

**Validation Report**  
December 2019

# Solomon Islands: Economic Growth and Fiscal Reform Program

Reference Number: PVR-602  
Program Number: 48479-001  
Grant Number: 0478

Independent  
**Evaluation**  **ADB**

*Raising development impact through evaluation*

## ABBREVIATIONS

ADB	–	Asian Development Bank
CEWG	–	Core Economic Working Group
DMF	–	design and monitoring framework
GDP	–	gross domestic product
MOFT	–	Ministry of Finance and Treasury
PCR	–	program completion report
PSDI	–	private sector development initiative
SOE	–	state-owned enterprise
TA	–	technical assistance

## NOTE

In this report, “\$” refers to United States dollars.

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## PROGRAM BASIC DATA

<b>Project Number</b>	48479-001	<b>PCR Circulation Date</b>	18 July 2018	
<b>Grant Number</b>	0478	<b>PCR Validation Date</b>	Dec 2019	
<b>Program Name</b>	<b>Economic Growth and Fiscal Reform Program</b>			
<b>Sector and subsector</b>	Public sector management	Economic affairs management Public expenditure and fiscal management		
<b>Strategic agenda</b>	Inclusive economic growth			
<b>Safeguard categories</b>	Environment	C		
	Involuntary Resettlement	C		
	Indigenous Peoples	C		
<b>Country</b>	Solomon Islands	<b>Approved</b> (\$ million)	<b>Actual</b> (\$ million)	
<b>ADB Financing</b> (\$ million)	<b>ADF: 5.00</b>	<b>Total Project Costs</b>	5.00	5.00
	<b>OCR: 0.00</b>	<b>Grant</b>	5.00	5.00
		<b>Borrower</b>	0.00	0.00
		<b>Beneficiaries</b>	0.00	0.00
		<b>Others</b>	0.00	0.00
<b>Cofinancier</b>	-	<b>Total Cofinancing</b>	0.00	0.00
<b>Approval Date</b>	27 May 2016	<b>Effectiveness Date</b>	29 Sep 2016	20 Jul 2016
<b>Signing Date</b>	1 Jul 2016	<b>Closing Date</b>	31 Mar 2017	31 Mar 2017
<b>Project Officers</b>	H. Everett	<b>Location</b> PLCO	<b>From</b> May 2016	<b>To</b> Mar 2017
<b>IED Review Director Team Leader</b>	W. Kolkma, IETC S. Pale Venkata, Senior Evaluation Specialist, IETC (transferred to IESP on 21 October 2019)*			

ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IESP = Sector and Project Division, IETC = Thematic and Country Division, OCR = ordinary capital resources, PCR = program completion report, PLCO = Pacific Liaison and Coordination Office.

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## I. PROGRAM DESCRIPTION

### A. Rationale

1. Solomon Islands is one of the biggest countries in Melanesia. It has a land area of 28,000 square kilometers and comprises six large islands and many smaller ones, islets, and atolls. In 2016, its population was 606,800, of which 77% was rural. Its total population has consistently increased at about 2.3% per annum since 2005. The country faces natural constraints to its development, which include its small size, remoteness from major markets, and geographically dispersed population. It is vulnerable to natural disasters—including cyclones, floods, and tsunamis—and to the impacts of climate change. The economy of Solomon Islands suffered severe setbacks from 1999 to 2003 due to civil unrest, which resulted in negative economic growth. It rebounded in 2003, with the annual gross domestic product (GDP) growth rate averaging 5.9% from 2003 to 2011. Although the GDP growth rate fell to 2.9% in 2009

due to the global financial crisis, it picked up again to 9.7% in 2010 and 7.4% in 2011. From 2012 to 2016, growth was more modest, averaging 2.6% per annum. GDP per capita was \$1,594 in current market prices in 2016, up from \$1,224 in 2010.<sup>1</sup>

