as explained below.*

103. A view expressed to the Review Team (including by two Ministers) is that they feel the NTF Board and the NTF are distant from them. SIG stakeholders in general said that they were unaware of what the Board and the NTF are doing, and so questioned the need for an NTF. Donors with transport programs were generally aware of the Board activities as some attended Board meetings.

104. The only relationship with the private sector has been with the local contracting and consulting industry through procurement processes, (plus some training). Similarly the only relationship with Solomon Islands public has been through the community consultation required prior to implementation of specific works. There has been no engagement with the wider community on NTF policy, strategy or implementation plans.

Recommendation

105. The Review recommends that the NTF Board (through the Secretariat) should increase the outreach to Stakeholders, with a view to enabling Stakeholders to have a better understanding of the role and responsibilities of the NTF and the Board, and to better manage the expectations of Stakeholders of what the NTF and the Board can do for them (**Recommendation 11**). Further details of this recommendation are provided in Table 2 at the end of this Section.

Table 2 NTF Review Recommendations on Board Governance and Administration

NTF Review Recommendation	Responsible	Timing
National Transport Fund		
<p>1. SIG and its development partners should have frank and open discussions about whether the NTF can be the only source of funding for the SWAp</p> <p>1.1 The discussions on the future of the NTF should focus on whether the objectives of the SWAp can be achieved through an alternate approach based on long term partnerships, sector coordination and SIG systems, with NTF as one of multiple sources of sector funding</p> <p>1.2 For NTF to realise its' original objective to become the sole source of funding by SIG and its Donor Partners for the SWAp, efforts have to be made to harmonise the fiduciary, safeguard and procurement requirements of the different partners</p>	SIG and Development Partners	As soon as practical, complete prior to finalisation of the design of proposed ADB STIIP ⁴⁵
NTF Board (TOR 4.1 a)		
<p>2. Review and Clarify NTF Board Roles and Responsibilities</p> <p>2.1 Establish clear lines of accountability which separate NTF Board functions (and staff) from MID CPIU functions (and staff), so that the roles and responsibilities of each function are clearly understood and effectively and efficiently performed to ensure NTF funded projects are built as approved, on time, within budget and to the required level of quality.</p> <p>2.2 Confirm mechanisms for implementation of any NTF funded activities to be undertaken by MCA</p> <p>2.3 Transport policy and planning, including updates of the NTP and overarching policy and program inputs to annual updates of the 3YAP (future 5YAP) are strategic level planning functions and so should be the responsibility of the NTF Board</p> <p>2.4 In view of the fact that not all donor funding is channelled through the NTF, and that the CPIU is implementing projects from a variety of funding sources, consider widening the responsibility of the NTF Board to cover review of projects funded outside NTF</p>	Board Chair and PS MID	As soon as practical
<p>3. Strengthen NTF Board Procedures and Strategic Focus of NTF Board Meetings</p> <p>3.1 The NTF Board should be considered as a Strategic level decision making body. The items submitted to the Board should also be at a strategic level.</p> <p>3.2 The NTF Board, (after seeking advice from the NTF Secretariat) should give directions on the items to be presented to the Board</p> <p>3.3 Develop procedures for conduct of Board Meetings for inclusion in NTF Procedural Guidelines (See Annex 6)</p> <p>3.4 Board Agenda should be tailored with a view to the meeting being from one hour to a maximum of two hours</p>	<p>NTF Board</p> <p>NTF Secretariat</p> <p>NTF Board</p> <p>NTF Secretariat</p> <p>NTF Secretariat</p>	For staged introduction starting with Board Meeting in Feb 2014
Project Steering Committee (PSC) (TOR 4.1 b)		
4. Review and Clarify Project Steering Committee (PSC) Roles, Responsibilities and Procedures		

⁴⁵ Sustainable Transport Infrastructure Investment Program (formerly Transport Sector Development Program, Phase 2)

<p>4.1 The PSC is to act as the Steering Committee for the TSDP.</p> <p>4.2 The PSC should also act as a Donor Coordination Mechanism for Donors who are undertaking transport sector projects in Solomon Islands irrespective of whether such projects are specifically referred to in the TSDP Documentation (ADB RRP and linked documents)</p> <p>4.3 The PSC should review and provide technical advice to the NTF Secretariat on proposals submitted by MID and MCA to be presented to the NTF Board for funding.</p> <p>4.4 The PSC should actively ensure that the key processes needed for management of the NTF are upgraded or implemented, and monitor that they are effectively and efficiently utilised. In particular the PSC should</p> <p>(a) actively monitor Project Risk and ensure mitigation measures are implemented;</p> <p>(b) Ensure monitoring indicators are understood by CPIU staff, Secretariat and Board, and that data is collected.</p> <p>4.5 Draft Procedural Guidelines that will enable the PSC to fulfill these three functions (See Annex 6)</p>	<p>Head of NTF Secretariat to advise NTF Board and Donors</p> <p>Head of NTF Secretariat</p> <p>Head of Secretariat Records</p> <p>Head of Secretariat Records</p> <p>Head of Secretariat</p>	<p>Starting with first PSC meeting post TSDP MTR mission</p> <p>Reports to Feb 2014 Board Meeting</p> <p>Starting with Feb 2014 Board Meeting</p> <p>Starting with first PSC meeting post TSDP MTR mission</p> <p>Starting with first PSC meeting post TSDP MTR mission</p>
<p>NTF Secretariat (TOR 4.1c)</p>		
<p>5. The NTF Secretariat should be formally established, with staff designated, budget provided and donor support provided for capacity building and transport policy and strategic transport planning</p> <p>5.1 The NTF Board should make a submission to the Public Service Commission that the NTF Secretariat be established as a unit within the MID, within the responsibilities of the Under Secretary (Technical), and with an initial staff of two persons in two new administrative positions</p> <p>5.2 NTF Board should consider creation of a budget line item and allocation of funds from the NTF for the salaries of the two new administrative positions, and for other costs associated with the operation of the Secretariat</p> <p>5.3 Develop Board/Secretariat procedures as set out in the NTF Regulations for inclusion in NTF Procedural Guidelines</p> <p>5.4 Train/Capacity Build Secretariat Staff</p> <p>5.5 Provide Transport Policy and Strategic Planning Technical Support to the NTF Secretariat, and consider how this position should be filled and funded</p>	<p>NTF Board</p> <p>NTF Board</p> <p>NTF Board</p> <p>NTF Secretariat</p> <p>ADB TA 7715 ADB & DFAT</p>	<p>As soon as practical</p> <p>As soon as practical</p> <p>Feb 14 Board Meeting</p> <p>Starting as soon as practical</p> <p>When appointed Starting as soon as practical</p>
<p>Planning and Prioritisation Processes – Undertaken by the Board and Secretariat - (TOR 4.1d.)</p>		
<p>6. The NTF Board should increase consultation with SIG colleagues and provide greater direction to MID in the preparation of Annual Work Plans (AWP) and annual updates of the 3YAP</p> <p>6.1 In order to develop greater awareness and understanding of the NTF funded works, the Board should communicate the concept of the Rolling Program of the 3 YAP and that this Program is to be updated on annual basis, for the production of Annual Work Plans (AWP).</p>	<p>NTF Board</p> <p>NTF Secretariat</p>	<p>Starting with 2014 AWP</p> <p>Starting with 2014 AWP</p>

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<p>TSDP performance targets are met) maintenance (as defined by the MID TIMS AMU) out of the SIG recurrent budget. To achieve this objective, NTF Board needs to receive from MID AMU robust estimates of maintenance budgets required, and to submit to and discuss these budgets with MoFT.</p> <p>8.4 NTF (and MID) accounts should always distinguish recurrent budget allocations and expenditures from development budget allocations for capital expenditure on rehabilitation and new works.</p>	MID Finance	<p>practical</p> <p>Starting with formulation of the 2015 Budgets</p>
<p>9. SIG and it's Development Partners Expenditure should consider whether projects not funded by NTF can be considered as contributing to the NTP and 3YAP</p> <p>9.1 Donors should discuss whether sector coordination is achieved by undertaking activities in the NTP and 3YAP, and whether NTF is only one of a number of financing mechanisms for this SWAp.</p> <p>9.2 Donors not providing funding to NTF should consider whether it would be useful and appropriate to keep the NTF Board informed of their support to the SIG Transport Sector, including as follows</p> <ul style="list-style-type: none"> (i) Selecting activities for financing from the NTP and 3YAP and submitting them to the NTF Board with a request for issuance of the equivalent of a "No Objection Letter" to signify that the activities are supportive of the NTP and 3 YAP. (b) As applicable including the proposed activities in the Country Partnership Agreements (or equivalent) discussed and agreed with SIG, and then sending these Agreements to the NTF Board "For Information". (c) Reporting to NTF Board "For Information", the progress of implementation of projects. <p>9.3 So that the NTF Board is fully informed when making decisions on allocations of funds, annual budgets and projections presented to the NTF Board should include the projects funded outside of the NTF (as is current practice for SIG Budget documents of MoFT).</p> <p>9.4 Consider adjusting the role and responsibilities of the NTF Board to include Recommendation 9.2 above, and any adjustments to the NTF Act and Regulations that such a change could require.</p>	SIG and Development Partners	<p>Prior to finalisation of the design of the proposed ADB STIIP</p>
<p>Processes for Management of NTF and their Practical Application (TOR 4.1 f)</p>		
<p>10. The processes required for the management of NTF funds and projects should be developed and documented, including appropriate progress reporting</p> <p>10.1 Processes Required. The key processes required for management of the NTF are considered to include:</p> <ul style="list-style-type: none"> a) Board Meetings (discussed above) b) Decision making process for allocation of works into NTF funded or SIG funded lists (discussed above) c) Prioritisation of works in programs (discussed above) d) Financial Management, including reporting on financial and physical progress of works – see Section 5 e) Overall planning, design, procurement and implementation of works with key steps – See 	<p>Head of NTF Secretariat</p> <p>Head of Secretariat and Director CPIU to confirm processes required</p>	<p>Starting as soon as practical</p> <p>Starting as soon as practical</p>

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4. Findings and Recommendations on MID TIMS/CPIU and Project Management and Implementation Consultants

4.1 Introduction

106. The TOR for the Review did not make explicit reference to examining the functions, responsibilities and performance of the MID CPIU or the Project Management and Implementation (PMI) Consultants. However in dealing with the tasks listed in Section 4 of the TOR, the Review came to the view that these tasks had to be treated separately for the MID CPIU and Consultants from the NTF Board and Secretariat. The Review considers that the NTF Board and Secretariat should be dealing with long term Strategic Policy and Planning matters up to a 20 year time horizon. In contrast the MID TIMS/CPIU should be dealing with to tactical and operational planning over a period of 1 to 5 years, as well as the planning, design, procurement, implementation and supervision of works⁴⁹.

107. The performance of the MID CPIU which acts as the implementation mechanism for the NTF therefore became the second key matter the Review found needed to be addressed. The matters discussed here relate to the responsibilities, functions and performance of the MID CPIU. To provide the basis for the discussion of the performance of the CPIU, this section starts with a summary of these responsibilities and functions. The key topics on which the Review focused in relation to the MID CPIU and Consultants are then discussed. These are:

- Planning and Prioritisation Processes undertaken by MID (*TOR 4.1 d*)
- NTF Expenditure (*TOR 4.1 e*)
- Processes for Management of the NTF; and their practical application (*TOR 4.1 f*)
- Human Resources available to support Board functions and NTF management (*TOR 4.1 g*)

108. The Review Team visited Honiara from 9-20th September 2013. After this visit, the ADB undertook a Mid Term Review (MTR) of the TSDP. The MTR accepted the Recommendations from this Review as an input to MTR, in particular the recommendation to better align the consultant support to the CPIU to current MID needs. An initial draft of the Review recommendations related to the CPIU and PMI Consultants is included in the Memorandum of Understanding (MoU) of the MTR⁵⁰ as Annex 4⁵¹.

⁴⁹ The NTF Board should be focussed on the NTP and formulation of a 3YAP for 2014-2016, while MID TIMS should be focussed on implementation of the 3YAP for 2011-2013.

⁵⁰ MEMORANDUM OF UNDERSTANDING, ADB Grant 0243/DFAT Grant/NZMFAT Grant-SOL: Transport Sector Development Project, TA 7715-SOL: Supporting Transport Development Project, MIDTERM REVIEW MISSION Honiara, Solomon Islands 5–15 November 2013

⁵¹ In the MoU Annex 4 the recommendations are presented in a different order to the listing here, in order to match the paragraph references in the MoU.

4.2 MID Transport Infrastructure Management Services (TIMS)

Responsibilities and Functions

109. The proposed organisational structure of TIMS as developed by ADB TA 7715 is discussed in section 2.14 above. The functional responsibilities and business processes of the units in TIMS are not clearly defined in the proposals from ADB TA 7715. This matter is discussed in more detail in section 3.8 below.

110. In relation to NTF Board activities, ***the Review finds that as*** the CPIU sits within the MID TIMS, the TIMS (*supported by the PMI Consultant*), *should be responsible for preparing*

- (i) *Proposals for the NTF Board, and reporting on the physical and financial progress of implementation (through the NTF Secretariat).*
- (ii) *The initial estimates of funding required to be included in the budget requests submitted to MoFT for SIG Budget allocations to NTF from the recurrent budget (for maintenance) and from the development budget (for rehabilitation and new works).*

Performance

111. The Review would concur with the comments made by the Permanent Secretary of MID in the presentation to the Public Service Commission⁵² that the issues impacting on the delivery of services by TIMS are:

- (i) Increase of maintenance and development budget allocations, but with no corresponding increase in staff to plan, design and supervise implementation of the works
- (ii) Inability by private sector to absorb maintenance works outsourced from MID

The Result is that MID is not coping with expected delivery because of

- (i) Overworked staff leading to inefficiencies
- (ii) Low morale due to overloading & low remuneration; difficulties to attract & retain staff

4.3 Central Project Implementation Unit (CPIU)

Functions and Responsibilities

112. The CPIU for TSDP is intended as the name implies to serve as the single central PIU to consolidate the separate PIU that have existed on previous donor financed Projects in the transport sector in Solomon Islands. The CPIU sits within the MID TIMS⁵³ and is staffed by existing MID personnel and supplemented by the PMI Consultants financed by ADB to provide the required expertise to implement the NTP.

113. The CPIU is not just supporting implementing projects with NTF funding, but implementing projects with three sources of funding;

- i. NTF
- ii. SIG Budget (recurrent and development budget)
- iii. Donor funding not being channelled through NTF. This includes NZMFAT for the Munda airport project.

⁵² Ministry of Infrastructure Development (MID) 2014 Posts Submission Moses Virivolomo, Permanent Secretary Conference Room, Public Service Commission 3 September 2013

⁵³ See The Project Organisation Chart in ADB PAM Section III C.

The Outputs that the CPIU is to produce for the TSDP are stated in Section VI (iii) of the ADB PAM

114. Within the TIMS organisational structure, the CPIU has a number of Job (Project) Managers responsible for all aspects of the implementation of “sub-projects”⁵⁴ from initial scoping to completion of works. A number of specialised units for geotechnical engineering, procurement, engineering design, social safeguards/community consultation and environmental safeguards provide support to the Job Managers. There are also units for asset management and financial management. Specialised support in Monitoring and Evaluation (M&E), labour-based equipment-supported (LBES) road maintenance is also provided by the PMI Consultant.

The Review finds that the extent to which the structure and specialised units in the CPIU match the proposed organisational structure and skills in MID TIMS is not clear.

115. The Director of TIMS is also the Head of the CPIU. The Deputy Directors (DD) and Chief Civil Engineers (CCE) in the TIMS organisational structure are also members of the CPIU. All members of the CPIU are located together in the same office which is in a separate building to the main MID Office, but close to it.

4.4 Project Management and Implementation Consultants supporting the CPIU

Functions and Responsibilities

116. The TOR for the Consultants supporting the CPIU is contained in Section VI D of the ADB PAM (and included in **Annex 5**). The TOR shows that the Consultants have two key tasks:

- (i) Project Implementation and Management – *“the design and day to day implementation, financial management, and monitoring and evaluation of the Project”*⁵⁵.
- (ii) Capacity Building and Training – *“to strengthen the technical and managerial capacity of MID, national consultants and national contractors to effectively manage the Project”*.

117. TOR for individual consultant positions for these two key tasks are provided, for International and National Consultants, with indicative person months of inputs. The overall TOR also includes community awareness raising and various surveys (including topographical and bathymetric surveys, infrastructure condition surveys, and monitoring and evaluation).

118. No specific outputs are listed for the Consultants. It appears to be implicit that the Consultants would support the CPIU in the delivery of the outputs listed in the section above describing the CPIU. The Consultants are required to support the MID with reporting requirements, but these relate to reports required by ADB on the progress of the Project.

Findings

119. **The Review finds that the TOR do not provide to the Consultant Firm:**

- (iii) *An overall Scope of Work listing key tasks to be undertaken*
- (iv) *Specific technical outputs for the project implementation component – in addition to the outputs listed in the TOR for the CPIU or the individual consultants. (These outputs could include items such as Draft Manuals for sub project assessments, Design Guidelines,*

⁵⁴ Sub Project is a term used by ADB to describe individual schemes of civil works within the TSDP

⁵⁵ Text in quotation marks and italics is taken from the ADB PAM Section VI D Consultants Terms of Reference

Procedures, and technical specifications which could then be adopted by MID for upgrading of SIG systems).

- (v) *Specific outputs for the capacity development component, with indicative timelines*
- (vi) *Any requirement to assist in achieving the targets listed in the monitoring indicators.*

The Review also finds that the extent to which the structure and specialised skills of the PMI Consultant Team supporting the CPIU match the proposed organisational structure and skills in MID TIMS is not clear.

120. The ADB funded PMI Consultant has been in operation for two years but has not provided the required support. This is in part due to the diversion of Consultant resource to support the Secretariat but also because the performance of the PMI Consultant which has been less than satisfactory.

The Review finds that the lack of support to Board functions and NTF Management is also due to the design of the TA support being out of alignment with Board/NTF/MID requirements. As examples;

- (i) *The TOR for the PMI Consultant defines key technical specialists and the tasks that these specialists are to undertake. The MID has defined Job (Project) Managers for projects/programs of works, from scoping to completion of works. But there is no one (except the Team Leader) in the PMI Consultant Team who is tasked to assist Job Managers with project management.*
- (ii) *The TOR of the specialists make no reference to producing specific deliverables*
- (iii) *The outputs of the PMI Consultant make no reference to producing physical and financial progress reporting reports, yet these are fundamental to NTF management.*
- (iv) *The FM specialist has a 6 person month input, but MID CPIU lacks a robust works project based FM system for resource allocation, cash flow and contractor payments.*
- (v) *Only the TOR for the Transport Policy and Coordination Specialist contains tasks (f & g) which refer explicitly to the NTF.*

Recommendation

121. The Review recommends that the PMI consultant team supporting the CPIU should be redesigned to better align the support to current MID needs. This redesign should be addressed through discussions between MID, PMI Consultant and ADB on the TOR and person month inputs of PMI Consultant Specialists (within the financial envelope of the current contract) (**Recommendation 12**). Further details of this Recommendation are provided in **Table 3** at the end of this Section.

4.5 Planning and Prioritisation Processes undertaken by MID (TOR 4.1 d)

Findings

122. The Review finds that the level of planning and prioritisation for which MID TIMS is responsible is not clearly defined. As noted above, the Review considers that the MID CPIU should be dealing with tactical and operational planning, as well as the planning, design, procurement, implementation and supervision of works.

Recommendations

123. The Review recommends therefore that the CPIU should not be undertaking strategic planning and that the project management and implementation consultant team should not be providing strategic planning advice to MID TIMS (**Recommendation 13**). **The Review also recommends** that the MID TIMS should focus on operational and tactical Planning with a 1 -5 year time horizon, with the Asset Management Unit being given primary responsibility for these activities. The scope of work of the position of Asset Management Advisor in the PMI Consultant Team should be amended to reflect this focus. Consideration should also be given to adding a new PMI Consultant position to provide advice on tactical planning, and budget and work flow options to meet variations in SIG Budgets and changes in priorities over the course of a year (**Recommendation 14**). Further details of these Recommendations are provided in **Table 3** at the end of this Section.

124. MID CPIU has been basing the Annual Work Plans (AWP) on the prioritization contained in the 2011 – 2013 3 Year Action Plan of the National Transport Plan. These annual work programs have been agreed by the Secretariat before submission to the Board, (which implies that the Secretariat has also not undertaken any separate prioritization process). **The Review recommends** this approach should continue, taking as a starting point the prioritization in Appendix F of the 3YAP (**Recommendation 15**).

125. In their initial work on prioritisation, MID was hampered by lack of an effective asset management system. This situation is now being rectified, with both the system and the Asset Management Unit (AMU) in MID becoming more operational. (The Review notes that the MID AMU is now established and fully staffed with MID personnel). **The Review recommends** this approach of basing prioritization of works (for which funding will be sought from NTF) on a rational assessment of works by the AMU should continue, using Appendix F of the 3YAP as a starting point and adjusting relative priorities based on the asset management surveys (**Recommendation 16**).

126. The AMU has also been tasked with developing 3 year forward estimates of budgets needed for asset management. The Review supports this task allocation. **The Review recommends** that the AMU also be tasked with ensuring that the priorities from other SIG policies are reflected in the development of these 3 year forward estimates (**Recommendation 17**). Further details of these Recommendations are provided in **Table 3** at the end of this Section.

127. Despite these welcome improvements, the overall process of forward planning of budgets and decision making as to whether proposals are submitted to the NTF Board for funding or to MoFT for direct funding by SIG is unclear. The Review understands that MID still has to follow MoFT procedures even for NTF funded activities. This matter is addressed in more detail in the Section 5 Financial Management.

128. Based on discussions with CPIU staff and PMI consultants, ***the Review finds that the overall workload and priorities for the CPIU, including the work flow of NTF projects and the priorities for SIG funded works within the CPIU do not appear to be clear or well understood, and the overall management of the process merits some attention.*** There are three aspects to this issue.

- (i) MID staff appear to consider the planning, design and procurement processes for NTF projects to be more onerous than the process that previously applied (and may still apply for SIG funded

- projects). Of particular concern to MID staff are the different requirements for community consultation, environmental assessment/management (safeguards) and feasibility studies.
- (ii) Allied to this is a feeling amongst MID staff who are Job Managers that they are no longer in charge of the overall process from scoping to completion of implementation, (as they were prior to NTF).
 - (iii) The overall workload on the Job Managers and the numbers and availability of MID staff who are to act as counterparts for the PMI Consultants. These aspects of project management and work flow management do not appear to be explicitly within the scope of work of the PMI Consultant.

Recommendations

129. The Review recommends that the CPIU (with PMI Consultant support) focus more on implementation of current SIG as well as NTF priorities, increasing outputs, and shortening the overall delivery time from scoping to completion of works (**Recommendation 18**). The CPIU should ensure that the work flow matches the capacity of the CPIU staff and PMI consultants, (**Recommendation 19**) and develop a clear process for movement of projects through the different stages from scoping to completion (**Recommendation 20**). Further details of these Recommendations are provided in Table 3 at the end of this Section.

4.6 NTF Expenditure (TOR 4.1 e)

Findings

130. A number of the findings of the Review discussed in section 2 above in relation to NTF Governance apply equally to MID CPIU. They are repeated here so that each section can stand alone in relation to findings and recommendations.

131. The expenditures to date of NTF have been on:
- (a) Maintenance and rehabilitation of roads and bridges, with upgrading of river/stream crossings (including construction of new bridges) included as part of the rehabilitation works
 - (b) Maintenance and upgrading of wharves and jetties.

The allocation by subsectors has been largely to roads with a small amount to wharves and jetties. The allocation has been determined by MID CPIU and endorsed by the NTF Board.

132. There has been no expenditure on
- (a) "New roads", meaning roads on new alignments, as maintenance and rehabilitation have been a higher priority.
 - (b) Shipping services⁵⁶ or other activities described in Clause 19 h –k of the Government of Australia /SIG Funding Agreement.
 - (c) Aviation activities which are the responsibility of the Ministry of Communications and Civil Aviation⁵⁷.

⁵⁶ Shipping services are currently funded through a Franchise Shipping Scheme that subsidises certain non-economical shipping routes. The FSS is currently funded as part of the ADB-led Domestic Maritime Support Project with funds from SIG, ADB and EU (Aus and NZ have also funded this project but only for its other component which is building wharves). It is anticipated by DFAT that when this project finishes the shipping scheme may transfer to the NTF (or it could be funded by SIG outside the NTF).

⁵⁷ However NZMFAT is providing parallel financing for civil works at Munda and Nusa Tupe Airports, for which MID is the Implementing Agency.

133. The expenditure on road and wharf maintenance is recurrent expenditure. Road rehabilitation and construction of new bridges is capital expenditure. For long term sustainable maintenance of transport infrastructure, the objective should be that these recurrent expenditures are funded out of the SIG recurrent budget. However, the Review finds that SIG recurrent budget allocations are currently inadequate for all maintenance so it is appropriate that SIG and donor funds support maintenance under the NTF at least in the medium term.

