



Technical Assistance Report

Project Number: 47359-001
Capacity Development Technical Assistance (CDTA)
November 2014

Solomon Islands: Strengthening the Implementation of the National Development Strategy

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 29 October 2014)

Currency unit	–	Solomon Islands dollar (SI\$)
SI\$1.00	=	\$0.137
\$1.00	=	SI\$7.299

ABBREVIATIONS

ADB	–	Asian Development Bank
M&E	–	monitoring and evaluation
MDPAC	–	Ministry for Development Planning and Aid Coordination
MTDP	–	medium-term development plan
MTEF	–	medium-term expenditure framework
NDS	–	national development strategy
PFM	–	public financial management
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars.

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CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 47359-001	
Project Name	Strengthening the Implementation of the National Development Strategy	Department /Division	PARD/PLCO
Country Borrower	Solomon Islands N/A	Executing Agency	Ministry of Development Planning and Aid Coordination
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		0.60
		Total	0.60
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG) Environmentally sustainable growth (ESG)	Pillar 1: Economic opportunities, including jobs, created and expanded Environmental policy and legislation	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development Institutional systems and political economy Organizational development Public financial governance	Some gender elements (SGE)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. TA Category:	B		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.60	
Sovereign Capacity development technical assistance: Technical Assistance Special Fund		0.60	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		0.60	
9. Effective Development Cooperation			
Use of country procurement systems	No		
Use of country public financial management systems	No		

I. INTRODUCTION

1. A key aspect of effective development management is the formulation and implementation of a national development strategy. For Solomon Islands, this is doubly important because development challenges are daunting and priorities must be set. In 2010, the government approved the National Development Strategy, 2010–2020 (NDS), which is the first long-term development strategy adopted by Solomon Islands. The NDS was the product of nationwide consultations and has enjoyed the support of the successor government since its adoption. The Asian Development Bank (ADB) provided technical assistance (TA) for the development of the NDS¹ and follow-up support for reforming the planning process.² The Government of Solomon Islands has requested TA to further strengthen implementation of the NDS.

2. The proposed TA is included in ADB's country operations business plan, 2015–2017 for Solomon Islands,³ and is consistent with ADB's Pacific Approach, 2010–2014 and Midterm Review of Strategy 2020.⁴ A fact-finding mission was fielded in Honiara from 25 August to 1 September 2014. The government concurs with the TA project's objectives, scope, implementation arrangements, cost, financing arrangements, and terms of reference. The design and monitoring framework is in Appendix 1.

II. ISSUES

3. Since the approval of the NDS, the government has introduced a number of reforms to development planning including (i) a monitoring and evaluation (M&E) framework and function within the Ministry for Development Planning and Aid Coordination (MDPAC); and (ii) a new planning process and templates for development programs with project rationale, logical frameworks, procurement plans in Solomon Islands government format, and implementation arrangements. Under the NDS, individual development programs are combined in a medium-term development plan (MTDP), a 5-year rolling plan aligned to the objectives of the NDS, in the context of agreed medium-term development priorities. The programs are the basis for development budget bids, and the MTDP provides a context in which bids can be appraised and considered for inclusion in the development budget. The MTDP, the first of which was produced in August 2013, allowed development budgets to be appropriated in the chart of accounts for the first time. This allowed development budget disbursements from January, rather than in May or June under the old system.

4. The government has also introduced significant budget reforms since 2011. These include new financial management information systems, a new chart of accounts, revised financial instructions, and a new dedicated procurement unit within the Ministry of Finance and Treasury. On 1 January 2014, the new Public Financial Management (PFM) Act became effective as a major step in the reform process. These budget reforms and MTDP processes create a core database for budget preparation and medium-term expenditure framework (MTEF) expenditure analysis. The first MTEF was produced in January 2014. The government has

¹ ADB. 2010. *Technical Assistance to Solomon Islands for Support for the Formulation of a National Strategic Plan*. Manila (TA 7616-SOL).

² ADB. 2011. *Technical Assistance to Solomon Islands for Supporting the Implementation of the National Development Strategy*. Manila (TA 7944-SOL).

³ ADB. 2014. *Country Operations Business Plan: Solomon Islands, 2015–2017*. Manila.