2. Services dominate the economy, accounting for about 58% of GDP in 2016. Most services are in and around Honiara—the center of government, the international community, and the country’s international air and sea gateways. The primary sector contributed 27.3% of GDP in 2016. Logging is the country’s core industry, agriculture is characterized by low productivity, while the islands’ fisheries resources are significant and provide an important source of national income, public revenue, and formal sector jobs. The minerals sector has potential but suffered a setback when the country’s only gold mine at Gold Ridge closed. Tourism also has potential, which is largely untapped—in 2014, there were 6,000 tourists, compared to some 110,000 in nearby Vanuatu. Nevertheless, it contributed some 4% of GDP in 2014 and employed 6,500 people.<sup>2</sup>

3. In 2016, the year of program approval, the government was implementing its economic and fiscal reform program and enacting policy reforms to remedy the shortfall in revenues that resulted from natural disasters, the closure of the gold mine, and the decline of logging output. In May 2016, the Asian Development Bank (ADB) approved a single-tranche policy-based grant to Solomon Islands for the Economic Growth and Fiscal Reform Program to support the economic and fiscal reform program and its policy reforms.<sup>3</sup>

4. The program was included in ADB’s Country Operations Business Plan and Country Partnership Strategy for Solomon Islands,<sup>4</sup> which focused assistance on creating a more diversified and productive economy. ADB supported the Government of Solomon Islands’ National Development Strategy for 2011–2020 with assistance in energy, information and communications technology, public sector management, and transport sectors.<sup>5</sup> Assistance for public sector management aimed to encourage inclusive growth and development led by the private sector. The country partnership strategy calls for ADB support through the core economic working group (CEWG),<sup>6</sup> in coordination with development partners through policy-based program grants every other year. The CEWG was established in March 2009 to discuss economic and financial reform priorities, monitor their implementation, coordinate government and development partners’ support, and undertake program monitoring.

5. ADB identified a set of policy actions to be accomplished before grant effectiveness, and post-program policy actions for ongoing monitoring subsequent to effectiveness. Policy dialogue with government included (i) discussions on the design and implementation of a program policy matrix, (ii) CEWG meetings, and (iii) joint review missions with government and development

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<sup>1</sup> All figures in this paragraph were computed from: ADB. 2018. *Key Indicators for Asia and the Pacific 2018*. Manila.

<sup>2</sup> World Travel and Tourism Council. 2015. *Economic Impact: Solomon Islands Report 2015*. London.

<sup>3</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant to Solomon Islands for the Economic Growth and Fiscal Reform Program*. Manila.

<sup>4</sup> ADB. 2015. *Country Operations Business Plan: Solomon Islands, 2016–2018*. Manila; and ADB. 2012. *Country Partnership Strategy: Solomon Islands, 2012–2016*. Manila.

<sup>5</sup> Government of Solomon Islands, Ministry of Development Planning and Aid Coordination. 2011. *National Development Strategy, 2011–2020*. Honiara.

<sup>6</sup> The CEWG comprised of officials from the Central Bank of Solomon Islands, the Ministry of Development Planning and Aid Coordination, the Ministry of Finance and Treasury (MOFT), the Office of the Prime Minister, and development partner representatives from ADB, the World Bank, Australia, the European Union, New Zealand, and the Regional Assistance Mission to Solomon Islands—a partnership between the people and Government of Solomon Islands and 15 countries of the Pacific, which ended in June 2017. ADB. 2018. *Completion Report: Economic Growth and Fiscal Reform Program in Solomon Islands*. Manila.

partner representatives.<sup>7</sup> Previous budgetary support programs of ADB and other development partners, focused on monetary and fiscal stability and strengthening the institutional framework for public expenditure and financial management. The program built on these, but extended policy actions to ensure that improved financial management would lead to enhanced public service delivery, create an enabling environment for private sector-led growth, and enable alternative drivers of economic growth. The program incorporated lessons from ADB's policy-based operations in Solomon Islands and the Pacific by focusing reforms on a few major actions, adopting single-tranche disbursement under a programmatic, multiyear approach supported by several partners. It also combined technical assistance (TA) with policy-based operations to undertake politically sensitive reforms, and adopted a medium-term perspective.<sup>8</sup> The program complemented ADB's operations in education, energy, and transport, and continued earlier ADB-financed programs approved in 2010, 2011, and 2013.<sup>9</sup>

