

6 SOLOMON ISLANDS

6.1 Introduction

The Public Sector Reform Program (PSRP) Loan of \$25 million to Solomon Islands was approved in August 1998, and was to be released in two tranches of \$15 million and \$10 million. In addition, a TA loan of \$1 million was provided to assist in implementation of government's privatization policy, and a TA grant of \$600,000 was provided to assist in strengthening of public sector management.³⁷ The loan amount compared with total external grants and loans averaging \$45.5 million per annum in the period 1993-97.

6.2 The Macroeconomic and Governance Context

Between 1980 and 1995, Solomon Islands' real Gross Domestic Product (GDP) grew at the average annual rate of 4.1 percent. This growth was led by the export of fish, logs harvested from the natural forest at an unsustainable rate, copra, palm oil, and cocoa. With population growing at a rapid 3.4 percent per annum, average annual growth in per capita GDP was only 0.7 percent. In the mid-1990s, the Human Development Index was the second lowest among PDMCs. The rural population, which constitutes 86 percent of the total, has a per capita income about one quarter of the urban level; and 45 percent has received no schooling.³⁸

The period 1990-97 was characterized by very poor governance and serious fiscal mismanagement that led to balance of payments and inflationary pressures, regular currency devaluations,

³⁷ Loan No. and TA No.3061, Strengthening of Public Sector Management (approved 27 Aug. 1998).

³⁸ ADB 1998b provides details. This report was a joint ADB-AusAID project.

suspension of trading in government securities, and a loss of business confidence. In late 1997, government domestic and external debt were each 30 percent of GDP, and government arrears were approximately 11 percent of GDP. The past two years however, have seen a dramatic shift in culture and practice within the public service. In mid-1997, when the newly elected Government assumed office, public confidence in Government and the economy was at its lowest point, and external funding agencies were reluctant to provide any further assistance to the country. On the fiscal side, years of profligate spending and capricious grants of tariff exemptions and remissions had resulted in a Government without the funds to pay its bills or even to service its debts to official and private creditors. While large arrears piled up (including to the Bank), audits and controls were abandoned on Government expenditures. The public service was demoralized, and hardly any office of Government could be regarded as functioning in a satisfactory manner. The new Government was faced then with the daunting task of rebuilding its resources and reputation from a very low base.

The government that won office in August 1997 faced the immediate task of stabilizing the macroeconomic situation, a task made even more difficult by the impact of the Asian financial crisis on log export prices. Log exports that were mostly destined for Japan and Korea constituted 50 percent of merchandise exports and provided 20-30 percent of government revenue; but they fell rapidly in value in the latter half of 1997. Confronting the prospect of a balance of payments crisis, government devalued the currency by 20 percent on 15 December. It already had initiated a Policy and Structural Reform Program in October, which aimed at achieving private sector-led growth and public sector reform.

The Solomon Islands economy remained in recession in 1998. After dropping by an estimated one percent in 1997, real GDP fell by over 2 percent.³⁹ Government finances and the balance of payments position were weak, the financial system remained stressed, inflation remained double-digit, and unsustainable harvesting of the forest resource continued. Business confidence remained very low. Revival of the financial sector was central to a restoration of investor confidence, and needed to be underpinned by the negotiation of a domestic debt restructuring program.

³⁹ Official national accounts have not been produced since 1984.

Prior to the delayed presentation of the budget in April 1998, government took a number of initiatives to increase revenue and contain expenditure. There was an immediate cancellation of tax exemptions and remissions that did not involve legally binding agreements. A simplification of the tariff system was completed and introduced. Income taxes were revised in order to broaden the tax base and improve equity, and a range of other revenue-raising measures was adopted. On the expenditure side, government instituted a public service wages freeze, restricted payment of allowances, and froze all recruitment in advance of further actions aimed at downsizing and streamlining the civil service. It also began a limited clearance of domestic and external arrears. The 1998 budget projected a current surplus of SI\$15.8 million, and a near-zero overall balance. A reduction in domestic and external arrears was planned on the assumption that necessary funds could be raised through privatization, some borrowing from the National Provident Fund, and external borrowing.

