



Country Operations Business Plan

July 2008

Solomon Islands
2009–2011

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 4 July 2008)

Currency Unit	–	Solomon Islands dollar (SI\$)
SI\$1.00	=	\$0.1298
\$1.00	=	SI\$7.7036

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADTA	–	advisory technical assistance
JSF	–	Japan Special Fund
NTP	–	National Transport Plan
PAHQ	–	Pacific Operations Division
PARD	–	Pacific Department
PPTA	–	project preparatory technical assistance
RETA	–	regional technical assistance
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

In this report "\$" refers to US dollars.

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I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY

1. **Partnership Strategy.** The Asian Development Bank (ADB) partnership strategy in Solomon Islands seeks to achieve equitable private sector-led economic growth by improving transportation infrastructure and services and strengthening the enabling business environment.¹ Structural reform support, capacity development, and the promotion of good governance are priorities. In view of the public debt situation, and in line with prudent government policy commitments, ADB is not in a position to provide new lending to Solomon Islands until the debt situation further improves and the country is no longer at risk of debt distress.² The strategy directly supports key priorities in the development framework of the Government of Solomon Islands,³ addresses binding constraints to growth,⁴ is in line with ADB's Midterm Review of the Pacific Strategy (2005–2009),⁵ takes into account ADB's comparative advantage among development partners, and is in line with internationally adopted principles of good international engagement in fragile states. The sharp focus of the country strategy is fully reflected in, and hence consistent with, the business plan. An updated country strategy and program results framework is in section VI.

II. INDICATIVE LENDING AND NONLENDING PROGRAMS

2. **Resource Envelope.** In the absence of loan financing in the medium term, the nonlending program will remain the major vehicle for delivering ADB's country strategy. Flexibility will be important, allowing ADB to respond to reform opportunities and complement the grant resources of other agencies. Asian Development Fund (ADF) allocations will be determined by the outcome of the 2008 country performance assessment exercise. For planning purposes, the ADF grant allocation for 2009–2011 has been set at \$22 million. Subject to availability of core technical assistance (TA) resources, ADB will provide selected TA support, at an indicative average of \$1.1 million per annum during the planning period.

3. **Transport Infrastructure and Services.** ADB's program will continue to focus on transport infrastructure and services, as the poor condition of the transport network constitutes a major constraint to the movement of people and goods, and consequently to access to income opportunities and social services. A rural transport infrastructure project funded through a \$14.73 million ADF grant has been programmed for 2010, and will help integrate the rural transport network and improve access for the high proportion of the population that lacks road transport. For planning purposes, a \$14.73 million ADF grant in 2012 is anticipated in support of rural development. In 2009, TA has been confirmed for preparing a rural transport infrastructure project (the 2010 ADF grant), and \$1 million for advisory TA in support of rural transport

¹ ADB. 2006. *Country Strategy and Program Update (2007-2009): Solomon Islands*. Manila.

² The country remains at risk of debt distress, according to annual debt sustainability assessments prepared jointly by the International Monetary Fund and the World Bank but has made substantial progress in reducing public debt from 100% of gross domestic product down to 60% in the space of 3 years. This progress, if continued, could lead to a change in its borrowing status in the future.

³ The Coalition for National Unity and Rural Advancement Government has released two relevant documents: (i) Policy Statements, January 2008, and (ii) Translation and Implementation Framework, February 2008. The government's main priority areas are: reconciliation and rehabilitation, national security and foreign relations, infrastructure development, social services development, economic and productive sectoral development, and protection of civil rights.

⁴ See in particular: IMF. 2007. *Solomon Islands: 2007 Article IV Consultation — Staff Report*. Washington DC; and ADB. 2005. *Private Sector Assessment for Solomon Islands*. Manila.

⁵ ADB. 2009. *Working in Fragile Environments: A Midterm Review of the Pacific Strategy (2005–2009)*. Manila.

infrastructure development has been programmed for 2010. TA has been programmed for 2011 for the preparation of the 2012 ADF grant. The TA program includes institutional strengthening components (targeting planning, financial management, and procurement systems), which will assist the Ministry of Infrastructure Development in implementing an inclusive (sector-wide) approach to transport over the medium term.

