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ANNEX III

of the Commission Implementing Decision on the financing of the annual action plan in favour of the Pacific Region for 2021

Action Document for EU-Solomon Islands partnership for resilience building

ANNUAL PLAN

This document constitutes an annual work programme in the sense of Article 110(2) of the Financial Regulation, and an action plan in the sense of Article 23(2) of the NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

1. Title CRIS business reference Basic Act	EU-Solomon Islands partnership for resilience building CRIS number: NDICI ASIA/2021/043-283 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	Yes. This action will contribute to the TEI “Green-Blue Alliance for the Pacific”.
3. Zone benefiting from the action	The action shall be carried out in the Solomon Islands.
4. Programming document	Pacific Multi-Country Multi-Annual Indicative Programme 2021-2027
5. Link with relevant MIP objectives	Priority Area 2 – Inclusive and Sustainable Economic Development Sector 2.2 – Economic Governance
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area	DAC 151 – Government & Civil Society-general
7. Sustainable Development Goals (SDGs)	Main SDG: 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. Other significant SDGs: 1. No poverty; 5. Gender equality; 8. Decent work and economic growth; 13. Climate change; 17. Sustainable development.
8 a) DAC code	51010 – General Budget Support
8 b) Main Delivery Channel	12001 – Central / Recipient Government

9. Targets	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation Tags: digital connectivity digital governance digital entrepreneurship job creation digital skills/literacy digital services	<input type="checkbox"/>	<input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
	Connectivity Tags: transport people2people energy digital connectivity	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>
	Migration (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Reduction of Inequalities (methodology for marker and tagging under development)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Covid-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	Budget line: BGUE-B2021-14.020132-C1-INTPA Total estimated cost: EUR 8 million Total amount of EU budget contribution: EUR 8 million, of which: EUR 7.5 million for budget support, and EUR 0.45 million for complementary support, and EUR 0.05 million for evaluation, audit and communication & visibility.			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	Direct management through: Budget Support: State and Resilience Building Contract Procurement			

1.2. Summary of the Action

This action, titled ‘*EU-Solomon Islands Partnership for Resilience Building*’, aims at maintaining an international partnership between the European Union and the Solomon Islands working towards resilience building, in particular further strengthening of institutions in the Solomon Islands for better service delivery and reducing poverty, leaving no one in the country behind. It builds on previous EU Budget Support programmes in the Solomon Islands: the so-called V-Flex programme (a general Budget Support), the ‘*Solomon Islands Climate Change Assistance Programme (SICAP)*’, and the sector reform contract ‘*Improving governance and access to water, sanitation and hygiene promotion for rural people (rural WASH)*’.

Ever since ‘the Tensions’¹ two decades ago, a period of violent ethnic unrest in which 150 to 200 people died, international partners have collaborated to keep a peaceful society. Apart from building policy forces and other direct needs, the Government of Solomon Islands created the Core Economic Working Group (CEWG)² in 2009, together with donors that provide Budget Support. These donors are Australia, New Zealand, Asian Development Bank, World Bank and the European Union. This working group meets to define each year in a constructive dialogue the priorities in terms of Public Finance Management (PFM) and, nowadays, enablers of economic growth. Keeping the Tensions in mind, and in view of the relatively small population of around 700,000³ people dispersed over a huge area (almost 1000 islands) in the Pacific Ocean, efficient service delivery has remained a daunting challenge. In the capital Honiara, in the province Guadalcanal, the large number of more than twenty line-ministries reside, as a result of the peace process. The Ministry of Finance and Treasury has a major coordination task of everything relating to the national budget with these line ministries, with the Provincial Governments, let alone the 50 Constituencies. The Ministry of National Planning and Development Coordination, in a similar vein, has another key task, namely the oversight of the progress in the achievement of the National Development Strategy (NDS) 2016-2035 that works towards the achievement of the 17 Sustainable Development Goals (SDGs).

¹ The Tensions were a period of civil unrest (1998-2001) that was mainly characterised by fighting between different ethnic militant groups in the Solomon Islands.

² At the time of writing this Action Document, the Ministry of Finance and Treasury is reviewing the draft 10-year Review of the CEWG. One of the recommendations is to re-brand the CEWG, the TWEG, as well as the Economic and Financial Reform Programme (EFRP). Henceforth, the EFRP is referred to in this document as the CEWG Policy Matrix.

³ Exactly 721,455 according to preliminary figures from the 2019 Census.

