



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 30-Jul-2019 | Report No: PIDC26855



BASIC INFORMATION

A. Basic Project Data

Country Solomon Islands	Project ID P167465	Project Name Solomon Islands Development Policy Operation (P167465)	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Board Date Nov 26, 2019	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Government of Solomon Islands	Implementing Agency Ministry of Finance and Treasury		

Proposed Development Objective(s)

The proposed operation focuses on two Program Development Objectives, namely i) strengthening fiscal management in the areas of debt management and cash management; and ii) strengthening the foundations for inclusive and sustainable growth through simplifying tax processes, fighting corruption and supporting more efficient payments systems.

Financing (in US\$, Millions)

SUMMARY

Total Financing	10.00
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DETAILS

Total World Bank Group Financing	10.00
World Bank Lending	10.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

Solomon Islands is a fragile, post-conflict small island state. A low-level conflict between 1998 and 2003, known as ‘the tensions’, brought the formal economy and many state functions to a halt, causing growth to contract throughout four consecutive years between 1999 and 2002. Overall, the conflict resulted in an estimated 40 percent contraction in GDP. Peace was rapidly restored through an Australian-led Regional Assistance Mission to Solomon Islands (RAMSI), and key state functions were rebuilt and strengthened over the years. The country has subsequently enjoyed a relatively stable security situation which supported economic growth. The post-conflict period saw a strong rebound in economic growth from a low base, which was briefly interrupted by the Global Financial Crisis (GFC) in 2009. Economic growth has moderated over the past five years, driven by the softening international commodity prices from 2011 onwards, the impact of a natural disaster in 2014 (which brought about the closure of the country’s only operating gold mine), and limited diversification of the economic base. The economy remains highly dependent on grossly unsustainable log production, estimated to have accounted for 60 percent of exports, 20 percent of domestic revenues, and 32 percent of foreign exchange receipts in 2018. Critically, despite sustained economic growth in the post-conflict period, real per capita GDP remains below its pre-conflict level. While this can primarily be attributed to the rapid rate of population growth experienced over the past decades, effectively it means that on average, Solomon Islanders are relatively worse off today than they were over 20 years ago. In the context of low economic growth, lack of essential services and infrastructure, marked inequities between formal settlements and informal and rural areas, conflicts over land tenure, poor links between the indigenous and imported political system, and a high level of youth unemployment, the risk of conflict recurrence remains relevant.

Solomon Islands’ macroeconomic policy framework is adequate for the purposes of the proposed operation. The return to fiscal prudence in 2018 through curtailing expenditure growth enabled the government to significantly narrow the deficit and supported the much-needed re-building of cash reserves. The 2019 budget demonstrates a continued commitment to fiscal consolidation efforts, through the passage of a balanced budget. It will be critical for Solomon Islands Government (SIG) to adequately manage existing and emerging expenditure pressures going forward, and in the constrained fiscal environment, place a heightened focus on improving the transparency, efficiency and effectiveness of public spending to support poverty reduction and promote inclusive growth. The macroeconomic risks associated with the cessation of the correspondent banking relationships of a key domestic bank were successfully mitigated, and SIG has since adopted new measures to address governance and environmental concerns in the forestry sector and set the industry on a more sustainable footing. The adoption of a new tax administration framework will be key not only to foster private sector growth and increase compliance but lays the foundation for future tax reforms aimed at modernizing, standardizing and simplifying the current taxation framework. Similarly, current efforts to strengthen the policy and regulatory environment in the mining sector are critical to ensure maximum economic, social and environmental benefits are secured.

Relationship to CPF

The proposed operation is aligned with the priorities laid out under the Country Partnership Framework (CPF), and other Bank operations. The World Bank Group’s Country Partnership Framework for Solomon Islands is structured around three focus areas, namely i) strengthening the foundations of well-being; ii) promoting inclusive and sustainable growth; and iii) managing uneven development. Both program development objectives (PDO) – strengthening fiscal management; and strengthening the foundations for inclusive and sustainable growth – are aligned with focus area (ii) of the CPF. Similarly, both PDOs are aligned with the twin goals of ending extreme poverty and promoting shared prosperity in a sustainable



manner, through the way that the supported reforms provide a foundation for Solomon Islands to achieve more robust and sustainable income growth, a critical challenge given the country's young and growing population. The proposed operation aligns closely with broader World Bank Group engagements in contributing to achieve the objectives of the CPF. These include the World Bank-IFC Pacific Payments, Remittances and Securities Settlement Initiative (PAPRI) and ongoing engagements on the macroeconomic policy dialogue supported through analytical work focused on public expenditure management and economic growth.