4. **Private Sector Development.** ADB is committed to providing continued support for structural reforms to improve the country's business environment. ADB will provide rapid response support for policy and institutional economic reform by maximizing the use of the regional TA for Private Sector Development Initiative⁶ in Solomon Islands. Specific interventions include the modernization of the company registry; establishment of a secured transactions registry; and selected state-owned enterprise (SOE) reform, privatization, and public-private partnership support as appropriate. TA for Private Sector Development Support (\$1 million) has been programmed for 2011 to ensure continued support for this important element of the country strategy, following completion of the ongoing Private Sector Development Initiative.

5. **Other Technical Assistance.** To complement the TA program and leverage scarce TA resources, ADB will include Solomon Islands in other regional TA activities where feasible.⁷

6. The proposed ADF grant program for 2009–2011 is summarized in Table 1, and the proposed TA pipeline for 2009–2011 in Table 2. Summary information on the 2010 ADF grant program is in Table 3, and on the 2009 TA program in Table 4. An update on ADB's priority areas in Solomon Islands is in Table 5. The 2008 ADF grant program is in Table 6, and the 2008 TA program in Table 7, for reference purposes.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

7. The amount for the Rural Transport Infrastructure Project has increased from \$15 million to \$19.73 million as a result of an increase in the ADF grant component. TA for Improving the Business Environment, originally programmed for 2009,⁸ has been rescheduled to 2011, taking into account the availability of resources under the ongoing Private Sector Development Initiative (see paragraph 4). A new TA to prepare the 2012 ADF grant has been included in the 2011 program.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

8. Given the current context—a continuing post-conflict situation and weakly performing country—the growing scope and scale of ADB's country operations in Solomon Islands should be closely monitored. Flexibility will be needed to address issues that arise, and this should be taken into account in terms of staff and financial resources. It is estimated that over 15 person-months of professional staff and 10 person-months of supporting staff will be required per annum during the planning period (2009–2011).

⁶ ADB. 2006. *Technical Assistance for Private Sector Development Initiative*. Manila (TA 6353-REG, approved 21 November 2006 for \$8.7 million, cofinanced by the Australian Agency for International Development with \$7.66 million). The regional TA is specifically designed to leverage ADB's country partnership strategies in the Pacific by providing a rapid-response capability for private sector development reform in priority areas such as state-owned enterprise reform and privatization, business law reform, and financial sector development.

⁷ Relevant regional initiatives include regional TA projects for (i) the prevention and treatment of HIV/AIDS, (ii) coastal and marine resource management in the coral triangle of the Pacific, (iii) enhancing governance and accountability, (iv) strengthening regional cooperation and strategy and policy analyses, and (v) supporting results-based management.

⁸ ADB. 2007. *Country Operations Business Plan (2008–2010): Solomon Islands*. Manila.

V. RESULTS-BASED MONITORING

9. Progress in achieving intermediate outcomes, as indicated in the country operations business plan, 2008–2010,⁹ has largely been on track. Political instability—caused by the 2006 Honiara riots, the April 2007 earthquake and tsunami, and the political disturbances in the second half of 2007, which led to a new government in December 2007—has adversely impacted implementation of ADB’s program. Providing support for transport infrastructure and services is challenging due to the lack of capacity in the Ministry of Infrastructure Development, and ineffective government systems (e.g., for integrated planning, public financial management and procurement) relating to transport policies and strategy. Given the circumstances, substantial progress has been made with respect to private sector development, specifically in relation to legal and institutional reform to strengthen the legal framework for business. Progress has been slow in implementing the provisions of the new SOE Act, particularly those relating to governance and transparency, and in privatization, but it is expected that momentum will be regained under the new government. The country strategy and program results framework has been updated accordingly (Section VI). A comprehensive country partnership results framework will be developed in conjunction with the preparation in 2009 of the country partnership strategy (2010–2014).

