



# Country Strategy and Program Update

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September 2006

Solomon Islands  
2007–2009

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 10 August 2006)

Currency Unit	–	Solomon Islands dollar (SI\$)
SI\$1.00	=	\$0.13
\$1.00	=	SI\$7.60

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AusAID	–	Australian Agency for International Development
CBSI	–	Central Bank of Solomon Islands
DBSI	–	Development Bank of Solomon Islands
EC	–	European Commission
ERU	–	Economic Reform Unit
FIAS	–	Foreign Investment Advisory Service
GDP	–	gross domestic product
GEF	–	Global Environment Facility
IMF	–	International Monetary Fund
JICA	–	Japan International Cooperation Agency
MDG	–	Millennium Development Goal
MID	–	Ministry of Infrastructure and Development
MFNRP	–	Ministry of Finance, National Reform, and Planning
NGO	–	nongovernment organization
NERRDP	–	National Economic Recovery, Reform, and Development Plan
NTF	–	national transport fund
NTP	–	National Transport Plan
NZAID	–	New Zealand Agency for International Development
OECD	–	Organisation for Economic Co-operation and Development
PDMC	–	Pacific developing member country
PFTAC	–	Pacific Financial Technical Assistance Centre
PRS	–	poverty reduction strategy
RAMSI	–	Regional Assistance Mission to Solomon Islands
RETA	–	regional technical assistance
SIEA	–	Solomon Islands Electricity Authority
SOE	–	state-owned enterprise
TA	–	Technical Assistance
UNDP	–	United Nations Development Programme

## NOTE

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars, unless otherwise indicated.

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## I. COUNTRY STRATEGY

1. The strategy of the Asian Development Bank (ADB) in Solomon Islands aims at rapid, pro-poor and private-sector-led economic growth. ADB will support the Government in (i) providing transportation infrastructure and services, and (ii) strengthening the enabling environment for the private sector. Capacity development and the promotion of good governance are cross-cutting priorities. ADB will provide no new loans subject to the improvement of the public debt situation. ADB's strategy supports the National Economic Recovery, Reform, and Development Plan, 2003-2006,<sup>1</sup> and the successor plan under preparation. The strategy contributes to ADB's goal of poverty reduction and is fully consistent with ADB's Pacific strategy, 2005-2009.<sup>2</sup> The country strategy and program results framework is in Appendix 1.

## II. CURRENT DEVELOPMENT TRENDS AND ISSUES

### A. Recent Political and Social Developments

2. General elections were conducted peacefully in April 2006. However, in reaction to the announcement of the new prime minister, riots broke out in the capital Honiara, resulting in serious damage to property, especially in Chinatown. The Regional Assistance Mission to Solomon Islands (RAMSI) was reinforced with police and army personnel, and law and order was quickly restored. The Prime Minister resigned after only 8 days in power following a vote of no-confidence. A five-party Grand Coalition for Change government, led by new Prime Minister Manasseh Sogavare, has been in power since May 2006. RAMSI's military component was scaled down following the ending of the riots. The political situation is still inherently volatile and social cohesion remains under stress.

3. Solomon Islands is one of the least developed of ADB's Pacific developing member countries (PDMCs), ranking 128 out of 177 countries covered in the 2005 Human Development Index (HDI), slightly ahead of Papua New Guinea and Timor-Leste.<sup>3</sup> The country lacks an adequate social infrastructure and services and does not generate enough income-generating and employment opportunities for a fast-growing population, of which about 50% is below 25 years and 85% lives in rural areas. The annual population growth rate of 2.8% is among the highest in the world. There is little formal employment outside urban Honiara; unemployment is rising, particularly among the youth; there is a high incidence of malaria; and HIV/AIDS has emerged as an important issue. If poverty is to be reduced and the social fabric healed, there needs to be a substantial improvement in delivery of basic social services and economic growth that engages the rural population.

### B. Economic Assessment and Outlook

#### 1. Recent Performance and Outlook

4. **Recent Performance.** Supported by a strong international economic environment, economic and public sector reforms and substantial donor assistance, the economy grew by an estimated 5% in 2005, compared with 8% in 2004. Agriculture and unsustainable logging were significant drivers of growth. Annual real GDP per capita rose by about 2% to an estimated \$641. Average inflation accelerated from 6.9% in 2004 to 7.2% in 2005, reflecting the flow-through effects of high oil prices and increases in local food and housing prices. The overall balance of payments

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<sup>1</sup> Government of Solomon Islands. 2003. *National Economic Recovery, Reform, and Development Plan 2003–2006*. Honiara. A successor to this plan is being prepared.

<sup>2</sup> ADB. 2004. *Pacific Strategy 2005–2009*. Manila.

<sup>3</sup> UNDP. 2005. *Human Development Report 2005*. New York.

recorded a surplus in 2005, equivalent to 3% of GDP. The level of foreign reserves in December 2005 provided over 5 months imports cover. Net foreign assets increased and domestic credit rose as a result of a 63% increase in private sector credit. Further progress was made in addressing the Government's heavy debt burden during 2005. The Government initiated a Honiara Club meeting with creditors in October 2005, at which the difficult debt situation was acknowledged and the foundations laid for debt restructuring and relief. Government debt fell to about 80% of GDP as a result of principal repayment of restructured and amortized bonds, restructuring of substantial government debt to the Central Bank, and restructuring and final settlement of debt to a bilateral creditor.

5. **Economic Outlook.** The negative short-term macroeconomic impact of the Honiara riots in April 2006 is likely to be small, with some stimulation from construction activity expected in the second half of 2006. The damage to foreign investor confidence, and therefore to potential adverse effects on medium- to long-term growth prospects, is of greater concern. The growth rate in 2006 is forecast to be about 5%, provided that strong economic growth in commodity export markets is sustained, the government continues to implement the reform program with RAMSI and its development partners, and there is no further civil unrest. Log production is expected to stabilize at about the 2005 record level, so growth will have to come from other commodities. Palm oil production will make a significant growth contribution in 2006 for the first time since 1999. Delays in re-establishing the Gold Ridge mining operation mean that it will not make a significant contribution to economic growth until 2008. Exports are projected to rise but will again be outpaced by import growth in response to strong domestic demand and implementation of externally-funded projects. Inflation is forecast to edge towards 10%.

6. The 2006 budget provides for a further substantial increase (20%) in recurrent expenditure (to SI\$829.4 million) compared with 2005. Domestic revenue is forecast to rise 9.9% to SI\$688.1 million, leaving the balance of expenditure to be financed by New Zealand budget support (SI\$61.3 million for education) and accumulated cash reserves (SI\$80.0 million). The public service wage bill absorbs 37% of expenditure, and debt repayments account for 14.6%. The budget also makes an unfunded provision for SI\$40 million in contingencies which will place pressure on government finances. Other pressures arise from a post-budget increase in election funding (SI\$5 million), possible public service pay increases (up to SI\$35.0 million) and increased costs for tertiary education scholarships (SI\$4 million). The Government also is planning a Supplementary Appropriation Bill in mid-2006.

## 2. Policy Developments and Issues

7. The Government has presented a wide-ranging Grand Coalition for Change Policy Framework Document,<sup>4</sup> which identifies a number of policy themes<sup>5</sup> that are expected to be translated by ministries into medium-term action plans. These will succeed the National Economic Recovery, Reform and Development Plan, 2003–2006. Key issues and objectives include ethical leadership; maintenance of law and order; good governance in a results-driven and well-resourced public sector; a conducive and secure environment for private-sector-led economic growth; a financial system that increases access to services for the majority of the population; an equitable justice system; pursuit of the Millennium Development Goals; and greater access to health and education services. A greater focus on rural development is a cross-cutting theme.

<sup>4</sup> Government of Solomon Islands. 2006. *Grand Coalition for Change, Policy Framework Document*. Honiara.

<sup>5</sup> The policy themes are: (i) a new constitution for a federated system; (ii) police and national security; (iii) justice and legal affairs; (iv) national reconciliation and peace; (v) foreign affairs; (vi) finance and planning; (vii) banks and other financial institutions; (viii) development planning, aid coordination and management; (ix) economic infrastructure; (x) social services sector; and (xi) the public service.

8. The policy framework strongly emphasizes rural development. Rural communities in Solomon Islands are poorly equipped with physical infrastructure (e.g., roads, ports and wharves), shipping services, telecommunications, and power and financial services. A careful evaluation of the best way of removing these barriers to provincial economic growth and improving poverty reduction is needed, drawing on good practice regionally and internationally and learning from past experience. An agricultural and rural development strategy and rural development program are being developed. Meanwhile, vastly improved maintenance is required to maintain connectivity for those areas that are at risk of losing access through infrastructure deterioration. The Government has also stated its intention to (i) improve governance and the quality of public administration, (ii) strengthen fiscal governance, and (iii) create a conducive environment for domestic and foreign businesses by implementing tax reform, investigating the mobilization of customary land for economic and productive uses, and increasing the reliability and price competitiveness of infrastructure services. However, some policy statements in the policy framework suggest an expanded, more interventionist role for the State, with consequent fiscal implications.

### **C. Implications for Country Strategy and Program**

9. ADB's country strategy for Solomon Islands remains highly relevant in terms of development needs, government priorities, ADB's comparative advantage, and effective division of labor among development partners. Taking into account the public debt situation, and in line with prudent government policy and Honiara Club commitments, ADB will not provide new lending to Solomon Islands until the debt situation stabilizes. Progress will be assessed by debt indicators established by the IMF.<sup>6</sup> In view of the country's weak governance, policies and institutions, and ADB's relatively limited resources in the absence of a lending program, ADB will continue its highly focused strategy and program, and seek to maximize impact in two priority areas: (i) transportation infrastructure and services, and (ii) the enabling business environment.

10. In line with principles of good international engagement in fragile states, adopted by the Organisation for Economic Co-operation and Development's Development Assistance Committee Learning and Advisory Group and the Paris Declaration on Aid Effectiveness, in delivering its strategy and program ADB will seek to: (i) focus on state building (governance, effective institutions, and business environment); (ii) align ADB's core strengths with local priorities; (iii) closely cooperate, coordinate and, to the extent possible, harmonize with other development partners; (iv) further enhance its responsiveness within its focus areas; and, (v) remain engaged for the long term.

11. Government and donors face the dilemma that, while institutions should ideally be developed with a long-term vision, the post-conflict situation requires that programs to stabilize and rehabilitate the economy (and the public service) must continue to be delivered urgently despite very limited capacities. ADB will, therefore, continue a two-track approach that aims at long-term capacity development while at the same time delivering rapid impact and reform outcomes in the focus areas. The long-term perspective is taken into account through longer-term engagement in the focus areas. Progress will be carefully monitored, and program adjustments may be undertaken as appropriate.

## **III. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM**

### **A. Progress in Poverty Reduction**

12. Solomon Islands and ADB signed a poverty partnership agreement in 2003. In the intervening period, poverty initially increased as a result of the conflict, weakened governance and

<sup>6</sup> IMF. 2005. *Staff Report for the 2005 Article IV Consultation*. Washington, DC.

institutional structures, a largely interrupted delivery of essential services, and poor social cohesion. The country is far behind in meeting the Millennium Development Goals (MDGs) by 2015 (see Table A.2.1, Appendix 2). Moreover, for all indicators there are great variations between the provinces. However, some significant progress has been made over the past 3 years in implementing the RAMSI-supported recovery and development agenda. The restoration of law and order has laid the foundation for a partial resumption of basic services and an improved business environment. Education and health, as well as community services, have been significantly improved, especially in areas affected by the conflict. Government finances have been stabilized and significantly improved, facilitating service delivery. Economic growth has been exceeding population growth, raising income per capita. Large private sector projects are being re-established and jobs created. Recent economic growth has been driven by cocoa and copra production, benefiting the rural population. Likewise, the anticipated increase in palm oil production is expected to have a positive effect on poverty reduction in rural areas. More infrastructure projects are being implemented, which are connecting rural communities to social services and markets. Commercial banks have made more efforts to serve rural areas.

13. It is widely recognized that the road to recovery from the 1999–2003 tensions will be long, and much remains to be done to (i) generate economic growth especially in rural areas, increase income-generating opportunities, and improve social indicators, and (ii) address some of the important reasons behind the tensions, namely the perceived inequitable distribution of resources, opportunities, and basic services.

## **B. Progress in the Country Strategy and Program Focus Areas**

### **1. Transportation Infrastructure and Services**

14. Pro-poor economic growth and improvements in social and health indicators depend on revitalizing the rural economy. Improved transportation infrastructure and services are essential to remove barriers to market access and promote the growth of rural production, which will ultimately reduce poverty. ADB's sector strategy has two strategic focus areas: (i) support the rehabilitation and maintenance of physical infrastructure, and (ii) facilitate the improvement of interisland transportation services. A transport sector road map for 2007-2009 will guide ADB's operations (Appendix 3). Successful implementation of transport sector reforms will be facilitated by ongoing and proposed business law reform measures, as supported by ADB.

15. **Rehabilitation and Maintenance of Physical Infrastructure.** The extremely poor condition of rural roads (with about 80% in very poor or impassable condition) makes it difficult or impossible to move people and commodities to markets and services. The ongoing ADB Post-Conflict Emergency Rehabilitation Project<sup>7</sup> has been instrumental in rehabilitating roads and bridges on Guadalcanal and Malaita that were damaged during the conflict. About 30% of physical works were complete as of mid-2006, and project completion is expected in March 2008. ADB will also implement a new Road Improvement (Sector) Project<sup>8</sup> that will rehabilitate high-priority roads in rural areas throughout the country, in support of the Government's renewed focus on rural development. A strong focus on poverty reduction has been adopted through geographical targeting of poor areas, increased use of labor-based construction and maintenance methods, and integration with other rural transport services. The project will also include a significant capacity

<sup>7</sup> ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Solomon Islands for the Post-Conflict Emergency Rehabilitation Project*. Manila (Loan 1823-SOL, approved in December for \$10 million and expanded to \$18.5 million through grant cofinancing by Australia and New Zealand (approved in February 2006).

<sup>8</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Asian Development Fund Grant to Solomon Islands for the Road Improvement (Sector) Project*. Manila.

development component for the Ministry of Infrastructure and Development (MID) to enable it to plan, maintain, and manage the infrastructure sector and to consolidate reforms begun under previous TA.<sup>9</sup> Initial progress on management of key risks involved in infrastructure development in the areas of public health, land acquisition, and community participation is being consolidated and lessons should be incorporated in future projects and TA.

16. **Institutional Strengthening and Reform.** To leverage scarce public sector resources and promote opportunities for the private sector, MID is decreasing its direct provision of works to concentrate on policy development, regulation, asset management and contract administration. To support this transition, ADB is providing a TA for the Institutional Strengthening of MID.<sup>10</sup> The TA is preparing a National Transport Plan to guide development, creating a transport policy and planning unit to ensure implementation, and establishing a national transport fund to provide finance. These measures will increase MID's capacity to improve maintenance, conduct project management and contract administration, promote private sector involvement in infrastructure development, and play a central role in aid coordination and facilitate effective expenditure of European Commission (EC) Stabex funds.<sup>11</sup> The long-term goals are to prepare for the eventual implementation of a sector-wide approach and to reduce the reliance on project management units, by developing increasing capacity for responsibility within MID. The TA will be completed by the end of 2006.

17. **Interisland Shipping.** Interisland transport is required to connect producers to domestic and international markets, enable labor mobility, and facilitate access to social services, all of which are essential components of the overall poverty reduction strategy. Improvement of interisland transport is a Government priority. ADB is providing assistance in three phases to develop and implement a reform agenda. A TA for Diagnostic Assessment of Interisland Transport conducted a needs assessment and prepared recommendations for policy and institutional reform.<sup>12</sup> A TA for Implementation of Interisland Transport Reforms,<sup>13</sup> now being implemented, will improve the legislative and regulatory frameworks, restructure public enterprise shipping companies, facilitate development of private sector operators, and provide training in both public and private sectors. A TA for Strengthening Interisland Shipping in 2006 will complement the previous two projects by further implementing recommended reform measures.<sup>14</sup> These TA activities have supported the development of the National Transportation Plan, and ADB has coordinated closely with a European Commission (EC) initiative to ensure a sustainable minimum level of service on uneconomic routes.

18. **Aviation.** In January 2005, the Government requested priority assistance to reform Solomon Airlines. In response, ADB provided two phases of TA.<sup>15</sup> In the first phase, Development of a Privatization Strategy for Solomon Airlines, ADB determined the operational and financial situation of the airline and prepared an action plan for restructuring. This was then implemented

<sup>9</sup> Land acquisition is not an issue in this sector since all anticipated projects are for rehabilitation of existing facilities.

<sup>10</sup> ADB. 2004. *Technical Assistance to Solomon Islands for Institutional Strengthening in the Ministry of Infrastructure and Development*. Manila (TA 4494-SOL, approved in December for \$700,000).

<sup>11</sup> Stabex is the acronym for a compensatory finance scheme by the European Commission to stabilize export earnings of African, Caribbean, and Pacific countries. It has been proposed that the EC Stabex funds, earmarked for the Solomon Islands, would finance a major part of the National Transport Fund.

<sup>12</sup> ADB. 2004. *Technical Assistance to Solomon Islands for Diagnostic Assessment of Interisland Transport*. Manila (TA 4527-SOL, approved in December 2004 for \$350,000).