Recommendation

134. Recommendation 8 from Section 2 on NTF Governance is repeated here as it has equal relevance for the PMI support to the CPIU. **The Review recommends** that maintenance should always be the top priority for NTF expenditure, followed by rehabilitation and then new works (**Recommendation 8**). Further details of these Recommendations are provided in **Table 3** at the end of this Section.

4.7 Processes for Management of the NTF; and their practical application (TOR 4.1 f)

Responsibilities and Functions

135. MID (and MCA) should be responsible for proposing activities for funding to NTF Board and the implementation of the activities for which the NTF Board has allocated funds. (As noted above it is assumed that MCA will implement works through the MID CPIU). They are also responsible for reporting to the NTF Board on the progress of the implementation of the activities, and the use of the funds allocated to them.

136. MID TIMS O & M Unit (with support of MID CPIU) should be responsible for the implementation of maintenance/rehabilitation/new works for roads and maritime transport) to which NTF has allocated funding. It should also be responsible for preparation of technical reports and costs of projects to be submitted for funding. MID TIMS Transport Policy and Planning (TPP) Unit (with support of MID CPIU) should be responsible for preparation of the program of proposals for funding, including annual works plans, procurement plans and annual as well as 3 year budget requests.

137. MID TIMS TPP Unit should be responsible for assembly of MID submissions to NTF Board as well as budget submissions to MoFT for activities.

Findings

138. **The Review finds** (as discussed in Section 3.9 above) that there are weaknesses and limitations in the overall list of processes for management of NTF. The result is that it is not possible for the NTF Board and Secretariat (or the MID CPIU) to have a clear picture at any time of the financial position of the NTF, or the physical and financial status of works being implemented using allocations from the NTF.

139. The Review considers that the Board should be primarily responsible to ensure that robust processes are put in place, and to define the policy frameworks within which the details of the processes can be developed and put into operation by MID (and MCA). (In exercising this responsibility the Board should be drawing on

SIG processes⁵⁸ and generally be instructing MID to be following these SIG processes, or SIG processes as modified by the requirements of development partners. MID should then develop and put into operation the required processes.

140. The key processes required for effective management of the NTF are:

- a) Board Meeting Management (discussed above)
- b) Decision making process for allocation of works into NTF funded or SIG funded lists (discussed above)
- c) Prioritisation of works in programs (discussed above)
- d) Financial Management, including reporting on financial and physical progress of works
- e) Overall planning, design, procurement and implementation of works with key steps
- f) Reporting on physical and financial progress⁵⁹
- g) Procurement
- h) Risk Management
- i) Monitoring and Evaluation (M & E) against Key Performance Indicators

141. The processes for which the CPIU is largely responsible (as distinct from the NTF Secretariat) are those related to items (d) to (g). The detailed findings and recommendations of the Review on (d) Financial Management are discussed in Section 5. Findings and recommendations on (g) Procurement are contained in Section 6.

142. Item (e) is a major part of the activity of MID TIMS and the CPIU. Yet the Review finds there is not an agreed set of guidelines, business processes and procedures for these activities, whether for NTF or SIG funded works.⁶⁰ The Review also finds that there is not yet agreement on the contents, level of detail and style of the Feasibility Study Reports required for presentation to the NTF Board and which meet donor requirements.

Recommendations

143. The Review has recommended (Recommendation 10) that processes required for the management of NTF funds and projects should be developed and documented, including appropriate progress reporting. The Review also recommended that the Director of the MID-TIMS/CPIU should assist the Head of the Secretariat in preparing and then implementing a time and resource based action plan for the upgrading or implementation of the systems required for management of the NTF, including responsibilities for the operation of the systems. Financial management, procurement, risk management and M & E of the NTF should be the first priorities.

144. To support the implementation of Recommendation 10, **the Review recommends:**

Recommendation 21 That the manuals, guidelines, business processes and procedures required by MID to meet SIG and Donor requirements should defined and documented.

⁵⁸ Such as the SIG Procurement and Contract Administration Manual, April 2013

⁵⁹ Reporting should be on a quarterly basis, with the annual reporting to be included in the NTF Annual Report.

⁶⁰ The Review notes that the Draft Position Paper for MTR Team, 14 October 2014 prepared by MID proposed a Systems Audit to address this issue.

Recommendation 22 That examples of the contents, level of detail and style of FS reports required for the NTF Board and to satisfy Donor requirements should be established

Further details of the Recommendations are provided in **Table 3** at the end of this Section.

4.8 Human Resources available to support Board functions and NTF management (TOR 4.1 g.)

Responsibilities and Functions

145. The human resources available to the CPIU to support Board functions are the current 26 staff supported by the PMI Consultants. As noted earlier only tasks (f & g) of one member of the PMI Consultant team (Transport Policy and Coordination Advisor) relate to support for the NTF Board – and this position is currently vacant. DFAT is currently providing one advisor who is currently undertaking this task of support to the NTF Board as one of their tasks.

147. The MID CPIU is currently performing NTF management tasks, supported by the PMI Consultants, due to the lack of a functioning NTF Secretariat. This diverts the Consultant resources away from other important tasks in their TOR.

Findings

148. *The Review finds that*

The new organizational structure of MID (discussed in section 4.2 above) does not identify

- (i) the functional responsibilities of the reformed units or*
- (ii) the new business processes (to match the reformed service orientation of MID).*

However, the Job Descriptions of the Deputy Directors do include a description of their functional responsibilities.

Recommendations

149. **The Review recommends:**

Recommendation 23 MID should develop a more functionally based organization chart for MID TIMS/CPIU, and then as required adjust the TOR of the PMI Consultant experts and TIMS staff to align with this functional structure, all with assistance from ADB TA 7715.

Recommendation 24 MID TIMS should develop new business processes to match the service orientated roles and responsibilities of the functional units in the revised organizational Structure also with assistance from ADB TA 7715.

Further details of these recommendations are provided in **Table 3** at the end of the Section.

150. A number of positions in core functions in the MID TIMS, including the Heads of the Financial Management and Procurement Units are currently not filled. Instead, the jobs are being undertaken by international or national PMI consultants. **The Review recommends** that the MID TIMS Core positions should be established and staffed as a matter of priority – or contracted out if the positions cannot be filled in the short term (**Recommendation 25**).

151. The value of works that can be planned, designed and implemented using the MID Staff and the CPIU would appear to be less than the funding available for works. **The Review recommends** an assessment be made of how this issue can be overcome through more efficient and effective use of the current human

resources (MID staff and PMI Consultants) or contracting out work to other consultants (**Recommendation 26**). Further details of these recommendations are provided in **Table 3** at the end of the Section.

Table 3 NTF Review Recommendations on MID TIMS/CPIU and the Project Management and Implementation (PMI) Consultant Support to the CPIU

NTF Review Recommendation	Responsible	Timing
<p>12. The project management and implementation (PMI) consultant team supporting MID should be redesigned to better align the support to current MID needs.</p> <p>12.1 The most pressing needs are for</p> <ul style="list-style-type: none"> (i) Support for project management, contract management, reporting on physical and financial progress of projects to NTF Board, (ii) Development of Feasibility Study and safeguards documentation that is commensurate with the scale and complexity of the works being undertaken and (iii) Institutional development of the CPIU/MID TIMS, as well as (iv) Ongoing financial management. <p>12.2 The PMI Consultant should appoint a Project Management Advisor⁶¹ who would take over some of the tasks of the Team Leader – particularly the project management aspects of the Team Leader tasks (a) and (b), as well as providing specific project management advice to MID Job Managers and developing the TIMS business processes.</p> <p>12.3 The position of Transport Policy and Coordination Advisor should not be included as part of the Capacity Building and Training to the CPIU, but should be allocated to support the NTF Secretariat. The TOR should be amended to include certain tasks from the TOR of the Asset Management and Transport Planning Advisor (as set out in Recommendations 13 & 14).</p> <p>12.4 The TOR for the Asset Management and Transport Planning Advisor should be amended as set out in Recommendation 14 below.</p>	ADB and PMI Consultant	Started during TSDP MTR Complete by Feb 2014 NTF Board
Planning and Prioritisation Processes undertaken by MID		
<p>13. The CPIU should not be undertaking Transport Policy and Planning (Strategic/Long Term) or be getting advice on these matters from the PMI Consultant</p> <p>13.1 Do not provide for a unit with a Strategic/Long Term Transport Policy and Planning function in MID TIMS/CPIU.</p> <p>13.2 Do not provide for PMI Consultant advice on (Strategic/Long Term) transport policy and planning to the CPIU. (Advice on these matters should be provided to the NTF Secretariat as noted in Recommendation 12).</p> <p>13.3 Consider renaming the TIMS Planning and Policy Unit as the Planning, Programming and Budgeting Unit to reflect this change</p>	<p>ADB, DFAT and PMI Consultant to agree</p> <p>MID</p>	<p>Started during TSDP MTR Complete by Feb 2014 NTF Board</p> <p>From Feb 2014</p>
<p>14. MID TIMS should focus on Operational (Annual) and Tactical (1-5 years) Planning with PMI Consultant support adjusted to reflect this focus</p> <p>14.1 The TOR of the PMI Asset Management and Transport Planning Advisor should be amended. Task (j) Assist MID staff in regular updates of the NTP and all references to transport planning, should be deleted from the TOR, and the position renamed Asset Management Advisor. (These tasks should be reassigned to the position of Transport Policy & Coordination Advisor, as set out in Recommendation 12).</p> <p>14.2 The re-scoped PMI Asset Management Advisor should continue to provide capacity building and training on operational</p>	MID, ADB, DFAT and PMI Consultant	Started during TSDP MTR, Complete by Feb 2014 NTF Board

⁶¹ The tasks proposed for this position are additional to the tasks in the current TOR for the PACTAM Transport Policy Advisor.

<p>planning, programming and budget inputs for maintenance and rehabilitation works</p> <p>14.3 Consider providing a new position to provide capacity building and training on tactical planning, and budget and work flow options to meet variations in SIG Budgets and changes in priorities over the course of a year</p>	MID, ADB and DFAT	By Feb 2014
15. MID TIMS should continue to use the 3YAP as a starting point for the Planning and Prioritisation Processes (for sub projects)	MID, ADB, and DFAT to agree	Preparation of 2014 AWP
<p>16. MID should continue to base prioritisation of works (for which funding will be sought from NTF) on a rational assessment of needs, (using as a starting point the 3AYP), and adjusting relative priorities based on the results of the Asset Management Surveys.</p> <p>16.1 This task should be undertaken by the Asset Management Unit</p> <p>16.2 The prioritization should be based on the Three Year Rolling Action Plan in Appendix F of the 3YAP, rather than the rankings in Appendix D.</p> <p>16.3 MID TIMS Asset Management Unit (AMU) as part of their workload, should be the lead unit for updating on an annual basis the proposed implementation dates of the sub projects in the three year rolling program in Appendix F of the 3YAP.</p>	MID CPIU with PMI Consultant support	Preparation of 2014 AWP
<p>17. The AMU should be tasked with ensuring that the priorities from other SIG policies are reflected in the development of the 3 Year forward estimates of budgets needed for asset management.</p> <p>17.1 The AMU should review whether there is a case for changing the prioritization of projects due to changes in Development Priorities, Provincial Equity or other non transport factors, since the NTP was prepared.</p> <p>17.2 This should include consideration of the policies in the MTDP</p>	MID CPIU with PMI Consultant support	Preparation of 2014 AWP
<p>18. The CPIU (with PMI Consultant support) should focus more on implementation of the current priorities, increasing outputs, and shortening the overall delivery time from scoping to completion of works.</p> <p>18.1 The issues that are slowing implementation have to be clearly identified and systematically resolved.</p> <p>18.2 Where the CPIU does not have the powers to resolve problems, it should seek the support of the NTF Board</p>	MID CPIU with PMI Consultant support	Started during TSDP MTR
19. The CPIU (with PMI Consultant support) should ensure that the work load and work flow and priorities of all members of the CPIU match the overall priorities of work being undertaken by the CPIU, and be reviewed and adjusted on a regular basis to ensure that timelines for delivery of CPIU priorities are met	MID CPIU with PMI Consultant support	Started during TSDP MTR
<p>20. MID should develop a prioritization process for the use of resources, and for determining the movement of projects through the different stages of planning, design, procurement and implementation based on the AWP.</p> <p>20.1 NTF funded activities should be afforded first priority.</p> <p>20.2 If this is not feasible, then consideration could be given to defining separate sub groups in the CPIU for NTF and SIG funded projects.</p>	MID CPIU with PMI Consultant support	Started during TSDP MTR

NTF Expenditure (TOR 4.1 e)		
<p>8⁶². Infrastructure maintenance (including emergency works) should always be the top priority for NTF expenditure followed by rehabilitation and then new works.</p> <p>8.1. The priority of the use of NTF funds should be</p> <ol style="list-style-type: none"> 1.Maintenance (including emergency works) 2.Rehabilitation and 3.New works (including new works associated with rehabilitation). <p>These priorities should always be respected.</p> <p>8.2 The actual SBD amount of funds allocated to maintenance should be determined by the TIMS AMU, and be directly related to achieving the TSDP performance indicator for maintenance.</p> <p>8.3 The objective should be to fund steady state (i.e. once the TSDP performance targets are met) maintenance (as defined by the AMU) out of the SIG recurrent budget. To achieve this objective, NTF Board needs to receive from MID AMU robust estimates of maintenance budgets required, and to submit to and discuss these budgets with MoFT.</p> <p>8.4 NTF (and MID) accounts should always distinguish recurrent budget allocations for maintenance from development budget allocations for capital expenditure (rehabilitation/new works).</p>	<p>MID TIMS</p> <p>MID TIMS Panning and Policy Unit (PPU)</p> <p>MID TIMS AMU</p> <p>MID and MoFT</p> <p>MID Finance</p>	<p>Starting with formulation of the 2014 Budgets</p> <p>Starting with the formulation of the 2014 Budgets</p> <p>Starting as soon as practical</p> <p>Starting with formulation of the 2014 Budgets</p>
Processes for Management of the NTF & Practical Applications (TOR4.1 f)		
<p>21. The Manuals, guidelines, business processes and procedures required by MID to meet SIG and Donor requirements should defined and documented.</p> <p>21.1 Define the documentation that MID needs to meet SIG and Donor requirements in the delivery of TSDP and for the longer term sustainable support of NTF operations.</p> <p>21.2 List what is what is currently available including draft documents produced to date by CPIU consultants.</p> <p>21.3 Agree what is missing and establish a time bound plan for the production of the outstanding documents</p>	CPIU Consultants and MID	Complete by Feb 2014 NTF Board
<p>22. Examples of the contents, level of detail and style of FS reports required for the NTF Board and to satisfy Donor requirements should be established.</p> <p>22.1 Establish examples of the contents, level of detail and style of FS reports required for NTF Board and to satisfy Donor requirements – particularly with respect to procurement, FM, gender, and safeguards and non safeguards (economic evaluation, engineering design) aspects of FS.</p> <p>22.2 Establish a time bound action plan for agreement of such example reports, and their future use.</p> <p>22.3 Match these reporting requirements to available SIG data sets and develop protocols for compiling NTF Board reports</p>	CPIU Consultants and MID to produce. ABD and Australian Aid to review	Complete by Feb 2014 NTF Board
Human Resources available to support Board functions and NTF management (TOR 4.1 g.)		
<p>23. MID should develop a more functionally based organizational structure for MID TIMS/CPIU</p> <p>23.1 Within the proposed organizational structure of MID TIMS (PS Presentation of 3/9/13 to PSC), discuss and agree (with assistance from ADB TA 7715) on a more functionally based structure of functions.</p> <p>23.2 In addition to the proposals in the MID Capacity Development Plan (which covers recruitment, training⁶³,</p>	ADB TA 7715 and MID	Started during TSDP MTR.

⁶² Recommendation 8 from Table 3 is repeated here as it has equal relevance for the PMI support to the CPIU.

⁶³ Proposed training for use of MYOB in MID (P.17, Para 42) to strengthen accounting for projects, is not endorsed.

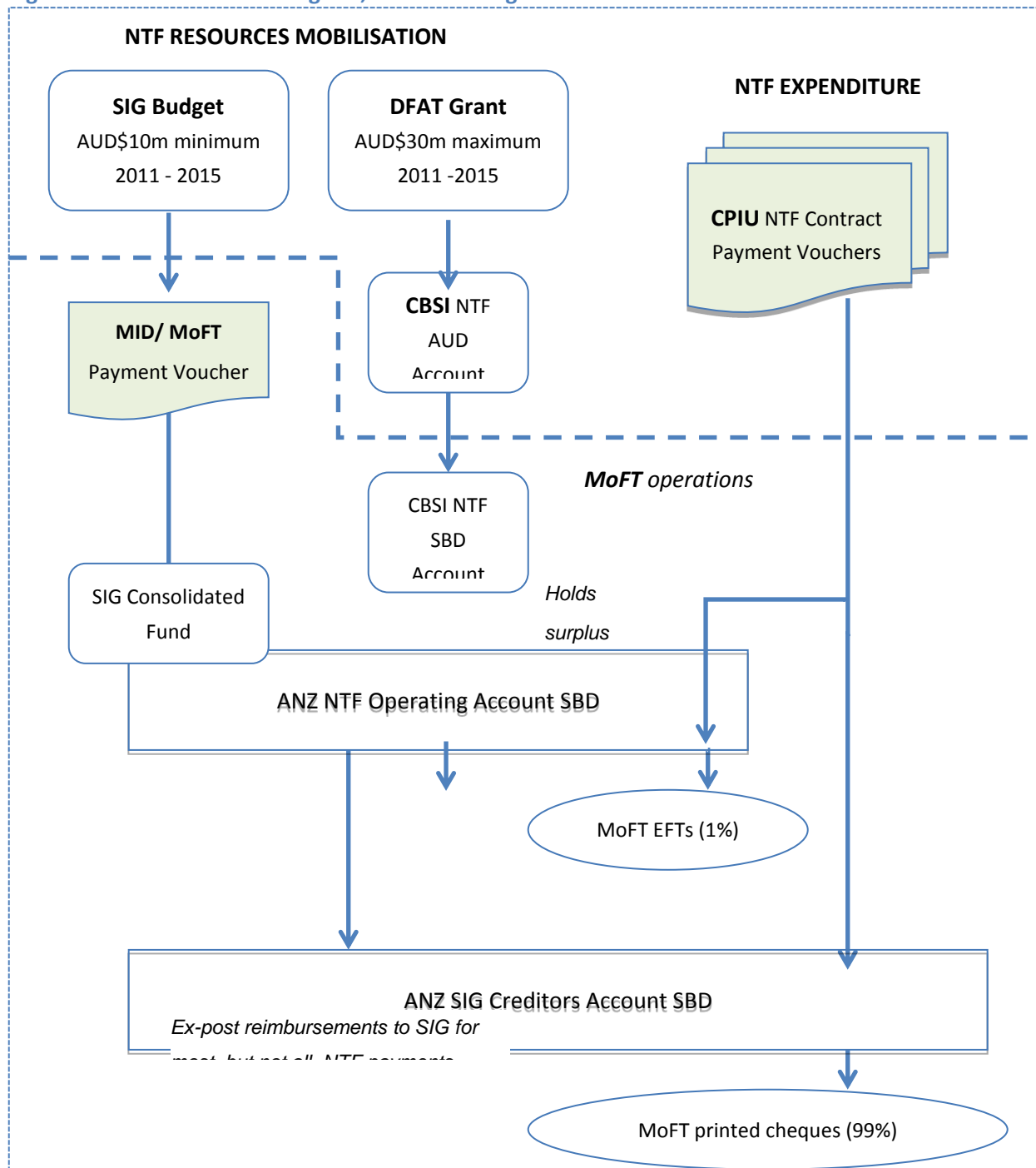
<p>capacity building, institutional development, and change management) support is required for detailing of the functions of the reformed units</p> <p>23.3 Align the PMI Consultant experts to support the development of these functions, and the activities of the staff in these functions.</p> <p>23.4 Adjust the TOR of the PMI experts as required.</p> <p>23.5 Adjust the Job Descriptions of the MID Staff as required.</p>		
<p>24. MID TIMS should develop new business processes to match the roles and responsibilities of the functional units in the revised organisational structure</p> <p>24.1 Within the proposed organizational structure of MID TIMS (PS Presentation of 3/9/13 to PSC), and in addition to the proposals in the MID Capacity Development Plan new business processes should be developed (with assistance from TA 7715.</p> <p>24.2 An example of such new business would be the “NTF Approach” to works which is different to the previous “MID Approach.</p> <p>24.3 New business processes could also result from the implementation of Recommendations 21 and 22.</p>	ADB TA 7715 and MID	Started during TSDP MTR.
<p>25. MID TIMS Core Functions should be established and staffed – or contracted out if the positions cannot be filled in the short term.</p> <p>25.1 In functional areas (including Procurement, Safeguards, M &E) where there are no MID counterparts, discuss realistic timelines for establishment of the core MID staff, and the continued supply of this function by Consultants.</p> <p>25.2 Discuss and agree the extent of continued consultant support required even after the core MID staff are appointed – or whether some functions may need to be “contracted out” to national and/or international consultants for the foreseeable future; and how this will be funded.</p>	MID, ADB TA 7715 and PMI Consultants	By Feb 2014
<p>26. The CPIU Capacity (with PMI Consultant support) to deliver NTF, SIG and other donor funded works should be assessed and mechanisms required to meet any shortfall put in place</p> <p>26.1 Asses the value of maintenance/rehabilitation/new works that MID TIMS can realistically process with PMI Consultants providing support/advice/assistance and capacity building as per current TOR.</p> <p>26.2 Compare this to the levels of MID staff and consultant inputs required to process</p> <p>(a) works to spend funding provided by NTF,</p> <p>(b) parallel requirements for works with direct SIG funding</p> <p>(c) projects funded directly by donors.</p> <p>26.3 Discuss and agree on arrangements that need to be put in place to</p> <p>(a) achieve required works outputs and</p> <p>(b) desired capacity development of MID.</p> <p>These should include consideration of consultants taking direct responsibility for doing work and delivering outputs within the CPIU framework. In other words, Director TIMS “contracts” consultants to deliver certain projects as one stream of activity in parallel with PMI consultants supporting MID staff to deliver other works.</p>	Director CPIU and PMI Consultant	Started during TSDP MTR.

5 Main findings and Recommendations – NTF Financial Management

5.1 Introduction

152. Figure 1 summarises NTF funds flows as at September 2013, with the different actors identified in bold. This diagram is included early in the analysis of NTF financial management to emphasise the complexity of the process and the number of actors that NTF depends on.

Figure 12 - NTF funds flow diagram, current arrangements



153. Effective management of NTF funds is dependent on SIG's centralised financial management system for disbursement, accounting and reporting, which is operated by Ministry of Finance and Treasury (MoFT) in the area below the dotted line in **Figure 1**. Accordingly, the analysis of NTF financial management will look to the effectiveness of the partnerships that NTF has built with the various actors that manage particular aspects of NTF financial management.

5.2 NTF resources mobilisation

154. The NTF Act is made to mobilise resources from SIG Recurrent and Development Budgets and donors to fund National Transport Plan infrastructure priorities. The NTF Board is responsible to lobby SIG and donors to contribute to NTF; and for financial management of and reporting on these funds.

155. The NTF Act allows for donors to enter into individual agreements with the Fund in terms of how funds are to be applied and reported⁶⁴. This flexibility is significant in financial management terms, because it signals the need for the Board financial management processes to account for and report on both pool-fund and ring-fenced resources in NTF. To date, donor contributions have been for pool fund use and the NTF Board have not needed to manage and report on any ring-fenced funding.

5.3 Contributions to NTF: 2011 to 2013

156. **Table 4** below details provisional NTF contributions to date, by Fiscal Year, and compares these with the terms of the Direct Funding Agreement between Government of Australia and Solomon Islands Government (DFA), being the only active funding agreement with NTF. The Review strongly cautions that Table 4 be regarded as provisional only, especially the highlighted amounts; noting that its content need to be verified by external audit before it can be relied on for decision-making purposes.

157. The basis for this strong caution is as follows:

- (i) The MoFT report for 2013 SIG cash contributions notes three deposits to the NTF Operating Account. However, MoFT advised CPIU separately on 9 July 2013 that SBD2,631,275.75 (Purchase 072290, Voucher INV-148966, Vendor V009515, Requisition Number MID 43/13, EFT PAY041472) was deposited to NTF in error and requires reversal.
- (ii) The MoFT report for 2013 SIG creditors contributions⁶⁵ includes an amount of SBD4,856,312.80 (3/07/2013, INV-166063, Purchase invoice MID 323/2013) that is also reflected in the MoFT report for 2013 SIG cash contribution (Purchase 097260, Voucher INV-166063, Vendor V009515, Requisition Number MID 323/13, EFT PAY054971), a double-counting error;

⁶⁴ S.5 (4), National Transport Fund Act 2009. Solomon Islands Government, 19 March 2009

⁶⁵ Until October 2013, SIG made all NTF contractor payments out of the SIG Creditors ANZ Bank Account and subsequently sought reimbursement for the majority of these payments from the NTF ANZ Operating Bank Account. SIG treats any un-reimbursed NTF contractor payments as in-kind contributions to NTF under the Direct Funding Agreement. For ease of reference, these are termed "SIG creditors contributions" to NTF in this report.

