



Country Operations Business Plan

August 2007

Solomon Islands
2008–2010

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 29 June 2007)

Currency Unit	–	Solomon Islands dollar (SI\$)
SI\$1.00	=	\$0.1395
\$1.00	=	SI\$7.1708

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADTA	–	advisory technical assistance
CPA	–	country performance assessment
JSF	–	Japan Special Fund
MID	–	Ministry of Infrastructure Development
NTP	–	National Transport Plan
PBA	–	performance-based allocation
PAHQ	–	Pacific Operations Division
PARD	–	Pacific Department
PPTA	–	project preparatory technical assistance
RETA	–	regional technical assistance
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

In this report “\$” refers to US dollars.

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

1. The Asian Development Bank (ADB) strategy in Solomon Islands aims at rapid, pro-poor and private-sector-led economic growth. In view of development constraints, government priorities, ADB's comparative advantage, and effective division of labor among development partners, 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. Capacity development and the promotion of good governance remain cross-cutting priorities. Taking into account the public debt situation, and in line with prudent government policy commitments, ADB will not provide new lending to Solomon Islands until the debt situation further stabilizes.¹ ADB's strategy supports the development strategy and plan of the Government of Solomon Islands (the Government).² The strategy contributes to ADB's goal of poverty reduction and is fully consistent with ADB's Pacific Strategy, 2005–2009.³ The strategy is 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. An updated country strategy and program results framework is in Section VI.

2. ADB has committed substantial support to the country in response to a strong earthquake (8.1 on the Richter scale) and consequent tsunami on 2 April 2007, which caused significant damage in Choiseul and Western Provinces, especially to infrastructure (estimated at around 40% of total damage). To support recovery and rehabilitation of the affected areas, ADB will provide assistance in the form of disaster risk management advisory support to the Government and rehabilitation of damaged infrastructure, which are to be accommodated within existing projects and a new Asian Development Fund (ADF) grant-funded emergency project. The disaster response is being designed and implemented in line with ADB's *Disaster and Emergency Assistance Policy*.⁴

II. INDICATIVE LENDING AND NONLENDING PROGRAMS

3. In the absence of loan financing in the medium term, the nonlending program will remain the major vehicle for delivering ADB's country strategy. Flexibility will be important, allowing ADB to respond to reform opportunities and complement the grant resources of other agencies.

4. The country-specific ADF lending allocations have been derived on the basis of the results of the 2006 country performance assessment (CPA) exercise, after applying the performance-based allocation formula. Under the revised grant framework, and after reallocating of funds originally allocated to other Pacific developing member countries in excess of their absorptive capacity, the total indicative biennial ADF allocation 2007–2008 for Solomon Islands is \$13.53 million; of this amount, \$4.95 million has been approved for the 2007 Emergency Assistance Project,⁵ leaving \$8.58 million for investment in 2008.⁶ The ADF

¹ Progress will be assessed using debt indicators established by the International Monetary Fund (IMF) in conjunction with Art. IV reports on Solomon Islands.

² The Government's development strategy is based on the *National Economic Recovery, Reform, and Development Plan 2003–2006*, and the *Policy Translation and Implementation* document published in August 2006. The Government has initiated the development of a new development strategy.

³ ADB. 2004. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank 2005–2009*. Manila.

⁴ ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.

⁵ ADB. 2007. *Emergency Assistance Project*. Manila (Grant 41105-SOL, approved in June 2007 for \$4.95 million). The European Commission is cofinancing the project with an additional \$4 million.

allocation for 2009-2010 is tentative, with actual ADF assistance levels subject to the results of the ensuing CPA exercises and the outcome of the discussions on the ADF X replenishment. For planning purposes, the biennial allocation for 2009–2010 has been set at \$10 million.