## **B. Expected Impacts, Outcomes, and Outputs**

6. The program's design and monitoring framework (DMF) had two intended impacts: (i) provide an enabling environment to stimulate economic growth, especially in rural areas; and (ii) pursue public sector reforms and commit resources to enable private sector-led growth. The expected outcome was a strengthened economic and fiscal position to deliver improved opportunities and living standards. The program had three outputs: (i) improving public service delivery and economic management, (ii) creating an enabling environment for private sector-led growth, and (iii) enabling the drivers of economic growth.

7. Output 1, improved public service delivery and economic management, were to be achieved through strengthened customs administration and revenue collection, improved public financial management, and strengthened national development planning. Output 2 aimed to create an enabling environment for private sector-led economic growth through improved governance of alienated land by creating a new land board; strengthened policy for credit unions; better developed competition policy, including protection against anticompetitive business behavior, competitive regulation of state-owned enterprises (SOEs), and improving and enforcing customer protection; improved capital structure of SOEs; and improved business formalization through the enactment of the Business Names Act.<sup>10</sup> Output 3 involved enabling the drivers of economic growth through an increased revenue base, strengthened fisheries management, and developed tourism potential.

## **C. Provision of Inputs**

8. ADB provided a grant of \$5 million from its Special Funds resources to finance the program. The grant amount was based on (i) the relative importance of economic and fiscal reforms for ensuring sustained economic growth, (ii) the development financing needs of the

<sup>7</sup> CEWG Joint Review Mission. 2013. *Report of the Fourth Annual Joint Review Mission*. Reform Program. Honiara; and CEWG Joint Review Mission. 2014. *Report of the Fifth Annual Joint Review Mission*. Honiara.

<sup>8</sup> ADB, Australian Department of Foreign Affairs and Trade, New Zealand Ministry of Foreign Affairs and Trade, Pacific Financial Technical Assistance Centre, and the World Bank. Good Practice Principles for Multi-Donor Budget Support. Unpublished.

<sup>9</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Grant to the Solomon Islands for the Economic Recovery Support Program-Subprogram 1*. Manila; ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Solomon Islands for the Economic Recovery Support Program-Subprogram 2*. Manila; and ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant to the Solomon Islands for the Economic and Financial Reform Program*. Manila.

<sup>10</sup> ADB. 2018. *Completion Report: Economic Growth and Fiscal Reform Program in Solomon Islands*. Manila. para. 22.

country, (iii) the availability of additional financing from other development partners, and (iv) the significance and complexity of the program's policy actions. The program did not finance consultants.

9. The grant agreement was signed and became effective in July 2016. All funds were disbursed in July 2016 in accordance with ADB's simplified disbursement procedures for policy-based loans.<sup>11</sup> The program closed in March 2017 as indicated in the grant agreement. All program funding was disbursed as a single-tranche grant of \$5 million after the government met the conditions for effectiveness and policy actions were completed.

10. The program was classified as category C for environment, involuntary resettlement, and indigenous peoples' safeguards. No action was required on any of these.

11. ADB supported the completion of a country gender assessment in 2015.<sup>12</sup> This examined the progress toward gender equality in Solomon Islands, including health, education, work, political participation, and gender-based violence. The assessment recommended strategies to support the government's commitment toward achieving gender equality, and this was incorporated in the program policy matrix. Nevertheless, there were no specific gender issues nor was there a gender action plan required for the program.

12. No country-specific TA was attached to the program. However, the Financial and Economic Management Strengthening Program of the Regional Assistance Mission to Solomon Islands financed adviser support to the Economic Reform Unit of the Ministry of Finance and Treasury (MOFT). This assisted in the development and implementation of reforms to strengthen public financial management. ADB also supported the accomplishment of policy actions through its Private Sector Development Initiative (PSDI) regional TA project.