- (iii) Both MoFT reports for 2012 and 2013 SIG creditor contributions⁶⁶ contain duplicate payments, which represents double counting errors; and
- (iv) MoFT reports for 2012 and 2013 SIG creditors contributions are not been verified to NTF contract details.

158. Further, the MoFT reports a 2011 SIG creditors contribution of SBD9,656,058⁶⁷, but the audited 2011 Financial Statements record a SIG creditors contribution of SBD3,057,686. This is a material difference; and lowers confidence in MoFT reporting.

159. Finally, the 2012 NTF Audit Management Letter Review indicates that MoFT bank reconciliations were incomplete for the ANZ NTF bank account as at 31 December 2012 CPIU has been conducting parallel reconciliations for the ANZ NTF Operating Account to address delays; and to validate MoFT reconciliations. This duplication of efforts is needed for CPIU to make timely and accurate reporting to the NTF Board.

160. The Review concludes that MoFT reporting cannot be relied upon for accurate NTF resources mobilisation data; and includes **Table 4** below as an indication of resource flows only.

Table 4 – Indicative contributions to NTF: SBD & AUD⁶⁸ compared to DFA (data from audits & MoFT-FMS reports)

Fiscal Year	SIG cash contribution	SIG creditors contribution	SIG total contribution	DFAT cash contribution	TOTAL
2011 SBD Actual contributions	0	3,057,686	3,057,686	116,927,480	119,985,166
2011 AUD Actual contributions	0	381,599	381,599	14,998,286	15,379,885
2011 DFA contributions in AUD			2,500,000	9,000,000	11,500,000
Actual AUD as % of DFA contributions			15.3%	166.6%	133.7%
2012 SBD Actual contributions	10,000,000	8,212,982	18,212,982	6,909,120	25,122,102
2012 AUD Actual contributions	1,302,000	1,069,330	2,371,330	920,000	3,291,330
2012 DFA contributions in AUD			2,500,000	7,000,000	9,500,000
Actual AUD as % of DFA contributions			94.9%	13.1%	34.6%
2013 SBD Actual contributions	17,487,589	8,878,408	26,365,997	33,686,000	60,051,997
2013 AUD Actual contributions	2,553,188	1,296,248	3,849,435	4,740,330	8,589,765
2013 DFA contributions in AUD			2,500,000	7,000,000	9,500,000
Actual AUD as % of DFA contributions			154.0%	67.7%	90.4%
TOTAL SBD Actual contributions	27,487,589	20,149,076	47,636,665	157,522,600	205,159,265
TOTAL AUD Actual contributions	3,855,188	2,747,177	6,602,365	20,658,616	27,260,981
TOTAL DFA contributions in AUD	0	0	7,500,000	23,000,000	30,500,000
Actual AUD as % of DFA contributions	0	0	88.0%	89.8%	89.4%
<i>N.B. - Amounts in italics and highlighted in yellow are provisional only; and need to be treated with caution.</i>					

161. The Review has considered the impact of these finding in NTF resources mobilisation for DFAT working in partner government systems⁶⁹. The lack of controls in the centralised SIG Public Financial Management system, as evidenced by NTF resource mobilisation data and banking errors, represents a

⁶⁶ Excel reports from SIG General Ledger. MoFT-FMS email on Fri 27/09/2013 10:12 AM.

⁶⁷ 2011 Account 7501-National Transport Fund. MoFT-FMS, Solomon Islands Government Ledger transaction list, 17/09/2013 1:41:29 PM

⁶⁸ Average annual exchange rates: 2011 SBD1=AUD0.1248; 2012 SBD1=AUD0.1302; 2013 SBD1=AUD0.1460. Accessed <http://www.oanda.com/> on 30 September 2013.

⁶⁹ Terms of Reference for Assessing PFM at Sector or Agency Level, DFAT, May 2013.

significant accounting risk to DFAT funds placed in NTF, which increases fiduciary risk. Managing this risk to DFAT funds will require special measures to be taken to strengthen the efficiency, effectiveness and probity of the resources management systems of MoFT. Timely and accurate revenue reporting for NTF will form part of the TOR for the MID/ NTF accounting capacity building design activity proposed by this Review. Further, the monitoring of MoFT NTF revenue reporting can be incorporated into the TOR for the DFAT-funded Financial Specialist to be posted to MID. In the opinion of the Review Team, NTF resource management does not meet accounting standards acceptable to ADB⁷⁰; and is unlikely to meet most donor's standard for accounting or financial management of funding.

162. The Review recommends that NTF Board seek assistance to conduct a rapid appraisal and design of more transparent and timely processes for NTF resources and financial management (**Recommendation 27**).

163. The DFA requires that the Central Bank of Solomon Island notify DFAT⁷¹ of all funds movements through the two NTF bank accounts that they operate. DFAT advised the Review that they do not receive any notices from CBSI; and so do not monitor movements through these accounts.

164. The Review recommends that DFAT formally advise CBSI of its responsibilities to provide notification of funds movements into and from the two NTF bank accounts. This will facilitate direct oversight of DFAT funding movements (**Recommendation 28**).

165. DFAT Honiara FMA 9 approvers need to make reasonable enquiries⁷² that DFA transfers are properly managed, without unfavourable exchange rates or excessive bank fees being charged.

5.4 Interest earned on NTF cash contributions

166. The Review finds that the NTF Board did not exercise its powers under the S.4 (2) (a) of the NTF Regulations and authorise the investment of surplus NTF funds in either 2011 or 2012. This resulted in an opportunity cost to NTF of foregone interest earnings of SBD5.03m. See **Annex 8**.

167. The Review recommends that NTF Board Agenda needs to include a standing item for the Board to consider whether, or not, to invest any surplus NTF funds consistent with Section 15 of the National Transport Fund (Fund Management) Regulations 2010. NTF Board investment decisions are to be minuted by NTF Board Secretary and implemented by NTF Fund Manager, which is currently MID CPIU. (**Recommendation 29**).

5.5 SIG Budget Appropriations to NTF: 2011 to 2013

⁷⁰ Page 5, 2.4.3. "Accounting Standards acceptable to ADB are the International Public Sector Accounting Standards (IPSAS)". ADB Financial Management and Analysis of Projects, 2005

⁷¹ Paragraphs 28 and 29, Agreement No 59114, Direct Funding Agreement between Government of Australia and Solomon Islands Government. DFAT, 20 May 2011.

⁷² Page 20, Para 7, Finance Circular 2011/01. Department of Finance and Deregulation, 31 March 2011.

168. SIG Appropriations to NTF from 2011 to 2013 are included in the MID Recurrent and Development Budgets. These Budget commitments are significantly larger than required by the DFA; and the cash contributions actually made to NTF.

Table 5 - SIG Budget Appropriations for NTF contributions: FY 2011 to 2013

Fiscal year	NTF contributions Recurrent SIG Budget SBD	NTF contributions Development SIG Budget SBD	NTF contributions Total SIG Budgets SBD	NTF contributions Total SIG Budgets AUD	SIG NTF contributions committed to under DFA AUD	SIG NTF contributions Budget vs. Agreement %
2011	14,526,909	2,000,000	16,526,909	2,062,558	2,500,000	82.5%
2012	12,269,295	32,000,000	44,269,295	5,524,808	2,500,000	221.0%
2013	11,525,103	40,000,000	51,525,103	6,430,333	2,500,000	257.2%
Total	38,321,307	74,000,000	112,321,307	14,017,699	7,500,000	186.9%

169. Comparing SIG Budget appropriations in each year (**Table 5**) with audited SIG contributions in **Table 4**, leads the Review to conclude that SIG Budgets are not a reliable proxy for expenditure. Further, this data signals that SIG has elected not to resource NTF from available budgets. The Review notes that PS MID is the accounting officer for both MID and NTF; and so is responsible for authorising MID General Payment Vouchers (GPV) to make cash contributions to NTF from both SIG Recurrent and Development Budgets.

170. The Review recommends the NTF Board conduct frank and open dialogue with stakeholders to adjust all parties' expectations concerning realistic levels of NTF cash contribution from SIG Budgets; and that future SIG Budgets and NTF Board plans reflect this adjusted reality (**Recommendation 30** -See also Recommendation 1).

171. The SIG Development Budget also records DFAT contributions to NTF. The extent to which DFAT contributions are "On Budget" is detailed in **Table 6** below.

Table 6 - SIG Development Budget data for DFAT NTF contributions

Fiscal year	DFAT NTF contributions per SIG Development Budget SBD	DFAT NTF contributions per SIG Development Budget AUD	DFAT NTF contributions per DFA AUD	DFAT funds "On Budget" %
2011	32,449,500	4,049,698	9,000,000	45.0%
2012	59,330,895	7,724,883	7,000,000	110.4%
2013	67,268,818	9,821,247	7,000,000	140.3%
Total	159,049,213	21,595,828	23,000,000	93.9%

The Review concludes that DFAT contributions to NTF are On Budget on an Agreement-to-date basis when compared to actual DFAT cash contributions in **Table 4**.

5.6 Partnership needed with CPIU for NTF financial management

172. Because NTF Board agreed to use MoFT financial management systems for NTF payments processing and financial reporting⁷³, NTF relies on a partnership with CPIU to implement and report on NTF Board-approved, or 'qualifying'⁷⁴, projects.

173. To be an effective partner to NTF, CPIU needs to have the following skills:

- (i) effective engineering planning, design and supervision capacity;
- (ii) robust project costing, resources mobilisation and cash flow management;
- (iii) transparent procurement, tender and contract award processes; and
- (iv) regularly updated expenditure information to support financial reporting.

NTF Board depends on CPIU capacities in items (ii) and (iv) for financial management and reporting. This is because the NTF Board and its Secretariat have no implementation roles, but are legally accountable for selecting qualifying projects for NTF funding and for overseeing the use of all NTF funds entrusted to them by SIG and donors.

174. The Review notes that many governments combine most of aspects of Items (ii) and (iv) above into an automated project management tool. This is a database that records every approved project from contract award to practical completion, noting key dates, costs, variations and with regularly updated budget and expenditure information for financial reporting. These systems need to be supported by clear lines of responsibility and sound administrative procedures; and offer a comprehensive and sustainable approach to preparing project progress and financial reports.

175. The alternative is to regularly compile data sets from multiple sources into a single document e.g. using Microsoft Excel, a process that can be prone to data entry errors and lacks systemic controls over completeness and accuracy of the data being compiled and reported.

176. The NTF Board has full legal authority to determine the most appropriate financial management system for NTF; and is not restricted to using MoFT systems. See **Annex 7** for a more detailed discussion of the legislative framework for NTF financial management; and NTF Board responsibilities and powers.

The following sub-sections assess the current effectiveness of CPIU as a financial management partner to the NTF Board.

5.7 CPIU project costing, resources mobilisation and cash flow management

177. The NTF Board needs to identify and approve qualifying NTF projects that will be funded from NTF on an annual basis, in line with new SIG Budget and Donor contributions to NTF each year. This is a core function of the NTF Board and needs to be properly informed and resourced.

⁷³ Clause 6, National Transport Fund Board Procedural Guidelines. Solomon Island Government, March 2011.

⁷⁴ S.2, National Transport Fund (Fund Management) Regulations 2010. Solomon Islands Government, 1 June 2010.

178. In order to perform this key strategic role in NTF, the NTF Board requires the following information in the final quarter of each year:

- A list of properly costed, but currently unfunded, high priority NTP projects to consider for NTF funding;
- The amount of uncommitted NTF funding available to finance new projects in the coming financial year. Available funding needs to be properly reconciled to:
 - total SIG and Donor funding actually received to date,
 - less total NTF contractual commitments to date (listed as Annex),
 - less contingency for cost over-runs on NTF contractual commitments to date,
 - plus SIG Appropriation to NTF for the coming Financial Year,
 - plus Donor commitments to NTF funding for the coming Financial Year.
- A cash flow forecast for existing NTF contractual commitments against currently available cash, to identify the date next Financial Year when the NTF Board needs to decide to:
 - continue with approved projects, because SIG and Donor funds are received; or
 - suspend approved projects in design or tender with CPIU, due to lack of funds.

179. The NTF Board needs data that reflects an informed assessment of the many variables that can affect NTF resources mobilisation, such as SIG revenue contractions and donor policy shifts; and NTF infrastructure project implementation issues. This work requires strong financial management skills in project and cash flow analysis; access to reliable and timely data; and extensive consultation with all stakeholders.

180. A functional NTF Board Secretariat can assist in compiling these documents for NTF Board's strategic assessment, but CPIU needs to have the project management system and capacity to produce and update records that support both MID and NTF project management and reporting into the long term.

181. In 2010, ADB concluded that CPIU did not have adequate capacity in project management⁷⁵; and determined that capacity building of CPIU project management systems would be a key output for TSDP TA and an internal control risk mitigation measure⁷⁶.

182. The Review concludes that NTF was launched in 2011 while CPIU did not have the project management capacities needed to properly brief and inform the NTF Board, but *"The (TSDP) TA will develop and implement a reform and capacity development plan for MID, approved by the government, to enhance MID's capacity in project management"*⁷⁷. This understanding is also reflected in the 2012 and 2013 SIG Development Budget description for TSDP⁷⁸ development priorities.

183. The Review finds that responsibility for CPIU project management systems and capacity building is very generally described in the Terms of Reference (TOR) for the CPIU/ TSDP Financial Management Specialist, but notes that there is a lack of precision around specific project management responsibilities and

⁷⁵ Para 12, Page 4 - ADB Financial Management Assessment (FMA). Asian Development Bank, November 2010.

⁷⁶ Para 44, Page 11, - ADB Financial Management Assessment (FMA). Asian Development Bank, November 2010.

⁷⁷ Para 26, Page 7 - Report and Recommendation of the President to the Board of Directors Proposed Grant and Administration of Technical Assistance Grant Solomon Islands: Transport Sector Development. Asian Development Bank, November 2010.

⁷⁸ P.97 2012 SIG Development Budget; P.81 2013 SIG Development Budget. Solomon Islands Government.

use of the term “project” in these TOR. “Project” can be read to mean CPIU infrastructure projects and their management systems in some TOR items, and clearly refers to TSDP management systems in other TOR items, but this is not always clear. The Review finds this TOR confusing; which may have led to inappropriate, TSDP-focussed, financial management reports being presented to the NTF Board in May 2012⁷⁹. The Review considers this TOR needs to be revised for clarification of scope of duties and key outputs to be delivered.

184. Notwithstanding possible confusion around roles and responsibilities, in March 2012 the first PMI Financial Management Specialist prepared a CPIU Financial Management Manual with a competent contract /project management framework at Appendix 2. The Review is advised that the Manual was not presented to SIG for endorsement, nor is the framework used in CPIU. There are high opportunity costs attached to not managing this TA output well (see also Section 4 and Recommendation 21).

185. A recent ADB Review Mission indicates that responsibility for building CPIU project management and implementation capacity resides with ADB TA 7715⁸⁰. The Review is not clear on which ADB TA has specific responsibility for delivering this key CPIU output. It is essential that all parties are clear on who is tasked with planning and delivering a viable and sustainable CPIU project management system by 2016, because this strategically important output is vital to CPIU discharging its role in MID; and for reporting to the NTF Board.

186. The Review recommends that ADB should clarify whether the PMI Consultant or ADB TA 7715 is responsible to enhance/ increase CPIU project management and implementation capacity; and how this strategically important role is to be resourced (**Recommendation 31** – see also Recommendations 12, 23 & 24)

187. The Review notes four points where CPIU/ NTF contract details are recorded by SIG agencies:

- (i) MID maintains a contract registry for all contracts let up to SBD50,000;
- (ii) Central Tenders Board (CTB) maintains a registry for contracts let over SBD50,000;
- (iii) CPIU Procurement Section recently started maintaining a contract registry, which is incomplete for any MID non-civil works procurement; and
- (iv) CPIU Finance is currently also compiling a contract CPIU contract register that is to be updated with financial data.

188. The Review concludes that neither MID nor CPIU maintain a structured MID contracts register, so the starting point for a CPIU project management system is absent at this time. Further, there is currently a risk of duplication and overlap of efforts due to the number of MID actors involved in preparing different contract registers. Properly linking contracts data with updated financial information is needed if CPIU is to maintain a project management system that can meet both MID and NTF requirements, as well as those of donors who may seek to contribute ring-fenced funding to NTF.

⁷⁹ Item 3A, NTF Board Minute of 17 May 2011; this Minute was ratified as correct on 18 October 2012.

⁸⁰ Para 64, Page 15 – Aide Memoire, Grant 0243-SOL: Transport Sector Development Project & TA 7715-SOL: Supporting Transport Development Project. ADB Joint Review Mission, 27 May to 7 June 2013.

189. The Review recommends that CPIU design and agree to a single, structured contracts register for all MID contracts awarded. This register will form the nucleus of the CPIU Project Management tool; and needs to be systematically linked to MID budget and accounting data and supported by sound administrative procedures (**Recommendation 32**).

190. Following extensive consultations, the Review concludes that CPIU, with PMI Consultant and ADB TA 7715 support, is yet to build any functional or sustainable capacity in project management. Consequently, NTF Board does not yet receive appropriate costing, funding and cash flow information to support its strategic decision making role.

191. Most critically, there is no SIG-approved capacity development plan for CPIU project management after two years; three PMI Team Leaders and four PMI Financial Management Specialists. Whilst instability in TA appointments is a partial explanation, the absence of a clear strategy for delivering this key CPIU output is a stronger explanation for this non-performance to date.

192. The Review considers that CPIU has been reactive in its attempts to satisfy emerging CPIU project management and reporting needs to date. Project contract management is yet to be formalised. Project financial management is done by PMI consultants using MYOB accounting software, which is also used by the PMI Consultant for internal accounting and reporting.

193. While the most recent NTF Board financial reports are satisfactory and unqualified audits were given for both 2011 and 2012 NTF Statements of Receipts and Payments; the Review notes that MoFT does not endorse or support MYOB as a SIG accounting tool and the TSDP consultancies will conclude in 2016.

194. The approach taken to CPIU project management to date is neither technically viable, nor sustainable. A properly structured approach to building CPIU project management capacity needs to be developed, agreed, resourced, and supported with timely and reliable financial data supplied by a MoFT-approved, sustainable MID accounting tool.

195. The Review recommends that TOR for the CPIU/PMI Financial Management Specialist be revised to focus directly on (i) developing and securing SIG approval for a capacity development plan for CPIU project management; and (ii) producing timely and detailed CPIU project costing, resources mobilisation and cash flow management reports for both MID and the NTF Board. The revised TOR will exclude any responsibility for the MID accounting functions that provide financial data for updating of CPIU resource mobilisation, project costing and cash-flows (**Recommendation 33** -see also Recommendation 12)

196. The Review notes that strengthening the MID accounting functions is an important, but separate, role; and will recommend this become part of an additional donor support package to MID and the NTF Board.

5.8 CPIU updating of expenditure information to support financial reporting

197. The Review notes that processing of CPIU accounting information is dependent on a number of other SIG agencies. CPIU does not control its own accounting information, which leads to long delays in payments

processing and uncertain financial information flows that have to be followed up by CPIU at a significant time and resources cost. These features of CPIU accounting do not support timely or effective financial reporting to either MID or the NTF Board.

198. The Review finds that CPIU and NTF rely on the SIG agencies shown in **Table 7** to obtain basic accounting information.

Table 7 - CPIU dependencies for basic accounting information

Accounting process	Dependency	Review finding
Preparation of General Payment Vouchers (GPVs)	MID Accounts Division and PS MID for authorisation	Takes from 3 to 5 days, appears reasonable.
Clearance of all contract-related GPVs	MoFT Payments and Procurements Section	Takes from 5 days to 90 days, there is no rationale for long delays given that CPI and NTF use standard SIG contracts, approved by the Attorney-General
Disbursement to the contractor	MoFT Payments Processing Section	Takes from 5 to 60 days (SIG contract terms are 28 days), there is no rationale for long delays as NTF payments are fully funded in the ANZ NTF Operating Account
Accounting data and Bank reconciliations	MoFT Financial Management Services	<ul style="list-style-type: none"> • CPIU is not provided with copies of NTF or MID GL reports, which are available; • MoFT is slow, up to six months in arrears in the past, with providing NTF disbursement reports; and • MoFT does not finalise NTF bank reconciliations, see NTF 2012 Audit Management Letter.

199. In February 2012, the NTF Board appointed CPIU as the *de facto* Secretariat and “manager of the fund” in accordance with their authority under the NTF Regulations. This decision resulted from unsuitable financial reporting systems defined in the NTF Board Guidelines; and the lack of resources to establish a NTF Board Secretariat. See **Annex 8** for a more detailed discussion of the contributing factors leading to this decision.

200. CPIU was not provided with additional resourcing to carry out these new responsibilities; and the Review considers that performing this role has distracted CPIU; and diverted senior TA resources away from core CPIU functions. This has impeded CPIU performance. See **Annex 10** for a summary of how CPIU is meeting existing reporting requirements under ADB and DFAT agreements.

201. The time-consuming accounting dependencies, with pressure from the NTF Board to be provided with timely financial management reports, motivated the CPIU to seek rapid, but interim, solutions to obtaining and reconciling NTF accounting data as a first priority. MID has not placed the same pressure on activity reporting; and as a result the CPIU interim accounting and reporting solutions only address NTF needs, not those of MID.

202. SIG Budget (Recurrent and Development) disbursements are centralised through the MoFT Payments Processing Section. Because MID accounting is not decentralised at this time, but may be in future⁸¹, actual expenditure data for CPIU currently needs to be obtained from MoFT before it can be incorporated into CPIU and NTF reporting.

203. The Review notes the time penalty and double handling of data that this practice imposes on CPIU, which is inefficient and creates the risk of data handling errors. However, the benefit of this approach is effective whole-of-government cash flow management; which is essential when SIG fiscal revenues are contracting.

204. Because NTF is fully funded by SIG and donor contributions, the use of the centralised SIG creditors payment system with its longer delays in payment processing due to cash flow constraints is not efficient; and frustrates one of the benefits of a pre-funded program, being prompt payments to contractors.

205. In mid-2012, in response to NTF Board pressure to prepare NTF 2011 Financial Statements for audit, CPIU Finance Section set up procedures to independently record all NTF GPVs and reconcile their payment from the NTF bank account using the TSDP MYOB accounting system. This approach is good practice for ensuring completeness and accuracy of payments processing. In mid-2013, CPIU began accruing NTF GPVs as they were raised to provide the NTF Board with the balance of uncommitted NTF cash available. Both CPIU responses are helpful to NTF Board reporting needs in the short-term. However, neither response is technically viable or sustainable within CPIU, as previously noted.

206. The Review notes further breakdowns in internal controls in the MoFT accounting process as it applies to NTF transaction processing, despite there being on average only one NTF transaction to be processed daily. These issues are discussed in **Annex 9**.

207. As was the case for SIG management of resources mobilisation, these control failures have implications for DFAT use of partner government systems. The Review considers that MoFT accounting systems represents a significant accounting and fiduciary risk to DFAT funds placed in NTF. Managing this risk to DFAT funds will require special measures to be taken to strengthen the efficiency, effectiveness and probity of MoFT management systems.

208. The Review recommends a rapid appraisal and design mission to determine a technically sound and sustainable approach to improved accounting information flows to support timely and complete updates of the CPIU project management system; and to provide better financial management reporting to the NTF Board. The design mission TOR will need to consider the merits of addressing NTF and MID accounting needs simultaneously, or trialling NTF-only to stimulate greater donor funding. NTF-only accounting arrangements can also consider outsourcing to third parties, such as private accounting firms. The design mission will also need to appraise the advantages of reinforcing the CPIU interim arrangements to function beyond TSDP, adopting a two-track approach in which the CPIU interim arrangements continue while a sustainable solution

⁸¹ Solomon Islands Government Accounting Service (SIGAS), under the direction of the SIG Accountant General, has piloted decentralized data processing for SIG public accounting.

is developed and implemented in CPIU, or alternative approaches. Changes to NTF financial management needs to be reflected in the NTF Procedural Guidelines (**Recommendation 34**).

209. DFAT may be the donor most likely to provide donor support to the establishment of improved CPIU and NTF accounting processes. This is because Australian funds are currently held in the NTF; and DFAT is now directed to countersign all payments involving Australian funds held in Partner Government Systems. However, in the short-term there are specific steps that can be taken to improve the existing CPIU and NTF Board accounting and reporting procedures.