In the event, domestic revenue fell short of budget expectations and day-to-day cash availability dictated expenditure levels. Given that efforts at public service downsizing were delayed and that the wage bill increased by 6 percent on the 1997 level, and given the priority assigned to debt servicing, the enforced cuts largely fell on departmental operations expenditure. This exacerbated the acknowledged problems of the poor quality of public services and deteriorating infrastructure. Nonetheless, debt and non-debt arrears were reduced by a total of SI\$87.1 million. This was made possible in the first instance by grants from Papua New Guinea and Taipei, China, which permitted clearance of arrears on outstanding Bank loans and thus made a new Bank program loan feasible. First tranche funds were then used for further arrears clearance. In addition, arrears to the National Provident Fund were securitized. The net result was that the overall public debt level increased slightly from SI\$941.8 million at the end of 1997 to SI\$943.1 million at the end of 1998. Domestic debt totaled SI\$401.7 million, external debt SI\$509.6 million, and trade creditor and other arrears SI\$31.8 million. The 1999 budget aims at a current surplus of SI\$17.9 million, and an overall deficit of SI\$26.7 million to be financed from external borrowing. Additional PSRP expenditure on arrears settlements totals SI\$92.2 million, funded by asset sales of SI\$29.2 million and further external concessional borrowing of SI\$63 million.

The performance of the Solomon Islands economy in 1999 and beyond will depend on the international economic environment, and on the extent to which government can successfully tackle the inherited fiscal crisis and implement its program of economic reform. The outlook for commodity prices in general, and log prices in particular, is not encouraging. On the positive side, the Gold Ridge gold mine will be in full production in 1999, and the Asian crisis has led to lower prices on intermediate inputs.

Government has made progress in restoring macroeconomic stability by servicing its domestic debt and paying arrears, which it plans to clear entirely by the end of 1999. Its hold on power remains tenuous, however. The Solomon Islands Alliance for Change is a coalition of six partners holding 26 of the 50 seats in the unicameral national Parliament. This slender majority constitutes a political impediment that has to be confronted and managed as part of the process of implementing and consolidating reforms. There is a particularly difficult trade-off between improving public financial management and maintaining support of the backbenchers. The latter represent the populations of nine provinces, which also have their own provincial governments. These are supported in part by grants from the national government and have a full complement of ministries and ministers.

6.3 The Process of Program Design

6.3.1 Ownership and appropriate participation in the design process

From the outset, the PSRP was a home-grown initiative championed by an energetic, independently minded Prime Minister and supported by a core of reformist politicians. The Solomon Islands Alliance for Change that won office in August 1997 had presented itself to the electorate as a group intent upon restoring macroeconomic stability, improving public sector performance, and facilitating private sector development in a good governance environment. Alliance policies in the broad were presented to Parliament in November in a Statement of Policies by Solomon Islands Alliance for Change 1997-2001. The Government already had established a Policy and Structural Reform Committee (PSRC) chaired by the

Prime Minister, and consisting of four ministers, the Governor of the Central Bank, and the Presidents of the Chamber of Commerce and Employers and the Public Employees Union. Supported by a secretariat within the Prime Minister's Office, PSRC was to co-ordinate the reform process and direct the work of two task forces made up of permanent secretaries. Task Force 1 focussed on public finance, microeconomic reform, and preparation of a medium-term development plan.⁴⁰ Task Force 2 worked on public sector reform. Technical advice to the task forces was provided periodically by ESCAP's Pacific Operations Centre. Also, the December 1997 draft of Solomon Islands 1997 Economic Report (ADB 1998b) became a basic reference on economic conditions and policy options. By the end of 1997, the PSRP had been formulated and presented in an Inception Report.

Following the mandate given at the election, the government focussed its attention on the work of the task forces. In the first few months, considerable effort had to be directed at the preparation of the 1998 budget in a situation where relevant domestic expertise was in short supply and comprehensive and reliable data on government finances were absent. There was some Bank-funded technical assistance to design a public relations campaign aimed at explaining the rationale for and nature of proposed reforms; and Bank staff promoted the development of a mechanism for public participation in the reform process. But a new administration preoccupied with an economic crisis, holding a slender majority, and immediately subject to no-confidence motions was cautious. Aside from the work of the PSRC and the task forces, and media coverage of external funding agencies' support for the PSRP, political leaders have tried to build support for reform through informal, personal consultations with key organizations, most notably with the influential trade union movement (both the Public Employees Union and the Council of Trade Unions).

