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INTERNATIONAL DEVELOPMENT ASSOCIATION

AND

INTERNATIONAL FINANCE CORPORATION

INTERIM STRATEGY NOTE

FOR

SOLOMON ISLANDS

FOR THE PERIOD FY10 – FY11

March 12, 2010

Solomon Islands Country Management Unit
East Asia and Pacific Region

The International Finance Corporation

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Currency Unit = Solomon Island Dollar (SBD)

US$1 = SBD $8.2

FISCAL YEAR January 1st – December 31st

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
ADB	Asian Development Bank
AML/CFT	Anti Money Laundering/Combating the Financing of Terrorism
AusAID	Australian Agency for International Development
BoP	Balance of Payments
CAS	Country Assistance Strategy
CBSI	Central Bank of Solomon Islands
CDD	Community Driven Development
CEWG	Core Economic Working Group
DPO	Development Policy Operation
EAP	East Asia Pacific
EGRA	Early Grade Reading Assessment
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
EU	European Union
FOB	Free on Board
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFC	Global Financial Crises
GFDRR	Global Facility for Disaster Reduction and Recovery
GNI	Gross National Income
GoSI	Government of Solomon Islands
HCC	Honiara City Council
HIES	Household Income & Expenditure Survey
HSSP	Health Sector Support Program
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
ISN	Interim Strategy Note
J4P	Justice for the Poor
MID	Ministry of Infrastructure Development
MoFT	Ministry of Finance and Treasury
MTDS	Medium Term Development Strategy
MP	Member of Parliament
NEAP	National Education Action Plan
NZAID	New Zealand Agency for International Development
ODA	Official Development Assistance
PER	Public Expenditure Review
PIC	Pacific Island Country
PFM	Public Financial Management
PNA	Parties to the Nauru Agreement

PRIF	Pacific Regional Infrastructure Fund
RAMSI	Regional Assistance Mission to Solomon Islands
RDP	Rural Development Program
REF	Regional Engagement Framework
REP	Rapid Employment Program
RSIPP	Regulatory Simplification and Investment Policy and Promotion Project
SEFP	Sustainable Energy Finance Project
SISEP	Solomon Islands Sustainable Energy Project
SOE	State Owned Enterprise
SoG	Sources of Growth
SPF	State and Peace Building Fund
SWAp	Sector Wide Approach
TA	Technical Assistance
TF	Trust Fund
TRHDP	Tina River Hydro Development Project
UNDP	United Nations Development Program
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
WHO	World Health Organization
WBG	World Bank Group

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SOLOMON ISLANDS

INTERIM STRATEGY NOTE

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EXECUTIVE SUMMARY

1. ***This 18-month Interim Strategy Note (ISN) presents the World Bank Group's engagement in Solomon Islands for FY10 – FY11.*** This is a joint International Development Association (IDA) and International Finance Corporation (IFC) ISN, developed in recognition of the critical and complementary roles of the private and public sector in supporting Solomon Island efforts to move towards durable stability and economic growth.

2. ***Solomon Islands has had a relatively successful recovery from a period of conflict between 1998 and 2003.*** The conflict was halted by the arrival of the Regional Assistance Mission to Solomon Islands (RAMSI) in 2003, which moved quickly to restore security and basic functions of the state. However, the country remains vulnerable to conflict - the economic outlook is uncertain, with fiscal constraints and a low-growth trajectory, the current stability is widely perceived to be in good measure dependent on the international presence, and some of the underlying causes of the conflict remain unresolved. Against this background national priorities are reconciliation, security, economic revitalization, rural development, effective service delivery, pursuit of the Millennium Development Goals, and greater devolution of decision making to the local level, as referenced in the government's Medium-Term Development Strategy (MTDS). Elections in mid-2010 contribute to uncertainty, although there is no indication that broad national priorities are likely to change significantly.

3. ***The strategic goals of the ISN are addressing surmountable barriers to growth, enhancing benefits of global and regional engagement, and supporting improved public administration and management.*** These aim to support Government efforts to address the core challenges of economic growth and fiscal constraint, vulnerability to conflict, and the need to optimize benefits of international engagement. As a small player in an uncertain but donor-rich environment, the WBG will be selective and flexible in its approach. Project and advisory activities focus on areas where there are gaps in the overall donor program such as private sector development and energy; where catalytic WBG investments enhance larger Government and donor programs such as health, education, and justice; and where the WBG brings technical expertise and global knowledge, such as economic analysis and technical assistance in the mining sector.

4. ***The WBG will deploy a range of IFC and Bank advisory and investment instruments in support of ISN objectives.*** These include IDA grants and/or loans, IFC investment transactions, Bank Analytical and Advisory Assistance (AAA), Technical Assistance, Trust Fund resources, and IFC Advisory Services. In several areas these instruments are used together, such as the Tina River Hydro Development. The *Sources of Growth* analysis launched in late 2008, created a shared analysis which has informed the ISN. Deploying IFC/Bank instruments in complementarity is central to optimizing the impact of WBG activities. There are important risks during the ISN period, including the re-emergence of unrest and deterioration in security; discontinuity in Government's program and implementation, including weak institutional capacity, unpredictable costs, and governance challenges. Some risks the WBG has little capacity to directly address, notably security, and therefore will rely on close coordination with RAMSI. Concerted investment in Government-donor and intra-donor dialogue aims to mitigate the risks of discontinuity in Government's program. Measures to reduce implementation risks will include close cooperation with other donor programs, maintaining simplicity in project design, and sufficient implementation support.

I. RATIONALE FOR AN INTERIM BANK GROUP STRATEGY

1. ***The move to a stand-alone strategy document represents an important step in intensified engagement in Solomon Islands.*** To date, the country has come under the Bank Regional Engagement Framework (REF) 2006 - 2009 for the Pacific Islands, a broad strategy that identified thematic priorities in nine Pacific Island Countries (PICs). The REF emphasized the importance of strengthening Government capabilities in service provision and improving incentives for private sector growth, but did not cover the International Finance Corporation (IFC) engagement, which has increased significantly since 2008. The move to a stand-alone strategy also reflects the stepped up World Bank Group (WBG) activity following the opening of a joint country office with the Asian Development Bank (ADB) in November 2008. This is in line with overall expansion in the WBG's Pacific Department and the recent decision by the WBG Board that the IFC should invest more in the IDA (International Development Association) countries in the Pacific. As the first WBG strategy document in Solomon Islands, the interim strategy note (ISN) has had to take into account a program of activities that is largely pre-set, as most activities were either under preparation or implementation at the start of the ISN development process. The ISN therefore frames an existing program, guides implementation, and serves as a basis for future strategy development.

2. ***An ISN rather than a Country Assistance Strategy (CAS) is the appropriate strategy instrument,*** given contextual uncertainties, including the economic outlook, elections in 2010, and ongoing conflict vulnerability combined with the recent establishment of the WBG presence and absence of some of the standard WBG analytics which would inform a CAS. The 18-month ISN also allows for alignment with Government planning. The current Medium-term Development Strategy (MTDS) expires at the end of 2010. In addition the MTDS is a broad, aspirational investment program but is not costed and as such does not offer detailed guidance on sequencing and prioritization of donor programs. The country aims to develop a ten-year National Development Strategy, slated for release in 2011.

II. COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES

Geography

3. ***Geography is one of the most distinctive features of Solomon Islands.*** The country is an archipelago of 997 islands stretching from Papua New Guinea in the northwest to Vanuatu in the south. The country has a total land area of 29,900 km² spread over 1.34 million km² of ocean. The population of an estimated 560,000[1] is highly dispersed, across approximately 80 to 90 inhabited islands divided administratively into nine provinces. Population density, at only 18 persons per km^2 is well below the small states average of 200 per km^2. The country has one of the lowest levels of urbanization in the world - only 17% of the population lives in urban areas and most live farther from the capital than in other small states. Distances between islands are large and transport connections extremely limited, exacerbating the country's remoteness from major markets. The capital city, Honiara, lies a weighted average of 8,500 km from its main

[1] WBG figure, derived from 1999 census, results of the 2009 census have yet to be published.

international markets – Thailand, China, and the European Union.[2] The terrain is predominantly rugged or mountainous, with few large stretches of flat land. The small, widely dispersed population has given rise to great cultural diversity, with 74 distinct languages.[3] The country is susceptible to significant natural disasters, in particular tsunamis. The inhabited islands are mostly high islands and there are few inhabited coral atolls, however climate change threatens coastal settlements and infrastructure.

Post-conflict Context

4. ***Following 20 years of reasonable growth and steady progress in social development since independence in 1978, the country underwent a period of conflict, known as the "Tensions" between 1998 and 2003.*** Armed conflict between militant groups from Guadalcanal and Malaita led to deaths, displacement, and widespread destruction of property. Many state functions collapsed as the Treasury was repeatedly raided and the police force was drawn into the conflict. Real GDP (Gross Domestic Product) declined by 24% between 1998 and 2002.[4] Churches and civil society organizations, particularly women's groups, played key roles in averting violence where possible, maintaining services, and advocating for peaceful resolution. While often described as an "ethnic conflict", the Tensions had multiple political and economic causes. These include slowing of the economy since the early 1990s, elite competition, and the disproportionate concentration of economic development in and around Honiara, which had led to tensions between Malaitan in-migrants and Guadalcanal landowners. The conflict further opened up long-standing questions about the structure of the state and grievances surrounding the allocation of resources. The conflict re-ignited calls for changes to the current central-provincial government structure, based on the widespread perception that this would increase local benefits from economic activity and improve services.

5. ***The arrival of the Regional Assistance Mission to Solomon Islands (RAMSI) in 2003 at the request of the Solomon Islands Government halted the violence.*** A regional peace-keeping and state-building mission under the auspices of the Pacific Islands Forum[5], RAMSI moved with impressive speed to restore security, order, and basic functions of the state. Since 2003 important progress has been made, including the restoration of essential services, renewed economic growth, increased budget revenues, and the revitalization of key oversight institutions. The RAMSI presence is widely seen as the guarantor of law and order, contributing to high levels of popular support.[6]

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2 World Trade Organization Trade Profile2008

3 Gordon, Raymond G., Jr. (ed.), 2005. *Solomon Islands in Ethnologue: Languages of the World, Fifteenth edition.* Dallas, Tex.: SIL International. http://www.ethnologue.com/show_country.asp?name=Solomon+Islands .

4 IMF World Economic Outlook data, 2009

5 The Pacific Island Forum is a political grouping of 16 independent and self-governing states comprising Australia, the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, the Republic of Marshal Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

6 The *2009 Annual RAMSI People's Survey* found that 88% of those surveyed supported the RAMSI presence and 53% believed violence would return should RAMSI depart.

Recent Economic Developments

6. ***The Global Financial Crisis (GFC) has highlighted important systemic weaknesses in the Solomon Islands economy***. Growth declined to just 1% in 2009, due to falls in log exports, reduced commodity prices, constraints on government spending, and the impact of floods on agricultural production. The collapse of growth in 2009 ends a period of strong growth following the restoration of order after the Tensions. Between 2003 and 2008, the economy grew at an average of 6.9% per annum, driven by the restoration of security, large aid inflows, rapid expansion of government expenditure, and a logging boom based on unsustainable extraction of natural forest logs. Despite recent growth, output per capita remains more than 15% lower than before the Tensions.

	Estimates			Projections			
	2007	2008	2009	2010	2011	2012	2013
A. Output							
GDP (nominal $US million)	541.1	641.8	688.4	717.1	779.8	895.5	1001.7
Real GDP growth rate (%)	10.7	6.9	0.4	2.4	2.8	8.8	6.5
GDP per capita ($US)	1093	1266	1290	1351	1438	1617	1771
B. Prices							
CPI year-on-year change (%)	10.9	17.5	5.5	8.4	6.5	6.2	6.1
C. Exchange rates							
SI$/US$ end of period	7.66	8	8.06	..	..	..	..
Real effective exchange rate (2005=100)	106.4	115.9	..	..	..	..	..
D. Foreign Exchange							
Gross official foreign reserves (US$ million)	120.6	90.1	88.3	63.2	45.9	64.7	93.8
In months of next year's imports	3.9	2.9	2.5	1.7	1.2	1.6	1.8
E. External Position							
Current account balance ($US million)	-67.3	-120	-74.2	-130.7	-174.8	-136.5	-129.6
In % GDP	-12.4	-18.7	-11.1	-18.2	-22.4	-15.2	-12.9
F. Fiscal Accounts (% of GDP)							
Revenue and grants	33.5	46.9	47.3	50.2	48.9	50.6	51.9
Total Expenditures	27.6	44.2	45.6	49.7	47.3	51.1	51.1
Overall Balance	5.9	2.7	1.7	0.5	1.5	-0.4	0.8
E. Debt							
Gross external debt (% of GDP)	32.1	25.4	22.2	19.4	17.7	15.5	14.1
External debt service (% of GDP)	2.6	3.9	3.5	2.9	2.6	2.2	1.9

Source: IMF Staff Report for the 2009 Article IV Consultations.