The overall objective of this action is to make the Solomon Islands more resilient by maintaining a strong EU-Solomon Islands partnership and working through the policy dialogue on the strengthening of the PFM systems and frameworks, and more generally, achieving the SDGs as defined in the NDS for inclusive development and poverty reduction countrywide. The specific objective is to improve the delivery of services and goods provided by the Government with a special focus on the outer islands. Environmental protection, climate change, human rights, standards and principles and gender objectives will be mainstreamed into the action. This concerns all areas of Public Finance Management reforms in a broad sense (budgeting, procurement, internal audit, external audit, debt management) and also new and ongoing macro-economic policies.

Another important aspect is digitalisation. Work is well underway to establish a Digital Transformation Authority (DTA), following the introduction of undersea fibre optic internet connectivity. The establishment of a DTA is key priority for the Government to support implementation of the national Information and Communication Technology. For a country that is so remote, certainly in the pandemic era, but even also within the country from the outer islands to the capital and vice versa, digitalisation will offer major opportunities in terms of connectivity, job creation, services and also in public finance management (connectivity of line ministries with the Ministry of Finance).

This action is in line with the Team Europe Initiative, in particular under the climate ambition and resilience pillar. It ensures that the macro-economic, fiscal and PFM policies are aligned with and conducive to achieving the climate objectives, both in terms of mitigation and adaptation. Support countries to enhance financial resilience, to transition to risk-informed investment planning and budgeting, as well as to strengthen PFM systems. This will include increasing fiscal resources, creating or expanding contingent financing, improving access to and effective use of climate finance, and improving institutional arrangements for risk management and post-disaster response.

2. RATIONALE

2.1. Context

1. Political and Financial Outlook

Solomon Islands has a relatively small population of slightly over 700,000 people, scattered across six major and some 985 smaller islands located across a vast area of the Pacific Ocean (of 1.35 million km², twice the size of France). Even in the land area, i.e. the islands themselves, the population density is low and given the rugged terrain on most islands, the absence of road infrastructure and the fact that people often live in relatively small and isolated communities, public service delivery is a huge challenge. The actual scale of the challenge becomes even more evident if we look at the number of people per square kilometre, including the sea mass, which is 0.42, five times as low as the population density of Mongolia, the by far least populated country in the world per square kilometre.

Solomon Islands is still a Least Developed Country (LDC), according to the UN-definition, and it is still a fragile state, according to the World Bank definition⁴. It has natural resources that are not yet exploited, and hence no income from these. Domestic sources of revenue mobilisation are logging, fisheries and agriculture. These have, however, not led to an annual economic growth rate of more than 3% in recent decades, and very often to a growth rate that is lower than the population growth.

Violent conflict in the Solomon Islands, locally referred to as ‘the Tensions’, began in 1998 when a group of militant youths from the island of Guadalcanal attacked settlements of islanders predominantly from Malaita (a neighbouring island) in northwest Guadalcanal, an area bordering the capital city Honiara. This has led to diplomatic solutions, among them fifty Members of Parliament corresponding to each of the fifty constituencies, and a set-up of more than twenty Ministries. The CEWG was established in 2010, a forum in which the Ministry of Finance and Treasury, and other ministries such as the Ministry of National Planning and Development Coordination, meet with development partners that provide Budget Support to the Government of Solomon Islands (the Government). Ever

⁴ <https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations>.

since, the situation in Solomon Islands has remained peaceful, even though the economic situation has often been dire.

The public service delivery is also hampered by weak Government arrangements, which are in part the result of the above phenomena i.e. few people, low capacity and, also due to distances again, difficulties to build efficient and aligned governance systems.

2. Rationale and Assessment

The rationale of this action is to maintain a solid and open partnership with the Government of Solomon Islands. The CEWG is the appropriate forum for this, presided by the Minister of Finance. It has been in existence for more than ten years, during which Australia, New Zealand, the Asian Development Bank (ADB), the World Bank and the EU have established solid relationships in their joint dialogue with the Government. A Joint Review Mission (JRM) takes place regularly, through which every stakeholder relevant for any of the actions on the policy matrix is kept accountable for the progress. In recent years, technical meetings have also been established, in the Technical Economic Working Group (TEWG) which contains senior staff of Ministries and the relevant Development Partners. There is a 10-year review available of the CEWG, there are regular JRM-reports and there are background papers, such as Cabinet policy papers and strategy on mining, gender policy, digitalisation, fisheries and agriculture. Civil society and the private sector (Chamber of Commerce) is engaged in some of the policy actions of the Policy Matrix.

