PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC6133

Project Name	Solomon Islands Rural Development Program II (P149282)
Region	EAST ASIA AND PACIFIC
Country	Solomon Islands
Sector(s)	Other social services (40%), General agriculture, fishing and forestry sector (25%), General public administration sector (20%), Agr icultural extension and research (15%)
Theme(s)	Rural services and infrastructure (40%), Rural markets (30%), Rural policies and institutions (20%), Participation and civic engagem ent (10%)
Lending Instrument	Investment Project Financing
Project ID	P149282
Borrower(s)	Ministry of Finance and Treasury
Implementing Agency	Ministry of Development Planning and Aid Coordination
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	21-Apr-2014
Date PID Approved/ Disclosed	21-May-2014
Estimated Date of Appraisal Completion	05-Sep-2014
Estimated Date of Board Approval	20-Nov-2014
Concept Review Decision	Track I - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

An archipelago of 997 islands, Solomon Islands has a total land area of 29,900 km² spread over 1.34 million km² of ocean. The population of approximately 550,000 is dispersed across 90 inhabited islands and has among the lowest population densities (18 persons/km2) 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 2014, 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 donors.

The fragmentation and politicization of rural development financing has undermined the effectiveness of service delivery itself. 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, taro, yam, beans, cabbage, watercress and watermelons. 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 more plantation-driven than the other two crops and limited to one 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).

Prior to the commencement of the current phase of RDP, i.e., RDP I, 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, hierarchical and clannish. 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 organi zational 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 famers 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.

Lessons from RDP – The following are some of the key lessons from the current phase of RDP which have helped identify areas for improvement or design modification in RDP II.

Key lessons from RDP Component 1 (community infrastructure): community procurement is preferred by communities, but is costly and time consuming; centralized technical/engineering support is costly and inefficient; community projects cannot usually be completed within one year, as originally planned; and community projects do not receive adequate Community Helper (CH) support due to lack of performance incentives.

Key lessons from RDP Component 2 (agriculture services): overreliance on public sector service delivery has deprived the private sector of opportunities to deliver similar services; public sector financing cannot sustain the levels of operational funding for extension services provided under RDP I; participatory community consultation approach leads to services which are too diffuse to have a significant impact on commercial production of any one crop; there has been a lack of attention to commercial development of the agriculture sector, focusing mainly on farming techniques rather than marketing.

Key lessons from RDP Component 3 (rural business development): most demand for commercial borrowing for rural businesses is in the agriculture sector; limited access to finance constrains rural businesses from making capital and human development investments.

Additional financing was provided twice for RDP. The main reasons for this include: increase in fuel and other supply costs due to inflation; cancellation of a significant portion of European Union funds; underestimated cost of adequate provincial and ward-level support for community projects; underestimated time to complete subprojects and related underestimation of the cost of management support; and scaling-up from 6 to 8 provinces. The design of RDP II reflects efforts to mitigate these risks.

RDP II is likely to benefit from the same multi-donor support and sector coordination as RDP I. The World Bank, IFAD, Australian Aid, and likely the European Union will contribute financially and through technical support. The Bank would be the lead donor for the overall project, but IFAD would play a lead role in supporting the agriculture component. Both Australian Aid and EU have local staff which would allow for more regular interactions with project stakeholders and responsive support.

Relationship to CAS

The World Bank Group Country Partnership Strategy for Solomon Islands for FY13-FY17 has Increased productivity in key cash crops (cocoa and coconut) while maintaining food security as one of its principal outcomes (Outcome 4). As the most important, and often sole, source of income for the rural population, the agriculture sector offers opportunities for improvements in incomes to be more inclusive. Building upon the institutional development focus of the current RDP, RDP II would design measures to be specifically contributing to productivity and income improvements in the two most commercially oriented crops in the smallholder sector, namely cocoa and coconut.

However this does not exclude other potential enterprises that may have commercial linkages with the private sector that can be successfully supported by project activities.