<sup>13</sup> ADB. 2005. *Technical Assistance to Solomon Islands for Implementation of Interisland Transport Reforms*. Manila (TA 4588-SOL, approved in May for \$495,000).

<sup>14</sup> This TA is expected to help implement the policy and institutional reform agenda. Support will be provided for the initial operation of a franchise tendering scheme for uneconomic routes, including private sector development activities to assist ship owners in responding to a new operating environment.

<sup>15</sup> ADB. 2002. *Technical Assistance for Preparing a Pacific Governance Strategy – Development of a Privatization Strategy for Solomon Airlines*. Manila (TA 6085-REG); and ADB. 2004. *Technical Assistance to Solomon Islands for Diagnostic Assessment of Interisland Transport*. Manila (TA 4527-SOL approved in December for \$350,000).

with Australian funding. In the second phase, ADB assessed models for private sector participation, recommended institutional mechanisms, and proposed a transaction structure. Support for further reform has been mixed, and there has been no policy decision by the Government on whether to proceed. ADB is waiting for a Cabinet-level policy decision, and guidance from the Government on its commitment, before continuing the TA.

19. **Other Assistance.** ADB's support for transportation complements assistance underway or being considered by other development partners. EC is providing provincial wharves and considering financial support to promote shipping services on uneconomic routes. Grant aid from the Government of Japan has upgraded the runway of the international airport and built bridges. Australia is considering providing road maintenance equipment and services through its Community Support Program. These programs are coordinated by MID through the National Transport Plan. Solomon Islands also participates in two ADB-funded regional projects in (i) civil aviation<sup>16</sup> (the project has established a regional organization to provide regulatory and safety oversight) and for (ii) a regional transport analysis<sup>17</sup> that will develop options to improve inter-regional shipping and aviation. Both are underway.

## 2. Enabling Business Environment

20. An ADB-sponsored private sector assessment (PSA) for Solomon Islands<sup>18</sup> in 2005 emphasized the need to rationalize the state-owned enterprise (SOE) portfolio; improve infrastructure and infrastructure services; enhance access to credit; reform business law and regulations; encourage rural development; and resolve property rights issues by unlocking customary land for productive and economic uses within a traditional landownership framework. Key crosscutting challenges include the extent of Government commitment to reform and capacity to implement policies; adequate mechanisms and processes to implement the reform agenda and the private sector's response to microeconomic incentives. A road map for the enabling business environment will guide ADB's operations (Appendix 4).

21. **State-owned Enterprise Reform.** ADB TA has supported government-wide SOE reform since May 2005.<sup>19</sup> However, progress has been slow. There has been little Government support for SOE policy and legislation; the establishment of reporting and monitoring mechanisms; or private sector solutions for the airline (para. 18), the water and power sectors (supported by World Bank), or other SOEs. It is vital that the new Government accelerates the reform process. The passing of an SOE Act is a priority if an effective and consistent framework for good governance across all state-owned enterprises is to be introduced and up-to-date audited financial statements produced. The act is also essential for the national planning process currently underway to clarify SOE objectives, performance expectations, community service obligations, and their links to the Budget and for progress in restructuring utilities and the national airline. Through ongoing TA, ADB will seek to engage and support the new Government with respect to SOE policy and legislation, economic regulation, selected privatization transactions, continued capacity development, and awareness building through consultation, participation, and communication.

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<sup>16</sup> ADB. 2005. *Technical Assistance for Establishment of the Pacific Aviation Safety Office*. Manila (Loan 2183-REG, approved in September 2005 for \$1,500,000); and ADB. 2005. *Technical Assistance for Aviation Legislative and Regulatory Review*. Manila (TA 6259-REG, approved in September for \$495,000).

<sup>17</sup> ADB. 2004. *Technical Assistance for Pacific Regional Transport Analysis*. Manila (TA. 6166-REG, approved in January for \$467,000).

<sup>18</sup> ADB. 2005. *Private Sector Assessment for Solomon Islands*. Consultant report. Manila and Sydney.

<sup>19</sup> ADB. 2004. *Technical Assistance to Solomon Islands for State-owned Enterprise Reforms and Private Sector Participation*. Manila (TA 4482-SOL, approved in December for \$800,000).

22. **Access to Finance.** On the basis of a diagnostic study on secured lending in Solomon Islands in 2005,<sup>20</sup> ADB is preparing an initiative to support comprehensive secured transactions reform, starting in late 2006. Likewise, based on interest from commercial banks and a Government request, ADB is considering a viability study for a credit reference facility. Commercial banks have, to various degrees, made efforts to expand branch networks, introduce electronic networks, and launch mobile banking initiatives. ADB will consider providing short-term expertise to support promoting expansion of rural finance on a commercial basis and through new microfinance technologies. Progress has been made, by Central Bank of Solomon Islands (CBSI) as the court-appointed manager, in stabilizing the balance sheet of the insolvent Development Bank of Solomon Islands (DBSI). The CBSI Board has determined that the formal winding up of DBSI is the most appropriate course of action, and the legal mechanism for achieving this is being worked out. The completion of the liquidation process will send an important signal to lenders and development partners interested in developing innovative and commercially viable initiatives in support of access to finance.

23. **Business Law.** ADB's report on Reforming Commercial Law in Solomon Islands<sup>21</sup> in 2005 concluded that virtually every aspect of doing business—start-up, operation, closure—is difficult and expensive. The regulatory system is burdensome, forcing businesses to spend substantial time and money running a gauntlet of rules, taxes, and licenses that do not have any compensating public policy objective. The procedures for incorporation are time-consuming and costly because of complicated procedures, filing requirements, slow processing of applications, and poor security of information and documentation. Discretionary authority in business licensing and company registration processes leads to delays and may invite corruption. The World Bank's *Doing Business* survey confirmed Solomon Islands' weaknesses in relation to its legal and regulatory business environment.<sup>22</sup>

24. A public-private Business Law and Administrative Reform Steering Committee was established in 2005, with support from ADB and the Foreign Investment Advisory Service (FIAS), to guide the development of an effective and efficient legal and regulatory framework governing business activity. ADB's PSA and the Commercial Law Report have helped formulate the immediate reform agenda, and the new Government has reconfirmed its commitment to carry out reforms. A new Foreign Investment Act was passed in November 2005. An electronic foreign investment registry has been established and staff trained at the Department of Commerce, Industries and Employment to implement the act's provisions. With FIAS support, progress has been made in speeding up procedures for work and residency permits. The Government is preparing a comprehensive reform of the taxation system, with the support of the Pacific Financial Technical Assistance Centre (PFTAC), which will initially address income taxes, export duties, and excise taxes. ADB TA for business law reform, fielded in July 2006, is reforming the Companies Act and designing reform of the companies' registry.<sup>23</sup> In addition to the potential economy-wide impacts, these reforms measures will be crucial to improving private sector investment in shipping (see para. 17), and link in well with the Government's plans to mobilize customary land for economic and productive uses through legal and regulatory reforms.

<sup>20</sup> ADB. 2006. *Promoting Secured Lending in Solomon Islands: An Analysis of the Secured Transactions Framework for Lending in Solomon Islands*. Manila. Consultant Report prepared under ADB. 2004. *Technical Assistance for Diagnostic Studies for Secured Transactions Reform*. Manila (TA 6202-REG).

<sup>21</sup> ADB. 2005. *Solomon Islands: Reforming Commercial Law to Advance Private Sector Development*. Manila. Consultant report prepared under ADB. 2003. *Technical Assistance for Improving the Legal Business Environment in the Pacific Region*. Manila (TA 6162-REG).

<sup>22</sup> World Bank. 2005. *Doing Business in 2005*. Washington, DC.

<sup>23</sup> ADB. 2005. *Technical Assistance to Solomon Islands for Supporting Business Law Reform*. Manila (TA 4700-SOL, approved in December for \$600,000).

### **C. Highlights in Coordination of External Funding and Partnership Arrangements**

25. In response to the post-conflict situation, donors have committed generous aid packages. Government estimates indicate total aid flows in 2005 of around \$123 million, and \$132 million in 2006. RAMSI is developing a medium-term strategy, including a performance framework, which should be available towards the end of 2006. The Governments of Australia and New Zealand, in cooperation with the Government's Department of National Planning and Aid Coordination and local stakeholders, are preparing a pilot results management scheme in the context of the OECD Development Assistance Committee's Principles of Good International Engagement in Fragile States. Table A2.5, Appendix 2 contains an overview of donor activities. Donor coordination has generally improved and coordination meetings are held regularly. The Department of National Planning and Aid Coordination is in the process of improving its skills, systems, and processes.

26. ADB's assistance is increasingly harmonized with the programs of other partner agencies, with a long-term goal of preparing Government to implement a sector-wide approach in infrastructure. The reform program in MID is coordinating sectoral development through a National Transport Plan and continuing to strengthen MID's transport policy and planning unit. The MID reform program will catalyze the delivery of other donor resources by establishing a national transport fund. ADB, AusAID, and NZAID have developed a constructive partnership that has led to significant grant cofinancing for transport infrastructure. Donor coordination and partnerships in business environment reform have been further enhanced. TA projects for business law reform and SOE reform have been supported by Australian cofinancing. Close collaboration with FIAS helped to establish mechanisms for reform of business law and reductions in administrative barriers. ADB's work to reform SOEs have been aligned with the World Bank's efforts to reform the power and water sectors. ADB will support, through its strategic thrust areas and related activities, joint efforts by the World Bank, AusAID, and EC in assisting the Government to formulate, and then implement, an agricultural and rural development strategy and program.

## **IV. PORTFOLIO MANAGEMENT ISSUES**

### **A. Portfolio Performance**

27. ADB's country portfolio, comprising five TAs and one loan, is progressing satisfactorily overall considering the difficult operating environment. Implementation of the Post-Conflict Emergency Rehabilitation Project loan has been appreciated locally, and has attracted significant additional grant cofinancing. TA projects for institutional capacity building for infrastructure and interisland-shipping are progressing satisfactorily, although those for airline privatization and SOE reform have not progressed. There is still concern about lack of political commitment to reform and lack of capacity in counterparts (despite some progress in the past 12 months). The risk of unsuccessful delivery of assistance, and therefore of not achieving development outcomes, has been higher than anticipated and lessons will have to be taken into consideration in the design of future assistance. ADB's continued narrow strategic focus should help engage key stakeholders and to develop capacity.

### **B. Performance Monitoring and Evaluation**

28. Limited capacity in all branches of Government, combined with extensive aid interventions, have exacerbated problems in the Government's aid planning, management and coordination. The Ministry of Finance and National Planning (MFNP) is responsible for preparing the Government's development programs and for monitoring and evaluating externally assisted development projects. National planning and aid coordination, including the link between development and recurrent budgets, are being strengthened with donor support. The Department of Finance and

Treasury, MFNP, is ADB's main counterpart for strategy and programs. It also plays a role in project level through the Economic Reform Unit (ERU), although ADB is increasingly assigning responsibility for project execution to the sector agencies concerned (MID and the Ministry of Commerce), to improve project management and allow MFNP to focus on strategic issues. Capacity development will enable line ministries to undertake their proper role. ADB will continue to monitor the program's implementation progress and related issues closely, and may adjust the program in the course of the programming cycle.

## V. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS

### A. Nonlending Program

29. In the absence of loan financing in the medium term, the nonlending program will be the major vehicle for delivering ADB's country strategy. Flexibility will be important so ADB can respond to reform opportunities and complement grant resources of other agencies, especially in infrastructure. The proposed program assumes that existing donor partnerships can be continued and harmonization efforts enhanced. The country specific allocations have been derived on the basis of the results of the 2005 country performance assessment (CPA) exercise (see Table 2.13, Appendix 2 for CPA Ratings), after applying the performance-based assessment formula. The Asian Development Fund (ADF) allocation for Solomon Islands includes ADF grant support of \$600,000 for 2007-2009.<sup>24</sup> An infrastructure investment project has been programmed for 2009 combining the full three-year allocation (\$1.8 million). This project could be advanced, if MID's absorptive capacities can be strengthened and grant cofinancing attracted.

30. To streamline its portfolio, and because of its narrow strategic program focus and limited government capacity, ADB will seek to limit its nonlending program to one new multi-year TA project per annum. Subject to availability of core TA resources, ADB will provide about \$1 million annual TA support during the 2007–2009 period. In 2007, ADB will begin the MID Technical Support Program, a multi-year TA project to support the development of MID as a planning, contracting and asset management agency. In 2008, ADB will provide a TA project to improve the legal business environment through the medium- to long-term business law and regulatory reform agenda. There will be no new TA project in 2009 as the allocation for 2009 will have been advanced to the MID Technical Support Program in 2007. To complement the TA program and leverage scarce TA resources, ADB will include Solomon Islands in regional TA (RETA) activities where feasible. A table summarizing the nonlending program is in Table A2.11, Appendix 2 and TA concept papers are in Appendix 5. Cost sharing arrangements for these parameters will be in accordance with arrangements in place as of 25 August 2005.<sup>25</sup>

### B. Summary of Changes to Nonlending Program

31. A TA for private sector participation, originally programmed for 2007, has been dropped and replaced with the MID Technical Support Program. One new TA has been included in the 2008 program for Improving the Legal Business Environment, and an ADF grant for infrastructure investment has been added in 2009. A summary of changes in the nonlending program is in Table A4.3.

<sup>24</sup> Although no new lending is proposed, the planning figures also indicate a potential annual average loan amount of \$1.4 million, subject to improvement of the country's debt situation. ADF assistance program for 2009 is tentative, with actual ADF assistance levels subject to the results of the 2007 CPA exercise and the outcome of the discussions on the next ADF replenishment. In the absence of a lending program, financing parameters have not been developed for lending assistance.

<sup>25</sup> ADB. 2006. Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing. *Compendium of Staff Instructions*. Manila.

## COUNTRY STRATEGY AND PROGRAM RESULTS FRAMEWORK

National Medium-Term Development Agenda		Asian Development Bank Strategic Focus Development Objective: Sustainable pro-poor economic growth		
Strategic Goals <sup>a</sup>	Key constraints	Intermediate Outcomes	Intermediate Indicators	ADB Assistance Program
<b>ADB Objective 1: Provide Transportation Infrastructure and Services</b>				
Rebuilding supporting infrastructure	Poor infrastructure, especially inter-island transport infrastructure services  Poor links between rural and urban areas	<ul style="list-style-type: none"> <li>Current transport infrastructure stock operates to design standards (to be specified in the NTP)</li> <li>Air and sea transport service frequencies to all provinces meet an agreed upon minimum standard (to be specified in the NTP)</li> </ul>	<ul style="list-style-type: none"> <li>NTP approved by end-2006 and updated every 2 years</li> <li>NTP funding channels and mechanisms, operating efficiently by 2006</li> <li>MID contract management systems in place by 2006</li> <li>Transport agreement(s) for uneconomic routes signed between the Government and operators, in accordance with due process</li> <li>Critical constraints to rural accessibility alleviated through rehabilitation of feeder roads and improved interisland shipping services</li> </ul>	<ul style="list-style-type: none"> <li>Post-Conflict Emergency Rehabilitation Project (2000): Loan 1823-SOL</li> <li>Establishment of the Pacific Aviation Safety Office (2005) (participating member, but not a borrower or guarantor): Loan 2183-REG:</li> <li>Road Improvement Sector Project (2006): ADF Grant:</li> <li>Institutional Strengthening for the Ministry of Infrastructure Development (MID) (2004)</li> <li>Diagnostic Study of Interisland Transport (2004)</li> <li>Implementation of Interisland Transport Reforms (2005)</li> <li>Strengthening Interisland Shipping (2006)</li> <li>MID Technical Support Program (2008)</li> <li>Regional TAs (RETAs) for Civil Aviation Safety and Security (2003); Pacific Regional Transport Analysis (2004); Partnering to Improve Delivery of Infrastructure Services (2005); Aviation Legislative and Regulatory Review (2005); and Improving Delivery of Infrastructure Services (2005)</li> </ul>
<b>ADB Objective 2: Create an Enabling Business Environment</b>				
Reforming SOEs	Poor service delivery and financial performance by SOEs	<ul style="list-style-type: none"> <li>Reduced fiscal allocations to and contingent liabilities from SOEs</li> <li>Enhanced corporate governance and improved financial and service delivery performance of retained SOEs</li> <li>Improved service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Sound SOE ownership policy and legislation Cabinet approved by end 2006, and implementation commenced.</li> <li>Agreed list of SOEs privatized or otherwise transformed</li> <li>SOE restructuring commenced, as appropriate, and SOEs increasingly meeting accounting and reporting requirements</li> </ul>	<ul style="list-style-type: none"> <li>SOE Reforms and Private Sector Participation (2004)</li> <li>Diagnostic Study of Interisland Transport – Solomon Airlines privatization component (2004)</li> <li>RETA for Strengthening Financial Management and Accountability in the Pacific (2006)</li> </ul>
Private sector development	Outdated and ineffective business law, regulation, and property rights	<ul style="list-style-type: none"> <li>Significant government progress in rationalizing business laws and legal institutions</li> </ul>	<ul style="list-style-type: none"> <li>Companies Act passed and implemented by 2007</li> <li>Companies registry reformed by 2008</li> <li>Number of other business law reforms identified, diagnosed, and reformed</li> </ul>	<ul style="list-style-type: none"> <li>Supporting Business Law Reform (2005)</li> <li>Improving Business Environment (2008)</li> <li>Regional TAs for Improving the Legal Business Environment in the Pacific Region (2003); Pacific Financial Technical Assistance Centre (2005); and Private Sector Development Initiative (2006)</li> </ul>
Financial development	Poor Access to Finance	<ul style="list-style-type: none"> <li>Effective legal, regulatory, and technical collateral framework</li> </ul>	<ul style="list-style-type: none"> <li>Increased number of secured loans, and broader range of borrowers</li> </ul>	<ul style="list-style-type: none"> <li>Secured Transaction Reforms (2006)</li> <li>RETA for Diagnostic Studies for Secured Transactions Reforms in the Pacific Region</li> </ul>

MID = Ministry of Infrastructure and Development; NTP = National Transport Plan; SOE = state-owned enterprise; RETA = Regional technical assistance; TA = technical assistance.

