



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 03-May-2022 | Report No: PIDA34164



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Solomon Islands	P178608	Solomon Islands FY22 Supplemental Development Policy Operation (P178608)	P172454
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	01-Jun-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Solomon Islands	Ministry of Finance and Treasury		

Proposed Development Objective(s)

The Program Development Objectives and pillars of this operation are: (1) to strengthen fiscal management in the areas of debt management, cash management and procurement; (2) to strengthen the business environment through simplifying tax processes, fighting corruption and supporting more efficient payments systems; and (3) to improve environmental sustainability by strengthening national planning for climate change and reducing plastic pollution.

Financing (in US\$, Millions)

SUMMARY

Total Financing	15.00
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DETAILS

Total World Bank Group Financing	15.00
World Bank Lending	15.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

The proposed operation provides USD 15 million in supplemental financing for The Second Solomon Islands Transition to Sustainable Growth Development Policy Operation (DPO). At the end of November 2021, large protests and rioting caused widespread destruction in the capital of Solomon Islands, at a cost of about 7 percent of GDP. Overall, the civil unrest created an unanticipated fiscal financing gap of 2.5 percent of GDP in 2022, taking into account reduced tax collections and increased expenditure needs for business recovery and reconstruction. Solomon Islands' debt sustainability remains at a moderate risk of debt distress with substantial space to absorb shocks, and unchanged with respect to the previous Bank-Fund joint Debt Sustainability Analysis. Macroeconomic risks are tilted to the downside and have deteriorated since the approval of the parent DPO.

Since the civil unrest, the country is grappling with widespread community transmission of the coronavirus. As of February 14 2022, 4,827 cases of COVID-19 have been detected in Solomon Islands, with COVID-related deaths in the country standing at 61¹. The community transmission is putting considerable stress on the health system, which has very limited treatment capacity and is hindered by a large share of health workers infected with the virus.

The proposed supplemental financing operation will enable the Solomon Island's Government (SIG) to cover the unanticipated financing gap and sustain the reform program of the programmatic series. The macroeconomic policy framework remains adequate for the purposes of the proposed operation.

Relationship to CPF

The World Bank Group's Country Partnership Framework (CPF) for Solomon Islands is structured around three focus areas, namely i) strengthening the foundations of well-being; ii) promoting inclusive and sustainable growth; and iii) managing uneven development. The program development objectives (PDOs) of the DPO series – strengthening fiscal management, strengthening the business environment, and strengthening climate change planning – are fully aligned with focus area (ii) of the CPF and the Resilient Recovery phase of the Bank's COVID-19 response. By lifting constraints to broad-based economic growth, improving fiscal management and strengthening climate change action, the PDOs are expected to contribute to the Bank's twin goals of ending extreme poverty and promoting shared prosperity. The proposed operation complements the Bank's engagement through the International Development Association (IDA) Sustainable Development Financing Policy and is aligned with the IDA19 special themes, especially Governance and Institutions and Fragility, Conflict and Violence. The DPO series also aligns with the World Bank Group's Climate Change Action Plan and its first strategy for Fragility, Conflict and Violence.

C. Proposed Development Objective(s)

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¹ With limited testing capacity, the actual number of cases is likely to be substantially higher. As COVID-19 patients are instructed to stay at home, the actual number of COVID-related deaths is likely to be higher.



Key Results

The key results are expected to be:

- Government debt operations comply with the Annual Borrowing Limit (ABL); and (ii) the share of domestic debt in total central government debt has increased.
- Reduced accumulation of expenditure arrears.
- Transparency in public procurement is improved, as measured by an increased share of Central Tender Board (CTB) contract award notices being published online in accordance with the Regulations; and (ii) competition is improved, as measured by a reduced number of bid waivers (exemptions from competitive tendering) granted for procurements over SI\$100,000.
- Tax administration is made more efficient, as measured by: (i) a greater share of large taxpayers filing tax returns online via e-tax; (ii) an increase in the on-time filing rate for large taxpayers; and (iii) a reduction in tax debt for the large taxpayer segment.
- The SIICAC is reporting transparently on its activities, as measured by the tabling of its annual report in Parliament in accordance with the Anti-Corruption Act.
- Female representation in anti-corruption efforts is increased, as measured by the share of female SIICAC Commissioners.
- The efficiency of payment systems is improved, as measured by (i) an increased share of electronic payments in total payments cleared and settled by commercial banks; and (ii) a reduction in bank transaction fees for the Ministry of Finance and Treasury.
- Planning for climate adaptation has improved, as measured by (i) an increase in the number of communities covered by Integrated Vulnerability and Adaptation Assessments; and (ii) the incorporation of gender analysis in all new assessments.
- The consumption of single use plastic products has decreased, as measured by a reduction in the volume of imported polyethylene plastic bags.

D. Project Description

In the parent DPO, the first pillar of the DPO, on fiscal management, combines measures aimed at strengthening debt management, cash management and public procurement. The business environment pillar includes measures to simplify tax processes, fight corruption, and introduce electronic payments. The climate change pillar reflects growing recognition of the threat of climate change impacts – especially in small island developing states such as Solomon Islands – and the criticality of boosting climate resilience in order to achieve sustainable development outcomes.

