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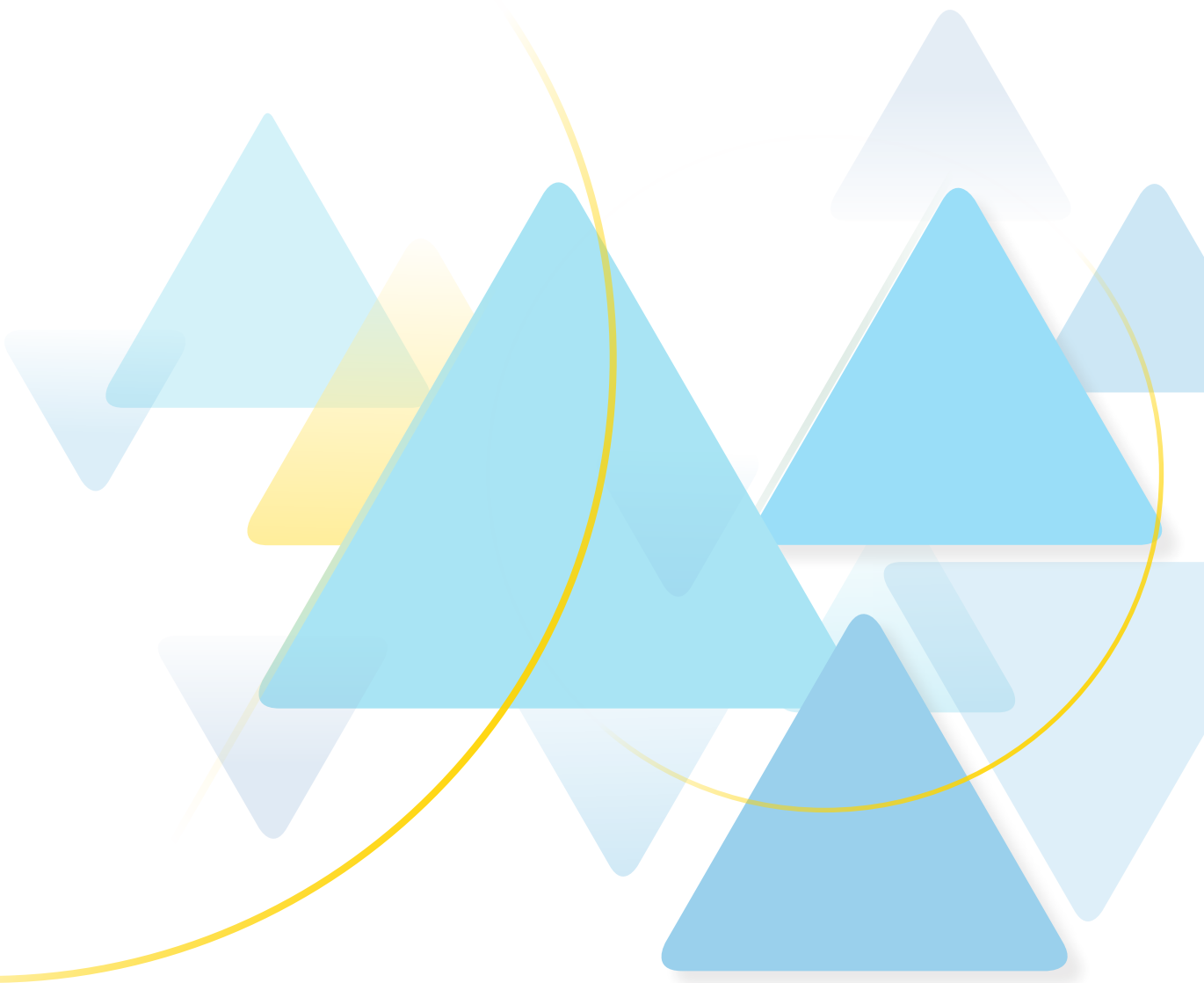
Solomon Islands Development Finance Assessment





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Australian Government
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Foreword

This Development Finance Assessment Report (DFA) is the culmination of months of detailed analytical work and dialogue with actors across the public and private sectors. With technical support from UNDP, it was commissioned by the Solomon Islands Government in recognition of the fact that achieving the ambitions set out in the twenty-year National Development Strategy (NDS)- and the aspirations captured in the Sustainable Development Goals- will require thinking holistically and making the absolute best use of all the sources of development finance available to the Solomon Islands.

The DFA presents the comprehensive analysis of trends in public and private finance compiled to date in the Solomon Islands. Using a methodology grounded in the Addis Ababa Action Agenda it has assessed the opportunities and challenges that the country faces to mobilize the investments needed to achieve the NDS. It has analyzed the financing policies and partnerships that are in place and looked at the contributions that actors across society are making toward the NDS.

The analysis shows some striking messages. Despite the ambition for the private sector to be a driver of sustainable development, current financing flows are dominated by the domestic and international public sector. The outlook for public finance in the Solomon Islands is uncertain, a fact emphasized by the substantial cuts seen to the development budget this year. Funding through subnational governments is fragmented, and alignment with national priorities is often weak.

The challenges of taking concrete action to address these issues should not be underestimated. However, I hope that the practical recommendations made in this report will provide a solid basis for constructive dialogue and action across public and private actors. We serve the people of the Solomon Islands best when we share our strengths and align our capabilities to their core set of priorities.

I want to take this opportunity to thank the Solomon Islands Government through the Ministry of Development Planning and Aid Coordination for their guidance and support through the whole process. Thank you to all government Ministries, NGOs, financial institutions, private sector representatives, development partners and faith-based organizations that supported this comprehensive exercise. I would like to acknowledge the efforts put in by lead authors, Tim Strawson from the UNDP Regional Hub in Bangkok and Nelson Ari, an independent consultant, Matthew Johnson-Idan, Regional Economist from the UNDP Pacific Office in Fiji, Ednah Ramoau, UNDP Solomon Islands Inclusive Growth Team, as well as overall guidance and direction given by Azusa Kubota, Country Manager for UNDP in Solomon Islands.

We look forward to working with all our national counterparts, development partners and other stakeholders to follow up on the findings outlined in this assessment.



Sanaka Samarasinha
UN Resident Coordinator
UNDP Resident Representative

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Acronyms

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank
CBSI	Central Bank of Solomon Islands
CDF	Constituency Development Fund
CDP	Constituency Development Plan
CEWG	Core Economic Working Group
CMCC	Core Ministerial Coordinating Committee
DAC	Development Assistance Committee (of the OECD)
DFA	Development Finance Assessment
DFAT	Department of Foreign Affairs and Trade (of Australia)
ECOSOC	Economic and Social Council (of the United Nations)
FDI	Foreign Direct Investment
GCF	Green Climate Fund
GNI	Gross National Income
GST	Goods and Sales Tax
IPOA	Istanbul Programme of Action for LDCs
LDC	Least Developed Country
MCILI	Ministry of Commerce, Industry, Labour and Immigration
MDPAC	Ministry of Development Planning and aid Coordination
MoFT	Ministry of Finance and Treasury
MP	Member of Parliament
MPGIS	Ministry of Provincial Government and Institutional Strengthening
MPS	Ministry of Public Services
MRD	Ministry of Rural Development
MTDP	Medium Term Development Plan
MTS	Medium Term Strategy (of the NDS)
M&E	Monitoring and Evaluation
NDS	National Development Strategy 2016–2035
NDSIOC	National Development Strategy Implementation Oversight Committee
NGO	Non-Governmental Organisation

ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PACER	Pacific Agreement on Closer Economic Relations
PCDF	Provincial Capacity Development Fund
PDP	Philippine Development Plan
PPP	Public-Private Partnership
PREXC	Programme Expenditure Classification Tool (of the Philippines)
RAMSI	Regional Assistance Mission to Solomon Islands
RCDF	Rural Constituency Development Fund
SDGs	Sustainable Development Goals
SIAHN	Solomon Islands Alliance of Humanitarian NGOs
SIBC	Solomon Islands Broadcasting Corporation
SICCI	Solomon Islands Chamber of Commerce and Industry
SIDS	Small Islands Developing States
SIEA	Solomon Islands Electricity Authority
SIFF	Solomon Islands Integrated Financing Framework
SIPA	Solomon Islands Ports Authority
SIPC	Solomon Islands Postal Corporation
SIWA	Solomon Islands Water Authority
SME	Small and Medium Enterprises
SOE	State-Owned Enterprise
SOLAIR	Solomon Airlines
UNDP	United Nations Development Programme
UNSIF	United Nations SDG Impact Fund
VAT	Value-Added Tax
WASH	Water, Sanitation and Hygiene



Executive summary

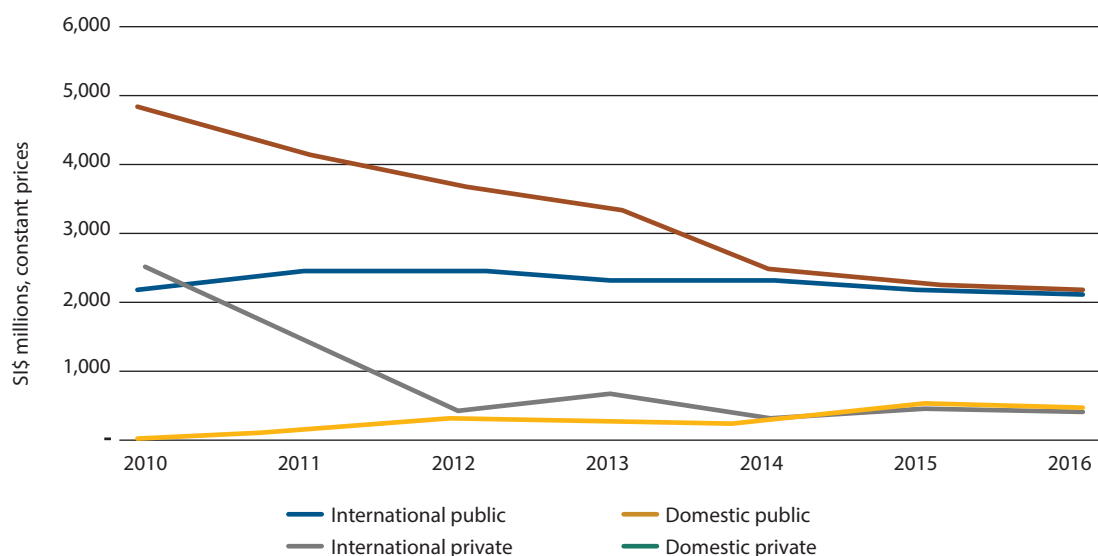
The Solomon Islands is in the early years of implementing its twenty-year vision, the 2016–2035 National Development Strategy (NDS). This strategy presents a long-term vision for the country, articulating five long-term objectives to work towards. At the same time the country is set to graduate from its status as a Least developed country (LDC), an important milestone in its history. As the country transitions away from LDC status it continues to work toward the commitments of the Istanbul programme of action for LDCs (IPOA), which are due to be achieved by 2020.

Within this context, MPDAC on behalf of the NDS implementation oversight committee (NDSIOC) initiated a development finance assessment (DFA). The aim of the DFA is to support the development of a financing framework for the NDS as well as the implementation of the IPOA commitments. This report presents the findings of the DFA process, consultation and analysis, including a roadmap of recommendations that can be taken forward.

Achieving the NDS will require an integrated approach to financing in which a range of public and private actors invest, directly and indirectly, in the objectives it articulates. This DFA presents an analysis of the public and private financing that is and could be available to advance the NDS agenda. It looks at the kinds of investments and services that will be needed and considers the types of financing that can deliver them. It analyses current trends in financing, based on a wide-reaching data collection exercise to build as comprehensive a picture of financing as possible. And it analyses the policies, partnerships and institutional structures that are in place to mobilize and maximize the impact of public and private investments on the outcomes targeted by the NDS.

The financing landscape in the Solomon Islands is dominated by public finance (Figure A). Government finance and official development assistance (ODA) each account for over 40% of financing in 2016. Private flows such as FDI and domestic commercial investment remain small in scale overall.

Figure A. Domestic and international public finance dominates the financing landscape



This stands in contrast to the NDS, in which the need for private sector investment as a driver of broader sustainable development is emphasized. Private sector investment and borrowing in the industries targeted by the NDS are low and show few signs of significant growth. There is a pressing need to stimulate greater private investment and a range of reforms are underway to address the challenges that currently constrain it. Yet these reforms are fragmented and could be made more effective if they were brought together and targeted in a more coordinated manner. The DFA recommends establishing a coordinated *Investment promotion initiative* that focuses active efforts on kick-starting investment the highest priority and highest potential industries. Strengthening the policy and regulatory framework that promotes the wider benefits of investment to society and the environment, and mitigates the risks, would be a core component of such initiative.

Government finance is a dominant feature within the financing landscape overall, and plays a critical role in advancing the NDS. Yet revenues have plateaued in recent years and, with key revenue streams such as taxes on logging expected to decline in years to come, the outlook for public finance is uncertain. Should fiscal space shrink it could significantly reduce government's ability to make the developmental investments that are central to progress in many areas of the NDS. Cuts to the 2018 budget, for example, have reduced the development budget by 42%, with the development budget for public investments in many key economic and social sectors cut by more than 70%. There is an urgent need to safeguard future revenues in order to maintain fiscal space for public investment. The DFA emphasizes the importance of ongoing reforms designed to broaden the tax base, modernize tax policy and increase the efficiency of revenue collection. There is also much potential to enhance the alignment of public investment in relation to the NDS. The development budget could be managed more strictly as a source of funds for strategic investments in the NDS, rather than as a source of funding to be shared among ministries. And reforms to the budget process and scrutiny by Parliament and other actors can further help strengthen the contribution of public spending to the NDS.

Subnational governments are important actors for the NDS, which envisages a range of investments and services that can be most effectively delivered at the provincial and local level. However, the current context is one in which funding for subnational governments is fragmented and alignment to the NDS is weak. For example, despite WASH being identified as the highest priority for communities during the consultations to prepare the NDS, it did not account for more than 20% of RCDF spending in any constituency. Transparency or accountability are also lacking in key areas of subnational funding. Capacity among subnational governments in functions such as strategic planning and financial management is limited. Over the medium term there is a need to address these challenges and develop subnational government entities that are able to efficiently invest and deliver services in line with the NDS, and benefit from effective, predictable revenue streams. The DFA makes a number of recommendations to support this drive. The government has committed to finalising regulations that will govern the rural constituency development fund, and the DFA proposes a number of stipulations that could be included. It also highlights the need to scale-up capacity building support for provincial and constituency level administration.

Development partners continue to play a critical role in financing sustainable development in the Solomon Islands. Though volumes of ODA have declined, they remain substantial both on and off the budget. Other actors also have a key role to play in delivering the investments and services that can advance the objectives of the NDS. NGOs and Churches, for example, offer services in areas such as health and education, play an important part in national unity and can reach communities even in contexts where the government is less active. The DFA recommends steps to enhance dialogue and coordination with these actors.



The DFA further identifies opportunities to mobilize new forms of financing and build stronger partnerships that leverage the strengths that different actors have to offer in relation to the NDS. Developing a framework for PPPs and encouraging mobile money can increase access to private investment and boost access to credit, particularly in underserved areas such as rural communities. Establishing a regular, multi-stakeholder follow-up forum on the NDS can foster greater dialogue and engagement between actors focused on financing different aspects of the agenda.

The aim of this report is to encourage dialogue on the country's financing needs and to build momentum around reforms that can strengthen financing the NDS. The recommendations identified through the DFA can contribute to a more integrated approach to financing the NDS that leverages the strengths of a wide range of public and private resources.



Introduction

The Solomon Islands is in an important phase of its history. RAMSI officially ended in 2017 and the country is set to graduate from LDC status in the next three years. The NDS was introduced in 2016 and articulates a vision for the sustainable development over the next two decades. Within this context MDPAC on behalf of the NDS Implementation Oversight Committee (NDSIOC) initiated a DFA to analyse financing for the NDS and as part of preparation for the transition out of least developed country (LDC) status. It can also support the country's implementation of the Addis Ababa Action Agenda (AAAA) and Samoa Pathway.

"When it comes to the NDS, it's everyone's business." This quote from the Minister of Planning at the outset of the NDS aptly frames the DFA and its objectives. The NDS represents a broad and ambitious vision of sustainable development that has mainstreamed the SDGs. Achieving it will require investments from a range of public and private actors. This demands an integrated approach to financing, in which policy, collaboration and partnerships promote public and private finance flows that contribute toward the NDS outcomes according to their specific characteristics.

The DFA supports MDPAC, the NDSIOC and wider stakeholders across government, the private sector, development partners and other actors to identify and take forward steps that can strengthen such an integrated approach to financing of the NDS. It analyses the challenges and opportunities of the financing landscape as well as the policy and institutional structures used by government to manage and influence financing for the NDS. And it identifies policy changes and reforms that can mobilize new forms of financing or enhance their impact, strengthen collaboration between actors and bolster government policies for managing and influencing financing.

The DFA process ultimately aims to build momentum on reforms that can be taken forward and implemented. A core part of this is engaging with a wide constituency of actors who have a stake in financing, and the analysis and recommendations presented in this DFA report have been shaped and refined through extensive consultation across government, the private sector and other stakeholders. In this way the DFA seeks to demystify financing policy debates, broaden the constituency of actors engaged in these discussions and generate consensus for reform.

This report presents the findings of the Solomon Islands DFA process. The first section analyses the financing requirements of the NDS and then presents a comprehensive analysis of current financing trends in comparison. It is followed by analysis of the policy and institutional structures that government uses to engage with financing for the NDS. Following the DFA analytical approach (see Box 1) it looks at integrated planning and financing, public-private collaboration, monitoring and review, and transparency and accountability. Finally, it presents a roadmap, which outlines the recommendations developed

through the DFA process. This section divides between headline proposals that are of the highest importance or respond to a specific opportunity for policy change, and further recommendations that remain important and can be considered for implementation.

The DFA process has engaged a wide array of actors that have a stake in financing the NDS and it is hoped that the analysis and recommendations presented in this report can be a catalyst for positive policy reform as well as continued dialogue on sustainable development financing in the Solomon Islands.

Box 1. The DFA analytical framework

The DFA analyses the factors that link planning and finance and bring together actors for a more integrated approach to financing the SDGs. It looks at the strengths of existing systems and identifies opportunities where policy change or reform could further enhance integrated financing for the SDGs. The analysis looks at five dimensions of an integrated approach to financing the SDGs that can be applied at the macro or the sector or thematic level:

- 1. Assessing financing trends.** What opportunities and challenges does the financing landscape present for realising national sustainable development plans?
- 2. Integrated planning and financing.** How are planning and financing systems connected to address financing trends and mobilize the resources needed to realize sustainable development plans?
- 3. Public-private collaboration.** How does government create an environment that is conducive to growth in inclusive, sustainable contributions to development from private and public actors?
- 4. Monitoring and review.** What systems exist for monitoring the use of public and private finance and how are they used to support policies that aim to deliver SDG outcomes?
- 5. Transparency and accountability.** How do governments and other actors hold each other to account and engage in policy dialogue that supports greater effectiveness?

Figure 1. The DFA analytical framework





Box 2. LDC graduation and the Istanbul programme of action

The Solomon Islands is currently classified as a Least developed country (LDC) according to the UN ECOSOC classification, although it is likely to be approved for graduation in the 2018 review.

A key objective of this DFA, alongside supporting the thinking about integrated financing for the NDS, is to look at two issues related to the Solomon Islands' LDC status. The first relates to commitments made in the Istanbul programme of action (IPOA) by LDCs and the international community. These commitments include targets for policies and progress toward outcomes at the country level. The second relates to the Solomon Islands' own likely graduation from the LDC category and the changes that this may mean during and after a transition period.

The Istanbul programme of action (IPOA)

The IPOA is an internationally agreed vision and strategy for sustainable development in the LDCs.¹ It includes a range of targets at the country level, for LDCs collectively and for the international community. Targets are due to be realized in 2020. The country level covers the following areas:

- **Sustained economic growth.** A target to achieve 7% growth a year is specified for LDCs. This correlates partially with the NDS, which aims for growth of 7% a year – although it targets this by 2030 rather than 2020.
- **Internet access.** The IPOA specifies a target of 100% access by 2020. The NDS aims for 10% access by 2020.
- **Government spending on agriculture.** The IPOA specifies a target for governments to allocate 10% of spending to the agriculture sector.
- **Increasing exports.** The IPOA states a collective target for all LDCs, to double LDC exports as a proportion of total global exports. This would mean aggregate LDC exports equivalent to around 2% of global exports. The NDS has a number of industry-specific export objectives.
- **Building productive capacities.** The IPOA specifies qualitative targets covering productive capacity, value-addition in natural resource industries and increasing primary energy supply.

LDC graduation

Every three years LDCs' development progress is reviewed against the criteria for graduation from the LDC category. These criteria cover three areas, average incomes, human development and economic vulnerability.² In 2015 the Solomon Islands met the graduation criteria for the first time. To be recommended for graduation a country has to surpass the thresholds in two consecutive triennial reviews and it is expected that the country will meet them again in the 2018 review.

Graduation from LDC status will be an historic milestone for the Solomon Islands. Nevertheless, for some countries the transition can be challenging as preferential treatment associated with LDC status is lost. Yet the Solomon Islands does not currently benefit hugely from preferential treatment associated with its status so the transition may not bring any very large shocks. After graduation the Solomon Islands will continue to have access to markets in Australia and New Zealand through the PACER agreement, and only a small proportion of trade is with other countries that give preferential access to LDCs. ODA is unlikely to be affected significantly as LDC status is not a key criteria in many development partners' funding for the country. Given its SIDS status, the Solomon Islands will still have access to sources of financing such as GCF that offer prioritized funding for both LDCs and SIDS.

This DFA report, nonetheless, analyses the financing considerations and implications of these issues.

1 UNCTAD, 2016, *Midterm review of the Istanbul programme of action*

2 The specific indicators used to assess these criteria are three year average GNI per capita (using the World Bank's Atlas method), the Human assets index and the economic vulnerability index.



The financing outlook

Understanding the trends in public and private financing is an important basis for identifying opportunities and challenges for realising the NDS. This section of the DFA report begins by looking at the kinds of financing that may be necessary to realize the NDS. In lieu of estimates about the cost of the investments and services that will be needed to achieve the NDS outcomes, it presents a description about implied financing needs. This provides context for a comprehensive, detailed analysis of the current financing landscape. Ongoing trends in public and private finance flows are analysed to identify key opportunities and challenges for mobilising the types of financing that may be needed. This chapter is followed by chapters that look at the policy and institutional context in these areas of financing.

What kind of financing trends will be needed to achieve the NDS?

The NDS outlines a vision for the sustainable development future that the Solomon Islands aims to realise. It articulates aspirations about economic, social and environmental outcomes within a structure of 5 long-term objectives supported by 15 medium term strategies. As a long-term vision, the NDS presents a framework for government and partners to work toward. It is designed to guide the objectives and approach of government policy in the short and medium term by providing clarity on the direction and outcomes that policies should be working towards.

Realising the NDS will require a range of investments and services. These go well beyond the public sector alone, incorporating the public and private sectors at the national and international levels. Building an integrated approach to financing that brings together and promotes public and private investments that contribute, directly and indirectly, to the NDS vision is critical to its realisation and success. The government has a critical role to play in instigating such an integrated approach to financing. The way it invests its resources, the policies it puts in place and the partnerships it builds have a powerful influence over the way other actors invest their own resources. Government can, therefore, play an important role in creating the conditions, partnerships and incentives that encourage other actors to contribute to the NDS. This is true even for actors, such as private businesses, which are not primarily motivated by the NDS.

The NDS provides guidance on the sustainable development outcomes that are desired over the long-term. When thinking about how these outcomes will be delivered it is useful to work backwards and think about the inputs that will be needed – the investments and services that can deliver those outcomes. This in turn prompts consideration of the financing that will be crucial for those investments to be made and those services to be delivered, and about which actors and types of finance are best placed to provide it.



Gauging the kind of financing that may be needed to achieve the NDS in this way can provide a guide for financing policies and partnerships. Comparing the kind of resources that will be needed with current financing trends helps to identify the most significant gaps and areas of financing where a change in trajectory is essential. It can inform the design and prioritisation of policies that mobilize and enhance the impact of the resources required.

Some countries have completed costing exercises to estimate and quantify the types of investments to realize the national plan. These exercises are complex and require significant commitment and resources to be delivered effectively. The Solomon Islands has not estimated the cost of achieving the NDS, although some sector plans have been costed (see Box 3).

In lieu of quantified estimates of the investments to achieve the NDS, the DFA reviewed the objectives and strategies articulated in the NDS to assess the kind of financing they imply.³ This section presents a summarised description of the kind of financing landscape that may be compulsory to realize the NDS. A more detailed objective-by-objective review is presented in Annex A. The summary is used as a benchmark against which current trends in financing are compared in the next chapter.

Implied financing needs of the NDS

The NDS does not specify the kinds of financing to achieve the vision it presents, although the aspirations and strategies it articulates imply the need for certain kinds of investments. This section describes the kind of financing landscape that the country will need to realize by 2035. While there is no overall costing for the NDS, certain sector strategies have been costed; a summary of these is presented in Box 3.

Domestic public finance

National government

The NDS presents a wide range of strategies and objectives that imply a strong role for public investment and service delivery (see Box 3 for some examples). To meet these demands on public finance, by the latter stages of the NDS timeline, revenues would need to grow steadily in order to create the necessary fiscal space. Revenues would be collected from diverse sources following a simplified model of taxation that balances direct and indirect taxes in a way that does not hinder private sector development. Government spending would be characterized by strong mechanisms that align the investment of capital and spending of recurrent resources with the NDS. Government spending would provide sufficient support for effective public service delivery in areas such as health, education and water and sanitation. Government would have sufficient reserves set aside to enable a rapid response in times of crisis. Capital budgets would be invested in ways that catalyse the development of productive sectors, strengthen service delivery and develop major infrastructure, with the regular use of instruments such as PPPs and collaboration with multilateral development banks.

Subnational government

Many of the NDS objectives imply an important role for subnational government in delivering infrastructure and services that are responsive to the priorities and needs of the area. Funding and capacity within provincial and constituency administrations would, therefore, need to be sufficient to manage regular investments and service delivery. Predictable funding to provincial governments

3 This approach is based on that outlined in the DFA Guidebook, UNDP, *forthcoming*.

would be sourced from allocations in the national budget, decentralized revenue collection powers and, in some instances, subnational government entities may take on debt. Investments in key regional infrastructure will be managed by provincial governments in collaboration with national government, and in partnership with private partners and development banks where appropriate. Services in areas such as health, education, water and sanitation, agricultural support services and support for disadvantaged people will be delivered effectively through provincial and local government, often through partnerships or in coordination with actors such as Churches and NGOs. Subnational government entities will also have an important role to play in supporting disaster preparedness and response.