In addition to Outcome 4, Outcome 9 focuses on Capacity for collective action and increased access to services for rural communities. Building on improvements in access to services achieved through RDP I, RDP II would aim to further expand access and improve the quality of rural services, while also strengthening the systems of service delivery and local governance. As one of the Bank's first major projects following the "Tensions", RDP's highly participatory design was intended to increase community capacity to take collective action. As recognized by the Peace-building and State-building Indicators (Indicator #6) building trust and social cohesion within communities diminishes the risk of inter-group conflict. In RDP II, the Bank will apply lessons learned and the results from the recent evaluation to improve upon the community-driven development (CDD) design applied under the first phase.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed development objective for the project is to improve access to basic services in rural areas and the production and productivity of farmers.

Key Results (From PCN)

The main project outcome indicators would include:

a. Number of male and female beneficiaries with improved quality of, and/or, proximity to rural infrastructure or services;

b. Number of farming households engaged in partnerships with the private sector; and

c. Percentage increases in production for farmers engaged in partnerships (by enterprise).

III. Preliminary Description

Concept Description

Each of the two main components emphasizes an approach which uses the public sector to leverage the more dynamic and sustainable initiatives of communities and the private sector. Component 1 will build on RDP's experience to-date in applying a community-driven development approach, empowering rural communities to prioritize, design, construct, operate and maintain new and improved infrastructure and services. Component 2 aims to shift from the current agricultural service provision approach of retail extension services led by the Ministry of Agriculture and Livestock to an approach which is more business-driven and aims to enhance services provided to farmers by the private sector. As public sector funds are limited, engaging the private sector more in agriculture service delivery both expands the reach of such services and improves their sustainability.

The following are key principles of the community-driven development approach currently being pursued by RDP, which is proposed for continuation in Component 1 of RDP II:

• Broad participation/inclusion in decision-making ensures that sub-projects meet the needs of and provide benefits to all segments of the community.

• Transparency and accountability in the management of sub-project funds increases community engagement, helps prevent disputes, and establishes a model for good local governance.
• Capacity building of rural communities to identify their own needs, and design and manage projects to address them, builds both their confidence and skills to manage their own development.
• Sustainability of community investments is improved by engaging communities in the selection and implementation of sub-projects, building a sense of ownership and integrating operations and maintenance arrangements into local institutions. Systems that have been developed through the community-driven approach also offer the prospect of a sustainable service delivery mechanism that can be integrated into the government's strategy for rural development over the long term.

Component 2 would support MAL to refocus its efforts to deliver more sustainable services to the agricultural sector as identified in the Organizational Capacity Assessment and Diagnostic Report, delivered at the end of 2013. The conclusions were for the ministry to restructure and focus on three main objectives, (i) Corporatization, (ii) Provincial devolution, and (iii) Strengthening Services through Industry and Market Linkages.

MAL does not have enough funds, or the trained capacity, to reach all farmers in the country. It therefore needs to leverage the private sector to deliver extension and services to the commercial agricultural sector. This would leave MAL with its core mandated duties, including regulation, research and development and sector coordination. Activities outlined below in Component 2 help achieve these objectives. The private sector and MAL would liaise to ensure that the correct extension messages are getting through to the farmers and appropriate environmental protocols are being observed.

Description

Component 1 – Community Infrastructure and Services (US$20.7 million). The first phase of RDP (2008-2014) developed and established an effective mechanism for delivering priority social and economic infrastructure to improve rural communities' access to small-scale infrastructure and basic services. The Project was progressively scaled up to cover eight of nine provinces. RDP II would be further expanded to reach all rural wards in the country, including in Renbell Province (the one province not covered by RDP I), and consolidate and institutionalize the CDD approach. The Project would retain the mechanisms developed and refined under RDP I, and introduce design changes based on implementation lessons and evaluation findings. The following would be the key features of RDP II, including modifications:

• Two grant cycles of 24 months each to allow for longer sub-project completion periods than under the current phase of RDP. Adjustments to grant size to ensure that each ward receives a sufficient allocation, while adjusting for population size and remoteness.
• New output-based approach to grant disbursement to eliminate the need for the costly and time-consuming transport of all sub-project documentation to Honiara.
• A smaller number of more highly trained and incentivized Community Helpers (CHs), including a new cadre of Technical CHs that will be recruited and trained in the design and construction of small-scale infrastructure, closely based on a curriculum and approach successfully applied in CDD programs in Indonesia and Timor Leste.
• CHs to collect and help to collate village and ward level data to support the integration of planning for the use of Provincial Capacity Development Funds and Constituency Development

Funds.

