



## Concept Paper

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Project Number: 48479-001  
December 2015

# Proposed Policy-Based Grant Solomon Islands: Economic and Financial Reform Program

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 5 October 2015)

Currency unit – Solomon Islands dollar (SI\$)

SI1.00 = \$0.1256

\$1.00 = SI\$7.9612

## ABBREVIATIONS

ADB	–	Asian Development Bank
CEWG	–	Core Economic Working Group
EFRP	–	economic and financial reform program
GDP	–	gross domestic product
JRM	–	joint review mission

## NOTE

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

<b>Vice-President</b>	S. Groff, Operations 2
<b>Director General</b>	X. Yao, Pacific Department (PARD)
<b>Regional Director</b>	A. Iffland, Pacific Liaison and Coordination Office, PARD
<b>Team leader</b>	H. Everett, Senior Country Specialist, PARD
<b>Team members</b>	M. de Villa, Project Analyst, PARD R. Rajah, Senior Economics Officer, PARD J. Wolff, Economist (Public Finance), PARD
<b>Peer reviewers</b>	T. Niazi, Principal Public Management Specialist, Central and West Asia Department

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 48479-001</b>	
<b>Project Name</b>	Economic and Financial Reform Program	<b>Department /Division</b>	PARD/PLCO
<b>Country Borrower</b>	Solomon Islands Solomon Islands	<b>Executing Agency</b>	Ministry of Finance and Treasury
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Public sector management</b>	Economic affairs management		2.50
	Public expenditure and fiscal management		2.50
		<b>Total</b>	<b>5.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Public financial governance	Some gender elements (SGE)	✓
Partnerships (PAR)	Bilateral institutions (not client government) Implementation Official cofinancing		
Private sector development (PSD)	Conducive policy and institutional environment		
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	No	Nation-wide	High
<b>6. Risk Categorization:</b>	Low		
<b>7. Safeguard Categorization</b>	No Safeguards Categorization available.		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>5.00</b>	
Sovereign Program grant: Asian Development Fund		5.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>5.00</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

## I. THE PROGRAM

### A. Rationale

1. The proposed economic and financial reform program (EFRP) continues the Asian Development Bank's (ADB's) efforts to support the Government of Solomon Islands in implementing an ongoing reform program in coordination with other development partners. The program will support continued policy attention to reform, which has become increasingly essential following recent natural disasters, the closure of a large gold mine—an important source of government revenue—and the decline of logging output over the medium term.<sup>1</sup>

2. **Development context.** Solomon Islands is one of the largest countries in Melanesia, with a land area of about 28,000 square kilometers, comprising six large islands, dozens of smaller islands, and hundreds of islets and atolls. About 85% of the population of 528,000 is rural, living in widely dispersed villages comprising a few hundred persons each. The economy is based on primary commodities from agriculture, forestry, and fishing; alternative income-generating opportunities are scarce, especially in rural areas. The nation has been steadily recovering from the 1999–2003 civil conflict. While the security situation is now stable, recent events, such as the latest incident in May 2014 of riots and looting in the capital, Honiara, and other parts of Guadalcanal, have demonstrated the stability's fragile nature.

3. **Recent economic and fiscal performance.** Solomon Islands has been adversely affected by major natural disasters in 2014 and 2015. April 2014 floods caused per capita gross domestic product (GDP) to fall by 2.4%. Gold production ceased, and damage to businesses, houses, and public infrastructure was widespread. Private enterprises and public services were heavily affected. Damage was centered in and around Honiara, where dozens of people were killed, more than 10,000 were displaced, and 52,000 were otherwise affected. The government estimated flooding damage and losses at \$108 million, or 9% of GDP. In March 2015, Cyclone Pam hit Solomon Islands, heavily damaging the easternmost province, Temotu.

4. Gold output fell by more than 70% in 2014 because flooding halted production at the only mine, where operations are likely to remain suspended for some time. The flooding also damaged transport links and disrupted log exports. Logging output has essentially been flat for the past 4 years, with production sustained by secondary harvests in previously logged areas. Logging output is expected to begin to decline over the next few years as forest area dwindles.