It was not until November of 1998 that a National Summit was organized to review progress and encourage greater public involvement in the reform process. Representatives of government at national and provincial levels, public enterprises, private business,

⁴⁰ Subsequently, in May 1998, preparation of a medium term development strategy was assigned to a separate task force (Task Force 3), and microeconomic reform and private sector development was assigned to Task Force 4.

churches, non-governmental organizations, and the community at large met over three days to discuss the PSRP and the newly-developed Medium Term Development Strategy and Public Sector Investment Program (both of which had been prepared with Bank technical assistance). Proceedings were discussed on radio and in the two major newspapers. Generally, though, the Government has not devoted much effort to building public support for reforms through the media, which provide easy outlets for the views of the opponents of the PSRP.

6.3.2 Partnership and consultation with other external funding agencies

In late 1997, the Government sought the assistance of external funding agencies in its reform efforts and in meeting its budgetary and balance of payments crises. Both advice and funding were sought from the ADB, the World Bank, NZODA and AusAID. In the initial period, funding agencies were hesitant to come forward with ready assistance, given their fresh memories of economic mismanagement and anti-agency sentiments under the previous government. The Bank, however, began to work closely with the new Government to shape a reform agenda and to design a program loan that would address its immediate financial requirements. The program loan provided the catalytic effect of bringing bilateral funding agencies to the party and enabling the Government to develop a track record of reform that would be sufficient to justify new lending from other multilaterals such as the World Bank and the European Union.

The Bank has also co-ordinated with the key bilateral agencies, the European Union, the Pacific Financial Technical Assistance Centre, and ESCAP's Pacific Operations Centre. The first consultative group meeting of funding agencies was convened by the Government in March 1998, and strongly endorsed the PSRP Inception Report. The Bank assisted in financing and organizing the second meeting, which the Government held in May 1999.

6.3.3 Effectiveness of internal processing procedures

The processing procedures for Bank assistance have been efficient, taking approximately six months from the initial

reconnaissance mission (February 1998) to loan approval (August 1998). Loan effectiveness was delayed from September until November, however, because of a shortage of funds under the ADF Commitment Authority. First tranche release occurred on 16 November 1998.

6.4 The Content of the Program

6.4.1 The Public Sector Reform Program

In contrast to the reform programs in the Cook Islands, Federated States of Micronesia, Republic of the Marshall Islands and Vanuatu, the PSRP was in large part designed by the Government, with some technical assistance from ESCAP and the Bank. Once the Bank became involved, the PSRP was formulated into the familiar Bank policy matrix after a dialogue between the Bank and the Government in which the latter was clearly in the driver's seat. There was little change in content of the components of PSRP that became the Bank-funded Public Sector Reform Program.⁴¹ More emphasis was given to the need for a social safety net for redundant public servants and monitoring the PSRP impact on vulnerable groups than Government alone might have given. The crucial Bank role was to support the PSRP with funds and targeted technical assistance.

The overall goal of the PSRP is "To place the economy of Solomon Islands on a sustainable track and to improve efficiency and performance in the public sector". The subsidiary purposes are (1) to reform and reduce the size of the public sector to a level commensurate with the contraction of logging to sustainable levels; and (2) to shift the balance of economic activity away from the public sector to the private sector. The five key outputs are to (1) reduce the size and operating costs of the civil service; (2) increase domestic revenue generation; (3) restructure government operations to improve efficiency and effectiveness and sell or liquidate several major state-owned enterprises; (4) strengthen governance

⁴¹ The Policy and Structural Reform Program encompassed reforms in education, health and forestry in addition to those areas covered by the Bank-funded program.

institutions in order to promote greater transparency and accountability and to reduce opportunities for corruption in the public service; and (5) mitigate negative social or economic impact of adjustment in public expenditure. Sixty-five actions to be undertaken in pursuit of these outputs are detailed in the policy matrix, grouped under the four headings of macroeconomic and fiscal reforms, public sector management reforms, privatization of state-owned enterprises, and strengthening of governance institutions.