State-owned enterprises

SOEs will have important roles to play in a number of aspects of the NDS in infrastructure development, supporting growth in the productive sectors and in delivering services such as electricity, and water and sanitation. To achieve this the SOEs would need to be financially sustainable, able to fund recurrent and capital spending from revenues raised in their core businesses or by taking on debt. The use of outcome-based contracting, building on the established community service obligation approach, would be used to extend services into areas that are less commercially viable. SOEs would be actively investing in expanding, deepening and improving services on an ongoing basis. This includes continued investments in infrastructure according to their areas of specialism – electricity, ports, aviation and water and sanitation. Water and sanitation is particularly important as it was identified as the highest priority in provincial consultations as the NDS was developed.

Domestic and international private finance

Private commercial investment

To realize the objectives of the NDS the private finance landscape would need to experience steadily growing volumes of investment in the industries prioritized by the NDS. Tourism, fisheries, commercial and cash crop agriculture as well as independent energy production will be characterized by a growing stock of FDI as well as growing investments by domestic businesses, many of which would be SMEs. SMEs in urban and rural areas would have good access to credit and financial services that they can use to expand operations. In the mining sector there would be a stock of investment, probably largely FDI, though ongoing investments would be infrequent given the finite nature of natural resources.

All of these industries would be operating within a supportive framework that encourages sustainable, inclusive business models through a combination of regulation and supporting policies in areas such as training and skills development, business and financial management support for SMEs and incentives that reward the deepening of value chains and contributions toward the NDS.

Financial system

The financial system would be characterized by offering a wide range of financial services that are accessible countrywide to citizens and large and small businesses. Technology innovations, such as mobile money, and innovative models of collateralisation may be leveraged in order to increase access to financial services for geographically isolated areas and low-income communities.

PPPs

PPPs are highlighted as a potential source of financing and mechanism to attract private investment, across various aspects of the NDS. By 2035 the NDS implies a portfolio and established track record of PPPs that are used to support strategic investments in key sectors. These would mainly be related



to different types of infrastructure, for example, roads, bridges, energy and water and sanitation infrastructure. Nonetheless, in some instances they may be used for recurrent costs and services – the operation of airports is mentioned as a specific possibility by the NDS.

Churches and NGOs

Churches and NGOs are highlighted as important partners in service delivery. To support the objectives of the NDS, Churches and NGOs would support services in key social sectors such as health and education, as well as in disaster preparedness and response. Some services will be delivered by these organisations while others will be in partnership with government, particularly at the local and provincial levels.

International public finance

Official development assistance

The important role of official development assistance (ODA) in many aspects of sustainable development is noted through the NDS, though it also implies some changes in the focus of ODA. By 2035 the balance of funding in key social sectors such as health and education would have shifted so that reliance on development partners is reduced. ODA will continue to play an important role of investing in infrastructure and supporting productive sector development, including through the promotion of investment in key industries.

The NDS also highlights the potential to access innovative financing; the example given connects to payments for ecosystem services in relation to unsustainable practices in the logging industry.⁴

Box 3. Costed sector strategies

While the NDS overall is not costed, a number of strategies related to certain areas within it have been costed, generally with a focus on estimating the public finance necessary to implement a strategy.

Education. The Education Strategic Framework 2016–2030 developed estimates of the cost of achieving education outcomes. However, because allocations to education as a proportion of the budget are already among the highest in the world, the framework worked on reallocating and increasing the efficiency of spending within a continuation of current trends in education budgeting.

Energy. The National Energy Policy 2014–2020 estimated total costs of US\$170 million. These costs would be met by a range of actors, including national and provincial government, independent power providers, multilateral development banks as well as through the use of PPPs.

Health. The National Health Strategic Plan 2016–2020 estimates the costs of rehabilitating infrastructure to be around SI\$1.2 billion, equivalent to roughly double the annual budget allocated to health at the time the strategic plan was prepared.

Infrastructure. The National Infrastructure Investment Plan 2013–2023⁴ estimated annual financing needs of between SI\$390 million and SI\$520 million. It projected that 30–40% of this could come from the government, with the rest split between development partners and private actors.

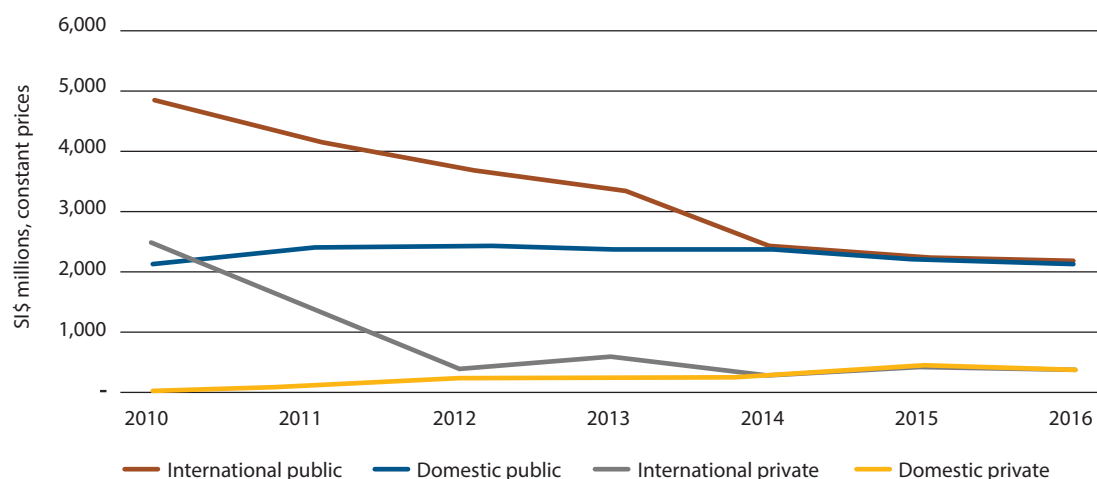
Tourism. The National Tourism Development Strategy 2015–2019 lays out a strategy for stimulating growth in tourism numbers and investment in the industry. It estimates a government budget of between SI\$18 million and SI\$24 million a year to implement the strategy. It targets an annual growth rate of 9.2% in tourism though does not estimate the levels of private investment needed to achieve this.

⁴ It is understood that this plan may be reviewed with potential changes in scope and reprioritisation of infrastructure projects so these estimates may also change.

The current financing landscape

The objectives articulated by the NDS imply the need for a range of investments and services funded by public and private sources of finance. This section looks at trends in the current financing landscape to identify and analyse the key challenges and opportunities for mobilising the public and private financing that can drive forward the NDS agenda.

Figure 2. Domestic and international public finance dominates the financing landscape



Source: Author's calculations based Central Bank of Solomon Islands, Ministry of Finance and Treasury, OECD DAC, Provincial governments and World Bank.

Figures 2 and 3 present an aggregate picture of the financing landscape overall, showing resource level trends over the last seven years as well as a snapshot of flows in 2016.

The financing landscape in the Solomon Islands is characterized by the dominance of domestic and international public finance, with low volumes of private finance. Domestic public finance and international public finance each account for 42% of the flows captured in the DFA.

Domestic public finance grew to a peak in 2012 and has fallen slowly since, declining by 13% between 2012 and 2016. Volumes of international public finance have fallen significantly, declining by 13% a year on average since 2010, though the rate of reduction has slowed since 2014 and there was a marginal increase in 2016.

Levels of private finance overall are low; the private flows captured in this data account for only 15% of the total in 2016. Domestic private finance is rising – it grew at an average 11% a year between 2012 and 2016, driven by growing private sector borrowing – though it remains low in absolute terms. International private finance is characterized by infrequent large one-off investments that boost overall figures – there were large investments in 2010, 2011 and 2013. Nevertheless, the underlying trend is one of low volumes and slow growth.

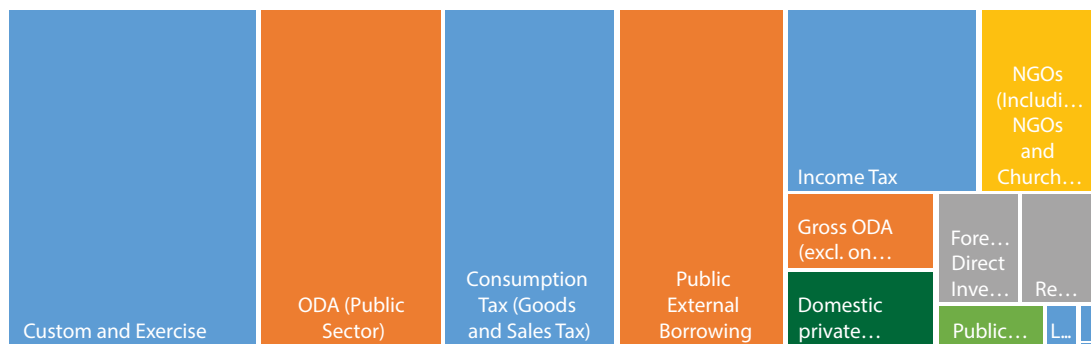
Private finance as defined here captures both private commercial investment and other private activities. One of the notable characteristics of the Solomon Islands' financing landscape is the prominence of NGOs and faith-based organisations, primarily Churches. The data captured here probably underestimates the total volumes invested and spent by these actors in practice, yet they still account for around 5% of total financing in 2016.



This aggregate picture highlights some of the most pressing challenges that the country will face in financing the NDS. Levels of private finance, in particular, must be increased in order to meet the financing requirements of the NDS. While there are some signs of growth in domestic private finance, flows are low in absolute volume and the recent trend of high proportionate growth would need to be sustained for years into the future. Many components of the NDS, especially within the first objective, are dependent on attracting foreign direct investment.

It also highlights some of the opportunities. The role of Churches and NGOs, for example, is also an important one and, with greater coordination and collaboration between these actors and government, their impact on sustainable development could be enhanced and strengthened into the future.

Figure 3. Tax revenue and ODA are the largest flows



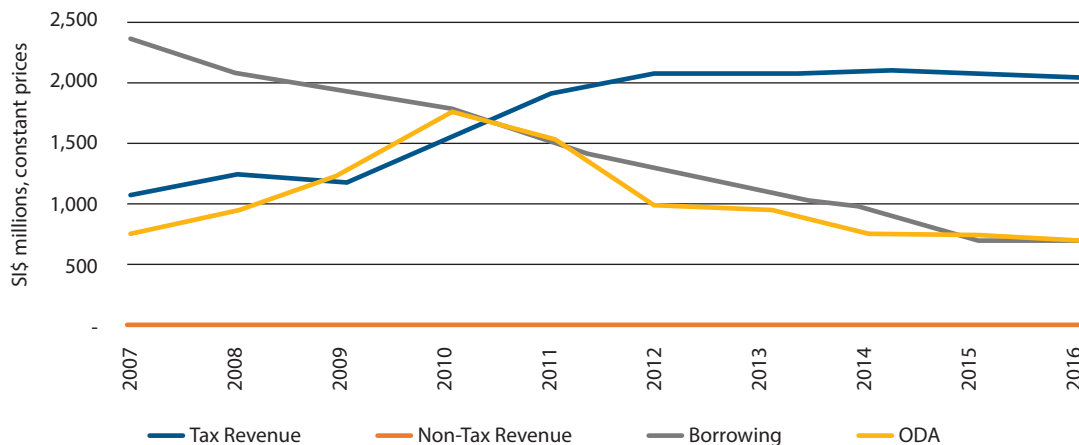
Source: Author's calculations based Central Bank of Solomon Islands, Ministry of Finance and Treasury, OECD DAC, Provincial governments and World Bank. Data are for 2016

Domestic public finance

Government revenues and borrowing

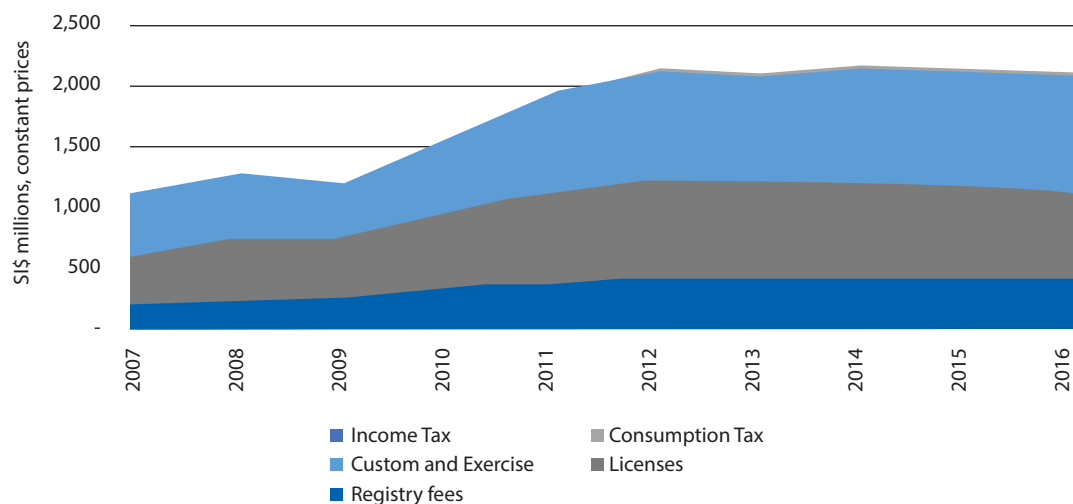
Overall levels of government revenue have fallen since 2012, driven by plateauing tax revenue receipts and lower borrowing (Figure 4).

Figure 4. Tax revenues have plateaued while ODA and borrowing have fallen



Sources: Author's calculations based on Ministry of Finance and Treasury and OECD DAC. Notes: borrowing includes both domestic and international borrowing.

Figure 5. Customs and excise revenues are growing slowly while income and consumption tax have fallen since 2012



Sources: Author's calculations based on Ministry of Finance and Treasury and CBSI data.

Tax revenues grew rapidly up until 2012 but have since plateaued (Figure 5), although trends vary between different types of tax. Income and consumption taxes have fallen since 2012, declining by 4% and 14% in total respectively. These declines have been attributed to rising fuel prices and inflation as well as challenges with compliance, though revenue is expected to have risen again in 2017.⁵ Customs and excise tax, however, rose rapidly to 2012 and continued to grow, albeit at a slower pace of around 2% a year on average. Logging exports are the key driver of this trend, accounting for over 99% of export duty revenue and at least⁶ 22% of total tax revenue in 2017.⁷ Nonetheless, unsustainable practices in the industry make a future decline in output and revenues likely.

Within this context, government finances remain low in absolute volume in comparison to many of the Solomon Islands' neighbours (Figure 6). Government revenue per person is a useful measure when thinking about the fiscal space that government has to invest in sustainable development. Many objectives within the NDS are expressed in terms of impact at the individual level – access to education or healthcare, for example. Considering the scale of resources relative to the population, therefore, gives a gauge as to the potential for government to invest in many aspects of sustainable development. Fiscal space in the Solomon Islands measured in this way is low in comparison to many of the countries' neighbours. At around US\$650 per person in 2014, revenues were considerably lower than in Tonga or Samoa and less than half those in Fiji.

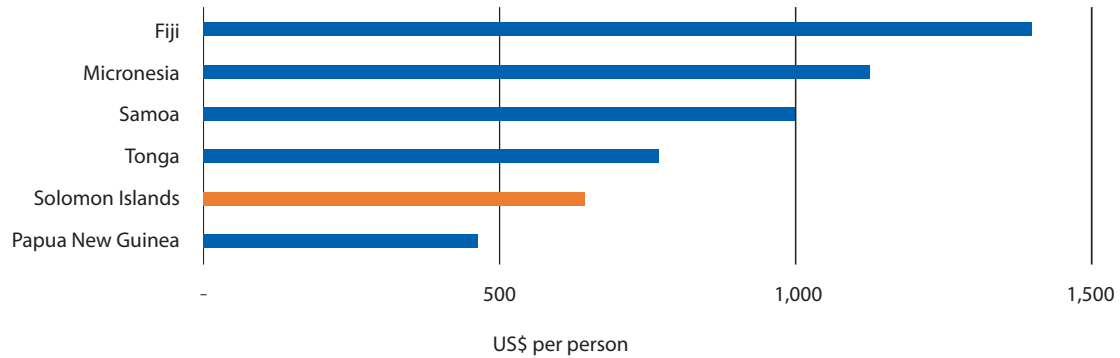
⁵ Consultations with Inland Revenue Division of the Ministry of Finance and Treasury.

⁶ Logging is also a key source of other public revenue at the national and provincial level – see provincial government section below, for example.

⁷ Authors calculations based on Budget Outlook and Strategy 2018, Volume 1, Ministry of Finance and Treasury



Figure 6. Fiscal space remains low compared to other Pacific countries



Source: 2016 UNDP AP-DEF report, *Achieving the SDGs in the era of the Addis Ababa Action Agenda*

Notes: Data is for 2014. The figures show government revenues per person excluding ODA.

These trends highlight one of the key challenges for financing the NDS. Tax revenues have plateaued and remain low in absolute terms. If exports from the logging industry do decline at some future date it could have a significant impact on fiscal space. Given that capital projects are often the first to be cut in times of austerity (see below) this could further hamper the government’s ability to make investments that will drive progress toward the NDS into the future. Reforms in both the model of tax revenue model and its collection are underway, which is an important priority in order to prepare for the future (see integrated planning and financing section below).

Government spending

On the spending side, government expenditure has grown steadily in recent years, albeit with some year-on-year fluctuations (Figure 7). Total spending rose by an average 6% a year over 2008–2018.

The development budget grew particularly rapidly between 2014 and 2017, rising by 85% in three years (Figure 8). While growing revenues have contributed to increased fiscal space, higher spending was funded in part by drawing down reserves. This has contributed to increased pressures on the 2018 budget, in which the government has paid off its arrears and committed to rebuild reserves. To do so the development budget has been cut by 42%.

Figure 7. Government spending has grown at an average 6% a year since 2008

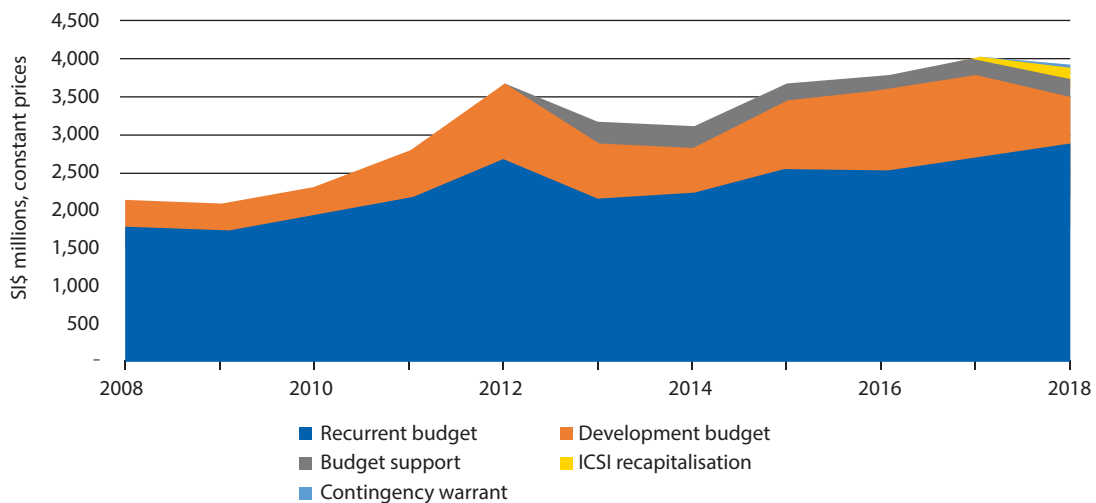
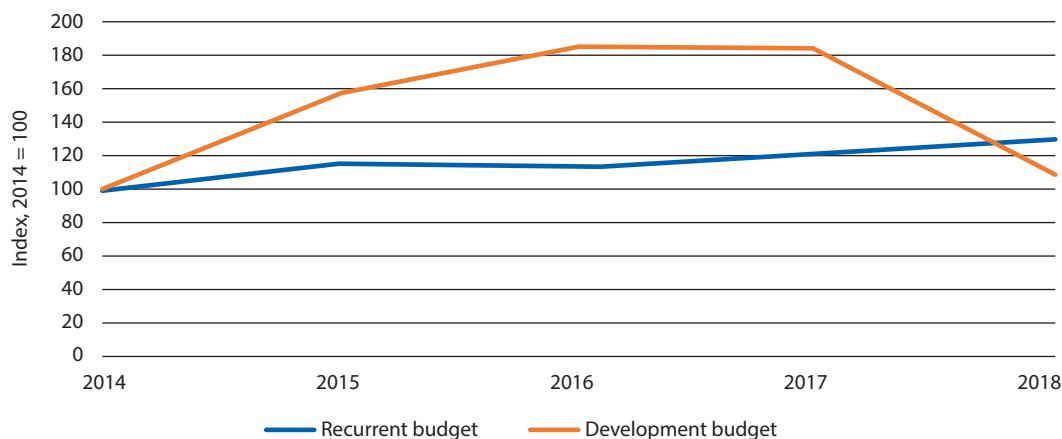


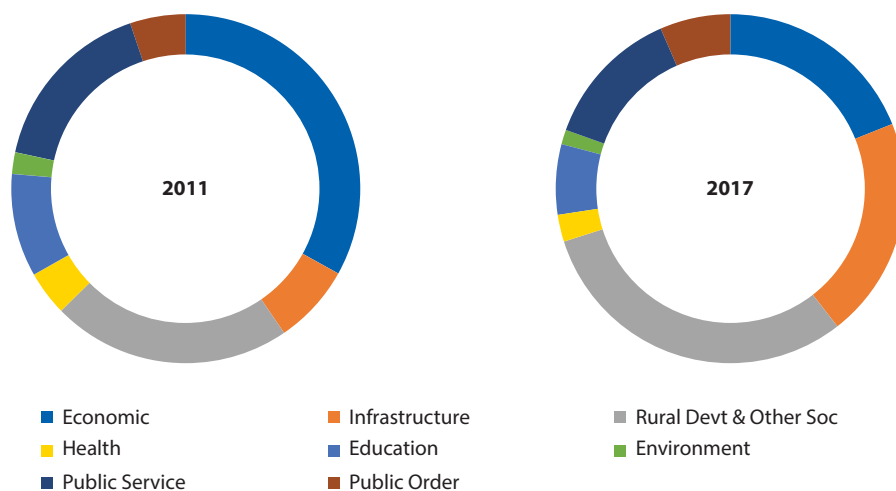
Figure 8. The development budget grew by 85% over 2014–2017, but has been cut by 42% in 2018



Source: Author's calculations based on Budget Strategy & Outlook and Final Budget Outcome publications 2010–2018 (Ministry of Finance and Treasury)

Much of the growth in the development budget has gone to two sectors, rural development and infrastructure. Allocations to rural development – notably to the RCDF (see below) – grew by an average 15% a year over 2011 to 2017. Infrastructure rose from 7.4% of the development budget in 2011 to 21% in 2017, equivalent to an almost five-fold increase in real terms. Conversely, despite the emphasis on economic growth articulated in the NDS, economic sectors fell from one third of the budget in 2011 to less than 20% in 2017. Development expenditure in health and education also fell proportionately. In real terms development expenditure in these sectors barely grew at all, from SI\$25 million to SI\$27 million and SI\$59 million to SI\$70 million over 2011 to 2017 respectively.

Figure 9. Rural development and infrastructure account for a growing proportion of the development budget

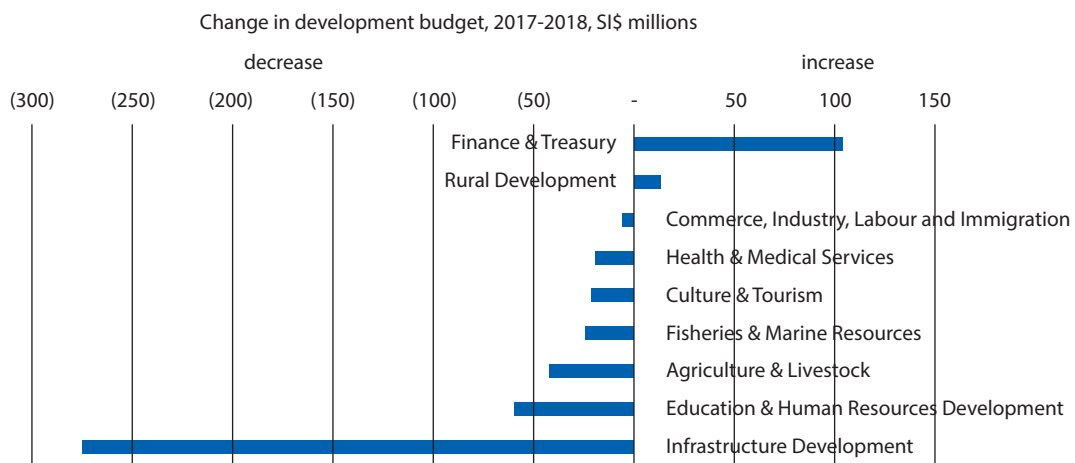


Source: 2017 NDS performance report, MDPAC



The impact of cuts to the 2018 development budget is significant in many key areas of the NDS (Figure 10). The development budget for public investments has been reduced by more than 70% in priority economic sectors such as tourism, agriculture and fisheries, as well as infrastructure. Investment in key social sectors has also had to be reduced; the development budget for health and education was cut by 68% and 77% respectively. These cuts will limit the government’s ability to invest in these core areas of the NDS. Notably funding for rural development, chiefly through the RCDF, has not been cut. The reduction in the 2018 development budget should be temporary – these measures were taken to rebalance overall finances and rebuild reserves. Yet within a context of uncertainty about future trends in government revenue, particularly given the potential impact of a decline in logging revenue, the effect of these current cuts highlights how high a priority should be placed on diversifying and safeguarding future revenues. Given the current dominance of public finance within the financing landscape overall, if fiscal space for future development expenditure in key NDS sectors is more permanently reduced then it will have an impact on progress toward achieving the outcomes of the NDS.

Figure 10. Cuts to the development budget impact government’s ability to invest in key areas of the NDS



Source: Author’s calculations based on Budget Strategy & Outlook and Final Budget Outcome publications 2010–2018 (Ministry of Finance and Treasury)

Subnational funding mechanisms

At the subnational level funding flows through a number of mechanisms. Two funds – the rural constituency development fund (RCDF) and the provincial capacity development fund (PCDF) channel a significant proportion of subnational funding. In addition, a number of line ministries include lines in their budget for funding for provincial government, as well as funding projects at the local level. Provincial governments are also able to mobilize some local revenues themselves. This section analyses the two key funds, the RCDF and PCDF, and looks at the budgets for four provincial governments for which data was gathered during the DFA.

