



## Solomon Islands: Improved Fiscal Sustainability Reform Program

Project Name	Improved Fiscal Sustainability Reform Program	
Project Number	52074-001	
Country	Solomon Islands	
Project Status	Proposed	
Project Type / Modality of Assistance	Grant	
Source of Funding / Amount	<b>Grant: Improved Fiscal Sustainability Reform Program</b>	
	concessional ordinary capital resources lending / Asian Development Fund	US\$ 5.00 million
	European Union	US\$ 2.90 million
	Government of Australia	US\$ 1.50 million
	New Zealand Grant	US\$ 2.00 million
	World Bank	US\$ 10.00 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth Regional integration	
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development	
Sector / Subsector	<b>Public sector management</b> - Economic affairs management - Public expenditure and fiscal management	
Gender Equity and Mainstreaming	Effective gender mainstreaming	
Description	The proposed Improved Fiscal Sustainability Reform Program will help the Government of Solomon Islands implement policy and institutional reforms that improve public finances and investments, strengthen fiscal management and sustainability, and contribute to private sector development.	

Project Rationale and Linkage to Country/Regional Strategy

Solomon Islands is confronted with a narrow production base, remoteness and geographic dispersion, thin administrative capacity, vulnerability to natural disasters and climate change, a large infrastructure gap, and high dependence on aid and imports. Despite these constraints, its economy has continued to grow in recent years. Growth averaged 2.9% per annum during 2013-2017, which is higher than the regional average of 2.4% over the same period. But population growth of about 2.3% means there is limited per capita income growth. The government's challenges in managing and accounting for its scarce resources, combined with weak internal coordination, poor utilization of capital expenditure, and outdated business and taxation laws and regulations, has often resulted in poor public sector management and service delivery.

Although economic growth has been broadly steady, it has relied on expansionary fiscal policy, unsustainable logging, and post-flooding reconstruction. While export performance is currently strong, the longer-term prospects for sustaining growth are uncertain. The government is well aware that recent trends are not sustainable, especially as logging (which accounted for around 20% of domestic revenue and two-thirds of exports in 2017) is expected to gradually decline over the medium term. When the government was formed in late 2017, one of the first steps it took to accelerate its reform program was reactivating the Core Economic Working Group (CEWG) and adopting a policy reform matrix that would unlock budget support from development partners. In the past the CEWG has proven effective in utilizing policy financing to sustain reform momentum and efforts to strengthen fiscal sustainability. During 2010-2014, the government streamlined the process for foreign investment, modernized company and business legislation, and liberalized the telecommunications industry in order to improve the business and investment climate. Following the global financial crisis in 2009-2010, the government implemented several important financial reforms, including adopting fiscal management targets for the budget and public debt, launching a debt management strategy, establishing a multiagency public financial management (PFM) working group, and strengthening internal auditing across government. From 2011, and working closely with the International Monetary Fund, the government also maintained a cash buffer of at least 2 months of recurrent expenditure to improve its ability to respond to shocks. However, the fiscal position deteriorated during 2015-2017, reversing earlier surpluses, because of poor fiscal management, in particular rising discretionary expenditure and changes in government priorities that resulted in limited policy dialogue and reform slippage. The government's cash buffer declined to less than 1 month of cash reserves in September 2017, well below the target of 2 months of total spending. Action is needed to restore a sustainable budget and improve PFM processes to strengthen budget credibility.

Key leadership changes in late 2017 have enabled the resumption of reform momentum. In 2018 the government made a concerted effort to reestablish macroeconomic and fiscal stability through a balanced budget and a targeted fiscal adjustment program that included budget support and rebuilding of cash buffers. This approach is closely aligned to the National Development Strategy; ADB's Pacific Approach, 2016-2020; and its three-pronged strategy to reduce costs, manage risks, and enable value creation. It is also consistent with the IMF's policy advice to the government. Achieving a fully funded budget, however, has come at the expense of substantial reductions in development expenditure. The government adopted the same prudent approach to the July 2018 supplementary budget, which was around \$28.9 million. Line ministries were advised that new or additional expenditure pressures would only be accommodated if there was a commensurate increase in revenues and/or funds could be reallocated from the 2018 recurrent budget. No new or additional discretionary expenditures have been included. Consequently, the government's fiscal framework maintains a near-balanced budget.

Impact	The rate of inclusive economic growth reinvigorated and increased. The environment for private sector development improved and investment opportunities for all Solomon Islanders increased.
Outcome	The program will help the government achieve the National Development Strategy objective of sustained and inclusive economic growth. The outcome will be improved public sector management and service delivery through enhanced public financial and investment management, improved fiscal management and sustainability, and fostering of a more supportive private investment climate.
Outputs	The environment for private sector development improved and investment opportunities for all Solomon Islanders increased
Geographical Location	Nation-wide

**Safeguard Categories**

Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C

**Summary of Environmental and Social Aspects**

Environmental Aspects	The proposed program will not result in a project with infrastructure component and will not lead to policy or regulatory reform affecting environmental laws or country safeguard systems.
Involuntary Resettlement	The proposed program will not include any civil works. The policy actions to be supported will not cause any involuntary resettlement impacts.
Indigenous Peoples	The proposed program will not impact any distinct and indigenous vulnerable groups.

## Stakeholder Communication, Participation, and Consultation

During Project Design                      The proposed program is designed and implemented in partnership with the Core Economic Working Group (CEWG). Consultation in various forms has been carried out during formulation and implementation of the National Development Strategy and the government's policy documents.

During Project Implementation

Responsible ADB Officer                      Hodge, Matthew W.

Responsible ADB Department                      Pacific Department

Responsible ADB Division                      Pacific Liaison and Coordination Office in Sydney, Australia

Executing Agencies                      *Ministry of Finance  
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## Timetable

Concept Clearance                      15 Sep 2018

Fact Finding                      08 Aug 2018 to 16 Aug 2018

MRM                      28 Sep 2018

Approval                      -

Last Review Mission                      -

Last PDS Update                      21 Sep 2018

Project Page                      <https://www.adb.org/projects/52074-001/main>

Request for Information                      <http://www.adb.org/forms/request-information-form?subject=52074-001>

Date Generated                      09 November 2018

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