The proposed action is in line with the policy priorities set out in the EU strategy for cooperation in the Indo-Pacific. In line with the Indo-Pacific Strategy and the European Commission's priorities, the action will support –where feasible– the green transition, a better ocean governance and the digital transition.

3. List of Actions

The current actions on the policy matrix drive the process. The EU as a participant of the CEWG can, however, weigh in on any moment and push for its own policy actions. The fight against corruption and fraud has been one of the main actions in recent years, and will remain a focus point. Another major reform, regarding domestic revenue mobilisation, is the tax reform.

2.2. Problem Analysis

Short problem analysis:

In view of the dire needs of the people in Solomon Islands, not only regarding health but also regarding other sectors (such as education, infrastructure, enterprise), the main problem is the sequencing of the reforms needed to improve Government service delivery and ultimately, to achieve the SDG targets.

Identification of main stakeholders and corresponding institutional and/or organisational issues to be covered by the action:

- Ministry of Finance and Treasury has the mandate to drive the CEWG and TEWG processes. The Minister of Finance presides the CEWG-meetings, the Ministry sets the agenda, and drafts together with the Budget Support donors the policy matrix. It also facilitates meetings with other Ministries. Through technical assistance – complementary support – for PFM reforms the Ministry is the key stakeholder. Due to the high turnover in the Ministry, human capacities are often limited;
- Ministry of National Planning and Development Coordination has the mandate to follow-up on the National Development Strategy 2016-2035;
- The Prime Minister's Office pursues the national Anti-Corruption Policy, with strong EU support on Anti-Corruption measures;
- The Central Bank of Solomon Islands is an important partner in the context of the policy dialogue, and the EU's work on international taxation and Anti-Money Laundering and Counter Terrorism Financing (AML-CTF), as well as macroeconomic forecasting;

- Other development partners in Solomon Islands (Australia, New Zealand, ADB and World Bank) are essential partners to build a strong relationship in CEWG and the TEWG.
- Civil society and the private sector (Chamber of Commerce) are involved in the decision making processes, such as the tax reforms. As yet, Solomon Islands has no credited National Human Rights Institution, though this Action could promote its establishment.
- Youth and women organizations and organizations representing vulnerable and marginalized groups.
- The ultimate target group for the action are the citizens of Solomon Islands in the nine provinces of Solomon Islands, i.e. all fifty Constituencies that will benefit through more effective and efficient public service delivery by Ministry of Finance and Treasury and the line Ministries. Hence, even the remotes areas should benefit.

2.3. Additional Areas of Assessment

2.3.1. Pre-condition on Fundamental Values

Solomon Islands is a functioning democracy and has demonstrated its commitments to human rights and gender equality.

The country has ratified only four core international human rights conventions, they are: Convention on the Elimination of All Forms of Discrimination against Women (CEDAW); International Convention on the Elimination of All Forms of Racial Discrimination (CERD); International Covenant on Economic, Social and Cultural Rights (ICESCR); and the Convention on the Rights of the Child (CRC). Core international treaties that have not been ratified by the state are the International Covenant on Civil and Political Rights (ICCPR); Convention against Torture and Other Cruel Inhuman or Degrading Treatment or Punishment (CAT) and Convention on the Rights of Persons with Disabilities (CRPD).⁵ Meanwhile, Solomon Islands ratified all of the international fundamental labour conventions.⁶

2.3.2. Public Policy

While the long-term public policy of Solomon Islands is laid down in the NDS 2016-2035, each appointed cabinet after election in Solomon Islands has its (medium-term) Government policy document and the CEWG defines the policy matrix⁷ for one or two years ahead (i.e. it is a rolling Matrix), with respect to tax and PFM reforms and enablers of economic growth. There have been regular evaluations of the NDS and there is a Voluntary Needs Assessment.

The NDS is relevant since all areas mentioned in the NDS 2016-35 need attention for the development of Solomon Islands (from food security, to health and education, environmentally sustainable development and effective disaster risk reduction to unification and public order). The NDS' vision is "Improving the Social and Economic Livelihoods of all Solomon Islanders", pointing at the inclusiveness which is a necessity in view of the violent past. The broad consultation process before the launch of the NDS also indicates the support of the people for the NDS. The NDS has remained credible since line ministries and stakeholders take actions to follow up on implementation of the annual and medium-term plans. Since Solomon Islands has a broad Government (with more than twenty Ministries), and many state-owned enterprises, some areas advance better than others. The CEWG, with its short-term focus on PFM reforms and enablers of economic growth, has also remained relevant and credible, definitely in recent years.