5. Growth is forecast at 3.0% for 2015 as the economy records strong export performance and reconstruction progress following the flooding. Despite the cessation of gold production, total exports rose by 5.3% in the first half of 2015 compared to the same period in 2014, largely reflecting higher exports of bauxite and agricultural commodities. Growth is forecast at 3.5% for 2016 as the economy benefits from planned fiscal expansion. The government expects to incur a deficit for the second consecutive year in 2015 (equivalent to 4.9% of GDP), and plans to draw down cash reserves to finance the deficit.

6. **Program modality.** ADB proposes a stand-alone, policy-based operation that will require all policy actions be accomplished in advance of grant effectiveness. The program supports implementation of policies agreed with the government. Policy dialogue with the

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<sup>1</sup> The program is included in ADB. 2015. *Country Operations Business Plan: Solomon Islands, 2016–2018*. Manila, and in ADB. 2012. *Country Partnership Strategy: Solomon Islands, 2012–2016*. Manila. The program will not require project preparatory technical assistance and/or project design advance.

government on the program includes (i) discussions on the design and implementation of the EFRP policy matrix, (ii) Core Economic Working Group (CEWG) meetings,<sup>2</sup> and (iii) joint review missions (JRMs) assessing EFRP performance.<sup>3</sup>

7. Lessons from ADB's policy-based operations in Solomon Islands and the Pacific include (i) limiting reform to a few major actions; (ii) using a single tranche within a programmatic, multi-year approach supported by several partners; (iii) combining technical assistance with policy-based operations to undertake complex, politically sensitive reforms; and (iv) adopting a medium-term perspective, recognizing thorough institutional and structural change requires time to implement.<sup>4</sup> The program design incorporates these lessons.

## **B. Impacts, Outcome, and Outputs**

8. Program impacts will be (i) to provide an enabling environment to stimulate economic growth, especially in rural areas, and (ii) to pursue public sector reforms and commit resources to enable private sector-led growth.<sup>5</sup> The outcome will be a strengthened economic and fiscal position to deliver improved opportunities and living standards, and will be achieved through three outputs (paras. 9–11) consistent with the government's draft EFRP policy matrix. The design and monitoring framework is in Appendix 1. The indicative policy matrix, with ten policy actions, is in Appendix 3.<sup>6</sup>

9. **Output 1: Improving public service delivery and economic management.** Public sector expenditure amounts to about half of formal economic activity in Solomon Islands. Improving public spending quality has been a primary focus of the CEWG and EFRP since their inception. Improving public service effectiveness and efficiency will likely have a positive impact on Solomon Islanders' economic inclusion and well-being. In response to downward pressure on revenue mobilization from decreasing mining and logging activity and to spending needs for post-disaster reconstruction, the program will initiate a medium-term tax reform framework and support new customs and excise legislation. Together with a revised National Development Strategy that prioritizes public spending for 2016–2036, this is expected to make the fiscal framework more sustainable.<sup>7</sup>

10. **Output 2: Creating an enabling environment for private sector-led growth.** The environment for doing business in Solomon Islands needs improvement. Regulatory inefficiencies can be a major constraint to economic growth and development. Reforms that

<sup>2</sup> In March 2009, the government established the CEWG, comprising officials from the Central Bank of Solomon Islands, the Ministry of Development Planning and Aid Coordination, the Ministry of Finance and Treasury, the Office of the Prime Minister, and development partner representatives from ADB, Australia, the European Union, New Zealand, Regional Assistance Mission to Solomon Islands, and the World Bank. Through the CEWG, development partners agreed to support EFRP implementation.

<sup>3</sup> CEWG Joint Review Mission. 2013. *Report of the Fourth Annual Joint Review Mission*. Honiara, and CEWG Joint Review Mission. 2014. *Report of the Fifth Annual Joint Review Mission*. Honiara.

<sup>4</sup> ADB, Australian Department of Foreign Affairs and Trade, New Zealand Ministry of Foreign Affairs and Trade, Pacific Financial Technical Assistance Centre, and the World Bank. Good Practice Principles for Multi-Donor Budget Support. Unpublished.

<sup>5</sup> Government of Solomon Islands, Office of the Prime Minister and Cabinet. 2015. *Democratic Coalition for Change Government. Policy Statement*. Honiara, and Government of Solomon Islands, Office of the Prime Minister and Cabinet. 2015. *Democratic Coalition for Change Government. Policy Strategy and Translation*. Honiara.