7. ***Growth is expected to remain at low levels over the ISN period, highlighting the need to rebalance growth away from logging.*** The impetus from post-conflict recovery appears to be slowing, with insufficient new investment to maintain previous growth levels. According to the Central Bank of Solomon Islands (CBSI), logging contributed 16% of GDP and approximately 32% of export receipts in 2008. The logging boom has, to some extent, masked the scale of decline in other sectors, including in manufacturing and utilities. Non-logging output is still around 30% of where it would have been had growth continued the trend levels of the mid-1990s. The 2009 decline in logging and ancillary services due to the GFC has brought forward the inevitable impacts of the long projected exhaustion of commercially viable forest resources by 2013. The projected resumption of growth after 2012 is contingent on the re-commence of the Gold Ridge mining operation.

8. ***Future growth prospects appear limited.*** The *Sources of Growth* analysis has shown that potential growth in the tourism, fisheries, mining, and agricultural sectors is unlikely in the short term to compensate for the loss of logging in terms of employment, exports, or government revenue. Agricultural productivity, especially in the dominant subsistence sector is poor, with little productivity growth observed in several decades. Should operations recommence, Gold Ridge and potential nickel operations in Choiseul and Isabel will be an important source of output growth and foreign exchange. These operations, however, may only make a limited contribution to employment and government revenues, and only Gold Ridge is likely to commence operations during the ISN period.

9. ***Emerging fiscal pressures pose risks over the ISN period.*** Government expenditure has increased at an unsustainable rate of 20%-30% per annum, from around 25% of GDP in 2003 to 50% of GDP in 2009. This expansion has been made possible by rapid increases in donor support, increased export tax revenues associated with the logging boom, improved compliance and broadening of the tax base, and general growth. With Official Development Assistance (ODA) to Solomon Islands leveling off, slowing growth, stocks of natural forest logs near exhaustion, and the least-cost opportunities for increasing tax compliance and coverage largely implemented, Government is likely to feel increased fiscal pressure over the medium-term. These risks were highlighted during 2009, with cash reserves reaching precariously low levels, and emergency cash management practices instituted leading to delays in payments to suppliers and disruption to programs. Government also instituted a range of revenue measures, including the retrospective inflation indexing of various fees and charges, and increases in custom duties for certain luxury goods. A significant adjustment of fiscal policy is required over the ISN period. The extent of emerging fiscal pressures may not be adequately reflected in Government of Solomon Islands (GoSI) budget planning, with the 2010 budget projecting ambitious revenue inflows. Loss-making SOEs, owned by central and various provincial governments, continue to represent an unnecessary drain on fiscal resources. Rapid increases in travel and entertainment expenditure and poorly specified grants within the recurrent budget need to be managed.

Figure 1: GDP and Government Expenditure Index (100=2003)

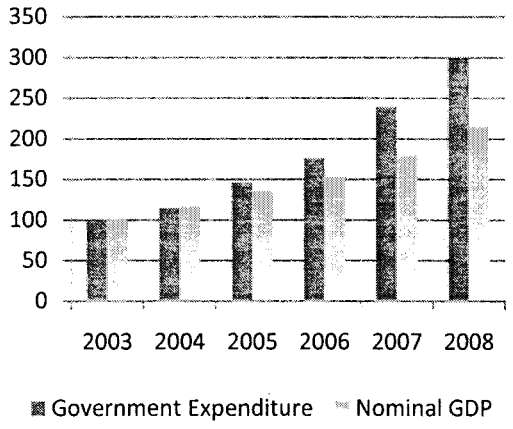
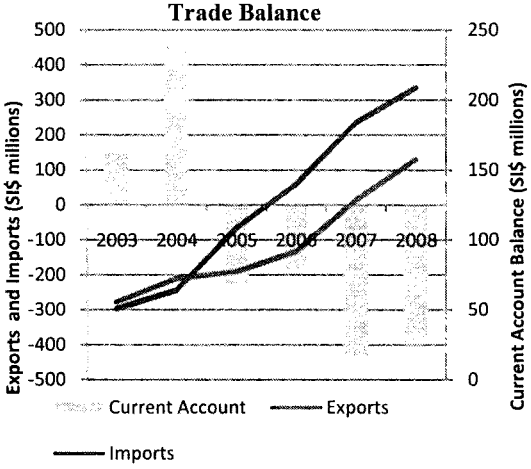


Figure 2: Current Account and Trade Balance



10. ***The balance of payments (BoP) position remains a source of concern.*** Loose monetary policy since the Tensions, coupled with commodity price shocks, resulted in a period of rapid inflation, and an appreciation of the real effective exchange rate by more than 26% since 2003. Inflation reached 17% in 2008, but declined to 6.8% in 2009 due to policy measures and an easing of food and fuel prices. Exports have grown rapidly, helped by buoyant log shipments and prices. But the rise in imports has been even greater, and the trade and current balances have moved into very substantial deficit (18% in 2008 and 11% in 2009). Foreign exchange reserves fell to around 2.6 months cover in early 2009, before recovering to more than 5 months currently. This recovery was largely driven by falling imports, and one-off factors such as emergency rescheduling of aid inflows and International Monetary Fund (IMF) Special Drawing Rights allocations in response to the GFC. A further deepening of the current account deficit is expected over the ISN period to 22.4% of GDP by 2011, driven by declining log exports and increased fuel imports, and the BoP position can be expected to continue to deteriorate over the medium-term.

11. ***The Government has taken some positive steps to address macroeconomic challenges.*** Solomon Islands has reduced debt to around 25% of GDP, and has met debt repayment obligations under the "Honiara Club Agreement". Current policy is to avoid any new public debt. However, the Solomon Islands remains at moderate risk of debt distress, given uncertain growth prospects. Government has implemented a new budget system and is working towards improved forecasting and cash management mechanisms, in order to maintain appropriate reserves, as articulated in its 2010 reform program. The Ministry of Finance and Treasury (MoFT) is leading a growth-focused program of reforms centered on improved management and selective divestment of SOEs, and improvements in the business enabling environment. Government has also launched a Public Expenditure Review (PER), supported by the WBG which is expected to contribute to identification and sequencing of policy reforms.

Political Context

12. ***The political context in the Solomon Islands has been characterized by frequent changes of coalition governments.*** The National Parliament consists of 50 Members of Parliament (MPs). Political parties are not well-established. There is turnover of 50% or more of MPs at each election, and Government represents an aggregation of interests rather than a party platform. Only one government has served a full-term.[7] The need to maintain coalitions has driven pro-cyclical spending and a focus on short-term goals. Only one woman has ever served in the National Parliament. The 2006 elections were accompanied by violence, and the risk of political violence remains. Elections are set for July/August 2010. There is widespread recognition of the need for political reform which the current Government has promoted.

13. ***Mixed effectiveness in administrative structures and systems hamper service delivery and accountability, fueling grievance.*** Aside from basic health and education, there is little state presence in rural areas. Provincial governments have been weakened by insufficient clarity on the roles of provincial and central government, low levels of funding, and planning and budget systems which do not align with local priorities. Low capacity across the public administration, but particularly at the provincial level, hampers service delivery. Recognizing this constraint, Government has transferred administration of a large proportion of education services back to churches, which were the original providers of education in Solomon Islands. Given the geographic and social realities of Solomon Islands, optimal service delivery arrangements will necessarily need to draw on a wide range of non-state actors. Since 1993, MPs in Solomon Islands have been provided with "constituency funds" to use at their discretion. These funds are equal to around 4% of total Government spending, compared to 2% of spending on provincial government. Fifty percent of the costs are met by Taiwan, China. In some areas these funds are well-administered and address essential community needs, but in other instances are perceived as leading MPs to focus more on project administration rather than legislation. The existence of multiple systems also weakens public financial management (PFM), although some important reform efforts, including moves toward greater accountability in the use of constituency funds, are underway.

14. ***During the immediate post-conflict period, donors increased direct assistance to rural areas,*** often with only partial integration into Government decision-making processes. These programs addressed the needs of rural communities immediately following the conflict. However, constituency funds, government/line ministry budget, and community-level donor programs constitute three parallel financing systems, of which the government/line ministries are the most poorly resourced – encouraging communities to look to donors or MPs rather than Government for services. There is widespread discussion among donors of the need to balance efforts to address rural service delivery needs with strengthening national systems, which informs both WBG approaches and increased donor efforts to work through Government.

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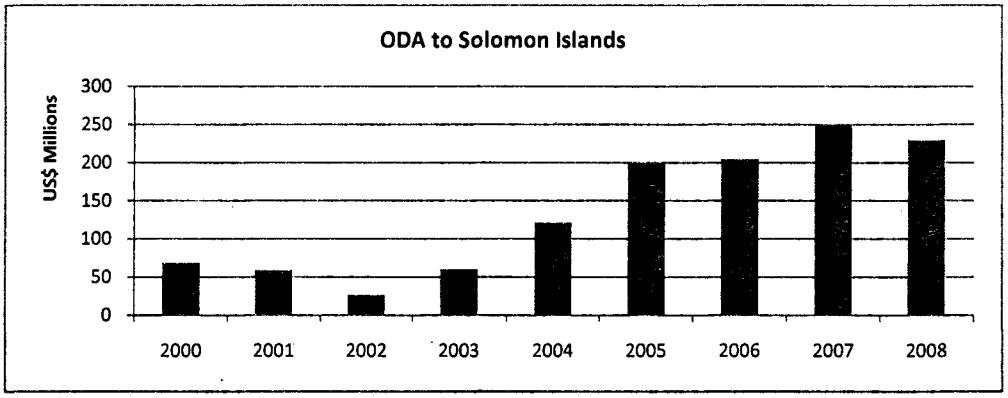
[7] Sir Allan Kemakeza's parliamentary term ran from December 2001 to December 2005, but he remained in office leading a caretaker administration until April 2006.

Donor Engagement

15. ***Solomon Islands has one of the highest levels of aid per capita in the world.*** The country has received US$200 million or more in ODA annually since 2005. Aid was 40% of GDP in 2008, compared to 14.6% of GDP in 1990 and a low of 7.1% of GDP in 1996. However, these figures mask the amounts available for development spending against Government priorities as a large proportion, 38%, goes on security and policing and another 13% on justice through RAMSI.[8] There is no set time-frame for the withdrawal of RAMSI. The Forum has maintained that there will be a gradual phasing out or handing over of key functions, but no withdrawal until "the job is done." Australia, which funds 96% of RAMSI costs, has provided budget to 2013. The security presence provided by RAMSI is generally perceived as essential to overall progress.

16. ***There is a large number of donor programs, presenting challenges for coordination.*** In 2009 there were a total of 126 separate programs spread across 26 government agencies.[9] A comparatively small proportion of aid goes through the budget. Currently 93% of aid is not formally appropriated through the Government's budget process. In 2009, 24% of all education expenditure in Solomon Islands was funded by donors, while 35% of all health expenditure was funded by donors. AusAID and NZAID lead Sector Wide Approaches (SWAps) in the health and education sectors respectively. In early 2009, the MoFT launched the Government-donor Core Economic Working Group (CEWG)[10] in response to the effects of the GFC. Supported by the WBG, ADB, and RAMSI, the CEWG is the first Government-donor dialogue forum of its kind in Solomon Islands. The group paved the way for a donor response, including the development of budget support programs, and is regarded by both donors and Government as substantially improving dialogue on crucial economic and fiscal matters.

Figure 3: ODA to Solomon Islands



17. ***RAMSI and other donors have significant capacity and institution-building programs.*** In recent years, RAMSI has sought to shift from its primary focus on security to capacity-

[8] RAMSI has a current complement of approximately 280 police, 250 military, and 100 civilian personnel in administrative or advisory roles. This does not include spending on the RAMSI military contingent.

[9] Government of Solomon Islands Development Budget 2009.

[10] This group includes Ministry of Finance and Treasury, Ministry of Development, Planning and Aid Coordination, Central Bank of Solomon Islands, AusAID, EU, NZAID, RAMSI, ADB, and WBG.

building and institution-building.[11] RAMSI's Participating Police Force still carries out some executive policing functions but is seeking to move toward more of an advisory role. Capacity building and some in-line support in core institutions is likely to remain a need for years to come, although RAMSI will continue at approximately current levels of support and personnel for the next four years. During this time it will be crucial to determine which Government entities will still require post-RAMSI capacity and institution building efforts, and if so which international agencies may be best placed to take on this role in which areas. In addition, the AusAID led SWAp in health and NZAID led efforts in education both have capacity-building elements. Several current WBG activities have important capacity-building elements, including the rehabilitation of agriculture extension services under the Rural Development Program, health sector TA, support to the telecommunications commission, and management reform in the energy utility. The mining sector TA and technical assistance to support a skills development strategy will also lay the groundwork for future capacity building activities. Against the background of RAMSI transition, an expanded capacity building role for the WBG in the next strategy period could be considered.