SIG remains fully committed to the DPO Program, and there has been satisfactory progress since the approval of the parent DPO in November 2021. However, the unanticipated financing gap from the riots is now directly jeopardizing the achievement of results. Moreover, the financing gap would exacerbate the existing substantial risks to the Program stemming from weak institutional capacity, the COVID-19 outbreak and political fragility. Given the country's limited borrowing options, Solomon Islands is unable to obtain sufficient funds from other lenders without the supplemental DPO. Despite the urgent financing needs and challenging environment, SIG remains committed to the reform program which is being implemented in compliance with the provisions of the legal agreement. Progress in each reform area has been at least satisfactory, with no policy reversals.



E. Implementation

Institutional and Implementation Arrangements

There has been no change to monitoring and evaluation arrangements since the parent DPO. Monitoring of the operation will be conducted jointly between the MoFT and donors, under the Joint Policy Reform Group (JPRG) process. The MoFT Financial and Economic Development Unit (FEDU) has adequate capacity and is the main office responsible for monitoring the program and all associated outcome indicators. FEDU will provide half-yearly reports to the World Bank and other JPRG budget support partners on implementation progress against established timetables and agreed performance indicators.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

There are no changes to the assessment of poverty and social impacts since the parent DPO was approved. Pillars 1 and 2 of the Program are not expected to have any negative poverty or social impacts. To the extent that Pillar 1 contributes to greater fiscal resilience and more efficient public spending on goods and services, there may be positive poverty impacts in the long term. The procurement regulations and SIICAC may have positive social impacts, given they are expected to help in addressing drivers of fragility in Solomon Islands, such as perceived corruption and lack of transparency in public spending. Meanwhile, the Central Bank's expanded consumer protection mandate under the payment systems reforms may particularly benefit the poor and vulnerable, given that the poor are less likely to hold bank accounts and rely more on non-conventional payment methods. Reforms under Pillar 3 may have both positive and negative impacts. Adaptation activities under the Updated NDC may have large positive poverty and social impacts, by helping SIG to identify and address the adaptation challenges of the most vulnerable communities. However, the Updated NDC's mitigation targets will entail a transition to a large share of hydroelectric power generation over the coming decades. Although there will be some positive poverty impacts (electricity prices are expected to decline significantly), there could be negative social impacts for local communities affected by hydroelectric dams. The new environmental levy may have some negative poverty impacts to the extent that it affects the prices of goods commonly consumed by the poor. Overall, though, reduced plastic pollution and increased climate resilience should disproportionately benefit the poor who are more likely to rely on the marine environment for food security and livelihoods. Furthermore, World Bank-financed infrastructure projects in Solomon Islands include capacity building and technical support for safeguards issues.

Environmental, Forests, and Other Natural Resource Aspects

There are no changes to the assessment of environmental aspects since the parent DPO was approved. Policies supported under Pillars 1 and 2 are not expected to have any negative environmental impacts, while Pillar 3 may have both positive and negative impacts. The environmental levy on single use and toxic plastics is expected to have positive environmental impacts through reduced plastics pollution. Furthermore, achieving climate mitigation targets such as net zero emissions by 2050 will have positive environmental impacts. However, targets will mainly be achieved by increasing hydroelectric power generation, which will have environmental impacts on the affected waterways and surrounding habitats. Environmental risks of major infrastructure investments are mitigated through SIG's environmental protection framework, including the Environment Act 1998, which requires environmental impact assessments be carried out. However, enforcement capacity is weak and institutional capacity needs strengthening in order to effectively mitigate environmental risks and impacts. Support from development partners aims to address this



G. Risks and Mitigation

If supplemental financing is provided, then the overall risk rating will remain substantial, reflecting capacity constraints and Solomon Islands' social fragility. The overall risk rating was also substantial under the parent DPO, reflecting the residual risks from capacity constraints as well as political and fiduciary factors. Following the recent riots, the COVID-19 outbreak, and the associated deterioration of the fiscal position, macroeconomic and political risks to the achievement of results have now increased. However, the overall risk has not increased sufficiently to justify a high-risk rating, given that the supplemental financing from this operation (and support from other partners) will help to mitigate the increased risks. The most important risk categories are described in more detail below:

Risks related to institutional capacity remain high, particularly given the ongoing strain of COVID-19 and the riot response on the public service. Mitigations for this risk include the focused design of the DPO Program and technical assistance from the Bank and development partners. Compared with the parent DPO, macroeconomic risk has been upgraded from moderate to substantial. The main risk mitigation is the provision of supplemental financing, which will reduce the financing gap. Without this mitigation, the risk of delayed and impaired outcomes would be high. Political and governance risk is upgraded from substantial to high, reflecting the increased possibility of political instability following the recent civil unrest. Most reforms under the Program are not politically sensitive and are unlikely to be reversed under a change of government. However, a period of renewed political instability could significantly delay the implementation of the Program, for example by causing further delays in the legislative schedule. Fiduciary risk remains substantial. As noted under the parent DPO, the weak fiduciary environment, particularly weak commitment controls, poses risks to SIG's ability to prevent payment arrears. This risk is somewhat mitigated by the new Procurement Regulations which provide greater central oversight of procurement and contracting processes by line ministries, and also by SIG's planned introduction of a new financial management information system. However, these measures will take time to be fully implemented and institutionalized. The relatively weak external audit capacity could also impair improved public procurement results, if there is limited accountability for non-compliance.

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APPROVAL

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Approved By

Country Director:	Paul Vallely	24-Feb-2022
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