

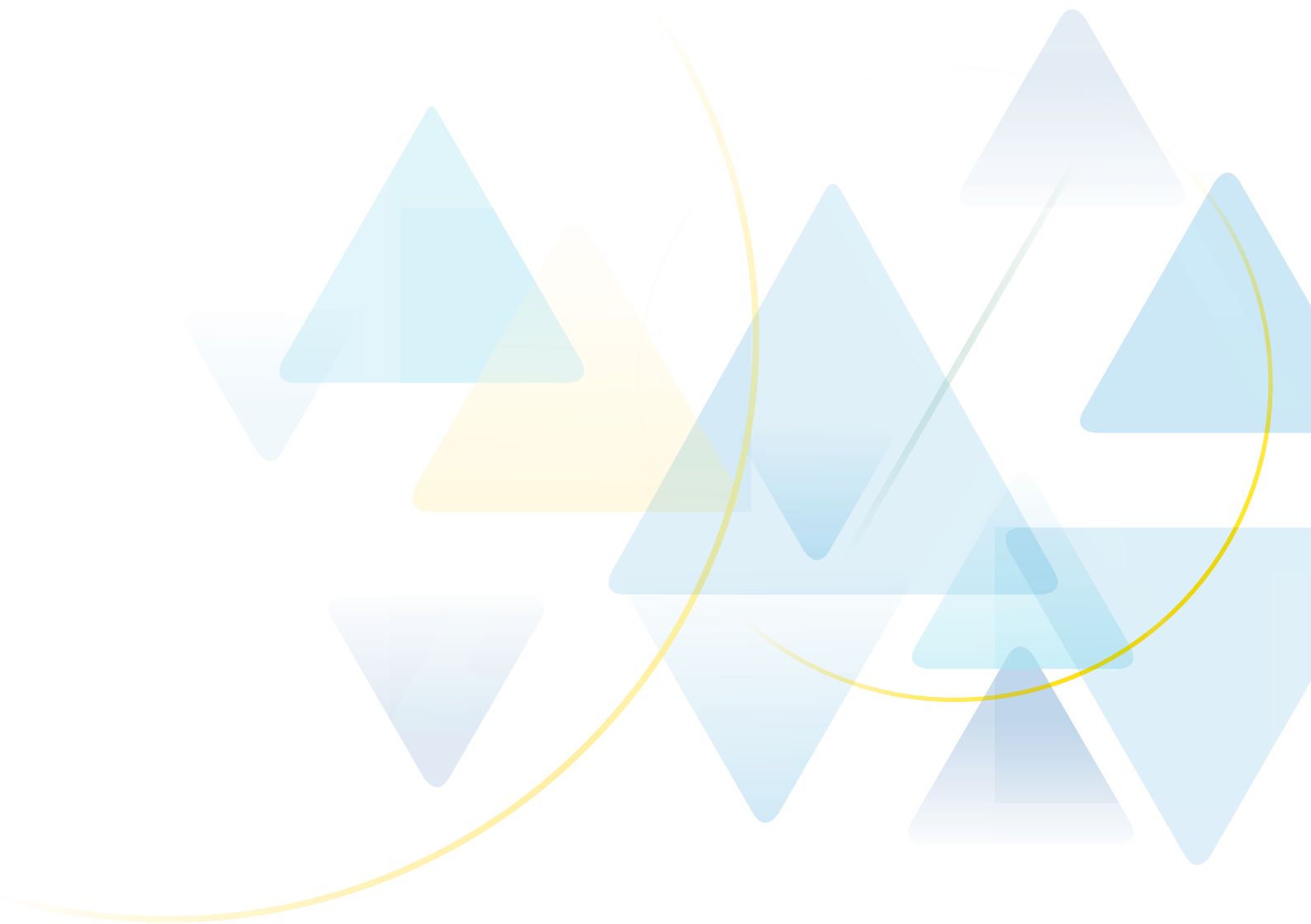


Solomon Islands Integrated Financing Framework (SIFF)





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Foreword

The Solomon Islands Government (SIG) adopted a 20-year National Development Strategy (NDS) 2016–2035, launched in April 2016. The NDS 2016–2035 maps out a strategic direction for the future development of Solomon Islands and presents a visionary strategy for the next 20 years, setting out a long-term vision, mission and objectives that reflect the aspirations of all Solomon Islanders. The NDS 2016–2035 focuses on two key areas: social and economic livelihoods. It presents a National Vision “Improving the Social and Economic Livelihoods of all Solomon Islanders”.

The NDS presents five broad objectives that will contribute towards achieving the overall vision and long term objectives. The five objectives represent the five main challenging areas that the country needs to focus on in the medium to long-term timeframe. These can be summarized as follows: economic growth, poverty alleviation, quality health and education, environmentally sustainable development and good governance.

The SIG resolve is to embark on more serious and aggressive efforts to advance and implement the NDS to achieve its goals as well as those of the sustainable development goals, the Istanbul Programme of Action (IPoA) and other global commitments. Within this context, the Ministry of Development Planning and Aid Coordination (MDPAC) on behalf of the NDS implementation oversight committee (NDSIOC) initiated a development finance assessment (DFA) with the United Nations Development Programme (UNDP) and the Asia Pacific Development Effective Facility to carry out the assessment. The aim of the DFA is to support the development of a financing framework for the NDS, the SDGs, implementation of the IPOA commitments as well as other global commitments.

MDPAC with support of UNDP and Asia Pacific Development Effective Facility successfully carried out the DFA in close dialogue with key national stakeholders. The information and discussion shared during the DFA national consultations assisted the DFA Team to put together the DFA Report and a proposed Solomon Islands Integrated Financing Framework (SIFF). A series of recommendations about steps that can be taken to strengthen the financing of the NDS have also been developed. These recommendations have been refined through discussions with the NDS Implementation Oversight Committee (NDSIOC) and with stakeholders from across government, development partners, private sector representatives and other actors, notably at respective inception, validation and dissemination workshops in Honiara in February, May and July in 2018.

On the basis of the DFA, the SIFF was developed. The SIFF links the aspirations of the NDS to the government policies and operations that will mobilize the necessary financing. The SIFF would support the NDS by providing guidance on the kinds of financing and investments that will be needed. It would 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. 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 sectors and thematic priorities of the NDS.