<sup>a</sup> Specific components of the National Economic Recovery, Reform, and Development Plan, 2003-2006 that are supported by ADB's assistance priorities in Solomon Islands.

Source: Asian Development Bank

## COUNTRY AND PORTFOLIO INDICATORS, AND ASSISTANCE PIPELINE

### Table A2.1: Progress Toward the Millennium Development Goals and Targets

Goals and Targets	1990	1995	Latest Year
<b>Goal 1. Eradicate Extreme Poverty and Hunger</b>			
<b>Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day</b>			
1. Proportion of population below \$1(PPP) per day	—	—	—
2. Poverty gap ratio	—	—	—
3. Share of poorest quintile in national consumption (%)	—	—	—
<b>Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger</b>			
4. Prevalence of underweight children under-five years of age	21.30 (1989)	—	21.00 (1999)
5. Proportion of population below minimum level of dietary energy consumption			
<b>Goal 2. Achieve Universal Primary Education</b>			
<b>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling</b>			
6. Net enrolment ratio in primary education, total (%)	39.00 (1986)	—	56.00 (1999)
6.1 Net enrolment ratio in primary education, female (%)	76.90	—	—
6.2 Net enrolment ratio in primary education, male (%)	89.10	—	—
7. Proportion of pupils starting grade 1 who reach grade 5 (%)	84.90	—	—
8. Literacy rate of 15-24 year olds (%)	62.00 (1991)	—	—
<b>Goal 3. Promote Gender Equality and Empower Women</b>			
<b>Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015</b>			
9. Ratio of girls to boys			
9.1 Ratio of girls to boys, primary education	0.80 (1986)	—	0.86 (1999)
9.2 Ratio of girls to boys, secondary education	0.57 (1986)	—	0.70 (1999)
9.3 Ratio of girls to boys, tertiary education	—	0.30	0.30 (2000)
10. Ratio of literate women to men, 15-24 year old			
11. Share of women in wage employment in non-agricultural sector (%)	30.80	—	—
12. Proportion of seats held by women in national parliament (%)	0.00	2.00 (1997)	0.00 (2005)
<b>Goal 4. Reduce Child Mortality</b>			
<b>Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate</b>			
13. Mortality, under-five years old, per 1,000 live births	36.00	30.00	56.00 (2004)
14. Mortality, infant (0-1 year old), per 1,000 live births	29.00	25.00	34.00 (2004)
15. Proportion of 1 year-old children immunized against measles (%)	70.00	68.00	72.00 (2004)

<b>Goal 5. Improve Maternal Health</b>			
<b>Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio</b>			
16. Maternal mortality ratio, per 100,000 live births	—	60.00	295 (2003)
17. Proportion of births attended by skilled health personnel (%)	—	85.00 (1994)	85.00 (1999)
<b>Goals and Targets</b>	<b>1990</b>	<b>1995</b>	<b>Latest Year</b>
<b>Goal 6. Combat HIV/AIDS, Malaria, and Other Diseases</b>			
<b>Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS</b>			
18. HIV prevalence rate among pregnant women aged 15-24 years	—	—	—
19. Contraceptive prevalence rate among women 15-49 years old (%)	—	—	6.80 (2001)
20. Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years	—	—	—
<b>Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases</b>			
21. Prevalence and death rates associated with malaria			
21.1 Prevalence of Malaria, per 100,000 persons	44,853.00 (1992)	—	16,170 (2002)
21.2 Death Rate Associated With Malaria, per 100,000 persons	10.80 (1992)	—	13.60 (2002)
22. Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures (%)	—	53.00 (1999)	42.00 (2002)
23. Prevalence and death rates associated with tuberculosis			
23.1 Prevalence of Tuberculosis, per 100,000 persons	392.00	81.00 (2000)	60.00 (2003)
23.2 Death Rate Associated With Tuberculosis, per 100,000 persons	30.00	9.00 (2000)	4.00 (2003)
24. Proportion of Tuberculosis cases detected and cured under directly observed treatment short course DOTS			
24.1 Tuberculosis cases detected under DOTS (%)	—	57.00 (1996)	107.00 (2003)
24.2 DOTS treatment success of Tuberculosis (%)	—	65.00	90.00 (2003)
<b>Goal 7. Ensure Environmental Sustainability</b>			
<b>Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources</b>			
25. Proportion of land area covered by forest (%)	90.30	—	77.60 (2005)
26. Ratio of area protected to maintain biological diversity to surface area	—	0.00	0.00 (2004)
27. Energy use (kg oil equivalent) per \$1 GDP (PPP)	—	—	—
28. Carbon Dioxide Emissions, per capita metric tons	0.50	0.40	0.40 (2002)
29. Proportion of population using biomass fuels (%)	—	—	95.00 (2003)
<b>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation</b>			
30. Proportion of population with sustainable access to an improved water source, total population (%)	—	29.80 (1999)	70.00 (2002)
30.1 Proportion with access to safe water, urban population (%)	—	80.90 (1999)	94.00 (2002)
30.2 Proportion with access to safe water, rural population (%)	—	21.80 (1999)	65.00 (2002)
31. Proportion of population with access to improved	—	22.40 (1999)	31.00 (2002)

sanitation, total population (%)			
31.1 Proportion with access to sanitation, urban population (%)	98.00	85.30 (1999)	98.00 (2002)
31.2 Proportion with access to sanitation, rural population (%)	—	12.50 (1999)	18.00 (2002)

**Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers**

32. Proportion of households with access to secure tenure			
32.1 Slum population as percentage of urban Population (%)	8.00	—	8.00 (2001)

Goals and Targets	1990	1995	Latest Year
<b>Goal 8. Develop a Global Partnership for Development</b>			
<b>Target 14: Address the special needs of landlocked developing countries and small island developing States</b>			
37. ODA received in small island developing States as proportion of their GNIs	22.07	14.89	23.58 (2003)
<b>Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications</b>			
47. Telephone Lines and Cellular Phone Subscribers, per 100 population	1.47	1.84	1.62 (2003)
48.1 Personal Computers, per 100 population	—	2.33 (1997)	4.07 (2004)
48.2 Internet Users, per 100 population	0.00	0.02	0.61 (2004)

— = data not available, DOTS = directly observed treatment, short-course, GDP = gross domestic product, kg = kilogram, GNI = gross national income, HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, ODA = official development assistance, PPP = purchasing power parity, XGS = exports of goods and services.

Sources: Joint United Nations Programme on HIV/AIDS (UNAIDS)/World Health Organization (WHO) Working Group on Global HIV/AIDS. Various updates (1998, 2000, 2002, 2004). *Epidemiological Fact Sheets on HIV/AIDS and Sexually Transmitted Infections* (on-line). Available : [http://www.childinfo.org/eddb/hiv\\_aids/factsheets.htm](http://www.childinfo.org/eddb/hiv_aids/factsheets.htm); National Statistical Office (NSO). 1997. *Papua New Guinea Demographic and Health Survey 1996*. Port Moresby: NSO; Secretariat of the Pacific Community (SPC). 2004. Statistical Annex to *Pacific Islands Regional Millennium Development Goals Report 2004* (on-line). Available: <http://www.spc.int/mdgs>; United Nations Development Programme (UNDP). Various years (1994–2004). *Human Development Report*. New York: Oxford University Press; UNDP/Government of Papua New Guinea. 1999. *Papua New Guinea Human Development Report 1998*. Port Moresby: Office of National Planning; United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). 2002. *Economic and Social Survey of Asia and the Pacific*. Bangkok: UNESCAP; UNESCAP/UNDP. 2003. *Promoting the Millennium Development Goals in Asia and the Pacific: Meeting the Challenges of Poverty Reduction* (on-line). Available: <http://www.unescap.org/LDC&Poverty/MDG.asp>; United Nations Educational, Scientific and Cultural Organization (UNESCO). 2004. *Education for All Global Monitoring Report 2003/4* (on-line). Available: <http://www.efareport.unesco.org>; UNESCO, Institute for Statistics (UIS) website, available: <http://portal.unesco.org/uis>; United Nations Statistics Division (UNSD). 2003. Millennium Indicators Database (on-line). Available: <http://unstats.un.org/unsd/mi>; World Bank. 2005. Papua New Guinea: (Draft) Interim Strategy Note (21-Feb-05). East Asia and Pacific Region, Papua New Guinea, Pacific Islands and Timor-Leste Country Unit, Washington, DC; World Bank. 1999. *Papua New Guinea Poverty and Access to Public Services*. Washington, DC: World Bank; World Bank. 2004. Papua New Guinea: (Draft) Poverty Assessment (30-Jun-04). East Asia and Pacific Region, Papua New Guinea, Pacific Islands and Timor-Leste Country Unit, Washington, DC; World Bank. Various years (2000–2005). *The Little Green Data Book*. Washington, DC: World Bank; World Bank. 2005. Database (as of April 2005) to *World Development Indicators*. Washington, DC: World Bank; WHO/United Nations Children's Fund (UNICEF). 2001. *Joint Monitoring Programme for Water Supply and Sanitation Coverage Estimates 1980-2000* (on-line). Available: <http://www.unicef.org/programme/wes>; WHO/UNICEF/Water Supply and Sanitation Collaborative Council. 2000. *Global Water Supply and Sanitation Assessment 2000 Report*. Geneva: WHO/UNICEF.

Table A2.2: Country Economic Indicators

Item	2001	2002	2003	2004	2005
<b>A. Income and Growth</b>					
1. GDP per Capita (\$, current prices)	634.4	509.5	501.7	554.5	597.6
2. GDP Growth (% , in constant prices)	(4.4)	(0.7)	3.6	4.5	4.4
Agriculture	(6.5)	7.4	30.3	11.9	—
Industry	(14.3)	5.8	2.2	4.1	—
Services	(2.2)	(4.2)	(5.9)	0.7	—
<b>B. Saving and Investment</b> (current market prices, % of GDP)					
1. Gross Domestic Investment	—	—	—	—	—
2. Gross Domestic Saving	—	—	—	—	—
<b>C. Money and Inflation</b> (annual % change)					
1. Consumer Price Index <sup>a</sup>	7.6	9.4	10.1	6.9	7.2
2. Total Liquidity (M2)	(1.4)	(3.6)	25.8	13.3	39.8
<b>D. Government Finance</b> (% of GDP)					
1. Total Revenue and Grants	18.9	23.9	33.9	36.8	36.5
2. Total Expenditure	26.2	44.1	39.9	31.5	37.9
3. Overall Fiscal Surplus (Deficit)	(7.3)	(20.2)	(6.1)	5.3	(1.4)
<b>E. Balance of Payments</b>					
1. Merchandise Trade Balance (% of GDP)	(12.6)	4.5	1.8	9.7	(6.1)
2. Current Account Balance (% of GDP)	(11.9)	(1.5)	12.1	26.0	0.8
3. Merchandise Export (\$) growth (FOB, annual % change)	(32.0)	22.6	28.9	31.2	6.3
4. Merchandise Import (\$) growth (FOB, annual % change)	(11.5)	(41.8)	47.7	3.2	67.4
<b>F. External Payments Indicators</b>					
1. Net International Reserves (\$ million, end of period)	18.4	18.8	35.4	77.0	93.8
2. External Debt Service (% of exports of goods and services)	13.8	26.2	16.3	8.4	10.5
3. External Debt (% of GDP)	—	71.2	64.8	59.5	50.2
<b>G. Memorandum Items</b>					
1. GDP (current prices, \$ million)	273.0	225.2	227.7	258.3	285.7
2. Exchange Rate (SI \$ per US \$)	5.30	6.78	7.51	7.48	7.53
3. Population (mid-year, million)	0.4303	0.4421	0.4539	0.4658	0.4780

— data not available, FOB = free on board, GDP= gross domestic product.

<sup>a</sup> annual average.

Sources: Central Bank of Solomon Islands (CBSI), *Annual Report* (various years); CBSI, *Quarterly Review June 2002*; International Monetary Fund (IMF), 2005 Article IV Consultation, October 2005; IMF, *Solomon Islands Selected Issues and Statistical Appendix*, July 2004 and September 2005; World Bank, World Development Indicators Online Database, available: <http://devdata.worldbank.org/dataonline>, accessed 13 June 2006; World Population Prospects (WPP): The 2004 Revision Population Database, available: <http://esa.un.org/unpp/>, accessed 16 February 2006.

Table A2.3: Country Poverty and Social Indicators

	1990	1995	Latest Year
<b>A. POPULATION INDICATORS</b>			
1. Population, total mid-year	316.87	363.83	478 (2005)
2. Population, annual % growth	2.95	2.81	2.62 (2005)
<b>B. SOCIAL INDICATORS</b>			
1. Fertility rate, total, births per woman	5.87	5.10	5.26 (2002)
2. Maternal Mortality (per 100,000 live births)	—	60	295 (2003)
3. Infant Mortality, below 1 year (per 1,000 live births)	29	25	34 (2004)
4. Life expectancy at birth, total (years)	61.70	62.50	62.30 (2003)
a. Life expectancy at birth, female (years)	65.40	63.40	70.70 (2002)
b. Life expectancy at birth, male (years)	63.60	61.60	67.90 (2002)
5. Adult Literacy (%)			76.60 (2003)
a. Literacy Rate, 15 Years and Over, Female	—	—	20.00 (1998)
b. Literacy Rate, 15 Years and Over, Male	—	—	39.00 (1998)
6. School enrollment, gross primary, total (% school age pop)	84.00	97.00 (1994)	—
a. School enrollment, gross primary, female (% school age pop)	—	—	36.00 (1998)
b. School enrollment, gross primary, male (% school age pop)	—	—	41.00 (1998)
7. School enrollment, gross secondary, total (% school age pop)	14.00	17.00 (1994)	—
a. School enrollment, gross secondary, female (% school age pop)	—	—	18.00 (1998)
b. School enrollment, gross secondary, male (% school age pop)	—	—	30.00 (1998)
8. Child Malnutrition (% below age 5)	21.3 (1989)	—	21 (1999)
9. Population with Access to Safe Water (%)	—	—	70.00 (2002)
10. Population with Access to Sanitation (%)	—	—	31.00 (2002)
11. Public Health Expenditure (% of GDP)	—	—	4.50 (2002)
12. Public Education Expenditure (% of GDP)	—	—	3.40 (2002)
13. Human development index (HDI)	0.000	0.560	0.59 (2003)
Global Rank/number of countries	118.00	123/174	128/177 (2003)
14. Gender-Related Development Index (GDI)	—	—	—
Global Rank/number of countries	—	—	—
<b>C. POVERTY INDICATORS</b>			
1. National Poverty Line (\$ per capita per month)	—	—	—
2. Poverty Incidence (%)	—	—	—
3. Poverty Gap (%)	—	—	—
4. Poverty Severity Index (%)	—	—	—
5. Inequality (Gini Index)	—	—	—
6. Human Poverty Index (HPI)	—	—	49.1 (1998)
Pacific Rank/number of PDMCs	—	—	12/13 (1998)

— = not available, GDP = gross domestic product, PDMC = Pacific developing member country.

Sources: Secretariat of the Pacific Community (SPC), *Pacific Islands Regional Millennium Development Goals Report 2004*, Statistical Annex, available: <http://www.spc.int/mdgs>; United Nations Children's Fund (UNICEF), available <http://www.unicef.org/infobycountry>; United Nations Development Programme (UNDP), *Human Development Report*, various years; UNDP, *Pacific Human Development Report* (1994, 1999); United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics, available <http://www.uis.unesco.org>; United Nations Statistics Division (UNSD), Millennium Indicators Database 2003, available: <http://unstats.un.org/unsd/mi>; World Bank, World Development Indicators Online, available <http://devdata.worldbank.org/dataonline>, accessed 15 May 2006; Asian Development Bank Statistical Database System, available <http://lxapp1.asiandevbank.org:8030/sdbs/index.jsp>, accessed 12 May 2006.