210. The Review recommends that CPIU and NTF Board seek MoFT agreement to certain amendments to MoFT procedures for NTF contract approvals, contract payments and accounting reports to facilitate the following NTF operations (**Recommendation 35**):

1. MID/ NTF contracts using Attorney General-prepared, or standard, SIG contracts to be approved in MoFT without the detailed appraisal of legal and financial liabilities that is required for any non-standard contracts. Risk exposure to the State has already been addressed by SIG r and the terms of the contract are constructed to properly address these risks; and
2. NTF contract payments to be made by the MoFT Payments Processing Section as Electronic Funds Transfers (EFTs) from ANZ NTF Operating Account. This should by-pass SIG Consolidated Fund cheque processing delays and lift the cash flow constraints that standard SIG practices currently impose on NTF payments. MoFT procedures for processing NTF EFTs will need to be established and may form part of a No Objection approach to DFAT oversight of NTF payments; and
3. Accounting reports for NTF payments processing to be made available to CPIU staff on a regular monthly basis. These reports have been available since January 2012 and will assist with reconciliation of NTF bank transactions, but have not been provided to CPIU to date.

5.9 Conclusions

211. The Review has assessed the legislative framework for NTF financial management (**Annex 8**) and the accounting and reporting procedures approved by the NTF Board (**Annex 10**). The Review has also considered NTF financial reporting obligations under legislation and the DFA (**Annex 9**); and compared these requirements with NTF financial reporting performances. The Review finds that NTF financial management is adversely affected by (i) structural and (ii) operational weaknesses, resulting in non-compliance with its legislation and the DFA.

212. NTF is not currently complying with legislated reporting requirements under the NTF Act, NTF Regulations or the NTF Procedural Guidelines. Further, NTF is not fully compliant with its reporting requirements under the DFA. See **Annex 9** for specific details of this non-compliance.

213. The Review finds that structural weakness in NTF financial management is caused by the NTF Procedural Guidelines; which do not properly consider the financial reporting requirements of the NTF Board

(See **Annex 10**). The NTF Board and CPIU, as NTF Secretariat, have implemented short-term solutions to address this structural deficiency, but the Review finds the current solution is neither viable nor sustainable.

214. The Review concludes that the SIG legislative framework for the NTF does not need amendment. However, the Review recommends that the NTF Procedural Guidelines be revised to better meet the NTF's financial management and reporting requirements. See Recommendation 34 in Table 8.

215. Operational weakness in NTF financial management is due to dependencies on (i) MID budget and expenditure management; (ii) MID-CPIU project management capacities; and (ii) MoFT accounting and reporting capacities. As a result, SIG is not fully compliant with its co-contribution responsibilities under the DFA (see Tables 4 and 5 above); and NTF reporting on revenues, project activity and financial management can be delayed and not complete or accurate.

216. The Review notes that NTF Board has the authority to invest surplus funds (S.4 (2)(a) Regulations), but did not do so in 2011 and 2012. The opportunity cost of this decision to NTF is SBD 5.03m in foregone interest earnings. This amount is calculated as follows:

- 2012 NTF cash balance of SBD113.1m @ 3.5% interest for 6 months = SBD 1.98m; and
- 2011 NTF cash balance of SBD 87.1m @3.5% interest for 12 months = SBD 3.05m

217. The Review reaches the overarching conclusion that the current NTF financial management arrangement between SIG and CPIU is not an effective financial management partnership for the NTF Board; and the control weaknesses identified by the Review increase fiduciary risk levels to the point where use of Partner Government Systems by DFAT requires require special additional support measures to be taken around enhancement and acceleration of financial reforms in MID and CPIU. The Review makes a number of recommendations on how to ameliorate these fiduciary risks, commencing with a design mission for a project activity and financial management system in MID. The Review finds that the fiduciary risks to DFAT funding in NTF are acceptable where the proposed financial reforms are implemented; and continued use of the NTF as a funding vehicle for Australian support to the SIG transport sector can be justified under this condition.

218. The Review considers that the benefits of strengthening MID and CPIU project management systems to enable better reporting for both MID and NTF activities, so reducing long-term transactional costs associated with on-going Australian support to the SIG Transport sector, outweigh the short-term fiduciary risks to Australian funds currently held in the NTF.

219. Finally, control weaknesses in the SIG accounting system prevent preparation of IPSAS Cash Standard-compliant Financial Statements⁸², which does not satisfy ADB, or many other donors', minimum accountability standards. The Review concludes that the NTF, in its current form, is unlikely to meet the accountability requirements of other donors. However, where the proposed reforms can be implemented, NTF financial management into the future will meet the reporting requirements of most donors; and co-financing of the NTF by other multilateral and bilateral donors will be possible.

⁸² Refer <http://www.mof.gov.sb/GovernmentFinances/Annualaccounts.aspx>. Accessed 1 October 2013.

Table 8 NTF Review Recommendations on Financial Management

NTF Review Recommendation	Responsible	Timing
27. NTF Board should seek assistance to conduct a rapid appraisal and design of more transparent and timely processes for NTF resource management.	NTF Board, DFAT	As soon as practical
28. DFAT Honiara to formally advise CBSI of its responsibilities to provide notification of funds movements into and from the two NTF bank accounts. This will facilitate direct oversight of DFAT funding movements.	DFAT Honiara	Immediate
29. NTF Board Agenda should include a standing item for the Board to consider whether, or not, to invest any surplus NTF funds This needs to be consistent with Section 15 of the National Transport Fund (Fund Management) Regulations 2010. NTF Board investment decision to be minuted by NTF Board Secretary and implemented by NTF Fund Manager.	NTF Board	Starting with the Feb 2014 Board Meeting
30. NTF Board should conduct a frank and open dialogue with stakeholders to adjust all party's expectations concerning realistic levels of NTF cash contribution from SIG Budgets; and that future SIG Budgets and NTF Board plans reflect this adjusted reality. (See also Recommendation 1)	NTF Board Chair	Starting with Feb 2014 Board Meeting
31. ADB should clarify whether the PMI Consultants or ADB TA 7715: Supporting TSDP is responsible to enhance/ increase CPIU project management and implementation capacity; and how this strategically important role is to be resourced. (See also Recommendations 12, 23 & 24)	ADB Honiara	Following ADB TSDP MTR
32. The CPIU should design and agree a single, structured contracts register for all MID contracts awarded. This register will form the nucleus of the CPIU Project Management tool; and needs to be systematically linked to MID budget and accounting data and supported by sound administrative procedures.	PS MID and CPIU Director	By Feb 2014 Board Meeting
33. The TOR for the CPIU/PMI Financial Management Specialist should be revised. 33.1 The revised TOR should focus directly on (i) developing and securing SIG approval for a capacity development plan for CPIU project management; and (ii) Producing timely and detailed CPIU project costing, resources mobilisation and cash flow management reports for both MID and NTF Board. 33.2 The revised TOR should exclude any responsibility for the MID accounting functions that provide financial data for updating of CPIU resource mobilisation, project costing and cash-flows. 33.3 The Review notes that strengthening the MID accounting functions is an important, but separate, role; and will recommend this become part of an additional donor support package to MID and NTF Board. (See also Recommendation 12)	Director CPIU and PMI Consultants	Following ADB TSDP MTR
34. NTF Board should seek donor support for a rapid appraisal and design mission to determine a technically sound and sustainable approach to improved resources management and accounting information flows to support timely and complete updates of the CPIU project management system; and to provide better financial management reporting to NTF Board. 34.1 The design mission TOR will need to consider the merits of addressing NTF and MID accounting needs simultaneously, or trialling NTF-only to stimulate greater donor funding. NTF-only accounting arrangements can also consider outsourcing to third	NTF Board Chair	Following ADB TSDP Mid-Term Review.

<p>parties, such as private accounting firms.</p> <p>34.2 The Mission will also need to appraise the advantages of reinforcing the CPIU interim arrangements to function beyond TSDP, adopting a two-track approach in which the CPIU interim arrangements continue while a sustainable solution is developed and implemented in CPIU, or alternative approaches.</p>		
<p>35 CPIU and NTF Board should seek MoFT agreement to certain amendments to MoFT procedures for NTF contract approvals, contract payments and accounting reports to facilitate NTF operations:</p> <p>35.1 MID/ NTF contracts using Attorney General-prepared, or standard, SIG contracts will be approved in MoFT without the detailed appraisal of legal and financial liabilities that is required for any non-standard contracts;</p> <p>35.2 NTF contract payments will be made by the MoFT Payments Processing Section as Electronic Funds Transfers (EFTs) from ANZ NTF Operating Account. This will by-pass SIG Consolidated Fund cheque processing delays and lift the cash flow constraints that standard SIG practices currently impose on NTF payments. MOFT procedures for processing NTF EFTs will need to be established and can form part of a No Objection approach to DFAT oversight of NTF payments; and</p> <p>35.3 Accounting reports for NTF payments processing will be made available to CPIU staff on a regular monthly basis. These reports have been available since January 2012 and will assist with reconciliation of NTF bank transactions, but have not been provided to CPIU to date.</p>	<p>NTF Board Chair, CPIU Director and SIG Accountant General</p>	<p>As soon as practical</p>

6. Key Findings and Recommendations - Procurement

6.1 Introduction

220. Procurement was the fourth overarching concern of the Review. While the Review has some concerns in relation to Procurement, the risks associated with these concerns are less serious than the concerns and risk associated with Financial Management. The Review started with a check against the constraints and recommendations of the Procurement Assessment undertaken by ADB in 2010 during the preparation of TSDP. Each step in the process of procurement using NTF funds was then examined, with a focus on tendering, award and administration of contracts, record keeping and the potential for fraud. Key recommendations are provided following the findings with further details of recommendations in **Table 9** of the end of the Section.

6.2 ADB Procurement Assessment and Current Capacity

221. The Review considered the extent to which actual procurement capacity had changed since 2010 compared to the constraints identified and the recommendations made in the *ADB Procurement Assessment November 2010*⁸³. **The Review finds** there has been little change during the past 3 years, and little progress with the recommendations as set out below.

222. **Establish a Procurement Division within MID.** An MID Procurement Unit has not established or staffed, unless it is considered that the CPIU Procurement Unit is the de factor MID Procurement Unit, as MID is entirely reliant upon the CPIU and PMI Consultants for all NTF and SIG funded procurements.

223. **Provide the CPIU and MID (Procurement Division) with capable staff, supported by international and national consultants, particularly in key procurement areas.** The Procurement Unit of the CPIU is entirely staffed by Consultants- one international consultant and two national consultants. Three MID counterpart staff are nominally assigned to the procurement team. The Review was informed that generally only one such MID counterpart is available to work full time with procurement team. This situation was observed during the mission. The lead International Procurement Consultant, at the time of the mission, was only in position for three weeks though he does have over 20 years of experience in Solomon Islands and is fully aware of procurement practice in Solomon Islands.

224. **Ensure that procurement skills are developed in Government institutions** Virtually no training has been undertaken, and so the lack of procurement capacity generally still applies. Opportunities for on the job training of MID staff are limited by the availability of staff. The Review finds there is still no great capacity in either MoFT or the Attorney General's Office to vet the procurement processes.

225. **Establish complaints mechanism** The Review finds that no system for the handling of complaints has been established.

226. **Develop National Procurement Guidelines for Procurement of Works, Goods and Services including for Selection of Consultants.** SIG has produced a Procurement and Contract Administration Manual that

⁸³ ADB RRP Linked Document

contains all the procurement rules in general terms but does not specifically concern works. ADB has a Manual for Procurement that covers the overall requirements and Specific Users Guide for each type of procurement. The ADB Procurement Capacity Assessment specifically recommends that Individual Guidelines should be produced for the different types of procurement (works, goods and consultant services). See <http://www.adb.org/documents/users-guide-procurement-works>.

227. Develop Standard Bidding Documents for each type of contract Standard Bidding Documents have been prepared and are in use.

Overall, the Review finds that many of the constraints and recommendations cited in the ADB Procurement Capacity Assessment therefore remain valid today, as few of the recommendations of the review appear to have been acted upon.

Recommendations

228. The Review recommends that

Recommendation 36 - A national counterpart should be nominated as Head of the Procurement Unit in the CPIU. Should MID not have a suitable candidate with sufficient experience, then either one of the National Consultants or International consultants could be appointed on a fixed term contract (See also Recommendation 25)

Recommendation 37 Selected staff members of MID should undertake formal training as suggested in the Procurement Capacity Assessment of ADB.

6.3 Procurement Documentation

229. Procurement Guidelines MID have had a Procurement Manual for civil works, since 2006, the latest version dating from 2010. The SIG Procurement Manual April 2013 has replaced the MID Manual. However the SIG Manual does not cover civil works in the same detail as the MID Manual. **The review recommends** that (in line with the recommendations of the ADB Procurement Assessment) a User's Guide should be established based upon that of ADB specifically for works, in addition to Users Guides for Goods and Services which may become relevant to CPIU at some time in the future (**Recommendation 38**). These Guides do not have to be produced by MID, but could be produced by MoFT. (Although there is a rationale in MID producing the User's Guide for works based on the 2010 MID Manual). In the interim pending production of SIG Guides, the ADB Guides could be used.

230. Use of SIG Procurement Manual The Procurement Unit treats procurements for both NTF and SIG funded works in an identical fashion. In both cases the 2013 version of the SIG Procurement Manual is used. The Review found no signs of any deviations from these regulations by the CPIU Procurement Unit in the documentation examined. However there were anomalies in the process after Bid Evaluation and Contract award. These are not the responsibility of the CPIU Procurement Unit even though they are part of the Procurement Process. The procedures stated in the SIG Manual are largely adhered to.

231. Procurement Ceilings *The Review finds that the ceilings for each type of Procurement have remained unchanged for over 30 years (from the time when the AUD and SBD were virtually at parity).* **The Review recommends** that these ceilings should be reviewed with a view to increasing the levels in line with inflation (**Recommendation 39**).

232. Use of Shopping Procedures Raising the ceilings for use of National Shopping would result in a simplification of the Tender Proceedings through the usage of simplified documentation mainly for road maintenance. Such a revision of ceilings would likely reduce the time to procure contractors for relatively minor repairs and alleviate political complaints. Allowing more shopping procedures will curtail many of the “dead” periods waiting for various approvals/“sign offs” during the current Bidding Process. **The Review recommends** that shopping procedures should be introduced for small value contracts (**Recommendation 40**).

6.4 Procurement Plan

233. The Review was advised that this is established twice a year, but so far only one plan has been prepared (as approved by the NTF Board in March 2013). There are two separate documents - one for NTF funded works and the other for SIG funded works. These appear to be fixed, with no changes in contracts included in the Plan or dates of key steps in the schedule between issues. The CPIU Procurement Unit follows precisely the contract list and key dates in the schedule of Plan that exists. A spreadsheet is established showing the actual dates that each step is taken through to contract signature. Despite this approach, the Review found there have been cases where works have been undertaken without them having been agreed by a modification of the Procurement Plan. The Review considers this suggests the Procurement Plans should be updated at least every six months, as international practice is for details in such plans (including the addition of contracts) to be updated wherever new priorities are necessary or are required by the Authorities.

234. As noted in section 2.9, the minimum value of contracts that have to be included in the Procurement Plan is AUD 500,000. In practice the review found that most contracts in the March 2013 Plan for NTF funded works had a lower value, with 19 contracts with values less than AUD 250,000. SIG has to seek a “No Objection” letter for all procurements using GoA funds with a value equivalent to or greater than AUD 250,000 (SBD 1.7 Million equivalent). The Review suggests that these anomalies be addressed in the next edition of the Procurement Plan.

6.5 Preparation of Bidding Documents

235. Once the Procurement Plan is established, the Specifications, Scope of Work and Bills of Quantity (BoQ) are produced by the relevant engineers and passed to the Procurement Unit for action. Upon receipt, the Procurement Unit prepares a complete set of the Draft Bidding Documents together with a draft of the relevant advertisement and, where relevant, issues them to DFAT for a “No Objection” Letter (NOL)⁸⁴. After receipt of the NOL, the documents are then sent to the PMI Consultant Team Leader & CPIU Director who

⁸⁴ The NOL requirement is only for procurements valued at more than AUD250, 000. A significant number of procurements (e.g. LBES maintenance contracts) fall under this amount.

review the NOL, and pass the Document and NOL back to the Procurement Unit which prepares the final version of the Documents ready for issue to Potential Bidders. Following these proceedings, the Procurement Unit arranges for Advertisements in Local papers.

6.6 Advertising/Procurement Notices

236. Advertisements are required however it seems abnormal to issue such advertisements once Bidding Documents are completed. The Review finds that this sequence of events is not in accord with recommended ADB⁸⁵ or WB⁸⁶ practice. In particular the Review discovered no use of General or Specific Procurement Notices. Under normal circumstances the first action should be the publication of a General Procurement Notice (GPN) advising of forthcoming procurements for the overall project (in this case TSDP). A Specific Procurement Notice (SPN) is then published advertising invitations to prequalify or to bid for each specific contract (or package of contracts) and when Bidding Documents are to be available.

237. This SPN, as a draft together with draft documents could be sent to DFAT for an NOL, and upon receipt of this NOL the SPN would be published as the final Bidding Documents are being prepared. By following this suggestion, up to four weeks could be saved in the schedule for each contract. As the potential Contractors would realise that some interesting work is forthcoming and they would be able to study the situation prior to the full and detailed documentation being released.

Recommendation

238. The Review recommends that NTF consider issuing General Procurement Notices (GPN) and Specific Procurement Notices (SPN) advertising for bids (**Recommendation 41**).

6.7 Procurement Processes

239. Elapsed Time There have been complaints that procurement is too slow and this appears largely due to the processes and checks instigated by the MoFT. The majority of the contracts to date have been those for labour-based maintenance.

240. The main delays in the execution of such maintenance contracts are due to the time taken for preparation of the documentation upstream of the bidding process and the time taken within MoFT for the counter signatures on final and signed contracts. The review was advised this can be over 3 weeks with some documents being lost in the administration. As noted above, the Review understands that MID are far advanced over other ministries in procurement capabilities. Since MoFT rules are the same for all Ministries,

⁸⁵ See ADB Procurement Guidelines Paragraphs 2.7 & 2.8, March 2013

⁸⁶ See WB GUIDELINES PROCUREMENT UNDER IBRD LOANS AND IDA CREDITS Paragraph 2.7 & 2.8 May 2004, Revised October 1, 2006 & May 1, 2010

perhaps it would be wiser if not faster to fast track MID prepared contracts given MID capabilities. This suggestion is discussed further below.

241. Bidding Documents Used for Civil Works Procurement is undertaken through the use of Standard Bidding Documents that have been prepared and issued by MoFT in addition to being authorised by the Attorney General. There is however, a version of the Bidding Document intended for use in the shopping method of procurement for very small contracts such as maintenance. The Review finds that MID prefers to use an earlier version for these particular Works. When questioned, the Permanent Secretary of MID explained that this was only a temporary measure.

242. Recruitment of consultants To date there has been no hiring of consultants for contracts funded out the NTF. The hiring of Consultants paid for ADB out of TSDP is undertaken by the CPIU under ADB Guidelines. A few cases of the hiring of National Consultants on short technical missions have been observed and seem to have been handled in a professional fashion. The Review finds this demonstrates the capacity exists in the CPIU Procurement Unit should NTF require it at some future stage.

243. Procurement of Goods As far as can be ascertained by the Review there has been no procurement of Goods.

6.8 Review of Bidding Documents

244. The Review accepts the rationale for the DFAT review of Advertisements and Draft Tender Documentation. The Review questions the rationale for the review by and obtaining approvals from CTB, MoFT, and the Office of the Attorney General seeing that Standard Documents are being used which have previously been approved by the Attorney General, and the template documents produced and Issued by the Procurement Section of MoFT. The Review considers that as the relevant documentation has already been approved by the Attorney General and MoFT, it should be sufficient that MoFT review the final bidding documents for contracts drafted by MID contracts prior to issuance. This would shave some time from the procurement schedule. **The Review recommends** a streamlining of procurement procedures to reduce steps, checks and NOL in the procurement process which do not add value, while still ensuring the integrity of these processes and value for money of procurements (**Recommendation 42**).

245. *MoFT Financial Circular 5 – 2013* This was issued on 7th October 2013 after the Review Mission. It requires for contracts over SBD 200,000 (AUD 30,000 equivalent) the Accountant General to be involved at three points:

1. Review of Tender Documents **before** Invitations to Bid are issued (including the advertisements)
2. Review of the Tender Evaluation Committee Reports **after** bidding, but **before** Notification of award are issued (contracts are awarded)
3. Review of Contracts **before signing**

246. To do any meaningful review (let alone do it efficiently and effectively) the Review considers that the Accountant General will need a Procurement Unit staffed by people with the requisite knowledge and experience. The Review considers based on review of the current procurement process during the mission that these requirements will add at least four weeks to the Procurement Process.

Recommendation

247. The Review recommends that MoFT should be asked to remove the requirement for MoFT review of contracts prepared by MID using standard bidding documents (**Recommendation 43** – See also Recommendation 35).

6.9 Bid Opening

248. The Review Team attended a CTB Tender opening and also discussed the process with participants. In accordance with international good practice Bids received by the Central Tender Board should be registered and placed in a sealed Tender Box. There is some doubt as to whether CTB keeps the records of the Deposition of Bids. There is also some doubt as to the security of the Tender Box and its contents. According to international good practice, the bid opening should be immediately after the date and time limit of the closing date whereas the CTB delays the bid opening due to the lack of a Quorum. International good practice has no requirement for a Quorum

249. It appears that late Bids are not necessarily recorded separately which has lead to such late bids being opened and called out. One such incident was identified by the Review Team. While this incident did not relate to an NTF funded bid, it illustrates a less than satisfactory practice of the CTB. There were a total of 4 contracts concerning NTF at the opening, each Tender had at least 4 bidders and the prices quoted were all significantly different. The CPIU Procurement Unit advised that the Minutes of Bid Opening are rarely available.

The Review finds from information available to it, that the CTB procedures are not in accordance with international good practice and are a cause for concern in relation to fraud (as discussed in section 6.13 below).

Recommendation

250. The Review recommends that the CTB should undertake a thorough review of the Bid Opening process (**Recommendation 44**).

6.10 Bid Evaluation

251. The evaluation of Bids is undertaken by persons nominated by the CTB from within the Ministry concerned and with no CTB Member being so nominated. In line with the Manual, the bids are first verified to see that the documentation is complete and in accordance with the Tender Terms. A report on this step should be produced prior to the evaluation of the contents of the bids being undertaken by the Tender Evaluation Committee (TEC). (The Review was advised that step is not always followed). The TEC then compares and evaluates the Bids following which they produce a detailed report and recommendation for Contract Award for the CTB.

252. The Review was advised that during evaluation there have been cases where the Bids were well above the Estimates produced by the engineers. On occasions where the difference is large, the final contract price is sometimes negotiated downwards. This is an unacceptable practice as any clarification of bids should be transmitted to all the Bidders and should there be costs that are unacceptable to NTF in one Tender a clarification should be issued to the other bidders for the same Operation. Under such circumstances (where the price is greater than the Engineers estimate) any negotiations should only concern the Scope of Work and not involve any negotiation of the unit prices. Negotiation of unit process after award of a contract is against the SIG Rules and contrary to international good practice as all bidders are not being treated equally.

6.11 Contract Administration

253. The administration of contracts within the CPIU is the same for NTF and SIG funded contracts, and is not the responsibility of the CPIU Procurement Unit. The Review finds this is an area of considerable weakness as the CPIU does not appear to have a viable administration system in place. There have been several cases of very late payments to contractors. This has caused cases where contractors have stopped working because of non payment, while other contractors are doing the absolute minimum just to keep the contract alive and doing what they can afford to cover under their own finance. The result of this lack of administration and payments has given NTF a bad reputation amongst the contractors.

254. A lack of construction supervision engineers to survey (inspect) the works, in addition to the absence of transport for the engineers to reach the work sites seems to be the main cause of these delays. These issues are in the process of being addressed by the CPIU. The Review was advised that a “Job Management Centre” is in the process of being created within MID TIMS. The Centre is intended to cover the construction supervision of works and the signing off of works either for progress payments or for the final acceptance of the works and final payment. The functions should be in accordance with the SIG Procurement and Administration Manual.

255. **Complaints** As noted above, there is no system for the handling of complaints in spite of its being one of the recommendations in the ADB Capacity Assessment.

Recommendation

256. **The Review recommends** that a functioning contract administration unit needs to be established within the CPIU or within MID and properly staffed and equipped as a matter of urgency (**Recommendation 45** – see also Recommendation 32).

6.12 Record Keeping

257. The records are being kept in an orderly and efficient manner whether for NTF or for SIG contracts. Complete dossiers are filed separately under a unique identification. The filing is undertaken both in an electronic and hard copy form

6.13 Fraud

258. No instances of suspected fraud were found though that is not to say that there has been no fraud but that the files inspected showed no evidence of fraud. International experience suggests that it is unlikely that such fraud would occur where the majority of the contracts are for small values. This could be exacerbated in cases that contractors are not paid on time and so search for a means of compensation. Fraud is considered more likely where important contracts are concerned and where there are more opportunities for fraud seeing the contract values are higher and the persons involved more important. There may be collusion between some contractors though none were identified; in such a small community such collusion may exist but in the time allotted for the mission it was not possible to study each and every dossier. There is a risk of such fraud when the Contractors are not paid on time (in the sense of there being delays to the payment of their invoices).