Overall, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

⁵ https://tbinternet.ohchr.org/_layouts/15/TreatyBodyExternal/Treaty.aspx?CountryID=160&Lang=EN

⁶

https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:10011:0::NO::P10011_DISPLAY_BY,P10011_CONVENTION_TYP,E_CODE:1,F

⁷ The policy matrix for 2021 defines three areas: (i) Tax reform and prudent financial management; (ii) Supporting legal development for good governance and growth; (iii) Supporting the productive and recourse sectors. See the Joint-Review-Mission-Report of 2021 in the annex to this Document.

2.3.3. Macroeconomic Policy

The economy is estimated to have contracted by 3.8% in 2020. This estimate is 0.2% lower than the 2020 mid-year budget projection (-3.6%) and reflects weaker than-expected performance in the second half of 2020 – particularly the industry and services sectors – due to the impact of COVID-19. Log production, a key driver of growth over the past two decades, fell by 13% against 2019 output, and presented a second consecutive year of decline after peaking in 2018. While copra and coconut oil production increased by 46% and 19% year on year, respectively, production of all other key export commodities (palm oil and palm kernel oil, cocoa, and fish catch) fell throughout the year. This is reflected in the Central Bank of Solomon Islands' (CBSI) production index, a key proxy for domestic economic activity, which dropped by 9.8% to 83 points (and has since moderately increased by 2.4% to 85 points at the end of the first quarter of 2021). The suspension of international flights as of April led to a substantial decline in visitor arrivals, impacting negatively on tourism-related activities, hotels and food-service activities, wholesale and retail trade, transport and storage, and electricity.

In late 2020, the Government announced a redirection of its policies to cushion the impact of COVID-19. The Government's policy redirection represents a "new pathway to redirect the Government's scarce financial and budget resources towards the most urgent and critical pillars of the economy and set a stage for lasting recovery." Specifically, the policy redirection focuses on those sectors with a high potential to drive growth – the productive and resource sectors. Its primary objectives are as follows: i) to immediately address the health pandemic and protect vulnerable people; ii) to dampen the negative impact of COVID-19 on the domestic economy; and iii) to promote economic growth and bolster economic resilience.

Solomon Islands' macro-economic policies have been stability-oriented in recent years, also when COVID-19 started to have its impact in 2020. Revenues have been on a decreasing trend, not only because of COVID-19 but also because of a structural decline in logging, the country's main source of income in recent decades. COVID-19 has decreased Solomon exports of tuna to Europe (mainly Italy) and to other countries. A potential source of instability is the risk of importing COVID-19 variants that due to a slow roll-out of the vaccination program could impact the communities that live in wantok-groups closely together, with low hygiene standards.

As a response to the pandemic, donors have provided debt service relief and grants and the International Monetary Fund (IMF) and the ADB have provided concessional loans to the Government of Solomon Islands in 2020. The latter enforce Government accountability of the additional spending. Solomon Islands has always had a good relationship with the IMF and other Budget Support donors.

With the guidance of the IMF and the CEWG, the Government has been making progress in improving the tax administration and passing (other) relevant legislation and regulations regarding PFM. Domestic Revenue Mobilisation, through tax reforms, is considered the most viable reform area. Macro-economically, the improved tax administration will in the short- to medium-term lead to more tax revenues. As a natural substitute for logging, mining is being considered but there is a risk of serious environmental impacts. Solomon Islands suffers from low cash reserves, fiscal deficits and a growing public debt stock (albeit from a very low base). The low cash reserves also lead regularly to arrears in public spending, which can potentially lead to social unrest.

Solomon Islands has always had a solid relationship with the IMF, as it has with the CEWG (since 2009).