#### **D. Implementation Arrangements**

13. MOFT was, as planned at appraisal, the executing and implementing agency responsible for overall program implementation, including the execution of required policy actions, program administration, funds disbursements, and maintaining program accounts and records. The program completion report (PCR) indicated that the implementation arrangements were adequate relative to the program's size and rated these satisfactory. Joint review missions with the government and CEWG development partners were proposed at appraisal to evaluate the implementation and impact of policy reforms, identify lessons during implementation, and outline policy actions and assistance needed to achieve the reform targets. However, the program was implemented outside the CEWG process and program monitoring and evaluation was undertaken by MOFT and ADB with support from its extended mission in Honiara.

14. There were 11 covenants under the grant agreement—8 of these were complied with and 3 were only partially complied with. The latter 3 covenants related to the CEWG as the program coordinating committee, the partial completion of 2 of the 10 non-tranche release conditions, and the non-submission by the recipient of a PCR. The CEWG mechanism was inactive during program implementation since there was no agreement between the government and other development partners on the joint policy matrix, forcing ADB to proceed with its own. The PCR indicated that coordination between ADB and the MOFT to develop the policy matrix

<sup>11</sup> ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

<sup>12</sup> ADB; Ministry of Women, Youth, Children and Family Affairs; and Secretariat of the Pacific Community. 2015. *Solomon Islands Country Gender Assessment*. Manila.

and monitor program implementation was sufficient. The two non-tranche release conditions—submission of the Customs and Excise Bill to Parliament to replace the current act, and Cabinet approval of a capital structure policy paper for SOEs—were stated in the PCR as ongoing at the time of its preparation. No covenants were modified, suspended, or waived.

15. All 10 policy actions required for grant disbursement were achieved. Each policy action had additional conditions that were not tied to the release of funds, but were required to be completed within 1 year of grant disbursement. The rationale for including these was to ensure that the government continued with the reform agenda. Of the 10 conditions, 6 were achieved by December 2016, 2 in 2017, while the remaining 2 were expected to be achieved in 2018. No details, however, were given in the PCR as to whether or not they were accomplished. Since progress was made on all 10 conditions, the PCR concluded that the government was committed to the reform agenda.

16. The PVR supported the assessment that the implementation arrangements were satisfactory. Although the CEWG mechanism was not used to monitor progress and provide guidance to the MOFT, ADB and the MOFT directly oversaw the program implementation.

## **II. EVALUATION OF PERFORMANCE AND RATINGS**

### **A. Relevance of Design and Formulation**

17. The PCR rated the program relevant citing the following: the program's expected impact and outcomes were consistent with the government's development strategy, ADB's strategy for Solomon Islands, and its strategic objectives at the time of approval. The policy measures responded to the challenges faced by the government in pursuit of growth and development in Solomon Islands. The expected outputs related to revenue management and economic growth and encouraging the diversification of government revenue. These were important since the government had been relying on unstable revenue sources such as logging, mining, and other natural resources. The program provided budget support that was needed for fiscal sustainability given the unstable government revenues.

18. This validation holds a similar assessment with the PCR and considers the program relevant. Budgetary support was needed to reduce fiscal deficits and the design was appropriate to achieve the expected outcomes.

### **B. Effectiveness in Achieving Program Outcomes and Outputs**

19. The PCR rated the program effective based on the achievement of outcomes and outputs. All 10 policy actions linked to disbursement were achieved. The performance target for total revenues (excluding grants) was to maintain it above 30% of GDP and it was 37.4% in 2017. The number of new companies registered was 396 in 2015, 411 in 2016, and 522 in 2017,<sup>13</sup> higher than the performance target of 300. The PCR indicated that this was due to the improved registration process under the online registry, which reduced the average time to register a company from 45 to 1.5 days.<sup>14</sup> The PCR also had noted that the increase in company registrations boosted investors' confidence, which was likely to lead to further growth.

<sup>13</sup> Company Haus of Solomon Islands. Available: <https://www.solomonbusinessregistry.gov.sb/>.

<sup>14</sup> The introduction of the new Companies Act 2009 coincided with the launch of the online registry. Reduced legislative burdens and improved processing times through the online system immediately resulted in dramatically reducing the average time needed to register a company from 45 days to 1.5 days.