⁴ ADB. 2009. *ADB's Pacific Approach, 2010–2014*. Manila; ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

established the key elements of a new planning and budgeting system, which has significantly enhanced the planning and budgeting capacity of government agencies.

5. Despite progress in improving development planning and budget processes, this work remains at an early stage and further assistance is required to maintain the reform momentum. The PFM Act requires further regulation to support the MTDP and its implementation, including regulations to give effect to the PFM Act requirement for the preparation of an MTDP by September each year. Coordination between the recurrent and development budgets, which are both prepared on a cash basis, remains poor as noted by the *Solomon Islands Forum Compact Peer Review Report*.⁵

6. Multi-year budget estimates are at an early stage and there is limited capacity to produce the MTEF and link it to the budget documents. The MDPAC's corporate structure is also ill-suited to NDS implementation, with coordination between development planning, aid management, and M&E remaining poor.

7. In June 2014, the government published the PFM Reform Roadmap for July 2014–June 2017 "to draw all relevant actions to strengthen PFM into a single document". The road map "groups the actions together under common themes which crystallizes ... focus not only on specific actions but also on the priority areas that need to be addressed."⁶ Each of these themes is presented in matrix form.⁷ The activities are to be led by the MDPAC with the Budget Division of the Ministry of Finance and Treasury to integrate the preparation, monitoring, and reporting of the separate recurrent and development budgets. The MTDP will be linked with the fiscal and budget strategies and will become the central multi-year planning document linked closely with the MTEF.

8. To fully realize this model, the government has asked for assistance to (i) develop and implement regulations giving effect to the planning provisions of the PFM Act; (ii) further integrate the recurrent and development budgets through the introduction of new budget processes; (iii) strengthen multi-year budget projections; and (iv) improve coordination between aid management, M&E, and development planning in the MDPAC. The government has set out a clear, prioritized road map, which will be led by the MDPAC and follows the planning and budget work of the previous TA.

9. The TA will begin at a pivotal time for Solomon Islands, with elections scheduled for November 2014 and the government facing strong budgetary pressures from the effects of flooding in April and the expected decline of the logging industry. Support for development planning reflects ADB's strong relationship with Solomon Islands, and is coordinated with ADB's program grants and membership of the Core Economic Working Group.

10. In preparing the TA, it is assumed that there is firm government commitment to implement the NDS. All governments have strongly supported the NDS since it was approved in 2010. The main risks are that political instability as a result of the election could lessen the government's commitment to improved development planning and NDS implementation, or an economic crisis could place added demands on budget allocations and change the focus of

⁵ Pacific Islands Forum Secretariat. 2014. *Solomon Islands Forum Compact Peer Review Report*. Suva.

⁶ Government of Solomon Islands. 2014. *Public Financial Management Reform Roadmap*. Honiara.

⁷ Matrix 3.4, on the integration of recurrent and development budget, is available as a Supplementary Appendix to this TA report. Please email Milovan Lucich at mlucich@adb.org for a copy of the matrix.

government spending. The flooding from Cyclone Ita in April 2014 has strained budget allocations but has not changed the focus of government spending.

III. THE CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

A. Impact and Outcome

11. The impact of the proposed TA will be improved policy and strategy implementation. The outcome will be improved public expenditure management, planning, and reporting. The impact indicators are based on the M&E framework of the NDS. The target is that 60% of the indicators in the NDS M&E framework are rated successful by 2020.

B. Methodology and Key Activities

12. The TA aims to support the government in implementing a long-term strategic vision for achieving higher sustainable growth. The TA will help translate this vision into results-oriented objectives and targets within an MTEF, annual budgets, and MTDPs. The TA will also improve strategic development planning capacity, and integration of the recurrent and development budgets.

13. The main TA activities are grouped into four outputs.

14. **Output 1: Regulations giving effect to planning provisions of the new Public Financial Management Act developed and implemented.** Regulations supporting the MTDP will be developed and there will be capacity building for annual preparation of MTDP.

15. **Output 2: Integration of the recurrent and development budgets improved.** The budget process for both recurrent and development budgets will be reviewed to strengthen coordination. Capacity building of MDPAC staff will support joint consultation and midyear budget review as well as capacity strengthening of line ministry staff to prepare estimates of recurrent costs of development projects.