⁹ ADB. 2007. *Country Operations Business Plan (2008–2010): Solomon Islands*. Manila.

VI. COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

(Changes to the country partnership strategy results framework contained in the Country Operations and Business Plan (2008–2010)¹⁰ are highlighted in bold)

National Medium-Term Development Agenda		Asian Development Bank Strategic Focus Development Objective: Sustainable pro-poor economic growth			Risks
Strategic Goals ^a	Key constraints	Intermediate Outcomes	Intermediate Indicators	ADB Assistance Program	
ADB Objective 1: Provide Transportation Infrastructure and Services					
Rebuilding supporting infrastructure	Poor infrastructure Unreliable interisland transport services Poor links between rural and urban areas	<ul style="list-style-type: none"> Infrastructure damaged in the April 2007 disaster rehabilitated and functionality restored. Current transport infrastructure assets operate upgraded and maintained to design standards (as specified in the NTP). Air and sea transport service frequencies to all provinces meet an agreed minimum standard (as specified in the NTP). 	<ul style="list-style-type: none"> NTP updated every 2 years. NTP funding channels and mechanisms finalized by 2008. Transport agreement(s) for uneconomic routes signed between the Government and operators, in accordance with due process. Critical constraints to rural accessibility alleviated through rehabilitation of feeder roads and improved interisland shipping services. 	<ul style="list-style-type: none"> Solomon Islands Road Improvement Project (ADF Grant 0048/0049/0050 SOL, 2006) Emergency Assistance Project (ADF Grant 0078-SOL, 2007) Strengthening Disaster Recovery Planning and Coordination (TA 4944-SOL, 2007) Preparing the Domestic Maritime Support Project and Technical Support Program (TA 4980-SOL, 2007) Domestic Maritime Support Project (ADF Grant 2008) Establishment of Maritime Authority (TA 2008) Preparing Rural Transport Infrastructure Project (TA 2009) Rural Transport Infrastructure Project (ADF Grant, 2010) Supporting Rural Transport Infrastructure Development (TA 2010) RETA for Establishment of the Pacific Aviation Safety Office (Loan 2183-REG 2005) RETA for Aviation Legislative and Regulatory Review (TA 6259-REG, 2005) 	<ul style="list-style-type: none"> Absorptive capacity of local counterpart. Further natural disasters.
ADB Objective 2: Create an Enabling Business Environment					
Reforming SOEs	Poor service delivery and financial	<ul style="list-style-type: none"> Sound SOE Act, including provisions for community service obligations. 	<ul style="list-style-type: none"> SOE Act being implemented and enforced. Two privatizations executed by 2009. 	<ul style="list-style-type: none"> Regional TA for Private Sector Development Initiative (TA 6353-REG, 2006) 	<ul style="list-style-type: none"> Political pressure to maintain

¹⁰ ADB. 2007. *Country Operations Business Plan (2008–2010)*: Solomon Islands. Manila.

National Medium-Term Development Agenda		Asian Development Bank Strategic Focus Development Objective: Sustainable pro-poor economic growth			Risks
Strategic Goals ^a	Key constraints	Intermediate Outcomes	Intermediate Indicators	ADB Assistance Program	
	performance by SOEs	<ul style="list-style-type: none"> • Management contracts and privatizations. • SOE monitoring function in Ministry of Finance strengthened. 	<ul style="list-style-type: none"> • Reduced fiscal allocations to privatized SOEs or those under management contract. 		<ul style="list-style-type: none"> • support for poorly performing SOEs. • Lack of political will to carry through privatization . • Political instability.
Legal and regulatory business environment	Ineffective business law, regulation, and property rights.	<ul style="list-style-type: none"> • Significant government progress in rationalizing business laws and legal institutions. 	<ul style="list-style-type: none"> • Companies Act passed in 2008 and implementation commenced. • Trustee Act passed in 2008. • Companies registry restructuring underway in 2008 and finalized in first half of 2009. 	<ul style="list-style-type: none"> • Supporting Business Law Reform (TA 2005) • Regional TA for Private Sector Development Initiative (TA 6353-REG, 2006) • Private Sector Development Support (TA 2011) • RETA for Pacific Financial Technical Assistance Centre (2005) 	<ul style="list-style-type: none"> • Political instability. • Absorptive capacity of local counterpart.
Financial development	Poor access to finance.	<ul style="list-style-type: none"> • Effective legal, regulatory, and technical collateral framework. 	<ul style="list-style-type: none"> • Secured Transactions Act passed in 2008 and secured transactions registry online by 2009. • Increased number of secured loans and broader range of borrowers. 	<ul style="list-style-type: none"> • RETAs for Diagnostic Studies for Secured Transactions Reforms in the Pacific Region (2005), and Private Sector Development Initiative (2006) 	<ul style="list-style-type: none"> • Absorptive capacity of local counterpart. • Political instability.