The Business Names Act was enacted on 20 August 2014 and annual registrations of business names increased by an average of 13% since 2014. In 2017, there were 1,954 business name registrations compared to 1,455 in 2014.<sup>15</sup> The PCR had noted that a growing private sector and increased formalization of businesses had positive implications for government revenues, since tax revenues should increase. However, this is yet to be seen.

20. This validation also assesses the program effective. Both outcome targets were achieved. The estimated domestic revenues were 37.4% of GDP in 2017, exceeding the target of above 30%. According to the International Monetary Fund figures, this holds true at the time of validation and is likely to be the case in the immediate future as economic growth is expected to remain above the 2.4% rate at the start of the project.<sup>16</sup> The target on the number of new companies registered increases by at least 300 in 2015–2017, from a baseline of 354 companies in 2014, was also achieved.

21. A total of 8 out of 10 output performance indicators were also achieved. The PCR indicated that the two output indicators that were not achieved were being implemented by the MOFT at the time of PCR preparation. For one of the indicators in output 1—public financial management roadmap actions, which began implementation in 2016—not all actions had been completed according to the timetable of the roadmap. Another indicator—planned submission of the Customs and Excise Bill to Parliament by 2016—was not achieved but has been planned for 2019. Of the five indicators for output 2, four were achieved—list of alienated land transaction decisions for 2015 published by 2016, credit unions' bill drafted by 2016, discussion paper on competition policy released for public consultation by 2016, and the regulations for the 2014 Business Names Act in place by 2016. The indicator that was not achieved was the approval of SOE capital structure policy by 2016, although it was expected to be approved by the Cabinet in 2018. Both indicators for output 3—Fisheries Act adopted by Parliament by 2016, and Cabinet approval of a new tourism strategy and cruise ship action plan issued by 2016—were achieved.

22. The Summary Poverty Reduction and Social Strategy indicated that no action was required on involuntary resettlement or Indigenous Peoples. The PCR indicated that no involuntary resettlement or impacts on Indigenous People were expected. Gender aspects were dealt with in the government's national planning work and were included under the policy matrix where strategy seven of the Medium-term Strategy 2017–2021<sup>17</sup> related to improving gender equality and support for the disadvantaged and vulnerable was in line with the ADB Country Gender Assessment. The PCR did not identify any adverse environmental impacts.

### **C. Efficiency of Resource Use**

23. The PCR rated the program efficient, citing that the reforms necessary for grant release were carried out with few delays. The MOFT achieved all outcomes in a timely manner by ensuring that reform efforts progressed and by prioritizing relevant Cabinet approvals. The PCR indicated that the MOFT performed well in updating ADB on program progress and providing evidence that the policy actions had been achieved. This validation is of the same view as the PCR and views the program efficient.

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<sup>15</sup> Data provided by the Company Haus of Solomon Islands. Available: <https://www.solomonbusinessregistry.gov.sb/>

<sup>16</sup> International Monetary Fund. 2018. Solomon Islands Staff Report for the 2018 Article IV Consultation.

<sup>17</sup> Government of Solomon Islands. 2017. *National Parliament of the Solomon Island Strategic Plan, 2017–2021*. Honiara. <http://www.parliament.gov.sb/files/Parliament%20Strategy/npsi17To21.pdf>.

#### **D. Preliminary Assessment of Sustainability**

24. The PCR rated the program likely sustainable, since it expects the government to continue the reforms and strengthen its economic and fiscal position. In early 2018, the cabinet approved a new joint policy matrix developed through the CEWG mechanism for policy-based budgetary support from CEWG members. The PCR considered the reestablishment of this process as a positive step for program sustainability and indicated that the preparation of an annual policy matrix aligned through the CEWG mechanism was expected to be continued.

25. However, this validation notes that the government's commitment for reforms was weak in the absence of development partner support. Low government capacity coupled with frequent turnover of leadership make ongoing and sustained reform difficult (this explains why ADB is using single tranches rather than a longer-term multitranche program). The 2017 budget deficit widened substantially due to increased expenditure, demonstrating the risk to sustainability. Given these factors, this validation considers the program less than likely sustainable.