In order to bridge the aspirations of the NDS with policy change and reforms to strengthen financing in the short and medium term, the SIFF is 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 they do them. In each area, it presents a 'vision' of the context and trends implied by the NDS and summarize the current context and trends. It then presents 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. The SIIF brings together areas of policy from across government and the NDSIOC would, therefore, be the most appropriate forum for owning and operationalizing 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.

The SIIF also aims to guide the Government in mobilizing and securing development cooperation and assistance of development partners, private sector and other development stakeholders. The SIIF would be an opportunity where development partners come together to support the NDS and integrated SDG implementation at the country level. The SIIF would also provide guidance for development and investments by development partners, private sector and stakeholders in the areas and sectors that would bring about the desired objectives of the NDS, SDGs, IPoA and other global commitments. The SIIF is also designed to articulate a holistic approach to mobilizing and investing the finance that is needed to realize the objectives of the NDS. It is envisaged that SIIF will also play an important role in supporting the smooth transition process for the Solomon Islands graduation from the LDC status.

The SIIF is a living document that would be 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 consultation process has been a key element in developing the SIIF. In this connection, I wish to express my appreciation to all who participated in the consultations to provide information, guidance and comments. The participation approach and process have made this document a national one owned by Solomon Islanders.

I would also like to recognize and appreciate the contributions from the UNDP and the Asia Pacific Development Effective Facility for their financial support and technical inputs in helping to prepare this SIIF and for their commitment and dedication in finalizing this SIIF document. I wish to also express my personal gratitude to my MDPAC staff for their support in the preparation and development of the SIIF. All these efforts have contributed enormously to the successful preparation of the SIIF.

It is my sincere call for the national and provincial governments, our development partners, private sector, civil society and all Solomon Islanders to embrace and implement the SIIF.

I dedicate this SIIF and, more importantly, its implementation to all the people of Solomon Islands.

Hon Jeremiah Manele
Minister of Development Planning and Aid Coordination, September 2018

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Introduction

In 2016 the Solomon Islands Government launched the National Development Strategy 2016–2035 (NDS). The NDS targets improved social and economic livelihoods for all Solomon Islanders, with five headline objectives and fifteen medium-term strategies. It is an aspirational vision that provides direction on the kind of progress that the country, and the policies and investments of government, are aiming for.

The extent to which the NDS will be realized in practice depends on actors across society – as the Minister of Planning has noted, “When it comes to the NDS, it’s everyone’s business¹.” Achieving the five objectives of the NDS will require a wide range of investments to be made and services to be delivered, by both public and private actors. Mobilizing and effectively investing the finance to fund those investments and services is a critical part of advancing progress toward the NDS. Financing the NDS will require policies, partnerships and an enabling environment that effectively mobilizes and uses public finance and promotes growth in impactful private finance.

This Solomon Islands Integrated Financing Framework (SIFF) provides a framework to link the aspirations of the NDS with the operations of policy on a range of public and private financing issues. It supports the NDS by providing guidance on the kinds of financing that will be needed to make the necessary investments. It outlines a strategic approach for government and its partners to mobilize and effectively invest these flows in the vision articulated by the NDS. The SIFF is designed to act as a bridge between the aspirations of the long-term NDS and the design and implementation of short and medium operational policymaking. It links the NDS with policies designed to mobilize and promote public and private investment that advance directly and indirectly the sector and thematic priorities of the NDS. The SIFF will also play an important role in supporting the transition process as the Solomon Islands graduates from least developed country status.

The SIFF has been developed in follow-up to the Development finance assessment (DFA) that was commissioned by MDPAC with the support of UNDP in 2018. The DFA undertook a comprehensive assessment of public and private financial trends, considered the potential for different types of finance to contribute to the outcomes targeted by the NDS and developed a roadmap of recommendations. The SIFF, as recommended in the DFA, adapts the concept of an integrated national financing framework that was called for in the Addis Ababa Action Agenda. It outlines a holistic approach to mobilizing public and private finance for the NDS and identifies priorities for the institutional factors that government uses to influence them and promote investment that will advance the NDS.

The SIFF presents strategic direction and recommendations about how to mobilize the financing needed for the NDS. It outlines a holistic approach to mobilize public and private finance for the NDS and

1 Quote from the Minister of Planning at the outset of the Development finance assessment process.



identifies priorities for the institutional factors that government uses to influence them and promote investment that will advance the NDS. In each area of financing and each institutional factor, it outlines actions and guidance that government can take to move from the current financing context to the kind of financing trends that will be needed to realize the NDS. The strategic direction presented in the SIIF captures reforms, which are already ongoing, or to which a commitment has been made, as well as the recommendations developed through the DFA process.

The SIIF is designed to articulate a holistic approach to mobilizing and investing the finance required to realize the objectives of the NDS. It will be used by the NDSIOC to manage and coordinate reforms for financing across the NDS agenda.

The following section outlines how the SIIF will support NDS implementation. It introduces the templates for the SIIF matrices that are presented in the following two sections. The second section looks at financing flows, first presenting an overview of the nine types of financing covered and then presenting matrices for each of them. The final section presents an overview of the institutional and policy factors covered before presenting matrices for each.

How the SIFF will support the National Development Strategy

The SIFF is designed to be used as a framework for managing policy across a range of financing areas, in support of the implementation of the NDS. It outlines a holistic approach to mobilizing public and private finance for the NDS and identifies priorities for the institutional factors that government uses to influence them and promote investment that will advance the NDS.

The SIFF is designed to be actively used by the NDSIOC. It will enable NDSIOC to coordinate, in an integrated manner, reforms designed to mobilize financing for the NDS, across the agenda as a whole. It is the place where all NDS-related financing reforms are brought together so that the NDSIOC has oversight on trends and policy changes across the whole financing landscape.

Bringing together reforms on financing in this way will support the NDSIOC in its role, as the overseer of NDS implementation, to prioritize efforts to mobilize or influence financing for the NDS where they are most needed. It will allow the committee to assess the connections, synergies and trade-offs between policies in different aspects of NDS financing. And it will provide a clearer picture of the implementation of reforms and their outcomes across the whole NDS financing agenda that helps them follow up on progress.