259. There is however, the potential for illicit operations within the Central Tender Board (CTB) as the required controls do not appear to be in place. As noted above, the Review Team attended a Tender opening. The team observed there was a case of a late bid being opened and displayed on the board instead of being returned to the bidder unopened. Minutes of the ceremony were not produced in a timely manner. It seems clear that the bid registration is not being carried out correctly in accordance with international good practice. There were suggestions that on some occasions, bids presented on time may have been lost.

Recommendation 44 above is made to address these issues.

6.14 Meeting the Requirements of Other Development Partners

260. Following a comparison of the SIG Manual and those of ADB and WB the Review finds that the SIG Manual is up to the standard required by other Donors. (JICA usually follows the procedures of the World Bank.) In addition the SIG panel has taken World Bank and ADB Guidelines into consideration as also those of Papua and New Guinea and Vanuatu in the preparation of the SIG 2013 Guidelines.

261. The processes and procedures for recruitment of consultants comply with the Guidelines on the Use of Consultants by ADB and its Borrowers (March 2013). The processes and procedures for recruitment of works, goods and services comply with the ADB Procurement Guidelines (March 2013), except as noted below.

262. The Review notes that the processes and procedures would better meet the standards of ADB (and WB) if the recommendations of the ADB Procurement Assessment 2010 were to be fully implemented. The Bid Opening procedures of the CTB would better meet the standards of ADB if a review were undertaken (as per recommendation 44) to ensure that they follow international good practice.

Table 9 Review Recommendations on Procurement

NTF Review Recommendation	Responsible	Timing
36. A National Counterpart should be nominated as Head of the Procurement Unit in the CPIU. Should MID not have a suitable candidate with sufficient experience, then either one of the National Consultants or International consultants could be appointed on a fixed term contract. (See also Recommendation 25)	MID	As soon as practical
37. Procurement Training should be provided for MID Staff Selected staff members of MID should undertake formal training as suggested in the Procurement Capacity Assessment of ADB. This could entail MID reallocating staff between departments or taking on additional staff with the aim of increasing their procurement capacity.	MID	As soon as practical
38. SIG should prepare User Guides for Procurement to supplement the SIG Procurement Manual 38.1 A Users Guide specifically for Works (based on the ADB Procurement Guideline for Works and the previous MID Manual) should be prepared 38.2 A Users Guide for Goods and Services should also be prepared (based on the ADB Procurement Guideline for Goods and Services)	MID CPIU/MoFT MoFT	As soon as practical After the Works Guideline
39. Procurement Ceilings should be reviewed with a view to increasing the levels in line with inflation.	MoFT	As soon as practical
40. Shopping Procedures should be introduced for small value contracts, using the MoFT documents for small and very small contracts	MoFT	As soon as practical
41. Advertising/Procurement Notices NTF should consider issuing General Procurement Notices (GPN) and Specific Procurement Notices (SPN) advertising for bids.	NTF Board	Board Meeting in Feb 2014
42 Streamlining of Procurement Procedures to reduce steps, checks and NOL in the procurement process which do not add value, while still ensuring the integrity of these processes and value for money of procurements.	GoA and MoFT	As soon as practical
43. MoFT should be asked to remove the requirement for MoFT review of contracts prepared by MID using standard bidding documents (See also Recommendation 35)	MoFT	As soon as practical
44. The CTB should undertake a thorough review of the Bid Opening process. 44.1 Changes should be made as required to ensure that Bid Opening is done in accordance with International Good Practice. 44.2 CTB must tighten up the registration of Bids received. The Tender Board must register all the incoming Bids with a date and time stamp and the Box be sealed immediately after the closing time limit. 44.3 Late bids being must be kept apart with "LATE PRESENTATION" written over the envelopes, and sent back to the contractor unopened.	CTB	Immediate
45. Contract Administration A functioning contract administration unit needs to be established within the CPIU or within MID and properly staffed and equipped as a matter of urgency. This Unit should work closely with Construction Supervision Staff who carry out the surveys to verify that the works are being or have been undertaken in accordance with the terms of the contract and issue clearance for part or full payments. (See also Recommendation 32)	MID	Immediate

7.1 Introduction

263. The preceding Sections 2-6 present the findings and recommendations of the Review in relation to the detailed matters in paragraph 4.1 of the TOR. The Review was also asked in paragraphs 4.2 – 4.4 of the TOR to consider three higher level factors: the NTF and SIG policy and legal framework; the GoA/SIG Direct Funding Agreement and the requirements of other development partners. The Review has provided findings and recommendations on these topics in Sections 2-6. These are brought together in this section to assist in further discussion of these topics.

7.2 NTF Act, Regulations and Procedural Guidelines, and other relevant SIG legislation and policies (TOR 4.2)

264. The review has not found any significant non compliance with the NTF Act, Regulations and Procedural Guidelines, except for the area of financial reporting. The Review finds that the performance of the Secretariat against the responsibilities set out in clause 9 (3) of the Regulations has been extremely limited, and that there is currently not a functional Secretariat as intended by the Regulations.

265. The Review has not recommended any changes to legislation, but has recommended changes to governance and financial management procedures and a review of the policy on the role of the NTF (Recommendations 1, 5 & 30).

7.3 GoA/SIG Direct Funding Agreement (TOR 4.3)

266. The Review has not found any substantive areas of non-compliance with the Agreement, but notes that SIG co-contributions are currently difficult to accurately quantify due to weaknesses in SIG financial management and reporting

267. The Review considers that MoFT accounting systems represents a significant accounting and fiduciary risk to DFAT funds placed in the NTF. Managing this risk to DFAT funds will require special measures to be taken to strengthen the efficiency, effectiveness and probity of MoFT management systems.

268. The Review has found some non compliance in relation to Board Meetings. Paragraph 39 of the Agreement lists items to be discussed at Board meetings. The Review finds that Board Minutes do not record any discussions on item (a) Review of performance against the Performance Assessment Framework, item (e) Review/update of the Program Risk Management Plan/Strategy or (i) Progress on strengthening Public Financial Management and procurement systems or developing the Medium Term Expenditure Framework. The Review finds in addition to not being discussed, that the Risk Management Plan has not been updated.

7.4 Requirements of other development partners (TOR 4.4)

269. DFAT and ADB have placed a number of requirements on NTF funded projects in relation to social and environmental safeguards, FM, procurement, gender, and anti corruption. In some areas these requirements are to progressively raise SIG procedures to international good practice. The recent ADB MTR for TSDP highlighted a number of areas where procedures still do not meet the

required standards. The Review has also made its own assessments on FM and procurement, as set out below.

270, The Review considers that other development partners who may wish to contribute to the NTF are likely to treat a contribution to the NTF as if it were a grant/loan loan they were making directly to SIG for a project. The development partners would therefore assess whether the systems in place for the implementation of works meet their requirements, including those for social and environmental safeguards, FM, procurement, gender, and anti corruption. In so doing they would use the ADB and DFAT experience as a starting point.

271. Financial Management In the opinion of the Review Team, NTF resource management does not meet accounting standards acceptable to ADB⁸⁷ and is unlikely to meet other development partners standards for accounting or financial management of funding. Control weaknesses in the SIG accounting system prevent preparation of Financial Statements compliant with the required international standards⁸⁸ which does not satisfy ADB or other development partners minimum accountability standards

272. Procurement The Review notes that the processes and procedures would better meet the standards of other development partners (particularly ADB and EU) if the recommendations of the ADB Procurement Assessment 2010 were to be fully implemented. The review considers that the procedures for review of documents, Bid Opening by the CTB and contract administration would better meet the standards of development partners if the recommendations of the Review were accepted and implemented (Recommendations 43-45).

⁸⁷ Page 5, 2.4.3 “Accounting Standards acceptable to ADB are the International Public Sector Accounting Standards (IPSAS)”, ADB Financial Management and Analysis of Projects, 2005

⁸⁸ IPSAS

ANNEX 1 Joint Review of the Solomon Islands National Transport Fund

TERMS OF REFERENCE August 2013

1. PURPOSE

- 1.1 These Terms of Reference (ToRs) have been prepared for the Solomon Islands Government (SIG) and its development partners in the transport sector to undertake a joint review of the governance, management and operations of the National Transport Fund (NTF) following its establishment in 2010 and subsequent operations.
- 1.2 The purpose of this review is to:
 - a. Assess the effectiveness and efficiency of existing governance, management and operational arrangements after an initial two years of operations (from the first contribution to the fund in January 2011); and
 - b. Make recommendations to SIG on any identified weaknesses or areas for strengthening to ensure the provision of adequate support for future operations. This will provide support for effective management of NTF resources invested into the transport sector for the long-term benefit of Solomon Islands.

2. BACKGROUND

- 2.1 The NTF was established by the Solomon Islands Parliament, through the *National Transport Fund Act 2009* (the NTF Act), as a special fund under section 100 of the *Solomon Islands Constitution*. The Act states that funds paid into the NTF by SIG and development partners are for the development and management of transport services and the development, design and maintenance of transport infrastructure in Solomon Islands.
- 2.2 In 2010 SIG approved Regulations under the NTF Act (the NTF Regulations) that established the functions and membership of the NTF Board, the role of the Secretariat to the NTF, and arrangements for the management of the NTF:
 - a. The **NTF Board** is chaired by the Permanent Secretary of the Ministry of Finance and Treasury (MoFT). The Permanent Secretary of the Ministry of Infrastructure Development (MID) is the Deputy Chair. The other members are the Permanent Secretaries responsible for Aviation, Development Planning and Aid Coordination, Provincial Government and a development partner representative.

- b. The Board is responsible for all aspects of the management of the NTF and for ensuring the NTF is managed in accordance with NTF Act, Regulations and other laws. The NTF Regulations outline specific responsibilities of the Board relating to the investment and payment of NTF funds and the consideration of project proposals and reports. The Regulations also specify the functions of the Secretariat in relation to calling meetings, circulating papers, receiving proposals, presenting reports and maintaining and circulating records of Board resolutions.
 - c. The NTF Board met for the first time in August 2010. In March 2011 the Board adopted Procedural Guidelines that include provisions on financial management, general purchase and tendering, fraud, and anti-corruption. The Board met twice during 2011, four times in 2012 and twice so far in 2013.
 - d. As DFAT is the only development partner to contribute to the NTF to date, DFAT currently nominates the development partner representative on the Board. Prior to each Board meeting, DFAT consults with other partners in the transport sector who may also attend Board meetings as observers. The Asian Development Bank (ADB), Japan International Cooperation Agency and New Zealand Ministry of Foreign Affairs and Trade (NZMFAT) regularly send representatives to Board meetings.
- 2.3 The *National Transport Plan* (NTP) sets out the over-arching strategy for the transport sector up to the year 2030. It constitutes the basis upon which funding for transport infrastructure projects is prioritised and subsequently endorsed by the Solomon Islands Cabinet. The NTP covers all modes of transport (land, sea and air) and includes strategies for the maintenance, rehabilitation and development of transport assets and for assisting and regulating transport services, particularly shipping services. The 20-year NTP was first adopted in 2006 and subsequently updated in 2010. The NTP has been formally approved by SIG and therefore represents its policy in the transport sector.
- 2.4 Drawing upon the NTP, a three-year *2011–2013 Transport Sector Action Plan* was subsequently developed in September 2010 to reflect the short-term investment priorities for infrastructure maintenance, rehabilitation and expansion projects. Actual spending against the NTF is governed by annual work plans that take account of expected contributions and updated project cost estimates. These plans may be varied by the Board throughout the relevant year to respond to changing circumstances. The first work plan was approved by the Board in October 2011, covering the remainder of 2011 and all of 2012. The second plan was approved by the Board in November 2012 for 2013 with subsequent revisions approved in March and July 2013.
- 2.5 SIG and its development partners (particularly DFAT, ADB and NZMFAT) have agreed to implement a transport sector-based approach for based on long-term partnerships, sector coordination, and reliance on government systems. DFAT has agreed to support this approach through contributions to the NTF (see 2.7 below). The ADB is currently supporting the sector-based approach through a grant for consulting services under the Transport Sector Development Project (TSDP) (see 2.9 below) outside of the NTF. However, the ADB is considering providing loan funding, potentially through the NTF, from as early as late 2014 under a second phase of TSDP. NZMFAT provides funding for transport sector projects in close cooperation with SIG but outside the NTF, initially focused on the major upgrades to

aviation infrastructure in Western Province. The European Union (EU) is also considering providing funding for transport infrastructure through the NTF.

- 2.6 SIG and development partners note the importance of successful NTF operations to the maintenance and development of appropriate and prioritised transport infrastructure and services in Solomon Islands. The NTF is the key mechanism for aligning SIG and development partner funds to the priorities in the NTP. The NTF allows SIG to invest in multi-year transport projects without the requirement to spend funds in the same year that they were appropriated. The fund provides a vehicle for development partners to invest through SIG systems, thereby helping to strengthen these systems and reducing transaction costs for SIG. While only one development partner provides funds through the NTF at present, it is expected that as confidence in the NTF mechanism grows other partners will also use it as their preferred funding channel, thereby improving harmonisation in the sector.
- 2.7 DFAT, on behalf of the Australian Government, has entered into two agreements with SIG for contributions to the NTF:
- a. In December 2010 Australia entered into an initial AUD500,000 (SBD3.6 million) Accountable Cash Grant Agreement with SIG to implement contracts for road rehabilitation and maintenance in Malaita Province that were initially awarded under DFTA's Community Sector Program, which concluded in August 2010.
 - b. Following the approval of TSDP in December 2010 (see below), DFAT entered into a Direct Funding Agreement with SIG in May 2011 to provide up to AUD30 million to the NTF over a four-year period. To date DFAT has contributed AUD20.4 million of this commitment to the NTF.
- 2.8 SIG budgeted funds for the NTF in both 2011 and 2012 but no contributions were made in 2011 and of the SBD34 million budgeted in 2012 only SBD10 million was actually paid to the NTF accounts. Part of the remaining amount of the SIG budget allocations for the NTF was spent by MID on transport sector projects but outside the NTF while part remained unspent at the end of 2012.
- 2.9 The ADB has funded the five-year TSDP, which commenced in August 2011, to strengthen and raise institutional capacity in the transport sector. In conjunction with the establishment of TSDP, a Central Project Implementation Unit (CPIU) was established within MID in July 2011. CPIU comprises MID staff and external consultants and is intended to manage all transport sector activities, including, but not limited to, those funded from the NTF. Other project units exist within MID for the Solomon Islands Road Improvement Project and the Domestic Maritime Support Project (both funded by SIG, ADB, DFAT, NZMFAT and the EU). It is intended that CPIU will eventually replace the need for other project units within MID. The ADB grant funding (which is separate to the NTF) to SIG for TSDP is focused on planning, design, procurement, management and monitoring of investments in transport services and infrastructure. The grant funds both international and national consultants and is delivered largely through a contract between SIG and the consultancy firm Sinclair Knight Metz (SKM).

- 2.10 In terms of the design of TSDP, the SIG and DFAT contributions to the NTF and NZMFAT funding for transport infrastructure outside the NTF are regarded as parallel co-financing. In addition to its grant agreement with SIG, the ADB has signed memoranda of understanding/agreement with DFAT and NZMFAT concerning the management of TSDP. DFAT and NZMFAT participate in ADB-led semi-annual joint review missions of TSDP.
- 2.11 Australia and the ADB have provided additional consultant resources in parallel to TSDP. DFAT has funded three transitional advisory positions (the first of which is ongoing) on transport policy and planning, road maintenance and construction, and asset management. An additional ADB-funded consultant is supporting TSDP by assisting MID with capacity development and institutional reforms.
- 2.12 During 2012 the NTF Board resolved to establish two sub-committees – a Project Steering Committee and a Finance Working Group:
- a. The purpose of the **Project Steering Committee** is to provide guidance on work priorities for CPIU and TSDP. It includes representatives from the Ministries represented on the NTF Board and the three TSDP development partners (ADB, DFAT and NZMFAT) and held its first meeting in May 2013.
 - b. The mandate of the **Finance Working Group** is to improve and review financial processes and reporting for the NTF. It is intended that this group include representatives of MID (including Financial Controller, CPIU staff and TSDP consultants), MoFT and DFAT. This has not been formally convened but DFAT facilitated an informal meeting between MID and MoFT in June 2013 to the financial management of the NTF.

3. KEY ISSUES

- 3.1 After two complete years of operations, now is the appropriate time to review the NTF. Experience has highlighted a number of issues with the existing governance and management arrangements for the NTF. These issues include:
- a. Inadequate but improving support by the Secretariat to the functions of the Board;
 - b. Inconsistent representation at Board meetings by some SIG ministries;
 - c. Unclear responsibilities for financial reporting to the NTF Board and a lack of timely and accurate reporting;
 - d. Delays in undertaking annual external audits of the NTF and the absence of an internal audit capacity within MID;
 - e. Slow preparation of annual reports to Parliament on NTF operations;
 - f. Insufficient financial controls within MID and MoFT to ensure that contract commitments and expenditures against the NTF are consistent with the annual work plans endorsed by the Board.
 - g. Projects not approved by the NTF Board being financed from the NTF.

- 3.2 TSDP, which is closely linked to the NTF, is due for a Mid-Term Review in 2013. SIG and development partners need to consider what changes if any need to be made to TSDP to better support NTF operations and, in broad terms, what technical assistance arrangements should replace TSDP when it concludes in 2016. The NTF Review will be a key input into the TSDP Mid-Term Review that is likely to be held in October or November 2013. Both the NTF Review and the TSDP Mid-Term Review will inform the development of future external support to the sector, including a planned second phase of TSDP.

4. SCOPE

- 4.1 The review will address the following elements of NTF governance and management, identifying strengths and weakness and making recommendations to SIG and development partners on improvements:
- a. The responsibilities, functions and performance of the NTF Board;
 - b. The structure, functions and performance of Board sub-committees;
 - c. The functions and performance of the NTF Secretariat, including the timeliness and effectiveness of processes for submitting papers to the Board;
 - d. Planning and prioritisation processes undertaken by the Board, the Secretariat and MID including the links between annual work plans, the three-year *Transport Sector Action Plan* and the NTP;
 - e. The nature of the expenditure of the NTF and the allocation of fund resources to subsectors in terms of investment and recurrent costs.
 - f. Processes for the management of the NTF and their practical application, including controls over the use of funds, financial management and reporting, procurement, audit, and performance/results monitoring;
 - g. The human resources available to support Board functions and NTF management including SIG staff and technical assistance personnel;
 - h. The relationship between the NTF Board and key stakeholders, including SIG agencies, development partners, the private sector and the Solomon Islands public.

- 4.2 The review shall identify any areas of non-compliance with the NTF Act, Regulations and Procedural Guidelines and other relevant SIG legislation and policies and recommend any changes to legislation, guidelines or policies deemed necessary.
- 4.3 The review shall also identify any areas of non-compliance with the Direct Funding Agreement between the Governments of Australia and Solomon Islands for the NTF. It will recommend as whether any additional fiduciary controls shall be included in the current or future funding agreements, and assess whether the residual risks of channelling DFAT funds through the NTF are manageable and outweighed by the benefits of doing so.
- 4.4 The review shall consider whether the governance and management arrangements of the NTF, as documented formally and in their practical application, satisfy the requirements of other development partners who may wish to contribute to the NTF, particularly the ADB and EU.
- 4.5 The review shall draw on international experience in infrastructure financing through dedicated funds such as the NTF to guide SIG and development partners in improving the operation of the NTF.

6 DURATION, PHASING AND REPORTING

- 6.1 It is expected that the Review will involve a mission to Honiara for two weeks in August or September 2013.
- 6.2 A draft report will be due within two weeks of the mission for consideration by stakeholders. A final report would be finalised within one month of submission of the draft report.

7. JOINT REVIEW TEAM

- 7.1 The Joint NTF Review team will be led by two contracted technical advisers, agreed between SIG and development partners, plus representatives of both SIG and development partners.
- 7.2 Technical specialists, to be engaged on a consultancy basis by DFAT, in line with the position-specific ToRs below:
 - a. Transport Sector Specialist/Team Leader with a background in transport policy and planning, transport financing and institutional reform
 - b. Financial Management Specialist, preferably with experience in the transport sector
 - c. Procurement Specialist, preferably with experience in the transport sector.
- 7.3 The SIG representatives will include:

- a. A representative from MID
- b. A representative from MoFT
- c. Representatives of any other SIG ministries represented on the NTF Board should these Ministries wish to be involved.

7.4 Development partners team will include:

- a. A representative from DFAT
- b. A representative from ADB
- d. Representatives of other development partners in the transport sector (EU, JICA, NZMFAT, World Bank) should these partners wish to be involved.

ANNEX 2 Persons Met

Ministry of Communication and Civil Aviation (MCA)

Mr Frances Lomo	Permanent Secretary
Mr Steven Pirinisau	Undersecretary

Ministry of Development Planning and Aid Coordination (MDPAC)

Hon Connelly Sandakabatu	Minister
Mr Jeremiah Manele	Permanent Secretary
Mr Allan Daonga	Undersecretary
Mr Andrew Prakash	Director, Productive Sector
Ms Lisa Legumana	Principal Planning Officer
Mr Ian Morris	Consultant - Medium Term Development Plan

Ministry of Finance and Treasury (MoFT)

Mr Shadrach Fanega	Permanent Secretary/NTF Chair/CTB Chair
Mr Collin Johnson	Undersecretary
Mr Harry Kuma	Undersecretary
Mr Paula Uluinaceva	Accountant General
Mr Douglas Sade	Assistant Accountant General, Financial Reporting Unit
Mr Loveson John	Chief Accountant, Financial Reporting Unit
Ms Agnes Kera	Assistant Accountant, Financial Reporting Unit
Mr Bill Monks	Chief information Officer
Mr Norman Hiropuhi	Director, Budget unit
Mr Greg Moores	Senior Budget Advisor

Ministry of Infrastructure Development (MID)

Hon Seth Gukuna	Minister
Mr Moses Virivolomo	Permanent Secretary /Deputy NTF Chair
Mr Jimmy Nuake	Acting Undersecretary (Technical)
Mr Harry Rini	Acting Director, CPIU
Mr Mike Qaqara,	Deputy Director, TPPU
Mr Jabin Laedola	Deputy Director/CSU team leader
Mr Ismail Alulu	Chief Engineer
Ms Modesta Namukari	Financial Controller
Mr Trevor Veo	Chief Civil Engineer
Mr Bruce Anderson	Transport Policy Advisor, PACTAM

Ministry of Provincial Government and Institutional Strengthening (MPGIS)

Mr Stanley Pirione	Permanent Secretary
Ms Nancy R.legua	Undersecretary

Office of the Prime Minister and Cabinet

Dr Philip Tagini	Special Secretary to the Prime Minister
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Asian Development Bank (ADB)

Mr Rishi Adhar	Senior Project Officer/Team Leader TSDP
Mr Paula Baleilevuka	Infrastructure Specialist (Honiara)
Mr David Ling	Infrastructure Specialist - By Phone
Ms Jean Williams	Senior Environment Specialist

DFAT

Mrs Sue Connell	Minister Counsellor
Ms Rochelle White	Development Counsellor
Ms Kirsten Hawke	Development Counsellor
Mr Peter Kelly	Senior Pacific Infrastructure Advisor (By Phone)
Mr Scott McNamara	First Secretary – Economic Infrastructure
Mr Eric Lui	Senior Program Manager

EU	Mr Marc Van Uytvanck,	Attaché – Operations
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Embassy of Japan	Ms Hitomi Obata	Researcher/Advisor
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JICA	Ms Naoko Laka	Project Formulation Advisor
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New Zealand High Commission	Mr Luke Kiddle	First Secretary - Development
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World Bank

Ms Anne Tully	Country Representative
Mr Erik Johnson	Senior Operations Officer

Transport Sector Development Project (TSDP) Consultants

Ms Alison McKechnie	Project Director (SKM Melbourne)
Mr John Hughes	Team Leader/Implementation Advisor
Ms Gladys Apla	Accounts Clerk, TSDP (Project only)
Mr Dulcie Ausuta	Procurement officer
Ms Lulu Zuniga Carmine	Institutional Specialist
Mrs Janet Forau	Accountant, CPIU (including NTF)

Ms Myrna Hernandez	Financial Management Specialist
Ms Grace Ma'ai	Field Engineer (Asset Management)
Mr Ken Munro	Procurement Specialist
Mr Kari Nykter	Asset Management Advisor
Mr Aloysius Poiohia	Procurement Officer
Ms Connie Siliota	Community Liaison Officer
Ms Irene Villanpando	Monitoring and Evaluation Specialist
Mr Graham Williams	Wharf and Bridge Design Engineer

Deloitte Touche Tohmatsu Limited

Mr Ben Havanga	Country Director
Ms Tui Alu	Manager

Annex 3 International experience of financing mechanisms similar to the NTF

A 3.1 Introduction

The National Transport Fund (NTF) was established in 2010 by the Solomon Islands Government (SIG) through the *National Transport Fund Act 2009* (the NTF Act). SIG also approved in 2010 Regulations under the *NTF Act (the NTF Regulations)* that established the functions and membership of the NTF Board. The Board is responsible for all aspects of the management of the NTF and for ensuring the NTF is managed in accordance with NTF Act, Regulations and other laws. Membership is composed of SIG Public Servants⁸⁹ and a development partner representative⁹⁰.