16. **Output 3: Multi-year budget projections strengthened.** The MDPAC and the Ministry of Finance and Treasury staff will be coached in the annual production of the MTEF. The current format and processes for annual production of the MTEF will be simplified.

17. **Output 4: Coordination between aid management, monitoring and evaluation, and development planning in the Ministry for Development Planning and Aid Coordination improved.** The corporate structure of the MDPAC will be reviewed to improve coordination between the aid management, M&E, and development planning functions in the ministry.

C. Cost and Financing

18. The TA is estimated to cost \$660,000, of which \$600,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V).

19. The government will provide counterpart support in the form of counterpart staff salaries, office accommodation and transport, support services, venues and audiovisual equipment for training workshops, facilitation of consultations, and other in-kind contributions. The cost estimates and financing plan is in Appendix 2.

D. Implementation Arrangements

20. The MDPAC will be the executing agency and the implementing agency. ADB will be responsible for consulting services, and will manage all TA inputs.

21. The TA will require an estimated 20 person-months of international consulting services and 12 person-months of national consulting services. These will include (i) a senior planning economist and team leader (international, 13 person-months), (ii) a public finance economist (international, 7 person-months), and (iii) a planning specialist (national, 12 person-months). The consultants will be engaged by ADB on an individual basis in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Proceeds of the TA will be disbursed in line with ADB's *Technical Assistance Disbursement Handbook* (2010 as amended from time to time). Procurement will be made in accordance with ADB's Procurement Guidelines (2013, as amended from time to time). All equipment purchased under the TA will be procured through direct payment procedure to suppliers and turned over to government upon completion of TA activities. TA activities will be implemented over 27 months, from December 2014 to February 2017. Training activities under the TA will be organized and coordinated by the local planning specialist under the supervision of the team leader. The outline terms of reference are in Appendix 3.

22. The NDS task force, a government committee comprising all permanent secretaries and the Governor of the Central Bank of Solomon Islands, will be responsible for monitoring and evaluating the implementation of the NDS and this TA. Good practices and lessons will be disseminated throughout the implementation of the TA.

IV. THE PRESIDENT'S DECISION

23. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$600,000 on a grant basis to the Government of Solomon Islands for Strengthening the Implementation of the National Development Strategy, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Improved policy and strategy implementation</p>	<p>60% of the indicators in the NDS M&E framework are rated successful by 2020 (Baseline: 0% in 2012)</p>	<p>NDS M&E Framework</p>	<p>Assumption</p> <p>Strong government commitment to implement NDS</p> <p>Risks</p> <p>A crisis will put strain on budget allocation and change focus</p> <p>Political instability</p>
<p>Outcome</p> <p>Improved public expenditure management, planning, and reporting</p>	<p>PEFA assessment score for policy-based budget improves to B by 2018 (Baseline: C in 2012)</p>	<p>PEFA assessment reports 2016–2018</p>	<p>Assumption</p> <p>Strong and timely support from all stakeholders</p> <p>Risks</p> <p>Political opposition to proposed strategies and priorities</p> <p>Staff movements and capacity</p>
<p>Outputs</p> <p>1. Regulations giving effect to planning provisions of the new PFM Act developed and implemented</p> <p>2. Integration of recurrent and development budgets improved</p> <p>3. Multi-year budget projections strengthened</p> <p>4. Coordination between aid management, M&E, and development planning</p>	<p>Regulations to support MTDP added to PFM Act by December 2015 MTDP tabled in Parliament 3 months before start of fiscal year by 2016 budget</p> <p>Development budget included in annual budget strategy and midyear budget review by 2016</p> <p>Funding envelope of development projects identified 3 months before fiscal year by 2017 budget</p> <p>Recurrent costs of development projects included in recurrent budgets by 2017 budget</p> <p>MTEFs updated annually during 2015–2017</p>	<p>MTEF 2014–2017 MTDP 2014–2017 Minutes of Cabinet’s approval of the regulations.</p> <p>Annual budget strategy</p> <p>Midyear budget review</p> <p>Government of Solomon Islands policy matrix tracking report</p> <p>Core Economic Working Group joint review</p>	<p>Assumptions</p> <p>Well-coordinated approach with all stakeholders</p> <p>Availability of staff to produce MTEF, MTDP, and multi-year estimates</p> <p>Risk</p> <p>Timely delivery of inputs by both ADB and the government</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
in MDPAC improved	100% of MDPAC management agree to new corporate structure improving coordination between aid management, M&E, and development planning by the end of 2016		
Activities with Milestones <ol style="list-style-type: none"> 1. Regulations giving effect to planning provisions of the new PFM Act developed and implemented <ol style="list-style-type: none"> 1.1. Regulations supporting MTDP added to PFM Act by September 2015 1.2. Capacity building for annual preparation of MTDP by December 2015 2. Integration of recurrent and development budgets improved <ol style="list-style-type: none"> 2.1. Review budget process for both recurrent and development budgets to strengthen coordination by December 2015 2.2. Capacity building of MDPAC staff to support joint consultation and mid-year budget review by June 2016 2.3. Capacity building of line ministry staff to produce estimates of recurrent costs of development projects by December 2015 3. Multi-year budget projections strengthened <ol style="list-style-type: none"> 3.1. Capacity building of MDPAC and MOFT staff for annual production of the MTEF by June 2016 3.2. Finalization of template and processes for annual production of the MTEF by September 2015 4. Coordination between aid management, M&E, and development planning in MDPAC improved <ol style="list-style-type: none"> 4.1. Review of corporate structure of MDPAC by December 2015 4.2. New corporate structure adopted by March 2016 4.3. New corporate structure in place by September 2016 		Inputs ADB: \$600,000 Note: The government will provide counterpart support in the form of counterpart staff salaries, office accommodation and transport, support services, venues and audiovisual equipment for workshops, facilitation of consultations, and other in-kind contributions.	