The SIFF is divided into two parts. The first covers policies towards different aspects of public and private financing. The second covers the key institutional structures and systems that the government uses to manage and influence financing. Each part is divided into a series of matrices, which focuses on a specific type of financing or a specific institutional structure or system (see below). Within each, it presents a 'vision' of the context and trends implied by the NDS and summarizes the current context and trends. It then provides guidance on how to move from the current context to the vision, outlining short-term actions (reforms, policy changes or key projects) and a medium to long-term strategic direction that can guide future actions. *This early draft of the SIFF does not specify who is responsible for actions in each policy area, or the timelines and milestones to be met. It is envisaged that this information will be added to the framework as it is operationalized. Clarity on responsibilities and timelines will be critical to ensure its use by NDSIOC.*

With this structure, the SIFF is designed to support the NDSIOC functions outlined above. It will enable a comprehensive overview of the finance-related reforms and projects underway across government that supports oversight and follow-up. It will be a live document that is updated and revised periodically or as necessary.



The SIFF matrices

The following sections present strategic direction in nine areas of financing and four policy and institutional areas. This strategic direction is presented in a series of matrices, each of which follows the format of table 1.

The first two rows present an overview of the current context and recommendations about tangible steps that can be taken to strengthen the area of financing or policy over the short term. They will be updated and revised during periodic reviews of the SIFF, in line with the cycle of NDS performance reviews. The latter two rows present the longer-term strategic direction and ‘vision’ for what the financing or policy area should look like by 2035. These may be adapted over time as strategies change, but they are likely to change less than the shorter-term aspects of the SIFF.

The strategic direction presented in the SIFF is taken from the DFA. The ‘current context’ row in each matrix summarizes the financing trends analysis and analysis of the policy and institutional structures used by government. The ‘short to medium-term actions’ and the ‘strategic direction’ rows bring together ongoing or committed reforms with the recommendations made by the DFA. The vision summarizes DFA analysis of the implied financing needs of the NDS.

Table 1. Template for SIFF matrices

Type of finance or policy/institutional area	
Current context	<p>The current context and trends in this type of finance or policy/institutional area. This is based on information available in 2018.</p> <p>What are the current trends? What role is it currently playing in progressing the NDS? What are the major current challenges and opportunities?</p>
Short to medium term actions	<p>Steps that can be taken over the next two to three years to move from the current context in this area of finance or policy/institutional area in line with the strategic direction.</p> <p>What reforms are ongoing or planned? What steps can be taken in the short term to move forward in the strategic direction outlined above, on route to the ‘vision’ for this type of finance or policy/institutional area.</p>
Strategic direction	<p>Overall strategic direction that should guide reforms relating to this area of finance or policy/institutional area between 2018 and 2035.</p> <p>What kinds of reforms – policy changes, partnerships or collaboration, or institutional changes are needed to move from the current context to the ‘vision’ for this type of finance or policy/institutional area by 2035?</p>
Vision	<p>The ‘vision’ for the type of finance or policy/institutional area and its role in advancing the objectives of the NDS. This is what the finance or policy area should look like in 2035.</p> <p>In which areas of the NDS can it contribute? What context and trends should this area of finance or policy/institutional area be characterized by in order to fulfil its potential in contributing toward the NDS?</p>

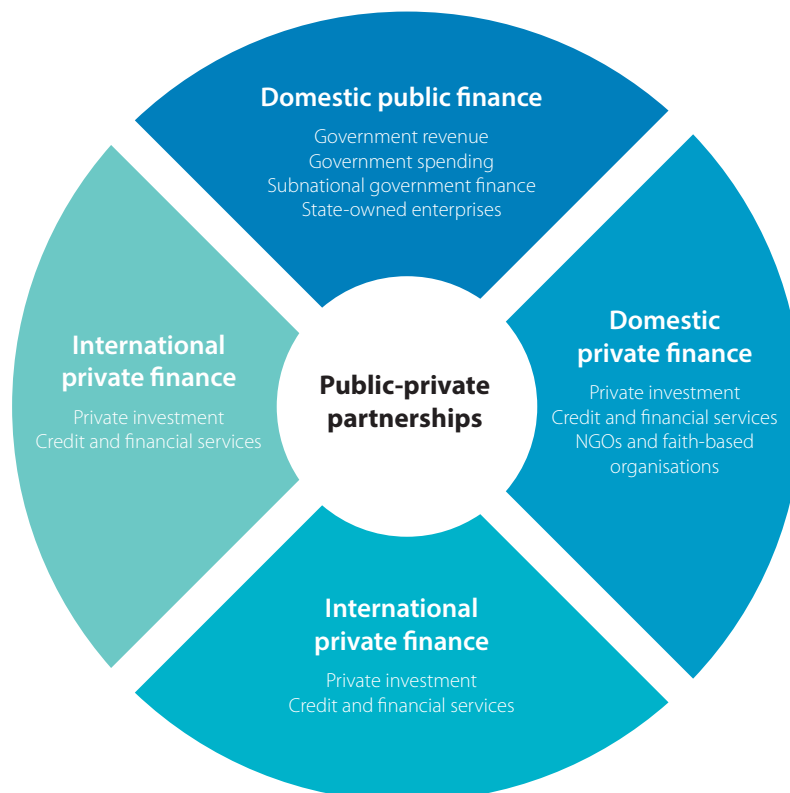
Finance flows

Overview of finance flows covered by the SIFF

The SIFF is designed as an integrated, holistic framework for financing the NDS. It aims to capture reforms related to every aspect of financing that can play a role in advancing the NDS. As such, it covers a wide range of public and private finance flows and instruments. The coverage of the SIFF builds on the DFA, which examined current financing trends in the Solomon Islands as well as the types of financing that will be required to achieve the NDS. The types of finance covered by the SIFF are summarized in figure 1.

Each of these types of finance can contribute towards the NDS by making investments or delivering services. The roles that each type of finance can play will, however, differ widely from flow to flow according to their specific characteristics. These roles and the steps and strategic direction that can be taken to promote them are articulated in the following nine matrices that cover each type of finance.