Development Challenges

18. ***Geography.*** Geography is among the most significant barriers to private sector development and service delivery in Solomon Islands. Distance from major markets increases the costs of exporting, and the costs faced by domestic producers reliant on foreign inputs. More importantly, a widely dispersed population magnifies the difficulty of providing basic infrastructure and services and precludes economies of scale. Transport from production centers to export points in Honiara is a major cost for exporters of important commodities (more than 20% of Free on Board (FOB) value for copra[12], and more than 10% of FOB value for coconut oil). The overall small size of the economy and population magnifies this disadvantage. Geography also leaves the country particularly vulnerable to deadly natural disasters.

19. ***Economic growth.*** Improved growth, with lower volatility, is essential to reducing poverty and engendering long-term stability. Solomon Islands is a low-income country, with a GNI per capita of US$1,082.[13] The formal economy employs only about 50,000 out of a working age population of about 250,000. Roughly two thirds of the population works in subsistence agriculture combined with periodic cash income. However food security constitutes a critical asset. Customary land tenure gives most people access to productive land for gardening and the collection of forest and sea products. The wantok[14] system provides a basic social safety net in the absence of formal social protection systems. The 2006 Household Income and

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[11] Institutions with a RAMSI in-line or advisor presence include Ministry of Finance and Treasury (Economic Reform Unit, Customs & Excise, Inland Revenue, Budget, Treasury), Royal Solomon Island Police Force, Ministry of Justice & Legal Affairs, Ministry of National Security, Corrections Service Solomon Islands, Courts (High Court, Magistrates Court, Sherriff's Office, Case Support Unit), Public Solicitor's Office, Department of Public Prosecutions, Attorney-General's Chambers, Law Reform Commission, Ministry of Public Service, Institute of Public Administration and Management, Auditor General's Office, Ombudsman's Office, Leadership Code Commission, SI Electoral Commission, ITC Support Unit.

[12] The dried white flesh of the coconut from which oil is extracted

[13] International Monetary Fund, *Staff Report Article IV Consultations,* 2009.

[14] Literally "one talk". Wantok refers to an individual from the same tribal group, sharing a common language. The term "wantok system" refers to the nexus of practices surrounding reciprocal obligations between kin and interactions between members of kin groups and outsiders.

Expenditure Survey (HIES) provides the most recent poverty data.[15] According to the HIES, the average incidence of basic needs poverty was 22.7% overall, while the incidence of food poverty was 10.6%. Female-headed households were found to be somewhat over-represented in the lowest three expenditure deciles. The study concluded that poverty in the Solomon Islands context does not mean hunger or destitution but a struggle to meet living expenses, frequently leading to indebtedness.

20. ***The presence of immutable geographical barriers magnifies the importance of policy settings.*** Policy, regulation, and targeting of public spending need to encourage private sector development, competition, and basic conditions for investment, and not impose unnecessary costs on this sector. Policy development and reform is currently constrained by mixed strategic planning and coordination, and an absence of a well-articulated strategic vision to guide donor investment, vital in a context where donors fund the majority of development expenditure.

21. ***Improved macroeconomic management is vital.*** Failure to manage emerging macroeconomic pressures is likely to further constrain private sector development. Continued inflation, appreciation of the real exchange rate and balance of payments volatility has impacted negatively on exporters, and weakened overall investment confidence. Improvements to public expenditure management are essential. Currently, PFM is uneven. A Public Expenditure and Financial Accountability report in 2008 gave the country low scores in most areas. Areas of particular concern are budget credibility and relationship of allocation to output; transparency and oversight of provincial and SOE budgets; forecasting and multi-year planning; orderliness of budget process; and allocation of tax exemptions. Execution of the development budget is particularly poor, with project delays common and little monitoring or evaluation of Government development investments. Improvements in PFM are also essential to improving local level service delivery.

22. ***Quality of regulation in Solomon Islands is mixed, with Solomon Islands coming 104th in the WBG's 2010 global Ease of Doing Business Survey.***[16] Regulations, land laws, zoning restrictions, and taxes and duties are onerous. Access to finance is limited and costly. Administrative and regulatory functions are distributed between a large number of different departments. Eight-five percent of land is under customary tenure, with the existing statutory system for identifying, registering, and titling customary land posing risks to customary owners and therefore seldom used. State land is also inefficiently administered. Central and provincial government hold ownership interests in a wide range of commercial or quasi-commercial SOEs, which drain budget resources and crowd out private investment. Recognizing this problem, Government has moved to update SOE accounts and begin privatizing, and introduce a new *Companies Act 2009*.

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[15] Government of Solomon Islands and UNDP, *Household Income and Expenditure Survey, 2005/2006*. The HIES did not use the usual PPP values for measuring poverty, as the PPP indices are not available. Instead the study used Food Poverty Lines (FPL) and a Basic Needs Poverty Line (BNPL) for Honiara, provincial-urban, and rural households. Poverty was then calculated as proportion of household and populations less than poverty lines.

[16] Out of 183 countries, this is down from 89th place in 2009.

23. ***Improvement in the use and distribution of benefits from natural resource extraction is fundamental to growth, improved social well-being, and long-term stability.*** While supporting short-term budget revenues, logging operations are widely perceived as not having translated into sustained benefits, either nationally or locally. Royalties have often been spent on short-term consumption, while favorable pricing arrangements and uneven compliance have deprived Government of revenues, while grievances over the distribution of the benefits of economic development growth contributed to the conflict. The fisheries sector is growing but may well be below potential, making up 6% of export receipts in 2008. The current Vessel Day Scheme allowance, administered by the Parties to the Nauru Agreement (PNA), does not take full advantage of the potential market power held by PNA member states, which account for more than 60% of the global tuna catch. The PNA is moving toward a more strictly enforced regional regime, which could lead to higher international prices and protect the sustainability of stocks.

24. ***Mining has potential to play an important role in future growth, however the equitable sharing and transparent management of benefits is fundamental.*** The industry is still in early stages, but a significant number of prospecting operations are underway. Translating growth in the minerals sector into broad-based opportunities for Solomon Islanders will require effective negotiation and implementation of tax regimes, sound management of royalties paid to communities, and effective use of revenues by Government. Good governance in the mining sector is a frequently articulated priority of both Government and communities, and has led to a request to the WBG to provide assistance with updating the policy, legislative, and institutional framework, which is currently inadequate. Following awareness-raising efforts by RAMSI and the WBG there is interest in signing up to the Extractive Industries Transparency Initiative (EITI).

25. ***The provision and quality of infrastructure in Solomon Islands is very low, constraining growth and service delivery.*** There are only 5 kilometers of road per square kilometer in Solomon Islands, the lowest density in the Pacific, and 60% of them on Malaita and Guadalcanal. Inter-island shipping, scheduled air travel, and local transport by outboard is run by central or provincial government SOEs, is very expensive, and mostly intermittent. Electricity is unreliable and costly, with 98% of power generated using imported diesel. Eighty percent of generated power is consumed in Honiara, and only 16% of households nationwide have access to electricity. Telecommunication liberalization was initiated only in mid-2009, and until then was supplied under a monopoly license. Access to telecommunications remains poor. Only about 11% of the population has access to phones. Most internet access is through dial-up, with fewer than 1,000 broadband subscribers across the country. Recognizing these challenges, Government has introduced competition in the telecommunications sector and is moving to improve management of the water and power utilities, with WBG support in power utility and telecommunications.

26. ***Human Development*** - Solomon Islands is unlikely to achieve several of the Millennium Development Goals, including those relating to child mortality, prevalence of disease, and school enrolment. In health, both the quality and quantity of services is undermined by weak planning and budgeting, which results in poor use and maintenance of the workforce, facilities, drugs, and equipment. Education is of variable quality and widely perceived to have experienced a long-term decline. Estimates of adult literacy vary greatly, with the 1999 census figure cited at

76.6%. However a detailed literacy assessment undertaken by the Asia Pacific Bureau of Adult Education[17] in Honiara and Malaita in 2007 found literacy rates of 17% overall (27.8% in Honiara and 7% in Malaita). Only 28.1% of students completing primary school were found to be literate, and under half of secondary graduates. Lack of basic numeracy and literacy skills appear to inhibit school to work transition, contribute to skills shortages, and potentially constrain economic growth. Both health and education systems face continued pressure from population growth (2.3%).[18] Government expenditures have been biased towards urban curative care in health and tertiary education. As in other PICs, lifestyle diseases are emerging as a costly public health problem.

27. ***Although social indicators continue to lag, there have been some important gains in health and education.*** In education, net primary enrolment is 94%. Secondary enrolment is 31% at junior secondary and 19% at senior secondary (2008).[19] The recent introduction of a fee-free policy through year 10 is likely to yield further increases.[20] While enjoying considerable political backing, the fee-free policy is costly. Recognizing the challenge of maintaining its commitment to fee-free education, the Ministry of Education and Human Resource Development has undertaken an education sector public expenditure review, which resulted in identification of significant savings as well as a costing of the National Education Action Plan (NEAP) with the support of NZAID and the WBG. A committed workforce and consistent donor support have led to these gains. In 2009, Australia alone provided over one-third of total public expenditure in the health sector, supporting pharmaceuticals, technical advisors, and provincial grant funds. NZAID has led a significant program of education sector planning strengthening and budget support to major initiatives such as school grants as part of the fee-free basic education.

28. ***Health indicators compare favorably with countries at similar income levels.*** Free healthcare and a relatively good outer-island health infrastructure ensure high levels of access. Maternal mortality declined to 103/100,000 live births in 2007, but was still well-above rates achieved in the late 1990s.[21] Approximately 77% of babies receive all basic vaccinations, and over 80% of women give birth in health facilities.[22] The infant mortality rate of 24 per 1,000 live births is below that of other low-income countries in the East Asia Pacific (EAP) region.[23] Malaria incidence has declined from 450 per 1,000 in 1990 to 128 per 1,000 in 2007[24], but remains the highest incidence outside of Africa. AusAID and the Global Fund support eradication measures which have led to some early success in lowering incidence in the first target provinces. HIV prevalence remains low at 11 identified cases by 2008 but the incidence

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17 *Educational Experience Survey. Education, Language and Literacy Experience in the Solomon Islands.* October, 2007. Asian South Pacific Bureau of Adult Education and Coalition on Education Solomon Islands.

18 World Development Indicators , 2009.

19 *Performance Assessment Framework (PAF) 2006-2008*, July 2009. Ministry of Education and Human Resources Development.

20 A small sample survey conducted by the Ministy of Education and Human Resource Development on fee-free basic education impact in 2009 indicated a 9% enrolment increase.

21 *2008 Annual Report Volume III. Ministry of Health & Medical Services and Health Sector Support Program,* April 30, 2009.

22. *Solomon Islands Demographic and Health Survey 2000-2006*, May, 2009. National Statistics Office, Honiara, Solomon Islands.

23 ibid.

24 *Ministry of Health & Medical Services and Health Sector Support Program,* op cit.

of other sexually transmitted infections has risen rapidly.[25] Against this background of improvement but still lagging MDGs there is an opportunity for the WBG to contribute in partnership with other development/donor partners to improved social indicators.

29. ***Gender.*** Good quality data is unavailable, but women's participation in the formal economy is significantly lower than that of men. Only 27% of public service positions are occupied by women, of which only 19% are senior positions.[26] Available evidence suggests that women have significantly fewer opportunities for tertiary education, with implications for employment. An estimated 54.3 % of women over 15 are 'economically active,' but tend to work in selling cooked food, handicrafts, or in running micro-businesses, such as kiosks.[27] Women play a significant role in agriculture, but have less access than men to formal agricultural extension services. Gender-based violence, including sexual abuse, affects a large number of women. In a recent study 64% of ever-partnered women aged 15 – 49 reported physical or sexual abuse from partners.[28] Few formal services for women seeking to move out of abusive relationships exist. Pending Cabinet approval, a National Policy on Eliminating Violence Against Women aims to address the inequalities which perpetuate gender-based violence, address risk factors, strengthen prevention efforts, and raise awareness of women's rights.

30. ***Women's representation in decision-making positions in formal institutions is low.*** Men are more likely to have broader decision-making roles at the national and community level, as ministers, officials, priests, project managers, or chiefs, although women's representation in these roles does occur. Women often face more barriers than men in administrative processes, such as acquiring land, business registration, or accessing credit. In addition women tend to be excluded from decision-making around large economic projects or the use of land for development purposes. Studies suggest that increased commercialization has undermined women's customary decision-making authority, particularly in areas of matrilineal land-holding.

31. ***However, low representation in formal decision-making roles can obscure the voice women do have.*** Women play key roles in churches, which are central to community life. Some churches actively promote women's literacy and capacity-building programs. There are a large number of women's organizations.[29] Additionally women have increasingly sought to influence political and economic decision-making, including on improving use of royalties from logging operations. WBG mining sector activities will support these efforts through awareness raising surrounding the importance of women's role in negotiating and managing benefits from extractive industries. In late 2009, Government approved an updated Gender Equality and Women's Development Policy.