Table A2.4: Country Environment Indicators

Indicator	1990	Latest Year	
<b>A. Energy Efficiency of Emissions</b>			
1. GDP/Unit of Energy Use (PPP\$/kgoe)	—	—	
2. Traditional Fuel Use (% of total energy use)	—	—	
3. Carbon Dioxide Emissions			
a. Metric Tons ('000)	163.0	172.0	(2002)
b. Metric Tons per Capita	0.5	0.4	(2002)
<b>B. Water Pollution: Water and Sanitation</b>			
1. % Urban Population with Access to Safe Water	82.0	94.0	(2002)
2. % Rural Population with Access to Safe Water	58.0	65.0	(2002)
3. % Urban Population with Access to Sanitation	73.0	98.0	(2002)
<b>C. Land Use and Deforestation</b>			
1. Forest Area ('000 km <sup>2</sup> )	26.2	25.7	(2000)
2. Average Annual Deforestation			
a. Km <sup>2</sup>	—	—	
b. % Change <sup>a</sup>	—	0.2	(1990-2000)
3. Rural Population Density (people/km <sup>2</sup> of arable land)	787 (1998)	1,950	(2002)
4. Arable Land (% of total land)	0.6	0.6	(2002)
5. Permanent Cropland (% of total land)	1.9	2.0	(2002)
<b>D. Biodiversity and Protected Areas</b>			
1. Nationally Protected Area			
a. Km <sup>2</sup>	292.0 (1995)	412.0	(2004)
b. % of Total Land	0.0 (1995)	0.0	(2004)
2. Mammals (number of threatened species)	2	20	(2004)
3. Birds (number of threatened species)	20	22	(2004)
4. Higher Plants (number of threatened species)	43 (1993)	16	(2003)
5. Reptiles (number of threatened species)	4 (1996)	3	(2004)
6. Amphibians (number of threatened species)	0 (1996)	2	(2004)
<b>E. Urban Areas</b>			
1. Urban Population			
a. '000	37.0 (1986)	63.7 (1999)	98.5 (2003)
b. % of Total Population	13.0 (1986)	15.6 (1999)	21.4 (2003)
2. Per Capita Water Use (liters/day)	—	—	
3. Wastewater Treated (%)	—	—	
4. Solid Waste Generated per Capita (kg/day)	—	—	

— = no data available, GDP = gross domestic product, kg = kilogram, kgoe = kilogram oil equivalent, km<sup>2</sup> = square kilometer, PPP = purchasing power parity.

<sup>a</sup> A positive number indicates a loss of forest area, a negative number a gain.

Sources: Asian Development Bank (ADB), *Solomon Islands 1997 Economic Report*; Food and Agriculture Organization (FAO) of the United Nations, Statistical Databases (FAOSTAT) (on-line) available: <http://faostat.fao.org>; International Union for Conservation of Nature and Natural Resources (IUCN), *The IUCN Red List of Threatened Species*, various years (1996, 1997, 2003, 2004) (on-line), available: <http://www.iucnredlist.org>; Secretariat of the Pacific Community (SPC), Pacific Islands Populations/Oceania Population, various posters (2000, 2003, 2004) (on-line), available: <http://www.spc.int/demog>; SPC, Pacific Islands Regional Millennium Development Goals Report 2004, Statistical Annex, available: <http://www.spc.int/mdgs>; SPC, Pacific Regional Information System (PRISM), available: <http://www.spc.int/PRISM>; United Nations Environment Programme (UNEP), *Environmental Indicators South Pacific* (2004); United Nations Statistics Division (UNSD), Millennium Indicator Database (2003), available: <http://millenniumindicators.un.org>; World Bank, *The Little Green Data Book*, various years (2000–2005); World Health Organization (WHO)/United Nations Children's Fund (UNICEF), Joint Monitoring Programme for Water Supply and Sanitation, Coverage Estimates 1980–2000 (on-line), available: <http://www.unicef.org/programme/wes>; World Resources Institute (WRI), *Earth Trends 2003* (on-line), available: <http://earthtrends.wri.org>.

**Table A2.5: Development Coordination Matrix**

Sector or Thematic Area	ADB Strategy and Activities	Other Development Partners' Strategies and Activities
<b>Law, Governance, Economic Management, and Public Policy</b>	<ul style="list-style-type: none"> <li>• State-Owned Enterprise Reforms and Private Sector Participation (2004)</li> <li>• Diagnostic Study of Interisland Transport – Solomon Airlines privatization component (2004)</li> <li>• Regional TA for Strengthening Financial Management and Accountability in the Pacific (proposed for 2006)</li> </ul>	<ul style="list-style-type: none"> <li>• Economic governance in budget, audit, treasury, inland revenue, customs, payroll and debt management, and national accountability institutions (RAMSI)</li> <li>• Reform of essential machinery of government (RAMSI)</li> <li>• Institute of Public Administration and Management (RAMSI)</li> <li>• Law and Justice infrastructure, administration, capacity development ( RAMSI)</li> <li>• Financial Intelligence Unit (Australia)</li> <li>• Support to Department of Provincial Government and Constitutional Development (Japan)</li> <li>• Group Training (Japan)</li> <li>• Strengthening of Central Bank (IMF, World Bank, PFTAC, Australia)</li> <li>• Strengthening of National Statistics Office (Australia, New Zealand, SPC)</li> <li>• Support to Department of National Planning and Aid Coordination (Australia, EC, Japan, World Bank, UNDP)</li> <li>• Tax administration and policy, public financial management, financial sector regulation and supervision, and economic and financial statistics (PFTAC)</li> <li>• Parliamentary development (UNDP)</li> </ul>
<b>Private Sector Development</b>	<ul style="list-style-type: none"> <li>• Supporting Business Law Reform (2005)</li> <li>• Secured Transaction Reforms (proposed for 2006)</li> <li>• Improving Business Environment (proposed for 2008)</li> <li>• Regional TA for Improving the Legal Business Environment in the Pacific Region (2003)</li> <li>• Regional TA for Diagnostic Studies for Secured Transactions Reforms in the Pacific Region (2004)</li> <li>• Regional TA for Pacific Financial Technical Assistance Centre (2005)</li> <li>• Regional TA for Private Sector Development Initiative (proposed for 2006)</li> </ul>	<ul style="list-style-type: none"> <li>• Small business enterprise center (New Zealand)</li> <li>• Economic reform unit (RAMSI)</li> <li>• Investment promotion strategy (FIAS)</li> <li>• Investment incentives review (FIAS)</li> <li>• Work and residency permits legislative reform (FIAS)</li> <li>• Credit Union revitalization (PEDF)</li> <li>• Financial literacy/rural banking (UNDP)</li> </ul>
<b>Education</b>	<p>No programmed activity in this sector</p>	<ul style="list-style-type: none"> <li>• Universal primary education SWAp (New Zealand)</li> <li>• Technical assistance facility for the implementation of education strategic plan (New Zealand)</li> <li>• Tertiary training awards (New Zealand)</li> <li>• Training and education awards scheme (Taipei,China)</li> <li>• Community school project (Taipei,China)</li> <li>• Tertiary education awards (PNG)</li> <li>• Australian scholarships (Australia)</li> <li>• School rehabilitation project (Japan)</li> </ul>

Sector or Thematic Area	ADB Strategy and Activities	Other Development Partners' Strategies and Activities
		<ul style="list-style-type: none"> <li>• Scholarship program (Japan)</li> <li>• Tertiary support program (EC)</li> <li>• Secondary school grants (EC)</li> <li>• Education global work program (EC)</li> <li>• Schools rehabilitations project (UNDP)</li> </ul>
<b>Health, Nutrition, and Social Protection</b>	<ul style="list-style-type: none"> <li>• Regional TA for Pacific Regional Social Protection Systems (2004)</li> <li>• Regional TA for Socioeconomic Implications of HIV/AIDS in the Pacific (2005)</li> <li>• Regional TA for HIV/AIDS Prevention and Capacity Development in the Pacific (2005)</li> <li>• Regional TA for Regional Demographic and Health Survey (2005)</li> </ul>	<ul style="list-style-type: none"> <li>• Providing essential basic health services (Australia)</li> <li>• Strengthening health sector management (Australia)</li> <li>• Health sector development projects (World Bank)</li> <li>• Health sector support program (World Bank, AusAID)</li> <li>• Health sector equipment (Taipei,China)</li> <li>• Responding to HIV/AIDS (UNDP)</li> <li>• WHO Solomon Islands Program (WHO)</li> <li>• Adolescent reproductive health program (UNFPA)</li> <li>• Reproductive health commodity security (UNFPA, Australia, New Zealand)</li> <li>• Malaria control and immunization (Japan)</li> <li>• Community health improvement (New Zealand)</li> <li>• Food security and vulnerability projects (New Zealand)</li> <li>• Medical equipment (infectious disease control) supply program (Japan)</li> <li>• Malaria control program (Japan)</li> </ul>
<b>Inclusive Social Development</b>	<ul style="list-style-type: none"> <li>• Regional TA for Strengthening Pro-poor Policy in the Pacific (2005)</li> </ul>	<ul style="list-style-type: none"> <li>• National peace council (Australia)</li> <li>• Provincial grants facility (Australia)</li> <li>• Community support program (Australia)</li> <li>• Rural livelihoods initiative (Australia)</li> <li>• Village-based civic education (RAMSI)</li> <li>• Australian NGO cooperation in Solomon Islands (Australia)</li> <li>• National media strengthening (RAMSI)</li> <li>• Honiara City Council (New Zealand)</li> <li>• Strengthening of civil society (New Zealand)</li> <li>• Support to National Council of Women (New Zealand)</li> <li>• Community-based grass roots projects (Japan)</li> <li>• Rural constituency development fund (Taipei,China)</li> <li>• Micro projects for grassroots development (Taipei,China)</li> <li>• Japan Overseas Cooperation Volunteers (Japan)</li> <li>• Youth invitation (Japan)</li> <li>• Isabel development program (UNDP)</li> <li>• Micro projects scheme (EC)</li> </ul>
<b>Infrastructure, Transport, and Communication</b>	<ul style="list-style-type: none"> <li>• Post-Conflict Emergency Rehabilitation Loan project (2000)</li> <li>• ADF Grant: Road Improvement Sector Project (2006)</li> <li>• Institutional Strengthening for the Ministry of Infrastructure Development (MID) (2004)</li> <li>• Diagnostic Study of Interisland Transport (2004)</li> </ul>	<ul style="list-style-type: none"> <li>• Cofinancing of a proposed interisland shipping facility (EU with ADB)</li> <li>• Marine infrastructure program (EU)</li> <li>• Cofinancing of rural roads rehabilitation (Australia/New Zealand, with ADB)</li> </ul>

Sector or Thematic Area	ADB Strategy and Activities	Other Development Partners' Strategies and Activities
	<ul style="list-style-type: none"> <li>• Implementation of Interisland Transport Reforms (2005)</li> <li>• Strengthening Interisland Shipping (proposed for 2006)</li> <li>• MID Technical Support Program (proposed for 2008)</li> <li>• Establishment of the Pacific Aviation Safety Office (2005) (participating member, but not a borrower or guarantor): Loan 2183-REG</li> <li>• Regional TA for Civil Aviation Safety and Security (2003)</li> <li>• Regional TA for Pacific Regional Transport Analysis (2004)</li> <li>• Regional TA for Partnering to Improve Delivery of Infrastructure Services (2005)</li> <li>• Regional TA for Aviation Legislative and Regulatory Review (2005)</li> <li>• Regional TA for Improving Delivery of Infrastructure Services (2005)</li> </ul>	<ul style="list-style-type: none"> <li>• Repair of three road bridges on East Guadalcanal (Japan)</li> <li>• Completion of Gizo road (Taipei, China)</li> <li>• Competitiveness of telecommunications sector (World Bank)</li> <li>• Community Support Program Malaita road building program (Australia)</li> </ul>
<b>Water Supply, Sanitation, and Waste Management</b>	No programmed activity in this sector	<ul style="list-style-type: none"> <li>• Support to Solomon Islands Water Authority development study (Japan)</li> <li>• Financial and management reform of Solomon Islands Water Authority (World Bank)</li> <li>• Solomon Islands national water policy review (SOPAC)</li> <li>• Water and sanitation workshops, evaluations, technical appraisals, baseline studies, and strategy development (SOPAC)</li> </ul>
<b>Energy</b>	No programmed activity in this sector	<ul style="list-style-type: none"> <li>• Support to Solomon Islands Electricity Authority including provision of new generator (Japan)</li> <li>• Financial and management reform of Solomon Islands Electricity Authority (World Bank)</li> <li>• Renewable energy (World Bank)</li> <li>• Energy efficiency of air conditioners (SOPAC)</li> <li>• Bridging assistance to SIEA (Australia)</li> </ul>
<b>Environmental Sustainability</b>	No programmed activity in this sector	<ul style="list-style-type: none"> <li>• Strengthening the National Disaster Management Office (Australia, SOPAC)</li> <li>• National capacity self assessment (UNDP)</li> <li>• Frameworks for sustainable development (GEF/UNDP)</li> <li>• Energy and environment for sustainable development (UNDP)</li> <li>• Environmental audits and contamination risk assessments (SOPAC)</li> <li>• Ocean governance (SOPAC)</li> <li>• Pre-cyclone season community awareness programme (SOPAC)</li> </ul>
<b>Agriculture and Natural Resources</b>	No programmed activity in this sector	<ul style="list-style-type: none"> <li>• Agriculture and rural development strategy and program (World Bank, EC, Australia)</li> <li>• Forestry management project (Australia)</li> <li>• Institutional strengthening of land administration project</li> </ul>

Sector or Thematic Area	ADB Strategy and Activities	Other Development Partners' Strategies and Activities
		(Australia) <ul style="list-style-type: none"> <li>• Institutional strengthening of department of fisheries and marine resources (New Zealand)</li> <li>• Sustainable aquaculture rural livelihoods project (New Zealand)</li> <li>• Support to Soltai including two fishing vessels (Japan)</li> <li>• Sustainable organic farming project (Japan)</li> <li>• Sustainable rural development projects (EC)</li> <li>• Sustainable forestry and conservation project (EC)</li> <li>• Commercialization of seaweed (EC)</li> <li>• Agriculture rehabilitation (Taipei, China)</li> </ul>

EC = European Commission, GEF = Global Environment Facility, HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, RAMSI = Regional Assistance Mission to Solomon Islands, RETA = regional technical assistance, SIG = Government of Solomon Islands, SOE = state-owned enterprise, SOPAC = South Pacific Applied Geoscience Commission, SPC = Secretariat of the Pacific Community, UNDP = United Nations Development Programme, UNFPA = United Nations Population Fund, UNICEF = United Nations Children's Fund, UNIFEM = United Nations Women's Fund, WHO = World Health Organization.

Source: Asian Development Bank

**Table A2.6: Portfolio Indicators—Portfolio Amounts and Ratings**  
(public sector loans, as of 31 December 2005)

Sector	Net Loan Amount		Total		Rating <sup>a</sup>											
					Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory		Potential Problem <sup>b</sup>		At Risk <sup>c</sup>	
	\$ million	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	0.0	0.0	0	0.0												
Energy	0.0	0.0	0	0.0												
Finance	0.0	0.0	0	0.0												
Industry and Trade	0.0	0.0	0	0.0												
Multisector	0.0	0.0	0	0.0												
Others	11.2	100.0	1	100.0			1	100								
Transport and Communication	0.0	0.0	0	0.0												
<b>Total</b>	<b>11.44</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>			<b>1</b>	<b>100</b>								

<sup>a</sup> One rating for implementation progress and development objectives, based on the lower rating of either.

<sup>b</sup> Potential problem loans are satisfactory loans, but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

<sup>c</sup> A loan is "at risk" if it is rated as partly satisfactory, as unsatisfactory, or as a potential problem.

Source: Asian Development Bank

**Table A2.7: Portfolio Indicators—Disbursements and Net Transfers of Resources**  
(public sector loans, as of 31 December 2005)

<b>Disbursements and Transfers</b>	<b>OCR</b>	<b>ADF</b>	<b>Total</b>
<b>Disbursements</b>			
Total Funds Available for Withdrawal (\$ million)	0.0	11.44	11.44
Disbursed Amount (\$ million, cumulative)	0.0	3.7	3.7
Percentage Disbursed (disbursed amount/total available)	0.0	33.0	33.0
Disbursements (\$ million, latest year)	0.0	2.8	2.8
Disbursement Ratio (%) <sup>a</sup>	0.0	24.8	24.8
<b>Net Transfer of Resources (\$ million)</b>			
1999	0.0	(1.0)	(1.0)
2000	0.0	(0.5)	(0.5)
2001	0.0	(0.8)	(0.8)
2002	0.0	0.0	0.0
2003	0.0	(3.0)	(3.0)
2004	0.0	(0.7)	(0.7)
2005	0.0	(1.2)	(1.2)

( ) = negative, ADF = Asian Development Fund, OCR = ordinary capital resources.

<sup>a</sup> Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the year less cancellations during the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

Source: Asian Development Bank

**Table A2.8: Portfolio Indicators—Evaluation Rating by Sector**  
(1996–2005)

Sector	HS		S		PS		US		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Education	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Energy	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Finance	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Health, Nutrition, and Social Protection	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Industry and Trade	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Law, Economic Management and Public Policy	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Transport and Communications	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Water Supply, Sanitation, and Waste Management	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Multisector	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0

HS = highly successful, PS = partly successful, S = successful, US = unsuccessful.

Source: OED/PEIS

**Table A2.9: Portfolio Implementation Status**  
(public sector loans, as of 31 December 2005)

Sector	Loan No.	Loan Seg	Title	Net Loan Amount		Approval Date	Effectivity Date	Closing Date		Progress (% complete)	Cumulative Contracts/Commitments (\$ millions)	Cumulative Disbursements (\$ million)	Rating		Potential Problem <sup>a</sup>	At Risk <sup>b</sup>
				OCR (\$mn)	ADF (\$mn)			Original	Revised				IP	DO		
MS	1823	(SF)	Post-Conflict Emergency Rehabilitation Project	11.44	21	19 December 2000	19 March 2001	30 June 2007	-	30%	10.08	3.65	S	S	No	No
<b>Total</b>				<b>11.44</b>							<b>10.08</b>	<b>3.65</b>				

ADF = Asian Development Fund, DO = development objective, IP = implementation progress, OCR = ordinary capital resources, OTH = others, Seg = segment (pertaining to loans with more than one withdrawal authority), U = unsatisfactory.