Figure 1. The types of finance covered by the SIFF



Note that the matrices for some private flows cover both domestic and international finance.



Government revenue

Current context The context in 2018 is one characterized by high tax rates that are collected from a narrow base of taxpayers. There is a reliance on export duties, particularly from the logging industry, and opportunity for improvement in enforcement and tax collection rates. Revenue collection authorities suffer from capacity constraints.

Short to medium term actions *Reforms already underway:*

- Implement the replacement of goods and sales tax with a new VAT tax, by 2020.
- Introduce e-payment systems that simplify the tax return process.
- Introduce system that allows payment to IRD, SIPA and CBSI through one mechanism.

Additional steps to be taken:

- Following replacement of GST by VAT, review and implement change to (i) corporate taxation and (ii) PAYE, with the aim to reduce barriers to private sector development and broadening the tax base.
- Introduce a dividend policy for SOEs².
- Undertake a review of natural resource contracting with a focus on revenues and royalties payable to government.
- Prioritize capacity building in revenue collection.

Strategic direction

To develop government revenue in line with that implied by the NDS will require progress within a number of strategic priorities:

- Rebalancing: lowering tax rates and broadening the tax base.
- Reducing leakages in national revenue by addressing transfer pricing, including consideration of new legislation.
- Investing in enforcement and compliance.
- Developing a sustainable model for dividends from the state-owned enterprises.
- Establishing mechanisms to manage revenues from natural resources.
- Developing capacity and procedures to use instruments, such as, development bonds³ periodically, when there is an appropriate business case and within a sustainable debt framework that resists pressure for irresponsible use.

Vision

Government revenue will be the primary source of finance for public investment; overall volumes of revenue will be stable and sufficient to finance public services and investment in line with the scale of ambition articulated through the NDS. Revenue collection will be efficient, characterized by tax that is 'easy to pay, hard to avoid.'

There will be steady growth in government revenue, in line with economic growth. Revenues will be drawn from diverse sources, mixing direct and indirect revenue streams with receipts spread across industries. There will be effective mechanisms for managing natural resource revenues, with buffers against price volatility, and investment in assets to generate returns for future generations. The tax system overall will be progressive and conducive to private sector development.

² This step is also articulated in the state owned enterprises financing matrix.

³ For example the development bond that was taken up by the Provident Fund in 2018, which was issued specifically to capitalize the ICSI as part of the undersea cable project.

Government spending

Current context The context in 2018 is one in which spending is weakly aligned to the NDS. Strategic planning and programming are weakly aligned to the NDS, and it is common for significant changes toward the latter stages of the budget process, particularly as it is finalized by caucus and the Cabinet. Overall levels of spending grew rapidly over 2014–2017, rising to unsustainable levels. This resulted in a significant cut in 2018, with a 42 percent reduction in the development budget, governments primary mechanism for strategic investment in NDS priorities.

Short to medium term actions *Reforms already underway:*

- Finalize the Planning Bill, including measures to strengthen the use of the development budget as government’s key strategic instrument for NDS investment.
- Bring aggregate spending back to sustainable levels.

Additional steps to be taken:

- Enforce existing standards for MTDP project proposals, budgeting and accounting; develop and apply standardized strategic planning guidelines⁴.
- Adapt the annual budget preparation process to include a formal review of the draft budget against NDS objectives and to create incentives for cross-ministry budgeting.
- Trial sector-wide budgeting in one to two key economic sectors.
- Undertake a ‘spring cleaning’ exercise to remove development budget items that are not strategic for the NDS or which are not development in nature.
- Increase the use and predictability of SOE community service obligations⁵.
- Implement a strategic planning capacity building programme to boost the alignment of ministry plans and programmes to the NDS.
- Create an emergency fund.

Strategic direction Move towards the kind of public spending implied by the NDS requires reforms across a number of strategic priorities:

- Increasing use of the development budget as government’s primary strategic instrument for investing in NDS progress, with enforcement of rising standards of project alignment to the NDS and tight control over projects that are not developmental in nature or which prove unsuccessful.
- Moving towards medium-term, programme-based budgeting.
- Taking steps to build a culture of policy making more focused on outcomes, including through the spread of successful instruments, such as, CSOs.
- Increasing use of cross-ministerial programming to address cross-cutting areas.
- Enforcing higher standards regarding strategic planning and financial management.

Vision Government spending will be a key driver of progress toward the objectives of the NDS, through public services, investment and partnership with other actors.

The annual and medium-term budget process will be closely aligned to the NDS with development spending in particular, used strategically to make investments that can catalyse progress towards the NDS objectives. There will be a growing focus on outcomes and public spending, used to strategically leverage investment and partnership with other actors that can contribute to the NDS. Financial management will be strong, and government will have built an appropriate level of reserves, with spending growth at sustainable levels, avoiding the need for periodic budget cuts.

4 This step is also articulated in the integrated planning and financing matrix

5 See also the SOE matrix



Subnational government financing

Current context The context of subnational government financing in 2018 is one of multiple, distinct mechanisms for funding local projects, at the ward, constituency and provincial levels. There is no systematic coordination between these mechanisms and transparency and accountability is weak, particularly for the RCDF. Structures to ensure that project development and prioritization reflect the needs of communities are ineffective and politicization of these budgets is common. There are few links between these funding mechanisms and the NDS. Provincial governments are under-capacity and under-funded. Constituency development committees are in many cases not functioning.

Short to medium term actions *Reforms already underway:*

- Finalize and implement the regulations for the RCDF. These should particularly aim to improve governance, alignment to the NDS, collaboration with other subnational funding mechanisms and monitoring, transparency and accountability of the CDF.⁶

Additional steps to be taken:

- Publish detailed annual reports of spending and outcomes for the RCDF.
- Expedite capacity building in provincial governments, with a focus on financial management; combine with stricter criteria for accessing PCDF disbursements⁷.
- Invest in strategic planning capacity building for provincial governments and constituency development officers.
- Ensure constituency development committees are active and representative.⁸
- Showcase best practices from constituencies in strategic planning and CDF spending.
- Establish a system for collating information on provincial government spending and incorporate it in regular reporting on public investment in the NDS⁹.