Solomon Islands is vulnerable to climate-related external and endogenous shocks. The 2019 World Risk Report ranks Solomon Islands the fourth most 'at risk of disaster' country in the world, and it is amongst the top 20 countries in the world with the highest economic risk exposure to geological, hydrological and climatic hazards, including tropical cyclones, volcanic eruptions, earthquakes, tsunamis, landslides, floods and droughts. Each year, the country incurs an average loss of USD 20 million as a result of earthquakes and tropical cyclones alone, and it has had seven major disasters in the last 40 years. The Government, very well aware of this, is therefore also making efforts to obtain funds from the Green Climate Fund / Adaptation Fund.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.3.4. Public Financial Management

As a member of the CEWG, the EU has closely followed the PFM reforms in the two recent decades. The Ministry of Finance is committed to reform, in all relevant areas (procurement, taxation, audit, cash management, budget process, debt management). The passing of legislation in Parliament has however always been relatively slow, hampered by development in the office of the Attorney-General or related type of politics. Solomon Islands' leading PFM document is a plan that IMF's Pacific Financial Technical Assistance Center (PFTAC) drafted together with Ministry of Finance and Treasury. This plan concentrates on the basic PFM functions. The policy matrix of the CEWG, that is aligned with this, has its focus on the new tax legislation, debt management and anti-corruption measures. Solomon Islands' Parliament adopted an Anti-Corruption Law recently and the Ministry of Justice and the Prime Minister's Office are in the process of making arrangements to establish an Anti-Corruption Commission. In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.3.5. Transparency and Oversight of the Budget

Each year, the national Budget process proceeds according to the law. Solomon Islands has always been transparent in its Budget analyses towards the CEWG and towards the public that shows an interest. Budget Speech, Budget Strategy, Recurrent Budget, Development Budget, half- and full-year Budget outcomes are available to whomever asks for it. Lack of human capacity is the reason for the non-updated Parliament and Ministry of Finance and Treasury websites. In 2021, the Appropriation Bill passed in Parliament at the end of April, which was delayed due to COVID-19 but within the limits of the law. All relevant documents were timely published on the websites of the Ministry of Finance and the Parliament.⁸

The Office of the Auditor-General is independent and, although still having a backlog in whole-of-the-economy annual audits, it is transparent and always willing to explain. The Office needs however a higher budget and further strengthening. Solomon Islands is not yet part of the Open Budget Index. In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

Efforts are taken to promote gender-responsive budgeting, although it is still early stages. The Ministry of Women, Youth, Children and Family Affairs has been active in promoting mainstreaming gender considerations into economic policy. Supported by Australia, the Ministry of Public Service developed a five-year policy titled 'Public Service Gender Equality and Social inclusion Policy 2020-2025'.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to make the Solomon Islands more resilient. The action maintains the strong EU-Solomon Islands partnership, and more generally supports the achievement of the 17 Sustainable Development Goals as defined in the National Development Strategy (NDS) 2016-2035 for an inclusive development and poverty reduction countrywide.

The Specific Objectives of this action are:

- SO1) More decent work and economic growth (less poverty);
- SO2) Improved delivery of Government services and goods, with a special focus on the outer islands.

The *induced outputs* are:

- IO1) More effective and efficient public institutions;

⁸ See <https://solomons.gov.sb/ministry-of-finance-and-treasury/budget-documents/> and <http://www.parliament.gov.sb/index.php?q=node/286>.

- IO2) Revised comprehensive, legal and regulatory PFM framework.

The *direct outputs* are:

- DO1) Additional fiscal space created by the transfer of funds and increased predictability of funds;
- DO2) Improved policy dialogue and coordination;
- DO3) Improved policy performance assessment and monitoring;
- DO4) Increased PFM technical capacities, better harmonized and aligned to Government policies and systems using new digital opportunities.

3.2. Indicative Activities

Activities related to Output IO1 and IO2: Undertaking of technical assistance directly to the Ministry of Planning and the Ministry of Finance;

Activities related to Outputs DO2, DO3 and DO4: Active role in the CEWG and in the TEWG with continuous monitoring system.

The commitment of the EU's contribution to the Team Europe Initiatives foreseen under this action plan will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise the EU action may continue outside a TEI framework.

3.3. Mainstreaming

Environmental Protection & Climate Change

Outcomes of the SEA screening (relevant for budget support and strategic-level interventions)

The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

Outcomes of the EIA (Environmental Impact Assessment) screening

The EIA (Environment Impact Assessment) screening classified the action as Category C (no need for further assessment).