Eight of the 39 actions to be completed after loan approval are specified as second tranche conditions (Appendix 1):

- Payroll costs are reduced to a level that will not exceed SI\$130 million on an annualized basis, subject to an adjustment for 1998 inflation acceptable to the Bank. (This is to be done through public service downsizing, which in turn is to be a part of a public service re-engineering exercise).
- Obtain Cabinet approval of budget limits established for the annual expenditures of each ministry in accordance with the terms of the Medium-Term Budget Framework (MTBF), and ensure that the MTDS, Public Sector Investment Program (PSIP) and MTBF are consistent with each other.
- Apply competitive and transparent recruitment, selection, and appointment procedures for all PS staff including prior public notification of vacancies, application of objective selection criteria, and application of equal opportunity principles.
- 1999 budget submissions for at least four ministries will include verifiable performance targets.
- For all SOEs, Cabinet approves action plans for liquidation, restructuring, corporatization, divestment, and/or privatization.
- Invite market offers for at least 6 SOEs, finalizing the sale or liquidation of at least 3 of such enterprises.

- To issue guidelines for the SOEs that establish a corporate governance framework to enhance management and promote accountability.
- To prepare an action plan to improve the effectiveness of the Auditor General's Office.

Overall, the program is well-designed, with policy actions clearly explained and targeted, and tranche conditions that are pertinent to program objectives. However, given the political context and severe human resource constraint within which the PSRP has to be implemented, the timeframe for implementation seems short.

6.4.2 Rationale and appropriateness of loan amount

The rationale for the loan is that it helps a new administration to consolidate a reform program already under way. The loan amount of \$25 million is “based on the scope and the costs of the policy reforms, the importance and urgency of the reforms, and the state of the public finances of the Borrower” (RRP, para 69). Specifically, the loan amount permitted clearance of approximately 63 percent of government arrears (about \$23.8 million); the financing of public service retrenchments (\$1 million); and incremental costs of hiring staff to implement reforms (\$200,000). The absence of reliable data prevents preparation of a convincing medium term macroeconomic framework.

6.4.3 Consistency with country and Pacific strategy

Both the rationale for the program loan and the content of the PSRP are consistent with the Bank's Pacific and country strategies. The latter notes:

there remains a need to implement a structural reform program that includes objectives to reduce the size and cost of the public sector; improve the effectiveness of planning and budgeting systems; and restructure expenditure to focus on maintenance programs, technical capacity, and HRD. Priority should also be given to

forestry management and ensuring that adequate revenues are collected from commercial logging and fishing (p.56).

6.4.4 Relevance and focus

The PSRP's relevance is indisputable and its focus is clear. The Solomon Islands 1997 Economic Report (ADB 1998b, p.158) observes that "Government needs to close the gap between revenue and expenditure as its first priority", and goes on to identify fiscal governance and privatization/corporatization as key areas of reform. The need for a forest policy is also highlighted in the report, and recommendations are made in respect of agriculture, fisheries and human resource development. These areas are not covered by the PSRP itself, but are being addressed separately with assistance from other external funding agencies.

6.4.5 Appropriateness and Sustainability

It is accepted that the human resource constraint in Solomon Islands is especially severe. The implementation of the PSRP therefore inevitably must draw on external technical assistance. There are consequent concerns that officials may lose control and ownership of reforms, and that therefore the reforms may not prove durable. Related to this is the possibility that the gap between domestic capabilities and skills requirements may be widened by the importation of inappropriate technology.

These concerns are allayed by domestic ownership of the reform program and the careful design of Bank technical assistance. As noted above, there has been no doubt as to who is managing the reforms. Strong local ownership has improved the prospect of sustainable change. In addition, the design of the PSRP appropriately allows for the gradual introduction of a performance orientation in the public service, without including what would be a premature attempt at introducing performance-based budgeting. Rather, the focus is on re-establishing functioning cash management and accounting systems. The design of PSRP-related technical assistance is also aimed at making sure that it remains advisory and responsive, with consultants being provided on short-term and intermittent bases, working with local counterparts. In this regard, additional

Bank TA is being provided to facilitate implementation of a needs-based training program for public servants. Obviously, filling the skills gap is a long-term process, and reliance on TA will be needed in the interim.

6.4.6 *Likely impact on governance*

Fourteen actions aimed at improving governance are specified in the fourth governance strengthening section of the policy matrix. They include preparation of national government accounts; ongoing external audit of these accounts and those of state-owned enterprises; preparation of a plan to improve the effectiveness of the Auditor General's Office; preparation of a report on means of strengthening the Ombudsman's and Leadership Code Commissioners' Offices; and several measures to make government decisions on tendering, asset sales and tax exemptions and remissions transparent.