The sources of funds for the NTF are (i) budget allocations from the SIG (as part of normal government budget processes) and (ii) grants from development partners (to date only DFAT). The Act states that funds paid into the NTF by SIG and development partners are for *the development and management of transport services and the development, design and maintenance of transport infrastructure in Solomon Islands*.

Following an initial two years of operations of the NTF, SIG and its development partners in the transport sector⁹¹ have agreed to undertake a joint review of its governance, management and operations. The purpose of this review is to:

- c. Assess the effectiveness and efficiency of existing governance, management and operational arrangements of the NTF; and
- d. Make recommendations to SIG on any identified weaknesses or areas for strengthening to ensure the provision of adequate support for future operations.

A 3.2 Purpose of this Note

To inform consideration of options for improving the NTF, the Review Team was asked to prepare a briefing note on relevant good practice examples of financing mechanisms similar to the NTF in other developing countries. This is the purpose of this note.

A 3.3 Approach

The approach taken has been to review existing literature and note conclusions that appear relevant to the tasks of the NTF Review. The note is intended as a basis for discussion during the review rather than as a definitive analysis (which would have required more than the desired three pages). Initial research has not

⁸⁹ Permanent Secretaries of the Ministry of Finance and Treasury (MoFT) [Chair], the Ministry of Infrastructure Development (MID) [Deputy Chair], Ministry of Civil Aviation (MCA), Development Planning and Aid Coordination (DPAC), and Provincial Government and Institutional Strengthening (MPGIS).

⁹⁰ In July 2013 this was DFAT.

⁹¹ DFAT, ADB, EU, JICA, New Zealand Aid Programme

revealed any Transport Funds similar to NTF which cover transport services for all modes and transport infrastructure for all modes.

Documentation of international experience that does exist relates to

1. Road Funds (also known as Road Maintenance Funds).
2. Funding and other aspects of Commercialised Road Agencies (which are considered as the next step in reform of road sector management from road funds)
3. Infrastructure Funds, particularly for Municipal Infrastructure

There is also considerable international experience (particularly in institutional reform and increasing participation of the private sector) in the development and management of services and the development, design and maintenance of infrastructure in aviation, ports railways and public transport. However, this tends to be on a sub-sector by subsector basis. (Even the general principles of reform are similar across sub sectors).

NTF is unusual in that it treats:

- All transport modes
- Services and infrastructure
- Maintenance and infrastructure provision

A full review of relevant good international good practice would therefore need to cover all these topics, and to consider why similar funds have not been established in other countries.

Some 82% (\$105 million out of \$128 million) of the “Essential Expenditure” proposed in the 3YAP is on road maintenance and rehabilitation. So for the purpose of this Note it is proposed to focus the review of international practice on Road Funds and to a lesser extent commercialised Road Agencies. There has been considerable analysis and discussion of these two topics by the ADB, IMF and World Bank since the mid 90’s. The discussion in this Note draws on the sources listed in the References section, and in particular, the Conclusions/Lessons Learned/Way Forward sections.

A 3.4 Overview

Current international best practice in road management has evolved over more than 20 years from initial concerns raised by WB about lack of maintenance on roads in Africa due to lack of funding through use of what are known as “Second Generation” road funds to ensure adequate funding was made available to efforts to “commercialise” management of the road system to ensure more efficient and effective use of the funds available. “Commercialisation” involves separating the management functions of the network (policy implementation, planning, and delivery of a functioning road system as a transport “service”) from the carrying out of maintenance of the system and construction of new roads.

What is interesting in looking at the literature is that the basic problem has remained unchanged *“How to ensure sufficient funds are provided to maintain the road system (in order not to constrain economic activity)”*. To which has to be added *“What do we mean by sufficient funds, how can the amount be determined, and how can we ensure the funds are used in the most efficient and effective way?”*

Similarly the solutions proposed remain unchanged – Improved Budgetary and Public Expenditure Management processes (with the attendant strengthening existing institutions and processes) or Creation of a Second Generation Road Fund. There is agreement that the solution adopted should be selected on a “case by case” basis, depending on the circumstances in the country.

The stated requirements for effective operation of a Second Generation Road Fund also remain unchanged:

- Institutional structures and capacity to manage the fund
- Creation of a Board that is independent of direct Government control
- Significant user/private sector membership on the Board
- Funding from “user charges” – basically fuel taxes and registration fees
- Knowledge of maintenance requirements (and associated funding requirements)
- Transparent processes for allocation of funding to maintenance activities
- Regular and systematic monitoring and evaluation of the quality of road network to ensure the maintenance expenditures are having the desired effect
- Transparent procurement processes
- Technical and financial audits
- Public release of documents

It is interesting to note that even the most recent reviews⁹² still record that many road funds or commercialized road agencies in operation do not meet all of these criteria.

It is also worth noting a number of other points that are made in various reviews

- (i) There is no “correct” solution to be applied in all countries. Creation of a 2GRF or a return to good governance, with improved budgeting and maintenance practices within the more traditional public sector institutional arrangements can be equally effective.
- (ii) 2GRF may be seen as the first step in the process of moving a traditional institutional structure for road management to a more business orientated or “commercialised approach”⁹³.
- (iii) No fund appears to have met all the desirable design conditions or to have met the intended objectives of the funds.
- (iv) Public sector members still tend to predominate on Road Fund Boards. Participation of representatives of the private sector is seen as a positive development. The main benefits are in the areas of transparency and accountability.

⁹² Improving Institutional Capability and Financial Viability to Sustain Transport, Independent Advisory Group, World Bank, 2012 and Progress on Commercialised Road Management in Sub Saharan Africa, Working Paper 92 SSATP, World Bank 2012.

⁹³ In broad terms in such an approach (which applies equally to aviation, ports and shipping and public transport), the overall management of the system, including policy making, planning, regulation and funding stays with government, while the operations and maintenance of services, maintenance of infrastructure and design and construction of new infrastructure is either “contracted out” to the private sector or “privatized”.

- (v) One of the weakest areas of Funds/Agencies in is the lack of adequate monitoring and evaluation systems. This includes an inability of agencies to operate road asset management systems.

A 3.5 Implications for the Review

As a starting point for discussions during the review, an initial assessment has been made of the structure and operations of the NTF against the good practice requirements for a Road Fund, as shown in Table A 3.1 below.

Table A3.1 NTF – Review against Road Fund Design Criteria and Observed International Practice

Road Fund Design Criteria	Observed International Practice	NTF
Institutional structures and capacity to manage the fund	Requires government commitment to establishing an efficient road fund, including acceptance of “off budget” financing of maintenance and “commercially orientated” reform of road management.	Significant donor support needed through TA. FM Management Systems not satisfactory (TSDP Annual Report 2012)
Creation of a Board that is independent of direct Government control	NO	NO – Board is chaired by MoFT with only one member that is not a SIG Public Servant
Significant user/private sector membership on the Board	Yes, but public sector members still tend to predominate.	None
Funding from “user charges” – basically fuel taxes and registration fees	No – mix of user charges and budget funding, but overall increase in amount of funding allocated	NO – Funding from SIG Budget and Donor (s)
Knowledge of maintenance requirements (and associated funding requirements)	Has improved with introduction of road funds	NO SITAMS only recommissioned in 2012 (TSDP Annual Report 2012). To be fully operational; by end 2013.
Transparent processes for allocation of funding to maintenance activities	No clear conclusions	
Regular and systematic monitoring and evaluation of the quality of road network to ensure the maintenance expenditures are having the desired effect	One of the weakest areas. Inability of agencies to operate road asset management systems.	No M&E done in 2011. (NTF Annual Report).
Transparent procurement processes		
Technical and financial audits		Financial Audits
Public release of documents		

A 3.6 Some Key Background Issues

Public Expenditure Management The creation of any special purpose fund is generally viewed by Treasury officials with suspicion. There are sound Public Expenditure Management (PEM) reasons for this. Amongst other reasons, the fund may bypass budget procedures or subvert expenditure controls. These concerns are set out in detail in a number of publications from ADB⁹⁴, IMF⁹⁵, and World Bank⁹⁶.

⁹⁴ Road Funds and Road Maintenance – An Asian Perspective, ADB, July 2003

⁹⁵ Dedicated Road Funds: A Preliminary View on a World Bank Initiative, Barry Potter, IMF June, 1997.

⁹⁶ See for example: Road Funds Revisited – A Preliminary Appraisal of Second Generation Road Funds, Kenneth Gwilliam and Ajay Kumar, World Bank Discussion Paper TWU 47, January 2002 and Background Paper on the Evaluation of World Bank Support for Road Funds, March 2006

The concerns have also led to two questions.

(i) Can the desired technical objectives (say as in most cases ensuring adequate road maintenance), not be met through normal PEM, strengthened as necessary. *In the case of the NTF, it would appear that the answer to this question was no.*

(ii) If the technical objectives cannot be met through normal PEM, and a special purpose Fund (The Fund) is required, then

(a) What is the source of revenue/funds for The Fund and

(b) What financial, technical, procurement and management systems need to be in place to ensure that appropriate use is made of the monies in The Fund?

The question of the source of revenue leads to further PEM concerns that budget funds may be “earmarked”, thereby restricting budget management. The technical response has been the source of funds should be from user charges, such as registration fees and fuel taxes, some of which could be allocated to The Fund, with the balance going into consolidated revenue.

The technical reasons for the establishment of a Road or Transport Fund are to have some certainty about the amount of money that will be available not just in a single year, but over several years (say 3 to 5 years) for maintenance of roads and other transport infrastructure. In theory, there is no reason why this cannot be achieved through good practice PEM. In practice, especially (but not only) in developing countries this has not proved possible. Hence the technical push for road funds as secure sources of funding.

Amount of Money Required This raises the issue of the amount of money is required on average each year (over say a 3 year period) to maintain a road/transport network in good condition. This can be determined from experience and through maintenance planning (provided the data and institutional capacity exists).

Ensuring appropriate use is made of funds The question of the systems that need to be in place to ensure that appropriate use is made of the monies in any fund is one that has been addressed extensively in ADB, IMF and WB documents. The application of good practice FM/PEM, procurement and technical systems, is taken as a basic requirement. The key additional measures sought for road funds have been to create a Board which is independent of political pressures and which includes representatives of road users.

A 3.7 Road Funds – Key Features⁹⁷

This Annex presents in bullet point format good practice principles for the establishment and operation of road funds. It starts from the statement that Road Funds are divided in two types – called first and second generation.

First Generation Road Funds - Set up in the 1980s and early 1990s.

- No clear specification of how the funds should be used,

⁹⁷ Why and when Road Funds are a good idea, Presentation by Robin Carruthers, World Bank Transport Forum, 2005

- No strict audit or accounting procedures,
- Gross misuse of funds

Second Generation Road Funds Set up in late 1990s.

- Use of funds clearly specified,
- Revenues managed by a Board,
- Board sometimes independent
- Board invariably included some user representation
- Strict financial audit requirements

What Problems are Road Funds Designed to Address?

- Inadequate level of funding for road maintenance
- Uncertain future revenues making maintenance planning difficult
- Regularity of payments making maintenance planning difficult
- Inadequate maintenance funding resulting in higher reconstruction costs

Minimum Conditions for a Road Fund to Work

- Institutional structure and capacity to manage the Fund
- Knowledge of maintenance needs
- Transparent contracting procedures
- Technical and financial audit process
- Secure source of minimum revenue (from user charges)⁹⁸

Key features of the Second Generation Road Funds:

- The source of funding is from road users through what can be termed as “user charges” – taxes and charges for initial on road costs of vehicles and subsequent annual fees (registration etc) as well as fuel taxes.
- Not all user charge revenue is allocated to the Fund. A percentage is still treated as general revenue and retained by MoF/Treasury
- Management by a Road Fund Board that includes user representatives, with these representatives holding at least 50% of the seats on the Board. In this way the Board is seen to be independent of government.
- Clear performance standards for the expenditures, with indicators that are measured and published annually.

Advantages claimed for a Second Generation Road Fund

- High proportion of revenue from a user fees so that individual contributions are proportional to use made of or costs imposed on the road network

⁹⁸ A charge for the use of a facility or the provision of a service, the revenue of which is allocated to a provision of that service or facility.

- Independent Board with strong user representation implies that funds will be used in user interests
- Secure revenue permits planning of maintenance
- Technical and financial audit should ensure appropriate use of funds
- Transparent contracting should give confidence that funds are not being misused

Alleged Problems with Second Generation Road Funds

- Secure revenue sources *prevents* political determination of fiscal priorities
- Boards are *not* independent of government
- Audits are *not* trusted
- Contracting is *not* transparent
- When taken together with other Funds (many with Earmarked Taxes as their revenue source), government can lose control of expenditures

What would make a Second Generation Road Fund acceptable to Opponents of it?

- Clear specification of what Fund can be used for
- Secure revenue source does not cover all needs, so some budget allocation still needed
- Reduction in general level of taxation (or increase in allocations to other sectors) to reflect reduced budget needs for roads
- No additional burden on government finance
- Continued Ministry of Finance participation
- Strong technical and financial audit requirements
- *Sunset clause included*

A 3.7 Other References

Guidelines for Public Expenditure Management”, Barry Potter and Jack Diamond, IMF, 1999
Manual on Fiscal Transparency, Fiscal Affairs Department, IMF2001

Annex 4 – NTF Risk management

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risks	Assessment without Mitigation	Management Plan	Assessment with Mitigation
Technical design risks. The effects of climate change could damage implemented infrastructure if designs are inadequate.	Medium	The project will mitigate this risk given the close location of proposed infrastructure to the coastline and potential increased rainfall over the design life by requiring conservative design assumptions regarding sea level rise and hydrology, and will require use of quality materials to international standards.	Low
Underestimation of infrastructure requirements might cause delays and increase costs during implementation.		The project design mitigates these risks by (i) incorporating specific provisions in tender documents; (ii) requiring minimum provision of physical plant at mobilization, detailed quantification of engineering risks, and adequate contingencies; (iii) using preliminary subproject designs and associated expected costs that generally follow the experience of ongoing implementation of projects in the country; and (iv) holding community consultations in advance, on subproject selection and access to resources, especially as pertaining to long-term maintenance needs.	
Ability to properly prepare subprojects (including documentation required under the Environment Act 1998 and Environment Regulations 2008 and receipt of development consents and ECD approvals) and implement subprojects.		While the project includes appropriate safeguard frameworks, the mitigation of this risk is dependent on attention being paid in staffing the CPIU in MID to prepare and implement safeguard requirements during the feasibility study and investments. The sustainability of investments is dependent on compliance monitoring during construction and operation.	
Financial risks of civil works. Budgetary allocations for the project could be inadequate as a result of underestimated costs or the potential cost of defending claims lodged by contractors.	Low	During the project preparatory phase, costs were estimated based on ongoing projects and realized costs. To further mitigate these risks, the CPIU will (i) continue to estimate costs based on realized costs, (ii) prepare subprojects for bundling and/or concurrent implementation, (iii) identify subprojects in advance via the NTP and a 3-year action plan; (iv) use strict and effective contract conditions to mitigate slow contractor performance, (v) require a guarantee by the contractor for 1 year following civil works to ensure construction quality, and (vi) continue to introduce increased competition through private sector participation.	Low
Institutional reforms and sector restructuring risks. Development of an effective MID depends on successful ADB TA and adequate government staff and funding. Government commitment to the reform process could wane or be restricted by other government agency guidance. Further risks include the	Medium	The project design mitigates these risks through close collaboration and cooperation via a TA component that involves consultations with the government. ADB project and TA review missions, as well as country consultation missions, will engage in regular dialogue to maintain support and commitment. ADB will continue to work closely with development partners such as AusAID and the New Zealand Ministry of Foreign Affairs and Trade to promote sector governance improvements.	Low

Risks	Assessment without Mitigation	Management Plan	Assessment with Mitigation
government not progressing with timely policy and institutional reforms, and resource shortages within MID.			
Project management capability. Although the government has been involved with ADB in the past and other current ongoing development partner projects, these projects have typically been managed through a separate CPIU per project staffed by international consultants. Consequently, agencies like MID do not currently have the required capacity to manage projects on their own and thus may be unable to accommodate ADB demands.	High	A CPIU will be established within MID to manage the project. The CPIU will be managed by a procurement consultant, initially, who will ensure that a sound financial management system is instituted and linked to the NTF, and that proficient and skilled staff will be engaged for the project. A key task of the project focuses on institutional restructuring and capacity building. A key outcome of the project is for the CPIU to be self-sufficient and able to ensure that the more rigorous requirements of ADB and other partners are capably met by MID staff.	Low
Ability to restructure MID. Professionally qualified and skilled staff are lacking in key financial, technical, and managerial positions within government agencies as well as in the general population. Additionally, MID has had a recent problem in appointing staff to plan, design, and implement development partner funded projects.	High	The project will undertake a significant training needs assessment and prepare a capacity building–institutional strengthening action plan based upon agreed organizational structure and required resources.	Med
Availability of MID funds and staff resources. The government is widely recognized as having limited resources such as the ability to hire staff and provide timely financial support.	High	The agreed amount of government funds in the form of personnel, office space and equipment, or cash must be described in detail, documented by ADB, and set aside based on the proposed implementation schedule.	Low
Governance (Public Financial Management)			
1. The institutional capacity of MID to manage finances, especially in terms of project disbursements is low; it has no effective internal controls and lacks recent audits.	High	The project includes TA for institutional reform and capacity development. The project and TA will improve audit. Development partners contribute to the project through the NTF, which needs to be closely scrutinized during initial implementation.	Low
2. Cost and time overruns of subprojects could result from disbursement delays and low capacity of other stakeholders	Medium	Early development of an M&E system during implementation will ensure disbursements from MID to consultants and contractors are timely. The project design requires that subprojects are included in the NTP and buy-in is assessed with other stakeholders such as local communities.	Low

Risks	Assessment without Mitigation	Management Plan	Assessment with Mitigation
Governance (Procurement)			
1. Procurement for project implementation is not fully integrated with the government's MOF financial management system, the newly created NTF, and expected project requirements.	High	The project and coordination with development partners and the NTF board will support the development and implementation of a procurement management and information system integrated with the government's Chart of Accounts.	Medium
2. Bidders could collude for construction and maintenance contracts.	Medium	Effective M&E of contractor bids, award of contracts, and realized revenue and profits of service providers will be available through standardized reporting and audits. Continued increase in the number of contractors will support competition.	Low
Governance (Corruption)			
1. MID and associated agencies do not have an effective anticorruption strategy or action plan.	Medium	The CPIU will prepare an anticorruption strategy and action plan for agencies involved in the tender evaluation and contractor selection processes.	Low
2. Given cultural issues, bribes and corruption could be accepted as standard practice, particularly among members of the same island group.	High	MID and the CPIU will support anticorruption efforts and transparency through wide consultation on major project decisions regarding reforms, and subproject selection and implementation.	Low

ADB = Asian Development Bank, CPIU = central project implementation unit, ECD = Environment and Conservation Division, M&E = monitoring and evaluation, MID = Ministry for Infrastructure Development, MOF = Ministry of Finance, NTF = National Transport Fund, NTP = National Transport Plan, TA = technical assistance.

Annex 5 – Terms of Reference (TOR) for PMI Consultants

The terms of reference for the project design and implementation consultants for the infrastructure investment and maintenance components are as follows:

a. International Consultants

Team Leader/Project Implementation Advisor (60 person-months)

- a) Advise the MID Project Manager in the management of resources for subproject selection; preparation of feasibility studies, site investigation/survey, detailed designs, and procurement documentation;
- b) Advise on the administration, implementation, and monitoring of international and national contracts for civil works, capacity development, and consulting services under the Project;
- c) Provide guidance and mentoring to national contractors, both before and after tendering, in business establishment, management, technical skills and processes for implementation, monitoring, and reporting;
- d) Review contractors' regular monitoring reports and periodically attend site meetings with the Resident Engineer(s) and/or Site Supervisors;
- e) Facilitate coordination and consultation with other projects being undertaken by MID, development partners, other government ministries, and the private sector;
- f) Facilitate the participation of government counterparts in ongoing capacity development activities to ensure skills transfer;
- g) Build the capacity of MID staff through on-the-job training and the establishment of standard procedures that can be replicated in routine MID projects, as well as potential future externally funded projects;
- h) Ensure that the required audits, such as environmental, social, and financial audits, are undertaken and reported, and prepare a project completion report;
- i) Undertake other related duties as required under the Project.
- j) Ensure HIV/AIDS awareness, Environmental Management and Grievance Resolution provisions are included in International civil works contracts; and
- k) Monitor community consultation/liaison programs during stages of project development and implementation.

Road and Airstrip Design Engineer (12 person-months)

- a) Carry out scoping work of the sub-projects;
- b) Carry out feasibility studies with respect to engineering, investigation and engineering design for roads, and airstrips;
- c) Prepare design brief, design reports and technical designs and specifications for the subprojects;
- d) Oversee the preparation of the detailed engineering design and drawings;
- e) Undertake field inspections to ensure engineering designs are adequately implemented;
- f) Assist the procurement specialist in the preparation of the bid documents and oversee the estimates of the bill of quantities are in accordance with engineering designs;
- g) Coordinate with the community development specialists and community liaison officers with respect to the engineering designs;
- h) Oversee and assist with any design changes during implementation of the subproject; and
- i) Build capacity of counterparts and national consultants in all of the above.

Wharf and Bridge Design Engineer (12 person-months)

- a) Contribute specialist advice including designs and cost estimates to subproject feasibility assessments;
- b) Work with the Hydrologist/Hydraulic Engineer to ensure that engineering designs for, bridges and related structures incorporating improved environmental protection and appropriate construction standards to mitigate against potential future natural disasters including flooding, sea level rise, earthquakes, and tsunamis;
- c) Facilitate participation of government counterparts in ongoing capacity development activities to ensure skills transfer for improved sustainability of designs;
- d) Using the as built drawings under previous contracts, topographic surveys, contour maps, hydrological analysis, stream gradients, site photos and inspections, prepare preliminary and final technical documentation, including assessment of catchment areas, design flood levels, engineering design of the structures and embankment protection; and
- e) Prepare specifications, bill of quantities and detail cost estimates for bridges, structures, and protection requirements for the subproject.

Hydrologist & Hydraulic Engineer (6 person-months)

- a) Provide specialist advice including river training designs and cost estimates to subproject feasibility assessments.
- b) Undertake hydrological analysis for bridge, river training, embankment and scour protection design;
- c) Liaise with the Design Engineer and other specialists to finalize bridge and river training and embankment protection designs;
- d) Using the GIS, contour maps, climate/cyclone/weather pattern analysis, topographic surveys, rainfall records, site photos and inspections, prepare and calibrate the flood estimation model and estimate flood levels;
- e) Prepare preliminary and final technical documentation including specifications, bill of quantities and detailed cost estimates for river training and protection requirements for the subproject; and
- f) Liaise with the other specialists and staff to provide an integrated feasibility study report.

Safeguard Specialist (24 person-months)

- a) Conduct on-site spot-checks of contractors' mitigations and review contractors' regular monitoring reports;
- b) Facilitate the participation of government counterparts in ongoing capacity development activities to local counterparts and national consultants to ensure skills transfer for improved sustainability of designs;
- c) Prepare an initial environmental examination, including specific environmental management and monitoring plans (EMPs), for the subprojects;
- d) Assist MID in consultation with the Ministry of Land and the Ministry of Environment, in ensuring that social and environmental safeguard measures under the Project comply with national safeguard requirements;
- e) Monitor compliance with EMPs, as necessary, and ensure compliance with environmental assurances under the Project;
- f) Undertake initial poverty and social assessment for the subprojects
- g) Ensure compliance with all assurances under the Project;
- h) Supervise a national Social and Environmental Officers to monitor the implementation of a gender action plan (GAP);
- i) Assist the CPIU and MID in developing country safeguards systems which are

compatible with development partners' systems, such as ADB's *Safeguards Policy Statement*,¹⁶ and

- j) Build capacity of local counterparts and national consultants in all of the above.

