

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA12974

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| <b>Project Name</b>                           | Solomon Islands Rural Development Program II (P149282)   |
| <b>Region</b>                                 | EAST ASIA AND PACIFIC  |
| <b>Country</b>                                | Solomon Islands  |
| <b>Sector(s)</b>                              | Other social services (40%), General agriculture, fishing and forestry sector (25%), General public administration sector (20%), Agricultural extension and research (15%) |
| <b>Theme(s)</b>                               | Rural services and infrastructure (40%), Rural markets (30%), Rural policies and institutions (20%), Participation and civic engagement (10%)                              |
| <b>Lending Instrument</b>                     | Investment Project Financing   |
| <b>Project ID</b>                             | P149282  |
| <b>Borrower(s)</b>                            | Ministry of Finance and Treasury   |
| <b>Implementing Agency</b>                    | Ministry of Development Planning and Aid Coordination  |
| <b>Environmental Category</b>                 | B-Partial Assessment   |
| <b>Date PID Prepared/Updated</b>              | 04-Sep-2014  |
| <b>Date PID Approved/Disclosed</b>            | 05-Sep-2014  |
| <b>Estimated Date of Appraisal Completion</b> | 05-Sep-2014  |
| <b>Estimated Date of Board Approval</b>       | 20-Nov-2014  |
| <b>Decision</b>                               |  |

## I. Project Context

### Country Context

An archipelago of 997 islands, Solomon Islands has a total land area of 29,900 km<sup>2</sup> spread over 1.34 million km<sup>2</sup> of ocean. It is located in the “Pacific Ring of Fire”, and within the cyclone belt, making it highly prone to natural hazards. It is amongst 20 countries with the highest economic risk exposure to two or more geological, hydrological and climatic hazards. The population of approximately 550,000 is dispersed across 90 inhabited islands and has among the lowest population densities (18 persons/km<sup>2</sup>) and urbanization rates (17 percent) in the world. Roughly 80% of the population lives in rural areas.

The island geography presents formidable and in some cases immutable challenges to service delivery, infrastructure, and economic integration. The difference in access to services between urban and rural areas is particularly stark. There are only 5 kilometers of roads per square kilometer, the lowest ratio in the Pacific, and travel in most rural areas is only by motorboat. Nationally, less than 20 percent of the population has access to electricity. However, in Honiara,

this figure is over 63 percent. In many of the outer islands, less than 5 percent have access to electricity. Access to improved water sources is unequally distributed throughout the country, with over 78 percent of Honiara households having access to water piped either into the home or the neighborhood, compared to 33 percent nationally. Approximately 62 percent of Honiara households have access to flush toilets, compared to 15 percent nationally.

While a new household survey to robustly update poverty and other statistics is currently being conducted and is expected to be available by early 2015, UNDP, drawing on survey data from FY06, estimates that approximately 23 percent of people in Solomon Islands suffer basic needs poverty. The profile of poverty differs by geography. Peri-urban households around the capital of Honiara suffer from disproportionate levels of poverty, with almost one in three people unable to afford a basic minimum standard of living, although the incidence of extreme poverty is lower than in rural areas (2.6 percent versus 8.7 percent). In contrast, given the prevalence of subsistence agriculture, the incidence of material poverty in rural households – except in the most remote villages – is lower than in urban areas, but access to services remains limited and the incidence of extreme food poverty is higher.

Solomon Islands is moving into its second decade since the end of conflict in 2003 in a much more stable and robust situation, although significant challenges still remain. The conflict, known locally as the “Tensions”, emerged as a result of grievances between the local Guadalcanal landowners and migrants, predominantly from the most populous island of Malaita, drawn by economic opportunities. Violent clashes involving rival militant groups led to deaths, displacement, and the widespread destruction of property. While often characterized as an ethnic conflict, there were multiple political and economic causes, including the disproportionate concentration of economic development in and around Honiara compared to the rest of the country. Rapid social change associated with increasing urbanization also contributed to stresses, including the erosion of customary authority, disenchantment among young people, and a loss of social cohesion.

### **Sectoral and institutional Context**

Recognizing the need to improve alignment of Government and donor rural development programs and the need to improve aid effectiveness in the sector, the Ministry of Development Planning and Aid Coordination (MDPAC) prepared and launched the Agriculture and Rural Development Strategy (ARDS) in 2007. The World Bank was asked to take the lead in the preparation of the Rural Development Program (RDP) to support the implementation of some of the key priorities identified under the ARDS.