ADB = Asian Development Bank, ADF = Asian Development Fund, NTP = National Transport Plan; RETA = regional technical assistance; SOE = state-owned enterprise; TA = technical assistance.

^a Specific components of the government's development planning framework supported by ADB's assistance priorities in Solomon Islands.

Source: Asian Development Bank.

Table 1: Indicative Assistance Pipeline for ADF Grant Products, 2009–2011

Year/ Project Name	Intervention/ Thematic Priority	Division	Year of PPTA	ADF Grant (\$ million)	Cofinancing (indicative)		Total (\$ million)
					Source	Amount	
2010							
Rural Transport Infrastructure Project	General Intervention/ Sustainable Economic Growth	PAHQ	2009	14.73	TBD	5.0	19.73
Total				14.73		5.0	19.73

ADF = Asian Development Fund, PAHQ = Pacific Operations Division, PPTA = project preparatory technical assistance, TBD = to be determined.
Source: Asian Development Bank.

Table 2: Indicative Technical Assistance Pipeline, 2009–2011

Year/ Assistance Name	Assistance Type	Sources of Funding				Total (\$ million)
		ADB		Cofinancing (indicative)		
		Source	Amount (\$ million)	Source	Amount (\$ million)	
2009						
Preparing Rural Transport Infrastructure Project	PPTA	JSF	0.5		0.0	0.5
Total			0.5		0.0	0.5
2010						
Supporting Rural Transport Infrastructure Development	ADTA	JSF	1.2		0.0	1.2
Total			1.2		0.0	1.2
2011						
Private Sector Development Support	ADTA	TASF	1.0		0.0	1.0
Preparing Rural Support Services Project	PPTA	TASF	0.6		0.0	0.6
Total			1.6		0.0	1.6

ADB = Asian Development Bank, ADTA = advisory technical assistance, JSF = Japan Special Fund, PPTA = project preparatory technical assistance, TASF = Technical Assistance Special Fund.
Source: Asian Development Bank.

Table 3: Summary Information on Proposed Indicative ADF Grant Products for 2010

Project Name	Description
Rural Transport Infrastructure Project (2010)	<p>Impact The project is expected to help integrate the rural transport network to improve access to transport for the high proportion of the population without road transport.</p> <p>Major Components The project is expected to invest in rural feeder and provincial roads to complete gaps in the network, particularly in areas with high potential for agricultural production. Associated TA will be included to support development of transport infrastructure and consolidate government reforms relating to asset management and community contracting.</p> <p>Expected Outputs and Outcomes Improved access to transport in rural areas will lower transport costs and increase service reliability, thereby increasing incentives for agricultural production and providing rural income opportunities. Improved access will also facilitate delivery of social services, which are currently constrained by the incomplete and poorly maintained transport network.</p>

Source: Asian Development Bank.