5. As the lead donor in infrastructure, particularly in transportation infrastructure and in the overall coordination of tsunami-related infrastructure reconstruction and rehabilitation, ADB will continue to focus its investments on transport infrastructure. ADF grant-funded investment projects have been programmed for 2008 (Domestic Maritime Support Project, \$8.58 million) and 2010 (Rural Transport Infrastructure Project, \$10 million), respectively.⁷ The poor condition of the transport network (i) impedes physical movements, (ii) discourages the provision of transport services, (iii) constitutes a major constraint to the movement of people and goods, and (iv) is a disincentive to productive rural activity. Improved transportation infrastructure and services, which would provide reliable access to domestic and international markets for rural produce and commodities, are critical to (i) restarting and building rural economies through access to domestic and international markets, (ii) fostering private sector development and rural income opportunities, (iii) reducing migration of people in search of employment, and (iv) restoring basic social services in rural areas to increase health and educational achievement. The focus on improving rural accessibility will enhance poverty reduction. Given local capacity constraints, it is important to continue building capacity for analysis, asset management, community participation, and implementation in support of investment projects.

6. Technical assistance (TA) support in the planning period will be highly selective, taking into account counterpart absorptive capacities and ADB's comprehensive 2007 TA support response to the tsunami.⁸ Subject to availability of core TA resources, ADB will provide selected TA support, at an indicative average of \$1.1 million per annum during 2008–2010, as follows: (i) in 2008, advisory TA for the Establishment of the Solomon Islands Maritime Authority, leveraging on the proposed 2008 ADF grant; (ii) in 2009, advisory TA for Improving Business Environment,⁹ and TA for Preparing Rural Transport Infrastructure Project as proposed for 2010; and (iii) in 2010, advisory TA for Supporting Rural Transport Infrastructure Development.

7. To complement the TA program and leverage scarce TA resources, ADB will include Solomon Islands in regional TA (RETA) activities where feasible. In particular, ADB will seek to complement ongoing private sector development activities through the Private Sector Development Initiative¹⁰ in its focus areas of state-owned enterprise reform and private sector participation, access to finance, and business law reform.

⁶ ADB is in the process of revising the framework for ADF grants. Approval of the new framework, which links grant eligibility to a country's debt situation, is still pending. The indicative grant program is based on the revised ADF grant framework as presented in the working paper considered by ADB's Board of Directors on 24 July 2007. The grant framework is still subject to further change, which may affect the indicative grant program. Submission of ADF grant projects for Board consideration prior to the approval of the revised grant framework will be on a conditional basis. Should ADB's Board approve such projects, the grant agreement will not be signed until the revised grant framework is approved.

⁷ It is anticipated that both projects will catalyze cofinancing from other development partners.

⁸ ADB's 2007 TA program includes TAs for (i) *Strengthening Disaster Recovery Planning and Coordination* (piggybacked to the Emergency Assistance Project) for \$0.8 million; and (ii) *Preparing the Domestic Maritime Support Project and Technical Support Program* for \$2 million.

⁹ This TA is proposed to continue successful ongoing TA to strengthen institutional capacity in reforming the legal business environment (the companies law, companies registry, secured transactions framework, and trustee law) and improving performance, ownership, and governance arrangements of state-owned enterprises.

¹⁰ ADB. 2006. *Technical Assistance for Private Sector Development Initiative*. Manila (TA 6353-REG, \$8.6 million).

8. The proposed ADF grant program for 2008–2010 is summarized in Table 1, and the proposed TA pipeline for 2008–2010 in Table 2. The 2007 ADF grant program is in Table 3, and the 2007 TA program in Table 4, for reference purposes. Summary information on the proposed ADF grant program is in Table 5, and on the 2008 TA program in Table 6. An update on ADB's priority areas in Solomon Islands is in Table 7.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

9. To further strengthen the ADB-supported tsunami disaster response, the ADF grant-funded Infrastructure Investment Project, originally programmed for 2009, has been advanced to 2008 and renamed the Domestic Maritime Support Project. It will be leveraged by new advisory TA for the Establishment of the Solomon Islands Maritime Authority in 2008. TA for Improving Business Environment has been postponed from 2008 to 2009.¹¹ Project preparatory TA has been included in 2009. An ADF grant-funded Rural Transport Infrastructure Project and advisory TA for Supporting Rural Transport Infrastructure Development have been added to the program for 2010.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

10. The continuing fragile post-conflict situation as well as ADB's post-tsunami disaster response will require close monitoring of the progress made in ADB's country operations, as well as some degree of flexibility to address issues that arise. It is estimated that at least 12 person-months of professional staff and 6 person-months of supporting staff will be required per annum during the planning period (2008–2010).