Since early 2008 (when RDP was launched), the landscape of financing for rural development has evolved disproportionately in favor of funds channeled through accounts largely managed by Members of Parliament, now referred to collectively as Constituency Development Funds (CDFs). A study of the four main programs of rural development financing (CDFs, RDP, Provincial Capacity Development Fund (PCDF), and Rural Advancement Micro-project Fund (RAMP)) found that for the period from 2008 to 2012, the total amount spent on the four programs was US\$134 million. Of this amount, 60 per cent went to CDFs; 20 per cent to RDP; 13 per cent to PCDF and 7 per cent to RAMP. Government funding to these programs was even more heavily skewed with 87% of the total for the same period going to CDFs. RAMP was entirely funded by the EU while both PCDF and RDP were primarily funded by other donors.

The fragmentation and politicization of rural development financing has undermined the effectiveness of service delivery. The poor performance of government in delivering services has fueled the increase in constituency funds. Proponents of the use of constituency funds argue that it is a fast and efficient means of channeling resources to rural communities. However, there is a lack of basic accountability systems around constituency funds and while some are used for development purposes, the system is often perceived as being used to “buy” political support.

In this weak institutional environment, the approach utilized by RDP in working directly with communities and local governments to address rural development needs has proven to be an important complement to strengthening and improving the reach of central agencies. An evaluation of RDP conducted in August 2013 found a doubling of household satisfaction with access to village infrastructure from 34% at baseline in 2010 to 66% in 2013. Ninety-four percent of households (and 93% of women) surveyed felt that RDP project investments reflected their needs.

The economy of Solomon Islands is mainly rural-based with approximately eighty percent of the population engaged in smallholder agriculture. The main staple crops grown are sweet potato, cassava, taro, yam, bananas, other fruits and vegetables. In addition to this are three major commercial tree crops: coconuts, cocoa and oil palm. Cocoa and palm oil are exclusively export commodities, whereas coconut products have an integral place in Solomon Island dietary preferences as well as being a major export commodity. Copra and coconut oil are the fifth, and cocoa the sixth highest export commodities by value, behind logs, minerals, fish and oil palm.

The coconut and cocoa industries are the most significant contributors to both smallholder livelihoods and national economy earnings. While oil palm contributes more to export earnings than coconuts and cocoa, it is grown mainly on commercial plantations and limited to Guadalcanal province. Coconuts are the most widely distributed crop in the country and form a key part of almost all farming systems in all provinces. An estimated 40,000 smallholder households (around 40% of the population) produce coconuts for their own consumption, to produce fuel and building materials, and to generate cash income. More than 24,000 smallholder households are engaged in cocoa production. Smallholders (and processors) living and working in rural areas capture the majority of gross margins from these crops (estimated at 77% for cocoa). Food crops produced for subsistence and sale in local markets are also a key element of rural livelihoods.

Prior to the commencement of the current phase of RDP, i.e., RDP I, the Ministry of Agriculture and Livestock (MAL) could best be described as an institution that lacked resources, had lost capacity during the Tensions and had a management culture that was top-down and hierarchical. The institution was not responsive to the needs of its clients and no feedback was provided to staff on their performance.

After six years of RDP implementation, an organizational review of MAL has shown that although it is not fully attributable to RDP, there has been a strengthening of MAL capacity. Extension has been greatly improved, not only because RDP made funds available to allow extension workers to visit farmers, but also because RDP focused attention on service delivery to smallholders. The August 2013 RDP evaluation found that more than 60% of farmers who received agricultural advice were satisfied with the advice, and nearly 50% of farmers who received advice changed their farming practices.

While MAL has rebuilt its institutional capabilities and engaged effectively with farmers, there is a

recognition that public sector extension services are insufficient to meet the needs of a sector with the potential to bring increased incomes to farmers and growth to the national economy. MAL has initiated a process of reorganization which will regroup its internal functions and seek to leverage the private sector to provide more extensive and sustainable agriculture services. Private sector capacity to provide services remains limited, so part of MAL's task will be to not only create incentives for the private sector to provide more and better services, but to build their capacity to do so.