<sup>a</sup> "Yes" for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

<sup>b</sup> A loan is considered "at risk" if it is rated as "PS" or "U" in either implementation progress or development objectives, or if it is a potential problem loan.

**Table A2.10: Assistance Pipeline for Lending Products, 2007–2009**

Sector Project/Program Name	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)				
					ADB			Govt	Cofi- nancing
					OCR	ADF	Total		

No loans currently envisaged.

ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources, PPTA = project preparatory technical assistance.

**Table A2.11: Assistance Pipeline for Nonlending Products and Services, 2007–2009**

Year/ Assistance Name	Assistance Type	Sources of Funding				Total (\$'000)
		ADB		Cofinance (indicative)		
		Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2007</b>						
MID Technical Support Program	ADTA	TASF	2,000		0	2,000
<b>Total 2007</b>			<b>2,000</b>		<b>0</b>	<b>2,000</b>
<b>2008</b>						
Improving Business Environment	TASF	TASF	1,000		0	1,000
<b>Total 2008</b>			<b>1,000</b>		<b>0</b>	<b>1,000</b>
<b>2009</b>						
Infrastructure Investment Project	ADF grant	ADF	1,800	TBD	10,000	11,800
<b>Total 2009</b>			<b>1,800</b>		<b>10,000</b>	<b>11,800</b>

ADF = Asian Development Fund, ADTA = advisory technical assistance, MID = Ministry of Infrastructure and Development, TASF = Technical Assistance Special Fund, TBD = to be determined.

Source: Asian Development Bank

Table A2.12: Summary of Changes in Nonlending Program

Year	Previous Program (CSPU 2005–2006)	Current Program (CSPU 2007–2009)	Remarks
2005	Implementation of Interisland Transport Reforms (TA)		Approved (TA 4588-SOL)
	Business Environment Reforms (TA)		Approved with revised title: Supporting Business Law Reform (TA 4700-SOL)
	Economic Development Report (TA)		Dropped. Replaced by 3 reports on private sector development (RETA financed)
2006	Ministry of Infrastructure Development Reform Program (TA)		Being processed
	Secured Transactions Reforms (TA)		Being processed
	Private Sector Participation Program (TA)		Dropped during 2005 country programming mission
		Road Sector Improvement (Sector) Project (ADF grant)	Included during 2005 country programming mission
2007		MID Technical Support Program (TA)	
2008		Improving Business Environment (TA)	
2009		Infrastructure Investment Project (ADF grant)	

ADF = Asian Development Fund, CSPU = country strategy and program update, RETA = regional technical assistance, TA = advisory technical assistance.  
Source: Asian Development Bank

Table A2.13: Summary of 2005 Pacific Country Performance Assessment

Criteria		Solomon Islands	Countries Ex-PDMCs (Average)	All Countries (Average)
A. Economic Management	1. Macroeconomic Management	4.5	4.4	4.2
	2. Fiscal Policy	3.5	3.8	3.8
	3. Debt Policy	2.5	4.1	4.0
	<b>Cluster Average</b>	<b>3.5</b>	<b>4.1</b>	<b>4.0</b>
B. Structural Policies	4. Trade	4.0	3.9	3.8
	5. Financial Sector	3.0	3.4	3.4
	6. Business Regulatory Environment	2.0	3.3	3.2
	<b>Cluster Average</b>	<b>3.0</b>	<b>3.5</b>	<b>3.5</b>
C. Social Inclusion/Equity	7. Gender Equality	2.5	3.7	3.5
	8. Equity of Public Resource Use	3.5	3.7	3.6
	9. Building Human Resources	2.5	3.7	3.5
	10. Social Protection and Labor	2.0	3.4	3.2
	11. Policies and Institutions for Environmental Sustainability	2.5	3.4	3.3
	<b>Cluster Average</b>	<b>3.0</b>	<b>3.6</b>	<b>3.4</b>
<b>Policy and Institutional Average (A+B+C)/3</b>		<b>3.0</b>	<b>3.7</b>	<b>3.6</b>
D. Public Sector Management and Institutions	12. Property Rights and Rule-Based Governance	2.5	3.1	3.3
	13. Quality of Budgetary and Financial Management	3.5	3.6	3.5
	14. Efficiency of Revenue Mobilization	2.5	3.4	3.4
	15. Quality of Public Administration	2.5	3.1	3.1
	16. Transparency, Accountability and Corruption in the Public Sector	3.0	2.8	3.0
	<b>Cluster Average</b>	<b>2.8</b>	<b>3.2</b>	<b>3.3</b>
17. Portfolio		<b>1.0</b>	4.4	4.2

PDMC = Pacific developing member country

Source: Asian Development Bank

## TRANSPORT SECTOR ROAD MAP, 2007–2009

### A. Background and Introduction

1. Solomon Islands is a large Melanesian island country, with a land area of about 28,000 square kilometers, comprising six large islands, dozens of smaller islands, and hundreds of islets and atolls. More than 80% of the population of 475,000 is rural, living in widely dispersed villages of a few hundred persons. The economy is based on primary commodities from agriculture, forestry, and fishing but income-generating opportunities are scarce in rural areas. There is high unemployment (about 75% of the population is not formally employed), especially among the youth, and rapid population growth, which combine to make poverty alleviation difficult. Interisland accessibility is essential for an expansion of rural productivity and poverty reduction, but adequate transport infrastructure and services are lacking.

2. The main mode of travel in the country is by sea, via small craft in coastal areas and combined passenger and freight vessels for interisland movements. Before the recent civil conflict, formal shipping services called at about 125 small wharves and 86 anchorages, and irregular or chartered vessels reportedly called at over 400 locations. However, these services have deteriorated because of the economic downturn and the number of usable wharves has decreased because of poor maintenance. At many locations, vessels cannot berth and passengers and cargo are carried ashore in motorized canoes. This adds to the costs and detracts from the security of passengers and cargo.

3. The road network is sparse, reaching only 23% of rural villages (20% of the national population). About 60% of the network is on Guadalcanal and Malaita and it serves about 90% of the traffic in the country. Sealed or graveled roads are confined to Guadalcanal and Malaita, which also have the only significant inland roads, and a segment of secondary road in Western Province. Other provinces have relatively short coastal segments of gravel or earth roads near provincial centers. The network has about 185 watercourse crossings, mostly small log bridges with few steel or reinforced concrete structures.

4. Solomon Islands depends on international air services for international trade and tourism, and good quality domestic services for tourism and service delivery. There are one international airport, 21 public domestic airfields, and 13 private airfields, not all of which receive scheduled services. The infrastructure for international and domestic services both require upgrading following extensive deterioration during and after the civil conflict.

### B. Key Issues and Constraints

5. Solomon Islands is a weakly performing country emerging from several years of conflict. The most pressing goals are (i) sustained economic growth, (ii) increased employment and income-generating opportunities, and (iii) improved rural productivity. Progress in these areas depends on adequate transportation to facilitate access to markets and services.

#### 1. Investment

6. Lack of access to external funding of investment projects prevents the Government from improving the country's poor physical infrastructure and is a major constraint on its growth and development prospects. Most infrastructure investment in the country has been provided by external donors, while maintenance has lagged.

7. The Ministry of Infrastructure and Development (MID) has responsibility for the provision and maintenance of marine infrastructure and has initiated a program of wharf

construction and navigation aid provision with assistance from the EU. To date, seven new wharves have been constructed and a further seven will be constructed during 2006–2007. Further programs of wharf construction and repair are needed and will be carried out with foreign funding until the Government is in a position to do so with domestic resources. To minimize subsequent infrastructure maintenance costs, the Government has adopted a strategy of building higher quality reconstruction works with lower maintenance costs.<sup>1</sup> This strategy also means that land acquisition for new construction is not likely to be an issue in the near future.<sup>2</sup>

8. Investment in the road network, which never has been adequate, has declined in recent years, leaving the roads badly underfunded and deteriorating. Development partners have funded most of the road construction, providing \$81 million over the past 15 years while Government has provided about \$9 million. The roads were built to poor design standards and with substandard materials. The poor condition of many roads has lowered travel speeds, increased fuel consumption, and raised vehicle operating costs. Rough surfaces also have reduced the economic lives of the vehicles, suppressing road transport demand. Outside Honiara, road user costs are estimated to be 25% higher, and travel speeds are approximately half what they would be if the roads were in good condition. Road access for rural areas has declined severely due to severe deterioration, road closures, and collapsed bridges. The condition of the network does not provide much rural accessibility or optimize road agency and user costs, thus restricting the contribution of transport to economic growth, poverty reduction, and social development.

9. Solomon Islands needs a safe, efficient and comprehensive domestic air service to augment shipping services. The country's dependence on international trade and its potential as a destination for foreign tourists demands good international air connections. International and domestic air services both require upgrading following their deterioration during and following the period of tension. International and domestic facilities require upgrades to maintain safety and security compliance. Air services are currently provided by the state-owned Solomon Airlines, which has a monopoly on domestic services and partners with regional carriers for international services. A review of competition policy is overdue, although support for restructuring of the airline has been mixed.

## 2. Asset Management

10. MID is responsible for investment and maintenance of transport infrastructure, including preparation of annual works programs and for the management of the works. As maintenance funding has been inadequate, MID's own forces have typically handled the work. Opportunities for the private sector have been limited and uneven. The highest priority in terms of works will be to preserve in good condition those parts of the network that have been recently rehabilitated or have otherwise remained in maintainable condition. This will require adequate funds, annual surveys to identify works requirements, and effective control over the quality of maintenance.

11. MID also has responsibility for the provision and maintenance of marine and aviation infrastructure but budget allocations have been inadequate. Provincial wharves and navigation channels have been poorly maintained, leaving many in poor condition or unusable. Airfield maintenance is sufficiently funded through the Aviation Special Fund, although this is a recent development and a backlog of works is being addressed.

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<sup>1</sup> ADB. 2005. *Solomon Islands Country Environmental Analysis*. Consultant report. Manila. The report recommended that climate change adaptation measures be incorporated into new infrastructure construction, should resources ever permit new construction.

<sup>2</sup> Should land acquisition become an issue in infrastructure projects, careful attention must be paid to negotiation of, and compensation for, lease agreements of communally-owned land.

12. Roads throughout the country have deteriorated because of years of neglect and deferred maintenance. Only about 20% of them are in good or fair condition; the remainder are so deteriorated that they are impassable by cars or light trucks, and need rehabilitation. Most bridges have exceeded their design life and only about 25% of them are in good condition, with 30% needing minor repairs, 37% requiring major repairs, and 8% closed to traffic. Road maintenance funding has averaged \$0.5 million annually since 1990. However, funding fell by 80% to an average of \$0.1 million during the 1998–2002 conflict, resulting in widespread deterioration. Funding has been significantly below the level needed to sustain current assets. The proportions of the limited funding spent on maintenance and public sector overhead costs are unclear. Maintaining the 20% of the road network that remains in good or fair condition would cost an estimated \$1.55 million annually, or three times the current allocation, with proportional increases needed to address the maintenance backlog.

13. The Government's proposed national transport fund (NTF) will ensure that funds for road, wharf, and navigation aids maintenance are more reliably secured and better used. Combining routine wharf and airfield maintenance with road maintenance works as a single contract could realize cost savings. The NTF is expected to be capitalized through a contribution of Stabex funds from the EC and then maintained through user fees. The proposed national transport fund board (NTFB) will be responsible for ensuring that the works programs have been adequately prepared, for advising on overall funding needs, and for the timely distribution of funds to management agencies.

### **3. Inefficient Infrastructure Services**

14. Many shipping services cannot be operated commercially, particularly to the outer islands where populations are small, economic activity is low, and the cost of providing regular, reliable and safe services is high. The MID Marine Division is responsible for regulating shipping and for ensuring the seaworthiness of the fleet and the capability of ship's officers. However, the general condition of the domestic shipping fleet is poor and many ships are old. Services are unreliable and safety standards low and are affected by the limited number of usable wharves. At many locations, vessels cannot berth and passengers and cargo are carried ashore in motorized canoes. This adds to costs and reduces the security of passengers and cargo. The Marine Division presently has well qualified and experienced staff but lacks sufficient vessel surveyors and a legal officer to prepare and enforce regulations.

15. Based on the evidence of the few recent traffic counts that have been carried out, the main reasons for the low road traffic outside Honiara are supply- rather than demand-related. Poor roads depress the volume of traffic, cause public service transport services, set high passenger fares and goods tariffs, and make journeys slow, unreliable and uncomfortable. High volumes of pedestrian traffic and recourse to motorized canoe transport indicate that there is much suppressed demand for road transport. Motorized canoe transport is expensive and can be unreliable during particular seasons. An improvement in road conditions would enable public transport operators to provide better vehicles and faster, more frequent and cheaper services.

### **4. Institutional Capacity**

16. MID has found it difficult to implement road maintenance policies. Declining budgets, poor training, and the conflict have resulted in an inadequate human resource base. Managerial, administrative, technical, and vocational skills are in short supply in all sectors of the economy and public service. Slow public sector recruitment processes have been a particular bottleneck to progress, although this is now improving. These problems are acute in the road sector. ADB is helping to train staff and to provide professional support for

transport analysis and planning, project preparation and implementation, and asset management.<sup>3</sup> The private contracting industry has little capacity to perform major road maintenance or rehabilitation. MID will explore opportunities for local contractors to work with international contractors to develop knowledge, skills, and experience on major contracts. In addition, outsourcing routine and minor periodic maintenance contracts to local contractors will help to develop the private sector, while strengthening MID's role in asset management.

17. Past government policy, at both national and provincial level, has restricted the operations of both public and private service providers. The budgeting system leads to uncertainty of funding; the Central Tenders Board tends to delay procurement; the payments and disbursement system increases costs and delays implementation; and the imposition of inappropriate shipping licenses limits competition and service quality. More use of contract outsourcing to improve community and private sector participation is expected.

18. The Government is also beginning to address the capacity of the private construction industry, which was severely diminished during the tensions and is unable to maintain transport infrastructure, let alone capital development. The Government plans to use foreign contractors for major contracts but with the requirement that they associate with local contracting companies. The Government intends to outsource all contracting work, allowing the infrastructure management agencies to concentrate on asset management. ADB technical assistance (TA) is helping the Government to prepare procurement procedures and train private sector contractors to operate in an outsourcing environment.

### **C. Government Policy**

19. The Government's development vision, priorities, and strategies are articulated in the National Economic Recovery, Reform, and Development Plan, 2003–2006 (NERRDP),<sup>4</sup> which identifies key strategic areas, including transport infrastructure, for revitalizing the productive sector and rebuilding infrastructure, and for restoring basic social services and fostering social development. The Government hopes that the plan, which focuses on disadvantaged and rural populations, will increase incomes and social services and distribute them more equitably among provinces, social groups, and genders. The Government has asked ADB be the "lead donor" to the transport sector and to coordinate assistance.

20. The Transport Sector Strategy<sup>5</sup> focuses on (i) rehabilitating high-priority roads and bridges in Guadalcanal and Malaita; (ii) extending rehabilitation to other provinces; (iii) strengthening capacity to manage projects, contracts, and road assets; (iv) promoting the participation of the private sector, communities, women, and youth groups for maintenance; and (v) establishing a dedicated transport fund with sustainable revenues from user charges, fuel taxes, and vehicle fees.

21. The Transport Sector Strategy will be implemented according to the National Transport Plan, 2007–2026 (NTP).<sup>6</sup> The NTP provides the framework and action plan for developing and maintaining physical infrastructure, facilitating transport services, improving the capacity of Government agencies, and enhancing private sector participation. The NTP, which will be updated every 5 years, is supported by an annually updated 3-year rolling work program. A transport task force (TTF) has been established to advise on key issues, development options, and prioritization.

<sup>3</sup> ADB. 2004. *Technical Assistance to Solomon Islands for Institutional Strengthening in the Ministry of Infrastructure and Development*. Manila (TA 4494-SOL, approved in December for \$700,000).

<sup>4</sup> Government of Solomon Islands. 2003. *National Economic Recovery, Reform, and Development Plan 2003–2006*. Honiara. A successor to this plan is being prepared.

<sup>5</sup> Government of Solomon Islands. 2002. *Transport Sector Strategy*. Honiara.

<sup>6</sup> Government of Solomon Islands. 2006. *National Transport Plan 2007–2026*. Honiara

22. Priorities for future investment across all transport modes have been identified in the NTP on the basis of (i) the identification of existing networks, (ii) technical assessment of the feasibility of providing access by different modes, (iii) probable economic, social, poverty, and environmental impact assessment, and (iv) assessment of the need for connecting infrastructure. Potential projects are described in detail in the NTP.

23. The Government's strategy for road transport prioritizes asset management of those parts of the network that have been recently rehabilitated or otherwise remained in maintainable condition. Areas which already have a substantial road network or where sea conditions limit shipping may be considered for road network expansion. These include (i) a new road linking the weather coast of Guadalcanal with the Aola-Honiara road, (ii) feeder roads to link inland areas with the wharves at Atoifi and Ma'Asupa on the east coast of Malaita, and (iii) feeder roads to link western Rendova and southern Vangunu to coastal shipping routes.