Project Economist (12 person-months)

- a) Identify data requirements, design field surveys, process information and configure economic analysis spreadsheet for 1st principles analysis.
- b) Identify all costs and benefits of the various climate adaptation options, taking into account engineering, environmental, and socioeconomic perspectives of the subprojects
- c) Apply a cost–benefit and/or cost-effectiveness analysis of the adaptation options identified above and prioritize the options;
- d) Develop an economic analysis approach to be compatible with development partners' guidelines, such as ADB's *Guidelines for the Economic Analysis of Projects*,¹⁷
- e) Conduct economic analysis;
- f) Recommend to MID improvements based on the cost–benefit and cost-effectiveness analysis with a view to developing a replicable model for future projects; and
- g) Liaise with other specialists to provide an integrated feasibility study report(s)

Resident Engineers (36 person-months)

- a) Administer, implement, and monitor international and national contracts for civil works under large contracts;
- b) Supervise contractor's works, ensuring that all design requirements are met to acceptable standards, ascertain quality, and certify and approve stages of construction as required by the civil works contracts;
- c) Review and approve the contractor's construction methodology and work plans;
- d) Review and approve the contractor's progress claims and certify them for payment;
- e) Ensure that any engineering designs prepared by the Contractor(s) for roads, bridges, wharfs and airstrips incorporate improved environmental protection and appropriate construction standards to improve resilience to potential future natural disasters and climate change;
- f) Review the subprojects' EMPs, carry out regular audits and monitoring, and provide technical advice to the CPIU on ensuring compliance with environmental assurances under the Project;
- g) Review contractual issues including contract variations and seek approval from appropriate authorities;
- h) Hold monthly meetings with the contractor's representatives, review progress, identify issues and/or constraints, and propose remedial actions; and
- i) Submit monthly progress reports on all the subprojects to the project manager.
- j) Build capacity of local counterparts and national consultants in all of the above.

Field Superintendents (36 person-months)

- a) Provide support in skills development to national contractors (particularly in relation to bridge works, safety, plant use and maintenance, human resource management; planning works and labor based methods);
- b) Provide site supervision of the international contractors works as well oversee quality control in various Provinces; and
- c) Provide support to national Works Supervisors and Works Clerks monitoring labor based contractor's work quality, output and performance.

Procurement Specialist (36 person-months)

- a) Prepare tender documentation for subprojects;
- b) Prepare invitations for expressions of interest and evaluation of submissions;
- c) Prepare bid evaluation reports;
- d) Conduct a needs assessment of MID staff and determine requirements for capacity development in procurement, contract management and contract supervision;
- e) Contribute to the preparation and delivery of general capacity development activities through on-the-job training and establishment of standard procedures that can be replicated for subprojects approved under the NTP;
- f) Assist with development, implementation, supervision and continuous improvement of maintenance contracting processes and procedures (including national maintenance contracts using labor based equipment supported methods);
- g) Assist the CPIU and MID in preparing and updating indicators for monitoring and evaluating project performance, in accordance with the design and monitoring framework and guidelines for project performance monitoring indicators;
- h) Review, update, and improve MID's *Procurement Manual* and *Contract Administration Manual* in accordance with *Financial Instructions 2010*; and
- i) Build capacity of local counterparts and national consultants in all of the above.

Financial Management Specialist (6 person-months)

- a) Assist CPIU in the establishment of the project accounts and ensure they follow sound accounting principles;
- b) Establish Project Chart of Accounts, and establish financial reporting requirements.
- c) Establish monthly cash flow statements, procedures for reconciliation of project accounts;
- d) Establish procedures in the review of claims and preparation of withdrawal applications;
- e) Prepare a comprehensive Financial and Administration Procedures Manual. This manual shall be built on relevant guidelines including ADB's Guidelines for the Financial Governance and Management of Projects¹⁸ and Loan Disbursement Handbook;¹⁹
- f) Install and customize MYOB Data File(s) in accordance with the Chart of Accounts;
- g) Manage and facilitate the timely disbursement of project funds in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time) and the government's Financial Instructions (2010);
- h) Arrange procedures of the audit of the project accounts;
- i) Arrange for MID's accounting staff to be integrated into CPIU's financial management and accounting systems; and
- j) Build capacity of local counterparts and national consultants in all of the above.

Geotechnical/Materials Specialist (12 person-months)

- a) Lead MID's new laboratory installation for geotechnical and material testing and facilitate calibration of all equipment to standards of an appropriate international code of practice;
- b) Establish systems to maintain equipment calibration to appropriate international code of practice;
- c) Prepare specifications for the procurement of laboratory equipment for site and laboratory testing;
- d) Conduct a needs assessment of MID staff and determine requirements for capacity development in geotechnical and materials testing;
- e) Establish and implement recording systems for maintenance and retrieval of test results;
- f) Lead field investigations for testing;
- g) Carry out geotechnical and materials laboratory tests on retrieved soil samples, concrete

- h) cubes, reinforcement and other related construction materials and prepare reports;
- h) Provide adequate geotechnical investigation for foundations and substructures for subprojects;
- i) Conduct field inspections to monitor civil works contractors compliance with quality requirements of the specifications;
- j) Contribute to the preparation of detailed designs and bid documents;
- k) Assist with any geotechnical and/or testing requirements to monitor impact of design changes during implementation of subprojects; and
- l) Train local counterparts and national consultants in all of the above.

Labor-Based Works Advisor (24 person-months)

- a) Advise MID on the framework for the mainstreaming of Labor Based Equipment Supported (LBES) methods including essential institutional, technical, socio-economic, financial, and environmental analyses;
- b) Assist MID Transport Infrastructure Management Services to prepare output based work plans and budgets for all LBES works;
- c) Provide support for MID staff responsible for the contract and financial management of the LBES works program;
- d) Assist MID Deputy Director to ensure all LBES activities are well coordinated in line with the priorities outlined within the NTP and the specific objectives of development partner funded projects;
- e) Assist MID to plan, design, package and procure road labor-intensive road rehabilitation and routine maintenance works contracts;
- f) Assist MID to develop and implement a streamlined training program for supervisors from MID and contractors;
- g) Provide formal and informal (on-site) training support to community groups and contractors in the execution and management of labor-intensive rehabilitation and labor-based road maintenance works;
- h) Support a Training Program Course Designer/Implementer to develop a training needs assessment for LBES training;
- i) Conduct training needs assessment to formulate and refine training modules;
- j) Provide daily mentoring of MID staff in the performance of their activities;
- k) Assist and advise on relevant aspects of the current review of transport policy and strategy, regulations, standards, and measures with respect to identified issues (from studies and projects) and policy revisions necessary as it pertains to LBES;
- l) Support other MID Team Advisors in their task of capacity development and skills transfer MID staff and contractors;
- m) Support the MID cadetship of national professional graduates and facilitate mentorship of junior MID professional staff receive mentoring support;
- n) Assist and advise the MID on the framework for the mainstreaming of LBES including the essential institutional, technical, socio-economic, financial, and environmental analyses required for the works envisaged under the Project;
- o) Examine and assess the follow-up actions as coming out of reviews and studies and undertake rapid capacity and training needs assessment for contractors and consultants;
- p) Recommend the range and specification of suitable equipment and tools for undertaking LBES maintenance and spot improvements and assess local availability per province; and
- q) Assist MID in the training of its staff, national consultants and national contractors in LBES methods.

Climate Change Adaptation Specialist (9 person-months)

- a) Identify the climate parameters of concern for the Project, including but not limited to changes in precipitation, temperature regimes, and elevation of coastline;
- b) Collect and summarize existing impact assessments and reports such as those undertaken by Pacific Islands Applied Geoscience Commission, and prepare a summary;
- c) Assess the climate change risk associated with the subprojects on the basis of the above;
- d) Recommend adaptation options by implementing the adaptation assessment framework tables prepared by ADB;²⁰
- e) Conduct community and expert consultations to verify and refine selected adaptation options;
- f) Revise the EMP in line with the findings;
- g) Assist the Economist in estimating the life-cycle project costs and benefits of climate change adaptation options, including the socioeconomic and environmental benefits;
- h) Formulate a prioritized list of adaptation options to be incorporated into the subprojects;
- i) Assist the project manager in adjusting the design of the subprojects by incorporating climate change adaptation; and
- j) Provide recommendations and suggestions for improvements in methodology to ADB.

Community Development Specialist (36 person-months)

- a) Develop a subproject feasibility assessments methodology built on relevant guidelines including ADB's *Handbook for Incorporation of Social Dimensions*;²¹
- b) Contribute to subproject feasibility assessments, including baseline data collection, detailed feasibility studies, and social impact assessments, in accordance with the feasibility assessment methodology;
- c) Contribute to preliminary and final feasibility documentation for subprojects;
- d) Arrange and assist with initial and ongoing public consultations for subproject feasibility assessment and implementation of civil works. Prepare community consultation plans for each subproject and report feedback as part of each subproject assessment and progress report;
- e) Conduct a needs assessment of MID staff and determine requirements for capacity development in community consultation and participation;
- f) Develop and deliver training materials in community consultation and participation, including data collection, monitoring, and evaluation;
- g) Contribute to the preparation and delivery of general capacity development activities through on-the-job training, the development of strategies and protocols for mitigating social and environmental risks and the establishment of standard procedures that can be replicated for routine MID projects, as well as potential future externally funded projects;
- h) Assist the CPIU and MID in preparing and updating indicators for monitoring and evaluating project performance, in accordance with the design and monitoring framework and guidelines for project performance monitoring indicators;
- i) Assist the CPIU and MID in preparing and implementing a public communications plan based on relevant guidelines, such as ADB's *Public Communication Policy*;²² and
- j) Liaise with existing programs and institutions (state and non-state) in Solomon Islands dealing with community development, gender and HIV/AIDS to develop a strategy to coordinate the implementation of relevant activities within the Project.

Geotechnical Investigation and Analysis (International, 100 person-months)

Provide consultancy services for underground soil investigation to determine the type and condition of soil layers and their strength for the design of substructure foundations for bridges and wharves and design of pavements for roads and airstrips. All investigations shall be undertaken to an acceptable standard of accuracy as required by the employer. The services will require travelling to outer islands with the drilling equipment to remote locations in provinces. The outputs of the consultancy services shall consist of the geotechnical report on the site conditions and design and construction recommendations to the roadway and airstrip design, bridge and wharf design, and construction personnel. Site investigations for subprojects will provide the objective of providing specific information on subsurface soil, rock, and water condition that would result in design and construction recommendations that should be presented in the report and to include:

- a) Summary of all subsurface exploration data, including subsurface soil profile, exploration logs, laboratory or in situ test results, and ground water information;
- b) Interpretation and analysis of the subsurface data;
- c) Specific engineering recommendations for design;
- d) Discussion of conditions for solution of anticipated problems; and
- e) Recommended geotechnical special provisions.

b. National Consultants**Design Engineers** (24 person-months)

- a) Assist in the conduct of surveys, data processing, and the preparation of survey drawings for the subprojects;
- b) Assist in the preparation of detailed engineering design and drawings;
- c) Contribute through field inspections to ensure engineering designs are adequately implemented;
- d) Contribute to the preparation of detailed designs and bid documents; and
- e) Assist with any design changes during implementation of the subproject.

Quantity Surveyors (36 person-months)

- a) Measure and quantify labor, materials and equipment to establish subproject estimates;
- b) Prepare bill of quantities for subprojects in coordination with the international and national design engineers and procurement specialists;
- c) Assist the Procurement Specialist in analyzing of bids;
- d) Verify claims from contractors to ensure consistency with physical work completed and equipment supplied; and
- e) Conduct operational audits to verify measure up sheets;

Social and Environmental Officers (36 person-months)

- a) Conduct on-site spot-checks of contractors' mitigations and review contractors' regular monitoring reports;
- b) Facilitate the participation of government counterparts in ongoing capacity development activities to ensure skills transfer for improved sustainability of designs;
- d) Prepare an initial environmental examination, including specific EMPs, for the subprojects;
- e) Undertake an initial poverty and social assessment of the subprojects; and
- f) Monitor the implementation of a GAP; and

- g) Monitor compliance with EMPs, as necessary, and ensure compliance with environmental assurances under the Project.

Geotechnical Engineer (24 person-months)

- a) Conduct geotechnical field investigations including extraction of soil samples and recording of borehole logs;
- b) Carry out geotechnical and materials laboratory tests on retrieved soil samples, concrete cubes, reinforcement and other related construction materials and prepare reports;
- c) Assist the design engineer in providing adequate geotechnical information for structural design purposes;
- d) Contribute through field inspections to ensure engineering designs are adequately implemented;
- e) Contribute to the preparation of detailed designs and bid documents; and
- f) Assist with any geotechnical testing to accommodate design changes during implementation of the subproject.

Field Engineers (120 person-months)

- a) Administer, implement, and monitor national contracts for civil works;
- b) Support the Resident Engineer or other nominated client representatives in supervision of contractor's works;
- c) Verify that design requirements are met to acceptable standards, ascertain quality, and certify and approve stages of construction as required by the civil works contracts;
- d) Review and approve the contractor's construction methodology and work plans;
- e) Review and approve the contractor's progress claims and certify them for payment;
- f) Review the subprojects' EMPs, carry out regular audits and monitoring, and provide technical advice to the CPIU on ensuring compliance with environmental assurances under the Project;
- g) Review contractual issues including contract variations and seek approval from appropriate authorities;
- h) Hold monthly meetings with the contractor's representatives, review progress, identify issues and/or constraints, and propose remedial actions; and
- i) Submit monthly progress reports on all the subprojects to the project manager.

AutoCAD Draftpersons (60 person-months)

- a) Assist the international and national design and structural engineers in preparation of tender level drawings for incorporation into bid documents utilizing AutoCAD or similar software;
- b) Assist with road geometric design using software tools such as 12D, and prepare design drawings, including long sections and cross-sections as appropriate; and
- c) Assist the procurement specialist and quantity surveyors in quantifying civil works utilizing AutoCAD or similar software.

Procurement Officers (36 person-months)

- a) Prepare contract documentation for subprojects;
- b) Prepare invitations for expressions of interest and evaluation of submissions;
- c) Prepare bid evaluation reports;
- d) Assist the Procurement Specialist in the award of contracts; and
- e) Assist in reviewing the contractors' claims and certifying for payment.

Accountant (60 person-months)

- a) Keep and maintain separate project accounts;
- b) Prepare project accounts for annual audits;
- c) Manage project finances as directed by Financial Management Specialist;
- d) Prepare monthly cash flow statements, reconcile project accounts;
- e) Review claims and prepare withdrawal applications;
- f) Provide the necessary accounting services to ensure effective project administration;
- g) Manage and facilitate the timely disbursement of project funds in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time) and the government's Financial Instructions (2010);
- h) File all the project records; and
- i) Arrange for audits.

Community Liaison Officers (180 person-months)

- a) Establish and implement community liaison processes to facilitate consultation and engagement of community groups for both development (e.g., feasibility studies) and implementation phases of work;
- b) Facilitate environmental and socioeconomic monitoring of subprojects, in support of technical specialists; and
- c) Provide monthly supervision reports to the Resident Engineer.

Office Support Services (300 person-months)

- a) Provide administrative and clerical support to the CPIU;
- b) Assist the project accountant in the processing of contractual claims;
- c) Carryout internal verifications as well as controls of the project accounts;
- d) Assist in the preparation of the withdrawal applications and payment vouchers for payments under different financing sources; and
- e) Maintain files and records in accordance with an appropriate quality management system.

Community Education Awareness on Foreign and Out of Province Contractors and Workers

(216 person-months)

Annex 6 NTF Review Proposals for NTF Board and Project Steering Committee (PSC) Procedural Guidelines

NTF Board

1. During Board Meetings, no person other than Board Members⁹⁹ and the Secretary of the Board shall:
 - a. Sit at the Board Table
 - b. Speak to any item on the Board Agenda
2. The Chair of the Board may suspend Guideline 1 for the purposes of issuing an invitation to other persons to present or answer question on items on the Board Agenda
3. In relation to Item 2, the invitation from the Board Chair is to be recorded in the Minutes of the Board Meeting (by the Secretary to the Board) and shall be solely for the purpose of presenting or responding to questions from Board members on items listed in the Board Agenda.
4. Presentation of matters to the Board shall be made by a Board member or a public service officer. Presentations by a consultant/person employed on contract by SIG may only make a presentation at the request of a public service officer and with the explicit approval of the Chair of the Board. Such requests and approvals for persons other than public service officers are to be recorded in the Board Minutes.
5. The Board meeting shall be scheduled with a desirable limit of one hour, (up to a maximum of two hours) and may only be extended at the request of a quorum of members during a Board Meeting.
6. The Head of the Secretariat shall ensure that the number of items to be included on the Board Agenda and likely time required for discussion shall be such as to respect Guideline 5.
7. To assist the Head of the Secretariat in respecting Guideline 6, the Project Steering Committee (PSC) shall meet and discuss items proposed for inclusion on the Board Agenda, and make recommendations based on these discussions for the consideration of the Board. Such recommendations are to be included as an attachment to the item on the Board Agenda.
8. Papers or reports presented to the Board for consideration should have a desirable limit of 2 pages A4 with a maximum length of 4 pages.
9. The Head of the Secretariat in consultation with Board Chair makes the decisions on the Agenda for the Board meeting, based on the types of documents that Board members would like to receive, requests from Board members, and from the list of items proposed by MID, MCA, and Donors.

⁹⁹ As defined in the NTF act and Regulations

Project Steering Committee (PSC)

1. The PSC is the Steering Committee for the TSDP.
2. The PSC shall have two functions:
 - (i) To act as a Donor Coordination Mechanism for Donors who are undertaking transport sector projects in the Solomon Islands irrespective of whether such projects are specifically referred to in the TSDP Documentation (ADB RRP and linked documents)
 - (ii) To review and provide technical advice to the NTF Secretariat on proposals submitted by MID and MCA to be presented to the NTF Board for funding
3. Representatives of any Donor or Government Agency undertaking transport sector Projects may participate in the PSC.
4. No persons/positions may be both an NTF Board Member and member of the PSC.
5. The Head of the NTF Secretariat (or their nominee) shall be the Chair of the PSC.
5. Any person attending PSC meetings may participate in the technical discussions described in paragraph 2 (ii) above, and provide advice on the framing of recommendations.
6. The wording of any recommendation(s) to be forwarded to the NTF Secretariat as a result of the discussions in paragraph 2(ii) above may only be confirmed by officers of Government Agencies with representatives on the NTF Board or Donors contributing to the NTF.
7. In drafting recommendations for the NTF Secretariat to present to the Board, the PSC should be mindful that the NTF Board meetings are scheduled to last for a period of one hour.
8. The PSC shall review proposals from MID and after discussion as required, recommend to the Board:
 - a. For information
 - b. For approval – this includes: Items on which the Board has previously provided guidance/direction and which are for the implementation of that guidance/direction. Where there are options for implementation, the PSC should have discussed the options and arrived at a common view on the option to be recommended to the Board.

(Further categories/details can be added)

9. The PSC shall be responsible for assisting the Head of the Secretariat in preparing papers on any items to be presented to the Board with a desirable limit of 2 pages A4 with a maximum length of 4 pages, including the recommendations noted in paragraph 7 above.

Annex 7 - NTF Board engagement in financial management

Up to the end of 2013, the NTF Board has met a total of ten times since the first meeting in August 2010. The need for timely and appropriate financial reporting has been an agenda and discussion item for each meeting, with comments made at some meetings about the lateness and inadequacy of financial reporting. The Review has considered the NTF Board's response to meeting these financial management needs.

The inaugural NTF Board meeting noted that a Manual of Operational Procedures would be prepared on behalf of NTF Board, including details of financial management procedures¹⁰⁰. There is no record of NTF Board being asked for, or providing, guidance on NTF's specific financial management and reporting needs. Further, the Review was unable to find Terms of Reference, or any formal analysis, for drafting the NTF Board financial management procedures.

The National Transport Fund Board Procedural Guidelines, March 2011 were submitted to NTF Board at its second meeting in May 2011¹⁰¹. The Review notes that the Manual and its financial management procedures were not formally endorsed in the Minutes, but were *de facto* operationalized to the extent possible. At this same meeting, it was noted "*information on the finances will be provided in consultation with MOFT*".

The Review has appraised the financial management procedures in the Guidelines; and compared these to the actual financial management procedures used by NTF since 2011.

The Guideline "Section 6. Financial management Procedures" describes the process for receipt and disbursement of NTF funds. The Guidelines make the following assumptions:

1. Normal SIG payment procedures will be sufficient for both disbursement and the related accounting and reporting purposes (Clause 6.2.1.3.1);
2. "NTF officers" will raise Payment Vouchers and MoFT will process payments to maintain internal controls (Clause 6.2.1.4.1);
3. All NTF payments will be by cheque against the ANZ NTF Operating Account (Clause 6.2.1.4.1 and Chart 1 Cash Flow Diagram); and
4. MoFT is willing to perform NTF bank statement reconciliations to SIG General Ledger bank balances (Clause 6.2.1.4.1).

The Review found that:

1. In 2011, known structural limitations to the SIG Chart of Accounts meant that MoFT financial reporting for NTF would be restricted to a summary statement of receipts and payments only. This form of reporting lacked sufficient detail; and could not meet NTF Board's need for financial reporting by contract for each NTF Board-approved activity¹⁰². The Guidelines

¹⁰⁰ Item 4, NTF Board Minute of 18 August 2010; this Minute was ratified as correct on 17 May 2012.

¹⁰¹ Item 5, NTF Board Minute of 17 May 2011; this Minute was ratified as correct on 18 October 2012.

¹⁰² Item 4, NTF Board Minute of 24 February 2012; this Minute was ratified as correct on 30 May 2012.

author(s) do not appear to have considered either the known limitations to MoFT financial reporting, or the ADB's determination that a project-reporting tool was needed to support CPIU reporting. Instead, the Guidelines reinforce MoFT's role in centralized payments processing for NTF; and in so doing committed NTF Board to an inadequate level of financial reporting from MoFT.

2. The NTF Board has not appointed any NTF officers due to resource constraints that have prevented the formation of an NTF Secretariat; and MID Accounts Division staff have raised NTF Payment Vouchers since mid 2011. Further, the absence of Secretariat budget caused the NTF Board to nominate the CPIU as alternate for an NTF Secretariat¹⁰³. The Review can identify no concrete steps that have been taken by the NTF Board to properly resource CPIU in this role, or the NTF Secretariat, since February 2012. The Review considers that CPIU and PMI consultant resources are consumed, and its personnel diverted from core functions, as a result of being assigned the NTF Secretariat role.
3. NTF payments were being made by cheque directly against the ANZ NTF Operating Account until March 2012, when MoFT removed all other account chequebooks and directed that all future payments be out of SIG Consolidated Fund using printed cheques. This unilateral decision by MoFT caused NTF payments to line up with all other SIG agency payments awaiting cash availability in Consolidated Fund before they could be processed. The availability of funds NTF funds to reimburse SIG Consolidated Fund did not cause MoFT to expedite NTF payments. This decision has introduced significant delays to making NTF payment, which disrupted works as contractors suspended activity pending payment; and defeats the benefit of a pre-funded NTF.
4. MoFT Financial Management Services was unable to reconcile the NTF bank account to the NTF General Ledger cash balance as at 31 December 2012. This represents a breakdown of internal controls in MoFT's cash based accounting system, because only a completed bank reconciliation can confirm the completeness and accuracy of financial information reported by MoFT. The NTF Auditors advise the Review that MoFT are unwilling to complete the reconciliation. The unreconciled NTF bank balance is the major management letter item arising from the 2012 Audit; and the Auditors query whether MoFT needs assistance to perform bank reconciliations.

The Review concludes that NTF Board was not consulted, nor did it proactively offer any guidance, on its specific financial management reporting needs in early 2011. As a result, the National Transport Fund Board Procedural Guidelines make incorrect assumptions about NTF financial management procedures; and commit NTF Board to unsatisfactory financial reporting.

The Review considers that the Guidelines lack a clear focus on NTF Board financial reporting needs, which is not typical for documents of this type, and made the Guidelines less than effective.

Further, implementation of the Guidelines did not yield effective financial management and reporting for NTF from May 2011 onwards, or for two and a half years to date. To put this into perspective, DFAT's Agreement to fund NTF ends in June 2015; and PMI consultant support to CPIU

¹⁰³ Item 3, *ibid*.

concludes in mid-2016. This means that there has not been effective financial management of NTF for half of the time that Australia and ADB have been supporting it with resources. The Review also considers that weak financial management performance has contributed to the undermining of NTF's credibility as transport sector funding vehicle.

The Review finds the Guidelines have not served NTF Board well; and need to be replaced. Future Guidelines need to be prepared on the basis of NTF Board approved financial management processes; and capable of meeting NTF Board's stated financial management reporting needs.

The Review consulted with PS Finance (NTF Board Chair), PS MID (NTF Board Deputy Chair) and the SIG Accountant General on the requirement for MoFT to manage NTF financial processes. All indicated their in-principle support for moving NTF financial management outside of MoFT in the interest of making NTF operations and NTF Board oversight more efficient.

As a SIG Special Fund, NTF can be managed outside MoFT systems (e.g. by private accountants) and remain fully compliant with Paris Declaration Principles. The flexibility indicated by senior SIG officials responsible for finances has informed the options for NTF financial management that are discussed the body of the Review Report.