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25 From 4-8 notifications per 1000 until 2004, this has risen sharply to 13 notifications per 1000 in 2008. *Evaluation of Australian Aid to Health Service Delivery in Papua New Guinea, Solomon Islands and Vanuatu, Working Paper 2 Solomon Islands Country Report*, June. 2009

26 Ministry of Women, Youth, and Children's Affairs

27 AusAID and International Finance Corporation (2008) *Draft Women in Business Survey.*

28 Secretariat of the Pacific Community, *Solomon Islands Family Health and Safety Study on Gender Based Violence and Related Child Abuse,* 2008.

29 AusAID *Solomon Islands Smallholder Agricultural Study, volume 2, 2005* cited in AusAID, *Solomon Islands – Australia Rural Livelihoods Program, Program Design Document*, 2009 – gives a figure of 3,000 community groups and ten national women's organizations

32. ***Vulnerability to conflict.*** Many of the underlying causes of the conflict have not been addressed. The 2009 *Report on the Inquiry into the Facilitation of International Assistance Notice 2003 and RAMSI Intervention* by the Foreign Relations Committee of the National Parliament of Solomon Islands as well as academic literature and media reports identify the "root causes" that remain.[30] Prominent among these are the poor linkages between customary and introduced authority systems, particularly in the area of justice. Other frequently cited "root causes" include: i) land tenure; ii) ethnic and cultural differences; iii) poor access to Government services and public resources; iv) narrow economic base and maldistribution of economic benefits; v) centralization of economic and political activity in Honiara; and vi) the grievances of Guadalcanal as the capital island. Without addressing these issues; security may remain a fundamental constraint to growth and improved standards of living. Government and donors are seeking to address "root causes" through a truth and reconciliation commission, building capacity in justice and oversight institutions, economic reform and growth, and support to and review of sub-national governance arrangements.

33. ***Weak administration and capacity hampers state capability to address perennial and emerging social tensions.*** Weak institutions have difficulty consistently mediating conflict, including over land and sharing of economic benefits – two of the most common sources of dispute. The formal justice system functions, and is perceived not to be corrupt, but is largely confined to the capital and main towns. Its absence in rural areas means most people rely on the strong customary dispute resolution systems, but linkages between the two systems are poorly defined, leading to parallel processes and conflicting outcomes. The formal system is currently highly reliant on foreign personnel funded by RAMSI.

34. ***Government is constrained in its capacity to respond to emerging social challenge, such as urban youth unemployment.*** Despite a significant drop in total fertility rates since the 1970s, from 7.09 to the current average of four (3.4 urban areas, 4.8 rural areas), 44% of Solomon Islands population is under 15. However with an estimated 7,500 young people entering the workforce each year, only one among every six school leavers will find paid employment as the creation of job opportunities has not been able to keep up with the rapid population growth. In addition, according to the 2005/06 HIES, the incidence of basic needs poverty affects some 32.3% of people in Honiara compared with 18.8% in rural areas. While there is widespread concern about the threat to stability posed by the large youth population, issues of urbanization in general are often overlooked. The current Government is the first to seek to develop programs to address urban youth unemployment.

III. PRIOR ENGAGEMENT AND LESSONS LEARNED

35. ***A member of the World Bank since 1978, Solomon Islands has received 11 IDA operations totaling approximately USD$63.4 million.*** These projects addressed education, roads, rural development, health and energy, and a structural adjustment operation. Of these 11 operations five closed prior to 1995, and three between 2000 and 2006. The Bank has

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[30] National Parliament of Solomon Islands, Foreign Relations Committee, *Committee Report on the Inquiry into the Facilitation of International Assistance Notice 2003 and RAMSI Intervention,* November 2009, pp. 193 – 209.

consistently collaborated closely with ADB, NZAID and AusAID. The Bank has had few recent operations, but has drawn on extensive consultations and research with other partners, particularly in the design of the Rural Development Project (RDP). Important lessons have emerged from the post-2003 engagement by the international community in Solomon Islands, including the importance of: i) long-term engagement and an acknowledgment that rebuilding formal institutions, service delivery, infrastructure, and marketing channels takes time; ii) re-establishing linkages between the national and provincial governments and rural communities is vital - in the post-2003 period projects bypassed government to produce quick results, but further disconnected communities from government; iii) communication, outreach, and transparency is vital to building confidence and managing risks.

36. ***Lessons learned from recent exits and the Quality Assurance Group review of the Pacific Islands[31] are also being taken into consideration with the new program.*** The Bank's three most recent exits were rated as unsatisfactory. This experience underlines the challenges of operating in a conflict-affected state, as all three operations were carried out during the Tensions. Implementation was severely affected by the unrest, leading to the suspension of IDA credit. The experience of structural adjustment in the late 1990s highlighted the importance of political economy considerations and sequencing of reform in a context of deteriorating security and economic situation.

37. ***Drawing on IDA's experience with Engagement in Fragile States[32] and the EAP regional strategy, the Bank Group has expanded its field presence in Solomon Islands.*** The establishment of a country office and the decentralization of many team leaders to the Sydney office will ensure intensive project implementation support and improve the Bank's understanding of the operating environment. Project design is to be kept simple in line with implementation capacity. Enhanced supervision and implementation support is needed particularly in fiduciary management. Partnerships with other donors are essential, and project re-design should be considered favorably. However, Solomon Islands still has many elements of fragility including weak institutions and limited implementation capacity.

IV. WORLD BANK GROUP INTERIM STRATEGY 2010 – 2011

Strategic Framework

38. ***The WBG strategy for Solomon Islands draws on the Bank's EAP regional strategy.*** The regional strategy calls for the Bank to assist the poorest and most fragile states in preventing a rise in instability, maintaining capacity building and accountability as areas of focus, and supporting efforts to address the effects of the GFC. This last element also echoes calls by the Pacific Island Forum leaders in August 2009 for the International Financial Institutions to assist the Pacific Islands countries in responding to the global economic crisis, including through supporting better coordination mechanisms. The WBG has been at the core of donor efforts to help address the effects of the GFC in Solomon Islands, through its role in the CEWG and a

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[31] *Quality Enhancement Review Pacific Islands, Volume I*, Quality Assurance Group, June 30, 2008.

[32] *Strengthening the World Bank's Rapid Response and Long-Term Engagement in Fragile States* (SECM2007-0018), March 30, 2007.

possible Development Policy Operation (DPO or budget support). Further, the WBG in Solomon Islands aims to help Government address some of the issues most likely to spark instability, specifically economic slowdown, fiscal constraint, unemployment, and uneven service delivery. Paragraph 17 details current WBG capacity building efforts. The ISN period also lays the groundwork for possible future capacity-building efforts, particularly in implementing the skills strategy, health, and PFM.

39. ***The WBG strategic approach to Solomon Islands also reflects strategic directions of the Pacific Department.*** Core to the evolving department strategy is an appreciation of the 'Pacific paradox' – that the Pacific Islands are highly remote but highly connected, vulnerable to economic shocks and particularly subject to economic and other developments beyond their borders. Further most face long-term aid dependency. "Putting together the accidents of geography and the expectations of citizens, the reality most Pacific countries face is that aid will not be a transitional, pump-priming phenomenon. Aid may need to be a semi-permanent 'wedge' to offset the 'tyranny of distance'."[33] The department's proposed strategic direction frames WBG engagement in the Pacific as assisting countries in managing the challenges of distance and size, reducing vulnerabilities to external shocks, and increasing access to the benefits associated with deepened regional and global integration. The Pacific Paradox is particularly relevant to Solomon Islands. International relationships with investors, trade partners, neighbors, and donors play a central role in the country's development trajectory. With health, education, security, justice, and financial management institutions to a large extent reliant on international funding and capacity, aid is likely to remain a feature of both state function and the economy for the foreseeable future. As the experience of the recent food, fuel, and financial crises demonstrates the country is also highly vulnerable to international shocks but very constrained in its capacity to mitigate these shocks.

40. ***While much can be achieved through improved policy and private sector-led growth, these alone are unlikely to deliver the level of revenues necessary to maintain stability and service delivery at current levels over the medium term.*** Remoteness, geographic fragmentation, and small size constitute insurmountable barriers to growth which conventional policy reforms, investment, and aid are unlikely to address. Government has expressed clear interest in increasing the benefits of international relationships, including attracting more socially and environmentally responsible investment, increasing the effectiveness and impact of aid in the local economy, and increasing labor migration. Over the medium-term, seizing the opportunities afforded by global and regional engagement and integration will mean ensuring better sustained capture of natural resource rents, greater regional cooperation, and long-term predictable aid.

41. ***The ISN has also been informed by consultations with Government, donors, private sector, and civil society.*** Discussions encompassed both broad challenges and WBG strategic engagement. The most prominent country challenges articulated were: i) economic growth, particularly given the decline in logging; ii) the need to articulate plans, strategies, and vision both nationally and within specific sectors, and improved policy making; iii) the need for the state to address the challenges posed by land administration, urbanization, and demand for changes to center-province administrative arrangements. Interlocutors felt that the value of the

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[33] WB EAP VP James Adams remarks, Post-Forum Dialogue, Cairns, Australia, August 7, 2009. The 2006 – 2009 REF also noted aid reliance as a reality of the Pacific Island Countries.

WBG lies most prominently in providing high-quality analysis and advice on economic issues - the development of the private sector, assisting Government in working with international investors, the articulation of a comprehensive growth strategy, and increasing the equitable and transparent allocation of revenues from natural resource extraction, particularly mining, and PFM. Government expressed a desire for the Bank to deepen engagement in the infrastructure sector, specifically energy, but also to maintain the current ongoing activities in rural development, health, and education. Government has also asked the IFC to explore investment transactions in key areas such as tourism, mining, fisheries, and forestry. Such transactions will fuel growth while also introducing improved standards for socially and environmentally responsible investment.

42. ***The ISN defines three areas of strategic engagement - i) Addressing surmountable barriers to growth; ii) Enhancing benefits of regional and global engagement; and iii) Supporting improved public administration and management.*** The choice of strategic area I addresses the core challenge of economic growth and fiscal stability, supporting the national priority of economic revitalization; as well as reflecting WBG expertise and Government priorities for WBG engagement. Strategic area II is based on the recognition of the centrality of international relationships to efforts to address national challenges and priorities, and the long-term benefits Solomon Islands stands to gain through greater regional and global engagement. Strategic area III is chosen based on analysis that changes in administrative arrangements and the management of public resources is essential to improved service delivery, mitigating vulnerability to conflict, including tensions surrounding center-sub-national and customary-formal arrangements, and addressing social challenges such as urban unemployment. As such this area contributes to the national priorities of improved service delivery, rural development, reconciliation, and devolution of decision-making to the local level. As well as WBG resources, implementation will draw on trust funds for both projects and administrative costs. Use of trust funds will include regional funds, such as the Pacific Regional Infrastructure Facility and the Pacific Facility, as well as global trust funds such as the GFDRR, GEF and SPF. The program also leverages relatively modest IDA contributions through co-financing with other donors.

43. ***A three tiered approach will be taken to incorporating gender across the strategic areas.*** Analytical work will incorporate gender-specific data and analysis. Projects, particularly the large-scale community projects RDP and the Rapid Employment Program (REP), include measures to ensure women's participation and benefits. The WBG will also undertake analytical and advisory activities specifically aimed at increasing women's participation in the formal economy. While there are numerous donor supported gender efforts, there is a striking lack of data on women's role in the formal economy and activities specifically targeted at helping women overcome barriers to starting businesses.

Strategic Area I: Addressing Surmountable Barriers to Growth

44. ***Economic growth and fiscal stability constitute core national challenges.*** The medium-term objective for the WBG is to contribute to durable and less volatile growth and stability by helping the country reduce the infrastructure, policy, and regulatory barriers to growth, including promoting greater macro-economic and fiscal stability. The results matrix in Attachment A provides a framework for measuring WBG engagement while laying out the relationship

between ISN period activities and medium-term country goals. Attachment B and C provide additional details of WBG and donor activities.

45. ***During the ISN period, the WBG will undertake the following activities in support of this medium-term objective:***

a. Supporting Government's reform to address fiscal and BoP pressures. This will involve four complementary activities: i) participation in CEWG dialogue; ii) PER; iii) Debt Management advice; and iv) a DPO. The CEWG provides a forum for reform dialogue and monitoring of donor budget support operations. These currently include general budget support from ADB and European Union (EU) (under development) and sector budget support from AusAID and NZAID. These support a Government reform program focused on PFM, SOE reform, and the business enabling environment. Government is also actively pursuing an IMF program.