24. The Government's strategy for maritime transport is to raise the quality and safety of services through (i) retention of the policy of competitive private-sector-driven services, (ii) improving the condition of vessels by amendments to legislation and more rigorous application of regulations relating to seaworthiness, (iii) establishment of special funding to assist private operators finance ship acquisition, (iv) enhancing crew training facilities and extending training to small business management, planning, and finance, and (v) establishment of a franchise tendering system, accompanied by targeted subsidies for noncommercial services. Areas proposed for priority investments for the expansion or major repair of wharf facilities include 23 locations throughout the country.

25. The Government's strategy for improving air services and infrastructure is to build capacity using the recently established Aviation Special Fund, the Consolidated Fund and external funding for larger projects. High priority has been given to upgrading Honiara International Airport, particularly passenger handling, air traffic communications equipment, safety equipment and fire fighting equipment. Attention should next focus on upgrading the provincial airstrips, starting with those on the main trunk routes. Interest in creating a second international airport should be carefully assessed in relation to other priority needs for aviation infrastructure. Proposals to privatize Solomon Airlines have been stalled due to lack of commitment on the part of Government and the airline. These proposals may be re-examined as the airline improves its operational and financial performance.

#### **D. ADB's Experience**

26. ADB is implementing a Post-Conflict Emergency Rehabilitation Project to rehabilitate roads and bridges on Guadalcanal and Malaita that were damaged during the conflict.<sup>7</sup> A project management unit operates under the direction of a project steering committee, comprising representatives from the ministries of finance, planning, national unity, and the provincial government, as well as the concerned sectoral ministries. Physical works, which began in June 2005 and are about 30% complete, are scheduled for completion in February 2007. A recent change in scope, cofinanced by the Government of Australia and the Government of New Zealand, enabled ADB to expand this project.

27. ADB will also implement a new Road Improvement (Sector) Project that will rehabilitate high priority roads in rural areas throughout the country, in support of the Government's renewed focus on rural development. A strong focus on poverty reduction has

<sup>7</sup> ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Solomon Islands for the Post-Conflict Emergency Rehabilitation Project*. Manila. (Loan 1823-SOL, approved in December for \$10 million equivalent, increased in February 2006 to \$18.5 million equivalent).

been adopted through geographical targeting of poor areas, labor-based construction and maintenance methods, and integration with other rural transport services. The project will also include a significant capacity development component to enable the Ministry of Infrastructure and Development (MID) to plan and manage the infrastructure sector, and to consolidate reforms begun under previous TA.

28. To leverage scarce public sector resources and promote opportunities for the private sector, MID is decreasing its direct provision of works to concentrate on policy development, regulation, asset management, and contract administration. To support the transition, ADB is providing TA for the Institutional Strengthening of MID.<sup>8</sup> The TA is preparing a National Transport Plan to guide development, creating a Transport Policy and Planning Unit to ensure implementation, and establishing a National Transport Fund to provide the necessary finance. These measures will increase MID's capacity in project management and contract administration, and promote private sector involvement in infrastructure development, as well as play a central role in aid coordination and facilitate effective expenditure of European Commission (EC) Stabex funds. The TA will be completed by the end of 2006. Future TA will focus on consolidating these reforms, and increasing MID's capacity for technical, social, poverty, and environmental impact analysis.

29. In recognition of ADB's long experience in implementing projects and TA in the road sector in Solomon Islands, as well as its expertise in designing and monitoring safeguards, the Government asked ADB to take a lead role in the road sector. Other partners agreed through a well-established aid agency coordination process. ADB's country program in transportation complements assistance underway or being considered by other development partners—including TA in interisland shipping<sup>9</sup> and civil aviation<sup>10</sup>—by creating an integrated transportation system to link rural areas to urban centers for access to markets and social services. The NTP is a key to coordination.

## **E. Activities by Other Development Partners**

30. Relatively little assistance is provided by development partners to the transport sector considering its overall size and importance to the national economy. The European Commission (EC) is providing 14 provincial wharves (half have been completed) and is considering financial support to promote shipping services on uneconomic routes. Japan has provided grant aid for upgrading the runway of the international airport and rebuilding three road bridges. Australia has rehabilitated roads on Malaita, and is considering provision of road maintenance equipment and services to Government through the Community Support Program. Australia and New Zealand have provided grant cofinancing for ADB administration for road rehabilitation projects.

## **F. ADB's Strategy**

31. In line with Government policy and Honiara Club commitments, ADB will continue the current strategy of not providing new loans to Solomon Islands until public finances stabilize. The lack of access to external funding of investment projects prevents the Government from improving the country's poor physical infrastructure, representing a major constraint on growth and development prospects.

<sup>8</sup> ADB. 2004. *Technical Assistance to Solomon Islands for Institutional Strengthening in the Ministry of Infrastructure and Development*. Manila (TA 4494-SOL, approved in December for \$700,000).

<sup>9</sup> ADB. 2005. *Technical Assistance to Solomon Islands for Implementation of Interisland Transport Reforms*. Manila (TA 4588-SOL, approved in May for \$495,000).

<sup>10</sup> ADB. 2004. *Technical Assistance to Solomon Islands for Diagnostic Assessment of Interisland Transport*. Manila. (TA 4527-SOL, approved in December for \$350,000).

32. In the absence of loan financing in the short term, the nonlending program is the main way of delivering ADB's country strategy. ADB's experience in the sector gives it comparative advantages that have catalyzed grant resources of other agencies for infrastructure activities. The proposed program assumes that existing donor partnerships and harmonization efforts can be continued.

33. Beginning in 2007, a multi-year TA will support the continuing development of MID as a planning, contracting and asset management agency through a proposed Technical Support Program. The TA will assist the Government in creating an infrastructure asset management system supported by a resource center of electronic and traditional technical materials, software and hardware, and technical training, including an expanded twinning arrangement with an established public works agency. The TA will also provide resources to create a Maritime Safety Authority (MSA) to improve safety regulation and inspection, management of navigation aids, hydrography, search and rescue, and environmental protection. Subject to TA findings, the MSA could be an independent agency, created through enabling legislation and self-funded through user fees. Finally, the TA will support a reorganization of MID so it can implement these revised functions effectively, with a long-term goal of preparing the Government to implement a sector-wide approach in infrastructure.

34. In subsequent years and subject to cofinancing opportunities, ADB could consider providing additional support to MID for the consolidation of organizational and procedural reforms, including the first update of the National Transport Fund and continued improvement and implementation of the asset management system. Table A3.1 summarizes ADB's Transport Sector Strategy for Solomon Islands.

**Table A3.1: ADB's Transport Sector Strategy**

<b>Key Constraints</b>	<b>Strategy</b>	<b>Activities</b>	<b>Outcome</b>	<b>Performance Indicators</b>	<b>Activities of other Donors</b>
Inadequate investment to extend infrastructure facilities to underserved rural areas	<ul style="list-style-type: none"> <li>▪ Improve capacity in MID for strategic planning</li> <li>▪ Catalyze grant funding</li> </ul>	<ul style="list-style-type: none"> <li>▪ TA for Institutional Strengthening in the Ministry of Infrastructure and Development (2004)</li> <li>▪ Continued coordination and harmonization with development partners</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regularly updated strategic and action plans</li> <li>▪ Approvals of cofinancing for investment projects</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strategic updates every 5 years</li> <li>▪ Action plan updates annually</li> <li>▪ New project approvals</li> </ul>	<ul style="list-style-type: none"> <li>▪ Japan: Repair of 3 road bridges, provision of electrical generator</li> <li>▪ EC: Provision of 14 provincial wharves</li> <li>▪ RAMSI: Road rehabilitation in Malaita</li> <li>▪ AusAID/NZAID: grant cofinancing of road rehabilitation</li> <li>▪ Taipei, China: minor civil works for road repairs, provision of two ships</li> </ul>
Poor asset management	<ul style="list-style-type: none"> <li>▪ Improve capacity in MID for planning, procurement, and management</li> <li>▪ Develop capacity of private sector contractors</li> <li>▪ Provide grant-financed road rehabilitation projects</li> </ul>	<ul style="list-style-type: none"> <li>▪ Loan and grant for Post Conflict Emergency Rehabilitation Project (2000)</li> <li>▪ TA for Institutional Strengthening in MID (2004)</li> <li>▪ TA for MID Technical Support Project (2007)</li> <li>▪ Loan and grant for Road Improvement (Sector) Project (2006)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Organizational restructuring along lines of functional responsibilities</li> <li>▪ Acquisition of technical materials, software, and hardware</li> <li>▪ Training of MID staff</li> <li>▪ Approval of cofinancing and design of SIRIP</li> </ul>	<ul style="list-style-type: none"> <li>▪ Restructuring completed within 1 year</li> <li>▪ Infrastructure asset management system functioning within 2 years</li> <li>▪ All MID technical staff trained within 3 years</li> <li>▪ SIRIP approved in 2006</li> </ul>	
Inefficient services	<ul style="list-style-type: none"> <li>▪ Create a franchise tendering scheme for interisland shipping</li> <li>▪ Restructure or privatize Solomon Airlines</li> </ul>	<ul style="list-style-type: none"> <li>▪ TA for Diagnostic Assessment of Interisland Transport (2004)</li> <li>▪ TA for Implementation of Interisland Transport Reforms (2005)</li> <li>▪ Strengthening Interisland Shipping (2006)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Inception of franchise scheme</li> <li>▪ Completion of restructure or privatization transaction</li> </ul>	<ul style="list-style-type: none"> <li>▪ Franchise scheme functional within 1 year</li> <li>▪ Cabinet decision on airline strategy by end of 2006</li> </ul>	<ul style="list-style-type: none"> <li>▪ EC: proposed support to franchise tendering scheme</li> </ul>
Limited institutional capacity	<ul style="list-style-type: none"> <li>▪ Develop capacity of MID</li> <li>▪ Prepare a National Transport Plan</li> <li>▪ Create a National Transport Fund</li> <li>▪ Create a Maritime Safety Authority</li> </ul>	<ul style="list-style-type: none"> <li>▪ TA for Implementation of Interisland Transport Reforms (2005)</li> <li>▪ TA for MID Technical Support Project (2007)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Completion of organizational restructure</li> <li>▪ Approval and capitalization of National Transport Fund</li> <li>▪ Inception of Maritime Safety Authority as an independent agency</li> </ul>	<ul style="list-style-type: none"> <li>▪ Restructuring completed within 1 year</li> <li>▪ National Transport Fund functional within 1 year</li> <li>▪ Maritime Safety Authority functional within 3 years</li> </ul>	

MID = Ministry of Infrastructure and Development; RAMSI = Regional Assistance Mission to Solomon Islands; SIRIP = Solomon Islands Road Sector Improvement Project; TA = technical assistance.

Source: Asian Development Bank

## ROAD MAP FOR IMPROVING THE BUSINESS ENVIRONMENT, 2007–2009

### A. Background and Introduction

1. The postconflict economic recovery and development process, supported by the Regional Assistance Mission to Solomon Islands (RAMSI), has improved law and order and financial discipline, and the Government has begun a number of major reform initiatives. Public confidence and the business climate have improved substantially compared with the 1999-2003 period of tensions. While the Honiara riots in April 2006 will have an impact on foreign, and in the short-term local, investor confidence, the extent of the negative impact is unlikely to be as great as during the 1999–2003 tensions.<sup>1</sup>

2. Solomon Islands needs to provide job opportunities and basic services to a rapidly growing population. Rapid, sustainable economic growth is needed to reduce poverty and support the healing of the social fabric. Continued fiscal discipline is required to stabilize the economy. Reforms are increasingly focused on medium- and long-term measures to improve the business environment, with a view to supporting investment and entrepreneurship and facilitating private-sector-led economic growth. Sound economic policies and building capable public institutions are priorities.

3. In 2005, ADB prepared a private sector assessment (PSA) for Solomon Islands with a view to (i) identifying and assessing the major issues impeding private sector growth; (ii) stimulating discussion on solutions to these issues among government officials, the private sector, and the general public; (iii) providing a broad reform framework for government policies, strategies, and decision making; and (iv) informing ADB's country assistance strategy and program. The PSA<sup>2</sup> emphasizes the central role of the private sector in promoting the rapid economic growth that Solomon Islands needs in order to create employment and prosperity, especially in rural areas. ADB subsequently prepared reports on the legal business environment<sup>3</sup> and on secured lending<sup>4</sup> which have provided important insights and directions for forthcoming reform activities in support of the Government's economic reform process.

4. Private sector development will be shaped by the need to rationalize state-owned enterprises (SOEs); improve infrastructure and infrastructure services; enhance access to credit; reform business law and regulations; encourage rural development; and resolve property rights issues through innovative approaches that will unlock customary land for productive and economic uses within a traditional landownership framework. Improvements to government mechanisms, a strengthening of government commitment to reform, and a stronger capacity to implement PSD-related reforms will be key elements.

5. The Government has initiated reforms in some priority areas, coordinated mainly by the Department of Commerce, Industries and Employment, Ministry of Infrastructure Development, and the Economic Reforms Unit (ERU) of the Ministry of Finance and National Planning. ADB has a strong focus on PSD in its country assistance strategy and it is assisting the Government to formulate and implementing policies and strategies geared toward private-sector-led economic growth.

<sup>1</sup> Damage assessments of the Honiara riots indicate that there was SI\$120 million in damaged property, about 30 businesses were closed, and 2,600 jobs were lost. However, it is anticipated that the affected properties and businesses will be rebuilt in a relatively short time.

<sup>2</sup> ADB. 2005. *Private Sector Assessment for Solomon Islands*. Consultant report. Manila and Sydney.

<sup>3</sup> ADB. 2005. *Solomon Islands: Reforming Commercial Law to Advance Private Sector Development*. Manila. Consultant Report prepared under ADB. 2003. *Technical Assistance for Improving the Legal Business Environment in the Pacific Region*. Manila (TA 6162-REG).

<sup>4</sup> ADB. 2006. *Promoting Secured Lending in Solomon Islands: An Analysis of the Secured Transactions Framework for Lending in Solomon Islands*. Manila. Consultant report prepared under ADB. 2004. *Technical Assistance for Diagnostic Studies for Secured Transactions Reform*. Manila (TA 6202-REG).

## B. Key Issues And Constraints

### 1. State-owned Enterprises and Infrastructure Services

6. **Issues.** Solomon Islands has 17 SOEs, including statutory authorities; air transport services; the national telecommunications company (with a 15-year monopoly concession); resource-based enterprises in forestry, fishing, and agricultural production; and service providers in areas such as ship repair and maintenance, printing, tourism promotion, and export marketing. Weak SOE management, combined with ineffective corporate governance has resulted in poor service delivery and financial performance, and has imposed a heavy burden on the public finances, businesses, and consumers. The Investment Corporation of Solomon Islands (ICSI), which is the management and oversight authority for some SOEs, has not been able to fulfill its mandate effectively. Corporate governance standards are poor in the SOE sector and, with very few exceptions, the technical, commercial, and financial performance of SOEs has been deteriorating over the past decade. The Government has engaged with its partners, especially ADB and the World Bank,<sup>5</sup> to introduce sound SOE policy and legal frameworks, improve SOE portfolio performance, address pressing corporate governance issues, and design and implement private sector participation solutions.

7. **SOE Reform Progress.** An ADB technical assistance (TA) project on SOE Reform,<sup>6</sup> fielded in 2005, has demonstrated the need for the Government to (i) pass an SOE act to introduce an effective and consistent framework for good governance across all state-owned enterprises; (ii) prioritize the production of up-to-date audited financial statements; (iii) use the national planning process currently underway (i.e., the replacement for the NERRDP) to clarify SOE objectives and performance expectations, and to define community service obligations and their links to the Budget; (iv) introduce a policy statement on economic regulation in relation to competition, licensing, pricing, and privatization; and (v) strictly enforce existing legislation. Overall, progress has been slow. The Government has failed to demonstrate commitment to implementing private sector participation solutions for the airline (supported under separate ADB TA),<sup>7</sup> water and electricity utilities (supported by World Bank), or other SOEs earmarked for privatization. The new Government has indicated a commitment to liberalizing utilities, but it remains to be seen whether this will translate into actual reforms.

8. **Infrastructure.** The country's physical infrastructure is in poor shape in urban areas, and often non-existent in rural areas. Basic services are usually inefficiently delivered and often expensive. This disproportionately hurts the poor and increases business and transaction costs, thereby exacerbating Solomon Islands' natural disadvantages as a small and remote island state. Improved transportation infrastructure and services are essential to remove barriers to market access and promote the growth of rural production. Air transport is fundamental for an island economy with limited export markets and requires infrastructure investment; policy, regulatory and institutional reforms; and promotion of private sector participation. Reform of Solomon Airlines is a priority. Efficient and reliable power generation and supply, including in rural areas, are vital, as are water and sewerage facilities and services in the major urban areas. Despite progress in some areas, progress has stalled in sensitive areas such as airline and utilities reform. Clarification and implementation of the Government's position is required. A separate sector road map for transport infrastructure has been prepared (Appendix 3).

<sup>5</sup> While the World Bank focuses on utility reform, ADB is assisting the Department of Finance and Treasury to look at the Government's portfolio and to investigate Solomon Airlines.