Outcome of the CRA (Climate Risk Assessment) screening (relevant for projects and/or specific interventions within a project)

The Climate Risk Assessment (CRA) screening concluded that this action is not at risk or has a low risk (no need for further assessment). Most interventions may be subject to a certain level of risk. Even though the action itself is not subject to such risk, the supported activities by the Government may be, especially in relation to the difficult logistics of the country.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender equality or empowerment of women and girls will play in the activities and policy actions. It may even become one policy action on the Policy Matrix of the CEWG, since the Ministry of Public Service has adopted a gender strategy, with support from Australia.

Human Rights

Respect, protection and fulfilment, of Human Rights will be promoted throughout the Action. The Action will apply the five working principles of the human rights-based approach throughout implementation: a) applying all human rights for all; b) meaningful and inclusive participation and access to decision-making; c) non-discrimination and

equality; d) accountability and rule of law for all; and e) transparency and access to information supported by disaggregated data

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that this may become a topic in the progress that the Ministry of Planning tries to achieve endeavouring the targets set in the National Development Strategy 2016-35.

Democracy

Solomon Islands is a democracy; it had free and fair election during last decades. Democratic right will be promoted, indirectly.

Conflict sensitivity, peace and resilience

Solomon Islands is still suffering from a period in with ethnic tensions terrorised the country. Learning from that period, the Government sector has been built in a compromising way. All Budget Support donors participating in the CEWG are fully aware of this. Resilience building in a broad sense (economic, social, financial) is the topic of the Action here.

Disaster Risk Reduction

Solomon Islands had a number of natural disasters in recent years. The Government endeavours to reduce the risk (building back better infrastructure, housing e.g.) but there is still a long way to go.

Other considerations if relevant

None.

3.4. Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
SDG	Slow progress in the achievement of SDGs	H	M	Due to COVID-19, this is very likely since the Ministry of National Planning and Development Coordination has a weak position in working towards the goals as a coordinator, donors are mainly online rather than present on the ground, and Ministry of Finance and Treasury and other Ministries, such as Health or Aviation, have more important priorities. The intervention will also promote the collection and greater availability of relevant data on the SDGs.
Political	Political crisis and no new coalition	L	H	In view of the stability during the last years, this is not very likely, but if this would happen, it could throw the country back another decade.
Fiscal	Further slow-down in revenues and slow	M	L	As long as the donors are present, and the IMF remains on good terms, the risk is

	adoption of fiscal legislation, including the Constituency Development Funds			medium. CEWG and IMF keep the Government accountable and play a role in stimulating the Government in filling the key positions (Accountant-General, Attorney General, Auditor-General).
Macroeconomic	The Government runs out of cash reserves and accumulates spending-arrears, which may cause social unrest.	M	H	Despite the recent IMF- and ADB-loans in response to COVID-19, this may happen. Ministry of Finance and Treasury therefore remains highly dependent on funding from the EU and the other donors that provide Budget Support, given the low level of cash reserves, the slow speed of generating revenues and the impact of COVID-19 (lower exports while spending has increased, e.g. on health).
Outer islands	Government not being inclusive	M	M	Via the Constituency Development Funds, equilibrium is kept since the 50 Parliamentarians represent the 50 Constituencies and still receive much funding individually.

Lessons Learnt:

During the previous three budget support programs, a strong relationship with the Government has been built. The EU is perceived as a reliable partner, supporting the Government with the establishment of the CEWG, the first funding through V-Flex in times of crisis, and at other moments with budget support tranches when it was highly needed (floods in 2014, COVID-19). At the same time, a lesson learnt is also that the implementation speed of the Solomon Islands was far lower than foreseen in the budget support agreements of SICAP and rural WASH. Therefore, this action will aim at a disbursement speed that is not annual but every eighteen months, which is also more in line with other main donors (World Bank, ADB). Disbursing more slowly will also burden the Ministry of Finance and Treasury and the Ministry of National Planning and Development Coordination less in terms of the preparation of the disbursement files. Another lesson learnt is that channeling funds through Solomon Islands' Government systems towards those in need in the outer islands is difficult. The EU's Government project with the Ministry of the Provinces and two implementing partners that could work in the Provinces shows that there is room for the Government system to work more effectively.

3.5. The Intervention Logic

The underlying intervention logic for this action is that the EU will continue to work closely with other Budget Support partners in the CEWG/TEWG in dialogue with the Government, on PFM reforms and enablers of economic growth, striving for better service delivery for all the people in the Solomon Islands, inclusively, and ultimately for poverty reduction. Regularly, the CEWG will adopt a matrix with medium-term policy actions that relate to PFM and economic growth. The stipulation of these actions will trigger Budget Support tranche releases. Weak areas of PFM will be supported by technical assistance to Ministry of Finance and Treasury or related Ministries, and cooperation with the IMF's PFTAC.