• A Social Accountability Pilot to test a participatory tool that would assess the quality of service delivery, focusing initially on health and early childhood facilities. Depending upon the results of this pilot, use of the tool may be scaled up over the course of the project.

• A new, web-based Management Information System (MIS) to collect data from the field and upload it into a central database where it can be monitored by provincial and national project management and viewed publically to enhance awareness of project activities.

Component 2 – Agriculture Partnerships and Support (US$ 10.0 million). This component would aim to increase household income through increases in production and productivity in cocoa, coconut and other agriculture enterprises. The design of this component is entirely different from the agriculture activities under RDP, except for the use of supplemental equity funds which would be restricted to agriculture under RDP II. It will include two linked sub-components.

Agriculture Partnership Financing would comprise an “Agriculture Partnership Grants Facility (APGF)” that will provide grants to enterprises that partner with smallholders, processors and/or traders; and an “Agriculture Supplemental Equity Facility (ASEF)” that will provide equity to enterprises that partner with commercial banks to improve production in a value chain. This Grants Facility will co-finance activities with the private sector which benefit smallholder farmers such as training in improved farming techniques, processing and business management and investments in improved planting material and crop diversification. It would draw heavily from the experience of Papua New Guinea in its on-going implementation of the Productive Partnerships in Agriculture Project (PPAP) which focuses on cocoa and coffee. The Equity Facility would utilize the same operational procedures and commercial banking partnerships as the Supplemental Equity Facility (SEF) operated under RDP I. The ASEF would assist businesses to access commercial credit for activities such as capital investments, bridge finance for cash-flow, or as collateral leverage to access finance and expand the size of an investment. The Ministry of Agriculture and Livestock would manage the two facilities, but the central project team in MDPAC would be responsible for financial management (disbursement and acquittal) of these funds.

Agriculture Partnership Support and Capacity Building would be aimed at building on the institutional strengthening of MAL begun under RDP I and increase its ability to facilitate private sector investment in the agricultural sector for the benefit of rural communities. As the private sector’s desire to provide improved farmer services is not matched by the required capacity, MAL would provide training, mentoring and even seconded support to private sector firms engaged in partnerships. Specific activities would include “Regulation and Monitoring” activities that would improve the quality of processed cocoa and coconut products; “Action Research and Development” activities that will disseminate techniques for improving productivity and production of cocoa and coconuts; and “Industry Coordination” activities that will enhance public-private dialogue particularly for cocoa and coconuts.

Component 3 – Program Management (US$ 4.3 million). Most of the management activities and associated costs that are specific to each component would be managed within those components. The main functions that would remain under this overarching component would include: Program Manager, Finance Manager, Procurement Officer, M&E/MIS Officer, and Environmental Officer. The only new TOR/position would be M&E Officer, with some minor modifications made to other positions. In addition, vehicles and office equipment would be purchased to update or replace deteriorating goods purchased at the beginning of RDP I in 2008.

The project estimated cost is US$35 million, financed by a US$2.5 million grant and US2.5 million credit from IDA; US$ 4.0 million grant from the International Fund for Agriculture Development; a grant of US$12 million from Australian Aid; and US$5 million from the Government. The European Union has indicated that funding would be provided to RDP II from the EDF 11 allocation, but the amount has yet to be confirmed. Community contributions, mostly in-kind, would be required at a minimum of 15% of the project funds. With community grants estimated at US$9.7 million, community contributions would likely total in excess of US$1.5 million.

IV. Safeguard Policies that might apply

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

V. Financing (in USD Million)

Total Project Cost:	35.00	Total Bank Financing:	5.00
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	5.00
International Development Association (IDA)	2.50
IDA Grant	2.50
AUSTRALIA Australian Agency for International Development	12.00
EC European Development Fund (EDF)	9.00
International Fund for Agriculture Development	4.00
Total	35.00

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