V. RESULTS-BASED MONITORING

11. Intermediate outcomes of ADB country operations and corresponding performance indicators were established by the country strategy and program results framework in the Country Strategy and Program Update, 2007–2009 for Solomon Islands. While progress on intermediate outcomes has largely been on track, the 2006 Honiara riots and the April 2007 tsunami have caused (minor) delays in achieving these outcomes. The country strategy and program results framework has been updated, taking into account ADB's additional engagement in supporting the tsunami response and adjustments in the country program (Section VI). A comprehensive country partnership results framework will be developed in conjunction with the preparation of a new country partnership strategy as scheduled for 2009.

¹¹ Economic reform measures can be supported through available RETA resources, as available under the Private Sector Development Initiative, based on assessment of technical feasibility, strategic fit with ADB's country strategy, and demonstrated reform commitment.

VI. COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

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National Medium-Term Development Agenda		Asian Development Bank Strategic Focus Development Objective: Sustainable pro-poor economic growth		
Strategic Goals ^a	Key constraints	Intermediate Outcomes	Intermediate Indicators	ADB Assistance Program
ADB Objective 1: Provide Transportation Infrastructure and Services				
Rebuilding supporting infrastructure	<p>Poor infrastructure, especially inter-island transport infrastructure services</p> <p>Poor links between rural and urban areas</p>	<ul style="list-style-type: none"> • Infrastructure damaged in the April 2007 disaster rehabilitated and functionality restored • Current transport infrastructure assets operate to design standards (as specified in the NTP) • Air and sea transport service frequencies to all provinces meet an agreed upon minimum standard (as specified in the NTP) 	<ul style="list-style-type: none"> • NTP updated every 2 years • NTP funding channels and mechanisms finalized by 2008 • Transport agreement(s) for uneconomic routes signed between the Government and operators, in accordance with due process • Critical constraints to rural accessibility alleviated through rehabilitation of feeder roads and improved interisland shipping services 	<ul style="list-style-type: none"> • Establishment of the Pacific Aviation Safety Office (Loan 2183-REG 2005) • Emergency Assistance Project (ADF Grant 2007) • Strengthening Disaster Recovery Planning and Coordination (TA 4944-SOL, 2007) • Preparing the Domestic Maritime Support Project and Technical Support Program (TA 2007) • Domestic Maritime Support Project (ADF Grant 2008) • Establishment of Maritime Authority (TA 2008) • Preparing Rural Transport Infrastructure Project (TA 2009) • Rural Transport Infrastructure Project (ADF Grant 2010) • Supporting Rural Transport Infrastructure Development (TA 2010) • Regional TA projects for Aviation Legislative and Regulatory Review (2005), and Improving Delivery of Infrastructure Services (2005)
ADB Objective 2: Create an Enabling Business Environment				
Reforming SOEs	Poor service delivery and financial performance by SOEs	<ul style="list-style-type: none"> • Sound SOE Act, incl. provisions for community service obligations • Management contracts and privatizations • SOE monitoring function in Ministry of Finance strengthened 	<ul style="list-style-type: none"> • SOE Act passed by Parliament in 2007 and implementation commenced • Two management contracts approved and implemented by 2008; two privatizations executed by 2008. • Reduced fiscal allocations to privatized SOEs or those under management contract • SOE Unit operational 	<ul style="list-style-type: none"> • SOE Reforms and Private Sector Participation (TA 2004) • Diagnostic Study of Interisland Transport–Solomon Airlines privatization component (TA 2004) • Regional TA projects for Strengthening Financial Management and Accountability in the Pacific (2006), and Private Sector Development Initiative (2006)
Legal and regulatory business environment	Ineffective business law, regulation, and property rights	<ul style="list-style-type: none"> • Significant government progress in rationalizing business laws and legal institutions 	<ul style="list-style-type: none"> • Companies Act passed in 2007 and implementation commenced • Trustee Act passed in 2007 • Companies registry restructured by 2008 	<ul style="list-style-type: none"> • Supporting Business Law Reform (TA 2005) • Improving Business Environment (TA 2009) • Regional TA projects for Pacific Financial Technical Assistance Centre (2005), and Private Sector Development Initiative (2006)
Financial development	Poor Access to Finance	<ul style="list-style-type: none"> • Effective legal, regulatory, and technical collateral framework 	<ul style="list-style-type: none"> • Secured Transactions Act passed in 2007 and secured transactions registry online by 2008 • Increased number of secured loans and broader range of borrowers 	<ul style="list-style-type: none"> • Regional TA projects for Diagnostic Studies for Secured Transactions Reforms in the Pacific Region (2005), and Private Sector Development Initiative (2006)