<sup>6</sup> ADB. 2004. *Technical Assistance to Solomon Islands for State-owned Enterprise Reforms and Private Sector Participation*. Manila. (TA 4482-SOL, approved in December for \$800,000.)

<sup>7</sup> ADB. 2002. *Technical Assistance for Preparing a Pacific Governance Strategy – Development of a Privatization Strategy for Solomon Airlines*. Manila (TA 6085-REG); and ADB. 2004. *Technical Assistance to Solomon Islands for Diagnostic Assessment of Interisland Transport*. Manila (TA 4527-SOL). In response to the Government's request for urgent assistance to reform Solomon Airlines, ADB mobilized funding by changing the scope and schedule of other TA projects.

## 2. Access to Finance

9. **Issues.** Sustained economic growth requires financial markets that effectively mediate between finance and investment. As such markets develop, the scope of financial intermediation increases, making financial services and lending available to a broader section of society. There are, however, substantial obstacles to capital formation in Solomon Islands. Credit is scarce and unavailable for many borrowers, lenders operate in a high-risk environment, and there is a narrow range of financial services and loan products, including microfinance. Financial intermediation inefficiencies are reflected in high interest rate spreads which, in turn, reflect high transaction costs and risk premiums. There is a very limited network of bank branches because of geographical constraints, poor road infrastructure and unreliable shipping services,<sup>8</sup> and a lack of a clearing mechanism<sup>9</sup> outside Honiara. ADB's PSA suggested that underdevelopment of the financial sector was connected to two related underlying issues: lack of a secured transactions framework (i.e., the legal framework that governs collateral for loans), and the adverse implications of the customary land tenure system. These effectively prevent the use of collateral to bridge the gap between credit supply and demand, thereby impeding access to affordable credit.

10. The legal and regulatory framework for secured transactions does not give lenders confidence that, in the event of default by the borrower, they can seize and sell the secured asset. While existing law allows for the creation of security instruments, lawyers are required to draw up complex individual loan documents for transactions. This is an expensive process. In practice, there is little financing under the Bills of Sale Act.<sup>10</sup> The act allows for the registration of security interests by individuals but registration requirements are expansive and the time allowed for registration varies widely, depending on where the bill of sale is executed. It is therefore difficult for lenders to determine whether a bill of sale they hold has priority over other claims. Registration of security interests under the Companies Act is inefficient, as registration requirements are cumbersome and ambiguous and there are associated problems arising from filing delays and poor record management at the companies registry. Moreover, inefficiencies in the existing legal framework result in lenders usually insisting on taking a charge over all of a company's assets, resulting in loans typically being substantially over-collateralized and greatly raising the risks of borrowing. The enforcement mechanism to support repossession is largely inadequate, since it takes place through the court system,<sup>11</sup> and requires unreliable and time-consuming procedures.

11. There is no systematic way for lenders to obtain information on the payment history and credit risk of potential borrowers. Sharing of credit information among financial institutions is fragmented, anecdotal, and unreliable, and decisions to provide loans and credit consequently carry a high level of risk. A credit reference facility could help lower the cost of borrowing; enable borrowers who offer collateral to be evaluated; and enable consumers and businesses to establish a formal credit history. Local financial institutions have expressed interest in such a facility.

12. **Progress.** The Central Bank organized a national conference in April 2005 on revitalizing rural finance. The three commercial banks in Solomon Islands have tried to expand branch networks, introduce electronic networks in-country, and launch mobile banking initiatives. ANZ Bank has introduced a mobile banking project, initially covering Guadalcanal, linked to a financial literacy project supported by UNDP. The initiative has been a success,

<sup>8</sup> ADB, along with other development partners, is supporting the Government in improving road infrastructure, and interisland shipping.

<sup>9</sup> Banks have to bring financial instruments to the Central Bank themselves. This is done mainly by air, but insurance is not available, with a concomitant increase in risk.

<sup>10</sup> Bills of Sale Act [Cap 174]. Based on the United Kingdom Sale of Goods Act of 1897.

<sup>11</sup> The court system suffers from a substantial backlog of cases. One of the reasons is the low ceiling on the value of cases that can be held in the magistrates' courts (currently SI\$6,000). As a result, the majority of the cases involving default end up in the High Court, with corresponding delays.

and there are plans to extend existing savings and withdrawal services to rural lending services. ANZ has also entered an agreement with the Postal Corporation to use post offices as locations for rural satellite branches for ATMs. In future, this may be extended to electronic banking supported by new rural and microfinance technologies. ANZ is also introducing rural internet banking in association with People First Network (PFNET). These developments are very encouraging and reinforce regional and international experience that rural and microfinance can be provided on a commercial basis. By contrast, experience in Solomon Islands and elsewhere indicates that government-run and highly-subsidized credit facilities typically do not achieve their intended outcome and are not sustainable. Commercially-based rural and microfinance initiatives should be further promoted, and may be supported with ideas, technologies, and best practice from the region and internationally.

13. The role of Central Bank of Solomon Islands (CBSI) as court-appointed manager to the bankrupt Development Bank of Solomon Islands (DBSI) has been extended until December 2006. Good progress has been made in stabilizing DBSI's balance sheet, resulting in a significant reduction in deposit and borrowing liabilities. The CBSI Board has determined that the formal winding up of DBSI is the most appropriate course of action, and the legal mechanism for achieving this is being worked out. Completion of the winding down process should be pursued as a matter of priority, as this will provide an important milestone for the development of innovative and commercially viable initiatives to increase access to finance. There are about 33 credit unions and 50 savings clubs, but they are poorly organized and poorly supervised by the Credit Union League. Governance issues have been reported. CBSI, with PEDF support, has initiated a reform diagnostic. Progress in reforming the National Provident Fund (NPF) has been slow. The reform of the NPF Act and related regulations has stalled mainly because of the general elections, and no significant improvement in NPF's investment portfolio management has been achieved. However, in its 2006 monetary policy statement, CBSI indicated that, in addition to existing policy instruments, a new strategy of permitting the National Provident Fund to invest some excess funds overseas will be considered.

### 3. Business Law and Regulation

14. **Issues.** Commercial business transactions, the effective operation of financial markets, and efficient intermediation of capital flows and domestic savings are central to the development of the private sector. However, in Solomon Islands, virtually every aspect of doing business—start-up, operation, closure—is difficult and expensive. The World Bank's *Doing Business* survey confirms Solomon Islands' weaknesses in relation to its legal and regulatory business environment and underscores the country's poor performance compared with regional and international comparators.<sup>12</sup> The Companies Act, which is based on the UK Act of 1948, and associated legislation and implementing institutions (the companies registry), are outdated and unsuited to modern business practices, do not reflect realities in a small island context, and provide an inadequate foundation for sustainable economic development. They inhibit business formation. In addition, the regulatory system is burdensome, forcing businesses to spend substantial time and money running a gauntlet of rules, taxes, and licenses that do not have any compensating public policy objective. The procedures for incorporating are time-consuming and costly, especially for small businesses, because of complicated procedures, filing requirements, slow processing of applications, and poor security of information and documentation. Discretionary authority in business licensing and company registration processes involves delays and may invite corruption. Enforcement is

<sup>12</sup> According to the survey, starting a business in Solomon Islands takes 35 days and costs around 44% of annual average per capita income, compared with an average of 21 days and around 9% of per capita income in Pacific islands employing good business practices. Similarly, enforcing a contract in Solomon Islands takes 455 days compared with 240 days in Pacific islands employing best practices and 27 days under global best practices. The cost of enforcing a contract is roughly 141% of the debt value, compared with 35% and 4% under Pacific and global best practices, respectively. (World Bank. 2005. *Doing Business in 2005*. Washington, DC.)

weak and public prosecution of misconduct is limited. The costs and inconvenience of using the legal system are especially high for populations in rural areas, the majority of Solomon Islanders. Given these circumstances, priority laws and regulations need to be amended or, in many cases, completely revised taking into account the local context and adequate enforcement mechanisms.

15. **Progress.** The Department of Commerce, Industries, and Employment (DCIE), in close cooperation with the Economic Reform Unit (ERU), the Attorney General's Office and the private sector, have started to set the stage for the design and implementation of a larger reform agenda. A public-private Business Law and Administrative Reform Steering Committee was established in 2005, with joint support from FIAS and ADB. It will help to guide the development of an effective and efficient legal and regulatory framework governing business activity. ADB's PSA and the complementary report on Reforming Commercial Law in Solomon Islands have helped establish the immediate reform agenda. The new Government has re-confirmed its commitment to the reform.

16. A new Foreign Investment Act was passed in November 2005, but is still to be gazetted. The act reflects a shift from an approval-based to a registration-based system.<sup>13</sup> The new Government has announced its intention to review the Act, but it is to be hoped that amendments, if any, will be minor and consistent with international good practice. An electronic foreign investment registry has been established, and staff trained, at the Department of Commerce, Industries and Employment in support of the new Foreign Investment Act. Progress has been made, with FIAS support, in speeding up the procedures for work and residency permits. ADB TA for business law reform, to be fielded in the second quarter of 2006, will support reforms to the Companies Act, prepare a reform road map for the companies registry, and develop a medium- to long-term road map for business law reform.

17. The Government is preparing a reform of the taxation system with the support of the Pacific Financial Technical Assistance Centre (PFTAC). Based on diagnostic work and extensive consultations, the following key issues have been identified: the complexity of the system, high tax rates, widespread tax and duty exemptions, lack of transparency, and a narrow revenue base. To address these, the Government is preparing reform of the indirect tax system (abolition of goods, sales, and bed taxes; reduction in import duties; abolition of import duty exemptions; and introduction of a value added tax) as a first priority, with further reform in the areas of income taxes, export duties and excise. The priority reform measures are expected to take at least 2-3 years to implement, but implementing a comprehensive reform agenda will extend into the medium term.

### C. Government Policy

18. The Government has signaled its belief in the importance of the private sector. In recent documents, such as the Grand Coalition for Change Policy Framework, the NERRDP, and budget speeches over past 2 years, the Government explained that an efficient private sector provides the driving force for the economy, leads economic growth and increases living standards. The NERRDP identifies financial sector development, SOE reform, private sector development, and rebuilding supporting infrastructure as key strategic areas. Accordingly, the Government has acknowledged the need for structural reform in a number of priority areas, including financial services, tax, transportation infrastructure and utilities, access to and management of land, business law and administrative barriers, management capacity of local business, and good governance and public sector reform. The Grand Coalition for Change Government has announced that it will work closely with landowners to mobilize customary land for economic and productive uses. The Government plans to enhance its engagement with landowners, amend or repeal existing land laws, and look into legal options to "recognize"

<sup>13</sup> The act provides for a streamlined application process for foreign investors that would allow registration within 5 working days, down from current average of 3 months.

indigenous tribes as corporate entities. So far, the Departments of Finance and Treasury and Commerce, Industries and Employment, in coordination with relevant line ministries, have been spearheading the PSD process through the design of economic reform strategies, policies and measures.

#### **D. ADB's Experience**

19. ADB's ongoing Post-Conflict Emergency Rehabilitation Project has made a significant contribution to improving access to markets through the rehabilitation of roads and bridges on Guadalcanal and Malaita. Rural business will benefit from the better access provided by a proposed road improvement project for provincial and secondary road rehabilitation and maintenance (to be financed by an ADF grant). With ADB support, the Ministry of Infrastructure and Development is decreasing its involvement in direct construction and maintenance of works, to promote opportunities for the private sector and leverage scarce public sector resources.

20. ADB's ongoing TA project on SOE reform<sup>14</sup> aims to create an effective reporting and monitoring regime for the Government's SOE portfolio, improving overall SOE performance, and preparing three smaller SOEs for privatization. However, the TA has not made the desired progress toward its objectives. In future, the TA will focus on engaging the new government on SOE policy issues, approaches to economic regulation, progress in privatization transactions, and further capacity building in the Government and in SOEs. Government commitment, championed by the Department of Finance and Treasury, will be critical if the TA project is to be successful. The underlying lack of reform commitment and progress is a concern, given the impact of the largely mismanaged SOEs on public finances. The Government requested a TA in 2005 to privatize the national airline. A feasibility assessment has been completed and a transaction process proposed, but lack of commitment by both the Government and the airline has stalled the privatization process. However, the Department of Finance and Treasury has re-affirmed its support for the process, and has committed to seek a cabinet-level policy decision on whether to proceed within the third quarter of 2006.

21. Following the PSA, in 2005 ADB prepared diagnostic studies of the legal business environment and on secured transactions reform. The Government, CBSI, the private sector, and legal practitioners that were consulted strongly supported the reform recommendations. A public-private Business Law and Administrative Reform Steering Committee was established, to guide the implementation of related reform initiatives. The ADB TA for Supporting Business Law Reform was successfully fielded in July 2006.

22. Overall, despite numerous reform pronouncements and abundant TA advisers and resources, little PSD reform has taken place. Results have been seen in only a few areas (e.g., facilitation of direct investment in palm oil, and efforts to reduce administrative barriers). This reflects the (i) limitations in the Government's absorptive capacity and (ii) lack of political will and commitment to deliver the reform measures necessary to create income opportunities and deliver basic services. Weak government capacities must be seen in the context of the existing post-conflict environment. International experience in post-conflict countries suggests that their absorptive capacity typically remains relatively low during the first 3 years after the conflict and then doubles by the end of the first decade after the conflict. This implies that the amount of aid should rise concomitantly as reconstruction proceeds—in other words, it is important to match the long-term commitment of donors to the capacity of Solomon Islands. It also means that flexibility will be required on the part of donors, and plans for ratcheting up funding should be ready as local capacities increase. With respect to political will and commitment, improved mechanisms and tools to engage more effectively with local leaders

<sup>14</sup> ADB. 2004. *Technical Assistance to Solomon Islands for State-Owned Enterprise Reforms and Private Sector Participation*. Manila (TA 4482-SOL).

and decision makers on the merits of reform need to be applied. Demand for reform needs to be created through better communication and awareness building; more effective mechanisms for capacity building; and support for locally respected reform “champions” in the civil service, private sector, and civil society.

### **E. Activities by Other Donors**

23. Through Regional Assistance Mission to Solomon Islands (RAMSI) support, Australia and New Zealand have been providing substantial assistance for the Economic Reform Unit (ERU). Australia has harmonized its PSD interventions with ADB TA projects by cofinancing SOE reform and business law reform projects. FIAS has been providing substantial support, through the Department of Commerce, Industries and Employment and in cooperation with the ERU, on administrative barriers, foreign investment legislation and promotion, and investment incentives. Joint FIAS and ADB efforts were instrumental in setting up a Business Law and Administrative Reform Steering Committee to guide the development of an effective and efficient legal and regulatory framework governing business activity. In the financial sector, the World Bank and the Pacific Financial Technical Assistance Centre (PFTAC) have supported CBSI on financial regulation and supervision. PFTAC has been assisting the Government in preparing comprehensive tax reforms. It has reviewed the Public Finance and Audit Act and worked with the CBSI to improve economic and financial statistics. It reviewed the taxation system and prepared a reform strategy and implementation plan. IMF has provided support for the resolution of issues related to an insurance company and supervision, and income tax amendment. PEDF has provided two diagnostic studies on credit unions and a credit unions league. UNDP has been supporting ANZ Bank’s mobile banking initiative through a financial literacy project, as well as ANZ’s internet banking project through the UNDP-supported People First Network (PFNET). ADB’s SOE Reform inputs have been closely aligned with World Bank efforts to reform the power and water sectors. ADB’s PSA has provided useful reference and input for other partners in formulating respective country strategies and programs. Dialogue and peer review with the International Monetary Fund have been constructive in strengthening analysis and stimulating policy dialogue on economic and financial policy issues. Donor activities in the area of infrastructure and services are summarized in the transport sector road map (see Appendix 3).

### **F. ADB’s Strategy**

24. ADB’s country strategy for Solomon Islands is closely linked to the NERRDP and aims to achieve rapid, pro-poor, private-sector-led economic growth. It focuses on improving transportation infrastructure and services and the enabling business environment. Capacity development and the promotion of good governance are cross-cutting priorities. Strictly speaking, therefore, ADB’s country strategy is a PSD strategy.

25. With a strong focus on PSD in its country assistance strategy, ADB will continue to assist the Government in formulating and implementing policy and institutional reform measures geared toward achieving private-sector-led economic growth. ADB’s PSD strategy for Solomon Islands will focus on reforming areas (i) that are underlying constraints to doing business, as identified by the private sector and reflected in the PSA; (ii) that Government has confirmed its commitment to addressing; (iii) that are in line with ADB’s core areas of PSD support, as reflected in ADB’s Pacific Strategy 2005-2009<sup>15</sup>; (iv) that have links to, and potential to reinforce, ongoing or planned government reform activities; (v) that can capitalize on close donor partnerships; and (vi) in which ADB has a comparative advantage.

26. The objective of ADB’s PSD strategy for Solomon Islands—to achieve rapid, pro-poor, private sector-led economic growth—will be achieved through ADB support in the following priority areas.

<sup>15</sup> ADB. 2004. *Pacific Strategy 2005–2009*. Manila.