NTF interest earned

The Review notes that NTF Board has the authority to invest surplus funds (S.4(2)(a) Regulations), but did not do so in 2011 and 2012.

The opportunity cost of this decision to NTF is SBD5.03m in foregone interest earnings. This amount is calculated as follows:

- 2011 NTF cash balance of SBD113.1m @ 3.5% interest for 6 months = SBD1.98m; and
- 2011 NTF cash balance of SBD 87.1m @3.5% interest for 12 months = SBD 3.05m.

Annex 8 - Legislative framework for NTF financial management

The National Transport Fund (NTF) is a “Special Fund”, as provided for by S.100 of the Constitution of Solomon Islands and governed by the Public Finance and Audit Act 1996.

The Public Financial Management Act 2013, Part 5, makes particular provisions for the operation of Special Funds as follows:

- With Cabinet approval, Minister of Finance can establish, fund and wind-up any Special Fund. On winding up, unused money in a Special Fund is paid to Consolidated Fund.
- Monies held in a Special Fund are not returned to Consolidated Fund at year end.
- Minister of Finance may give directions for the control and management of any Special Fund. In the case of NTF, Minister of Finance has signed the NTF Act 2009 and NTF Regulations 2010 that establish Board functions and powers. The Board has wide powers and responsibilities with respect to NTF financial management and reporting.
- S77 (c) and (d) of the Act require any Officer administering a Special Fund to provide financial statements to the Accountant General and Auditor General, stating the basis of accounting. The Act prescribes no specific time period for this reporting.

Section 25 of the Public Financial Management Act 2013 requires more comprehensive reporting by Special Funds. In particular, Special Funds will be required to submit estimates of receipts and payments for the coming Financial Year to ensure SIG Budgets and cash flow reflect these requirements.

The National Transport Fund Act 2009 provides for:

- S.5(1)(l) – the use NTF monies to retain professional services for the proper financial management of the fund.
- S.5(4) – NTF to accept a donor contribution for specific purpose and ensure that the funds are only used for that purpose, this enables “ring-fencing” of specific donor contributions within NTF.
- S.7(a) – Minister of Finance to make Regulations to appoint a Board, Fund Manager or any other appropriate fund management arrangements.

The National Transport Fund Regulations 2010 provide for:

- S.8 and 15(1) - The NTF Board to appoint a professional Fund Management Controller to invest and otherwise account for monies.
- S.4(1) – The NTF Board to be responsible for all aspects of management of the fund, including:
 - investing;
 - determining and applying arrangements for the Payment of Fund monies;
 - ensuring Annual Plans with Monthly Cash Flow forecasts are submitted to Board;
 - ensuring proper financial management consistent with FMAA procurement and reporting.

The Review considers that the NTF Act was drafted to be broadly inclusive; and so accommodate multiple types of donor contribution. Accordingly, NTF is designed to be more responsive to individual donor requirements than a conventional Transport Sector Pool Fund. This broad inclusivity places additional responsibilities on the NTF to have effective planning, implementation, financial management and reporting arrangements in place to meet all stakeholder needs.

The NTF Board is directly responsible for properly managing all SIG and donor funding in NTF; and overseeing how it is used on priority NTF activities/ contracts. In order to meet this responsibility, NTF Board is given full authority to establish effective financial management and reporting arrangements.

Annex 9 – NTF reporting obligations and performance

The Review has assessed formal reporting requirements set down for the NTF in legislation and under the terms of binding agreements. A stop-light performance monitoring approach has been used for easy assessment. Red indicates no reporting was done; amber indicates partial reporting was performed; and green indicating full reporting was achieved.

The Review considers that NTF has not satisfied the majority of its reporting obligations and can be considered to be in breach of the legislation and agreements that it has entered into.

The Review recommends that additional resources be provided to NTF Board to assist it to improve the standard of NTF statutory and obligatory reporting. The additional resources are summarised in Annex 8.

Table 1 - NTF performance against formal reporting obligations

NTF reporting obligations	Citation	NTF reporting performance
National Transport Fund Act 2009		
Annual signed NTF Statement of Account to be submitted to Auditor General within six months of financial year-end.	S.6(2) & PFAA S.38(1)(a)(v)	Signed statements of account for 2011 and 2012 have not been submitted to the Auditor General.
NTF (Fund Management) Regulations 2010		
NTF Annual Plan to be prepared with the following financial data: <ul style="list-style-type: none"> • Estimates of anticipated receipts from donors; • Investment earnings*; • Approved expenditures; and • Monthly cash flow forecasts. 	S.4(2)(e)	Documents are not prepared by CPIU as NTF Secretariat.
National Transport Fund Board Procedural Guidelines, March 2011		
Secretariat to prepare consolidated budget for NTF.	Para 3.1.6	NTF Budget not prepared by CPIU until July 2013
Secretariat to make a quarterly review of budget vs. actual expenditure, revenue received and income earned for NTF Board Meetings.	Para 3.1.5	Not done until July 2013, when CPIU began using MYOB to prepare NTFB financial reports that include much of this data. Noted in NTF Board Minutes.

GoA/SIG Direct Funding Agreement (DFA)		
Partner Government will provide quarterly (3 monthly) financial statements in accordance with an identified and applicable financial reporting framework- International Public Sector Accounting Standards (IPSAS) or other mutually acceptable standards (national or international). The financial statements will show all sources of funding, with sufficient breakdowns of data to permit identification of individual sources of funds and disbursements on major activities and types of expenditure.	Clause 9; and 19 for list of activity types to be reported against.	DFAT has not received quarterly NTF financial statements from SIG. The NTF Board has received some quarterly financial reports of limited quality; and not in the format required by the Agreement. Activity and project types listed in the Agreement cannot be reported against, notwithstanding improved financial reports from CPIU, because these are not detailed in the NTF Chart of Accounts.
The Partner Government will develop a Program Risk Management Plan (RMP) within three months of the entry into effect of this agreement. The RMP is to be reviewed annually by the Board and updated as required.	Clauses 44 and 45	Risk Management Plan prepared in 2010, but not updated.
The Partner Government is responsible for developing an Annual Progress Report each year, to be tabled in Parliament.	Clause 47	The 2011 NTF Annual Report was released in April 2013; and NTFB is currently finalising the 2012 NTF Annual Report. These initial NTF Annual Reports are late and it is not clear that they have been tabled in Parliament. These reports are important communication tools and their timely release needs to be promoted and resourced.
Annual Program Procurement Plan to the Board indicating anticipated major (above the equivalent of AUD500,000) procurements to be undertaken next financial year.	Clause 52	The National Transport Fund Workplan 2011 - 2012 lists all major procurements for NTF.
The Partner Government is responsible for ensuring that the Program and its associated funding are audited on an annual basis.	Clause 55	2011 NTF Audit finalised in April 2013 and 2012 NTF Audit finalised in August 2013. Both exceed the six month time limit for submission in the DFA. Timely audits need to be promoted and resourced.

Annex 10 – Analysis of NTF accounting and reporting

Context for Review findings

The Review used the 10-day in-country mission to assess the quality and functionality of NTF financial management and reporting, as performed by the multiple stakeholders set out in Figure 1 below. It needs to be noted that the Review's assessment is not of the same standard as an audit, or forensic accounting study, but is sufficiently robust to identify internal control and performance matters for further consideration by NTF stakeholders.

The Review has consulted on its findings with senior SIG officials and third parties, such as the 2012 NTF Auditors and PMI consultants involved in NTF accounting and reporting. Further, the Review has compared its findings with other technical evaluations of SIG accounting systems, such as the ADB Financial Management Assessment that forms part of the TSDP design. In this way, the Review has ensured that its conclusions are appropriate and reasonable by triangulating them with the work of other authorities and sources.

Overview of NTF accounting and reporting

The Review finds control weaknesses at many stages of NTF accounting and reporting through SIG financial management systems. See caution icons in Figure 1 and explanations below.

Against this backdrop, the Review notes that CPIU was appointed in February 2012 as NTF Secretariat and professional Fund Manager Controller and has taken a number of practical steps to find solutions to address these weaknesses. Since mid-2012, CPIU's actions have resulted in unqualified 2011 and 2012 NTF audits and better NTF Board financial reporting; and have been successful in the short-term.

However, the Review finds the CPIU solutions are NTF-specific and do not offer improved accounting and reporting capacities for MID project management. Further, the CPIU accounting tool (MYOB) is not supported by either the MoFT Information and Communications Technology Section (ICTS) or an in-country technical representative. Finally, PMI Consultant currently managing the MYOB system will conclude in 2016.

In April 2012, CPIU conducted MYOB familiarization training to six MID Accounting Division officers and 19 CPIU/ TSDP staff over ten days at the Honiara Hotel¹⁰⁴. A Consultant prepared training material and a seminar format presented MYOB features and capabilities, but did not offer a practical session. The Review considers that this training would have raised MID awareness of CPIU's actions, but would not have built capacity in using MYOB amongst the MID officers attending. There has been no further training in MYOB provided to MID officers, who confirm they cannot operate MYOB.

The Review concludes that CPIU has not yet developed technically viable or sustainable project management capacities; and that this output of the TSDP design is not yet fulfilled. Some NTF

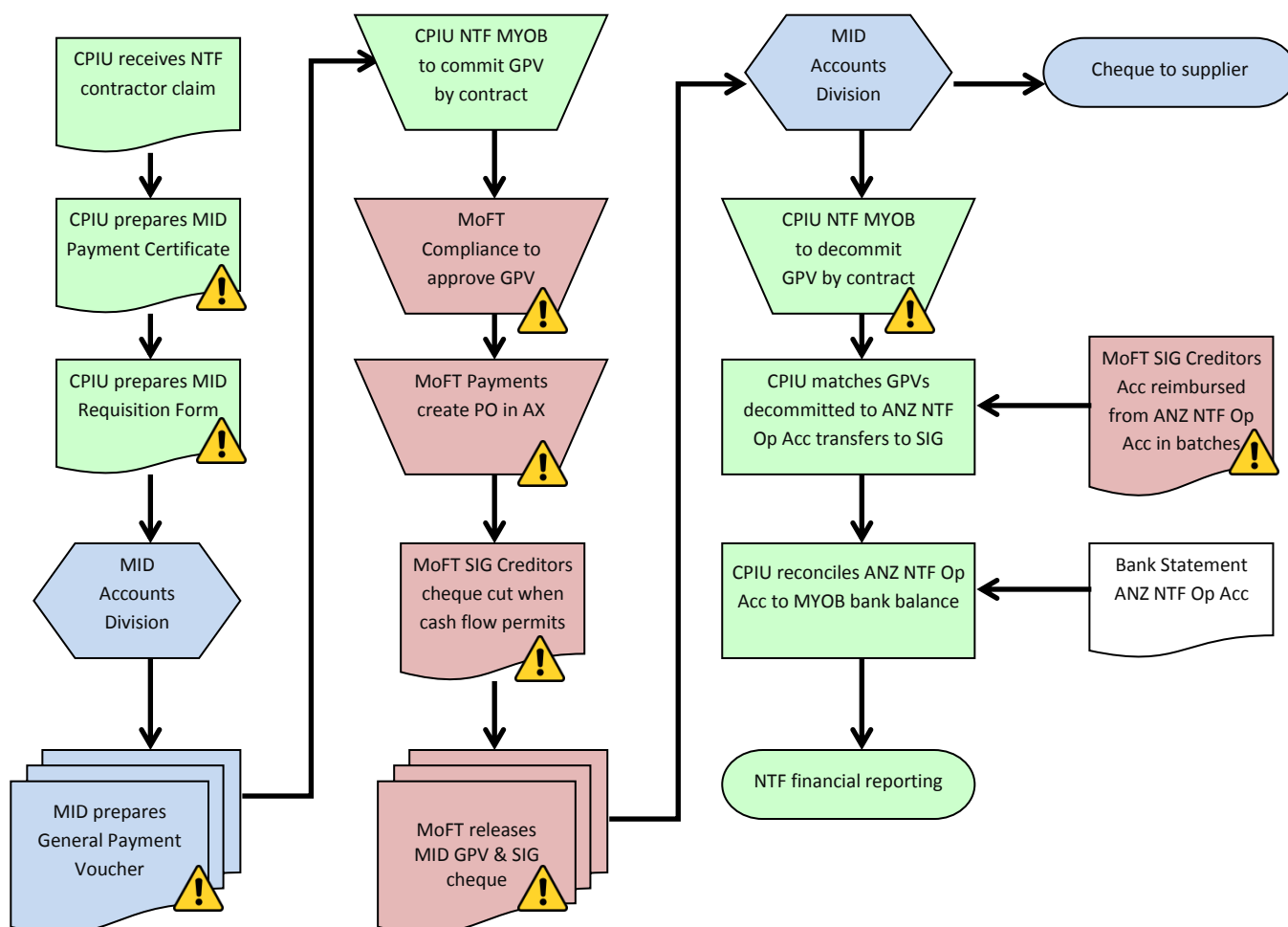
¹⁰⁴ Page 32, Transport Sector Development Project Progress Report Quarter 3 - July 2012

project and financial management capacity has been built using MYOB and PMI consultants, but this does not apply widely to MID contracts and is not sustainable into the long term.

The Review recommends a rapid design mission be undertaken to develop an MID project management tool that will serve both CPIU and NTF reporting needs. The resulting design needs to be technically viable from SIG resources, sustainable into the long term and meet both MID and NTF contract management and reporting needs.

Support for the MID project management system design and its implementation will require additional resources. These additional resources can be separate from, but complimentary to, the PMI Consultant support to CPIU. This is because project management systems implementation will focus on MID and MOFT capacity building for the benefit of CPIU and NTF, but not on transport infrastructure implementation as CPIU does.

Figure 3 - NTF accounting and reporting process flowchart



Scope and scale of NTF accounting transactions

The Review is advised that in 2012, CPIU processed 246 NTF payments of all kinds. Allowing 220 working days per year, this calculates to 1.1 NTF payments to be processed per day, or 22 per

month. Further, all NTF banking movements in 2012 were 6 transactions in the CBSI NTF SBD Account; and 120 banking movements in the ANZ NTF Operating Account. These volumes of transactions are low; and the Review sought to identify the reason why there were so many cautions identified in the low volume of accounting processing required for NTF.

MoFT noted that NTF banking and reporting requirements fall outside the norms established for SIG Recurrent and Development Budgets. The irregular nature of NTF banking and reporting needs may be part of the cause for MoFT-related cautions noted above. The Review has considered the impact of regularizing NTF transactions within MID accounting processes when considering design options for improved MID project management and accounting.

The next sub-headings detail the reasons for the Review marking an accounting step with a caution icon.

1. CPIU prepares MID Payment Certificate

The 2012 NTF Audit Management Letter (Point 3.1) notes three instances where MID Payment Certificates were not completed by MID Supervising Engineers, but were paid by NTF. The audit sample size was 30 transactions, giving a 10% error rate for processing accuracy. This compares with the usual target error rate of less than 1% in commercial or public sector accounting processes.

Noting the recent DFAT directive for oversight of all payments of Australian funds through Partner Government Systems, monitoring this function would reduce NTF error rates.

2. CPIU prepares MID Requisition Form

The Review identified one instance where CPIU had prepared an MID Requisition Form that charged the NTF Account for a non-qualifying project claim. The claim itself was for an approved MID project and contractor, so is a legitimate MID payment, but does not form part of NTF activities and should not have been charged to the NTF Account. This Requisition was authorised by PS MID, an NTF Board Member.

Where non-qualifying project costs are charged to the NTF Account, MID is in breach of the DFAT Direct Funding Agreement - Clause 21, which requires MID to *“use the GoA funding solely for the implementation of the Program”*.

The Requisition was authorised on 26 April 2013 and the payment processed by MoFT on 17 June 2013, but the full details of this control breach were determined in September 2013 as part of the Review. There are no CPIU or MoFT controls in place to prevent or detect such a breach. This deliberate control breach represents a high level of fiduciary risk to DFAT funds in NTF.

The Review foresees potential difficulties in recovering funds incorrectly charged to the NTF from SIG. Firstly, any individual reimbursement of incorrectly charged payments would need to be budgeted for and could become delayed in SIG Budget Appropriation and Parliamentary approval processes. Less likely, but still significant is the fact that neither the 2005 Development Cooperation MoU nor the 2010 DFAT-NTF Direct Funding Agreement contains clear “claw-back” provisions. This

exposes all DFAT funds to the risk of being transferred to SIG Consolidated Fund where Minister Finance exercises his powers to wind up this SIG Special Fund.

DFAT legal advice is needed to properly determine the level of this risk; and to formulate possible remedies to ameliorate any risks.

Noting the recent DFAT directive for oversight of all payments of Australian funds through Partner Government Systems, monitoring this function would reduce risks to DFAT funds in NTF.

3. MID prepares General Payment Voucher

The Review identified one instance where the MID General Payment Voucher and MID Requisition were altered, after authorisation by PS MID, to charge a non-qualifying MTF project to the NTF Account.

This indicates that unknown individual(s) are able to redirect non-qualifying costs to NTF without MID identifying this control breach or taking remedial action. The Review considers that this signals a loss of internal controls over charges to the NTF Account; and exposes DFAT funding to major fiduciary risks.

Noting the recent DFAT directive for oversight of all payments of Australian funds through Partner Government Systems, monitoring this function would reduce risks to DFAT funds in NTF.

4. MOFT Compliance to approve General Payment Voucher (GPV)

The Review is advised that this process was introduced in March 2013 by MoFT and can delay approval of NTF GPVs by up to 90 days, without any value added to NTF, as the above examples of non-qualifying costs being charges to NTF Account will attest.

The Review notes that channelling NTF GPVs through MoFT incurs thus unnecessary delay; and this requirement needs to be reconsidered by the MID project management system design.

5. MOFT SIG Creditors cheque cut when cash flow permits

NTF cheque payments are made out of the ANZ SIG Creditors Account, which is subsequently reimbursed from the ANZ NTF Operating Account. This subjects NTF payments processing to SIG cash flow constraints, which is an unnecessary limitation given that NTF payments are fully funded through the ANZ NTF Operating Account. The Review recommends that all NTF payments be made as EFT's using agreed EFT policies and procedures.

The Review notes that MoFT Payments Section may also process selected payments by Electronic Funds Transfer (EFT), but does not advise either MID or CPIU of this action. CPIU detect EFT payments when conducting their parallel bank reconciliations through the NTF MYOB accounting software. Review consultations with MoFT indicated that there are no formal EFT processing policies or procedures; and access to NTF EFTs is made by unknown person(s) in the MoFT Payments Section.

The Review considers that potentially unsupervised access to NTF EFTs represents a major internal control risk to DFAT funds held in the NTF.

Noting the recent DFAT directive for oversight of all payments of Australian funds through Partner Government Systems, countersigning all NTF EFTs will assist to reduce risks to DFAT funds in NTF.

6. MID GPV & SIG cheque

The Review is advised that MoFT cheques are attached to MID supporting documentation and either (i) referred to MID Accounting Division for collection and distribution to the contractor, being the correct procedure; (ii) given to the contractor directly by MOFT and documentation only is referred to MID Accounting Division for collection; or (iii) given to CPIU for distribution to the Contractor with documentation only referred to MID Accounting Division for collection. Uncertainty around cheque distribution requires time and effort to resolve and further diminishes NTF's reputation for timely payment.

7. CPIU NTF MYOB to decommit GPV by contract

CPIU was not regularly backing up the NTF MYOB data files; and the year to date 2013 NTF MYOB data was lost in July 2013 when there was a hard-disk failure on the laptop holding this data.

CPIU has since instituted a more regular back-up routine for the NTF MYPB data files, but CPIU is reconstructing the 2013 data by re-keying GPV and banking details and was complete to April 2013 at the time of the Review.

Weak data back-up procedures represent an accounting risk to DFAT funds in NTF; and highlight the unsustainable nature of the CPIU accounting tool beyond the end of TSDP in 2016.

8. MoFT SIG Creditors Account reimbursed from ANZ NTF Operating Account in batches

The Review is advised that MoFT can take up to three months to provide CPIU with details of batches of NTF GPVs paid for by the ANZ SIG Creditors Account, which has then been reimbursed from the ANZ NTF Operating Account. This delays updating of NTF MYOB financial information, and can make NTF Board reporting incomplete.

Since mid-July 2013, MoFT has been providing monthly details of reimbursements out of the ANZ NTF Operating Account, which has facilitated more timely updates of NTF financial management data.

Further, MoFT has not been providing CPIU with the MoFT Microsoft AX accounting reports for the NTF Account, which would enable timelier updating of MYOB than the batch reporting on ANZ NTF Operating Account transfers. As with EFTs, MoFT was unclear on which officers have access to the ANZ NTF Operating Account to process these bank transfers to ANZ SIG Creditors Account.

The Review considers that potentially unsupervised access to NTF bank transfers represents a major internal control risk to DFAT funds held in the NTF.

Conclusion

The types and number of control weaknesses noted in items 1. to 8. above indicate that DFAT funds are subject to both accounting and fiduciary risks in NTF.

The Review concludes that these risks are sufficiently high to require significant reinforcing of the MID/CPIU/NTF accounting and reporting functions if DFAT is to continue to use SIG partner government systems to manage its contributions to NTF into the medium term.

MID project management and accounting – proposed Design options

The Review considers that the following the options, and possibly others, need to be considered by a MID project management system design process.

1. Develop NTF MYOB to cover all MID contracts and financial reporting needs;
2. Enhance SIG Microsoft AX 2009 with the AX Project Management Module and set up a single database for both MID and NTF contracts; and
3. Enhance SIG Microsoft AX 2009 with the AX Project Management Module and set up a separate database for NTF and one for all other MID contracts.

Option 1 - Develop NTF MYOB to cover all MID contracts and financial reporting needs;

This option has a short-term appeal in that can build on CPIU's existing investment in MYOB, but is limited by lack of technical support in country and the potential limitations of MYOB as a contract management tool. Some MYOB related products may support contract management; and this option needs to be considered and its sustainability assessed.

Option 2 - Enhance SIG Microsoft AX 2009 with the AX Project Management Module and set up a single database for both MID and NTF contracts

Solomon Islands Government Accounting Service (SIGAS), under the direction of the SIG Accountant General, has piloted decentralized data processing for SIG public accounting.

SIGAS can offer a "managed service" to approved agencies, based on the Microsoft Dynamic AX (AX) software package tailored to meet SIG accounting and reporting needs and in use since January 2012. Auditor Generals Office, MoFT, and Internal Audit are currently using AX via MoFT managed services to electronically process Payment Vouchers to MoFT Payment Processing Section. Auditor Generals Office is also able to run audit queries online using its direct access to AX databases.

MoFT has also established a managed service AX site in the Anthony Saru building in downtown Honiara that has been tailored to meet the specific accounting and reporting needs of the Solomon Islands Electricity Authority (SIEA); and to provide off-site AX back-up.

SIGAS intends to rollout AX managed services for public accounting to all SIG agencies. This will shift MoFT data processing burdens to SIG agency AX clients, while retaining centralized payments processing to allow sound whole-of-government cash flow management practices.

Microsoft also offers the AX Project Management Module that can be linked to AX financial data and could offer MID an integrated project management tool, capable of providing progress and financial reporting.

Advantages of this approach include a single database and process for project managing all MID contracts; MoFT provides sustainable, in-country technical support and training; and MoFT manages all ICT services including back up and software licensing and updating.

Disadvantages of linking NTF to a single MID project management tool relates to all payments being processed by MoFT through ANZ SIG Creditors Account with its known cash flow constraints and processing delays.

Option 3 - Enhance SIG Microsoft AX 2009 with the AX Project Management Module and set up a separate database for NTF and one for all other MID contracts

Due to in-house capacity limitations, MID indicated a preference to trial an NTF-only version of an AX project management tool for 12 months before transitioning to a MID-only version in Year 2. The pace of this transition would depend on the project management gains evidenced in the NTF-only trial.

This approach has the advantages of option 2 and avoids the disadvantage by enabling NTFB to appoint MID as its professional Fund Management Controller and to direct MID to make all payments as EFTs directly out of the ANZ NTF operating account. NTFB would need to take full legal responsibility for their direction to MID, but has the legal authority to do so.

This is the Review's preferred option to enhance NTF and MID project management capacity.

Conclusion

The Review considers that implementing any of these options for building MID project management capacity will require additional resources alongside those already offered to CPIU through the PMI Consultant.

Further, the Review considers that this reform of MID project management and reporting is broader than the CPIU role and can be managed separately from, but in coordination with existing CPIU PMI arrangements. There may need to be some redefining of TORs of PMI Consultants to ensure there is no duplication or overlap of roles and responsibilities with this additional package of support.

The package of assistance indicated by the above options may include:

- Software procurement and licensing by MoFT;
- MoFT managed services costs for Options 2 and 3;
- MID ITC electrical supply upgrades, networking, hardware, printing and internet costs;
- Short Term Advisor inputs and Advisor support costs for a MID Project Management and Accounting System Design Mission;
- Long Term Advisor(s) to develop and implement appropriate and effective administrative support processes and training around the MID Project Management and Accounting System; and
- NTF reporting support costs.