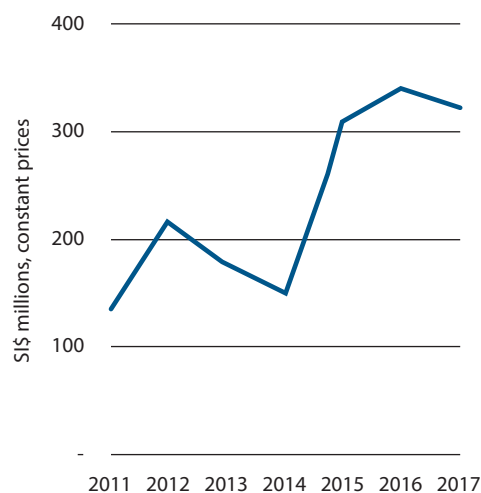
Rural constituency development fund⁸

The RCDF is the largest source of financing at the subnational level and has been growing rapidly. It accounts for the majority of development expenditure in rural development, which has grown at an average 15% a year since 2011, albeit with some significant year-on-year fluctuations (Figure 11). The RCDF is an important fund for government, emphasized by the fact that it is the only major part of the development budget which has not been cut significantly in 2018.

The RCDF allocates funds to be spent in each of the 50 constituencies in the country. Funds are to be spent in support of constituency development plans that are prepared by a constituency development committee, which is chaired by the MP. However, there is legislation to govern the RCDF (the CDF Act, 2013) regulations have not been finalized meaning that governance of the fund has not been enforced in practice. Government has committed to finalising these regulations during 2018 (see Transparency and accountability section and the Roadmap below for more).

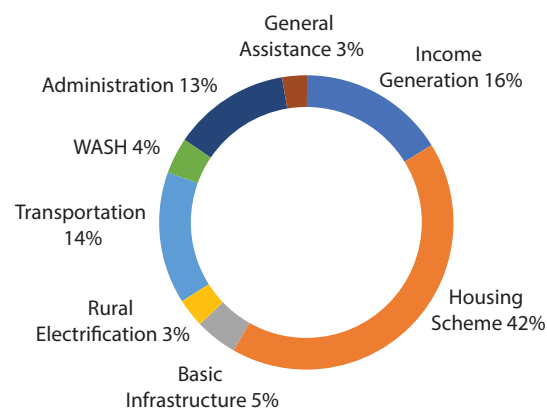
RCDF funds can be allocated to support projects with a development purpose for individuals, for group income-generating projects or community projects.⁹ In 2015, the only year for which data was available to the DFA, 42% of RCDF funds were spent on housing schemes (Figure 12). While the available data does not allow mapping of this sector distribution against income generating, community or individual projects, it suggests that a high proportion of funds may support development in the individual category. It also shows that income generating projects, which may have some of the strongest links with the primary economic development objectives of the NDS, account for only a small proportion of RCDF funds – 16% in 2015.

Figure 11. Development expenditure for rural development has grown fast



Source: 2017 NDS performance report, MDPAC
 Notes: figures show total development expenditure in rural development. The RCDF accounts for the majority of this expenditure.

Figure 12. Over 40% of the RCDF is spent on housing schemes



Source: Ministry of Rural Development 2015 annual report, Appendix B
 Note: data is for 2015

8 The RCDF is the largest public source of subnational funding, but is also one of a number of funds that sit on the recurrent and development budget overall. Education scholarships and shipping grants are notable others, which are not analysed in detail in this DFA. The DFA specifically focuses on the RCDF because (i) it is the largest fund, (ii) it is a key source of subnational funding, and the governance and efficacy of subnational funding mechanisms will be important for many aspects of the NDS and (iii) the government has made recent commitments and taken some initial steps for reform. Nevertheless, many of the issues associated with the RCDF and the kinds of recommendations made by the DFA about the RCDF could also apply to these other funds.

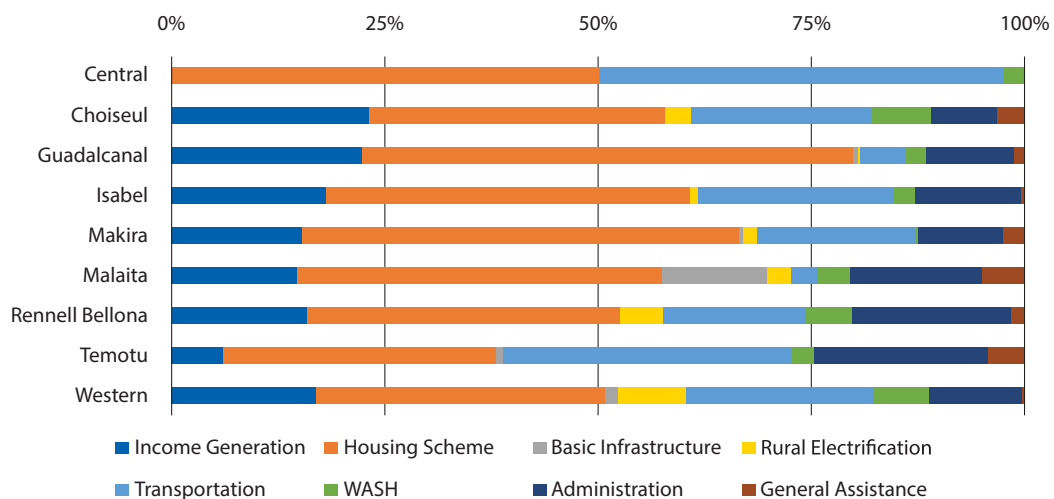
9 The CDF Act stipulates that funds can be “allocated for development purposes to individuals, group income generating projects or community projects.” *CDF Act, 2013, section 5 subsection (1).*



The use of funds is supposed to be determined at the individual constituency level, between the MP and constituency development committee, although in practice many constituency development committees are not functioning (see RCDF recommendation below). There are considerable variations in the pattern of spending by constituency. Income generating projects accounted for 51% and 40% of spending in East Choiseul and Malaita Outer Islands, for example, while basic infrastructure accounted for 78% in East Malaita and transportation 60% in Marovo. Despite WASH being identified as the highest priority during the provincial consultation process as the NDS was prepared,¹⁰ it did not account for more than 20% of spending in any constituency. Annex B presents the breakdown of spending by sector for all 50 constituencies.

Aggregating constituency level data within each province reveals some significant differences in the prioritisation of projects across the country (Figure 13). Income generating projects accounted for more than a fifth of spending in Choiseul and Guadalcanal though none were reported in Central province. In three provinces (Guadalcanal, Makira and Central) more than half of spending was on housing schemes. Transportation accounted for almost half of spending in Central and over a third in Temotu. In no provinces were more than 10% of funds spent on WASH or rural electrification.

Figure 13. The use of RCDF funds varies widely between constituencies in different provinces



Source: Ministry of Rural Development 2015 annual report, Appendix B. Data are for 2015

Provincial capacity development fund

The PCDF has grown rapidly in recent years, more than tripling in size since 2008/09 (Figure 14), although in 2016 it was only around one-sixth the size of the RCDF. It is a key fund within the Ministry of Provincial Government and Institutional Strengthening and is used to support capacity development, financial management and governance within provincial governments. Given the need for effective local delivery of investments and services implied by a number of aspects of the NDS, capacity building at the provincial level is an important ongoing priority. There have been some improvements in capacity at this level though there remains some way to go in areas such as financial management (see the Transparency and accountability section below).

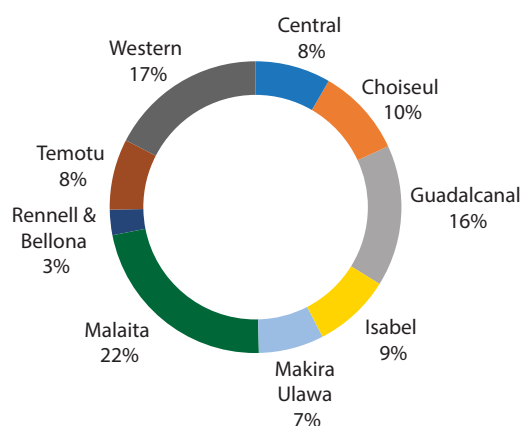
10 National Development Strategy 2016–2035, page 24

Funding through the PCDF is allocated to provinces partly on the basis of population and partly on a project proposal basis. Certain basic criteria relating to financial management must be met before provincial governments are able to access this part of the fund, and this has been credited with contributing toward some of the progress in capacity. Figure 15 shows how PCDF funding was allocated across the provinces in 2016/17. Malaita, the most populous province, received the largest share of funding, 22% of the total.

Figure 14. The PCDF has grown more than three fold in ten years



Figure 15. PCDF funding in 2016/17



Source: PGSP Programme Management Unit Report, MPGIS

Provincial governments

Provincial governments receive financing from the PCDF as well as other line items in the development and recurrent budgets of national government. They also have some devolved powers to raise local revenue. This section analyses data from four provincial governments: Central, Guadalcanal, Malaita and Temotu (data on other provinces was not available to the DFA).

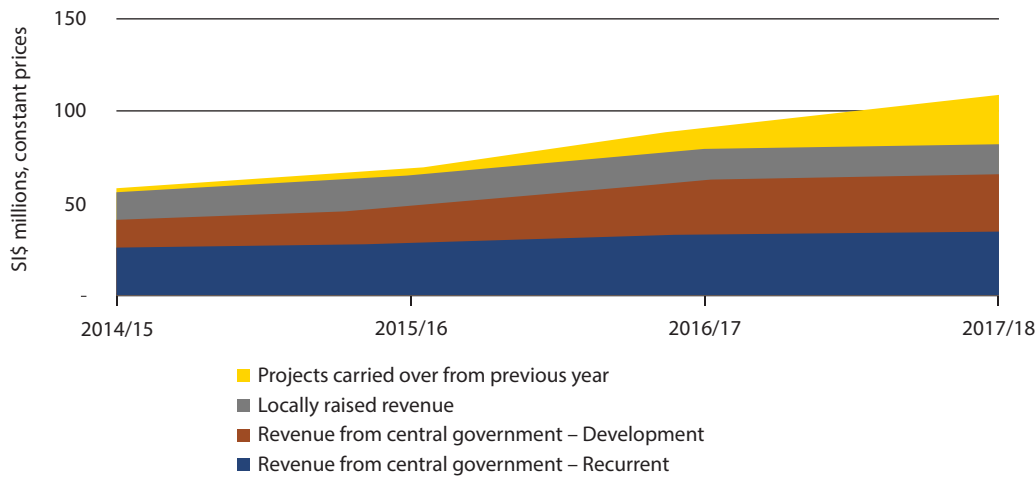
Total revenue received by the four provincial governments has grown over the last four years, rising at an average 13% a year, albeit from low initial levels (Figure 16; excluding funding rolled over from the previous year).¹¹ Its main driver is increased funding from the development budget of central government. Over the last 2–3 years the proportion of funds rolled over from one year to the net has been growing. In two provinces almost a third of total revenue was rolled over from 2016/17 to 2017/18.

Locally raised revenues account for between 10% and 24% of total revenue in the four provinces in 2017/18 (excluding funds rolled over). On average they grew by 1% a year over 2014/15 to 2017/18, though there were considerable differences between provinces. In Malaita local revenues grew by 63% over the four years, driven by increased receipts from licencing, largely in the logging industry, and fees. However, in Temotu local revenues fell by 46%. Logging licences were a key driver of this trend too, with a significant fall in logging licence receipts in the province in 2015/16.

¹¹ This figure excludes funds rolled over from one year to the next. Including these funds, the figure would be 23% growth a year.



Figure 16. Provincial government revenues are rising, though so are the proportion of funds being rolled over



Source: Provincial government budgets for four provinces – Central, Guadalcanal, Malaita and Temotu. Note that data from other provinces was not gathered during the DFA. Figures for 2014/15 – 2016/17 are actuals while 2017/18 are estimated or revised budget figures.

State owned enterprises

The nine SOEs in the Solomon Islands will play important roles in the realisation of the NDS. Many of them are central players in important aspects of the agenda. The investments made and services delivered by the electricity authority (SIEA), ports authority (SIPA) and water authority (SIWA) will help drive the needed infrastructure development to realize the NDS. And the national airline, SOLAIR, can be a key part of the strategy to promote tourism as part of the country's economic development.

The SOEs have undergone a significant transformation since 2009 and they are now the most profitable SOEs in the Pacific region.¹² A reform programme was implemented around four pillars – financial restructuring of the largest SOEs, tariff increases for water, the privatisation or liquidation of nonstrategic SOEs and improved implementation of the SOE Act.¹³ One of the key features of this programme was the use of community service obligations, which have helped increase service delivery in priority communities and represent a step towards more outcome-focused policy that could be applied to other aspects of governance (see Box 7).

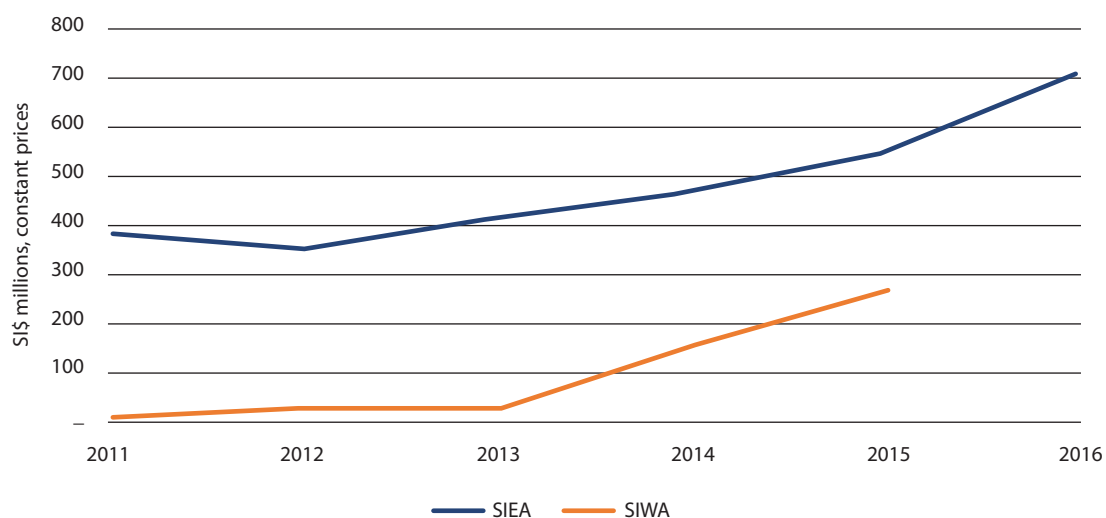
Since the reforms in 2009 investments by key SOEs have been growing. Figure 16 presents a proxy for increased investment, showing how SIEA's assets grew 85% over 2011–2018 and SIWA's grew from a base of SI\$16 million in 2011 to SI\$274 million in 2015. Profits from most SOEs have also been growing (Figure 18). In 2016 five of six SOEs for which data was available made a profit, and SIEA's profits have grown by almost 60% since 2013. SIEA paid a dividend to government for the first time in 2016.¹⁴ SOLAIR remains the only unprofitable SOE.

¹² ADB, 2016, *Finding Balance 2016: Benchmarking the performance of SOEs in Island Countries*.

¹³ Ibid.

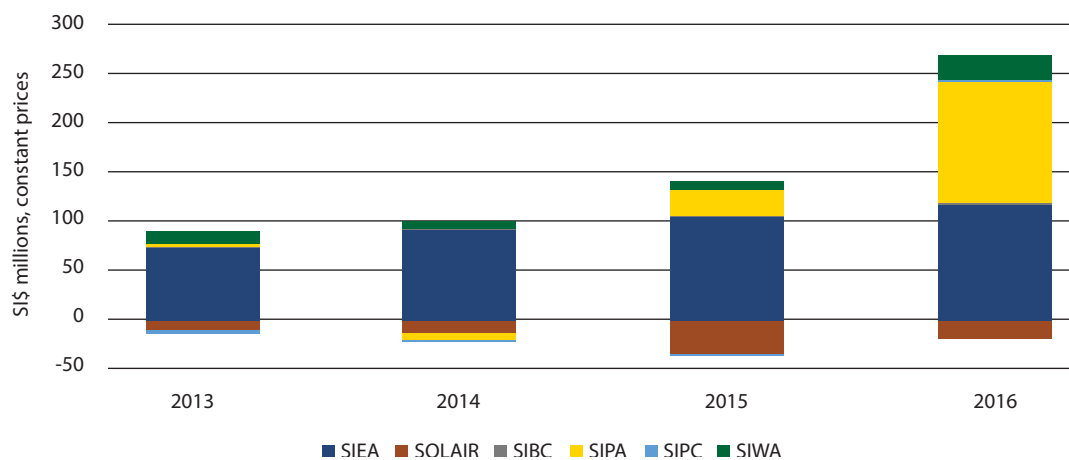
¹⁴ SIEA 2016 annual report.

Figure 17. Key SOEs have been increasing investment



Source: SIEA and SIWA annual reports. Notes: figures show the value of property, plant and equipment within each SOE at the end of each year.

Figure 18. SOE profits are growing



Source: Pacific SOE data, <http://www.pacificsoedata.org/solomon-islands/>

Private finance

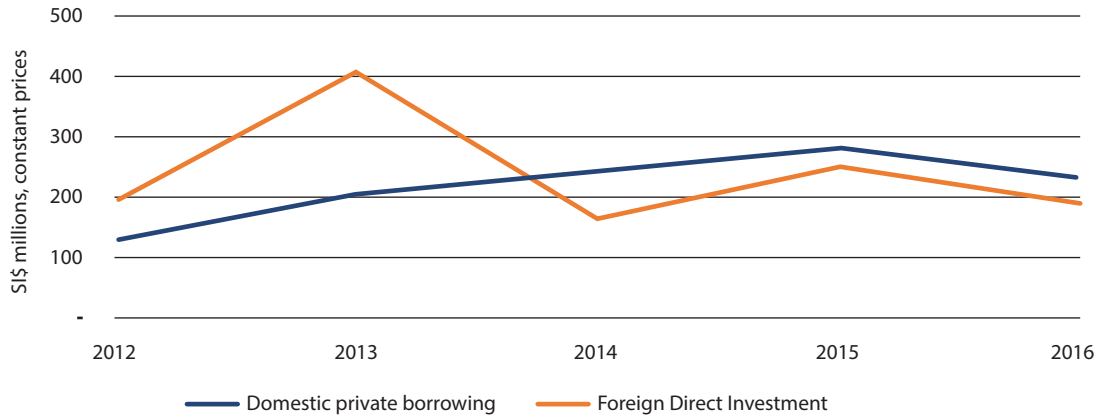
Commercial investment

Investment by the private sector is central to the strategy of the NDS. Private sector-led growth should drive progress in a number of economic and social areas and create the economic conditions and capital for investing in other aspects of the NDS. The financing landscape implied by the objectives of the NDS is one in which there are steadily growing volumes of private commercial investment, both FDI and from domestic SMEs. Investment in tourism, fisheries, commercial and cash crop agriculture and energy production would be growing year-on-year, and small and large firms country wide would have access to credit in order to grow their businesses. This section looks at how current trends in commercial investment compare to those required to achieve the NDS.



Overall investment by the private sector remains low (Figure 19).

Figure 19. Private investment levels remain low in absolute terms



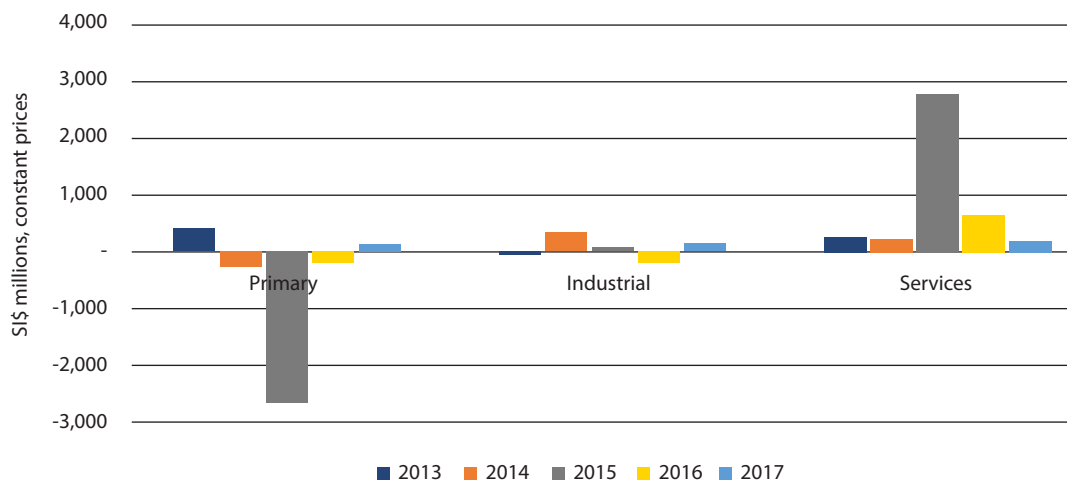
Source: Central Bank of Solomon Islands

While there have been some years of large one-off foreign investments, the underlying trends remain generally flat with relatively low levels of FDI.

Industry level data on FDI is unavailable, though the breakdown between primary, industrial and services (Figure 20) shows that investment in services has shown some growth over the last five years, with large investments in 2015 and 2016 in particular. There have also been significant divestments, especially within some primary industries.

Domestic credit, a key source of funding for domestic private investment,¹⁵ has been rising generally in recent years, despite a dip in 2016 (Figure 19).

Figure 20. FDI in services have grown while there has been some divestment in primary sectors



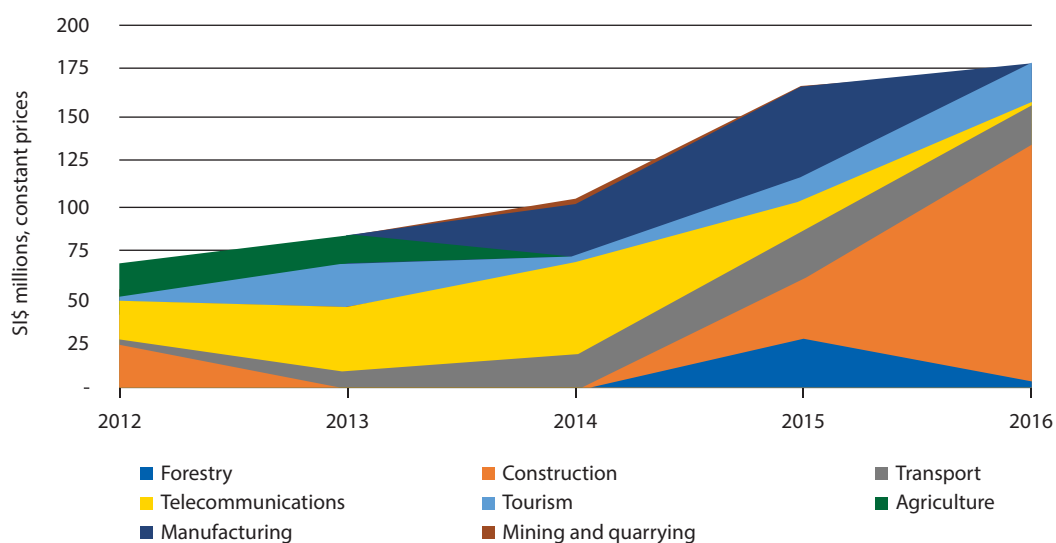
Source: CBSI

Notes: Negative figures represent net divestment.

¹⁵ Commercial investments are funded either by credit, equity or reinvested earnings. Data for total domestic investment was unavailable and domestic credit is used as a proxy.

When broken down to the industry level, the data shows a spread of borrowing across a range of industries with significant year-on-year fluctuations (Figure 21). This is probably indicative of investment decisions among small numbers of individual firms as opposed to more significant, industry-wide growth in investment. In 2016 construction accounted for the largest volume of credit while manufacturing was largest in 2015 and telecommunications in 2014. Borrowing within the industries targeted by the NDS remains low.

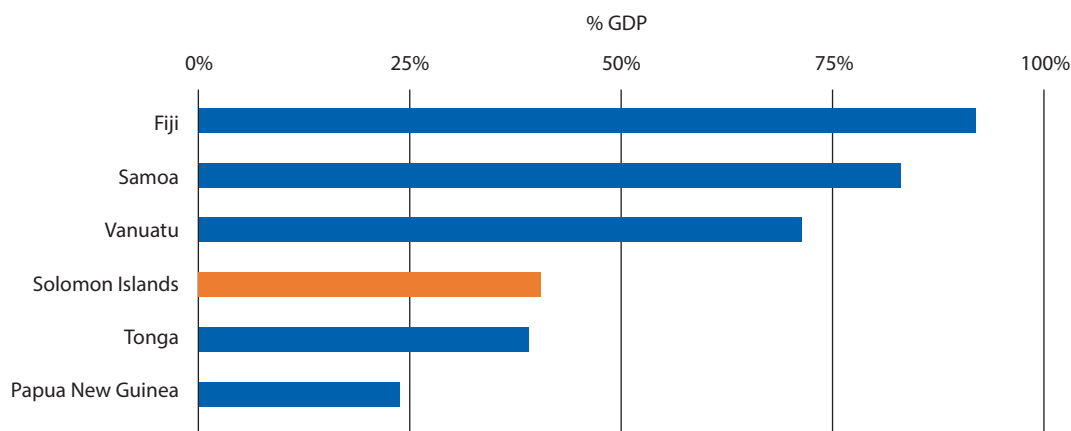
Figure 21. Borrowing within the industries targeted for growth by the NDS remains low



Source: Author's calculations based on Central Bank of Solomon Islands quarterly reports

Commercial debt is low in comparison to the Solomon Islands' neighbours (Figure 22).¹⁶ Measured as a proportion of GDP, total commercial debt outstanding is less than half that in Fiji and Samoa and considerably lower than Vanuatu.