In addition, there are governance-improving actions specified under the public sector management reforms section of the policy matrix. Successful implementation of these and the above-mentioned actions will increase the accountability, predictability and transparency of public administration.

6.5 Implementation

6.5.1 *Actions to date*

Many of the actions in the policy matrix were reported as completed before loan approval - 26 out of 65 to be precise. Of the 39 actions to be completed after loan approval, 20 are not scheduled for completion until end-March 1999 or later, including four of the second tranche conditions. Of the 19 actions scheduled for completion by the end of 1998, 12 were completed, 6 were incomplete, and one had been adjusted at the request of Government. Amongst the incomplete actions was the second tranche condition to reduce public service payroll costs to a specified level (Appendix 1). The adjusted condition was the revenue-enhancing action to contract the services of an internationally reputable pre-shipment inspection company. Cabinet, acting on technical advice funded by

AusAID, decided in favor of strengthening the Customs Division, on the grounds that the latter offered more durable and greater net revenue gains.

Implementation of reform measures in the policy matrix is ongoing, but some difficulty in meeting three second tranche conditions concerning payroll costs and privatization of state-owned enterprises can be anticipated. This is discussed further in section 6.6.

6.5.2 Use of loan and counterpart funds

The \$15 million disbursed under the first tranche has been utilized in clearing debt arrears and arrears in payments to trade creditors and regional and international bodies.

6.5.3 Effectiveness of monitoring

Internally, the PSRC monitors progress in implementation of the PSRP. More frequent monitoring of macroeconomic and fiscal reforms is undertaken by the Monthly Monetary Management Meeting - the 4Ms Committee - which consists of staff of the Central Bank and Ministry of Finance, and the Secretary of Agriculture and Fisheries. Both the PSRC and the 4Ms Committee have been meeting as scheduled, though the meetings have not always had a full attendance.

Throughout the implementation period, the responsible desk officer has monitored progress, receiving copies of all progress reports prepared by the four task forces, and of minutes of the PSRC and 4M meetings. The Solomon Islands Government is due to present the first quarterly report on progress, and will be supported in this task by the services of a public sector reform monitoring specialist made available under the Strengthening of Public Sector Management TA. The first six-monthly meeting of the Bank and the Government to review PSRP implementation is scheduled for June 1999, to coincide with a Donors' Consultative Meeting in Honiara.

6.6 Results

6.6.1 Participation and ownership

Strong domestic ownership of the reform program has been an outstanding feature from the beginning. The reforms are driven by a group of politicians spearheaded by a committed Prime Minister. There is support from a small group of senior and middle managers in the public service, and there is widespread support from a public that wants honest government after experiencing years of corrupt and incompetent government. An active press is quick to report any misdeeds by politicians and civil servants that come to light. The PSRC provides an institutionalized mechanism for participation in the reform process by representatives of the private sector and trade union movement, and is an important forum for debate between these representatives, politicians, public servants and external advisers. The 1998 National Summit served to involve the wider community in the process more directly.

This does not mean that the reform path is free of obstacles and walked willingly by everyone. The Prime Minister is compelled to devote considerable time and energy to keeping the Solomon Islands Alliance for Change in power; and it must be acknowledged that there is a consequent risk that the distinction between the old and new governments will be blurred. A complicating dimension was added when the Minister of Finance was dismissed in July 1998, joined the Opposition, and disavowed his previously strong support for reform.⁴² Additionally, the Prime Minister and his Cabinet have had to confront considerable obstructionism from some senior public servants adversely affected by the reforms, and from the Solomon Islands Public Employees' Union (SIPEU), which called a general strike in June 1998 on the grounds that it had not been

⁴² Four other government supporters crossed the floor with the Minister of Finance, giving rise to a motion of no confidence in the Prime Minister. SIAC survived the motion on the casting vote of the Speaker. One member of parliament could not get to Honiara from an outer island because the Solomon Airlines flight that day was delayed. It is not known which way the member would have voted. Early in 1999, as part of its transparency policy, the Government published a list of tax exemptions and remissions which included exemptions from export duty of four log shipments by Success Company. The principal of the company is reportedly very supportive of the Prime Minister.

consulted about public servants' redundancy packages.⁴³ SIPEU has not participated in the PSRC proceedings subsequently. There are also complaints heard about the lack of adequate representation of indigenous business through the Chamber of Commerce and Employers; and some provincial government officials feel left out of the reform process. It already has been noted above that the Government is not using the media to sell its reformist message as well as it might.