Strategic direction

Realizing the role envisioned for subnational government financing in the NDS requires reforms across a number of strategic priorities:

- Increasing alignment between strategic plans at the provincial and constituency level, and the NDS, with capacity building on strategic planning and results-based planning.
- Increasing coordination between the different subnational funding mechanisms in order to reduce duplication and increase efficiency.
- Ongoing, expedited investment in capacity building for financial management, strategic planning, monitoring and reporting.
- Improving transparency and strengthening accountability.

6 This step is also articulated in the transparency and accountability matrix below.

7 This step is also articulated in the transparency and accountability matrix below.

8 This step is also referenced in the NGOs and FBOs matrix below.

9 This step is also articulated in the monitoring and review matrix above.

Subnational government financing (continued)

Vision	<p>Subnational government will play a key role in translating the NDS to the local context, and delivering services and investments that are responsive to local needs, while also contributing to national NDS objectives.</p> <p>Provincial government and structures at the constituency and ward levels will be effective in identifying and responding to priority issues. There will be sufficient, predictable levels of funding and provincial governments will collect decentralized revenues and may take on and manage debt within a national debt management framework. There will be effective, financial management and transparent publication of spending information. Investments in regional infrastructure as well as services in areas, such as, health, education, water and sanitation, disaster preparedness and response, agriculture and support for disadvantaged people, will be managed effectively. There will be effective collaboration with national government and other entities, particularly NGOs and faith-based organizations.</p>
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State-owned enterprises financing

Current context	<p>An SOE reform programme initiated in 2007 has been largely successful. Most SOEs are profitable (SOLAIR was the only SOE to make a loss in 2016) and investments by key SOEs, for example, in electricity and water and sanitation infrastructure, have been growing rapidly. The use of community service obligations (CSOs) has helped increase access to services provided by SOEs, although the use of these contracts has fluctuated year-on-year. SIEA paid its first dividend to government in 2016, though there is no agreement in place to govern the payment of dividends. This is holding back the use of CSOs.</p>
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Short to medium term actions	<p>Steps to be taken:</p> <ul style="list-style-type: none">• Establish an SOE dividend policy¹⁰.• Increase the use and predictability of the CSO model of contracting.• Bring SOLAIR to break-even or profitable point.• Consider the potential for SI Postal Corporation to expand its financial services offering, as part of efforts to increase access to financial services, especially in rural areas.• Undertake an assessment of the potential to (re)establish a national development bank, focusing on a model and governance structure that can boost financial services and investment in key industries while avoiding past failings.
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Strategic direction	<p>Realizing the role for SOEs implied by the NDS will require progress in the following areas:</p> <ul style="list-style-type: none">• Achieving financial viability in the remaining loss-making SOEs (notably SOLAIR).• Increasing the predictability of CSO contracting.• Considering the (re)establishment of a development bank to support increased access to financial services and investment in key industries.
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Vision	<p>State-owned enterprises (SOEs) will play an important role in delivering public services and providing public goods that advance progress towards the NDS objectives.</p> <p>SOEs will be financially sustainable and able to fund recurrent spending as well as growing capital investment. SOEs will manage growing, efficient infrastructure and services in key areas, maintaining a balance between providing essential services without crowding out services that could be provided more effectively by commercial actors. There will be a balance between profitability (including dividend payments to government) and the provision of accessible services. Community service obligation (CSO) contracts will be used regularly and predictably with government to increase access to these services for low income and isolated communities.</p>
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¹⁰ This step is also articulated in the government revenue matrix.



Private investment

Current context The context in 2018 is one in which volumes of private investment, both domestic and foreign, remain low. Though there are some signs of growth in domestic investment, as indicated by steady credit growth, levels remain low and the trajectory of growth is lower than the trends required to meet the NDS objectives for more rapid growth led by private sector development. Investment in key industries, such as, tourism, agriculture, mining and others remains low.

Short to medium term actions

Reforms already underway:

- Establish the private sector advisory group as a mechanism for meaningful regular dialogue between government and the private sector¹¹.
- Trade and investment missions to countries that could be important sources of FDI.
- Finalize the land recording process as part of efforts to address land ownership.
- Implement tax reforms (see government revenue matrix).
- Finalize SME policy and act.
- Establish the major projects unit in MoFT and develop a framework for PPPs¹².

Additional steps to be taken:

- Establish an investment promotion initiative.¹³ This would bring together efforts to improve the business environment, develop and promote investment opportunities, attract investors and manage the social and environment impacts of investment in a single strategy managed by a senior level coordination team.
- Develop targeted incentives to attract investment in key industries.
- Develop a regulatory framework regarding environmental and social impact assessments for major investments.
- Develop a coordinated programme to protect the environment and catalyse wider economic and social benefits as larger investments in targeted industries are realized.

Strategic direction

To move towards the kind of private sector investment implied by the NDS will require reforms that advance a few key strategic priorities:

- Addressing structural constraints to the business environment for private sector investment, notably land, tax reform and infrastructure.
- Actively promoting investment in the highest priority industries with a comprehensive package of activities including bankable project pipelines, creating targeted incentives, investment forums and international marketing.
- Strengthening coordination among ministries and agencies responsible for different aspects of the business environment and investment promotion.
- Strengthening coordination and targeted policies regarding measures to promote the wider benefits of investment (e.g. skills development to boost employment in priority industries) and mitigate the risks (e.g. environmental protection).
- Strengthening dialogue with private sector representatives.

Vision

Private sector investment will be a key driver of progress toward the NDS, contributing directly to many outcomes and providing capital and revenues that can be invested in others. There will be steady growth in domestic and foreign investment in priority industries including tourism, fisheries, commercial and cash crop agriculture, and energy, as well as a significant investment stock in mining. Access to credit will provide a means for SMEs to expand operations and deepen value chains in these priority industries. Collaboration between the public and private sectors will be strong and investments will occur within a supportive framework that promotes sustainable, inclusive business models.