### **III. OTHER PERFORMANCE ASSESSMENTS**

#### **A. Preliminary Assessment of Development Impact**

26. The PCR rated the development impact satisfactory based on how the program accomplished most of the policy actions that are essential for improved economic management. The MOFT prioritized the implementation of government reforms outlined in the policy matrix, which had a direct impact on the drivers of economic growth. Budgetary support helped finance the deficit and reduced the need for additional government borrowing or the use of reserves to meet the recurrent budget. The PCR had claimed improved public service delivery but did not provide supporting evidence. This validation also views the impact satisfactory, since the policy actions accomplished by the program are likely to have positive development impacts.

#### **B. Performance of the Recipient and Executing Agency**

27. The performance of the MOFT—the executing agency—was rated satisfactory in the PCR. The PCR stated that the MOFT met its responsibilities by (i) ensuring that the program was executed in accordance with the grant agreement, (ii) coordinating with other government agencies, (iii) facilitating information exchange, and (iv) monitoring program performance. The PCR also indicated that the MOFT prioritized cabinet approvals to accomplish the agreed policy actions, kept ADB informed of progress, and used the ADB regional TA project effectively. This validation notes that the MOFT did not submit a PCR to ADB but, nevertheless, considers that the performance of the MOFT did achieve professional standards. Thus, this validation assesses the performance of the executing agency satisfactory.

#### **C. Performance of the Asian Development Bank**

28. The PCR rated the performance of ADB satisfactory noting that the ADB staff at headquarters, in the Pacific Liaison and Coordination Office, and from the extended mission in Honiara, were involved in designing the policy action matrix. ADB staff monitored the progress of reform activities to help ensure that all program policy actions were completed. There were four missions with some 29 person-days of ADB staff inputs, involving a senior country specialist, development coordination officer, and a PSDI coordinator. ADB provided timely feedback to the

government on program progress and also supported activities to deliver policy actions related to improving the business-enabling environment to stimulate economic growth through the PSDI. This validation has a similar view and considers ADB performance satisfactory.

#### D. Others

29. The PCR did not provide information on the government's assessment of the program since the recipient did not submit a PCR. Since the funds were used for budgetary support, no issues regarding funds flow or procurement were reported.

### IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

#### A. Overall Assessment and Ratings

30. The PCR rated the program overall successful based on its ratings for individual criterion. The program was implemented as planned, and although some DMF targets were not achieved on time, the PCR indicated that these were expected to be achieved in 2018. The program was relevant since its impact and outcome were consistent with government and ADB strategies; effective as the program outcomes were achieved; efficient since the program reforms were carried out efficiently; and likely sustainable as it is expected that the government would continue with the economic and fiscal reforms. Its development impact was rated satisfactory due to the achievement of most of the program's targets. The performance of the recipient and the executing agency was rated satisfactory, as was that of the ADB, in view of the effective monitoring of reform activities and program actions. This validation is of the same view as the PCR except for its rating on sustainability (see table below).

#### Overall Ratings

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Relevant	
Effectiveness	Effective	Effective	
Efficiency	Efficient	Efficient	
Sustainability	Likely sustainable	Less than likely sustainable	Government commitment appears weak in the absence of development partner support. The sustainability of reforms was at stake without the continued support from development partners and technical assistance to overcome capacity constraints in design and implementation of reforms.
<b>Overall Assessment</b>	<b>Successful</b>	<b>Successful</b>	Overall weighted average of project rating is 1.75.
Preliminary Assessment of Impact	Satisfactory	Satisfactory	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR		Satisfactory	Para. 37.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = program completion report.  
Source: ADB Independent Evaluation Department.