6.6.2 *Macroeconomic and fiscal reforms*

The most important objective of the PSRP is to achieve macroeconomic stabilization through eliminating arrears on public debt, maintaining a balanced recurrent budget, and adopting a supportive monetary policy stance. Significant progress has been made. Immediate actions to raise revenue and contain expenditure are detailed in section 6.2. Arrears on domestic debt are on track to be cleared by the end of 1999, and arrears on external debt have been cleared except for two contested amounts owed to the Export Finance Investment Corporation of Australia and Marubeni corporation. Expenditure in 1998 was confined to a revenue level that was below budget expectations, partly because of long delays in arranging technical assistance for strengthening of the Inland Revenue and Customs Divisions. Underpinning improved expenditure control and cash management is the ongoing revival of the accounting system, a revival in which technical assistance from AusAID and the European Union is crucial. In addition, the first steps have been taken toward improved co-ordination in the preparation of the recurrent and development budgets. The Medium Term Development Strategy 1999-2001 and associated Public Sector Investment Program were completed in early 1999 with TA from ADB, UNDO and ESCAP. Monetary policy was tightened in 1998.

There is still much to be done in order to consolidate the gains made so far and to permit the non-personnel expenditures that have of necessity been sacrificed during the adjustment process. The domestic debt burden remains untenably large and the commercial banks are yet to be persuaded to agree to debt restructuring beyond their current acceptance of 6 percent on Treasury bills. The 15 per-

⁴³ The call was ignored by many public servants.

cent reduction in 1998 payroll expenditure to SIs\$131 million was not achieved because of long delays in public service downsizing. The actual outcome is not known for sure, but a tentative initial estimate was that payroll expenditure rose to \$155.5 million, possibly because of a rise in the wage bill for the police who, like the teaching service, are quarantined from downsizing efforts. The public service downsizing that occurred finally in March 1999 is estimated to save just SIs\$13 million, or 8.4 percent of the estimated 1998 wage bill. This will not be sufficient to attain the payroll objective originally specified in the 1999 budget framework; but even this much saving may be threatened by pressures for rehiring of retrenched public servants, for lifting of the nominal wages freeze, and for payments of allowances to which officials had become accustomed during the tenure of pre-reform administrations. Moreover, total revenue collections in early 1999 continued to run below budget estimates, despite revival of the Revenue Enhancement Group. Inland Revenue collections alone were above expectations.

6.6.3 Public sector management reforms

A report by a working group of Task Force 2 on restructuring of the public service was submitted to the PSRC in June 1998.⁴⁴ Completed with the assistance of Bank consultants, and involving consultation with each of 19 departments, the report identifies cost savings of SIs\$16.6 million through restructuring, redefinition of the permanent secretary position, sharing of administrative and accounting staff by “partnering” ministries, and capping some allowances. It presents an implementation plan that spells out the steps of a restructuring process aimed at cost-effective, responsive provision of government services. Phase 1 of public service reform began with the dis-establishment of senior positions and the creation and filling of a reduced number of senior positions. It then extended down to junior positions and ended in early March 1999. One hundred and three vacant public service positions were abolished and 447 public servants were made redundant. In total, this is a cut of 7 percent in central government employment. The time

⁴⁴ Policy and Structural Reform Programme, Report by Sub-Task Force II to the Policy & Structural Reform Committee, Re-Structuring the Public Service, June 1998.

taken to complete Phase 1 was much longer than originally envisaged owing to legal challenges, opposition from affected public servants, and delays in appointing a new head of the Public Service Division.

Redundant public servants are entitled to a minimum separation package equal to two weeks' pay for each year of service. They are also entitled to receive assistance with meeting school fees for any children for one year. A Transition Unit offers counselling and advisory services (including management of redundancy payments), assists with job-seeking, and arranges training.

Phase 2 will involve a review of organizational strategies, implementation of system wide changes and institutional strengthening. As part of the 1999 budget process, the first steps in linking inputs with outputs were taken, with the identification and publication of performance measures in four ministries. An Institutional Strengthening Unit has been established within the Public Service Division and will work with the existing Institute for Public Administration and Management to design and implement an executive development program. Performance agreements for Secretaries of Ministries are being developed.