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

^a Specific components of the National Economic Recovery, Reform, and Development Plan, 2003–2006 supported by ADB's assistance priorities in Solomon Islands.

Source: Asian Development Bank.

Table 1: Indicative Assistance Pipeline for ADF Grant Products, 2008–2010

Year/ Project Name	Intervention/ Thematic Priority	Division	Year of PPTA	ADF Grant (\$ million)	Cofinance (indicative) (\$ million)	Total (\$ million)
2008						
Domestic Maritime Support Project	General Intervention/ Sustainable Economic Growth	PAHQ/ PARD	2007	8.58	3.42	12.0
Total				8.58	3.42	12.0
2010						
Rural Transport Infrastructure Project	General Intervention/ Sustainable Economic Growth	PAHQ/ PARD	2009	10.0	5.0	15.0
Total				10.0	5.0	15.0

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

Table 2: Indicative Technical Assistance Pipeline, 2008–2010

Year/ Assistance Name	Assistance Type	Sources of Funding				Total (\$'000)
		ADB		Cofinance (indicative)		
		Source	Amount (\$'000)	Source	Amount (\$'000)	
2008						
Establishment of Solomon Islands Maritime Authority	ADTA	JSF	0,800		0	0,800
Total			0,800		0	0,800
2009						
Improving Business Environment	ADTA	TASF	1,000		0	1,000
Preparing Rural Transport Infrastructure Project	PPTA	JSF	0,500		0	0,500
Total			1,500		0	1,500
2010						
Supporting Rural Transport Infrastructure Development	ADTA	JSF	1,000		0	1,000
Total			1,000		0	1,000

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

Table 3: Assistance for ADF Grant Products, 2007

Year/ Project Name	Intervention/ Thematic Priority	Division	Year of PPTA	ADF	Cofinance	Total
				Grant (\$ million)	(indicative) (\$ million)	(\$ million)
Emergency Assistance Project	General Intervention/ Sustainable Economic Growth	PAHQ/ PARD	2007	4.95	4.0	8.95
Total				4.95	4.0	8.95

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

Table 4: Technical Assistance Pipeline, 2007

Year/ Assistance Name	Assistance Type	Sources of Funding				Total (\$'000)
		ADB		Cofinance (indicative)		
		Source	Amount (\$'000)	Source	Amount (\$'000)	
Strengthening Disaster Recovery Planning and Coordination	ADTA	TASF	0,800		0	0,800
Preparing the Domestic Maritime Support Project and Technical Support Program	ADTA/PPTA	JSF	2,000		0	2,000
Total			2,800		0	2,800