- (i) **State-owned enterprise reforms.** To enhance the efficiency and effectiveness of SOEs, ADB will continue to support, through ongoing TA, SOE reforms and private sector participation. However, future TA will be contingent on demonstrated government commitment to reform. Significant progress will be expected in SOE policy and legislation, economic regulation, audited financial statements, and restructuring of selected SOEs (e.g., Solomon Islands Electricity Authority, Solomon Islands Water Authority, and Solomon Airlines).
- (ii) **Business law reform.** To improve the policy and institutional framework for business development, ADB will help the Government to strengthen the legal and regulatory environment for private sector investment, thereby reducing risks and transaction costs for private businesses. Links will be drawn to ongoing or planned reform measures undertaken by ADB in other focus areas (such as shipping and reform of the legal, regulatory, and technical framework governing collateral), as well as by Government in support of customary land mobilization. In 2005, ADB supported a diagnostic study on the legal business environment. This led to the establishment of a public-private reform committee. Starting in 2006, ADB will assist in the reform of the Companies Act and the companies registry. This will lead to a medium- to long- term business law reform road map, the implementation of which will be supported in selected areas through a TA project for improving the business environment in 2008.
- (iii) **Access to finance.** To increase and broaden access to credit, ADB will help develop a legal (secured transaction law) and technical (pledge registry) framework that allows for the effective pledging of movable assets and recovery in the event of default. Implementation of the reform recommendations is expected to start in 2006. ADB will also study the options for and viability of a credit reference facility. In view of the government priority to expand micro and rural finance, ADB may consider opportunities to mobilize regional resources for selected, commercially-based interventions in this area.

27. Assistance in these areas will complement ongoing and planned loan and technical assistance by ADB to improve transportation infrastructure. For example, transportation infrastructure and expansion of rural finance are mutually supportive. Improvements in business law will support interisland shipping reform and private sector development in the construction industry. Weak government capacities and uncertain government reform commitment will be taken into account in designing and executing support projects. ADB assistance will be provided entirely on grant basis in consideration of the country's difficult debt situation. Table A4.1 summarizes ADB's PSD strategy and focus in Solomon Islands.

Table A4.1: Road Map for Improving the Business Environment, 2007–2009

Key Constraints	Strategy	Activity/Schedule	Outcome	Performance Indicator	Other Donors
<ul style="list-style-type: none"> <li>Poor service delivery and financial performance by SOEs</li> </ul>	<ul style="list-style-type: none"> <li>Support SOE reforms and private-public partnerships</li> </ul>	<ul style="list-style-type: none"> <li>TA for SOE Reform and Private Sector Participation, 2004-2007</li> <li>TA for Solomon Airlines Privatization, 2005-2006</li> </ul>	<ul style="list-style-type: none"> <li>Reduced fiscal allocations to and contingent liabilities of SOEs</li> <li>Enhanced corporate governance and improved financial and service delivery performance of retained SOEs</li> <li>Improved service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Sound SOE ownership policy and legislation. Cabinet approved by end 2006, and implementation commenced</li> <li>SOE restructuring begun and SOEs increasingly meeting accounting and reporting requirements by 2008</li> <li>Agreed list of SOEs privatized or otherwise transformed by 2009</li> </ul>	<ul style="list-style-type: none"> <li>Australia/New Zealand support through ERU</li> <li>World Bank support to utility reform</li> </ul>
<ul style="list-style-type: none"> <li>Outdated and ineffective business law, regulations, and property rights</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the legal and regulatory environment for private sector investment</li> </ul>	<ul style="list-style-type: none"> <li>Diagnostic study on Solomon Islands: Reforming Commercial Law to Advance Private Sector Development (RETA), 2005</li> <li>TA for Supporting Business Law Reform, 2006-2008</li> <li>TA for Improving the Business Environment, 2008-2010</li> </ul>	<ul style="list-style-type: none"> <li>Significant government progress in rationalizing business laws and implementing institutions</li> </ul>	<ul style="list-style-type: none"> <li>Companies Act passed and implemented by 2007</li> <li>Companies registry reformed by 2007</li> <li>Number of other business law reforms identified, diagnosed, and reformed</li> </ul>	<ul style="list-style-type: none"> <li>FIAS support for FDI legislation and promotion, administrative barriers, and investment incentives</li> <li>PFTAC tax reform support</li> </ul>
<ul style="list-style-type: none"> <li>Lack of access to finance</li> </ul>	<ul style="list-style-type: none"> <li>Reform the legal, regulatory, and technical framework governing collateral</li> </ul>	<ul style="list-style-type: none"> <li>Diagnostic study on Secured Lending in Solomon Islands</li> <li>TA for Secured Transactions Reform (2006)</li> </ul>	<ul style="list-style-type: none"> <li>Increased and broadened access to credit</li> </ul>	<ul style="list-style-type: none"> <li>Increased private sector credit (in % of GDP)</li> <li>Increased number of secured transactions filings by 2009</li> <li>Broadening of types of collateral used by 2009</li> <li>Reduced interest rate spreads by 2009</li> </ul>	<ul style="list-style-type: none"> <li>PEDF on credit unions</li> <li>UNDP on financial literacy</li> </ul>

FIAS = Foreign Investment Advisory Services; GDP = gross domestic product; PFTAC = Pacific Financial Technical Assistance Centre; SOE = state-owned enterprise, TA = technical assistance; UNDP = United Nations Development Programme.

Source: Asian Development Bank

## TECHNICAL ASSISTANCE CONCEPT PAPERS

This appendix contains the concept papers for the following proposed nonlending products and services:

- (i) Table A5.1: Ministry of Infrastructure Development (MID) Technical Support Program
- (ii) Table A5.2: Improving Business Environment

## TECHNICAL ASSISTANCE CONCEPT PAPERS

**Table A5.1: Ministry of Infrastructure Development (MID) Technical Support Program**

Date: 14 June 2006

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p style="margin-left: 20px;"><input type="checkbox"/> Project loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector development program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p style="margin-left: 20px;"><input type="checkbox"/> Project preparatory</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Other than project preparatory</p> <p style="margin-left: 40px;"><input type="checkbox"/> Economic, thematic, and sector work</p> <p style="margin-left: 40px;"><input checked="" type="checkbox"/> Institutional development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>		
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Transportation and communication Subsector: Multimodal transport and sector development</p> <p>b. For project preparatory and lending, classification</p> <p style="margin-left: 20px;"><input type="checkbox"/> Core poverty intervention</p> <p style="margin-left: 20px;"><input type="checkbox"/> Poverty intervention</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other</p> <p>c. Key thematic area(s)</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <input checked="" type="checkbox"/> Sustainable economic growth  <input type="checkbox"/> Inclusive social development  <input checked="" type="checkbox"/> Governance  <input type="checkbox"/> Gender and development         </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Environmental sustainability  <input type="checkbox"/> Regional cooperation  <input checked="" type="checkbox"/> Private sector development  <input checked="" type="checkbox"/> Capacity development         </td> </tr> </table>	<input checked="" type="checkbox"/> Sustainable economic growth <input type="checkbox"/> Inclusive social development <input checked="" type="checkbox"/> Governance <input type="checkbox"/> Gender and development	<input type="checkbox"/> Environmental sustainability <input type="checkbox"/> Regional cooperation <input checked="" type="checkbox"/> Private sector development <input checked="" type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth <input type="checkbox"/> Inclusive social development <input checked="" type="checkbox"/> Governance <input type="checkbox"/> Gender and development	<input type="checkbox"/> Environmental sustainability <input type="checkbox"/> Regional cooperation <input checked="" type="checkbox"/> Private sector development <input checked="" type="checkbox"/> Capacity development	
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>		
<p><b>4. Responsible division/department:</b> PAHQ, Pacific Department</p>		
<p><b>5. Responsible ADB officer(s):</b> R. Guild, Transport Specialist</p>		
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> Solomon Islands has recently emerged from several years of conflict and is facing a long period of recovery and rehabilitation of essential infrastructure and services that have been destroyed or become derelict through lack of maintenance and regulation. Significant donor resources are becoming available to implement major capital works and fund maintenance programs. However, the Ministry of Infrastructure Development (MID) has limited capacity to plan and manage the necessary activities. This proposed TA will help MID restructure and implement the necessary reforms to assert and maintain control of the planning and development process, and to execute its regulatory responsibilities.</p> <p>The MID is responsible for maintenance of all infrastructure related to transport via land, sea, and air. With respect to land transport, approximately 80% of the network is in very poor or impassable condition, although significant rehabilitation projects funded by ADB and other development partners are underway. Similarly, wharves are in very poor condition and a number have deteriorated beyond the possibility of repair. An asset management function will have to be institutionalized to prevent further loss of the capital stock.</p> <p>With respect to interisland shipping, services are provided through quasi-public provincial shipping services and</p>		

some private providers on major routes. There is little competition. Because of the dispersed and very poor population, shipping services mostly run at a loss, supported by erratic public subsidies. As a result, the fleet is poorly maintained, unsafe, and unreliable. Rural people therefore cannot regularly access markets for their produce or access social services, with consequent negative impacts on growth and poverty. Urgent improvements are required in safety regulation and oversight.

Related activities by ADB and its development partners began in 2004, including development of a National Transport Plan, creation of a National Transport Fund, and establishment of a Transport Policy and Planning Unit. Additional activities have included promotion of the private sector contracting industry and development of tender procedures. Activities by other development partners include provision of rural wharves, ships, and navigation aids by the European Commission, Japan, and Taipei, China. These processes have to be institutionalized and integrated within the Government's processes for development and recurrent budgets, regulation, and policy analysis.

This CSPU supports the Government's strategic plans, including the National Economic Recovery, Reform and Development Plan, 2003-2006 and the Grand Coalition for Change Policy Framework, as well as action plans currently being developed. ADB aims to achieve rapid, pro-poor, rural-focused development led by private sector economic growth by (i) providing transportation infrastructure and services and (ii) strengthening the enabling environment for private sector development. The proposed TA will directly support both objectives, and is consistent with ADB's Pacific Strategy.

**b. Goal and purpose:** The TA will consolidate MID's capacity to plan, coordinate, and regulate infrastructure and service provision through policy, regulation, finance, and asset management. It will promote private sector and community involvement in infrastructure development through increased use of contract outsourcing and labor-based methods. ADB will assist MID in implementing the recommendations expected from ongoing TA projects that began in 2004-2006, including strengthening capacity for technical, social, poverty, and environmental impact analysis.

**c. Components and outputs:** The components and outputs of this TA project will include (i) development of an infrastructure asset management system, (ii) establishment of a Maritime Safety Authority, (iii) creation of a new resource center, and (iv) rationalization of planning and maintenance functions through wider Ministry restructuring. It is expected that a "twinning" arrangement begun in 2004 will be reassessed, adjusted, and supported to allow a more developed infrastructure agency from the region to continue to act as an institutional mentor to MID.

**d. Expected results and deliverables:** The TA will result in a more professional and efficient Ministry able to effectively discharge its planning, asset management, and regulatory functions. Concrete outputs will include a functional infrastructure asset management system and a technical resource center to support the Ministry's planning and policy functions.

**e. Social or environmental issues or concerns:** Improved infrastructure and service provision is expected to have significant social benefits through increased access to markets for rural produce and increased access to social services, including health and education. Both will contribute significantly to poverty alleviation.

**f. Plans for disseminating results/deliverables:** The process used by the TA will require extensive stakeholder involvement and participatory methods to facilitate a "whole of government" approach to support institutional reform in MID.

**7. Proposed executing/implementing agencies:** Ministry of Infrastructure and Development

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** The Ministry of Finance, National Reform and Planning and the Ministry of Infrastructure and Development, have been in regular dialogue with ADB about this TA throughout a series of missions since late 2003 and a series of TA projects since early 2004. Key development partners were consulted during country programming in 2005 and 2006.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP update: 2006
- b. Expected date of submission for approval
  - Lending:
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory): 2007
  - Activities financed by JFICT or JFPR:
- c. Period and duration of assistance
  - Lending:
  - Nonlending: 2007-2009
  - Activities financed by JFICT or JFPR:

**10. Financing Plan**

- a. For lending  
 Ordinary capital resources:  
 Asian Development Fund:  
 Other:

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.  
 If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
<b>Total Cost</b>	

Source:

- b. For nonlending  
 No resources required, other than ADB staff  
 ADB's administrative budget  
 Grant TA funds: \$2,000,000  
 Other:

If cofinancing is required, indicate amount and sources sought: \$600,000 from bilateral trust funds

If known, provide cost estimates and financing arrangements.

Source	Amount (\$'000)
ADB Financing	2,000
Government Financing	500
Other Financing	
<b>Total Cost</b>	<b>2,500</b>

Source: ADB estimates

ADB = Asian Development Bank, CSP = country strategy and program, CSPU = country strategy and program update, JFPR = Japan Fund for Poverty Reduction, PAHQ = Pacific Operations Division, PARD = Pacific Department, PPTA = project preparatory technical assistance, RAMSI = Regional Assistance Mission to Solomon Islands, SCSP = subregional cooperation strategy and program, TA = technical assistance.

Table A5.2: Improving Business Environment

Date: 14 June 2006

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input checked="" type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>								
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Law, economic management, and public policy Subsector: Law and judiciary</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p><input checked="" type="checkbox"/> Other</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Capacity development</td> </tr> </table>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input checked="" type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development							
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> PLCO/PARD</p>								
<p><b>5. Responsible ADB officer(s):</b> W. Wicklein, Senior Private Sector Development Specialist</p>								
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> ADB's 2005 private sector assessment (PSA) for Solomon Islands emphasized the central role of the private sector in promoting rapid economic growth. It concluded that virtually every aspect of doing business—start-up, operation, closure—is difficult and expensive. The private sector development (PSD) agenda is shaped by the need to rationalize the state-owned enterprise (SOE) portfolio; improve infrastructure and infrastructure services; enhance access to credit; reform business law and regulations; encourage rural development; and resolve property rights issues through innovative approaches to unlock customary land for productive and economic uses within a traditional landownership framework. The World Bank's <i>Doing Business</i> survey confirms Solomon Islands' weaknesses and underscores the country's low performance compared with other countries in the region and elsewhere in the world.</p> <p>Following the PSA, ADB prepared diagnostic reports on the legal business environment and on secured lending. These built awareness and provided priorities and recommendations for PSD reform. The Department of Commerce, Industries, and Employment (DCIE), in close cooperation with the Economic Reform Unit (ERU), the Attorney General's Office and the private sector, have begun a number of initiatives to set the stage for the design and implementation of a larger reform agenda. A public-private Business Law and Administrative Reform Steering Committee was established in 2005, with joint support from FIAS and ADB, as a mechanism for guiding the development of an effective and efficient legal and regulatory framework governing business activity. The Central Bank of Solomon Islands and the ERU have agreed to collaborate closely in promoting financial sector development, especially expansion of rural finance. ADB's country strategy—directly supporting the National Economic Recovery, Reform, and Development Plan, 2003-2006—is focusing ongoing TA on SOE reform and the Companies Act, while</p>								

TA support for secured transactions reform is forthcoming in 2006. However, the reform agenda remains large and the challenges significant.

**b. Goal and purpose:** The TA aims to contribute to an improved business environment that will lead to enterprise, investment, and economic growth. To this end, the TA will help address priority PSD reform areas, especially in core areas of business law and institutions, access to finance, and SOE reform.

**c. Components and outputs:** The TA components will be identified on the basis of the priority reform areas established and designed on the basis of ongoing and forthcoming reform activities. Criteria for the selection of TA components and outputs will be their PSD potential, government commitment, the absorptive capacity of the respective counterpart agencies, reform risk assessment, and links with other components in ADB's country program. The TA will assess (and address) poverty implications of proposed reform activities.

**d. Expected results and deliverables:** The TA will result in an improved business environment and thereby help improve economic growth prospects. The TA will deliver reform packages in PSD priority areas.

**e. Social or environmental issues or concerns:** None.

**Plans for disseminating results/deliverables:** In support of the reform process, extensive consultations will be undertaken with stakeholders in government, business groups, banks and other lenders, accounting and business advisory services, legal practitioners, the judiciary, and the general public, to help improve understanding and build ownership of the reform process. Policy reform papers and draft laws will be disseminated locally, and the final laws gazetted.

**7. Proposed executing/implementing agency or agencies:** Department of Commerce, Industries and Employment and Department of Finance and Treasury

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** ADB's 2005 PSA and reports on Reforming Commercial Law in Solomon Islands and on Secured Lending have been widely discussed. During the 2006 country programming mission, the Government requested ADB to program continued assistance in this area. Key stakeholders including government officials, the private sector and NGOs, confirmed their support for related reform activities.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP Update, RCSP, RCSP Update, or interregional work plan: 2006
- b. Expected date of submission for approval  
Lending:  
Nonlending (project preparatory):  
Nonlending (other than project preparatory): April 2008
- c. Period and duration of assistance  
Lending:  
Nonlending: April 2008 to March 2011

**10. Financing Plan**

- a. For lending  
 Ordinary capital resources:  
 Asian Development Fund:  
 Other:

If cofinancing is required, indicate amount and sources sought: \$ \_\_\_\_\_, from \_\_\_\_\_.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
<b>Total Cost</b>	
Source:	

- b. For nonlending  
 No resources required, other than ADB staff  
 ADB's administrative budget:  
 Grant TA funds: \$1,000,000  
 Other:

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.  
 If known, provide cost estimates and financing arrangements.

<b>Source</b>	<b>Amount (\$'000)</b>
ADB Financing	1,000
Government Financing	250
Other Financing	
<b>Total Cost</b>	<b>1,250</b>

Source: ADB estimates.

ADB = Asian Development Bank, CSP = country strategy and program, PSA = private sector assessment, TA = technical assistance.