11 This step is also articulated in the public-private collaboration and transparency and accountability matrices.

12 This step is also articulated in the PPP matrix below.

13 This step is also articulated in the public-private collaboration matrix.

Public-private partnerships

Current context A small number of PPPs have been implemented or are underway, typically including both development partners and private sector actors, such as the Tina Hydro project). There is, however, no framework governing the use of PPPs overall, although there are plans to develop a more systematic approach through the major projects unit that is being set up within the Ministry of Finance and Treasury.

Short to medium term actions *Reforms already underway:*

- Establish the major project unit within Ministry of Finance and Treasury and develop a framework guiding when and how PPPs can be used.

Additional steps to be taken:

- Undertake a review of international lessons about the factors that have determined the success and failure of PPPs in contexts and for priorities similar to those in the Solomon Islands.
- Invest in capacity to develop and manage these complex instruments.
- Establish mechanisms for transparency in PPP contracting.

Strategic direction To realize the kind of PPP portfolio envisioned by the NDS will require reforms along a number of key factors:

- Establishing strong, clear, transparent criteria for determining when it is appropriate to use PPPs and the kinds of models, risks and costs that are acceptable.
- Investing in capacity to evaluate the potential benefits and costs of PPPs, and to design, negotiate and implement them effectively.
- Developing a pipeline of high potential projects that may be suited to PPP financing.
- Actively promoting opportunities to potential investors.

Vision There will be a moderate portfolio of PPPs that plays an important role in mobilizing resources to fund the construction and/or operation of investments that are strategic for the NDS. Risks, costs and profits will be shared effectively between public and private partners. There will be a core body of staff within government that are skilled and experienced in designing, negotiating and managing PPPs. Information on the contracts, investments and payments by government within a PPP will be transparent and accessible.

Credit and financial services

Current context There has been some recent growth in credit to the private sector, a sign of some overall growth in investment. However, volumes remain low and are spread across industries, indicating that none of the industries targeted for growth by the NDS are yet showing the kind of trajectory that will see them expand rapidly in the medium term. Public debt levels remain low and are managed within the framework of the Honiara Club agreement.

Short to medium term actions *Reforms already underway:*

- Evaluate the potential for SIPC to use its network and presence in the provinces to expand its financial service offering and boost access to credit for rural and remote businesses¹⁴.

Additional steps to be taken:

- Establish a regulatory framework that encourages the development of a mobile money sector with services offered by a range of interconnected institutions.

14 This step is also articulated in the SOE matrix above.



Credit and financial services (continued)

Strategic direction Realizing the role of credit and financial services in financing investment in the NDS will require forums along a number of strategic priorities:

- Invest in the capacity of SMEs to be able to responsibly take on credit to fund growth in key industries.
- Work with financial institutions to encourage increased access to credit.
- Continued close management of national public debt.
- Develop capacity within public institutions beyond central government, such as, SOEs and provincial government, so that they are able to take on debt, for appropriate investments and within a managed overall sustainable public debt framework.

Vision The financial system will offer a range of financial services that are accessible countrywide to businesses of all sizes. Technological innovations, such as, mobile money, and partnerships with institutions, like, SIPC, will boost access to financial services for rural, geographically isolated and low-income communities. Public debt will be managed carefully within an overall sustainable debt framework. Entities beyond central government, including SOEs and provincial government may take on some debt within this framework, where there is a strong case for doing so.

Official development assistance

Current context ODA cooperation provides a critical source of financing for investment in the NDS. ODA accounted for around one-quarter of government revenue in 2016. It accounts for a significant proportion of spending in key sectors, such as, education and health, though at the sector level ODA is often dominated by one to two development partners, meaning that there is vulnerability to policy change by those partners. From the perspective of donors, there may be challenges with fungibility.

Short to medium term actions *Reforms already underway:*

- Re-establish the core economic working group, involving central ministries and key development partners.
- Policy reforms in line with increased budget support.

Additional steps to be taken:

- Work with development partners to pilot new instruments, such as, development impact bonds and initiatives to support impact investment.

Strategic direction To enhance the contribution of ODA to the NDS efforts can be made along a number of strategic priorities:

- Work to decrease off-budget support and increase the predictability ODA.
- Further enhance information sharing, regarding on and off budget assistance as well as information about future spending plans.
- Work with development partners to leverage their expertise, reputation and with institutions in their home country to catalyse further development finance, through instruments, such as, development bonds, blended finance or partnerships with private sector actors, like, outward investment agencies.

Vision ODA will continue to play an important role in progress towards the NDS, though the country's reliance on ODA will have declined overall and within key sectors, such as, education and health. ODA from bilateral development partners and MDBs will continue to play an important role in supporting infrastructure and productive sector investment, including through the promotion of investment in key industries. Innovative financing will play a role in ensuring the sustainability of key industries, such as, logging.

NGOs and faith-based organizations

- Current context**
- NGOs and faith-based organizations play an important role in delivering services in key areas of the NDS, such as, health and education as well as some income generating sectors and disaster preparedness and response.
 - They are present in some local areas of the country where government services are lacking. Churches in particular played an important role during the tensions and continue to contribute to national unity and stability.
 - NGOs and FBOs regularly collaborate with development partners though direct collaboration with government is less common as there are no systems for systematic coordination.

Short to medium term actions *Reforms already underway:*

- Finalize revisions to the NGO Act.
- Create an NGO and FBO roster to improve the information available to government about potential partners.

Additional steps to be taken:

- Develop a policy framework for active dialogue between the government and NGOs and FBOs that covers issues, such as, project financing and implementation, sector support, disaster preparedness and response, community level partnerships and information sharing.
- Develop mechanisms for dialogue between government and NGO and FBO networks around the role that these organizations can play in advancing the NDS objectives and deepening coordination and partnerships.
- Develop mechanisms for sharing information between government and NGOs and FBOs in order to build a fuller understanding of the investments and progress being made toward the NDS.¹⁵
- Ensure that FBOs and community organizations play the role envisioned for them as part of constituency development committees that identify the most pertinent needs and prioritize projects to be funded through the RCDF.¹⁶

Strategic direction

To enhance the contribution of NGOs and FBOs to the NDS efforts can be made along a number of strategic priorities:

- Establish an effective policy framework for NGOs and FBOs that promotes their contributions to the NDS.
- Invest in greater dialogue, coordination and collaboration with NGOs and FBOs in key social, environmental and peacebuilding components of the NDS, to leverage the strengths of these organizations.
- Ensure an active role for NGOs and FBOs at the community level in helping to objectively identify and prioritize needs to be addressed through subnational funding mechanisms, such as, the CDF and RDP.