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

**Table 5: Summary Information on
Proposed Indicative Asian Development Fund Grants**

Project Name	Description
<p>Domestic Maritime Support Project (2008)</p>	<p>Goal The project is expected to improve the efficiency, safety, and reliability of domestic maritime transport services.</p> <p>Major Components The project is expected to include an infrastructure investment component and an institutional development component. Infrastructure investments would include construction and/or rehabilitation of provincial wharves and jetties. Institutional development would create a franchise tendering scheme for support of uneconomic routes, including support and capacity building for the National Transport Fund and its secretariat. Piggy-backed TA will be included for Establishment of the Solomon Islands Maritime Authority, to facilitate market development and oversight.</p> <p>Expected Outputs and Outcomes Infrastructure investments will improve connectivity and reduce transport costs by making port calls safe and efficient. Institutional development (including TA) will increase the coverage, reliability, and safety of interisland shipping services. Both components will facilitate access to domestic and international markets, increase income opportunities, and contribute to poverty reduction.</p>
<p>Rural Transport Infrastructure Project (2010)</p>	<p>Goal The project is expected to advance the integration of the rural transport network to extend accessibility to the high proportion of the population without road transport.</p> <p>Major Components The project is expected to invest in rural feeder roads and provincial roads to complete gaps in the network, particularly in areas of high agricultural production potential. A piggy-backed TA will be included for Supporting Transport Infrastructure Development, to consolidate the Government's asset management and community contracting reforms.</p> <p>Expected Outputs and Outcomes Improvements to rural accessibility will lower transport costs and increase service reliability, thereby increasing incentives for agricultural production and providing rural income opportunities. Improved accessibility will also facilitate delivery of social services that are currently constrained by the incomplete and poorly maintained network.</p>

TA = technical assistance

Source: Asian Development Bank.

Table 6: Summary Information on Proposed Indicative Technical Assistance for 2008

Project Name	Description
Establishment of the Solomon Islands Maritime Authority	<p>Goal Efficient management of maritime regulation and oversight by the Solomon Islands Maritime Authority.</p> <p>Major Components The TA will contain three main components: (i) institutional reforms to convert the current Marine Division of the Ministry of Infrastructure Development into an independent corporatized agency, (ii) financial reforms to enable self-sustaining operations, and (iii) training of senior staff and inspectors.</p> <p>Expected Outputs and Outcomes Legislative and regulatory reforms will facilitate incorporation of the Solomon Islands Maritime Authority. Financial reforms will update and harmonize fees and licensing requirements to enable financial self-sufficiency. Management and technical training will strengthen capacity to operate commercially.</p>

TA = technical assistance

Source: Asian Development Bank.

Table 7: Updated Priority Sectors and Themes

Priority Sector	Developments since the adoption of the country strategy and program
Transport Infrastructure	<p>ADB's current country strategy and program update prioritizes transportation infrastructure and services as one of two main pillars of engagement. The Government has made progress in institutional reforms in the Ministry of Infrastructure Development; established a new Transport Policy and Planning Unit; and improved maintenance planning, budgeting, and implementation.</p> <p>Prior to the recent earthquake and resulting tsunami, ADB was implementing the Post-Conflict Emergency Rehabilitation Project, which is nearly complete, and the Solomon Islands Road Improvement Project.</p> <p>Following the April 2007 tsunami, the Government requested that ADB help with reconstruction and rehabilitation of damaged transport infrastructure (in addition to supporting the overall coordination of the disaster reconstruction and rehabilitation phase). To support recovery and rehabilitation of the affected areas, ADB will apply a three-part approach. First, ADB will continue to provide technical support to assist in the coordination and drafting of a comprehensive damage assessment and rehabilitation plan. Second, ADB will prioritize and sequence activities within existing projects to respond to urgent needs. Third, the Emergency Assistance Project will help restore essential infrastructure.</p>
Priority Theme	
Enabling Business Environment	<p>The Government has made progress toward improving the enabling business environment. Successfully implemented reform measures include a new Foreign Investment Act, work and residency permit simplification, tax exemption guidelines, import duty reforms, and initiatives to expand financial services in rural areas. The Government has progressed substantially, with ADB support, in the development of a new Companies Act, design of a reformed company registry, a new State-owned Enterprise Act, and the preparation of privatization transactions. The implementation of management contracts for the Solomon Islands Electricity Authority and Solomon Islands Water Authority has commenced, although delays in enforcing these are a concern. The announcement of introduction of competition in telecoms has triggered a reduction in prices for related services. Maintaining and reinforcing the reform momentum will be vital for the completion of ongoing reform activities and further advancement of the reform agenda.</p>

ADB = Asian Development Bank
Source: ADB.