   The WBG will move toward a modest DPO in FY2011 in order to support select PFM reforms, encourage coordination, selectivity, and sequencing among the overall donor budget support program, and help to move the country away from narrow project aid modalities. A gradual shift to budget support could also over the medium-term become a more cost effective use of aid funds, given the high transaction costs of project implementation in Solomon Islands. Aside from supporting the CEWG the WBG will not during the ISN period seek to take on a greater role in aid coordination in general.

b. Assisting Government in growth-oriented policy-making. As noted in paragraph 20, the presence of immutable geographic barriers renders Government policy that much more important. The *Sources of Growth* analytics will provide a basis for Government to enact policy changes and target public spending, including donor funds, toward investments which support economic growth, including their incorporation into the coming National Strategy Planning Framework. The work encompasses analysis of the near and longer-term economic outlook, growth prospects in key areas, and growth diagnostics to identify binding constraints. The Justice for the Poor (J4P) program will contribute a series of case studies on *Doing Business in the Context of Customary Tenure,* looking at instances of successful collaboration between enterprises and customary resource owners, in which a gender component will look at women's voice in these transactions. A micro-study on *Women and Sources of Growth* will explore potential entrepreneurial opportunities for women specifically related to the aid economy.

c. Improvements in telecommunications and energy infrastructure. Building on advice to Government in the drafting of the telecommunications bill that led to the recent de-monopolization, the WBG will support a program of telecommunications development, including the establishment of the independent telecommunications commission. In the energy sector, the WBG-supported Tina River Hydro scheme stands to reduce cost, improve reliability, and cut imported diesel for power generation on Guadalcanal by 45% to 100% depending on the size of the scheme. During the ISN period, the Bank's Solomon Island Sustainable Energy Project (SISEP) will undertake management reform aimed at making the power utility

commercially viable in order to make it a credible off-taker from the Tina River scheme. Concurrently the IFC will provide transaction advice for the mobilization of an independent power producer to build and run the Tina River scheme, while the Bank will provide an IDA partial risk guarantee to encourage investment. The team is also exploring use of the project for carbon offsets.

The WBG will also work with Government on a rural electrification strategy, which could lay the groundwork for future investment in this sector. This effort will focus specifically on renewable energy as the most feasible option for provision of electricity across the island geography. An important element of the strategy will be creating a framework for donor investment, given the high cost of energy infrastructure. Currently there is limited engagement from other donors in this sector, aside from a small-scale ADB renewable energy project.

d. Support Government efforts to improve the regulatory environment and encourage investment. The IFC's promotion of public-private dialogue aims to address specific barriers to doing business which includes a gender component aimed at reducing gender-based barriers to private sector participation. The recent IFC *Tourism Impediments Diagnostic* focuses on tourism investment as one of the areas most likely to generate jobs and foreign exchange. The J4P program will collaborate with IFC to examine how customary authority interacts with formal procedures on questions of business licensing.

e. Expanding access to finance. The RDP Component III expands access to finance by offering supplemental equity grants to medium-sized enterprises in rural areas. To date, this financing has gone mostly to agriculture and transport businesses. The IFC will continue to explore avenues for investment and advisory engagement in the financial services sector, including supporting the development of a Pacific Islands Regional Credit Bureau and a Pacific Islands microfinance scheme, with coverage of Solomon Islands.

f. Climate change adaptation and disaster risk reduction. The impacts of climate change pose a fundamental challenge to development in Solomon Islands, including threats to coastal settlements, loss of coastal infrastructure, and potential impacts on tuna migration. The WBG is assisting Government in addressing the vulnerability of coastal communities to the impact of climate change related hazards, as well as other disasters such as tsunamis and earthquakes, by integrating disaster risk management in government policies and investment plans and increasing climate resilience of costal infrastructure and water resources. The WBG will also preliminarily explore options for combining support to critical biodiversity efforts with carbon sequestration projects in communities, as exploration of carbon financing is a priority of both Government and Solomon Islands' significant environmental community.

Strategic Area II: Enhancing Benefits of Regional and Global Engagement

46. ***Solomon Islands stands to accrue long-term benefits from deepened regional and global engagement.*** The medium-term objective is to assist Solomon Islands to create a more level playing field in order to derive greater domestic economic benefits from international

investment and in common with other PICs maximize the economic benefits of and realize economies of scale through deeper regional integration. In the near-term this responds to Government requests for assistance in attracting more socially and environmentally responsible investment, helping to create systems for stepped up labor migration, and increasing the proportion of aid spent in the local economy.

47. ***During the ISN period, the WBG will undertake the following activities in support of this medium-term objective:***

a. Supporting Solomon Island participation in labor migration schemes. The WBG will assist in developing a labor export strategy, assess the viability of several potential markets, and review current institutional arrangements for facilitating labor migration, including policy relating to the registration of agents. These efforts can lay the groundwork for institution and capacity building efforts during the next ISN period.

b. WBG support to the new Parties to the Nauru Agreement (PNA) Secretariat. A regional initiative aimed at increasing the fisheries revenues of Pacific Island nations, while reducing incentives for over-fishing of key species, the PNA is seeking to establish a secretariat to support the new fisheries regime. The Bank and IFC will collaborate in providing technical assistance to the initiative once an engagement strategy has been developed and approved by both institutions.

c. Assisting Government in updating mining sector regulatory and institutional framework. Technical assistance will support the review of policy, regulatory, and institutional arrangements currently governing the mining sector. The project includes activities to raise awareness of the importance of women's role in the negotiation and management of royalties and other community benefits[34] and support for Solomon Islands to sign up to the EITI. These ISN period activities will lay the basis for a second phase involving the redrafting of policy and legislation and capacity-building. Over the medium-term these activities are designed to contribute to improved oversight, equitable benefits, and sound management of revenues in the mining sector.

d. Attracting socially and environmentally responsible investment. The IFC is exploring opportunities to invest in sectors such as mining, fisheries, forestry, tourism, and agriculture. Such investments will be important to export earnings and job creation, but will also support Solomon Island efforts to enhance the quality of investment, including greater attention to benefit distribution and environmental and social issues. The IFC is committed to delivering its first investment in the Solomon Islands and to having at least two well advanced business development opportunities during the ISN period. As a first instance, the WBG Board has approved an US$30 Million IFC investment to support the re-commissioning of the Gold Ridge gold mine operation. Following a takeover of the Australian owner by another publicly listed company negotiations have slowed but the IFC remains committed to further engagement in the extractives industry sector and is in discussion with other interested parties.

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[34] Building on the WBG Women in Extractive Industries Initiative.

e. Supporting enhanced aid effectiveness. This is in line with the Cairns Compact of 2009 through which Pacific Island Forum leaders seek to "...drive more effective coordination of available development resources from both Forum Island countries and all development partners, centered on the aim of achieving real progress against the MDGs."[35] The WBG will support Government and donor efforts to use aid more effectively, specifically through: i) identifying steps, through the CEWG, to increase the local economic impact of aid, informed by a RAMSI commissioned study by the Peace Dividends Trust and the *Sources of Growth* analysis; and ii) drawing on the results of the PER to define the gap between the level of service delivery which Government revenues can support and the level of funding that will be necessary to sustain or improve current levels of service delivery, for which Government will turn to donors. Defining this gap is an essential first step in improved medium to long term aid planning.

Strategic Area III: Supporting Improved Public Administration and Management

48. ***WBG activities in this area support Government efforts to improve public administration and management of public resources.*** Reducing vulnerability to conflict will require medium to long term changes to create a more effective administration, reflective of the social and geographic realities of Solomon Islands and responsive to citizen needs. This will necessarily include changes in allocation of resources across and between central and sub-national government and building links between customary and formal systems. In the short run, increased analytical clarity and dialogue on these issues can support the development of longer term strategies, including consultation mechanisms, to address them.

49. ***During the ISN period, the WBG will undertake the following activities in support of this medium-term objective:***

a. Supporting service delivery. The RDP[36] Component I supports service delivery in rural areas through provision of grants for small-scale infrastructure using community driven development (CDD) modalities. The project seeks to address community level needs, while linking to provincial government decision-making and resource allocation processes. Component II of the project provides for the rehabilitation of agriculture extensions services. One of the most tangible and important elements of the public sector for rural communities, extension services collapsed during the Tensions period, and their re-commence is one of the most frequently articulated demands from rural areas. RDP is providing training programs, rehabilitation of offices and other infrastructure, vehicles and equipment, and some recurrent costs.

The WBG support in the health and education sectors use relatively small IDA and Trust Fund (TF) commitments to play a catalytic role on key questions that augment the effectiveness of much larger donor and Government programs. Further the WBG is well placed to work cross-sectorally on issues like PFM and planning. The health

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[35] Forum Commique: Fortieth Pacific Islands Forum. Cairns Compact on Strengthening Development Coordination in the Pacific, August 2009.

[36] Cofinanced by EU and AusAID and managed by World Bank.

sector TA provides assistance aimed at improving expenditure management, planning, and budgeting. In education, the WBG is supporting analytical work in preparation for eligibility for Fast-Track Initiative funding, including an education PER completed in 2009, the costing of the NEAP, and an Early Grade Reading Assessment (EGRA). The WBG is also providing technical assistance for skills strategy development, which may be a first step toward addressing the constraints to growth posed by skills shortages. Both the EGRA and the skills TA are first steps in addressing the critical quality issues affecting education.

b. Assisting Government efforts to address urban unemployment. In response to a 2008 request from Government, the WBG is working with the Honiara City Council (HCC) and the Ministry of Infrastructure Development (MID) on the REP designed to produce 500,000 labor-days between 2010 and 2014. Currently focused on Honiara and peri-urban areas, the program has the potential to expand to the provincial urban centers of Auki and Gizo.[37] Activities will focus on labor-intensive public works and include pre-employment training. Measures to encourage participation of women may include targeting at least 33% women's participation in sub-projects, prioritization of women on community committees overseeing projects, and all women labor crews. The project aims to help Government address the immediate problem of urban unemployment but also demonstrates the potential of labor-intensive works for maintaining urban infrastructure.

c. Improving effectiveness, efficiency, and planning in public spending. The PER will provide comprehensive data and analysis of public expenditure,[38] at the national and provincial level. Other analytical work, including an education PER and costing of the NEAP contribute to gaining a picture of current public expenditure practice. The analysis will provide an essential basis for long-term expenditure planning; reforms to administrative structures and systems; and more efficient and effective use and allocation of public resources. Building on the PER, the WBG is also prepared to assist Government with the review and costing of different options for sub-national government.

d. Supporting policy changes to land administration and the justice system. The WBG will assist the Lands Commissioner in carrying out an inventory of state land (15% of land), a crucial first step in making more land available for development purposes, recouping Government revenues from land rents, and reducing vulnerability to conflict surrounding land. J4P will assist the Ministry of Justice and Legal Affairs and RAMSI's Justice Delivered Locally program through research and pilot activities to explore administrative and policy options for improving access to justice in remote areas.

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[37] This will be contingent to funding and successful implementation in Honiara.

[38] The PER will also cover donor programs, given that these considerably exceed Government spending in some areas. The PER is the first conducted in Solomon Islands.

V. RISKS

50. ***Risks in the Solomon Islands are significant.*** Most prominent among these is the possibility of renewed unrest brought on by economic distress or unresolved grievance. The WBG will seek to mitigate the first of these through ongoing support to Government efforts to deal with fiscal constraint, in coordination with other donors. The WBG has limited capacity to directly address the security situation, although the RAMSI security presence makes widespread conflict unlikely. However, the WBG will maintain flexibility and the possibility of scale up of community-level programs, RDP and REP, as a means to mitigate community-level tensions. The WBG will remain closely coordinated with Government and partners, particularly RAMSI, in assessing potential pressure points, particularly the stability implications of actions taken to address the fiscal imbalances. The risks to sustained Government-donor dialogue and intra-donor coordination are considerable. Political instability, discontinuity in policy, and the characteristically short-term, localized focus of policy-making pose particular risks, and these may become more pronounced following the mid-2010 elections. To mitigate these risks the WBG is investing heavily in Government-donor and intra-donor dialogue, engaging a broad range of stakeholders, and working closely with officials to ensure continuity. In this context of political and economic uncertainty and institutional fragility, elevated expectations of the WBG and the ADB also require careful management in order to avoid reputational risk and maintain the current sound relationships.

51. ***Projects face several implementation risks.*** Capacity limitations and unpredictable costs pose risks in this small country with a limited number of highly trained professionals, almost complete reliance on imported goods, and recent inflation. This risk is best addressed by maintaining simplicity of design and willingness to re-structure projects as needed. Project cost structures must also build in cushion and flexibility to absorb variance. The WBG will also address capacity limitations through close collaboration with other donors. For instance, the REP will draw on existing technical assistance in the MID and HCC. Underlying fiduciary weaknesses and corruption also poses a risk. Assessments of fiduciary risk during project preparation and a 2008 procurement review have identified both systemic and project specific risks. These are best mitigated through intensive supervision and training to ensure adherence to Bank fiduciary standards, as well as ongoing attention to strengthening of country procurement systems as part of wider analytical work on PFM systems.

52. ***Some of the projects set out in the ISN program, including the Tina River Hydropower Project, are flagged as high risk since they involve complex social and environmental issues.*** These projects will require early and thorough due diligence on safeguards, as well as careful consultation with Government, resource owners, the private sector sponsors, and communities. This must include adequate documentation of consultation outcomes and WBG responses, early identification of safeguard policies triggered by these operations, and implementation of appropriate measures. Robust communications and outreach plans will be incorporated into high risk projects at early stages in order to maximize transparency, respond to public and institutional concerns, and draw out potential problems during the early stages of project design and implementation. Where project communications strategies do not currently exist, efforts will be made to add these.