Table 4: Summary Information on Proposed Indicative Technical Assistance for 2009

Project Name	Description
Preparing Rural Transport Infrastructure Project (2009)	<p>Impact The impact of the project is to improve the rural economy through better access to land and water transport.</p> <p>Major Components Rehabilitation and/or construction of rural feeder roads and wharves, particularly where connections between the main road network and isolated rural communities can be improved. Continued expansion of the use of community contracting for infrastructure maintenance. Establishment of an enhanced government project implementation unit in the Ministry of Infrastructure Development.</p> <p>Expected Outputs and Outcomes The rehabilitation of rural transport infrastructure is expected to remove bottlenecks that impede the export of rural commodities, engagement in economic activities, and access to social services. Improved access to transport will also assist the delivery of agriculture extension services, leading to increased production and marketing opportunities for local farmers. Integration of an enhanced project implementation unit will enable the government to exercise better control over planning, budgeting, and procurement for domestic and externally-assisted projects.</p>

Source: Asian Development Bank.

Table 5: Updated Priority Sectors and Themes

Priority Sector	Developments since the Adoption of the Country Partnership Strategy
Transport and Communications	<p>ADB's current country strategy and program update prioritizes transportation infrastructure and services as one of two main pillars of engagement. The government has (i) made progress in implementing institutional reforms in the Ministry of Infrastructure Development; (ii) established a new transport policy and planning unit; and (iii) improved maintenance planning, budgeting, and implementation.</p> <p>Prior to the recent earthquake and resulting tsunami, ADB was implementing the Post-Conflict Emergency Rehabilitation Project, which is nearly complete, and the Solomon Islands Road Improvement Project.</p> <p>Following the April 2007 tsunami, the government requested that ADB help with reconstruction and rehabilitation of damaged transport infrastructure (in addition to supporting the overall coordination of the disaster reconstruction and rehabilitation phase). ADB will support recovery and rehabilitation of the affected areas by (i) continuing to provide technical support for coordination and drafting of a comprehensive damage assessment and rehabilitation plan; (ii) prioritizing and sequencing activities within existing projects to respond to urgent needs; and (iii) assisting in the restoration of essential infrastructure, through the Emergency Assistance Project.</p>
Priority Theme	Developments since the Adoption of the Country Partnership Strategy
Private Sector Development	<p>The government has improved the enabling business environment. A number of reform measures have been implemented, including a new State-Owned Enterprise (SOE) Act, Foreign Investment Act, work and residency permit simplification, tax exemption guidelines, import duty reforms, and initiatives to expand financial services in rural areas. The government has progressed substantially, with ADB support, in formulating a new company bill, modernizing the company registry, and developing a secured transactions framework. However, progress in implementing provisions of the new SOE Act, in particular those relating to governance and transparency, has been slow. In a positive development, following from the SOE Act, SOEs are being assisted to update and audit their accounts. Privatization work on two SOEs has been slow, but momentum is being regained under the new (December 2007) government. The government has announced its intention to initiate negotiations to end the telecommunications monopoly and increase competition throughout the telecommunications market. Reform of power and particularly water utilities has been slowed by the political economy. It will be critical for the new government to reintroduce vigor into the reform process if the high costs of doing business in Solomon Islands is to be addressed.</p>

ADB = Asian Development Bank, SOE = state-owned enterprise.

Source: Asian Development Bank.

Table 6: Assistance for ADF Grant Products, 2008

Year/ Project Name	Intervention/ Thematic Priority	Division	Year of PPTA	ADF Grant (\$ million)	Cofinancing (indicative) (\$ million)	Total (\$ million)
Domestic Maritime Support Project	General Intervention/ Sustainable Economic Growth	PAHQ	2007	14.07	5.85	19.92
Total				14.07	5.85	19.92

ADF = Asian Development Fund, PAHQ = Pacific Operations Division, PPTA = project preparatory technical assistance
Source: Asian Development Bank.

Table 7: Technical Assistance Pipeline for Nonlending Products and Services, 2008

Year/ Assistance Name	Assistance Type	Sources of Funding				Total (\$'000)
		ADB		Cofinancing (indicative)		
		Source	Amount (\$'000)	Source	Amount (\$'000)	
Establishment of Solomon Islands Maritime Authority	ADTA	JSF	600		0	600
Total			600		0	600

ADB = Asian Development Bank, ADTA = advisory technical assistance, JSF = Japan Special Fund.
Source: Asian Development Bank.