<sup>6</sup> The program's policy actions are drawn from the government's draft EFRP policy matrix. The actions were selected based on the (i) impact of the proposed reforms, (ii) linkage with ADB's Solomon Islands operations, and (iii) alignment with ADB's Solomon Islands programs approved in 2010, 2011, and 2013.

<sup>7</sup> Government of Solomon Islands. 2011. *National Development Strategy 2011–2020*. Honiara. The program is supporting the revision of the National Development Strategy to cover 2016–2036.

increase the security of land tenure, improve access to finance, and strengthen the business environment could significantly enhance inclusive economic growth. The program addresses this by (i) improving the governance of alienated land through a new land board; (ii) initiating reforms to strengthen competition policy, strengthen credit union policy and associated regulation, and improve the capital structure of state-owned enterprises; and (iii) introducing new legislation to facilitate new business registration.

11. **Output 3: Enabling the drivers of economic growth.** Although Solomon Islands' geographical isolation limits medium-term growth prospects, opportunities exist for inclusive economic growth. As logging activity starts to taper when stocks are exhausted, the development and management of alternative natural resources has become a strategic government priority. Mining, fisheries, and tourism offer potential opportunities, but significant institutional reforms and technical assistance are needed to strengthen the sectors' regulation and management. The program contributes to these critical reforms by strengthening fisheries' governance and management through new legislation and by developing a new tourism strategy to attract overseas visits, including from cruise ships. This will help to harness the growth potential in these sectors.

12. The policy reform actions in outputs 1 and 2 build on progress achieved since CEWG establishment in 2009. Reform actions in output 3 follow from the recommendations of the 2014 JRM and reflect the EFRP's refocus on the drivers of economic growth. More broadly, these three outputs support the wider objectives articulated in the government's policy documents (footnote 6) and the National Development Strategy (footnote 7).

### C. Program Costs and Financing

13. The proposed program amount is in Table 1. The proposed grant size is within the established country allocation and was determined after considering (i) the relative importance of economic and financial reform to promote sustained economic growth, (ii) the country's development financing needs, (iii) the availability of financing from other development partners, (iv) the significance and complexity of the program's policy actions, and (v) the conformity of the program with ADB's Country Partnership Strategy for Solomon Islands (footnote 1).

**Table 1: Tentative Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (grant)	5.0	100.0
<b>Total</b>	<b>5.0</b>	<b>100.0</b>

Source: Asian Development Bank

### D. Indicative Implementation Arrangements

14. The Ministry of Finance and Treasury will be the executing and implementing agency and will be responsible for overall implementation. Monitoring will make use of the government's own processes, including the JRM. Funding will be provided as a single tranche grant and will be disbursed when the government meets the conditions for effectiveness, including completing the agreed prior policy actions as set forth in the policy matrix. Grant proceeds will be disbursed using ADB's simplified disbursement procedures and related requirements for program loans.<sup>8</sup>

<sup>8</sup> ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

## II. DUE DILIGENCE REQUIRED

15. Program due diligence will include (i) a public management sector assessment, focusing on economic and financial reforms, along with the envisaged reform impact; (ii) a macroeconomic assessment; (iii) a private sector assessment; and (iv) a risk assessment and risk management plan, with an emphasis on ADB's Second Governance and Anticorruption Action Plan themes of public financial management, procurement, and anti-corruption.<sup>9</sup> The initial poverty and social analysis is in Appendix 4. The safeguard category is expected to be C for environment, involuntary resettlement, and indigenous peoples safeguards.

16. Risks include (i) the government's commitment to the current pace of reform may not continue because of the loss of political and stakeholder support for activities, and (ii) the government's capacity to implement reforms may prove insufficient.

## III. PROCESSING PLAN

17. **Risk categorization.** The program is low risk, as it has (i) a grant amount not exceeding \$50 million for the program, (ii) a sound record of ADB's previous experience in the sector in the country,<sup>10</sup> (iii) reasonable executing agency capacity in externally financed project administration, and (iv) a safeguard categorization other than A.

18. **Resource requirements.** The program will require 4 person-months of international staff and 3 person-months of national staff.<sup>11</sup> Solomon Islands national development planning (output 1) is supported under country technical assistance, while regional technical assistance, through the Pacific Private Sector Development Initiative, supports output 2 activities.<sup>12</sup>

19. **Processing schedule.** The proposed processing schedule is in Table 2.