## B. Lessons

31. The PCR identified the following six lessons from the program:
- (i) Dialogue with the government, and stakeholder feedback are essential to ensure commitment to reforms from the government.
  - (ii) Duplication of efforts can be avoided and coordinated reform efforts can be ensured through continued consultation with development partners.
  - (iii) Policy actions need realistic timeframes. For instance, progress is slower for policy actions related to public expenditure and fiscal management compared to those related to economic growth or improving business environment.
  - (iv) Continued TA support is essential to ensure that program-driven reforms are sustainable given the limited government capacity to design and implement reforms.
  - (v) Providing policy-based budget support once in 2 years has the risk that government may only pursue essential reforms during the program period. However, increasing the frequency of ADB support to a yearly basis is not advisable since preparation, implementation, and completion of policy-based programs are time and resource intensive. It is better that ADB and the World Bank provide budget support in alternate years.
  - (vi) All the important policy actions need to be linked to disbursement.
32. In addition to the above lessons, this validation has identified two others:
- (i) **Sector level.** Budget support from multilateral development agencies might encourage long term dependency on such support. The government needs to raise additional revenues so that external assistance is no longer required.
  - (ii) **Program level.** The program, if designed as a multitranche financing facility where disbursements are made under several tranches according to the agreed criteria, can provide better incentives for continued policy reform efforts by the government.

## C. Recommendations for Follow-Up

33. The PCR made a number of recommendations for follow-up. The government should accomplish all outstanding non-tranche release policy actions to demonstrate its commitment to the reform agenda. Future programs should aim at reducing budgetary support over time through appropriate policy actions and targets that support the economic and fiscal reform agenda, particularly through private sector-led economic growth to increase and diversify sources of domestic revenues. In this way, the government can reduce its dependency on development partner support to maintain fiscal stability. This validation supports these recommendations.

34. The PCR suggested that the design of future programs should consider making TA resources from ADB and other development partners available to overcome the critical capacity constraints within government. For example, the government requested additional TA support for its National Development Strategy, but ADB was unable to provide additional financing because of resource constraints. This validation holds a similar view with the PCR that outputs relating to capacity building and institutional strengthening should be considered in the design of future programs while those relating to the business-enabling environment could be sourced from the PSDI.

35. The PCR also recommended that ADB should continue to provide budgetary support every other year in coordination with the CEWG budget support mechanism and that future PCRs could cover multiple programs. Completion reports are resource intensive and the timeframe for completion may be too short to fully realize the results of the program. This validation does not support this recommendation. Each program is required to prepare a separate completion report. To avoid the preparation of completion reports at frequent intervals, budget support is better designed as a multitranche program.

## **V. OTHER CONSIDERATIONS AND FOLLOW-UP**

### **A. Monitoring and Reporting**

36. The MOFT, the executing agency, assisted ADB with the monitoring of the implementation of policy actions and assessing their impact on budget outcomes. ADB ensured that the status of each policy matrix action was regularly monitored and tracked.

### **B. Comments on Program Completion Report Quality**

37. The PCR was concise and adequately covered the program description; design and implementation; evaluation of performance; and issues, lessons, and recommendations. There were three appendixes that clearly set out the accomplishments of the outcomes and the outputs of the DMF, the policy matrix, and the status of compliance with the grant covenants. The PCR quality is rated satisfactory.

### **C. Data Sources for Validation**

38. Data sources were the PCR, the RRP, sector assessment (summary)—public sector management, risk assessment and risk management plan, project safeguards assessment, summary poverty reduction and social strategy, back-to-office reports—appraisal, fact-finding, consultation and program review missions, country gender assessment, and 2018 ADB Key Indicators for Asia and the Pacific.<sup>18</sup>

### **D. Recommendation for Independent Evaluation Department Follow-Up**

39. The PCR recommended that the program performance evaluation report should be prepared by 2020, and cover the next policy-based program to allow for the assessment of reforms undertaken by more than one program. This validation sees no need for further reviews by IED at this time, since ADB assistance is continuing and the program is relatively small in size. Regular ADB monitoring should be sufficient to ascertain whether or not the actions to be taken by the government in 2018 and 2019 have taken place. A PPER could be considered further down the line to cover multiple programs.

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<sup>18</sup> ADB. 2018. *Key Indicators for Asia and the Pacific, 2018* (49<sup>th</sup> Edition). Manila.