ADB = Asian Development Bank, M&E = monitoring and evaluation, MDPAC = Ministry of Development Planning and Aid Coordination, MOFT = Ministry of Finance and Treasury, MTDP = medium-term development plan, MTEF = medium-term expenditure framework, NDS = national development strategy, PEFA = public expenditure and financial accountability, PFM = public financial management.
Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	449.95
ii. National consultants	55.30
b. International and local travel	34.45
c. Reports and communications	0.90
2. Equipment ^b	8.00
3. Training, seminars, and conferences ^c	6.00
4. Contingencies	45.40
Total	600.00

Note: The technical assistance (TA) is estimated to cost \$660,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff salaries, office accommodation and transport, support services, venues and audiovisual equipment for workshops, the facilitation of consultations, and other in-kind contributions. The value of government contribution is estimated to account for 10% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-V).

^b Equipment to be procured under the program includes econometric software and project planning software.

^c Up to six 1 to 2 day workshops will be held under the TA for officials of the Ministry for Development Planning and Aid Coordination (MDPAC), the Ministry of Finance and Treasury, and line ministries on the following topics: annual preparation of the medium-term development plan, training of MDPAC staff partners on the government reporting template, awareness building of development partners on the government reporting template, annual production of the medium-term expenditure framework, estimation of recurrent costs of development projects, and combining recurrent and development budget processes. The government will provide venues and audiovisual equipment for the workshops.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Senior Planning Economist and Team Leader (1 international, 13 person-months)

1. The senior planning economist and team leader will be an economist with preferably more than 15 years of experience in a public finance and public investment planning, project management, and aid management and budgeting; and preferably an advanced degree in economics, finance, public administration, or a related discipline. Experience gained from working in a ministry of finance (or equivalent) in a capacity development role is highly desirable. Experience with Pacific island countries or small states would be an asset.

2. The senior planning economist will (i) assist and strengthen the capacity of the Ministry of Development Planning and Aid Coordination (MDPAC) and line ministries to (a) participate in annual joint budget consultation with the Ministry of Finance and Treasury (MOFT), and (b) prepare development budget sections of budget strategy and mid-year budget review; (ii) help the MDPAC and line ministries prepare the annual medium-term development plan (MTDP) for the national development strategy (NDS); (iii) support and strengthen the capacity of staff in the MDPAC and line ministries, including the MOFT and the Bureau for Economic and Social Reform, in preparing the recurrent costs of development projects; (iv) assist in developing regulations for the preparation of the MTDP for the Public Financial Management (PFM) Act; (v) assist in reviewing budget process on both recurrent and development budget to strengthen coordination and promote greater integration; and (vi) assist in preparing a review of the corporate structure of the MDPAC to improve coordination between aid management, monitoring and evaluation (M&E), and development planning.