**Table 2: Proposed Processing Schedule**

<b>Milestones</b>	<b>Expected Completion Date</b>
Staff Review Meeting	4 December 2015
Grant Negotiations	Mid-December 2015
Board Consideration	First quarter 2016

Source: Asian Development Bank.

## IV. KEY ISSUES

20. General elections were held in Solomon Islands on 19 November 2014. Subsequently, the Democratic Coalition for Change Government was formed. The new government's policy agenda is still evolving, including its directions on economic and financial reform. Due to the elections and change of government, progress on EFRP implementation initially slowed; however in September 2015, EFRP working group meetings resumed, and a CEWG meeting was held on 30 September 2015.

<sup>9</sup> ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

<sup>10</sup> ADB. 2015. *Completion Report. Solomon Islands: Economic and Financial Reform Program*. Manila.

<sup>11</sup> Includes inputs of ADB's Development Coordination Office in Honiara and participation in the CEWG and JRM.

<sup>12</sup> TA 8378-REG: *Pacific Private Sector Development Initiative, Phase II*, and TA 8761-SOL: *Strengthening the Implementation of the National Development Strategy*.



## DESIGN AND MONITORING FRAMEWORK

<b>Impacts the Program is aligned with:</b>			
Provide an enabling environment to stimulate economic growth, especially in rural areas. <sup>a</sup> Pursue public sector reforms and commit resources to enable private sector-led growth. <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
<b>Outcome</b> A strengthened economic and fiscal position to deliver improved opportunities and living standards	GDP growth (from non-mining and non-logging sources) increased in line with government forecast (Baseline 2014): 2.5% (Target 2017): ≥4.0%  Number of new companies registered increased (Baseline 2014): 354 (Target 2015–2017): ≥300	Ministry of Finance and Treasury supplied data; IMF Article IV staff report  Data supplied from the companies registry	Broad reform consensus weakens because of political pressure.  External shocks undermine fiscal and economic performance.
<b>Outputs</b> 1. Improving public service delivery and economic management	1a. Cabinet decision to develop a medium-term tax reform framework issued by 2016  1b. Customs and excise bill approved by cabinet and submitted to the Attorney General's Chambers for clearance by 2016	1a. Approved cabinet paper  1b. Letter from Attorney General's Office	Capacity constraints and staff turnover reduce continuity and quality of reform implementation.  Lack of coordination for policy formulation among key government agencies delays reform.  Limited stakeholder consultations with the executive and legislature branches put passing legislative reforms at risk.  Lack or delay of technical assistance to support reform design and implementation undermines the pace of reform.
2. Creating an enabling environment for private sector-led growth	2a. Cabinet decision to develop an SOE capital structure policy issued by 2016  2b. Registration of Business Names Act adopted by Parliament by 2016	2a. Approved cabinet paper  2b. Official government gazette	
3. Enabling the drivers of economic growth	3a. Fisheries Act adopted by Parliament by 2016  3b. Cabinet approval of new tourism strategy and cruise ship action plan issued by 2016	3a. Official government gazette  3b. Approved cabinet paper	
<b>Inputs</b> ADB: \$5,000,000 grant			