A solid start to public service reform has been made, but continued effort is required to avoid slippage and to implement the remaining reforms. Nothing less than a sea change in attitudes and culture is required in a public service workforce that had become accustomed to being paid regardless of attendance or effort. This in turn requires senior and middle management to provide clear direction and to personally demonstrate work discipline. Progress is being made in the latter regard, but there are still examples of officials in key positions who are conspicuous by their absence.

6.6.4 Privatization of state-owned enterprises and private sector development

A State-Owned Enterprises Monitoring and Performance Unit has been established in the Ministry of Finance, with support from a Bank TA loan of \$1 million. The review of SOEs has moved slowly, however, primarily because of opposition from the political appointees on the boards of SOEs administered through ministries, and from the chairman of the board of the government-owned holding company, Investment Corporation of Solomon Islands

(ICSI).⁴⁵ The sale of ICSI's 60 percent share in the oil palm operation, Solomon Islands Plantations Limited, to the minority shareholder, Commonwealth Development Corporation, has been under negotiation for some months, but is yet to be finalized. After initial delays, the sale of the bulk of ICSI's 58 percent share in Solomon Telekom to the National Provident Fund is imminent. Two unprofitable businesses, the Livestock Development Authority and National Shipping Services, have been liquidated, though the Government subsequently has announced its intention to become involved in provision of shipping services to the provinces.

The involvement of the private sector in Task Force 4 has permitted effective communication of business community concerns over such matters as tax, customs and labor law and administration, and the role and operation of the Foreign Investment Board. The latter's appearance and effectiveness has improved markedly in 12 months, though greater transparency is still required. Further rationalization of the tariff bands is also proposed. However, the private sector feels a need for greater participation in the decision-making process, and remains skeptical about the permanency of improvements in the Government's payments system and the governance environment.

6.6.5 Strengthening of governance institutions

As indicated in the previous paragraph, there has been an improvement in the governance environment under the new administration. Government accounts are being brought up to date for external audit; accountability and transparency in the use of foreign aid have improved according to external funding agencies; and Government has published lists of beneficiaries of duty remissions and exemptions. Amendment of the Lands and Titles Act is expected to increase transparency of disposal of government land. Publication of reports by the Public Accounts Committee and the

⁴⁵ The Broadcasting Commission, Electricity Authority, Water Authority, Postal Corporation, Livestock Development Authority, Port Authority and Commodities Export Marketing Authority are administered through ministries. ICSI owns Solomon Airlines, National Shipping, Sasape Marina, Solomon Islands Printers, and is part owner of Solomon Islands Plantations, Kolombangara Forest Products, Solomon Telekom and Solomon Taiyo (a tuna cannery).

Auditor General's Office is anticipated. In general, there is a perception that government is more open than hitherto.

Against this, there has been no effective action to prepare the envisaged plan for strengthening the Auditor-General's Office. Planned action to increase the transparency of public tendering has not occurred. The status of a report on strengthening the offices of the Ombudsman and Leadership Code Commissioner, due in March 1999, is unknown. The functioning and effectiveness of the legal, judicial and parliamentary systems are acknowledged by the Prime Minister as areas in need of attention. Fundamentally, there is uncertainty about the extent to which the need to maintain Government's fragile hold on power will force compromises of good governance principles. It is too early in the reform process to draw a firm conclusion on this issue.

6.7 Looking to the Future

Progress has been made in difficult circumstances and against considerable resistance from opponents of reform. Much remains to be done in a timeframe that is extremely tight. Key lessons that have emerged from the experience so far are:

- v Where government owns a reform program that it has commenced of its own volition, a program loan with well-focussed conditions can effectively support the reform process.
 - funds can assist macroeconomic stabilization.
- w conditions can provide a means of maintaining commitment in the face of pressure from the opponents of reform.
 - conditions can send a message to the private sector that reforms are credible.
- Even in situations of fiscal and economic crisis and significant opposition, a public service retrenchment program can be implemented as a component of a broader-scoped, longer-term public service reform program.

- targeted and well-managed technical assistance can play an important supportive role in the design and implementation of such a program.

- Effective communication of the reform program's rationale, objectives and achievements is essential to the maintenance of public support, especially where there is no institutionalized participation mechanism (such as an annual summit).

- in this regard, special attention needs to be given to the majority rural population.