53. ***Finally some outcomes, particularly under strategic area II, the WBG has limited capacity to control.*** This risk will be mitigated through the definition of quite specific activities which the WBG will undertake and the related outcomes, through the results matrix, and through coordination with other donors as stipulated under the Cairns Compact. Above all, the WBG staff in the field will continue to strengthen their understanding of the local political and operating environment and apply this knowledge and experience to meet the needs of Solomon Islands effectively.

Attachment A: Result Matrix

Medium-term Country Goals	Key Issues	ISN Outcomes Expected (2010 – 2011)	Milestones	WBG Instruments and International Partners for ISN Period
Strategic Area I: Addressing Barriers to Growth				
Improved policy and regulatory environment leading to increased private sector driven growth	• Reliance on natural forest logging, exhausted by 2013 • Regulatory and policy barriers constrain private sector growth	• Government includes policy measures to address constraints to growth in next national strategy • Increase in women entrepreneurs • Improved *Doing Business* indicators	• Sources of Growth identifies binding constraints to inform Government's policy agenda and dialogue with public, private sector, and donors • Reforms implemented for: starting a business; Alternative Dispute Resolution for commercial disputes; promoting investment; registering property transactions	**AAA/TA:** Sources of Growth, PER, J4P, Women and Sources of Growth **TA:** Mining TA **IFC:** RSIPP, Women's Economic Participation, Tourism diagnostic **Operations:** IFC investments **Donor Partners:** RAMSI, AusAID, NZAID, EU, ADB, IMF
Fiscal stability	• Weak fiscal and macro-economic management contributes to fiscal gap and deteriorating BoP • Poor link between appropriation/allocation and outputs	• Key 2010 – 2011 actions in GoSI PFM reform plan completed (budget system, forecasting, procurement) • Improved cash flow management such that GoSI consistently able to meet commitments	• Public expenditure review completed • CEWG sustains GoSI-donor dialogue on economic and PFM reforms linked to budget support	**AAA:** PER, Debt Management **Operations:** DPO **Donor Partners:** RAMSI, AusAID, NZAID, EU, ADB, IMF
Improving infrastructure and lowering costs	• Low rates of access to and high costs of telecommunications, shipping, roads, and electricity	• 50% mobile phone coverage • Tina River Independent Power Producer mobilized	• SIEA moves from loss-making to break even • Telecommunications commissioner appointed • WBG TA for development of rural electrification strategy	**AAA:** Energy Strategy **Operations:** SISEP, SEFP, Telcom Reform, TRHDP, IFC Tina River Transaction Advice **Donor Partners:** RAMSI, EIB, AusAID, ADB

Strategic Area II: Enhancing Benefits of Regional and Global Engagement				
Strengthening regional ties and optimizing benefits from trade, investment, and labor migration	• Low SI participation in labor migration schemes • International investors inconsistent in standards of environmental and social responsibility • Inadequate mining policy, legal, and institutional framework does not ensure country benefits from mining operations, facilitate investment, and mitigate social and environmental risks	• New socially and environmentally responsible investor(s) enter market • Mining sector policy, regulatory, and institutional review completed	• IFC investment transaction (s) • WBG TA supports establishment of PNA secretariat • WBG mobilizes mining sector TA	**AAA:** SoG, Pacific Futures (regional), Gender Study, PER, Labor Migration advice, Skills TA **TA:** Support to PNA secretariat, Mining Sector **Operations:** IFC investment **Donor Partners:** RAMSI, Aus, NZ
Strategic Area III: Supporting Improved Public Administration and Management				
Effective delivery of core services	• Collapse of agriculture extension services during conflict • Mixed quality of health and education services	• Improved expenditure management in health and education • Improved systems and infrastructure for delivery of some agricultural extension services	• New National Health Strategic Plan and Monitoring Framework, costed Basic Package of Services, Functional Analysis of the health ministry, and costed Health Work Force Plan completed • NEAP Costing complete • Provincial agriculture offices equipped to conduct training and outreach activities	**AAA:** NEAP Costing, Education PER **TA:** HSSP-TA, **Operations:** RDP Component I & II, Fast Track Initiative **Donor Partners:** AusAID, NZAID; EU; UNICEF; Japan; Taiwan, China; WHO; UNFPA; Global Fund
Addressing urban unemployment	• High unemployment, esp among women and youth • Urban poor vulnerable to effects of economic shocks	• Increased state capacity to address urban unemployment through public works	• 40,000 labor days created, gender disaggregated	**Operations:** Rapid Employment Program **Donor Partners:** AusAID, NZAID
Improved sub-national governance	• Lack of access to justice services • Poor linkages between customary and formal legal and administrative systems • Weak sub-national government	• Policy options for local level justice services submitted to Ministry of Justice and Legal Affairs	• Justice Delivered Locally research delivered, pilot activities commenced • AAA delineates options and consultation process on sub-national governance	**AAA/TA:** J4P Justice Delivery Locally, PER, Center-Sub-National Options Paper, State Land Inventory **Donor Partners:** RAMSI, AusAID

Attachment B1: Table 1: World Bank Projects and Indicative Funding Allowances: 2010 - 2011

Project	IDA[39] Contribution (USD millions)	Partner Financing	Estimated Partner Financing (USD millions)	Estimated Total Amount (USD millions)
Solomon Islands Sustainable Energy Project (SISEP)	7.0[40]			7.0
Tina River Hydropower Development Project (TRHDP)	4.0	PRIF[41]	1.25	5.25
Sustainable Energy Finance (SEFP)		GEF[42]	.507	.507
Mining Sector Technical Assistance		SPF[43]	.9	.9
Rural Development Program (RDP)	3.2	EU AusAID GFRP[44]	10.06 6.61 3.0	22.87
Rapid Employment Program (REP)	3.1	SPF PRIF	2.0 2.0	7.1
Health Sector Support Program Technical Assistance (HSSP)	1.6			1.6
Telecommunications and ICT Technical Assistance Project	3.25	AusAID	2.67	5.92
Climate Change Adaptation and Disaster Risk Management Project		GEF GFDRR[45]	5.0 2.0 (tbc)	7.0
Development Policy Operation (DPO)	Tbc			
Education Sector Support	0	EFA-FTI	tbc	
Total	22.15		35.997	58.147

World Bank Analytical and Advisory Activities

Activity	Activity
Sources of Growth	**Public Expenditure Review**
Extractive Transparency Initiative Implementation	**Center-Sub-national Options (TBC)**
Justice for the Poor (i) Doing Business in the Context of Customary Authority (ii) Justice Delivered Locally	**Assessment of Anti-Money Laundering/ Combating the Financing of Terrorism**
Energy Strategy	**Debt Management Performance Assessment**
Early Grade Reading Assessment (Regional)	**Labor Migration Advice (Regional)**
Skills Strategy TA	
State Land Inventory	

[39] This includes IDA and Trust Funded, current operations and additional financing in pipeline. IDA estimates are based on the IDA14 and IDA 15 allocation to Solomon Islands of approximately USD$9.3 million and USD $9.79 million respectively, and potential regional reallocation of IDA funds. The FY11 allocation is indicative only and can change depending on: (i) total IDA resources available; (ii) the country's performance rating; (iii) the performance and assistance terms of other IDA borrowers; (iv) the terms of IDA's assistance to Solomon Islands (grants or credits); and (v) the number of IDA-eligible countries.

[40] US$3m additional financing pending reallocation of regional IDA funds

[41] Pacific Regional Infrastructure Fund

[42] Global Environment Facility

[43] State and Peace Building Fund

[44] Global Food Crises Response Trust Fund

[45] Global Facility for Disaster Reduction and Recovery

Attachment B2: Table 1: International Finance Corporation
ISN Indicative Program FY 2010 - 2011

IFC Investment Services Portfolio

Sponsor	Equity ($m)	Quasi Equity ($m)	Total ($m)
	$0m	$0m	$0m

IFC Investment Services Pipeline

Industry Sector	Advanced Stage Negotiation	Early Stage Discussion	Identified Lead or Prospect
Mining	1		1
Agribusiness		1	1
Banking		1	1
Telecommunications		1	

IFC Advisory Services Portfolio

Title	Country	IFC Business Line	Amount ($m)	Start/end
Financial Markets Infrastructure IFC: 561592	Pacific Region	Access to Finance	$1.175m*	FY08/FY10
Solomon Islands Regulatory Simplification, Investment Policy and Promotion IFC: 566507	Solomon Islands	Investment Climate	$0.9 m	FY09 Q2-FY2010 Q4
Tina River PPP IFC: 00028681	Solomon Islands	Infrastructure Advisory	$1.5 m	FY2010 Q1-FY11 Q1

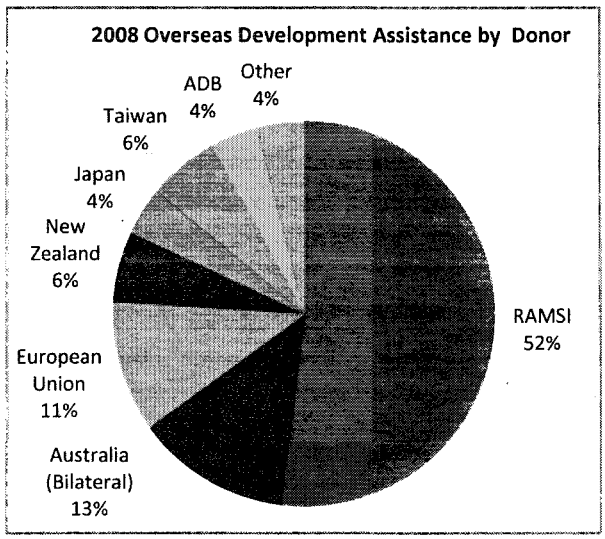
* Regional funding envelope

IFC Advisory Services Pipeline

	Country	IFC Business Line	Amount ($m)	Expected start
Microfinance Initiative	Pacific	Access to Finance	TBC	FY2010 Q3
Tourism Promotion	Pacific	Investment Climate	TBC	FY2010 Q3

Attachment C: Summary of Donor Activities

In addition to AusAID; WHO (World Health Organisation); UNFPA (United Nations Fund for Population Activities); Japan; Global Fund; Taiwan, China; and UNICEF (United Nations Children's Fund) have health sector involvements, many of which are currently separate from the SWAp. However, most are **signatories** to the SWAp Partnership Arrangement and progress is being made on much stronger coordination among development partners. UNICEF; Taiwan, China; EU; AusAID; Papua New Guinea; and Japan are also involved in education. AusAID; EU; and Taiwan, China are the most significant donors in agriculture, rural development, and forestry. NZAID, EU, and Japan support fisheries. A range of donor programs address different areas of infrastructure, which accounts for around 9% of aid. In transport, including shipping, maritime infrastructure, and roads, the ADB) is the lead donor, but EU, AusAID, Japan, AusAID, and NZAID also work in this sector. Japan, EU, and ADB also have programs in the water sector.

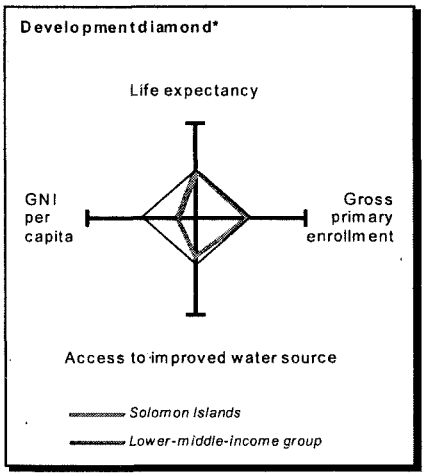


Sector	Development Partners
Agriculture	AusAID; EU; Taiwan, China
Climate Change Adaptation	UNDP, WBG, NZAID
Education	NZAID (lead); UNICEF; WBG; Taiwan, China; EU; AusAID; PNG; Japan
Energy	WBG (lead), RAMSI/AusAID, Japan, ADB
Environment	UNDP, GEF, ADB
Fisheries	NZAID, EU, Japan
Forestry	AusAID, EU
Governance	RAMSI (Office of Auditor General, Ombudsman, Leadership Code Commission, elections, media, public Service) UNDP (Parliament strengthening)
Health	AusAID (lead), WHO, WBG, UNFPA, Japan, EU, Global Fund, UNICEF
Justice	RAMSI, EU (TRC), UNDP (TRC), WB (J4P), IFC
Land, housing	AusAID, RAMSI
Mining	WBG, Japan
Transport/Infrastructure	ADB (lead), EU, RAMSI/AusAID, Japan, AusAID, NZAID
Private Sector Development	IFC, WBG, ADB, AusAID
Public Financial Management	RAMSI (MoFT, Inland Revenue Bureau, Customs), ADB (SoE reform), WB/IFC (SoG)
Rapid Employment	WBG
Rural Development	RAMSI/AusAID; EU; UNDP; WB; Taiwan, China; UNICEF
Security	RAMSI
Telecommunications	WBG, RAMSI
Water	Japan, EU
Youth	NZAID, AusAID, UNDP, UNICEF, Secretariat of the Pacific Community, Commonwealth Secretariat