**Assumptions for Partner Financing**

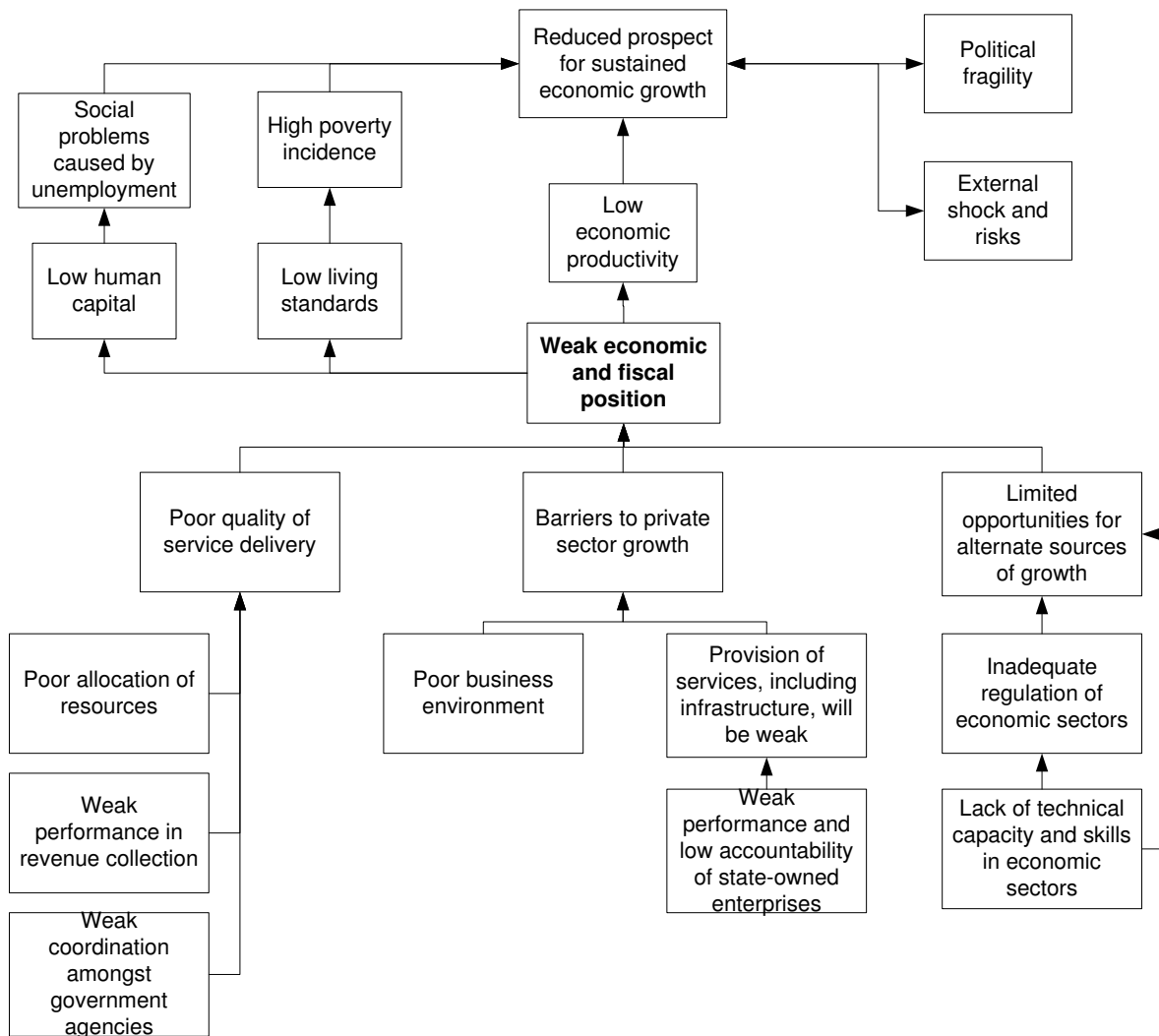
Development partners who are members of the Core Economic Working Group provide budget support as programmed.

ADB = Asian Development Bank, GDP = gross domestic product, IMF = International Monetary Fund, SOE = state-owned enterprise.

<sup>a</sup> Government of Solomon Islands, Office of the Prime Minister and Cabinet. 2015. Democratic Coalition for Change Government. *Policy Statement*. Honiara.

Source: Asian Development Bank.

### PROBLEM TREE



Source: Asian Development Bank.

## INDICATIVE POLICY REFORM MATRIX

Policy Reform Area [Reference to DCC Policy Statement] <sup>a</sup>	Policy Actions – to completed by November 2015 (Tranche release conditions)	Means of Verification and/or Supporting Documents	Status	Policy Actions – to be completed by November 2016 (Non-tranche release conditions)
<b>1. Improving public service delivery and economic management</b>				
1.1 Strengthen Solomon Islands' revenue systems. [DCC 4.2.1.a]	Cabinet deliberates and provides decision on a policy recommendation paper giving authority for development of a medium-term tax reform framework to begin.	Copy of approved cabinet paper	Outstanding	Cabinet deliberates and provides decision on a medium-term tax reform framework.
1.2 Strengthen Solomon Islands' revenue systems. [DCC 4.2.1.a]	Cabinet approves draft customs and excise bill to send to the Attorney General's Chambers for review and clearance.	Letter from Attorney General's Office	Outstanding	Customs and Excise Bill is submitted to Parliament to repeal and replace the current act.
1.3 Strengthen resource allocation processes to improve the government's ability to deliver essential public services. [DCC 4.2.5.2]	The National Development Strategy Steering Committee approves the framework for new National Development Strategy, 2015–2035.	Letter from Ministry of Development Planning and Aid Coordination	Completed	The cabinet approves the National Development Strategy, 2015–2035.
<b>2. Creating an enabling environment for private sector-led growth</b>				
2.1 Improve the management of land. [DCC 4.2.2.4]	A Land Board is established under Land and Titles (Amendment) Act 2014, to improve the governance of alienated land.	Copy of approved cabinet paper	Completed	The Land Board publishes at end-2015 a list of all alienated land transaction decisions for financial year 2015.
2.2 Reform the financial sector	Cabinet deliberates and provides decision on a policy recommendation paper for	Copy of approved cabinet paper	Outstanding	New credit union bill is drafted.

