



Climate PFM At-a-Glance: SOLOMON ISLANDS

USD\$ 419.51 Million 2018 Recurrent Budget
 USD\$ 77.7 Million 2018 Development Budget
 USD\$ 31.7 Million 2018 Budget Support

US\$2,235 Million Gross Domestic Production (GDP)
 US\$1,931 (2014 est) GDP/Per Capita

562,000 (2014 est) Population
 Logs: Main Export

Solomon Islands has:

- Solid growth performance, but weak fiscal position and low buffers;
- Undertaken structural reform to address vulnerabilities, including strengthening of Public Finance Management (PFM);
- Enactment of anti-corruption law; and
- Some challenges still remain.

PFM is key to:

- Effective economic management;
- Achieving development outcomes; and
- Accessing climate change and disaster risk management (CCDRM) finances.

A summary of PFM performance and key areas for reforming are identified in the consolidated PFM issues matrix .

Country's Strategic Direction

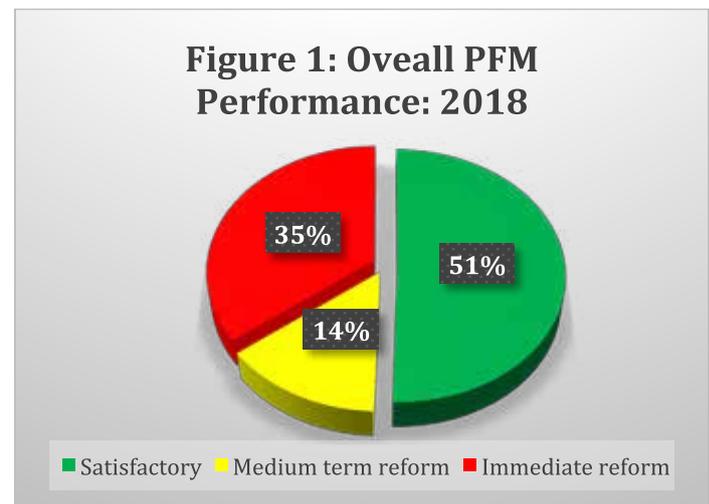
The Government of Solomon Islands has adopted a National Development Strategy (NDS) 2016-2035 with a theme: improving the social and economic livelihoods for all. The 2012-2017 National Climate Policy sets out the clear goals for the country's response to the challenges and opportunities that climate change presents. It also provides better coordination of climate change work and foster cooperation between the people, government and partners.

Public Finance Management Performance

The PFM analysis finds that overall performance reflects good progression in the PFM reforms

represented by the 51% green colour coding in figure 1 below representing satisfactory performance. The main progression of the PFM reform has manifested in the areas of systems development and the enactment of the new PFM Act including the anti-corruption law. The focus is not only on the specific actions required to build a stronger PFM system but also on the priority areas to improve the country's ability to access international climate finance. These areas have been identified within the 35% red colour coding for immediate actions. Figure 2 below shows the PFM performance as per the five common challenges.

Figure 1: Overall PFM Performance: 2018



Further look into the PFM machinery, the analysis finds Solomon Islands shared 5 common challenges faced by other PICs.

These are namely;

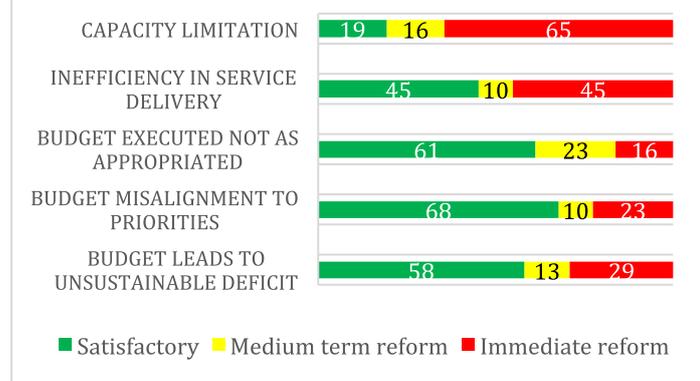
| | |
|----|----------------------------------------------------|
| 1. | Unrealistic budget leads to unsustainable deficits |
| 2. | Budget misalignment with priorities |
| 3. | Budgets executed not as appropriated |
| 4. | Inefficiency in service delivery |
| 5. | Capacity limitation |

¹ A traffic-light coding single matrix consolidated PFMS issues guided by PEFA and PCCFAF identified weaknesses and strengthens. The RED required immediate reform actions; GREEN – satisfactory performance and ongoing monitoring to avoid slippage and Yellow: requires medium policy reform actions.

PFM performance by common challenges²

Overall the PFM is performing satisfactorily in almost all the identified common challenges except for capacity limitation. The analysis found that about 65% of PFM capacity, as shown in figure 2 below, requires an immediate enhancement of policy actions within a year or two in order to achieve the desired robustness and credibility of the PFM system that will boost the country's ability to access climate change finance directly. The newly established Climate Finance Unit in the Ministry of Finance and Treasury will boost capacity to respond to the fiduciary requirements of climate finance sources.

FIGURE 2: PFM PERFORMANCE UNDER 5 COMMON CHALLENGES: 2018



Addressing capacity limitation

Capacity limitations are frequently cited as key constraint to obtaining “best practice” performance standards for PFM. The following are suggested actions to address capacity constraint in the Solomon Islands.

1. Prioritise capacity to areas that matter most in achieving development outcomes and meeting climate change and disaster risk (CCDR) funds fiduciary criteria;
2. Access to capacity building, supplementation and substitution opportunities;
3. Improve infrastructure capabilities;
4. Secure political support of all stakeholders involved in the PFM reforms (leadership/commitment); and
5. Alignment of donors' aid modalities to country's strategies - coordination and harmonisation.

Suggested key PFM reform areas

Solomon Islands has been granted a US\$86 million from the Green Climate Fund, via the World Bank for a 20MW Tina River Hydro Power Project. With solid growth driven by the logging sector and construction activities, the economy needs to take action to address domestic arrears and building fiscal buffers to create policy room to respond to shocks, such as natural disasters. These required actions are in alignment with the efforts to advance the PFM reforms in streamlining spending priorities to the NDS, including improvement of system governance and compliance. Improving these PFM governance systems would support the business environment and generate growth.

The following are suggested key PFM areas to consider reforming immediately (within 1 – 2 years timeframe):

- a. Integrating priorities into the budget and revamping of the accounting coding system;
- b. Developing a monitoring and evaluation (M&E) framework to measure policy reform performance against desired results;
- c. Strengthening cash-flow management, internal control and internal audit and establishing an independent appeals body, recording database for procurement transparency processes and mechanisms;
- d. Developing asset and project management processes, guidelines and framework; and
- e. Strengthening the engagement between government and the private sector by conducting a mapping exercise.

Highlights of available support programs

- DFAT/GIZ CFRP Project supported the consolidation of PFM issues and other activities identified in the CCDRF assessment.
- SPC-ISACC supported the capacity development of project management.
- ADB/PFTAC can provide assistance towards strengthening budget management, monitoring, procurement and asset management.
- World Bank can provide assistance in other areas.

Key documents

- National Development Strategy
- Solomon Islands Climate Change Policy
- PEFA Reports and Pacific Country Peer Review
- PFM Consolidated Issues Matrix

² PFM identified common challenges facing FICs.