Figure 22. Commercial debt is low within the Pacific region



Source: World Bank

¹⁶ See also IMF Article IV assessment, 2016. Available at: <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Solomon-Islands-2016-Article-IV-Consultation-and-Fifth-and-Sixth-Reviews-Under-the-Extended-43823>



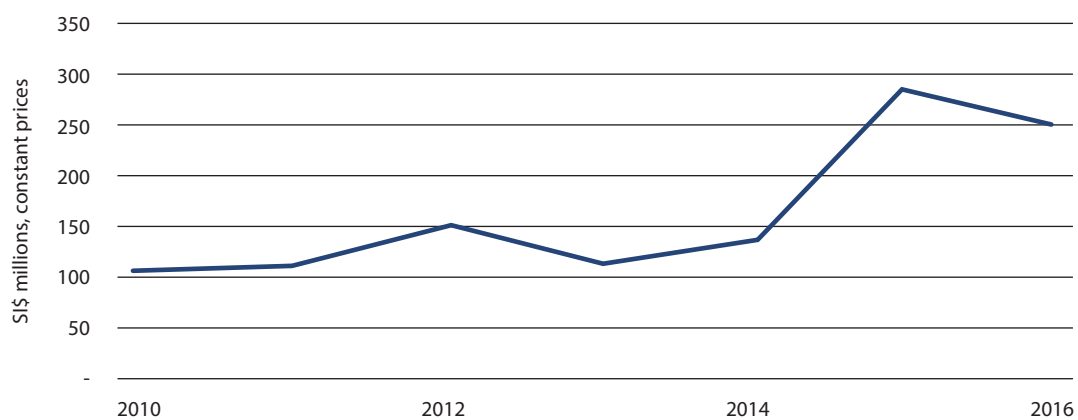
Stimulating greater volumes of private investment is a central challenge for financing the NDS. Achieving the objectives for headline growth rates, targets for the creation of jobs and priorities such as continuing growth in tax revenue, requires the establishment and growth of new industries. Stimulating investments to kick-start growth in the industries targeted by the NDS is critical and these data highlight the needed for significant change from the current trajectory.

A number of reforms designed to help stimulate investment are ongoing and there is potential to improve coordination and enhance efforts to grow these targeted industries (see public-private collaboration and roadmap sections).

NGOs and Churches

NGOs and Churches are important actors in the Solomon Islands sustainable development and financing context. They offer a range of services relevant to the NDS – in core social sectors such as health and education, income generating and economic sectors, disaster preparedness and response, as well as wider activities related to wider objectives of the NDS. For example, one initiative identified through the DFA consultations supported a research designed to raise awareness on the risks of climate change. Churches are also recognized as having played an important role during the tensions and continue to contribute toward objectives related to national unity and stability. In some areas of the country Churches and NGOs play an important role where government services are lacking.

Figure 23. Churches and NGOs play important roles in sustainable development



Source: CBSI and data shared by Churches and NGOs.

Financing for NGO and Churches comes from a mixture of domestic and international sources that varies by organisation. Many have programmes that are funded by development partners or international foundations. There is also a certain amount of local revenue and in some cases asset ownership generates revenue that is used to support programmes.

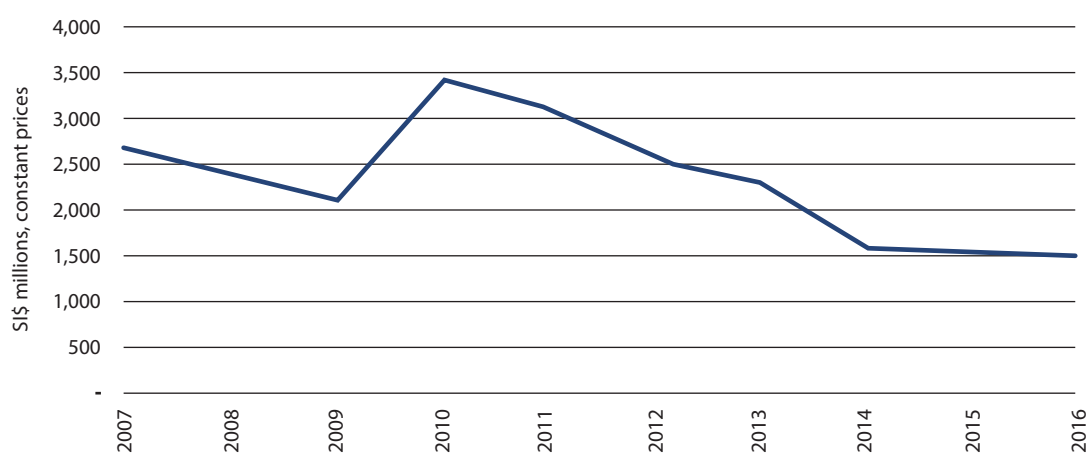
The DFA was not able to collect sufficient data to accurately gauge the scale of investments and services delivered by NGOs or Churches. Nevertheless, the data that has been captured, which probably underestimates their true scale, nonetheless, highlights their importance in the financing landscape overall (see Figure 3 above). This data also suggests growth in financing through and from these organisations (Figure 23), though these trends may also be affected by increasing data coverage in later years.

International public finance

ODA has played an important role in the Solomon Islands and is likely to continue to do so for at least the medium-term future. ODA volumes fell following the height of cooperation during the post-conflict period (RAMSI) and have plateaued in recent years.

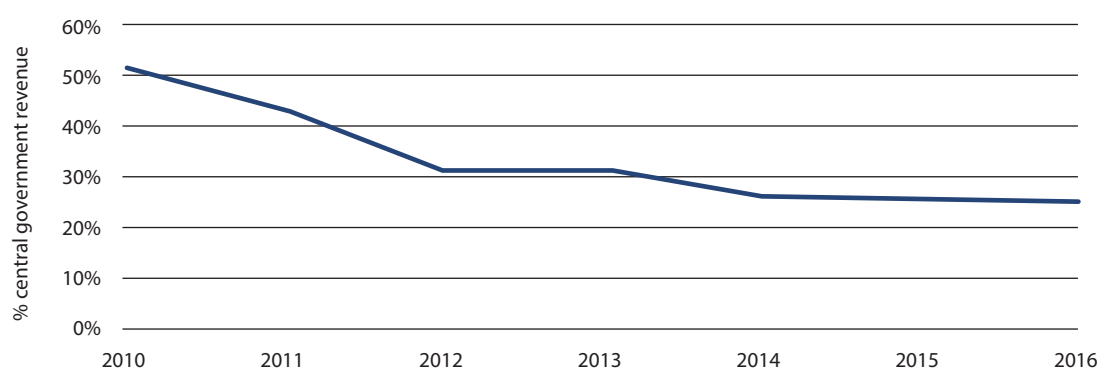
ODA from donors that report to the OECD DAC peaked at around SI\$3.5 billion in 2010 (Figure 24), equivalent to 60% of gross national income.¹⁷ It has declined in volume since, falling to around SI\$1.5 billion in 2015.¹⁸ ODA is an important source of government revenues, accounting for one quarter of total government revenue in 2016, though this too has fallen significantly in recent years, from over half in 2010 (Figure 25).

Figure 24. ODA has been falling since 2010



Source: OECD DAC

Figure 25. ODA remains an important source of government revenue though it accounts for a declining proportion of the total



Source: Author's calculations based on MDPAC and CBSI

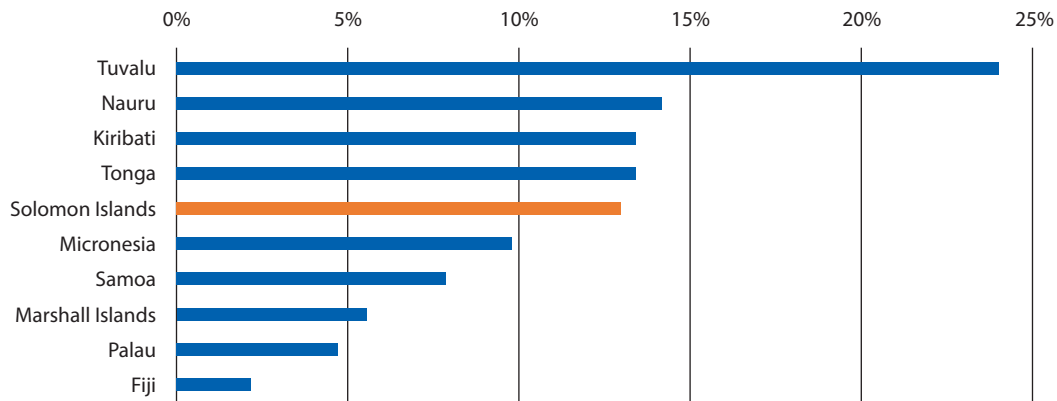
17 Note that this is based on OECD data, which presents the most comprehensive overview of ODA. It does however exclude assistance provided by some non-DAC donors (see below).

18 Note that these figures differ slightly from those presented in the financing landscape analysis as on-budget ODA and other ODA are separated in that analysis whereas here all ODA is presented together.



ODA was equivalent to 12.7% of GNI in 2016 (Figure 26). This is high in absolute terms – some international definitions classify a country as highly aid-dependent if the ODA to GNI ratio exceeds 10%.¹⁹ These levels are, however, similar to those many other countries in the region.

Figure 26. ODA is high relative to national income, as in many other Pacific countries

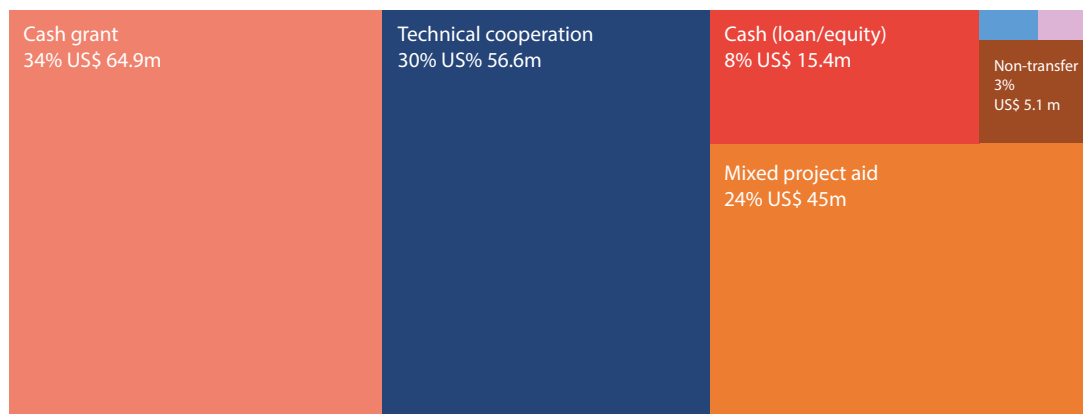


Source: OECD DAC

Looking ahead, the post-RAMSI decline in total ODA appears to have plateaued and current levels represent normalized relations with the country’s key development partners so may be maintained over the short and medium term. Some aspects of ODA spending may be affected by the graduation from LDC status, though it is unlikely to have a major impact on ODA. Over the long-term, nonetheless, the Solomon Islands remains vulnerable to policy change by its major development partners.

The majority of ODA is cash grants or technical cooperation (Figure 27).²⁰ Technical cooperation has fallen as a proportion of total ODA. ODA loans remain a small but growing proportion of ODA, accounting for 8% of the total in 2016.

Figure 27. Cash grants and technical cooperation account for the majority of ODA



Source: Development Initiatives Data Hub, <http://data.devinit.org/unbundling-aid>. Note that figures quoted are in US\$ millions, constant 2015 prices.

19 For example, see J. Glennie and A. Prizzon, 2012 *From high aid to low aid: a proposal to classify countries by aid receipt*. Available at: <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7621.pdf>

20 Mixed project aid, which is the third largest category as reported by development partners, is generally a combination of cash grants and technical cooperation.

ODA is a significant source of financing in a number of key sectors for the NDS (Figure 28). Governance accounts for the largest proportion of ODA; this is made up of a range of projects in areas such as economic and public sector governance, justice and gender equality, although the largest project relates to the second phase of transition following the end of RAMSI. Transport is the second largest sector, encompassing large projects related to improving port facilities and the upgrading of Kukum highway.

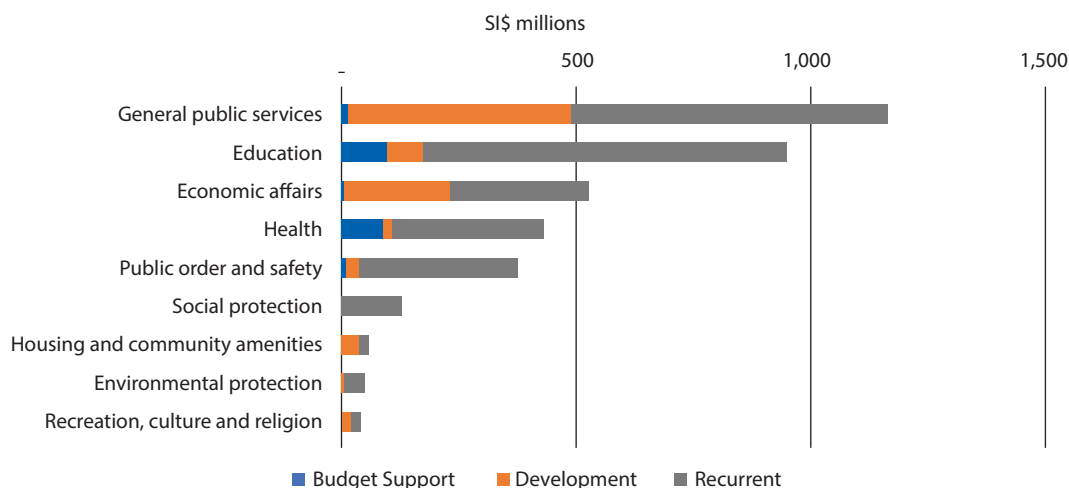
Figure 28. Governance, transport and education together account for two thirds of ODA spending



Source: OECD creditor reporting system. Data are for 2016.

In a number of sectors ODA adds a significant volume of investment over that made by government (Figure 29). In education and health total ODA exceeds that spent by the government through the development budget.²¹ This highlights the important role that ODA currently plays in advancing key social aspects of the NDS. ODA in these sectors is overwhelmingly provided by two development partners – Australia accounts for around two thirds of health ODA and Australia and New Zealand together account for around 80% of funding in education.²²

Figure 29. Development partners are key funders in education and health



Source: BOOST public expenditure database for Solomon Islands. Data are for 2015; more recent data is not sufficiently disaggregated to undertake this analysis. Notes: this chart shows government spending classified by function. NB. Development spending may include some donor-funded investment.

21 This is not quite a like-for-like comparison as ODA in these sectors will include costs that would be considered recurrent, though it gives an indication of the key sources of funding for new investments (as opposed to ongoing activities) in these sectors.

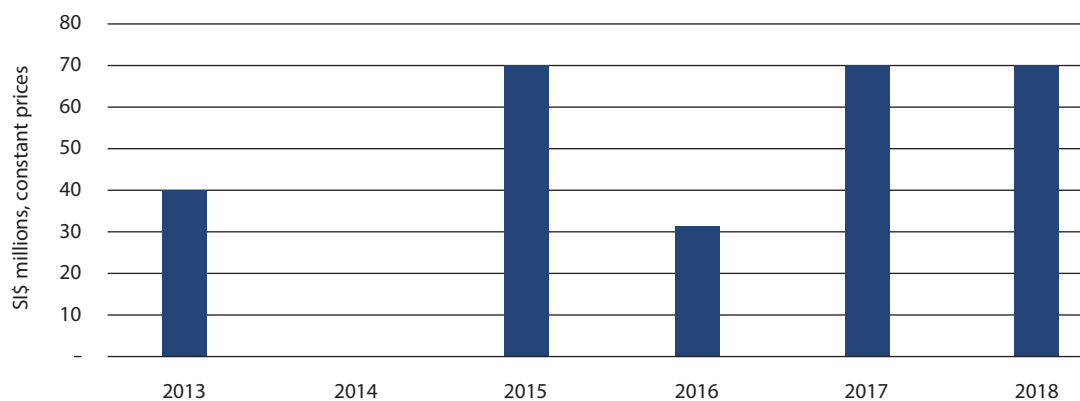
22 Based on 2015 figures. Source: Development Initiatives data hub, Solomon Islands country profile. <http://data.devinit.org/#!/country/solomon-islands>



Australia and New Zealand are the Solomon Islands' largest donors and the Solomon Islands is an important destination for these development partners. In 2016 it was the third largest recipient of ODA from Australia and the largest from New Zealand.²³ ADB and the World Bank also provide significant volumes of ODA and may scale up support in areas such as budget support. There may also be opportunities to scale up ODA from other donors such as Japan, which has a discretionary loans scheme that the country has not yet accessed.

One prominent non-DAC donor also plays a significant role as a partner to the Solomon Islands, providing significant volumes of assistance. It is a particularly important source of financing for the CDF, with assistance totalling SI\$ 70 million in 2018 (Figure 30). The country also provides support in other areas – for example, providing technical assistance to seven projects in 2016.

Figure 30. Non-DAC donor support for the constituency development fund



Source: Ministry of Finance and Treasury, 2014, 2016 and 2018 Budget Strategy and Outlook publications. Note that data for 2014 and 2016 represent actual figures while the data for other years is budget or revised budget data.

23 Source: Development Initiatives data hub, unbundling aid, <http://data.devinit.org/unbundling-aid>



Integrated planning and financing

Achieving the vision of the NDS will require investments from a range of public and private actors that contribute directly and indirectly to the outcomes it targets. Mobilising the necessary resources, and maximising the contributions that different types of financing can provide towards NDS implementation demands an integrated approach to financing. This entails a policy framework, partnerships and collaboration that promote contributions from different types of financing according to their specific characteristics.

Government has a critical role to play in instigating an integrated approach to financing. The way it invests its own resources, the partnerships and collaboration it builds across sectors and the policy environment it develops have a powerful influence on the way other actors operate and invest their own resources. At the foundation of government's approach to financing for the NDS are the planning process and the policies that govern the approach toward different types of financing. This includes but exceeds the budget, incorporating policies towards the private sector, development partners and other actors.

This section of the DFA looks at the systems that are in place to align the planning and budgeting processes and to coordinate across policies toward other types of financing.

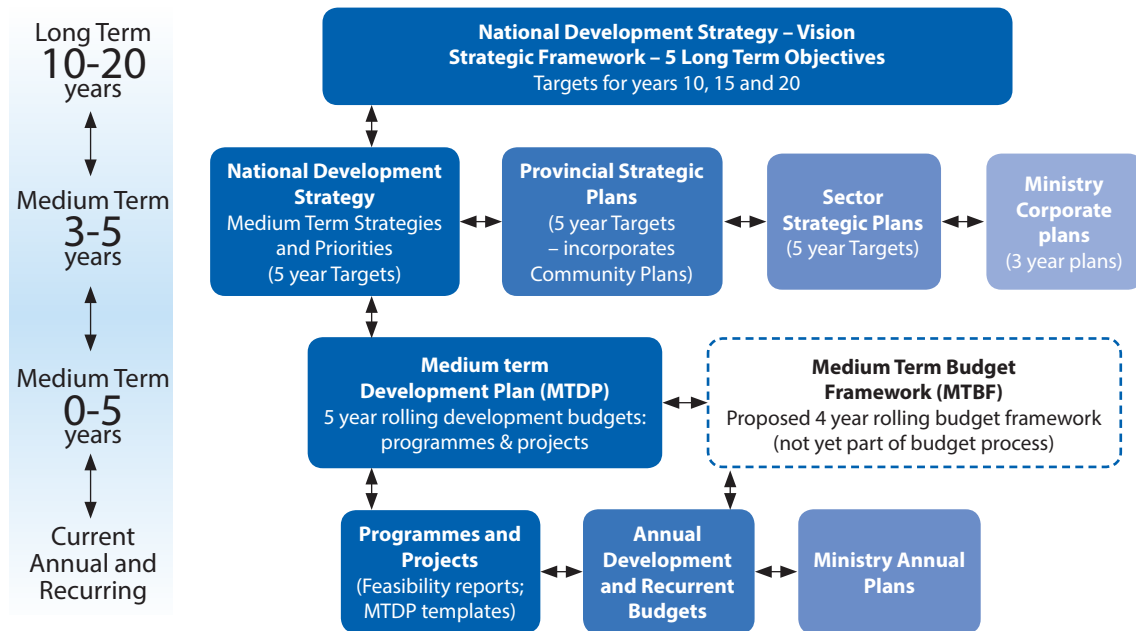
The planning system

The centrepiece of the planning system is the National Development Strategy 2016–2035, which lays out the country's long term sustainable development aspirations. The NDS was launched in 2016 to replace, update and extend the previous ten year plan. It was developed following wide consultations at the technical level with line ministries and through dialogue with communities countrywide.

The NDS provides a framework for development policies, priorities and programmes that should provide a single reference point and common direction for the twenty year period that it covers (Figure 31).



Figure 31. The planning and financing system



Source: National development strategy

Planning and financing

An implementation oversight committee for the NDS (NDS-IOC) has recently been re-established and has responsibility for coordination across ministries in implementing the NDS. To date, there has not been a major focus on setting out a long-term strategy for financing the NDS, though the NDS itself does make clear calls about the roles that certain resources – notably private sector investment – should play in the country’s development. However, a key rationale for undertaking this development finance assessment is to support the development of a strategic approach to financing the NDS, and to identify key steps that can be taken to advance a more integrated approach to financing in the short and medium term. As such the analysis and recommendations of the DFA will feed into the development of a Solomon Islands Integrated Financing Framework (SIFF) and the workplan of the NDS-IOC.

Planning and budgeting

The way that the government invests its resources is a key determinant of progress toward the NDS objectives. Public finance is a critical resource within the financing landscape of the Solomon Islands, accounting for over 40% of total finance in 2016 (see The current financing landscape section above). There are powerful demonstration effects too; as government invests effectively in achieving sustainable development outcomes it can inspire other partners to do so as well, in partnership with government and in their own right.

The budget is government’s primary tool for investing its resources and ensuring that the investments made through the budget align to the outcomes of the NDS is critical. To achieve this requires systems that effectively link the planning and budgeting processes, both horizontally across central and line ministries at the national level, and vertically with subnational administrations.

Structure of the budget

Within the overall resource envelope, the budget is divided into two budgets, the recurrent and development budget. In theory the recurrent and development budgets are used to divide ongoing current expenditure from time-limited capital investments, though this does not happen in practice (see below). These budgets are each allocated across national level ministries in an annual budget preparation process. A three year Medium-Term Development Plan (MTDP) guides allocations for the annual development budget. The recurrent budget is an annual budget, though the introduction of a medium term budget framework has been considered. Subnational funding is divided across a number of funding streams. Dedicated funds, notably the provincial and rural constituency development funds (PCDF and RCDF respectively), sit within the development budget and provide funding for provincial government small capital projects and projects within constituencies. Many national ministries also provide funding for provinces and at a local level; ministries such as the Ministry for Education and Human Resources Development and the Ministry of Health and Medical Services include line items for each province within their annual recurrent budgets.

Mechanisms that could be used to link the budget with the NDS

There are a number of structures within the budgeting process that could be used to align spending to the NDS, though there are opportunities to strengthen how actively this function is carried out.

The medium term development plan maps the line items within each ministry's development budget against the 15 medium term strategies of the NDS. While it summarizes the performance targets of key programmes within each ministry the focus is on tracking spending under each medium term strategy of the NDS as opposed to an outcome or results-based approach.²⁴ It is also not clear how this will strengthen the link between annual budgets and the long-term outcomes of the NDS. In practice as in recent years the annual development budget ceilings had fluctuated significantly during the annual budget preparation process.

The NDSIOC oversees the implementation of the NDS and is the primary mechanism for coordination across ministries around the NDS implementation at the senior official level. While it plays a key oversight role in aligning the implementation of policies and discussing priorities across ministries, the NDSIOC does not currently play an active role in determining budget allocations or reviewing budget proposals against the objectives of the NDS. This responsibility could be given to the NDSIOC (see roadmap below). Finally, the Cabinet has ultimate responsibility for the budget and has final sign-off on the overall draft budget. Alignment between the annual budget and the NDS is one aspect of this function that could be made more explicit within their processes.

Challenges to linking the budget with the NDS

While there are mechanisms that could play a more active role in aligning the budget and NDS, there are a number of challenges in strategic planning and budgeting that would limit the ability to do so. This affects the link between planning and budgeting both horizontally across national government and vertically, between national and subnational government.

Practices in strategic planning and the preparation of budget proposals are often relatively weak. Standards for strategic planning that determine the aims and approach for budget proposals are not

²⁴ Based on the 2017–2021 Medium Term Development Plan



implemented or enforced in practice. The NDS performance report estimates that between 40% and 50% of projects funded by the development budget have not been properly planned and notes that programmes continue for years with little indication of successful outcomes.²⁵ Projects may not have gone through a rigorous planning process and there may be insufficient information about the targeted objectives or strategic approach on which a judgement about whether to include them in the national budget can be based. In part, this is a result of the recent rapid increase in spending, particularly through the development budget, without a corresponding increase in capacity to effectively plan projects. There are weak review mechanisms to ensure that projects are properly implemented and outcomes are achieved as planned, as well as a few consequences from ineffective implementation in which projects are not timely delivered. Awareness of the NDS among ministries is also relatively low and there is a lack of understanding among many of the officials designing projects about how they should relate and contribute to the outcomes of the NDS.

A further challenge with the budget preparation process is that it encourages a siloed approach. Ministries develop and submit proposals for funding from the recurrent and development budgets individually. Though many of the objectives and medium-term strategies of the NDS cut across ministerial briefs there is no systematic process within the budget preparation process for ministries to come together and jointly design and submit proposals for projects in common areas of focus.

Furthermore, budget standards are not properly applied. Though a chart of accounts was finalized and introduced in 2013 it is not enforced in practice. The most significant challenge this has contributed towards is that in practice a mixture of recurrent and development spending items still appear in both the recurrent and development budgets. This creates significant challenges for understanding, managing and planning for the use of the budget. Infrastructure needs, for example, are identified across many objectives and medium term strategies within the NDS. Yet without clarity on how much government is investing in capital projects in practice it is not possible to properly manage, track and ensure efficiency in the way government invests in infrastructure.

25 MDPAC, 2017, *NDS 2016–2035 Performance report*

Box 5. Iterative steps toward more integrated planning and budgeting in the Philippines

In the Philippines the Philippine Development Plan (PDP) is the key medium term instrument linking programmes and policies to medium term objectives. The PDPs in turn cumulatively work toward the objectives of the recently launched long-term vision, *Ambisyon 2040*. A number of reforms have been introduced since 2007 that allow the government to more effectively link the way its resources are invested to the desired results of its development plans, and to the SDGs.