<b>Policy Reform Area</b> [Reference to DCC Policy Statement] <sup>a</sup>	<b>Policy Actions – to completed by November 2015 (Tranche release conditions)</b>	<b>Means of Verification and/or Supporting Documents</b>	<b>Status</b>	<b>Policy Actions – to be completed by November 2016 (Non-tranche release conditions)</b>
and improve access to credit. [DCC 4.2.1.b]	credit unions.			
2.3 Reform competition policy. [DCC 4.2.1.b]	Cabinet deliberates and provides decision on a policy recommendation paper for competition policy.	Copy of approved cabinet paper	Completed	'White paper' on competition policy is released for public consultation.
2.4 Improve the performance of public assets. [DCC 4.2.1.b]	Cabinet deliberates and provides decision on submission outlining the broad parameters, process, and timeline to develop an SOE capital structure policy.	Copy of approved cabinet paper	Outstanding	Cabinet deliberates and provides decision on a policy for an appropriate capital structure for SOEs to ensure optimal, commercial-equivalent levels of funding for SOE activities from appropriate sources (public and/or private, debt and/or equity).
2.5 Reform business registration process to encourage faster, more efficient micro, small, and medium enterprise start-up. [DCC 4.2.1.b]	Registration of Business Names Bill is submitted to Parliament.	Copy of passed act	Completed	Registration of Business Names Act is implemented.
<b>3. Enabling the drivers of economic growth</b>				
3.1 Establish and strengthen national and	Fisheries Bill to strengthen fisheries' governance and management is submitted to Parliament.	Copy of passed act	Completed	Fisheries Act, including development of accompanying regulations, is implemented.

<b>Policy Reform Area</b> [Reference to DCC Policy Statement] <sup>a</sup>	<b>Policy Actions – to completed by November 2015</b> <b>(Tranche release conditions)</b>	<b>Means of Verification and/or Supporting Documents</b>	<b>Status</b>	<b>Policy Actions – to be completed by November 2016</b> <b>(Non-tranche release conditions)</b>
provincial fisheries' governance and institutional arrangements. [DCC 4.2.2.7]				
3.2 Grow the economy through creating investment opportunities in tourism. [DCC 4.2.2.2]	Cabinet deliberates and provides a decision on the new tourism strategy, including a cruise ship action plan.	Copy of approved tourism strategy	Completed	National Tourism Strategy is implemented.

DCC = Democratic Coalition for Change Government, SOE = state-owned enterprise.

<sup>a</sup> Government of Solomon Islands, Office of the Prime Minister and Cabinet. 2015. Democratic Coalition for Change Government. *Policy Statement*. Honiara. Sources: Asian Development Bank and Government of Solomon Islands.

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	<input type="text" value="Solomon Islands"/>	Project Title:	<input type="text" value="Economic and Financial Reform Program"/>
Lending/Financing Modality:	<input type="text" value="Policy-Based"/>	Department/Division:	<input type="text" value="Pacific Department/Pacific Liaison and Coordination Office"/>

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The proposed program is aligned with ADB's CPS for Solomon Islands, which focuses on creating a more diversified and productive economy.<sup>a</sup> The main goal of ADB assistance in public sector management is to enable private sector-led, inclusive growth and development. The CPS notes that, toward this goal, ADB will support policy, regulatory, and institutional reforms and capacity building that (i) promote fiscal discipline; (ii) improve economic productivity through private sector development activities; (iii) improve service delivery to the poor; and (iv) raise local awareness, understanding, and ownership of government reform programs and policies.