Vision

NGOs and FBOs will be important investors and providers of services in areas central to the NDS, particularly the social sectors, environmental management and national unity. There will be effective dialogue and collaboration between national and provincial government, and NGOs and FBOs.

¹⁵ This step is also articulated in the monitoring and review matrix below.

¹⁶ This step is also referenced in the subnational government funding matrix above.



Policy and institutional structures

Overview of policy and institutional structures covered by the SIFF

This section presents strategic guidance on a range of policy and institutional structures that are essential for effective governance of financing policy. It identifies reforms that can strengthen financing for the NDS in four key areas: integrated planning and finance policy functions, public-private collaboration, monitoring and review, and transparency and accountability.

The four structures covered in the SIFF derive from the methodology for the development finance assessment, which focuses on these areas as key components of an integrated national financing framework. Integrated national financing frameworks are a concept called for by the Addis Ababa Action Agenda, which articulates their role in supporting cohesive, nationally owned sustainable development strategies.¹⁷ The four structures are based on the factors a government needs to have in place to implement and instigate an integrated approach to financing the SDGs.

The four structures play a key role in an integrated approach to financing that brings together public and private finance and links aspirational planning functions with operational policies:

- 1. Integrated planning and finance policy functions:** strong connections and alignment between the national development vision and the policies designed to mobilize investments that will be necessary to achieve it.
- 2. Public-private collaboration.** The creation of an environment that is conducive to sustainable, inclusive growth in private actors and promotes contributions to the national development vision according to their specific characteristics.
- 3. Monitoring and review.** The systems used to track finance, monitor sustainable development outcomes, bring this information together and use it to inform policymaking.
- 4. Transparency and accountability.** The mechanisms by which governments and other actors share information and hold each other accountable.

¹⁷ Addis Ababa Action Agenda, 2015, paragraph 9.

Figure 2. The policy and institutional structures covered by the SIIF



The following matrices outline key reforms and strategic direction that can be taken to strengthen these structures for more effective management of and influence over financing for the NDS.



Integrated planning and financing

Current context Awareness of and alignment to the NDS is weak outside central ministries and development partners. Policies and programmes are not aligned or prioritized according to the strategic approach of the NDS. As many as 40–50 percent of projects funded by the development budget have not been properly planned.¹⁸ The budget process encourages a siloed approach, in contrast to the NDS, which recognizes cross-cutting themes. Some policies focused on non-state finance incorporate links to the NDS, though links are superficial in some cases. Some sector strategies have been costed, focusing mainly on public finance, though others are not costed. The NDSIOC was reconvened in early 2018 following a period of dormancy after the launch of the NDS.

Short to medium term actions *Reforms already underway:*

- Finalize the Planning Bill, including measures that align the budget process to the NDS, strengthen the coordination role of the NDSIOC including a focus on financing and strengthen planning and budgeting standards across government.

Additional steps to be taken:

- Enforce existing standards for MTDP project proposals, budgeting and accounting; develop and apply standardized strategic planning guidelines¹⁹.
- Initiate an awareness building campaign to increase the understanding of, and buy-in to, the NDS. This would target national and subnational government, SOEs, the private sector, NGOs, FBOs and community groups.
- Expand the NDS performance report to include analysis of financing and the investments that are being made to advance the NDS²⁰.
- Estimate public costs and necessary private investment as part of future policy development processes.
- Share the lessons of the results-focused CSO instrument across government.

Strategic direction Moving towards this vision of more integrated and holistic planning and finance policy functions will require reforms in a number of areas:

- Increasing awareness of the NDS and building capacity for strategic planning and programming aligned to the NDS across government.
- Estimating the public finance costs and other required resources of new and revised strategies at the sector and thematic levels.
- Enhancing the role of the NDSIOC as a coordinating body for NDS implementation with a particular focus on making and mobilizing investments that can catalyse progress toward its objectives

Vision Government’s planning and finance policy functions will be closely aligned with one another. This will enable policies and programming that invest and influence different types of finance to contribute towards the NDS objectives according to their specific characteristics. There will be a clear sense of the kinds of public and private investments needed to deliver the infrastructure and services required to achieve the outcomes envisioned by the NDS. Annual and medium-term budget processes will promote the alignment of public spending to the NDS. Policies focused on other types of finance will be aligned to the NDS and strategically encourage investments that can advance its objectives. The NDSIOC will actively coordinate implementation and policies across ministries and partnerships with other stakeholders.

18 2017 NDS performance report

19 This step is also articulated in the government spending matrix

20 This objective is also articulated in the monitoring and review matrix below.

Public-private collaboration

Current context Recent innovations, such as, the establishment of a private sector advisory group, have boosted dialogue between government and the private sector. There are a small number of partnerships between government and the private sector, though there is currently no framework guiding the use of PPPs.

Dialogue and coordination between government and actors, such as, NGOs and Churches that provide many services relevant to the NDS is lacking. While there is some coordination in certain sector-specific strategies (such as, certain aspects of health), there are no mechanisms for more systematic dialogue and coordination of activities either nationally or in the provinces.

Short to medium term actions *Reforms already underway:*

- Establish the private sector advisory group as a mechanism for meaningful regular dialogue between government and the private sector²¹.
- Establish a framework for PPPs (as part of MoFT's major projects unit).

Additional steps to be taken:

- Establish an investment promotion initiative to improve coordination and collaboration in efforts to promote private sector investment.²²
- Establish a regular multi-stakeholder NDS follow-up forum that would be convened every two to three years to review progress, build partnerships and mobilize financing for the NDS²³.
- Establish a national policy for partnership between government and NGOs and FBOs that encourages coordination/collaboration in service delivery to advance key areas of the NDS.
- Consider opening up community service obligation contracting to allow bids from private sector actors.