In 2007, a medium term expenditure framework was introduced. This is a rolling three-year budget that allocates financing to programmes. For the 2011–2016 PDP the government introduced a monitoring framework, the results matrices, as part of a shift toward results-based management.²⁶ This strengthened the results chain, linking headline national development outcomes to sector and subsector outcomes.²⁷ In 2014 a Programme expenditure classification tool (PREXC) was introduced.²⁸ This restructured the budgets of all government agencies so that recurrent activities and projects were grouped together under programmes or key strategies. It enabled costing and monitoring of performance information at the programme or strategy level, as opposed to the organisational level as had been the case previously. When PREXC was established it was setup so that the objectives and performance indicators for each programme within an agency were linked to the objectives and mandate of the agency overall. Agency objectives and mandates are in turn themselves linked to national development objectives. For the 2018 budget, however, this link between programme objectives and outcomes has been made more direct. As part of the budget preparation process government agencies have been recommended to link proposed programmes to the outcome indicators of the PDP results matrices, as well as to the SDG indicators.²⁹

In this way, the government has cumulatively built and strengthened a system for managing the way it invests its resources in relation to national sustainable development objectives. This increasingly close integration of planning and budgeting systems has allowed greater control and responsiveness in investing public resources for sustainable development outcomes and contributes to greater overall effectiveness in the use of public finance.

Source: Innovations for integrated financing, UNDP, 2018.

The example in Box 5 shows how the Philippines has built stronger and more interconnected planning and budgeting systems over time. It shows the number of iterations and time that this can take and may provide some inspiration about both next steps and longer term integration.

In addition to current challenges in planning and budgeting at the horizontal level, there are further challenges in linking subnational budgeting with the NDS.

Strategic planning processes at the subnational level are largely disconnected from those at the national level. This is partly a result of the way that subnational financing is structured; funding sits on the budgets of national line ministries³⁰ who act as their representatives in the national budget preparation process.

26 UNDP, 2016, *Achieving the SDGs in the era of the Addis Ababa Action Agenda*. Available at: http://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/achieving-the-sustainable-development-goals.html

27 UNDP, 2017, *Country Briefs on SDG Integration into Planning, Philippines country brief*. Available at: <http://www.asia-pacific.undp.org/content/rbap/en/home/library/sustainable-development/country-briefs-on-sdg-integration-into-planning.html>

28 Philippines Department of Budget and Management, 2014, *PREXC: Programme expenditure classification, the next phase of the performance-informed budget*. Available at: <https://www.dbm.gov.ph/images/pdffiles/PREXC.pdf>

29 UNDP, 2017, *Country Briefs on SDG Integration into Planning, Philippines country brief*. Available at: <http://www.asia-pacific.undp.org/content/rbap/en/home/library/sustainable-development/country-briefs-on-sdg-integration-into-planning.html>

30 E.g. the Ministry of Provincial Government and Institutional Strengthening manages the PCDF which provides regular funding for provincial governments and the Ministry of Rural Development manages the Rural Constituency Development Fund which provides funding for projects proposed by MPs and constituency development committees.

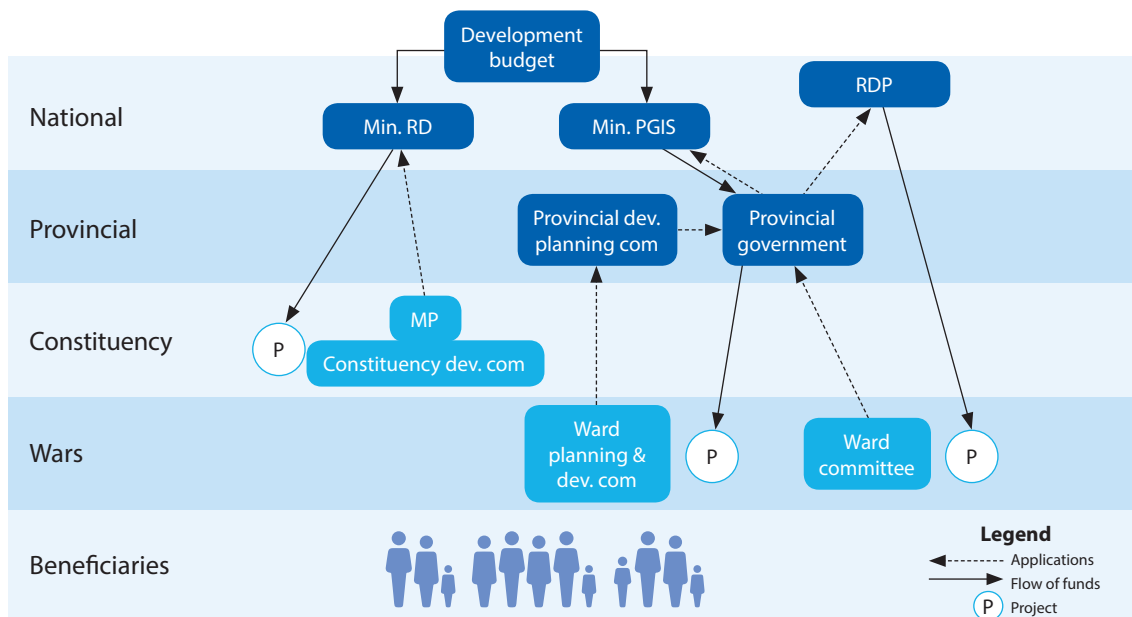


There is no systematic engagement between these subnational actors and MDPAC. As a result, awareness of the NDS within provincial administrations is low and clear links between the outcomes they work towards and national objectives are not systematically developed. It is amplified by other factors such as the different financial years that national and provincial governments use for their budgets.

It is also the case that there are parallel systems for financing at the subnational level, notably the RCDF and PCDF (Figure 32).³¹ These funding mechanisms provide funding at slightly different, though very closely related levels of government (constituency and ward levels), though they are separate systems and there is no systematic collaboration between them. There are also challenges with transparency in the management of these subnational funding mechanisms as well as limited capacity for financial management at subnational levels of government (see the transparency and accountability section below). The result of these challenges is that there is limited information with which to allocate or monitor subnational funds according to the priorities of the NDS. Lack of coordination also heightens the risk of duplication between projects and missed efficiencies.

There are also challenges in financial management capacity within subnational levels of government. Financial management and controls within the RCDF are weak and a lack of approved regulations to date has meant that even the basic financial reporting standards stipulated in the CDF Act are not enforced. The government has committed to drafting regulations for the CDF Act during 2018 (see recommendations for these regulations in the Roadmap section below). There has been some limited improvement in financial management by provincial governments. The frequency with which financial statements are prepared has risen, for example, and there has been a slight improvement in the outcome of audits of those statements. This is attributed in part to the criteria attached to PCDF allocation, which sets certain basic minimum standards around financial reporting. Nevertheless, there is some way to go as most provincial governments still received a disclaimer in their most recent audit.

Figure 32. Key provincial and constituency funding streams



31 The RDP, which is funded by development partners, is shown in the figure for reference.



Public-private collaboration

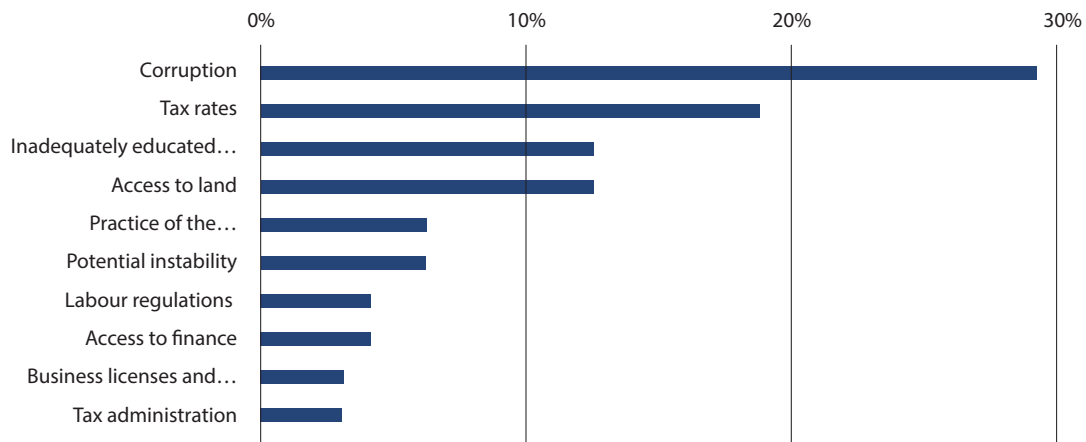
Stimulating sustainable, inclusive private sector investment in key industries is a central part of the strategy to achieve the NDS. The policy and business environment, and the context of collaboration between government and private sector actors have an important influence over business decisions about if and how to invest. This section looks at the context in which the private sector operates and invest resources. It looks at how the government creates incentives that encourage contributions from private flows that drive forward sustainable development outcomes and at ongoing reforms or planned for the future. It analyses the nature of collaboration between public and private actors and opportunities and potential for deeper collaboration.

The analysis of the financing landscape above showed that private investment in the Solomon Islands is relatively low, and there are a number of elements of the business environment that contribute toward this context.

Figure 33 and Figure 34 highlight some of the key constraints to business growth, as captured by the World Bank's enterprise survey and doing business survey respectively. More than a quarter of firms surveyed identify corruption as the biggest obstacle to business, followed by tax rates (18%) and an inadequately education workforce (12%) (Figure 33). The picture varies slightly for small businesses; access to land is the second most commonly identified obstacle to small businesses. The doing business survey highlights aspects of the business environment where the Solomon Islands is doing comparatively well, such as paying taxes, starting a business and dealing with construction permits. The country ranks 37th, 94th and 57th respectively on these measures. Yet issues such as resolving insolvency, enforcing contracts and registering property remain a challenge for businesses. Beyond the issues highlighted by these surveys, consultations for the DFA highlighted challenges for many firms that experience delays of as much as 6–9 months in being paid by government. And outside the capital Honiara, which was the focus of both international surveys, firms face a range of additional challenges. Access to finance in rural areas is highlighted as a key constraint in the NDS. And declining infrastructure means that the costs of bringing produce to Honiara and regional markets has increased significantly.



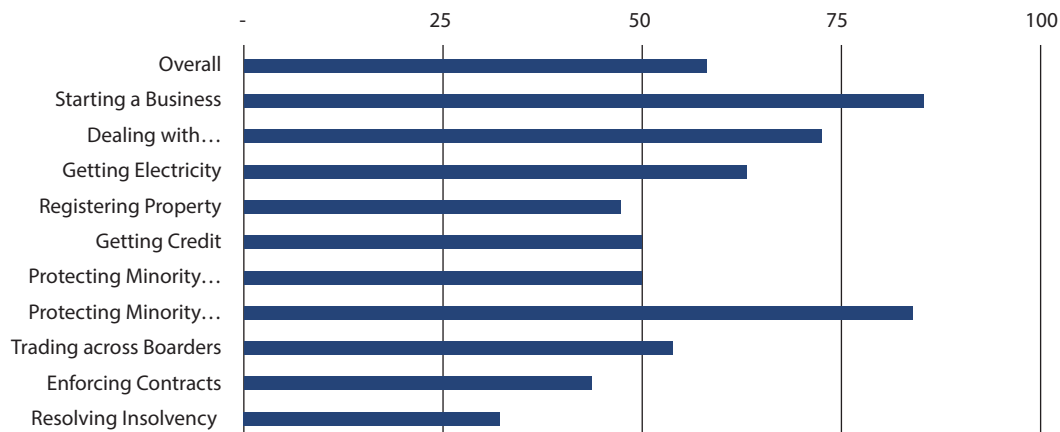
Figure 33. Corruption and tax rates are the biggest obstacles to business by firms in Honiara



Source: World Bank Enterprise survey 2018

Notes: The survey only covered businesses in Honiara

Figure 34. Resolving insolvency, enforcing contracts and registering property are key business challenges



Source: Doing business survey 2018

Notes: The survey only covered businesses in Honiara. Distance to frontier is a measure of how close the Solomon Islands is to best practices worldwide – higher numbers are indicative of better practices.

Government has a number of programmes in place to promote private investment. The Ministry of Commerce, Industry, Labour and Immigration (MCILI) focuses on three areas: support for SMEs, industry and commerce and economic growth centres.

The 2012 SME policy and strategy emphasizes 7 strategies to help SME development, particularly in mining, agriculture, fisheries and tourism. These strategies include facilitating access to business development services and access to financing, improving access to markets and information on markets, promoting innovation and creating a simpler fiscal framework that includes incentives for SMEs. The policy also aims to restructure the institutional arrangements and an SME Act is to be developed during 2018.

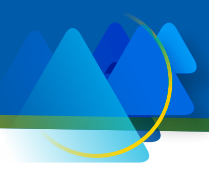
Box 6. Ongoing reforms to improve the business environment

- Establishment of a Private sector advisory group – to promote dialogue between the private sector and government on key priorities and policy issues
- Tax reform – to reduce overall tax rates and broaden the tax base; the initial focus is on replacing GST with VAT.
- Development of an SME policy – to strengthen the legal framework for SMEs; an Act is to be produced during 2018.
- Establishment of a PPP unit – new unit to look at project funding and leverage private finance into major projects. Review of the PPP Policy to be more aligned to the national policies
- Development of major infrastructure – e.g. Munda airport, refrigerator berth at Noro port, Tina hydro projects
- Development of a competition policy – to be put before Cabinet during 2018
- Establishment of a youth entrepreneurs council, to foster the business potential of the country's young population
- Shipping MoU – signing of an MoU with a major shipping company to facilitate access to Noro port
- New training programmes – pilot training programmes for senior business managers and directors; there is potential to establish an institute if pilots are successful

To promote larger development of specific industries, MCII is actively engaged in the development of project pipelines. Given the challenges that many businesses face in acquiring land, much of the focus is on preparing sites, such as industrial estates, that have potential for commercialisation. This is done in consultation with the private sector and firms are encouraged to apply for plots once sites are prepared. A similar approach is used to establish the economic and rural growth centres called for by the NDS, where land and access to utilities are prepared in advance of investment by private firms.

A programme of tax reforms is being led by the Ministry of Finance and Treasury (MoFT) to address the high tax rates faced by a small number of taxpayers. The aim is to lower tax rates while broadening the base, to make investment opportunities more attractive while not adversely affecting government finances. The first phase of the reform programme is focusing on replacing the goods and sales tax (GST) with value added tax (VAT). Later phases will focus on corporate and income tax reform. At the same time a more active approach to tax compliance is being developed, with greater resources for revenue collection agencies as well as a new electronic interface that will make it easier to pay taxes.

Overall there are a large number of ongoing reforms in relation to different aspects of the business environment and investment. Many of these are listed in Box 6. Some are focused on improvements to the business environment in general while a few target growth in specific industries or geographic areas. A recent initiative, the young entrepreneurs council, established by SICCI aims to foster and harness the commercial potential of the country's young and growing population. While many aspects of the business environment are being addressed by these reforms, there are a number of additional steps that could be considered by government and partners to bolster proactive efforts to attract investment in particular industries. These include the potential to host investment forums, for more active international marketing of investment opportunities, and to undertake trade missions and build partnerships with outward investment agencies in countries that are or could be important sources of FDI, such as Australia, Malaysia and Papua New Guinea.



One key consideration across all these reforms is coordination. Reforms and efforts to attract businesses are being undertaken by a large number of central and line ministries, government agencies, private sector networks and development partners. However, there is no central forum where these reforms can be aligned or coordinated. There exists no central operational strategy around which they are centred. The creation of the private sector advisory group in early 2018 is an important step forward that will improve public-private dialogue and mutual understanding between government and businesses about priorities and challenges. It should be conducive to more responsive and innovative government policy toward businesses' needs. While the advisory group can feed into the design of policies and reforms in a way that promotes alignment, there is a need for further coordination at the operational level. The risk otherwise is a fragmented overall approach that misses efficiencies, which could be gained by aligning and focusing efforts in specific priority areas (such as the 3–4 key industries targeted by the NDS). There is potential for reforms to be coordinated and aligned for greater efficiency as part of an investment promotion initiative or strategy (see Roadmap).

One further important consideration for public-private dialogue and the design of efforts to promote private investment is the degree to which investments are sustainable and inclusive. There is scope for lessons to be learnt from the Solomon Islands' experience with the logging industry in this matter. Logging has been one of the most economically important industries for the country in recent years, boosting headline economic growth and contributing to government revenues. Yet it has also contributed to significant environmental degradation and social challenges in many of the communities in which it was present. These impacts will last well beyond the growth and financial benefits that have accrued while the industry has been at its economic peak. There are important lessons to be learnt about the policy and regulatory framework within which businesses in key sectors like logging operate, and the incentives and enforcement that exists to ensure firms contributions to sustainable development overall is managed. It applies to all industries though is particularly relevant in areas such as mining that are targeted as future drivers of growth and share characteristics with logging. There are opportunities to improve coordination between the agencies responsible for environmental and social policies and those promoting investment and designing incentives for these industries. A comprehensive policy framework for promoting sustainable, inclusive private investment should incorporate many of the reforms discussed above as well as regulatory measures (such as mandatory environmental and social assessments) and supporting policies (such as support for SMEs with potential to deepen value chains in growing industries) that mitigate the risks and draw out the benefits of private investment.



Monitoring and review

Effective monitoring and review frameworks are a critical component of an integrated approach to financing national development. Information gathered through monitoring outcomes can inform planning processes as well as the design and implementation of policies that promote sustainable development outcomes from all resources. Such monitoring relies on strong systems for collecting, harmonising and analysing data across the public and private sectors. This dimension of the DFA analyses the structure of monitoring and reviews frameworks and their potential for use in the management of financing policies.

Monitoring and review system

The NDS monitoring and evaluation (M&E) framework provides the primary mechanism for tracking progress in its implementation. Monitoring and evaluation (M&E) is led by a recently established M&E division within MDPAC. This division is responsible for monitoring programmes and projects and evaluating the impact of policies and ministry performance in development spending in line with the NDS. It works with an M&E focal point and M&E working groups within each ministry. There are two key outputs that publicly communicate progress captured through this M&E system: an NDS performance report that will be produced every 2 to 3 years and an annual Development budget implementation report.

While the M&E framework presents a strong basis for monitoring progress toward the NDS there are a number of challenges that currently limit the extent to which it is able to effectively monitor financing for the NDS, as well as some opportunities to strengthen this function.

Challenges for the M&E framework

A number of challenges with data collection hinder the coverage and depth of financing data that the monitoring framework is able to capture. To inform government policy on all financing for the NDS, a monitoring framework should aim to capture information on the investments being made by a range of public and private resources alongside data that shows the outcomes those investments are generating and the contributions those outcomes make toward NDS objectives.

The financing information captured by the NDS M&E framework focuses on public finance and ODA and does not currently incorporate data on other finance flows (see Roadmap). Even within this focus there are difficulties in collecting information. Low capacity with limited resources for M&E activities in ministries and in the national statistics office hinders the collection, processing and sharing of data. A standardized framework of indicators that can be linked at the sector and macro levels is not yet in place. And information on subnational financing has been challenging to aggregate given a lack of centralized reporting and the fragmentation of financing streams through a number of different mechanisms. There have also been challenges in establishing mechanisms for sharing information between development partners and the government.



Beyond the data on what financing is being invested, further challenges exist in capturing outcome data. Reporting on outcomes from ministries, provincial government and development partners faces many of the same challenges outlined above. Even where data is captured and shared, there is generally a focus on spending and outputs as opposed to outcomes. And in the instances where outcome data is collected it is not typically aligned with the indicators specified in the NDS. The NDS performance review uses secondary sources to monitor progress toward many of the NDS outcomes. Yet even with these sources there are often gaps in coverage; for example, resources to undertake key surveys such as a labour force survey are lacking, though the National Statistics Development Strategy has proposed an approach to strengthen the collection of data.

Despite the challenges, opportunities for enhance monitoring exist. The establishment of the M&E division within MDPAC and efforts to refine the NDS M&E performance framework are strengthening monitoring systems. Continued capacity building and commitment from leadership within ministries can help to broaden and deepen the coverage of M&E systems. There are opportunities to incorporate existing data on financing from other actors within the M&E framework.³² Closer dialogue and collaboration with these actors – e.g. private sector representatives, NGOs and Churches – can be used to improve data coverage and data sharing. This DFA has made some important steps forward in this regard (see also the Roadmap for recommendations about how broader dialogue on financing can be continued after the DFA). And the instances where government has successfully built strong monitoring practices or established the use of outcome-based systems for planning and implementation – see for example, Box 7 on community service obligations within SOEs – can be promoted across government and used to catalyse wider progress and the gradual building of a stronger culture of monitoring and focusing on outcomes.

Box 7. SOE reform and community service obligations

As part of the programme of SOE reform initiated in 2007, the government introduced community service obligations. This is a type of contracting between government and an SOE, which requires the SOE to provide services to communities on non-commercial terms. Payments are triggered after a service has been delivered, as opposed to being provided upfront as it would be under a budget arrangement. The aim is to increase access to key services provided by SOEs while ensuring efficiency and financial sustainability.³³

The first community service obligations were established with SIBC and SIEA but have spread and the government anticipates signing agreements with six SOEs in 2018.³⁴ They are an important mechanism for broadening the coverage of services such as electricity, water, transportation and communication and can play an important role in advancing the objectives of the NDS in these areas. Similar models are used or have been piloted in a number of other countries in the region, though the Solomon Islands has been highlighted as having a particularly successful approach.³⁵ However, their use has fluctuated from year to year (Figure 35). This may have been in part due to changes in policy between successive governments, although the high capacity required to manage them successfully has also been a factor. Nevertheless, they offer an established model that has the potential to be extended to catalyse wider use of outcome-based contracting by government (see the Roadmap for recommendations on this).

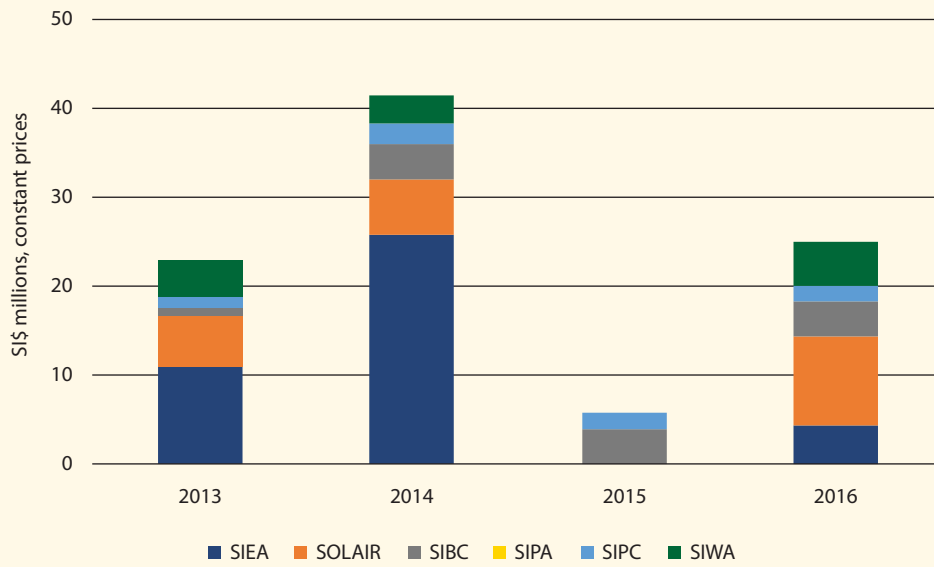
32 For example, in areas such as FDI and commercial credit which could be linked to growth and employment targets in particular industries targeted by the NDS.

33 ADB, 2016, *Finding balance: benchmarking performance of SOEs in Island countries*

34 Ministry of Finance and Treasury, 2018 Budget Strategy and Outlook

35 ADB, 2016, *Finding balance: benchmarking performance of SOEs in Island countries*

Figure 35. Community service obligations fell significantly in 2015 but were used more widely in 2016



Source: Pacific SOE data, <http://www.pacificsoedata.org/solomon-islands/>



Transparency and accountability

Transparency and collective accountability between government, the private sector, development partners and other actors are important for building trust that promotes collaboration and as a mechanism for boosting effectiveness.

This section looks at the way government and partners share information about how they raise and use their resources and at the mechanisms for scrutiny and accountability between actors.

Information on the use of government finance is shared through the budget books that are published annually on the Ministry of Finance and Treasury's website. Information is presented through three key documents. The budget strategy and outlook present an overarching summary and analysis of public finances with information on the budget for each ministry. Publications on the recurrent and development budget respectively then publish line-by-line information on allocations including a breakdown of the types of expenditure planned within each programme according to the chart of accounts. In this sense government is transparent about its finances overall, though there are challenges with transparency about certain aspects of funding. In particular, there is a wide perception of a lack of transparency and accountability around some of the major funds that are included in the government's budget – notably the RCDF (see above as well as recommendations in the roadmap section below), shipping grants and scholarship fund. There is little publicly accessible information available on how these funds are disbursed, the criteria used to disburse them and who benefits.

In addition, numerous reports from the auditor general have highlighted challenges with verifying the information in many of the government's financial statements. The last three years for which audits of SIG financial statements have been published by the Auditor-General (2012, 2013 and 2014) have all been subject to a disclaimed audit opinion.³⁶ At the provincial level, six of the nine provincial governments were also subject to a disclaimed audit opinion in 2015/16 – though this was the first year that three provincial governments received a qualified audit opinion.³⁷

Information sharing by other actors is mixed. There is no mechanism by which private sector actors systematically share data on the investments they are making and the outcomes they generate, though the recently established private sector advisory group aims to boost dialogue and collaboration between public and private actors. In a number of other countries in the Pacific and wider Asia-Pacific region,

³⁶ This means that the auditor has been unable to obtain sufficient appropriate evidence to conduct an audit and that the auditor's judgement is that issues identified in the audit are both material and pervasive.

³⁷ This means that issues identified through the audit were material but not pervasive.

private actors are establishing mechanisms based on international standards such as environmental, social and governance indicators or developing their own systems – see Box 8 on an initiative in Papua New Guinea. Given the importance of private sector contributions to the NDS this could be an appropriate medium to long term objective in the Solomon Islands. Most development partners publish information through international standards or frameworks³⁸ and a mechanism is in place for sharing information with MDPAC, though there have been challenges in implementation linked to timeliness and the structure of the data required. NGOs and Churches play important roles in the financing landscape though aside from the ODA funds they receive that are accounted for by development partners there are no mechanisms for sharing information on their investments and outcomes. As noted above there may be opportunities in follow up to the DFA to work toward establishing such mechanisms.

In terms of accountability, two of the key mechanisms by which the use of public funds are scrutinized are through parliamentary committees and auditing by the office of the auditor general.