Solomon Islands does not have a national poverty reduction strategy. The current National Development Strategy includes as one of eight objectives the alleviation of poverty.<sup>b</sup> Prevention and alleviation of poverty are also focuses of the Democratic Coalition for Change Government policy statement.<sup>c</sup>

#### B. Poverty Targeting:

General Intervention  Individual or Household (TI-H)  Geographic (TI-G)  Non-Income MDGs (TI-M1, M2, etc.)

The program will contribute to poverty reduction through (i) a strengthened fiscal position that will deliver improved economic opportunities and living standards, (ii) optimized SOE capital structures that will free up resources for development expenditure, and (iii) private sector reforms that will enhance job creation.

#### C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

As an economic policy-based program, the potential beneficiaries are all Solomon Islanders. Specific groups of potential beneficiaries are the private sector, particularly for policy actions under output 2 (creating an enabling environment for private sector-led growth) and output 3 (enabling the drivers of economic growth).

2. Impact channels and expected systemic changes.

The program will continue ADB's efforts supporting the government to implement an ongoing reform program in coordination with other development partners. Prior economic and financial reform programs by ADB and other development partners have brought about economic and financial stability and overall improvements in various social indicators.<sup>d</sup> This program will build on progress achieved from these programs, while the output 3 policy reform actions aim to refocus the government's reform program towards the drivers of economic growth.

3. Focus of (and resources allocated in) the PPTA or due diligence.

Program due diligence will include (i) a public management sector assessment, focusing on economic and financial reforms, along with the envisaged reform impact; (ii) a macroeconomic assessment; (iii) a private sector assessment; and (iv) a risk assessment and management plan, with an emphasis on ADB's Second Governance and Anticorruption Action Plan themes of public financial management, procurement and anti-corruption.<sup>e</sup> No PPTA resources are allocated.

4. Specific analysis for policy-based lending.

The program is focused on improving the quality of public spending, improving the environment for doing business, and enabling the drivers of economic growth. Having stabilized its immediate macroeconomic and fiscal position, and made progress on improving public financial management systems, the government's priorities have shifted to a medium-term program to consolidate and advance its economic and financial reform program, while also putting in place the necessary supporting reforms to promote institutional and human capacity development, improve development outcomes, and strengthen economic growth. The program design reflects this focus.

### II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?

The government's economic and financial reform program does not have a gender focus. Accordingly, program fact-finding needs to look for opportunities to incorporate this.

Unequal gender relations—including male-dominated decision-making, violence against women, lack of parity in education, and traditional barriers to women's control of resources—limit women's ability to fully engage in the economy.

<p>Women do more unpaid household and caregiving work than men, and this can interfere with ongoing commitments to business development and employment. Despite financial inclusion efforts by development partners, women's access to financial and business services remains limited.</p> <p>Employment discrimination also inhibits women from exercising their economic right to work. Women experience sexual harassment, threats, and physical violence when working, which undermine their security. Women lack awareness of their rights, and avenues of redress are unclear and difficult to navigate, especially given the absence of clear labor standards and public information on the issue.</p> <p>There are also legislative constraints to women's engagement in the private sector. While business-related legislation does not overtly discriminate on the basis of sex, outdated legislation related to citizenship, property, and divorce can undermine women's financial security. Constitutional and legislative frameworks for land ownership and shared rights to natural resource royalties are also complex and somewhat contradictory. These, combined with traditional patterns of discrimination, mean women have less access to benefits of customarily owned natural resources.<sup>f</sup></p> <p>2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Please explain. To be revisited during fact finding.</p> <p>3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. Indicate the intended gender mainstreaming category: To be revisited during fact finding.</p> <p><input type="checkbox"/> GEN (gender equity) <input type="checkbox"/> EGM (effective gender mainstreaming)  <input type="checkbox"/> SGE (some gender elements) <input checked="" type="checkbox"/> NGE (no gender elements)</p>
<b>III. PARTICIPATION AND EMPOWERMENT</b>
<p>1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.</p> <p>All Solomon Islands residents are potential program stakeholders. Specific interest groups among stakeholders include private sector entities. The Ministry of Finance and Treasury—as the implementing agency—is also a major stakeholder, as well as the Ministry of Development Planning and Aid Coordination and the Ministry of Commerce. No program actions will negatively affect people.</p> <p>2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?</p> <p>The government's own processes embed consultation. The program is based on implementation of the government's strategies and plans, notably the National Development Strategy,<sup>b</sup> and the government's policy documents,<sup>c</sup> which have been developed using a consultative approach and provide mechanisms for ongoing monitoring and public reporting.</p> <p>3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?</p> <p><input type="checkbox"/> Information generation and sharing <input checked="" type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>The proposed program is designed and implemented in partnership with the government and other CEWG development partners. Consultation in various forms has been carried out during formulation and implementation of the National Development Strategy<sup>b</sup> and the government's policy documents.<sup>c</sup></p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>While there are no specific program measures that directly affect the poor, there has been considerable consultation by the government with all stakeholders, including women's groups, for the National Development Strategy and annual budget processes.<sup>g</sup></p>
<b>IV. SOCIAL SAFEGUARDS</b>
<p><b>A. Involuntary Resettlement Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The program will not involve involuntary settlement.</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix  <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>