## II. Proposed Development Objectives

The proposed development objective for the project is to improve basic infrastructure and services in rural areas and to strengthen the linkages between smallholder farming households and markets.

## III. Project Description

### Component Name

Community infrastructure and services

### Comments (optional)

### Component Name

Agriculture partnerships and support

### Comments (optional)

### Component Name

Program management

### Comments (optional)

## IV. Financing (in USD Million)

|   |       |                       |               |
|---|-------|-----------------------|---------------|
| Total Project Cost:                                       | 45.60 | Total Bank Financing: | 9.00          |
| Financing Gap:  | 0.00  |                       |               |
| <b>For Loans/Credits/Others</b>                           |       |                       | <b>Amount</b> |
| BORROWER/RECIPIENT  |       |                       | 18.70         |
| International Development Association (IDA)               |       |                       | 5.00          |
| IDA Grant   |       |                       | 4.00          |
| AUSTRALIA Australian Agency for International Development |       |                       | 13.30         |
| International Fund for Agriculture Development            |       |                       | 4.60          |
| Total   |       |                       | 45.60         |

## V. Implementation

Overall program coordination and implementation responsibility would be with the MDPAC, as currently under RDP. A Project Steering Committee (PSC) will continue to provide project oversight, guidance and monitoring, and would be comprised of the Permanent Secretaries, or their delegates, from the Ministries of: Finance and Treasury; Agriculture and Livestock; Infrastructure Development; Provincial Government and Institutional Strengthening; Education and Human

Resource Development; Health; Rural Development; Development Planning and Aide Coordination and Provincial Secretaries (representing participating provinces).

The Permanent Secretary in MDPAC (Program Coordinator) will be assisted by a full time national Program Manager and a full time international Program Advisor responsible for the daily coordination of program activities, and: (i) for fiduciary aspects, finance and procurement specialists, (ii) coordinators and other support staff for component 1 (based in MDPAC) and Component 2 (based in MAL) and (iii) for additional cross-component implementation support, an M&E/MIS officer, and an environment officer. The Program Manager (reporting to the PS MDPAC) will coordinate implementation of program activities managed by the provincial governments and by MAL (as regards component 2).

Component 1 management and coordination at the provincial level would be the responsibility of the Provincial Secretary assisted by a Provincial Team Leader, Finance Officer and Community Helpers operating at the ward and village level. These will all be national positions. Central Province activities will be managed from Guadalcanal, and due to the small number of community grants, the Renbel Province Team Leader will also be responsible for finance. The provincial government will continue to be responsible for activities in the province, through MOUs with MDPAC. Technical support would be engaged from line agency staff at provincial level (e.g. Environmental Health; Works; Agriculture; Home Affairs; Education).

Management of Component 2 activities will be the responsibility of MAL. A Component 2 Manager will be responsible for coordinating all Component 2 activities and report directly to the Undersecretary, Technical of MAL. In addition to reporting directly to the PS MAL, the C2 Manager will work together with the RDP Program Manager and Program Advisor as an overall program management team. Two national consultants will be hired to support the partnership and training aspects of Component 2, two staff will be hired to provide M&E support, and MAL will assign a Program Assistant to support the C2MU team.

## VI. Safeguard Policies (including public consultation)

| <b>Safeguard Policies Triggered by the Project</b> | <b>Yes</b> | <b>No</b> |
|--|------------|-----------|
| Environmental Assessment OP/BP 4.01                | <b>x</b>   |           |
| Natural Habitats OP/BP 4.04                        | <b>x</b>   |           |
| Forests OP/BP 4.36                                 |            | <b>x</b>  |
| Pest Management OP 4.09                            | <b>x</b>   |           |
| Physical Cultural Resources OP/BP 4.11             | <b>x</b>   |           |
| Indigenous Peoples OP/BP 4.10                      | <b>x</b>   |           |
| Involuntary Resettlement OP/BP 4.12                |            | <b>x</b>  |
| Safety of Dams OP/BP 4.37                          |            | <b>x</b>  |
| Projects on International Waterways OP/BP 7.50     |            | <b>x</b>  |
| Projects in Disputed Areas OP/BP 7.60              |            | <b>x</b>  |

**Comments (optional)**

## VII. Contact point

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