Annex A2: Solomon Islands at a glance

12/9/09

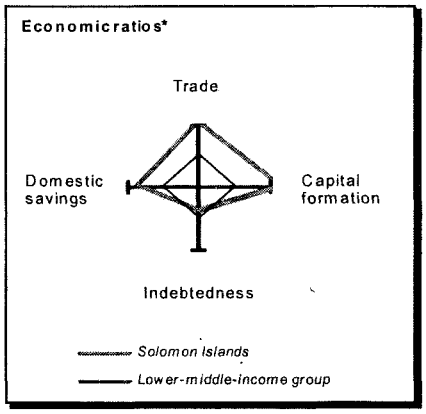
POVERTY and SOCIAL	Solomon Islands	East Asia & Pacific	Lower-middle-income
2008			
Population, mid-year *(millions)*	0.51	1,931	3,702
GNI per capita *(Atlas method, US$)*	690	2,631	2,078
GNI *(Atlas method, US$ billions)*	0.35	5,081	7,692
Average annual growth, 2002-08			
Population *(%)*	2.5	0.8	1.2
Labor force *(%)*	2.8	1.2	1.6
Most recent estimate (latest year available, 2002-08)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	17	44	41
Life expectancy at birth *(years)*	66	72	68
Infant mortality *(per 1,000 live births)*	30	22	46
Child malnutrition *(% of children under 5)*	..	13	26
Access to an improved water source *(% of population)*	70	87	86
Literacy *(% of population age 15+)*	..	93	83
Gross primary enrollment *(% of school-age population)*	100	111	109
Male	102	112	112
Female	98	110	106



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1988	1998	2007	2008
GDP *(US$ billions)*	0.21	0.32	0.39	0.47
Gross capital formation/GDP	34.8	23.3	87.5	82.9
Exports of goods and services/GDP	50.6	57.2	62.4	56.4
Gross domestic savings/GDP	17.5	20.3	73.1	62.9
Gross national savings/GDP	38.8	21.7	74.8	52.7
Current account balance/GDP	-13.2	-1.8	-17.3	-25.4
Interest payments/GDP	1.8	1.3	0.9	0.9
Total debt/GDP	48.5	47.7	45.4	34.8
Total debt service/exports	6.7	6.3	5.9	5.2
Present value of debt/GDP	..	..	36.3	24.6
Present value of debt/exports	..	..	55.8	40.1

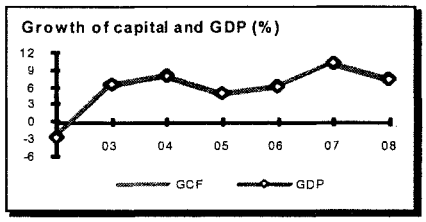
	1988-98	1998-08	2007	2008	2008-12
(average annual growth)					
GDP	5.7	1.8	10.2	7.4	3.3
GDP per capita	2.7	-0.9	7.5	4.7	1.3
Exports of goods and services	..	..	..	..	..



STRUCTURE of the ECONOMY

	1988	1998	2007	2008
(% of GDP)				
Agriculture	..	33.7	33.5	31.8
Industry	..	11.2	8.7	9.0
Manufacturing	..	5.4	3.8	3.7
Services	..	55.1	57.8	59.2
Household final consumption expenditure	56.4	64.8	2.2	8.1
General gov't final consumption expenditure	26.1	14.9	24.7	29.0
Imports of goods and services	68.0	60.1	75.4	74.9

	1988-98	1998-08	2007	2008
(average annual growth)				
Agriculture	5.2	4.0	6.3	8.6
Industry	8.5	-1.9	8.6	11.3
Manufacturing	4.6	-4.2	4.5	4.3
Services	6.0	0.6	9.3	9.3
Household final consumption expenditure	..	..	..	..
General gov't final consumption expenditure	..	..	..	..
Gross capital formation	..	..	..	..
Imports of goods and services	..	..	..	..



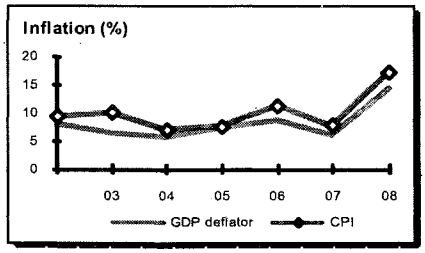
Note: 2008 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

*The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

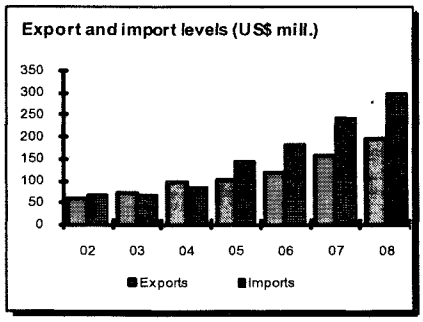
PRICES and GOVERNMENT FINANCE

	1988	1998	2007	2008
Domestic prices				
(% change)				
Consumer prices	16.7	12.4	7.7	17.2
Implicit GDP deflator	30.5	5.6	6.0	14.3
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	24.2	38.4	40.4
Current budget balance	..	3.2	6.6	8.0
Overall surplus/deficit	0.0	0.8	0.6	2.1



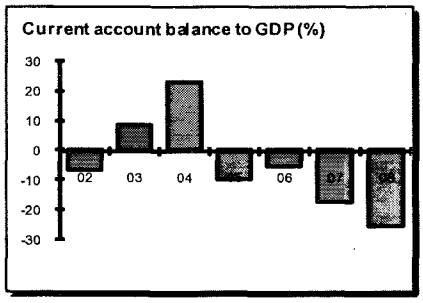
TRADE

	1988	1998	2007	2008
(US$ millions)				
Total exports (fob)	82	126	160	197
Fish	18	41	110	127
Timber	38	40	20	24
Manufactures	..	..	..	..
Total imports (cif)	..	128	240	296
Food	..	19	34	42
Fuel and energy	..	22	57	91
Capital goods	..	7	12	13
Export price index *(2000=100)*	..	96	..	..
Import price index *(2000=100)*	..	98	..	..
Terms of trade *(2000=100)*	..	97	..	..



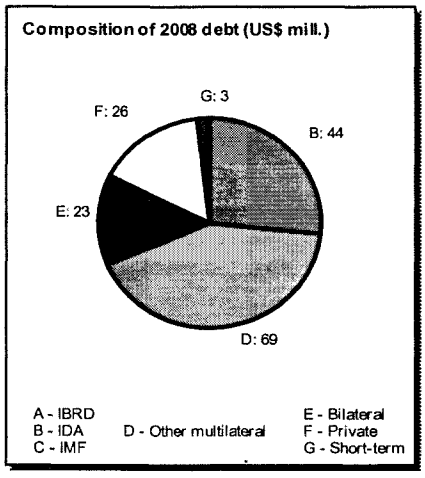
BALANCE of PAYMENTS

	1988	1998	2007	2008
(US$ millions)				
Exports of goods and services	104	185	215	244
Imports of goods and services	171	195	331	374
Resource balance	-67	-10	-116	-130
Net income	-9	-8	-37	-95
Net current transfers	47	..	..	..
Current account balance	-28	-6	-67	-120
Financing items (net)	33	23	84	93
Changes in net reserves	-5	-17	-17	27
Memo:				
Reserves including gold *(US$ millions)*	40	49	120	101
Conversion rate *(DEC, local/US$)*	2.1	4.8	7.7	7.7



EXTERNAL DEBT and RESOURCE FLOWS

	1988	1998	2007	2008
(US$ millions)				
Total debt outstanding and disbursed	104	155	176	165
IBRD	0	0	0	0
IDA	11	33	46	44
Total debt service	7	12	15	15
IBRD	0	0	0	0
IDA	0	0	1	1
Composition of net resource flows				
Official grants	21	10	40	149
Official creditors	10	14	-4	-11
Private creditors	0	-4	17	1
Foreign direct investment (net inflows)	2	10	67	76
Portfolio equity (net inflows)	0	0	0	0
World Bank program				
Commitments	0	0	0	0
Disbursements	1	2	0	0
Principal repayments	0	0	1	1
Net flows	1	2	-1	-1
Interest payments	0	0	0	0
Net transfers	1	1	-1	-1



Note: This table was produced from the Development Economics LDB database. 12/9/09

Annex B2 - Solomon Islands
Selected Indicators* of Bank Portfolio Performance and Management

As Of Date
2/9/2010

Indicator	2007	2008	2009	2010
Portfolio Assessment				
Number of Projects Under Implementation [a]	0	2	3	3
Average Implementation Period (years) [b]	0.0	0.5	1.4	2.0
Percent of Problem Projects by Number [a, c]	0.0	0.0	33.3	0.0
Percent of Problem Projects by Amount [a, c]	0.0	0.0	46.0	0.0
Percent of Projects at Risk by Number [a, d]	0.0	0.0	66.7	66.7
Percent of Projects at Risk by Amount [a, d]	0.0	0.0	63.2	63.2
Disbursement Ratio (%) [e]	12.0	0.0	8.1	6.7
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	8	1
Proj Eval by OED by Amt (US$ millions)	43.9	3.5
% of OED Projects Rated U or HU by Number	62.5	100.0
% of OED Projects Rated U or HU by Amt	70.5	100.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex B3 – IBRD/IDA Program Summary

As Of Date 2/2/2010

Proposed IBRD/IDA Base-Case Lending Program [a]

Fiscal year	*Proj ID*	*US$(M)*	*Strategic Rewards b (H/M/L)*	*Implementation b Risks (H/M/L)*
2010	SB - Rapid Employment Project	3.2	H	M
	SB: Telecommunications TA Project	3.3	M	L
	Result	6.4		
Overall Result		6.4		

Annex B4 - Summary of Non-lending Services

As Of Date 2/2/2010

Product	Completion FY	Cost (US$000)	Audience	Objective[b]
Recent completions				
P116378- DeMPA Assessment-EW	FY10	12,624	Government	To highlight the strengths in debt management functions, operations and performance and develop dialogue with the authorities to guide design of reform plans.
P090246 - Solomon Islands Education - TA	FY07	252,271	Government	To help government of Solomon Islands to develop a national skills Training Plan (NSTP)
P096426- - Solomon Islands Rural Sector Strategy - EW	FY07	859, 345	Government	Joint preparation with EU and other interested partners of a rural secstor strategy for the Solomon Islands
Underway				
P111953 - Solomon Islands Sources of Growth -TA	FY10	21, 828	Government	Aims to provide Government, business community, donors, & civil society, with a review of constraints and opportunities for broad based inclusive growth. Against the backdrop of an expected dramatic decline in logging the analysis encompasses: (i) potential new areas of growth & their contribution to government revenue, export earnings & employment, with a focus on mining, agriculture, tourism, & fisheries; (ii) macro-economic outlook based on different growth scenarios; & (iii) diagnosis of the binding constraints to growth & how regulatory frameworks, fiscal policy, management of aid flows and public financial management may alleviate growth constraints.
P118635 - Solomon Islands PER-EW	FY11	10,862	Government	To assist the government in their efforts to conduct a public expenditure review which will help them making an assessment of current expenditure patterns/allocations and to identify realistic and practicable changes in budget processes.
P112016 - Solomon Islands Health Financing -EW	FY10	42,519	Government	To produce a policy note to assess the feasibility of different options for financing the health sector in the Solomon Islands taking into account economic, financial and institutional constraints.

P117718 – Solomon Islands – Doing Business in the Context of Customary Authority - EW	FY10	70,000	Government	Research and advisory activities in relation to (i) interactions between the private sector & customary groups in Solomon Islands, led by the J4P in collaboration with the IFC with a view to informing future Bank group operations, the SoG AAA and Solomon Islands Government policy, (ii) Reforms being lead by the Minister for Justice and Legal Affairs in relation to the establishment of new procedures for the resolution of land disputes in hybrid (customary /judicial) tribunals and revitalization of the local courts and (iii) the preparation of a program framework document for ongoing J4P engagement in Solomon Islands
P120302 - Solomon Islands - AML/CFT Assessment - EW	FY10	83,000	Government	Review, analyze and rate compliance of Solomon Islands laws, regulations and implementation against the international standards using the Methodology agreed by the WB Board on March 2004. On this basis, define and discuss with authorities sequenced and prioritized set of recommendations to improve Anti Money Laundering /Combatting the Financing of Terrorism (AML/CFT) compliance and effectiveness of policies. This Report will produce an AML/CFT Report on Observance of Standards and Codes and will be used in the Solomon Islands Mutual Evaluation for the purposes of Asia Pacific Group
Planned				
P120727 - Solomon Islands Debt Management Reform Plan - TA	FY10		Government	The work will be on formulating a "Debt Management Reform Plan". The focus will be on identifying the areas for strengthening capacity in government cash and debt management while presenting a detailed and sequenced reform plan for improving capacity in the identified areas The focus of the "Debt Management Reform Plan" will be on three critical aspects: (i) governance and strategy development; (ii) functions and organizational structure; and (iii) staff capacity.

a. Government, donor, Bank, public dissemination.
b. Knowledge generation, public debate, problem-solving.