3. The outputs expected are (i) regulations giving effect to planning provisions of the new PFM Act developed and implemented, (ii) integration of recurrent and development budgets improved, (iii) multi-year budget projections strengthened, and (iv) coordination between aid management, M&E, and development planning in the MDPAC improved.

4. In undertaking this role, the senior planning economist will (i) coordinate the work of the other consultants engaged under the technical assistance (TA); (ii) ensure that the TA is implemented according to a work plan (agreed with the MDPAC, the NDS Task Force, and ADB), the terms of reference, and the consultancy contract provisions; (iii) prepare brief monthly update reports on work performed; (iv) prepare a brief inception report, draft final report, and final report in a format satisfactory to the MDPAC, the NDS Task Force, and ADB; (v) coordinate the organization of the consultation and stakeholder engagement forums; and (vi) take responsibility for the collective work of the consulting team, as well as for coordinating and liaising with stakeholders.

B. Public Finance Economist (1 international, 7 person-months)

5. The public finance economist will have preferably more than 15 years of experience in a public finance role, and preferably an advanced degree in economics, finance, public administration, or a related discipline. The expert will be experienced in budget formulation, implementation, and monitoring and development of medium-term estimates. Experience gained from working in a ministry of finance (or equivalent) in a capacity development role is highly desirable. Experience with Pacific islands countries or small states would be an asset.

6. The public finance economist will (i) review the methodology for preparing the medium-term expenditure framework (MTEF), with an emphasis on establishing links between the NDS,

annual budgets, and the MTEF; (ii) finalize a template for the annual production of the MTEF; (iii) train MDPAC staff on the annual development partner reporting template; (iv) build the awareness of development partners on the annual development partner reporting template; (v) provide advisory and hands-on training to build the capacity of the MOFT, the MDPAC, and relevant agencies to prepare the framework on a sustainable basis; and (vi) prepare detailed documentation and manuals, as needed, to institutionalize the new techniques and methodologies.

7. The public finance economist will contribute to the following outputs: (i) multi-year budget projections strengthened, and (ii) integration of recurrent and development budgets improved.

8. In undertaking this role, the public finance economist will (i) under the supervision of the team leader, work closely with the other consultants engaged under the TA; (ii) prepare brief monthly update reports on work performed; and (iii) provide input into the inception report, draft final report, and final report prepared by the team leader.

C. Planning Specialist (1 national, 12 person-months total)

9. The planning specialist will be an economist or sector planner with preferably more than 10 years of experience in a public finance role, and preferably a degree in economics, finance, public administration, or a related discipline. The specialist will be experienced in budget formulation, implementation, and monitoring. Experience gained from working in a ministry of finance (or equivalent) in a capacity development role is highly desirable. The specialist will be required to work closely with the MDPAC, the MOFT, and line ministries to enhance the budget process. The specialist will be required to implement TA activities while the international consultants are not in the country, particularly in organizing training and assisting in MTDP preparation.

10. The specialist will work closely with the international consultants and the MDPAC to develop and implement training programs as directed by the team leader, including (i) conducting a training needs assessment; (ii) administering workshops and seminars to be liquidated under the fund; and (iii) helping the MDPAC and the team leader manage and liquidate funds for procurement of equipment, information technology development, training, seminars, and workshops.

11. The specialist will also support the MDPAC and the international consultants in preparing the MTDP through (i) preparing monitoring and evaluation reports; (ii) coordinating inputs from the budget, sector, and corporate plans; (iii) assisting in the drafting of sections of the MTDP as necessary; and (iv) providing ground support to the international consultants and the MDPAC in implementing the four TA components.

12. The specialist will contribute to the following outputs: (i) regulations giving effect to planning provisions of the new PFM Act developed and implemented; (ii) integration of recurrent and development budgets improved; (iii) multi-year budget projections strengthened; and (iv) coordination between aid management, M&E, and development planning in the MDPAC improved.

13. In undertaking this role, the specialist will (i) work closely with the other consultants engaged under the TA; and (ii) provide inputs into the inception report, draft final report, and final report prepared by the team leader.