The public accounts committee in Parliament takes an active role in scrutinising the annual budget. It can call ministries to appear before the committee for questioning and produces an annual report that is tabled and discussed in Parliament. Its recommendations can be taken forward though they are not binding and the committee does not have powers to enforce changes to the appropriation bill. A public accounts committee bill that would strengthen the committee's powers is being developed.

The auditor-general has responsibility for auditing the public accounts of all ministries, provincial governments, SOEs and statutory bodies. It also prepares reports on these audits which are tabled and discussed in Parliament. Where issues are identified through the audit process it issues management letters to the appropriate ministries. Nonetheless, while it has the capacity to undertake rigorous auditing there has been a lack of follow up by responsible agencies on many of the issues it has identified.³⁹

Box 8. SDGs dashboard in Papua New Guinea

Businesses in Papua New Guinea have come together through the Business Council of Papua New Guinea to develop a mechanism, the SDGs dashboard, through which they can report their contributions toward sustainable development. The businesses were motivated in part by a desire to engage in deeper dialogue with the government about how the private sector can contribute to national development priorities and how to unlock those contributions through closer public-private collaboration. It was prompted by the process to develop a medium term plan that links annual government operations with the national long-term vision to 2050.

The dashboard that, at the time of writing is in its first phase, has been designed with specific reference to the SDGs.⁴⁰ It is structured to present data aggregated at the national level that can be disaggregated by individual companies. Sustainable development data for the country is presented alongside survey data on the sustainability practices of individual companies, mapped against the SDGs. Individual companies are given a sustainability score that assesses how effectively their work is contributing to the SDGs. Data are gathered through a survey that has been designed specifically for the SDGs in the Papua New Guinea context and which is tailored for individual sectors.

Source: Innovations for integrated finance, UNDP, 2018.

38 Such as the International Aid Transparency Initiative or the OECD DAC reporting mechanism.

39 Office of the Auditor-General, 2016, *Audits Completed 2014 to 2016, Parliament Paper No. 33 of 2016*. Available at: <http://www.oag.gov.sb/audits.html>

40 Businesses track sustainable development goals contribution, available at: http://www.pg.undp.org/content/papua_new_guinea/en/home/presscenter/pressreleases/2017/12/13/businesses-track-sustainable-development-goals-contribution.html. Accessed March 2018



DFA Roadmap

The DFA aims to support government and its partners by identifying and building consensus in reforms that can strengthen public and private financing for the NDS. The analysis presented above highlights the key challenges and opportunities that the country faces in this regard.

In the development of this analysis and the consultations undertaken as part of the DFA, a series of recommendations about steps that can be taken to strengthen the financing of the NDS have been developed. These recommendations have been refined through discussions with the NDSIOC and with stakeholders from across government, development partners, private sector representatives and other actors, notably at inception and validation workshops in Honiara in February and May 2018.

These recommendations together form a roadmap of steps to mobilize and enhance the impact of public and private investments in the NDS. This section outlines the roadmap, which distinguishes between headline recommendations that are of the highest priority and respond to current reform opportunities at the time of writing. A series of further recommendations, which reflect other important steps forward are articulated for consideration over the short to medium term. Notably the headline recommendation is for this roadmap and the findings of the DFA to form the basis for the development of a Solomon Islands Integrated Financing Framework (SIFF), which could support the implementation of the NDS across a range of financing areas.

Headline recommendations

The DFA has identified four headline recommendations that represent the most pressing issues for financing the NDS and respond to particular opportunities for reform in the short and medium term. These four recommendations – establishing a Solomon Islands Integrated Financing Framework, creating a national investment promotion initiative, strengthening the integration of planning and budgeting processes and finalising regulations to govern the CDF – are those that the DFA recommends be taken forward in the short term.

Establish a Solomon Islands Integrated Financing Framework

The DFA was initiated to assess how public and private finance could contribute to NDS implementation and to identify ways to strengthen the linkage between the aspirations of the NDS and short and medium term policymaking. It has identified ways to address these challenges across a number of aspects of government policy and operations, in relation to a range of financing.

The first recommendation of the DFA is to establish a Solomon Islands Integrated Financing Framework (SIFF) that links aspirations of the NDS to the government policies and operations that will mobilize the necessary financing. A SIFF could support the NDS by providing guidance on the kinds of financing and investments that will be needed. It could bring together actors from across government and partners and guide the strategic approach that can be taken to mobilize and effectively invest these public and private flows. In this way it would bridge the aspirations of the long-term NDS with short and medium operational policymaking across a range of financing areas. It would link the NDS with policies designed to mobilize and promote public and private investment that directly and indirectly advances the sector and thematic priorities of the NDS.

The SIFF could build from the recommendations of the DFA, adapting the concept of an integrated national financing framework called for by the Addis Ababa Action Agenda to the Solomon Islands' context. In order to bridge the aspirations of the NDS with policy change and reforms to strengthen financing in the short and medium term, it could be structured around a range of public and private finance flows as well as the key policy and institutional structures that government uses to influence the way them.⁴¹ In each of these areas it could present a 'vision' of the context and trends implied by the NDS, and summarize the current context and trends. It could then present guidance about how to move from the current context to the context implied by the NDS, identifying the general strategic direction needed as well as specific short-term recommendations. It could be a living document that is reviewed periodically to assess progress in implementing the NDS and updated to reflect further steps needed towards the kind of financing trends that it implies.

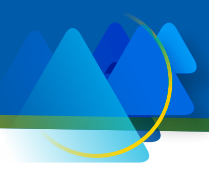
The SIFF would bring together areas of policy from across government and the NDSIOC may therefore be the most appropriate forum for owning and operationalising it. It can build on the issues identified and recommendations developed through the DFA process, with further consultation to engender the buy in and collective ownership over the direction and reforms articulated in each area of financing policy.

Establish a national investment promotion initiative

The NDS places central emphasis on private investment as a central driver of growth. It identifies a number of industries that have the potential for growth and which could drive forward the economy over the medium and long-term. The current financing landscape, however, is quite different from these implied private investment financing needs: current levels of investment are very low (see Private finance section above) and there are few current signs of investment growth in industries targeted by the NDS. It is also the case that the industries such as logging which, have grown in the past, have not been characterized by the sustainable, inclusive models that the NDS targets.

Given the centrality of private-led growth in the strategic approach of the NDS, mobilising greater volumes of sustainable, inclusive private sector investment is perhaps the most significant financing challenge for the country to address. There are a range of initiatives underway to address the challenges that currently constrain private investment. These are being led by different parts of government and focus on various factors (see the public-private collaboration section above).

⁴¹ For example it could present sections related to specific types of financing such as government revenue and spending, subnational government finance, SOEs, private investment, public-private partnerships, credit and financial services, ODA, and NGOs and faith-based organisations; as well as sections related to the key policy and institutional structures assessed by the DFA, namely: integrated planning and financing structures, public-private collaboration, monitoring and review and transparency and accountability.



However, current efforts to promote private investment are fragmented and uncoordinated. A well-coordinated, targeted effort to attract sustainable, inclusive investment in a small selection of industries could more efficiently help kick-start the growth that is central to the strategy of the NDS.

The DFA recommends the creation of an investment promotion initiative that coordinates efforts to attract and stimulate private investment in key industries. This initiative would be managed by a core team including senior representatives with responsibility for key aspects of the business environment, as well as representatives of the private sector. It could build on or be incorporated into existing structures such as the Core economic working group (CEWG), Private Sector Advisory Group or National Trade and Development Council, although these may need to expand to incorporate the necessary membership (see below). It would aim to:

1. Enhance coordination and efficiency of efforts to improve the business environment
2. Actively target investment in a small selection of the highest priority industries
3. Develop and strengthen efforts to draw out the wider benefits and mitigate the risks of private investment to the social and environmental objectives of the NDS

The initiative would develop an investment promotion strategy, but the emphasis would be on coordinating efforts in practice rather than the creation of a new policy document alone. The initiative would cover the following activities:

Improving the business environment. The strategy would coordinate ongoing efforts in areas such as tax reform (tax rates and ease of paying taxes), skills development, utilities, infrastructure investment, access to credit, business regulation and incentives, and develop coordinated strategies for tackling more structural issues such as access to land.

Actively promoting investment in the highest priority industries. This would begin with a process to determine the highest priority industries so that scarce resources can be focused on improvements in those areas. Activities would include developing a portfolio of bankable projects, supporting access to land, infrastructure, utilities and other business requirements, creating targeted investment incentives⁴² and international marketing.⁴³

Strengthening the framework for sustainable, inclusive investment outcomes. The NDS articulates a clear need for investment to be environmentally sustainable. There is a need for stronger frameworks within which private investments are made in order to draw out the benefits that they offer and mitigate the risks. The response would be partly regulatory – for example, introducing requirements for environmental and social impact assessments with major investments. And it would be partly about active supporting policies that mitigate the risks and encourage development that realizes the wider

42 Investment incentives are designed to reduce the costs and increase the attractiveness for investors to invest in targeted industries. Such incentives can involve a range of instruments including tax breaks, subsidies that pay out when certain pre-agreed criteria are met, guarantees, and preferential access to credit or utilities. Critically, incentive design should look to move beyond 'location-based' incentives to 'sustainability-based' incentives that reward investment which contributes toward NDS outcomes. For example, access to incentives could be conditional on verified levels of job creation, training outcomes or environmental contributions. It is also important to carefully consider the use of tax breaks and holidays. They have a role in attracting investment, but the impact on tax revenues should not be underestimated, and alternative or supporting measures (such as incentive schemes) should be considered.

43 The active promotion of investment opportunities from the pipeline internationally, at trade and industry forums and with outward investors from key investing countries. It could also involve the establishment of formal links between SI's inward investment promotion agency (SolomonsInvest) and/or SICCI with outward investment agencies from key investor countries such as Australia, New Zealand and Malaysia.

potential of increased investment. For instance: focused efforts to develop technical and vocational skills in the areas/industries that are being promoted, to maximize local employment; support the development and expansion of small businesses, including those of young entrepreneurs, that can deepen value chains, through targeted packages of training and mentoring, access to finance and other interventions.

Strengthen the integration of planning and budgeting processes

The way that the government invests and uses its resources to advance the objectives of the NDS will have a critical bearing on its overall success. This is both because of the scale of public finance within the financing landscape as a whole and because the efficiency and appropriateness of public spending has an important influence on the alignment of other actors to the NDS.

The analysis above (see Integrated planning and budgeting) highlights a number of challenges for the integration of planning and budgeting processes that hinder the extent to which national and subnational budgets are invested in NDS outcomes. This roadmap makes a number of proposals about potential solutions that could address some of these challenges. These fall into three categories: the management of the development budget overall and measures to strengthen the horizontal and vertical integration of budgeting and planning processes. Many of these proposals respond to the call for improvements in the budget and planning processes made in the 2018 National Budget and can feed into the drafting of the Planning Bill which is to be prepared during 2018.⁴⁴

Use the development budget as a strategic tool for advancing the NDS

The development budget is the main instrument the government has for making investments that will advance the NDS. The recurrent budget by its nature is one where the majority of spending is already committed from one year to the next. The development budget is the fund that the government can use to make strategic investments that will accelerate and promote progress toward the objectives of the NDS. Nonetheless, it is not currently being used in this way and is to an extent treated as a second pot of funding to be shared out among ministries. The DFA recommends:

- **‘Spring cleaning’ the development budget.** There are many items on the development budget that are not developmental in nature, with some having rolled over from one year to the next for many years without clarity on what contributions they are making to the NDS. A thorough review of items on the development budget should be undertaken to (i) identify and move to the recurrent budget items which are contributing to the NDS but are recurrent in nature, (ii) identify items that do not represent strategic investments in the NDS and should therefore be removed from the development budget.
- **Enforcement of development budget guidelines.** Stricter enforcement of guidelines for the development budget, which states that are used only for projects strategic to the advancement of the NDS, should be implemented. These can be strengthened through the Planning Bill, which is being drafted in 2018 and should be heeded by MDPAC as well as the caucus and Cabinet in the sign-off stages of the annual budget process. Implementing a change of this nature would likely mean the development budget is characterized by spending on a smaller number of project, some of which may be much larger in nature. It would also mean a concentration of development spending among a smaller group of ministries.

44 Solomon Islands Budget 2018, Budget Strategy and outlook, Budget Paper: Volume 1. Page 27



Horizontal integration

A number of measures have been identified that could strengthen the integration of national level planning and budgeting processes:

- **Enforce existing budgeting and planning standards.** A chart of accounts has been agreed but is not used or enforced in practice – applying this standard would greatly increase government’s ability to determine how to invest recurrent and capital resources. Similarly, the MTDP project proposal guidelines should be applied to ensure that funding requests from government are developed around a clear, logical framework that is aligned to the NDS and with proper mechanisms for implementation, monitoring and appraisal stipulated.
- **Develop strategic planning guidelines for ministries, sectors and provincial government.** Standardized guidelines for the strategic plans of ministries and provincial governments, and for sector strategies, should be developed so that there is a common standard about the information they must include and that their basis in and contribution toward the NDS is clearly articulated.
- **Adjust the annual budget process.** The annual budget process could be adapted to strengthen horizontal integration in two key ways. Firstly, it could encourage ministries to come together and develop collaborative proposals, particularly in sector and thematic areas that cut across the mandates of individual ministries. Sector-wide approaches could be trialled in a small selection of key sectors, perhaps starting with the productive sectors targeted by the NDS for growth. A pot of funding could be established specifically for jointly-proposed projects (or an announcement that jointly proposed projects will be treated preferentially). Secondly, it could incorporate a formal technical review of the draft budget to assess its alignment to the NDS. This would make recommendations about funding for proposals on the basis of their documented contribution to the NDS, which would be formally presented to the caucus and Cabinet as part of their sign-off on the budget.

Vertical integration

- **Improve financial management in provincial governments.** Provincial governments should play a key role in achieving many of the long-term objectives of the NDS yet this is constrained by challenges in financial management (see the integrated planning and budgeting section and transparency and accountability sections above). A more intensive programme of financial capacity building is recommended, combined with increasingly criteria for accessing resources from funds such as the PCDF.
- **Adjust the budget process.** The annual budget process could be adapted to strengthen vertical integration in two ways. Firstly, consultations between provincial governments, MPGIS and MDPAC, including a review of provincial funding proposals, could be incorporated into the annual budget preparation process. Secondly, a joint annual review of all subnational funding mechanisms could be established. This would bring together MDPAC, MPGIS and MRD to review the effectiveness of subnational funding through the RCDF, PCDF and other mechanisms, and adjust future allocations accordingly.
- **Enhance collaboration between provinces and constituencies.** There are a number of ways to enhance collaboration between these actors. The provincial and constituency development committees responsible for development plans at each level of administration could each include representation from the other. During the drafting of development plans, a review could be carried out by the other development committee, and final plans could be co-signed. In addition, a certain

proportion of PCDF and RCDF funding could be set aside for projects that are jointly proposed by provinces and constituencies.

These proposals are articulated in more detail in Annex C.

Overall it is recommended that a clear process be established to review these proposals and commit to priority reforms. This process should involve at least MDPAC, MoFT, MRD, MPS and MPGIS. It would respond to the call for improvements made in the 2018 National Budget and a number of agreed reforms may be incorporated into the Planning Bill which will be developed during 2018.

Establish regulations to govern the use of CDF funds

The RCDF is a rural funding mechanism that the government draws from the development budget and allocates to constituencies to finance local priorities. The fund is administered by constituencies and overseen by the Ministry of Rural Development. It is a key mechanism for financing projects at the subnational level and accounted for almost half the development budget in 2017.

The RCDF has been identified by the DFA as a particularly important priority for reform for two reasons. Firstly, it is the largest fund for subnational financing and has grown rapidly in recent years, rising even in the 2018 budget despite cuts to the development budget of almost every other part of government. Yet there is considerable uncertainty among wider stakeholders about how it is used. During DFA consultations, many stakeholders perceived it as not currently operating effectively as well as mechanisms for accountability about how funds are used not functioning properly. The only data the DFA was able to access on spending was draft data for 2015. Secondly, there is a window of opportunity to develop more rigorous governance of the RCDF because the government has made recent commitments to finalize regulations to govern them by the end of 2018.⁴⁵ Though the CDF act was passed in 2013 and draft regulations were prepared, they have not been finalized so the CDF has been operating to date without the measures they stipulate being enforced. Steps are being taken to improve some aspects of CDF governance and operation, with measures being put in place to strengthen financial management, improve processes and documentation of drawdowns from the fund and discussions underway about the potential to projectize certain payments from development partners.⁴⁶ These steps are welcome though it is important that finalising the regulations is a central part of overall efforts to improve the governance and use of this key fund.

The DFA has identified a number of recommendations for the CDF regulations. They focus on measures to improve alignment of spending to the NDS, encourage coordination with other sub-national funding mechanisms and improve monitoring, transparency and accountability. The DFA recommends:

Strengthening alignment of the CDF to the NDS:

- That the requirement for constituency development plans is practically enforced.
- Standardized guidelines should be developed for constituency development plans as well as annual funding applications. The constituency development plans should be required to identify outcome targets and indicators linked to the NDS, as well as a clear process for monitoring them. They should

⁴⁵ Both the Prime Minister and Minister for Rural Development have publicly committed to this.

⁴⁶ These could potentially be used to support key government priorities such as the reopening of clinics in constituencies.



also be required to specify how projects contribute to gender equality and how this will be monitored and reported, given the emphasis placed on gender equality in the CDF Act.⁴⁷

- That a fixed proportion of CDF spending is earmarked for income generating and community projects in each constituency. This proportion should represent an increase over current levels and be combined with the proposals outlined above, encouraging and supporting constituencies to establish CDPs that are more closely aligned to the NDS.

Improving coordination with other sub-national funding mechanisms:

- Ensure cross-representation between the constituency development committees that govern spending of the CDF and the ward development committees that govern the spending of the PCDF and RDP. Representatives from each could sit on the committee of the other to ensure that there is dialogue and coordination between the separate structures.

Improving monitoring, transparency and accountability:

- The draft regulations require MRD to monitor projects on a quarterly basis and table an annual report to Parliament on the use of funds. In addition to the information that the draft regulations require⁴⁸ the DFA recommends including: the breakdown of funds invested in economically productive activities, invested in assets (such as housing) or used to fund consumption; the sectors in which funds are spent, using the NDS definition of sectors for consistency; spending for development purposes in personal, community or income generating projects;⁴⁹ data on how funds support gender equality and the reduction of gender discrimination;⁵⁰ and information on the number of projects that were turned down and funds held back by MRD, including the reasons for doing so.
- That MRD audits a random selection of projects each year in order to verify spending.
- That the Auditor-General audits a randomly selected proportion of projects are audited every year and that the fund as a whole is audited periodically (at least once every 3–5 years), with the results of the audit published.
- The Auditor-General be given powers to force changes in the management of the CDF or disbursement of funds where there are concerns about inability to prove its utility.

Annex C provides more details on these recommendations.

⁴⁷ The CDF Act stipulates that Constituency Development Officers “shall have regard to providing gender equality and combating gender discrimination” in the allocation of funds. *CDF Act, 2013, section 5 subsection (2)*. Gender equality is also a central focus of medium term strategy 7 in the NDS. *CDF Act, 2013, section 5 subsection (1)*.

⁴⁸ The draft regulations identify some of the information to be included in the annual report to Parliament: a list of approved projects, the activities funded within projects, evidence of the follow up and current status of projects and the distribution of projects within constituencies

⁴⁹ The CDF Act stipulates that funds can be “allocated for development purposes to individuals, group income generating projects or community projects.” *CDF Act, 2013, section 5 subsection (1)*.

⁵⁰ The CDF Act stipulates that Constituency Development Officers “shall have regard to providing gender equality and combating gender discrimination” in the allocation of funds. *CDF Act, 2013, section 5 subsection (2)*. Gender equality is also a central focus of medium term strategy 7 in the NDS.

Further recommendations

In addition to the four headline recommendations, the DFA has identified steps in a number of other areas that can be taken to strengthen financing for the NDS. While the headline recommendations reflect the very highest priorities and respond to current opportunities for reform at the time of finalising the DFA, these further recommendations also respond to key priorities. In many cases implementation could support significant change in particular areas of financing.

The recommendations presented below are grouped into four categories:

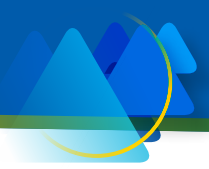
- Proposals to improve the alignment of planning and finance policy functions:
 - NDS-focused reviews of new policies and the annual budget
 - NDS-focused scrutiny through a parliamentary committee
 - Estimate the costs of implementing key NDS strategies
 - Expand the use of outcome-based models of contracting
 - Implement an NDS awareness campaign
 - Develop long-term capacity building in provincial government
 - Create an emergency fund
- Proposals to strengthen partnerships between stakeholders
 - Establish an NDS follow-up forum
 - Establish a national policy for partnership with NGOs and Churches in sustainable development
- Proposals to mobilize new sources of financing for sustainable development
 - Tax reform recommendations
 - Establish a framework for the considered use of PPP models
 - Establish an SOE dividend policy
 - Encourage the development of mobile money for increased access to financial services
- Proposals to improve monitoring of financing and outcomes
 - Strengthen monitoring of finance in the NDS M&E framework

Proposals to improve the alignment of planning and finance policy functions

NDS-focused reviews of new policies and the annual budget

Many countries have established a central review process that has responsibility for supporting the alignment of new policies and the annual budget to the goals of the national development plan. Such mechanism could be established in the Solomon Islands, by adapting current processes and utilising existing institutional structures.

One of two mechanisms may be ideal to take on such a function. The NDSIOC is the primary mechanism for coordinating the NDS across ministries and is a forum where senior officials come together to discuss implementation. The Core Ministerial Coordinating Committee (CMCC) sits within the Office of the Prime



Minister and brings together senior leaders from across government to coordinate implementation, monitoring and evaluation across the implementation agencies. The mandate of one of these committees could be extended to incorporate the following functions:

- **Formal review of alignment between the draft budget and the NDS.**⁵¹ A new step could be introduced into the annual budget preparation process whereby the committee undertakes a review of the programmes and budget lines included to ensure that there is clear and satisfactory alignment to the objectives of the NDS. This step would take place late enough in the process to review a full draft of the budget but early enough to propose changes and require additional information from ministries. It could be phased in by looking initially only at new items being introduced to the development budget, alongside a review of items that have remained on the development budget for a significant amount of time.
- **Participation in the development of major new policies to ensure alignment with the NDS.** As ministries develop new flagship policies that will have a significant bearing on government activities in relation to the objectives of the NDS, the NDSIOC could formally participate in the process. This could involve consultation with the NDSIOC at key points in the process – for example as objectives for the policy are determined, as a strategic approach is developed and as the policy design is finalized. This would help to strengthen the formal and strategic link between the NDS and key policies at the ministry and agency level of government.

NDS-focused scrutiny through a Parliamentary Committee

Parliamentary scrutiny is a powerful mechanism for ensuring that the ministries and agencies of government are held to account for the design and implementation of their policies and programmes. The establishment (or adaptation) of an NDS-focused committee would strengthen the impetus for ministries, agencies and provincial governments to ground their strategic planning and programming around the NDS.

A committee of this nature would have a mandate for scrutinising the strategies, programmes and expenditure of government ministries, agencies and state-owned enterprises in relation to the NDS. It would be able to call government entities to face the committee and have powers to be able to raise concerns about misalignment or misuse of funds that require a formal response from government about corrective action, which are backed up by appropriate powers of enforcement.

This committee could be linked to the Planning Bill being developed in 2018, which will provide a legal grounding for the National Development Strategy and a basis for Ministries to target their activities toward the outcomes it specifies. Or these functions could be incorporated into an adapted mandate for an existing committee, such as the Public Accounts Committee.

Estimate the costs of implementing key NDS strategies

Costings exercises can be a key bridge between planning and finance policy functions because they provide a sense of the type and scale of investments that policies covering different aspects of financing should aim to mobilise. The logic is that every vision needs a plan, every plan a budget and every budget an estimate of costs.⁵² Costings exercises can be undertaken at multiple levels, focusing on a particular ministerial action plan, a sector or thematic strategy or a national development plan as a whole. They

51 Note that this also forms one of the options presented in the integrated planning and budgeting recommendation above.

52 The author is indebted to Judith Randel of Development Initiatives for this adage.

can make the strongest contribution to an integrated approach to financing if they consider both the public and private investments that may need to be mobilized to achieve given objectives. And they can be most useful when used both to estimate the cost of achieving certain goals and, when costs are compared to the resources likely to be available, to guide the level of ambition. Costings have been undertaken for some sector strategies (see Box 3 above), although many of these focused primarily on public finance.

The DFA recommends expanding the use of costings exercises. In the first instance this could focus at the sector or thematic strategy level with the potential to build up, over time, a clearer picture of the likely costs associated with the NDS as a whole. Government ministries could come together to develop estimates of the full costs of the investments that would be needed to realize sector or thematic objectives. These estimates could cut across ministerial briefs (see also recommendation above on sector wide approaches) and incorporate estimates of the scale and type of private financing to be mobilized.

Expand the use of outcome-based models of contracting

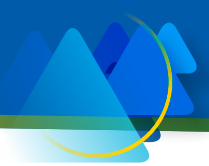
The use of outcome-based contracting or ‘outcome-purchasing’ models of procurement has been growing around the world. In these models a service or outcome is funded by government but the payment is not made until there is verification that the service has been delivered or the outcome has been achieved. It can be a powerful way to directly link government spending with the desired outcomes of a national development plan. It can also offer efficiencies, greater certainty about spending and the sharing of risk between government and partners.

The Solomon Islands has established outcome-based contracting – the community service obligation that are used to increase coverage of services offered by SOEs (see Box 6 above). Although the use of this type of contracting has fluctuated from year to year since being introduced in 2011, the Solomon Islands’ approach has been highlighted as one of the most successful in the Pacific region.

The DFA proposes government expand the use of community service obligation models and consider piloting other outcome-based approaches. Four options for taking this forward have been identified:

- 1. Increase the predictability of the current community service obligation model.**⁵³ The scale and number of contracts signed has fluctuated significantly year on year. The government could commit to setting aside a minimum volume of funds on the budget each year to provide predictability for SOEs and to establish this successful model as a permanent policy feature.
- 2. Open up the existing model to private actors.** In addition to making community service obligations a more permanent feature, tendering could be opened to private sector actors as well as SOEs. This could potentially bring further efficiencies in service delivery, though would need to undergo a scoping exercise and may be more appropriate for some sectors than others.
- 3. Extend outcome-based contracting to other government funds.** Having established the capacity to successfully manage community service obligations with SOEs, government could trial a similar approach in other areas. It could be trialled in areas where awareness and transparency about the outcomes of spending is uncertain. For example, a proportion of some of the key funds on the development budget could be set aside to receive competitive proposals from provincial or constituency development committees for funding on an outcome-basis. A first step would be to undertake a scoping of the viability and potential interest in such model.