<p><b>B. Indigenous Peoples Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?  <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix  <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p align="center"><b>V. OTHER SOCIAL ISSUES AND RISKS</b></p> <p>1. What other social issues and risks should be considered in the project design?  <input type="checkbox"/> Creating decent jobs and employment (NA) <input type="checkbox"/> Adhering to core labor standards (NA) <input type="checkbox"/> Labor retrenchment (NA) <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS (NA) <input type="checkbox"/> Increase in human trafficking (NA) <input type="checkbox"/> Affordability (NA) <input type="checkbox"/> Increase in unplanned migration (NA) <input type="checkbox"/> Increase in vulnerability to natural disasters (NA) <input type="checkbox"/> Creating political instability (NA) <input type="checkbox"/> Creating internal social conflicts (NA) <input type="checkbox"/> Others, please specify (NA)</p> <p>2. How are these additional social issues and risks going to be addressed in the project design?  While the program includes a policy condition for SOE reform, labor retrenchment is not a feature of this reform.</p>
<p align="center"><b>VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT</b></p> <p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?  <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>The program design draws on poverty, social, and gender analyses prepared for the CPS 2012–2016 (approved in March 2012) and for ADB’s annual Country Performance Assessment exercise.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence?  As this is a policy-based grant, no PPTA resources are allocated. The program design draws from an ongoing policy dialogue with the government by ADB and other development partners. The policy reform actions in outputs 1 and 2 build on progress achieved since CEWG establishment in 2009, while the output 3 policy reform actions follow recommendations from the 2014 Joint Review Mission and aim to refocus the EFRP on economic growth. More broadly, these three outputs support the wider objectives articulated in the National Development Strategy<sup>b</sup> and the government’s policy documents.<sup>c</sup></p>

<sup>a</sup> ADB. 2012. *Country Partnership Strategy: Solomon Islands, 2012–2016*. Manila.

<sup>b</sup> Government of the Solomon Islands. 2011. *National Development Strategy 2011–2020*. Honiara. A new national development strategy is being prepared covering 2016–2036.

<sup>c</sup> Government of the Solomon Islands, Office of the Prime Minister and Cabinet. 2015. Democratic Coalition for Change Government. *Policy Statement*. Honiara.

<sup>d</sup> ADB. 2015. *Completion Report. Solomon Islands: Economic and Financial Reform Program*. Manila.

<sup>e</sup> ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

<sup>f</sup> ADB. 2015. *Continuing Reforms to Stimulate Private Sector Investment. A Private Sector Assessment for Solomon Islands. Draft*. Manila.

<sup>g</sup> Beginning with the 2013 budget, the government has been working to improve community awareness and input into the budgetary process. For the 2013 budget, the government consulted with civil society organizations and women’s groups, and a report of the consultation results was released with the 2013 budget papers: Government of Solomon Islands. 2012. *Solomon Islands Budget 2013: Budget Strategy and Outlook. Budget Paper: Volume 1*. Honiara. As part of the 2016 budget preparation consultations, the government undertook a survey to better understand Solomon Islanders’ views on basic service delivery.

ADB = Asian Development Bank, CEWG = Core Economic Working Group, CPS = country partnership strategy, EFRP = economic and financial reform program, PPTA = project preparatory technical assistance, SOE = state-owned enterprise.

Source: ADB.