Strategic direction

- Boost and deepen dialogue with private sector actors around solutions for how to sustainably and inclusively stimulate investment in key industries.
- Boost dialogue and coordination with NGOs, Churches and other organizations that provide social and environmental services.
- Develop frameworks for careful, balanced use of PPPs and similar instruments that mobilize resources for key investments while balancing risks and costs.
- Invest in capacity to effectively manage PPPs and other complex instruments.

Vision

There will be strong mechanisms for dialogue between government and the private sector, NGOs, Churches and other private actors. These mechanisms will help to build trust and foster a shared sense of ownership over the NDS among public and private actors. Dialogue on private sector development will inform the design and implementation of policy that promotes and fosters sustainable, inclusive investment. Dialogue and coordination with NGOs, Churches and other organizations will enhance coordination around service delivery. There will be a growing portfolio of projects that entail a formal partnership between public and private actors, leveraging the skills and resources of both for progress towards the NDS.

21 This step is also articulated in the private investment matrix above.

22 This step is also articulated in the private investment matrix above.

23 This step is also articulated in the transparency and accountability matrix below.



Monitoring and review

Current context The monitoring and evaluation framework for the NDS was revised in 2017 and progress is reviewed every two to three years in the NDS performance report. There are challenges for collecting and sharing information on spending and outcomes within government, both at the national level and between national and provincial government. Monitoring and evaluation capacity in ministries and agencies is weak. Little information is shared between government and partners, such as, private sector networks, NGOs and Churches as there are no systems for capturing their spending and outcome data beyond the balance of payment survey administered by CBSI. Systems for sharing information with development partners are in place though there have been some challenges with implementation. The NSO is expanding its surveys and data collection in line with the National Statistics Development Strategy, which was launched in November 2015.

Short to medium term actions *Reforms already underway:*

- Complete ward mapping exercise.

Additional steps to be taken:

- Establish a system for collating information on provincial government spending and incorporate it in regular reporting on public investment in the NDS²⁴.
- Establish a framework for information sharing between government and actors, such as, NGOs and Churches, that makes important contributions to the NDS but who are not fully captured in current data collection systems²⁵.
- Establish a regular labour force survey.
- Extend the scope of the NDS performance report to analyse provincial and local progress as well as financing and the investments made to advance the NDS²⁶.

Strategic direction Monitoring and review structures will play a vital role in financing the NDS and can be developed according to the following medium to long-term strategic priorities:

- Invest in monitoring and evaluation capacity across government ministries.
- Iteratively develop systems with government for monitoring outcomes and tracking activities on cross-cutting themes, such as, gender and environment.
- Expand the portfolio of surveys undertaken and information on financing and NDS outcomes collected by NSO and CBSI.
- Build relationships and systems for sharing information between government and actors whose activities and investments are not captured in current systems²⁷.

Vision Administrative data systems will produce detailed information on public spending by government ministries, through national funds and by subnational government, with information on expenditure, outputs and outcomes. Information will be collected and shared within an established network of monitoring and evaluation staff across government. Institutions, such as, the NSO and CBSI will collect a growing depth and breadth of data on social and environmental outcomes and investments made by non-state actors. There may be a voluntary system for companies to share information on their contributions to the NDS, such as, through sustainability reporting. The NDS monitoring and evaluation framework will capture regular information on progress towards the NDS outcomes and on the investments that are being made by public and private actors towards it.

24 This step is also articulated in the subnational government funding matrix above.

25 This could be linked with the regular NDS follow-up forum included in the public-private collaboration matrix.

26 This objective is also articulated in the integrated planning and financing matrix above.

27 This step is also articulated in the NGOs and FBOs matrix above.

Transparency and accountability

Current context Information on the budget and spending outcomes is published annually. Reports from the Auditor-General show a number of challenges in financial reporting, particularly among provincial governments. There is little information published on the use of funds or outcomes realized from some of the major funds on the budget, notably the RCDF, scholarship fund or shipping grants. Parliamentary oversight of the budget is led by the Public Accounts Committee, which reviews spending plans though has limited power to enforce changes. Its mandate is not directly linked to the NDS. There is little information sharing between government and partners, such as, private sector networks, NGOs and Churches. Information is shared between government and development partners though there are some challenges.

Short to medium term actions *Reforms already underway:*

- Finalize the PAC Bill, including measures to (i) enhance the focus of PAC on NDS financing and implementation and (ii) give greater powers to enforce changes in ineffective areas of spending or policy.
- Establish the private sector advisory group as a mechanism for meaningful regular dialogue between government and the private sector²⁷.
- Finalize regulations for the RCDF that enshrine principles of transparency and accountability for the use of funds.²⁸

Additional steps to be taken:

- Building on steps taken during the DFA process to collate data from organizations, such as, NGOs and FBOs, build partnerships with these partners to share data and information on planned activities and outcomes.
- Establish an NDS follow-up forum as a mechanism for regular dialogue and mutual accountability on progress towards the NDS²⁹.
- Expedite financial management capacity building in provincial governments³⁰.
- Secure a ringfenced budget for the Auditor-General's office.

Strategic direction

Transparency and accountability is vital for effective financing of the NDS; mechanisms to facilitate transparency and accountability can be further developed over time in line with the following strategic priorities:

- Strengthen transparency of public spending, in particular regarding the use and outcomes of spending within the key funds – RCDF, scholarships fund and shipping grants.
- Invest in financial management capacity across national and subnational government
- Strengthen mechanisms and opportunities for scrutiny of government spending and policies by actors including parliament, civil society and the private sector.
- Continue to enhance consultations with non-state stakeholders as a systematic part of the budget preparation and policy development processes.

Vision

Information on all aspects of public spending and the outcomes of public programmes and policy will be transparent and accessible. Strong oversight of annual and medium-term public spending plans and outcomes will contribute to more effective investment and service delivery to advance the NDS. Information on the investments and activities of non-state actors will be shared to enhance mutual accountability and as a basis for enhanced coordination and collaboration.

28 This step is also articulated in the private investment and public-private collaboration matrices above.

29 This step is also articulated in the subnational government funding matrix above.

30 This step is also articulated in the public-private collaboration matrix above.

31 This step is also articulated in the subnational government funding matrix above.