⁵³ N.B. Implementing this recommendation is likely to be dependent on agreeing an SOE dividend policy (see below). The lack of a systematic approach for SOE dividends has constrained willingness to provide SOEs with additional finance through CSO contracts.



4. Work with development partners to pilot a development impact bond. Development or social impact bonds work on a similar principle to community service obligations in that they consist of a contract between government (or a development partner) and a third party to deliver a predetermined service or outcome and payment is only released once the service or outcome has been achieved and verified. There are additional layers of complexity to development impact bonds in that the contract is typically with an intermediary who issues a bond to finance the investments they will make to deliver the agreed outcome. Nevertheless, the use of development impact bonds is growing around the world and an increasing number of development partners are piloting and working to establish such models in the countries in which they are present.⁵⁴ They are seen as a way both to increase efficiency of public spending and strengthen the link with overarching public policy objectives, and as a contribution to growth in sustainable, inclusive private sector development. The UN SDG impact fund (UNSIF) supports a number of initiatives in this area and the Solomon Islands' largest development partner, DFAT, announced in late 2017 that it would be scaling up support for impact investing.⁵⁵

NDS awareness campaign

Wide consultations were held during the process of developing the NDS. However, since its launch there has not been a major promotional or awareness-raising programme. One of the challenges to aligning the NDS with budgeting or activities at the ministry level and among wider stakeholders is that awareness and knowledge of the NDS are relatively low among some actors. The DFA proposes that an awareness building campaign be developed to increase the understanding of the agenda and to engender wider buy-in and ownership of it. This could have different activities targeted at government ministries, with a focus on operationalising the agenda; private sector and other stakeholders, with a focus on incorporating key features of the agenda into business models as well as collaboration; and with communities around the country. It could entail an initial push to raise awareness as well as ongoing activities to retain interest in ownership around the agenda, particularly at key moments such as the release of a regular performance report or finalisation of the annual budget.

Long-term programme of capacity building in provincial government

The NDS prioritizes a number of areas that will require effective investment and service delivery at a provincial and local level – for example in health, education, regional infrastructure. The DFA has found that capacity within these subnational government entities is relatively low, funding streams are fragmented and in some cases they are characterized by poor transparency and accountability. Government has been investing in capacity building, for instance, with provincial governments through MPGIS. The inclusion of criteria that need to be met before PCDF allocations can be disbursed has also created incentives that have helped achieve some gains in financial management capacity. Yet there remains a long way to go.

The DFA identifies the development of effective subnational government entities as a key medium to long term priority and capacity building would be a central part of achieving this. The DFA proposes that current activities to build capacity among provincial governments in the first instance be given higher priority and supported by higher, predictable levels of funding. This could be combined with more stringent requirements for improved financial management. For example, government could establish a clear schedule of increasing standards of performance against financial audits and outcome

⁵⁴ For more on this see *Innovations in integrated financing*, UNDP, 2018.

⁵⁵ DFAT media release, November 2017, *Impact investment for economic development*. Available at: https://foreignminister.gov.au/releases/Pages/2017/jb_mr_171114.aspx

measurements that provincial governments must meet. With the right balance of increased support and carefully designed incentives this could make an important contribution to improved capacity at the provincial and local level.

Create an emergency fund

A key element of disaster risk management in the fourth objective of the NDS is readiness to respond quickly and effectively in times of emergency or disaster. Currently there is only a relatively small contingency warrant allocation in the annual budget,⁵⁶ though this is to be used for a range of unforeseen expenditure needs. In times of major emergency, as was experienced, for instance, during the flooding in 2014, inability to quickly mobilize resources will slow down the response. Setting aside resources for a larger fund that is significant enough in scale to be able to respond to larger crises would further the objectives of the NDS by boosting preparedness.

An emergency fund would need to be governed within structures that protect it from use except in times of crisis, but which allows it to be drawn down rapidly when there is an emergency situation. Access to the fund could be governed by a responsive, senior-level process, such as approval from an emergency committee within the Cabinet. The fund could be built up over time with an annual allocation so that the fund grows cumulatively over time.

Proposals to strengthen partnerships between stakeholders

Establish an NDS follow up forum

There is a recognized need to both raise awareness of the objectives and focus of the NDS and to establish stronger partnerships with actors from across society that contribute to the objectives it articulates.

To this end a regular multi-stakeholder symposium could be established to review progress towards the NDS and discuss ways forward. The objectives would be to facilitate greater awareness and buy-in to the NDS, and to strengthen links between actors who are contributing directly and indirectly toward it. It would facilitate information sharing and be conducive to new partnerships and policy innovations. It would also aim to build mutual trust and accountability between actors so the focus would not be only on what government is doing to realize the NDS but on what all actors are and can do to realize it.

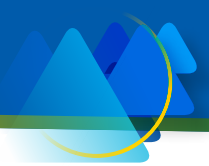
Such a forum could be held every 2–3 years and potentially linked to the publication of the official NDS performance review. It would bring together a range of actors including key ministries, subnational government actors, private sector and industry representatives, development partners, NGOs, Churches and community leaders.

Establish a national policy for partnership with NGOs and churches in sustainable development

Churches and NGOs play important roles in advancing the objectives articulated in the NDS, and in some cases deliver services in areas where the state is not active. However, coordination and collaboration between Churches or NGOs and government is limited to a few sectors and thematic issues. Systematic collaboration and dialogue at either the national or local level are lacking.

The DFA recommends the establishment of a policy framework for more active dialogue and partnership between the government and Churches and NGOs on sustainable development issues. The aim would

⁵⁶ In the 2018 budget the contingency warrant is SI\$26 million.



be to enhance the work of these organisations, to avoid duplication and to encourage collaboration in projects to leverage the strengths of different partners. A policy framework could build on or adapt existing platforms such as Solomon Islands Alliance of Humanitarian NGOs (SIAHN) or platforms for dialogue with development partners. The ministry of Home affairs could take a leading role in developing such a policy, supported by MDPAC, and could consider how to develop it in line with revisions to the NGO Act that are planned for 2018 or 2019. The key areas to consider in a policy framework could include partnership in project financing and implementation, sector support, disaster recovery responses, community partnership and the sharing of information and data.

Proposals to mobilize new sources of financing for sustainable development

Tax reform recommendation

Public finance is a key driver of the investments and services that will advance the outcomes of the NDS. Nevertheless, the revenue, which funds these investments and services, has plateaued in recent years and its future trajectory is uncertain as the logging industry, a key source of tax revenue, is expected to decline at some point. Therefore, there is a need to safeguard future fiscal space by establishing a more sustainable base for government revenues. There are a number of reforms already ongoing in this area and although the DFA identifies a couple of issues that could be considered to further strengthen these reforms, its main message is to emphasize the importance of successfully implementing these reform programmes. If future revenues decline it could have a significant impact on the funding available for public investment in the NDS, which in turn will hamper progress toward it.

A number of ongoing and planned tax reforms aim to broaden the tax base, restructure the tax system including reducing rates for the highest payers to support private sector development, and increase the efficiency of tax collection.

Reforms led by the Ministry of Finance and Treasury aim to replace the goods and sales tax that is currently in place with a new value added tax. This aims to lower tax rates and broaden the base from which it is raised. A second phase of the tax reform programme will review corporate and income taxes and implement reforms designed to support private sector development. At the same time changes are being made in the revenue collection functions to strengthen enforcement and modernize systems. There has been an increase in funding for the agencies that collect revenue in order to boost compliance and enforcement rates. New systems are being introduced to make it easier to pay taxes – an e-filing and e-payments platform is being established by the Inland revenue division and a new system is being introduced that allows taxpayers to interact with customs, inland revenue and the central bank through a single framework. The aim is to increase compliance and boost revenue receipts.

In addition to these ongoing and planned reforms further steps can enhance enforcement and compliance with tax revenue. Strengthening capacity for audits can contribute in this regard and government may wish to consider engaging support from Tax inspectors without borders.

Establish a framework for the considered use of PPP models

PPPs are specifically highlighted in a number of places within the NDS as an instrument that has the potential to mobilize new sources of financing for major investments, to spread risk between the public sector and private partners, and to stimulate greater private sector investment in the Solomon Islands.

MoFT is establishing a major project unit that will develop a framework for establishing PPPs and will oversee their use within the country. A project screening process will be set up to identify and take forward only the projects that are most suited for PPP financing.

When implemented successfully PPP instruments do indeed offer the opportunity to mobilize new sources of financing that can make investments that would otherwise not materialise. Yet there can be significant risks too and in some contexts PPPs have ended up becoming ineffective and very costly.⁵⁷ PPPs are complex instruments to establish and manage. Contractual details, for example, can often have significant implications on the way risks are shared between parties and the liabilities that are born if things go wrong or if costs rise. There is a need for strong monitoring systems, both to evaluate the effectiveness of PPPs once they are set up, but also to understand costs and determine when PPPs could be more effective than alternative financing mechanisms.

PPPs have the potential to attract additional financing for investments in critical areas of the NDS. To ensure that this potential is realized, it is important that sufficient legal, financial and technical expertise is developed and strong processes are put in place to determine when to use these instruments and effectively manage the risks and complexity that they entail.

Establish an SOE dividend policy

The success of SOE reforms introduced in 2007 has meant a turnaround in the financial situations of many of the Solomon Islands' SOEs. One aspect of SOE governance that has not been formalized is the policy toward dividends. Although SIEA recently paid its first dividend, in 2016, there may be potential for greater dividends. A more systematic, transparent approach to dividends can be formalized in an SOE dividend policy. The development of such a policy has been initiated by MoFT.⁵⁸

Encourage the development of mobile money to facilitate increased access to financial services

Mobile money has transformed access to financial services and credit in many countries around the world. It can significantly reduce the transactions costs associated with more traditional financial services and, with the need only for a mobile internet connection, it can significantly increase access to financial services in remote or isolated areas.

Mobile money has the potential to play an important role in meeting a key financing need articulated through the NDS – the need to enhance rural access to credit. This challenge is key to stimulating growth in agriculture and particularly to the development of rural SMEs.

With internet services in the Solomon Islands set to improve once the undersea cable is functioning, the DFA recommends that steps be taken to develop a regulatory and policy framework that encourages positive development of mobile money services in the country. Two issues in particular have been key to the establishment and spread of mobile money in other countries. Firstly, legislation should allow, with certain requirements, non-banking organisations to establish financial services such as mobile wallets. Mobile network operators are often especially important as they control the network through

57 For example, the repayments on Lesotho's first PPP, which was setup to build a hospital, were at one point costing the government more than half of its health budget while the private firm running it made substantial profits. Source: A dangerous diversion, Oxfam, 2014. Available at: <https://www.oxfam.org/sites/www.oxfam.org/files/bn-dangerous-diversion-lesotho-health-ppp-070414-en.pdf>

58 Note that the formalisation of an SOE dividend policy may also support the more systematic use of SOE community service obligations (see recommendation above). The lack of a systematic approach for SOE dividends has constrained willingness to provide SOEs with additional finance through CSO contracts.



which mobile money operates so are often first movers in the marketplace. Secondly, interoperability between networks is important as it allows people to make payments to people using services from another provider. This is important as it facilitates the spread of services.

Proposals to improve monitoring of financing and outcomes

Strengthen monitoring of public and private financing and subnational financing within the NDS M&E performance framework

The M&E performance framework is the primary mechanism for following up on the implementation of the NDS. While the NDS places private-sector led growth at the heart of the strategy for achieving the NDS, the components of the performance framework that look at financing to date focus on public finance and ODA. It is also the case that the sustainable development context and trends vary significantly in different parts of the country, as does the financing available.

The NDS M&E performance framework can be broadened to include monitoring trends in various types of public and private financing and can capture the available information on the outcomes that these flows generate. In this way the government and its partners will develop a more comprehensive understanding of the investments being made and the contributions they can make toward the NDS that can inform more responsive policy design and nuanced dialogue between public and private actors. Furthermore, it can take steps to develop an increasingly detailed picture of trends and financing at the subnational level, which can inform policy designed to target the most deprived areas and increase equity and national unity.

This DFA has taken a number of steps to collect and harmonize data that allows a more comprehensive understanding of the financing landscape across public and private resources at the national and subnational level. These steps are partly technical – standardising and harmonising data that already exist in the public domain, and partly consultative – engaging in dialogue and accessing information from actors (such as Churches and NGOs) that play an important role in sustainable development but do not have a standardized mechanism for reporting data on their investments and activities. The DFA recommends that these steps be incorporated within the NDS M&E performance framework.



Annexes

Annex A: Objective-by-objective review of the implied financing needs of the NDS

The NDS does not specify the kinds of financing that will be needed to achieve the vision it presents, although the aspirations and strategies it articulates imply the need for certain kinds of investments. In lieu of costed estimates about the resources needed the DFA reviewed these implied financing needs in order to describe the kinds of financing trends that will be needed by 2035 if the NDS is to be realized. This annex presents notes on the objective-by-objective review that is summarized above. Given the emphasis in the NDS on private-sector led growth as a key driver of wider sustainable development, the first objective is analysed in more depth to highlight the implied financing needs within each medium term strategy.

Implied financing requirements

The first objective calls for a wide range of reforms and changes in economic management and performance. These changes imply a significant scaling up and diversification of investments and the financing landscape as a whole.

NDS objective 1

The first objective of the NDS is for sustained and inclusive economic growth. It includes four medium term strategies that aim to reinvigorate growth rates, improve the environment for private sector development, upgrade weather-resilient infrastructure and utilities and strengthen land reform to boost economic development.

This is the first objective in the NDS but it is also given a significant emphasis as a high priority among all objectives. The NDS recognizes that achieving this objective will provide the economic and social capital that enables improvements for all Solomon Islanders across all objectives of the NDS.⁵⁹ Given this emphasis on the first objective, this section goes through the medium term strategies in more depth.

MTS 1

The first medium term strategy looks to reinvigorate the rate of inclusive economic growth. It calls for development in a number of productive sectors as well as improved economic and financial

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management. Growth within the productive sectors will be key to realising this objective overall and the NDS targets a significant scaling up of commercial investment from both domestic and foreign firms.

Agriculture

In agriculture the NDS calls for a twin track strategy that encompasses the development of production for local markets (in part driven by food security objectives) as well as the development of larger scale commercial agriculture. The aim is to increase the contribution of agriculture from 33% of GDP to 40% by 2020. For this target to be met by 2020 would require something in the region of 8% growth a year in agriculture, forestry and fisheries between 2016 and 2020,⁶⁰ significantly higher than the 2% average growth in the sector over 2011–2016.

Achieving growth rates of this kind, by 2020 or beyond, will require a scaling up of investment in agriculture, both local investment in production for domestic markets and larger investment for export markets. Increasing the supply of credit and rural finance is an important factor to help stimulate this growth. It also implies investment in infrastructure such as wharves, shipping infrastructure and feeder roads, in order to boost access to markets both domestically and internationally. Increased capital investment, funded through some combination of public finance, ODA and public-private partnerships.

Fisheries are highlighted as a sector of ongoing growth with potential for further development. The NDS aims for it to continue the trend of growth relative to total GDP by 1–2% a year and particularly encourages the development of tuna loin processing as well as investment in community fisheries development. This implies increased private sector investment probably including both FDI and domestic investment, as well as investment from SMEs and community-based organisations.

Tourism

Tourism is widely identified as a sector with significant development potential, though it is currently small in scale. The NDS calls for visitor numbers to more than double by 2025, from 20,500 in 2012 to 50,000. To realize this objective the NDS calls for a range of developments within the tourism sector that implies a range of investments from the government and state-owned enterprises in order to attract private investment from domestic and foreign businesses.

Investment in accommodation, tourism services and tourist attractions imply a supply of commercial investment, probably mixing domestic and foreign direct investment. Improved airline services imply growth in activity from the domestic carrier, Solomon Airlines, as well as collaboration with airlines from neighbouring countries. Skills development and marketing could imply investment from the public sector and/or private industry associations. Improved infrastructure implies ongoing capital investment from public, ODA and PPP resources.

The national tourism development strategy identifies a range of public investments necessary in order to attract private investment and proposes an annual budget of SI\$18 million – SI\$24 million for public spending.

60 This calculation assumes that the headline targets for national economic growth are also met.

Forestry

Forestry has been a key driver of recent economic growth, accounting for one third of growth over 2014–2016. It has also been an important source of government revenue. However, the industry is characterized by unsustainable levels of production, which may lead to a sharp decline in output in the future.

The NDS calls for investment in areas that would increase the sustainability and value-added of the industry including reforestation and downstream processing. Commercial investment in these areas could be supported by PPPs and complemented by accessing innovative finance for sustainable forest management. Investment in infrastructure that can support agroforestry schemes is also highlighted.

Mining

The Solomon Islands has a number of unexploited mineral endowments and mining is one of the industries targeted as a driver of growth in the future. Private investment, presumably FDI, in the sector will be needed to kick-start production, though may be characterized by one-off investments given the finite nature of the resources, as opposed to ongoing levels of investment.

Economic and financial management

MTS 1 also calls for a number of improvements in economic and financial management. With respect to the volumes of financing it calls for improved revenue collection to boost public finances, increased investment by SOEs, the use of PPP models to encourage the establishment of sustainable business models and increased credit and provision of financial services. Additionally, it calls for improved management of public sector finances (see integrated planning and financing below), tax reform to support private sector development (see public-private collaboration) and improved management within SOEs.

MTS 2

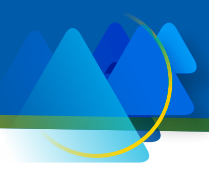
The second medium term strategy aims to improve the environment for private sector development, increasing investment opportunities for all Solomon Islanders. A key target is to increase the Solomon Islands' ranking in the Ease of Doing Business report, from 112 to 110 by 2020 and 108 by 2035. The aim of this medium term strategy overall is to support increased private sector development, and the strategic approach outlined in this strategy implies a range of investments. It aims to do this by increasing access to financial services, developing economic growth centres, improving skills and technology and using PPP models to bring in private investment.

The strategy calls for increased access to financial services, in rural areas in particular. Microfinance and mobile banking are potential vehicles for this, as well as the rural people's bank. Special rural financing schemes may also be considered. PPPs will play an important role in the development of economic growth centres and industrial parks alongside public investment. SOEs are also highlighted for reform, with the need to alter management models so that they can become more financially sustainable and are able to expand their services and coverage. Taxes will be simplified as part of an improved business environment and in order to level the playing field across different types of businesses.

MTS 3

The third medium term strategy focuses on expanding and upgrading weather-resilient infrastructure and utilities in order to increase access to markets, services and productive resources.

The strategy highlights the need for investment in infrastructure in a wide range of areas, though states that priority should be given on focusing limited resources on investments to support growth through



the productive sectors. Access to water and improved sanitation is also highlighted as the highest priority identified through consultations on the NDS.

Overall the strategy calls for a significant scaling up of capital investment and recurrent maintenance costs for infrastructure. A mixture of public capital investment, PPPs and ODA investment (e.g. from multilateral development banks) will be required to support investment in bridges, roads, shipping, aviation, energy and water and sanitation.

Investment at the provincial level will be an important component of infrastructure development, and the NDS highlights partnerships between provincial government and NGOs for service delivery.

The NDS highlights a number of areas that have specific financing implications. PPPs will be used as a tool for investment in and the operation of airports, as well as in the energy sector. Regulation will be adapted to also encourage investment by independent power providers, particularly in hydro and solar power. Private sector involvement is sought in rural transport services such as bus and water-taxi services.

An earlier version of the national infrastructure investment plan quantified the financing needs in infrastructure. Although there is a plan to review this strategy, these estimates can provide a useful proxy for the rough scale of financing needed. It estimated, for the period 2013–2020, annual financing needs of between SI\$390 million and SI\$520 million. It projected that 30–40% of this could come from the government, with the rest split between development partners and private actors.

The national energy policy 2014–2020 estimated total costs of US\$170 million. These costs would be met by a range of actors, including national and provincial government, independent power providers, multilateral development banks as well as through the use of PPPs.

MTS 4

The fourth medium term strategy focuses on land reform. This is a critical factor in stimulating and attracting investment, as well as in areas such as infrastructure development. However, the strategy is more focused on reform to stimulate growth in financing and doesn't require significant resources.

NDS Objective 2: Poverty alleviation, basic needs, foods security and equity

The second objective of the NDS focuses on alleviating poverty, meeting people's basic needs, food security and equity. The three medium term strategies it encompasses focus on alleviating poverty and providing for people's basic needs, increasing employment in rural areas and improving gender equality and support for the disadvantaged and vulnerable.

The financing needed to achieve these objectives covers a range of areas. Provision of public services in a range of areas including water and sanitation, health, education, agricultural support services as well as support services for disadvantaged people will be important. There is a need for sufficient levels of public finance to fund capital investment in a number of these areas as well as recurrent costs to support ongoing scaled up service provision. Decentralisation of public services is key to achieving this and will require sufficient resources and capacity within provincial administrations, covering both recurrent and development budgets.

Private investment and access to credit for small and micro businesses will be key to stimulating growth and jobs in rural areas, particularly in agriculture. The NDS calls for improvements in the way that loans and financial capital are provided to rural and low income earners, incorporating the use of customary land and other assets and commodities. It also calls for subsidies to be considered in order to incentivize the production of cash crops.

NDS Objective 3: access to quality health and education for all

The third objective targets access to quality health and education for all Solomon Islanders. The ultimate goals of the two medium term strategies are universal health coverage and universal secondary education as well as increased vocational and higher education, respectively.

There are significant capital and recurrent financing requirements for these goals, which will draw on government and development partner resources. The NDS aims for the ratio of government to development funding in health to shift more towards government finance over the lifespan of the NDS. The national health strategic plan estimates infrastructure financing needs in health over 2016–2020 to be equivalent to SI\$1.2 billion, roughly double the allocation under the medium term development budget. Provincial administrations will have a key role in health sector service delivery and there is also an important role for services provided by Churches and NGOs that are active in the areas of healthcare, and in education. The education medium term strategy calls for the establishment of harmonized systems for procurement to increase efficiency, and also identifies the need to review the system for scholarships. A long-term plan in education, the education strategic framework, estimates costs for achieving key education goals based on a continuation current education spending as a proportion of the total budget. It aims for increased efficiencies as opposed to accessing new resources from government.

NDS Objective 4: Resilient, sustainable development with effective disaster risk management, response and recovery

The fourth objective includes two medium term strategies that aim to improve disaster and climate risk management and manage the environment in a sustainable, resilient way, including effectively responding to climate change.

Achieving this objective requires a range of investments from public and private actors. Disaster risk reduction and preparedness are areas in which public resources will be invested alongside those of development partners, NGOs and Churches, and in which private sector actors will adapt the way they invest and operate in order to mitigate and manage risk. The NDS highlights the need for functioning, resourced disaster committees at the provincial and community level to raise awareness and strengthen preparedness. There is also a need to set aside public resources that can be rapidly drawn down in times of crisis. Investment in adaptation and environmental management will require a mixture of public, development partner and NGO resources as well as adapted practices in farming, including subsistence farming, and across a range of industries.

NDS Objective 5: Unified nation with stable and effective governance and public order

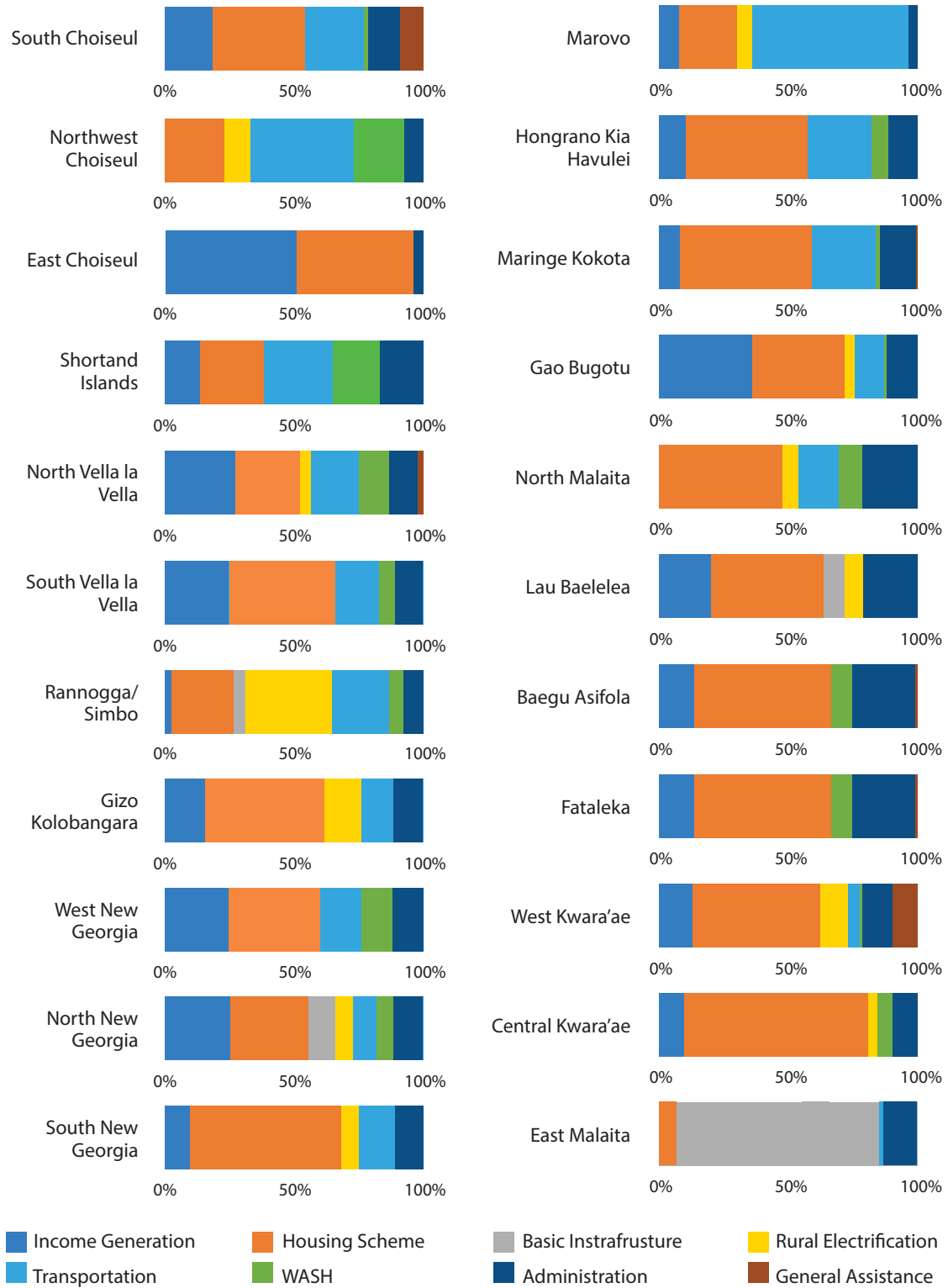
The fifth objective has four medium term strategies covering efficiency in the public sector, corruption, national unity and cultural heritage, and security and law and order.

