

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: PLCO/PARD

TA No., Country and Name		Amount Approved: \$800,000	
TA 4482-SOL: State-Owned Enterprise Reforms & Private Sector Participation		Revised Amount: \$800,000	
Executing Agency: Ministry of Finance		Source of Funding: TASF, ATAG	
		Amount Undisbursed: \$63,027	Amount Utilized: \$736,972
TA Approval Date: 15 Dec 2004	TA Signing Date: 20 Jan 2005	Fielding of First Consultant: 09 May 2005	TA Completion Date Original: 28 Feb 2007 Actual: 30 Sep 2007
			Account Closing Date Original: 28 Feb 2007 Actual: 18 April 2008
Description			
<p>Weak management of Solomon Islands' state-owned enterprises (SOEs), combined with ineffective SOE corporate governance regimes had resulted in poor service delivery and financial performance, posing a heavy burden on public finances, businesses and consumers alike. The tensions during 1999–2003 exacerbated these problems. The Solomon Islands Government (SIG), in its National Economic Recovery, Reform, and Development Plan (2003-2006), therefore, prioritized the improvement of SOE performance and promotion of private sector participation in the economy. To assist in formulating and implementing economic reforms, an Economic Reform Unit, supported by the economic governance support program of the Regional Assistance Mission to Solomon Islands that was fielded in 2003, was established within the then Ministry of Finance, National Reform and Planning. In 2004, the Asian Development Bank (ADB) was requested to support the reform process by way of developing and implementing privatization policies and reforms, promoting private sector participation, and improving SOE performance.</p>			
Expected Impact, Outcome and Outputs			
<p>The goal of the technical assistance (TA) was to support SIG in its efforts to improve the environment for the private sector, in line with the strategic focus of ADB's country strategy and program for Solomon Islands. The purpose was to assist SIG to improve SOE ownership arrangements, accountability, and performance. The approved TA outputs were: (i) a sound government policy on SOE ownership, performance, and divestment; (ii) private sector participation in prioritized SOEs; (iii) adequate legal and regulatory frameworks for those sectors in which privatized SOEs will operate; (iv) reporting and performance monitoring regime for SOEs that will remain under State ownership; and (v) on-the-job training for key stakeholders in government and SOEs. Accordingly, the TA design included four interlinked components: (i) SOE ownership policy, strategy, and legal and regulatory frameworks; (ii) private sector participation; (iii) SOE reporting and performance monitoring regime; and (iv) capacity building for local counterparts (Government and SOEs).</p>			
Delivery of Inputs and Conduct of Activities			
<p>A total of 21 person-months (pm) of international consulting time and 18 pm of domestic consulting time were allocated to the TA. The team included an International Privatization Specialist/Team Leader (9 pm); an International Corporate Governance and Financial Specialist (8 pm); an International Legal and Regulatory Expert (4 pm); a Domestic Financial Expert (12 pm); and a Domestic Legal Expert (6 pm). The terms of reference (TORs) of the experts were regarded adequate at the time of inception; minor adjustments in the TORs were accommodated as issues arose and opportunities emerged. In the course of the TA, the International Corporate Governance and Financial Specialist and the Domestic Financial Expert had to be exchanged, due to other, unforeseen commitments by the experts. Without exception, the consultant team performed well, and the terms of reference were met to the full satisfaction of both the Executing Agency and ADB. SIG's performance suffered from political disturbances during parts of TA implementation and related lack of political commitment that was not anticipated at the time of TA design. Moreover, the Ministry of Finance could not provide the required counterpart staffing, due to larger, government-wide issues with respect to government recruitment processes. ADB's supervision of the TA was sound, as reflected by regular review missions, close supervision of the consultant team, and continuous dialogue and good relationship with the authorities.</p>			
Evaluation of Outputs and Achievement of Outcome			
<p>Low government and SOE capacities relative to the scope and complexity of the work required under the TA were exacerbated by the large number of reform initiatives launched by SIG at that time. This adversely impacted on the political commitment to the reform process in the initial phase of the TA. Political instability before and after the 2006 National Elections, as well as security and safety issues in relation to the 2006 Honiara riots, affected TA progress significantly. In response to these issues, the TA temporarily increased its focus on capacity building and awareness</p>			

programs. The situation improved remarkably in the second half of 2006, when the new administration re-enforced its commitment to the TA.

Main achievements in the TA output categories included: (i) *SOE Policy*—the preparation and Cabinet approvals for the 2007 SOE Act, which was passed by Parliament in September 2007, as well as Cabinet decisions for the privatization of 2 SOEs. (ii) *Private sector participation*—the winding up of the former Livestock Development Authority; restructuring and management advice to the Commodities Export Marketing Authority (implemented), Solomon Islands Post (implemented) and Solomon Islands Printers (partly implemented by the SOE); the initiation of the privatization of Sasape Marina Ltd. and Solomon Islands Home Finance Ltd. (both transactions are currently being followed through under a separate TA). (iii) *Regulation*—Despite some useful work undertaken (including awareness building, and a diagnostic report and a Cabinet paper on economic regulation), little traction was achieved in terms of implementing regulatory reform, due to lack of political commitment. (iv) *Reporting and Monitoring Regime*—Within the limitation of missing records and many years of un-audited financial statements, a financial stocktake of the SOE portfolio to examine SOE status and trends was developed, awareness and understanding by Government and SOEs of the importance of accounting standards raised, resulting in a Cabinet directive (March 2007) to update all SOE audited statements (which will commence in mid 2008 with bilateral donor support. (v) *Capacity building*—government and SOE capacity was built (in areas such as performance improvement, financial planning and analysis, organizational performance reporting and corporate planning), potential reform champions in senior SOE management or Board positions identified and mobilized, and a “peer support network” among SOE managers established.

Overall Assessment and Rating

The TA is rated as partly successful. The TA was instrumental in developing a SOE policy and legislative framework, initiated a much needed rationalization of the SOE portfolio, and improved the awareness of related issues and solutions among government officials, SOE managers and boards and, to some extent, the general public. However, the TA could effectively implement reform measures only during parts of the TA duration due to lack of political commitment. The TA did not achieve desired outcomes in terms of putting into place an effective, sustainable monitoring and reporting framework as a prerequisite for the implementation of the SOE Act. While the TA initiated privatization, it could not finalize the transactions within the TA timeframe.

Major Lessons

Taking into account the often sensitive nature of SOE reform and privatization, unambiguous government commitment is paramount to success. Technical assistance must therefore see this commitment as a prerequisite, and where it is fragile, ensure that assistance remains flexible so that it can be mobilized and demobilized quickly. Flexibility and opportunism with respect to specific reform targets (privatization transactions) is important. Smaller, possibly clustered, reform support projects that provide incremental funding and advisory support against the achievement of well defined milestones may be an appropriate solution. In weakly performing countries, reform support projects should be simple in design, realistic in scope and time frame, and expectations by both government and donors realistic and well managed.

Recommendations and Follow-Up Actions

It is recommended that ADB considers continued support in SOE reforms and privatization in Solomon Islands, contingent upon tangible progress against well defined reform milestones, through the provision of catalytic short term expertise.