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Key Results

Reforms supported under the first pillar are expected to result in any new borrowing being consistent with SIG's Debt Management Framework and reduced likelihood of government expenditure arrears. Reforms under the second pillar are expected to contribute to: simpler processes for taxpayers, as measured by the reduction in disputed tax assessments; more effective investigation and prosecution of corruption and reduced scope for corruption in public procurement processes; and more efficient financial services and reduced systemic risk from the introduction of electronic payments systems.

Concept Description

The first pillar of the proposed operation – to strengthen fiscal management – is closely aligned to the inclusive economic growth and governance objectives of the National Development Strategy (NDS). Specifically, this pillar supports implementing regulations under the Public Financial Management (PFM) Act to improve debt management in line with the PFM Roadmap; and establishing a mechanism to reduce the scope for payment arrears through improved cash management and stronger controls over payment processing. Over time and complemented through other reform measures currently underway, this pillar should contribute to improved fiscal resilience and higher-quality spending – supporting poverty reduction and shared prosperity.

Similarly, the second pillar of the proposed operation – to strengthen the foundations for inclusive and sustainable growth – is closely aligned with the inclusive economic growth objective of the NDS. This pillar supports an overhaul of tax administration to simplify processes for taxpayers; improved financial sector efficiency through the adoption of a national payments system under oversight of the Central Bank of Solomon Islands (CBSI); the adoption of new anti-corruption legislation, including the establishment of the Solomon Islands Independent Commission Against Corruption (SIICAC); and more competitive and transparent public procurement processes through the introduction of new procurement regulations. Over time, and complemented through related reform measures, this pillar is expected to promote a level playing field for business and foster private sector development in all sectors – again, supporting poverty reduction and shared prosperity while also supporting Solomon Islands to reduce reliance on the unsustainable logging sector.

The proposed operation builds on lessons learned from a previous programmatic series of two DPOs, and a stand-alone DPO in Solomon Islands, as well as other DPOs completed in small Pacific Island Countries. The Solomon Islands experience has shown that sharply focusing on a small number of strategic reforms is the most effective approach in leveraging policy



reforms. The team has emphasized government ownership and consultation in preparing the operation, selecting policy actions that are strategic and ambitious but also realistic within a difficult post-conflict political economy context. The operation builds on broader regional lessons regarding the importance of close donor coordination and shared policy matrices for budget support to minimize duplication of efforts that risk overstressing government capacity. Heeding this lesson, this DPO was prepared through the Core Economic Working Group (CEWG) mechanism, and is fully aligned with the CEWG Policy Reform Matrix, including its annual review process.

Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

Actions under the first pillar on strengthening fiscal management are not expected to have negative poverty or social impacts. Improved cash management should have a positive social impact, by helping to reduce the risk of interruptions to critical public services as a result of poor cash management. Debt management reforms should have a positive poverty and social impact, by reducing the likelihood of excess debt accumulation that could squeeze out spending on services and helping to ensure that new borrowing is prioritized towards high-priority public spending.

Reforms under the second pillar are not expected to have significant poverty or social impacts and should benefit poor people and vulnerable groups. Given that the poor are less likely to hold bank accounts and rely more on non-conventional payment methods (e.g. mobile phone-based transfers), the Central Bank of Solomon Islands' expanded consumer protection mandate under the payments systems reform may particularly benefit the poor and vulnerable. Reforms to introduce an Anti-Corruption Commission should benefit vulnerable groups to the extent that it provides an avenue for ordinary citizens (especially the rural poor living outside of Honiara) to raise corruption complaints, and to the extent that it contributes to reduced incidence of corruption in local-level service delivery that is critical for the poor.

Environmental Impacts

The reforms supported under the operation are not expected to have positive or negative environmental impacts.

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APPROVAL

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