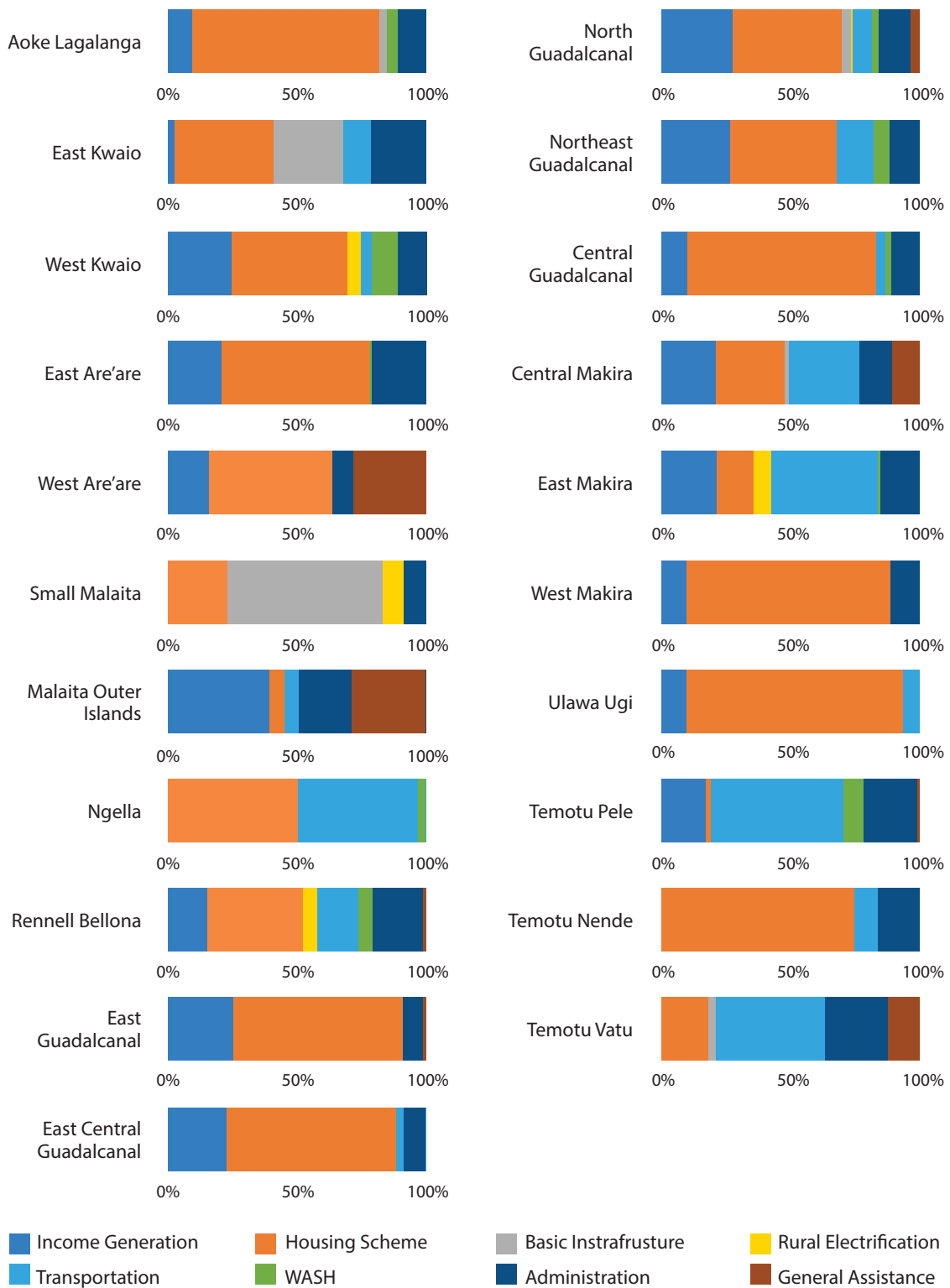
The primary emphasis of this objective is on public finance. It outlines the need for government at all levels – national, provincial and community – to be well resourced and with sufficient capacity to effectively deliver services. There will be continued funding for capacity building in subnational administrations to support this. The objective implies stable and predictable funding for the service commissions and accountability institutions. It also calls for reductions in corruption, with a particular focus on the public sector. Beyond government, the objective does also highlight the important role that Churches and religious organisations can play in supporting governance improvements and promoting national unity and stability.



Annex B: RCDF constituency level data

Figure 36. RCDF constituency level data





Source: Ministry of Rural Development 2015 annual report, Appendix B. Data are for 2015 and show the sector breakdown of spending funded through the RCDF.



Annex C: Further details on the recommendations proposed by the DFA

Recommendation: Strengthen the integration of planning and budgeting processes

These notes articulate the proposals for strengthening vertical and horizontal integration of planning and budgeting outlined in the roadmap above in more detail.

Proposals regarding horizontal integration of planning and budgeting

- **Enforce budget standards.** The application of budgeting standards that have already been agreed, notably the chart of accounts, would greatly increase the ability for government as a whole to effectively plan the way that recurrent and capital resources are invested. Realising this in practice will require a combination of enforcement from ministries' senior leadership and capacity building at a technical level, led by MDPAC. It may need to be phased in over 2 or 3 budget cycles in order to build the relevant capacity and support implementation within a manageable number of ministries each year.
- **Enforce MTDP project proposal guidelines.** Ensure that all project bids from ministries for funding from the development budget are properly designed through Project planning standards and project proposals. Project Proposals and concept should be presented through a logical framework with clear alignment to the NDS M & E performance targets. The logical framework becomes important concept that all project proposals need to have in order to be recommended for approval. Project proposals should be adequately costed with clear work plan schedules and procurement plan. MDPAC technical officers will ensure the planning standards are applied when appraising project proposals and ensure projects proposals a viable and is readily implementable. As with budget standards these could be phased in and supported by appropriate capacity building assistance.
- **Develop and apply standardized strategic planning guidelines.** Standardized planning guidelines will be developed, introduced and adopted across whole of government as a step towards strengthening planning process. To ensure the planning guidelines legalized, the planning guidelines should also be enforced through the national planning bill. The Strategic plans should ensure that the strategic priorities of the ministry and sector are clearly mapped out and links to the NDS objectives and performance targets. The plan guidelines should ensure a pipeline of quality designed projects are prioritized and included in the plan. The ministry plans with a pipeline of prioritized projects should form the basis for budgets bids. These standardized planning will be simplified to be adopted at the provincial and constituency level, however, must align to the NDS. The project planning will subject to the same guidelines. The new strategic planning guide should support and provide the rationale for budget proposals and enable ministries to link and track spending against the outcomes targeted by the NDS. A key requirement of these guidelines would be to articulate the specific outcomes of the NDS that a proposed project is going to contribute towards, with clarity about how this will be measured and reported on. As with budgeting standards these guidelines could be phased in and applied in the first instance to new projects only while capacity is built. It would also require both a commitment for enforcement by senior government leadership and support for capacity building at the technical level.
- **Trial a sector-wide approach to budgeting and establish incentives for cross-ministry collaboration.** Though many of the outcomes prioritized by the NDS cut across ministerial mandates there is little collaboration between ministries in developing budget proposals. The process could be

adjusted to formally encourage joint development and review of budget proposals. A sector-wide approach to budgeting that brings together multiple ministries with mandates related to a single sector or thematic priority could be trialled. In the first instance this could focus on 1–2 key sectors, perhaps starting with the productive sectors targeted by the NDS. Incentives for collaboration could also be built into the budget process, for example, by announcing that jointly submitted or consulted projects will be favoured in decisions about how to prioritize the budget, or by setting aside a certain pot of funding specifically for jointly proposed projects.

- **Establish a clear step in the process for reviewing proposals against the objectives of the NDS.** A number of countries include a step in their budget process whereby a senior level committee reviews an early draft of the budget for alignment against the national plan. Such step could be introduced into the Solomon Islands' budget preparation process with the NDS-IOC responsible for reviewing and making clear recommendations about proposed project and their alignment to the NDS. They could make recommendations on prioritisation and about proposals whose contributions to the NDS need further clarification. To be effective these recommendations would need to be formally and seriously considered by the caucus and the Cabinet as they make adjustments to and sign off the budget.
- **Establish an outcome-based pool of funding within the development budget.** A key factor in the success of SOE reform was the use of community service obligations. Under these contracts, payments for SOEs are triggered after they have delivered services. A similar framework could be applied to a new pot of funding within the development budget, whereby ministries are encouraged to apply but have to meet higher results-based budgeting standards in order for proposals to be accepted. To incentivize proposals government could consider additional benefits for projects financed through such a fund, such as the acceptance of multi-year projects. Developing an outcome-based fund would help to establish and build a culture of and capacity for more outcome-focused planning.

Proposals regarding vertical integration of planning and budgeting at the subnational level

- **Enhance capacity building and incentives for improved financial management in provincial administrations.** Provincial governments should have a key role in achieving the long-term objectives of the NDS as many infrastructure investments and services can be most effectively delivered at this level of government. Nonetheless, there are many challenges in financial management within provincial administrations (see the integrated planning and budgeting section and transparency and accountability sections above). Incentives within the PCDF and capacity building have contributed to some limited improvements in financial management and these efforts should be enhanced. A more intensive programme of financial management capacity building could be established, combined with stricter criteria for provincial funding. For example, government could announce a commitment to withhold a significant proportion of funding from provincial governments that do not receive unqualified audits from the auditor-general. This could be announced a certain number of years ahead (say 2–3 years) in order to allow the required capacity and processes to be developed.
- **Establish consultations between provincial governments and MDPAC within the budget process.** Provincial governments are not directly involved in the national budget process currently, but are represented by the ministries whose budgets their funding is drawn from (e.g. MPGIS). A new step could be introduced into the process whereby consultations and a review of budget proposals is held between MDPAC, MPGIS and provincial governments.



- **Undertake a joint annual review of subnational funding mechanisms.** Both the key subnational funding mechanisms, the RCDF and PCDF, sit within the development budget managed by MDPAC. The DFA proposes that a joint review including MDPAC, MPGIS and MRD be undertaken to assess the outcomes that each fund has supported and how they have contributed to the objectives of the NDS. The findings of these reviews could be used to inform decisions on budget allocations to each of the fund.
- **Enhance collaboration between provinces and constituencies.** Despite the fact that provinces, constituencies and wards are all different aggregations of the same communities and have common needs, there is little collaboration between the processes for funding at each level. Collaboration could reduce duplication and enhance the efficiency of funding. MDPAC, MPGIS and MRD should jointly determine the most appropriate ways to restructure funding and the governance of funds in a way that encourages collaboration.

There are a number of potential options for achieving this. The provincial and constituency development committees responsible for development plans at each level of administration could each include representation from the other committee. During the drafting and review of development plans at each level a formal requirement could be introduced for draft development plans to be reviewed by the other development committee, and final plans could be co-signed. In addition a certain proportion of PCDF and RCDF funding could be set aside for projects that are jointly proposed by provinces and constituencies. This pool of funds could only consider applications, which have been jointly developed at the ward and constituency level, involving MPs and constituency development officers as well as ward representatives and provincial government.

Recommendation: Finalize the CDF regulations⁶¹

The rural constituency development fund (CDF) is the biggest single component of the Government's Development Budget, accounting for almost half 50% in 2017. The very local level at which the CDF operates offers the potential to be highly responsive to local needs, and provide tailored solutions to community level priorities in support of the National Development Strategy.

The increasing size of the CDF, which has grown at an average 15% a year since 2011 and was the only part of the development budget not to be cut in 2018, warrants increasing scrutiny of how the funds are being used. Important, constructive steps are already being taken. Building on these steps, the Solomon Islands Development finance assessment (DFA) indicates a need to strengthen the governance of the CDF and align its resources with the National Development Strategy more closely if development ambitions are to be achieved.

The government has made public commitments to finalize the regulations that will govern the CDF by the end of 2018. Draft regulations had been compiled in 2013 though were not completed and have not been authorized by the Cabinet. Finalizing and having the Cabinet approve these regulations is an important step as they will determine how the operation of the CDF is governed. This policy note makes a number of recommendations from the DFA about how to strengthen the content of these regulations by focusing on measures to improve alignment of spending to the NDS, encourage coordination with other sub-national funding mechanisms and improve monitoring, transparency and accountability.

⁶¹ These detailed notes are based on a policy note that was developed to feed into discussions about the content of the RCDF regulations in follow up to the DFA.

Important ongoing reforms

The Prime Minister and Minister for Rural Development have both made public commitments to finalize the CDF regulations. Alongside this push, and with the appointment of key leadership positions within the Ministry of Rural Development (MRD), there has been an effort in 2018 to start implementing improvements in the governance of the RCDF fund by MRD.

Steps are being taken to build greater capacity for strategic planning, data collection and monitoring of spending and outcomes. Measures are being put in place to strengthen financial management, with improved processes for and better documentation of drawdowns from the fund. Discussions are also underway about the potential to projectize certain payments from development partners, potentially to support key government priorities such as the reopening of clinics in constituencies.

These welcome steps can contribute to a more effective, accountable CDF. In addition, the DFA has identified a number of measures that can be stipulated in the CDF act regulations that will, when enforced, help to further strengthen the use of this key fund.

Recommendations for the CDF Act regulations

Alignment to the National Development Strategy

The DFA found that over 40% of the CDF was spent on housing in 2015, the latest year for which data was available. However, just 16% was spent on income generating activities, a contrast with the strategic approach of the NDS, which prioritizes economic development as a means for stimulating wider development. And only 4% was spent on water and sanitation, despite being identified as the highest priority by communities during provincial consultations as the NDS was developed. There is an opportunity through the regulations to enhance the alignment of spending with the NDS, by improving planning standards and earmarking a certain proportion of spending for priority issues.

Strategic planning guidelines

The CDF Act outlines a schedule for funding applications, including key information that an application should include.⁶² Applications should be based on a constituency's development plan (CDP), though currently not all constituencies have developed these plans.

Enforcing the requirement to develop constituency development plans is a priority. Standardized guidelines for CDPs and for applications for annual funding can also be developed. These can be accompanied by training for constituency development officers and committees as well as the showcasing of existing best practice examples from constituencies that have developed strong processes on their own. The regulations and these guidelines could also add two important additional stipulations for CDPs and funding applications over those articulated in the CDF Act:

- The need to specify outcome targets and indicators as well as a process for monitoring progress toward them. Indicators in the CDPs should link to those in the NDS, and those in annual funding applications should in turn work toward those in the CDPs.

⁶² The CDF Act requires that funding applications should include the following sections: details of the outcomes the project intends to achieve, the way it will achieve those outcomes, a timeline and list of activities, details of the budget, how the project will be managed and the numbers of direct and indirect beneficiaries



- The need to specify how CDPs and projects will contribute to gender equality, and how this will be monitored and reported on. Gender equality is a specific objective of the CDF, as articulated in the CDF Act.⁶³

Earmarked spending

MRD should work with constituency development committees to encourage spending plans that are guided by the objectives and prioritisation of the NDS. The CDF Act allows funding to be allocated for development purposes to individuals, group income generating projects or community projects.⁶⁴ Evidence suggests that a significant proportion of funds to date are allocated for individual projects – although it is group income generating projects and community projects that are most likely to contribute to the economic and social development targets sought by the NDS.

To strengthen the alignment between spending patterns and the priorities of the NDS, MRD could earmark a certain minimum proportion of CDF spending for income generating and community projects in each constituency. This proportion should represent an increase over current levels and be combined with the proposals outlined above, encouraging and supporting constituencies to establish CDPs that are more closely aligned to the NDS.

Coordination with other sub-national funding mechanisms

The CDF is the largest mechanism for subnational public funding, though funding is also disbursed through the PCDF, RDP and the budgets of a number of national ministries. Although these mechanisms all support investment at similar levels of administration and aim to reflect the priorities of local communities, they work through structures that are largely independent of one another. Coordination between funding mechanisms is rare and there are no structures in place to encourage systematic collaboration between different funding mechanisms. Greater coordination between the CDF and other subnational funding mechanisms could enhance efficiency, reduce duplication and improve the responsiveness of CDPs and CDF spending to needs at the constituency level.

The DFA recommends that more systematic collaboration between the mechanisms for disbursing the CDF and other subnational layers of government be institutionalized, in part through the CDF regulations. One important step could be ensuring that there is cross-representation between the constituency development committees that govern spending of the CDF and the ward development committees that govern the spending of the PCDF and RDP. Representatives from each could sit on the committee of the other to ensure that there is dialogue and coordination between the separate structures.

Monitoring, transparency and accountability

Consultations during the DFA process highlighted the lack of understanding that many stakeholders have about how the CDF is spent and the impacts that it achieves. The DFA itself was only able to access draft data for a single year, 2015. There is an opportunity through the CDF regulations to better establish and enforce measures to monitor, share and account for the way funds are used and the contributions they make toward NDS outcomes.

63 The CDF Act stipulates that Constituency Development Officers “shall have regard to providing gender equality and combating gender discrimination” in the allocation of funds. *CDF Act, 2013, section 5 subsection (2)*. Gender equality is also a central focus of medium term strategy 7 in the NDS.

64 *CDF Act, 2013, section 5 subsection (1)*.

The draft regulations require MRD to monitor projects on a quarterly basis and table an annual report to Parliament on the use of funds. They identify some of the information to be included in this report: a list of approved projects, the activities funded within projects, evidence of the follow up and current status of projects and the distribution of projects within constituencies. The DFA recommends adding requirements for a number of additional pieces of information and analysis:

- The breakdown of funds invested in economically productive activities, invested in assets (such as housing) or used to fund consumption
- The sectors in which funds are spent, using the NDS definition of sectors for consistency
- Whether funds are spent on development purposes in personal, community or income generating projects⁶⁵
- How funds support gender equality and the reduction of gender discrimination⁶⁶
- Information on the number of projects that were turned down and funds held back by MRD, including the reasons for doing so.

Monitoring at these levels will rely heavily on information submitted by constituencies to MRD and there is a need for capacity building, particularly for constituency development officers, to produce this information.

There is a need for processes by which MRD can verify project spending. During consultations for the DFA there was debate among stakeholders about how viable such a verification process would be, given the fact that the cost of verifying project spending would often exceed the cost of the projects themselves, particularly in remote parts of the country. However, the cost of not verifying spending may be much higher as it enables a context in which funds may be invested poorly or even misused. There is a need, therefore, to establish verification processes that are strong enough to encourage effective use of CDF disbursements. This could be done by verifying spending under a randomly selected proportion of projects each year.

In addition to MRD's oversight over the use of funds it is in the public interest that the CDF be regularly audited. The CDF Act allows for it to be audited by the Auditor-General; the DFA proposes that a randomly selected proportion of projects are audited every year and that the fund as a whole is audited periodically (at least once every 3–5 years). The results of these audits should be published. The Auditor-General should be given powers to force changes in the management of the CDF or disbursement of funds where there are concerns about inability to prove its utility. These measures can be incorporated into the CDF regulations.

Summary

Achieving the NDS will require effective investment of resources at the local level, in a way that responds to community needs and contributes to national progress. The CDF has a critical role to play as it is the largest source of subnational funding and the main mechanism for public investment in most constituencies.

Finalising the regulations that govern the operation of the CDF is an important step in ensuring that the CDF meets basic standards of financial management, transparency and accountability and can be aligned more effectively with national priorities. The proposals outlined here can help to strengthen these regulations as drafting is completed and, once enforced, improve the operations of the CDF overall.

⁶⁵ The CDF Act stipulates that funds can be "allocated for development purposes to individuals, group income generating projects or community projects." *CDF Act, 2013, section 5 subsection (1)*.

⁶⁶ The CDF Act stipulates that Constituency Development Officers "shall have regard to providing gender equality and combating gender discrimination" in the allocation of funds. *CDF Act, 2013, section 5 subsection (2)*. Gender equality is also a central focus of medium term strategy 7 in the NDS.



Annex D: List of documents reviewed

- Asian Development Bank, 2016, Finding balance: benchmarking performance of state-owned enterprises in Island Countries
- Asian Development Bank, 2016, Countries reforms to stimulate private sector investment: a private sector assessment for Solomon Islands
- Auditor-General of the Solomon Islands, 2016, Audits completed 2014 to 2016
- Auditor-General of the Solomon Islands, 2017, Report of the Auditor-General on SIG 2014 national accounts
- Central Bank of Solomon Islands, 2016, Solomon Islands national financial inclusion strategy 2016–2020
- Central Bank of Solomon Islands, 2017, Annual report 2017
- Commonwealth Secretariat, 2017, Putting LDCs back on track: challenge in achieving the IPOA targets
- Core Economic Working Group, 2018, Economic reform matrix
- Development Initiatives, 2017, Solomon Islands development data hub country profile
- EY, 2017, Catalysing growth through incentives in Asia-Pacific
- Global Partnership for Effective Development Cooperation, 2016, Solomon Islands monitoring profile
- International Labour Organisation, 2017, Improving labour market outcomes in the Pacific
- International Monetary Fund, 2016, Solomon Islands Article IV assessment
- International Monetary Fund, 2016, Solomon Islands debt sustainability analysis
- Mataki, M., 2013, Solomon Islands national report for the Third international small island developing states conference on sustainable development
- Ministry of commerce, industry, labour and immigration, 2014, MSME policy performance monitoring framework for Solomon Islands
- Ministry of commerce, industry, labour and immigration, 2017, Micro, small & medium enterprise policy and strategy
- Ministry of Development Planning and Aid Coordination, 2015, Medium term development plan 2016–2020
- Ministry of Development Planning and Aid Coordination, 2016, National development strategy 2016–2035
- Ministry of Development Planning and Aid Coordination, 2017, Medium term development plan 2017 to 2021
- Ministry of Education and Human Resource Development, 2016, Education strategic framework
- Ministry of Finance and Treasury, Budget strategy and outlook: 2010, 2011, 2012, 2013, 2014, 2015 and 2016
- Ministry of Finance and Treasury, Final budget outcome: 2013, 2014 and 2015
- Ministry of Finance and Treasury, 2018, Development budget 2018
- Ministry of Finance and Treasury, 2018, Recurrent budget 2018
- Ministry of Health and Medical Service, 2016, National health strategic plan 2016–2020
- Ministry of Mines, Energy and Rural Electrification, 2014, Solomon Islands national energy policy

- Ministry of Provincial Government and Institutional Strengthening, 2016, Provincial governance strengthening programme: annual report
- Ministry of Rural Development, 2013, The constituency development funds regulations 2013 (draft)
- National Parliament of Solomon Islands, 2013, Constituency development funds act 2013
- Pacific Islands Forum Secretariat, 2014, Solomon Islands Forum Compact Peer Review Report
- Pacific Regional Tourism Capacity Building Programme, 2015, Solomon Islands national tourism development strategy 2015–2019
- Solomon Islands Chamber of Commerce and Industry, 2018, Administering the tax system discussion paper
- Solomon Islands Chamber of Commerce and Industry, 2018, Consumption taxes discussion paper
- Solomon Islands Chamber of Commerce and Industry, 2018, Solomon Islands: the case for tax reform discussion paper
- Solomon Islands Electricity Authority, Annual reports: 2010–2016
- Solomon Islands Ports Authority, Annual reports: 2010–2013
- Solomon Islands Water Authority, Annual reports: 2010–2015
- Solomon Islands Government, 2013, National infrastructure investment plan
- Solomon Islands Government, 2016, Solomon Islands national midterm review report on the implementation of the Istanbul programme of action (period 2011–2015)
- Solomon Islands Government and European Union, 2012, Public expenditure and financial accountability assessment
- Solomon Islands National Statistics Office, 2015, National statistics development strategy
- Transparency Solomon Islands and UNDP, 2017, CDF community audit
- World Bank, 2015, Enterprise Survey Solomon Islands 2015 country profile
- World Bank, 2016, Pacific possible: tourism report
- World Bank, 2017, Solomon Islands Systematic country diagnostic: priorities for supporting poverty reduction and promoting shared prosperity
- World Bank, 2018, Doing Business: economy profile of Solomon Islands
- UNCTAD, 2015, Investment policy framework for sustainable development
- UNCTAD, 2016, Midterm review of the Istanbul programme of action
- UNDESA, 2018, Ex-ante impact assessment of likely consequences of graduation of Solomon Islands from the LDC category, 2018 triennial review
- UNDP, 2016, Financing the SDGs in the era of the Addis Ababa Action Agenda
- UNDP, 2016, Mobilising private finance for sustainable development
- UNDP, 2017, Country Briefs on SDG Integration into Planning, Philippines country brief
- UNDP, 2017, Financing the SDGs in the Pacific Islands: opportunities, challenges and ways forward
- UNDP, 2018 (forthcoming), Development finance assessment guidebook



UNDP, 2018 (forthcoming), Innovations for integrated financing

UNDP Pacific Risk Resilience Programme, 2015, Country brief for Solomon Islands

United Nations, 2015, Addis Ababa Action Agenda of the third international conference on financing for development

UN General Assembly, 2016, Comprehensive high-level midterm review of the implementation of the Istanbul programme of action for the LDCs for the decade 2011–2020

UN-OHRLLS, 2017, State of the Least Developed Countries 2017

Annex E: Stakeholders consulted during the DFA process

- Anglican Church of Melanesia
- Asian Development Bank country office
- Australian Department of Foreign Affairs and Trade
- Central Bank of Solomon Islands
- Customs Office
- European Union Delegation to Solomon Islands
- Internal Revenue Division
- Ministry of Commerce, Industry, Labour and Immigration
- Ministry of Development Planning and Aid Coordination
- Ministry of Education and Human Resource Development
- Ministry of Environment and Conservation
- Ministry of Finance and Treasury
- Ministry of Forestry and Research
- Ministry of Health and Medical Services
- Ministry of Provincial Government and Institutional Strengthening
- Ministry of Rural Development
- National Development Strategy Implementation Oversight Committee
- National Parliament Public Accounts Committee
- National Statistics Office
- Office of the Prime Minister
- Solomon Islands Chamber of Commerce and Industry
- UN Country Team
- UNDP
- World Bank country office