Annex B6: Solomon Islands - Key Economic Indicators

Indicator	2004	2005	2006	2007	2008	2009	2010	2011	2012
National Accounts (% of GDP)									
Gross Domestic Product a/	100	100	100	100	100	100	100	..	..
Agriculture	36	36	35	33	32	31	30	..	..
Industry	8	9	8	9	9	9	9	..	..
Services	56	56	56	58	59	60	61	..	..
Total Consumption	59	50	45	27	37	40	40	..	..
Gross Domestic Fixed Investment	35	..	..	..	..	..	..	..	..
Government Investment	..	..	..	..	..	..	..	..	..
Private Investment	..	..	..	..	..	..	..	..	..
Exports (GNFS) b/	49	47	52	62	56	53	65	..	..
Imports (GNFS)	41	59	64	75	75	73	64	..	..
								..	..
Gross Domestic Savings	41	50	55	73	63	60	60	..	..
Gross National Savings c/	57	52	61	86	65	..	..	..	..
Memorandum Items									
Gross Domestic Product (US$ million at current prices)	262	293	334	541.1	641.8	668.4	717.1	779.8	895.5
GNI per capita (US$ Atlas method)	600	630	680	690	690	..	..	..	..
Real Annual Growth Rates (%, calculated from 1990 prices)									
Real Annual per Capita Growth Rates (% calculated from 1990 prices)									
Gross Domestic Product at market prices	4.9	5.4	6.9	10.7	6.9	0.4	2.4	2.8	8.8
Gross Domestic Income	..	..	..	..	..	..	..	..	..
Real Annual per Capita Growth Rate (%, calculated from 1990 prices)									
Gross Domestic Product at Market Prices	5.3	2.4	3.6	7.7	4.9	1.6	1.0	..	..
Total Consumption	..	..	..	..	..	..	..	..	..
Private Consumption	..	..	..	..	..	..	..	..	..
Balance of Payment (US$ millions)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Exports (GNFS) b/	127	139	175	215	244	210	200	195	280
Merchandise FOB	97	103	121	160	197	160	145	135	215
Nonfactor Services				55	48	50	55	60	66
Imports (GNFS) b/	108	173	214	331	374	370	424	451	474
Merchandise FOB	85	144	184	235	262	258	308	331	347
Nonfactor Services				96	112	113	116	120	127
Resource Balance	19	-34	-39	-116	-130	-161	-224	-256	-194

Factor Services (Net)				-37	-95	-52	-64	-73	-87
Net Current Transfers				86	105	139	158	155	145
Current Account Balance	61	-28	-19	-67	-120	-74	-131	-175	-136
Net Private Foreign Direct Investment	6	18	12	57	86	68	107	149	144
Long-term Loans (net)	-45	4	-27	5	-9	-5	-3	-4	-7
Official	0	2	2	-4	-11	-6	-6	-7	-7
Private	-45	2	-29	9	2	1	3	3	0
Other Capital (net. Incl. errors & ommissions)	21	22	44	22	16	10	1	13	18
Change in reserves d/	-43	-16	-9	17	27	2	25	17	19
Memorandum Items									
Resource Balance (% of GDP)	7.3	-116	-117	-29.7	-27.4	-31.5			
Real Annual Growth Rates (YR 90 Prices)									
Merchandise Exports (FOB)									
Primary									
Manufactures									
Marchandise Imports (CIF)									
Public Finance (% of GPD at Market Prices) e/	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Revenues and Grants	33.5	46.9	47.3	50.2	48.9	50.6	51.9	..	..
Current Expenditures	27.6	44.2	45.6	49.7	47.3	51.1	51.1	..	..
Overall Balance	5.9	2.7	1.7	0.5	1.5	-0.4	0.8	..	..
Capital Expenditure	12.2	26.1	23.6	26.9	23.5	25.8	26.9	..	..
Foreign Financing (net)	-0.2	2.3	1.6	2.3	-1.6	-0.9	-0.1	..	..
Monetary Indicators									
M2/GDP	34.5	39.2	42.7	46.3	40.3	37.7	..	..	..
Growth of M2 (%)	28.2	27.7	25.7	26.5	6.9	6.4	..	..	..
Private Sector Credit Growth/Total Credit Growth (%)	-14.3	134	156.6	..	..	..	..	..	..
Price Indices (YR90=100)									
Merchandise Export Price Index	..	..	..	..	..	..	..	..	..
Merchandise Import Price Index	..	..	..	..	..	..	..	..	..
Merchandise Terms of Trade Index	..	..	..	..	..	..	..	..	..
Real Exchange Rate (US$/LCU) f/	97	100	107.5	106.4	115.9	150	..	..	..
Real Interest Rates									
Consumer Price Index (% change)	6.9	7.4	11.2	7.7	17.2	8	6.9	..	..
GDP Deflator (% change)	5.7	7.2	8.5	6	14.3	9.5	7.4	..	..

Note:

a. GDP at factor cost
b. "GNFS" denotes "goods and nonfactor services"
c. Includes net unrequited transfers excluding official capital grants
d. Includes use of IMF resources.
e. Consolidated central government.
f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.

Annex B7: Solomon Islands - Key Exposure Indicators

Indicator	Actual			Estimated			Projected		
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total debt outstanding and disbursed (TDO) (US$m)[a]	177	166	173	176	165	150	141	131	122
Net disbursements (US$m)[a]	..	..	..	0	0	0	0	0	0
Total debt service (TDS) (US$m)[a]	..	..	..	3	4	3	3	3	3
Debt and debt service indicators (%)									
TDO/XGS[b]	..	..	..	..	..	..	..	..	..
TDO/GDP	67.6	56.7	51.9	45.4	34.8	29.1	..	..	..
TDS/XGS	..	..	..	..	..	..	..	..	..
Concessional/TDO	84.6	85.7	85.7	82.1	81.2	85.6	86.6	87.7	88.8
IBRD exposure indicators (%)									
IBRD DS/public DS	..	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%)[c]	..	..	..	..	..	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..	..
IBRD TDO (US$m)[d]	..	..	..	..	..	..	..	..	..
Of which present value of guarantees (US$m)									
Share of IBRD portfolio (%)	..	..	..	..	..	..	..	..	..
IDA TDO (US$m)[d]	47	43	45	46	44	44	43	42	41
IFC (US$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US$m)									

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short- term capital

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex B8 - Solomon Islands Operations Portfolio (IBRD/IDA and Grants)

As Of Date 2/2/2010

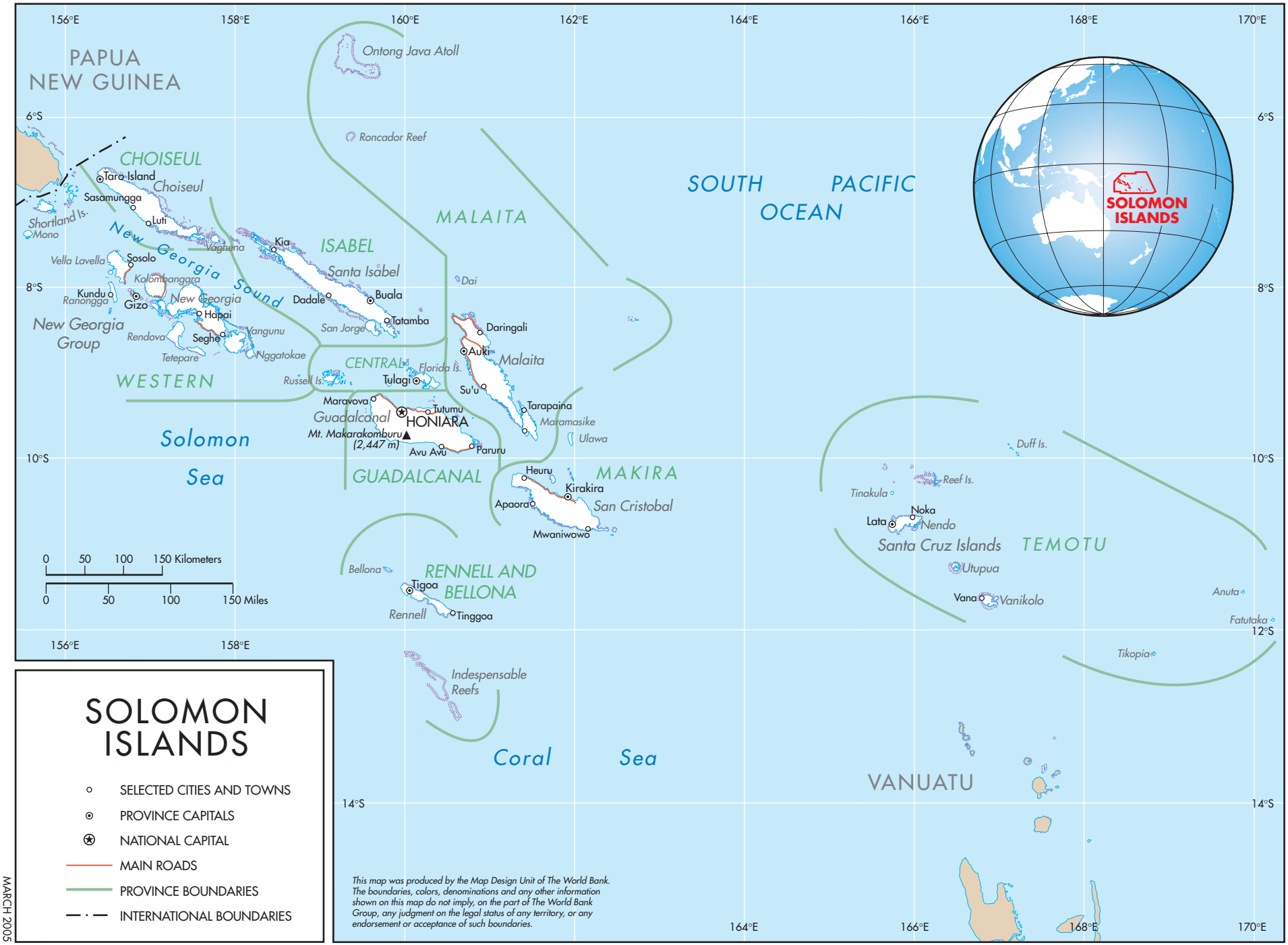
Closed Projects 8

IBRD/IDA *

Total Disbursed (Active)	1.23
of which has been repaid	0.00
Total Disbursed (Closed)	2.77
of which has been repaid	6.46
Total Disbursed (Active + Closed)	4.00
of which has been repaid	6.46
Total Undisbursed (Active)	7.75
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	7.75

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions					Difference Between Expected and Actual Disbursements [a/]	
Project ID	Project Name	Development Objectives	Implementation Progress	Fiscal Year	IBRD	IDA	GRANT	Cancel	Undisb.	Orig.	Frm Rev'd
P097671	SB-Health Sector Support Project (TA)	MS	MS	2008		1.5			1.55788	0.8	
P089297	SB-Rural Development Program	S	S	2008		3.2			2.528281	0.6823355	
P100311	SB-Solomon Islands Sustainable Energy	MS	MS	2009		4			3.666536	0.2578808	
Overall Result						8.7			7.752697	1.7402162	


PAPUA NEW GUINEA
SOUTH PACIFIC OCEAN
SOLOMON ISLANDS
CHOISEUL
Choiseul
Taro Island
Sasamungga
Luti
Shortland Is.
Mono
Vella Lavella
Sosolo
Kolombangara
Kundu
Ranongga
Gizo
New Georgia
Hapai
New Georgia Group
Rendova
Seghe
Tetepare
Yangunu
Nggatokae
New Georgia Sound
Vaghena
WESTERN
Solomon Sea
Ontong Java Atoll
Roncador Reef
MALAITA
ISABEL
Santa Isabel
Kia
Dadale
Buala
Tatamba
San Jorge
Dai
Daringali
Auki
Malaita
Su'u
Tarapaina
Maramasike
Ulawa
CENTRAL
Florida Is.
Russell Is.
Tulagi
Maravovo
Guadalcanal
Tutumu
HONIARA
Mt. Makarakomburu (2,447 m)
Avu Avu
Paruru
GUADALCANAL
MAKIRA
San Cristobal
Heuru
Kirakira
Apaora
Mwaniwowo
Bellona
RENNELL AND BELLONA
Tigoa
Rennell
Tinggoa
Indespensable Reefs
Coral Sea
Duff Is.
Reef Is.
Tinakula
Noka
Lata
Nendo
Santa Cruz Islands
TEMOTU
Utupua
Vana
Vanikolo
Anuta
Fatutaka
Tikopia
VANUATU
156°E
158°E
160°E
162°E
164°E
166°E
168°E
170°E
6°S
8°S
10°S
12°S
14°S
0 50 100 150 Kilometers
0 50 100 150 Miles
SELECTED CITIES AND TOWNS
PROVINCE CAPITALS
NATIONAL CAPITAL
MAIN ROADS
PROVINCE BOUNDARIES
INTERNATIONAL BOUNDARIES
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