Throughout the intervention, an important topic will be the greenness of the PFM areas, i.e. the 'no harm to the environment' principle, gender equality, digitalization of the Government systems and communication with the public, to increase transparency, accountability and access to information. Since the Government's work is currently still paper-based, long strides can be made. All areas of PFM must show elements of climate responsiveness. In this respect, the promotion of green budgeting, green taxation and integration of natural capital accounting in the country's Public Financial Management system will be supported and encouraged. PFTAC may wish to perform a climate responsiveness and gender assessment (linked to the Public Expenditure and Financial Accountability (PEFA) assessment). The action will promote the collection and availability of data on all key development indicators (in line with the SDGs), where possible disaggregated.

If the activities are undertaken, i.e. if the technical assistance is provided to the Ministry of Planning and the Ministry of Finance, and the development partners (including the EU) will continue to play an active role in the CEWG and in the TEWG with continuous monitoring system, then the outputs will be produced. If these outputs, i.e. (i) additional fiscal space; (ii) improved policy dialogue; (iii) improved performance; and (iv) greater digital awareness, and at the same the Government will be able to fill the key in-line positions of the Attorney-General, the Accountant-General and the Auditor-General, then the outputs will hold true. If more effective and efficient public institutions will be established and the legal and regulatory PFM framework will be comprehensively revised, and at the same time, in-country travel will have been possible, then there will be more decent work and economic growth generated and improved delivery of Government services to all Constituencies. If these outcomes are realised and no major shocks occur, then Solomon Islands will become more resilient, socio-economically but also climate- and gender-related, all-inclusive with respect for human rights.

3.6. Logical Framework Matrix

Results	Results chain	Indicators	Baselines 2021	Targets 2025	Sources of data	Assumptions
Indicative Impact of the policy	To make Solomon Islands more resilient, socio-economically and climate-related.	1. Fragile state status	1. Solomon Islands is a fragile state	1. Solomon Islands is not a fragile state	1. World Bank annual publication online	<i>Not applicable</i>
Expected Outcomes of the policy	SO1. More decent work and economic growth created, with respect for gender and climate.	1.1 Annual Gross Domestic Product-growth (average past three years) 1.2 References to greenness ‘no harm to the environment’ and gender aspects in Budget process	1.1 Close to zero ⁹ 1.2 0	1.1 > 2% 1.2 Multiple references in each of the annual Budget documents	1.1 IMF website / Article IV 1.2 Budget speech and other Budget documents	COVID-19 restrictions will be alleviated, and no other shocks occur.
	SO2. Improved delivery of Government services and goods with a special focus on the outer islands.	2.1 Satisfaction rates from the Constituencies	2.1 Low	2.1 Moderate to high	As measured by the Ministry of Planning in a progress report	Survey to be done in 2022, see section 5.1.
Induced Outputs	IO1. More effective and efficient public institutions established.	1.1 Governance effectiveness indicator	1.1 13 th rank (where 0 is worst and 100 best)	1.1 At least in the 20 th rank	1.1 World Bank	None
	IO2. Revised comprehensive, legal and regulatory PFM framework.	2.1 Public Finance Management indicator 2.2. Status of the assessment of the Public Expenditure Financial Accountability (PEFA) Climate and Gender responsiveness Module	2.1 Three times no change in milestone score (and three non-reported) 2.2 None done since 2012.	2.1 At least more than three milestones achieved or defined 2.2 The two modules done and published	2.1 IMF/PFTAC annual report ¹⁰ 2.2 PFTAC/PEFA-secretariat/other	Provided that PFTAC/PEFA/other advisors can do their work in-country
Direct Outputs	DO1. Additional fiscal space created by the transfer of funds and increased predictability of funds.	1.1 Disbursement level of the BS	1.1 0	1.1 €7.5 M	1.1 CEWG joint review mission and TA reports	None
	DO2. Improved policy dialogue and coordination.	2.1 Cumulative no of CEWG-meetings, with agenda and minutes	2.1 n/a ¹¹	2.1 8	2.1 CEWG agenda and minutes	None since it can also take place online.
	DO3. Improved policy performance assessment and monitoring.	3.1 Percentage of agreed actions in the CEWG Policy Reform Matrix achieved (monitoring)	3.1 n/a	3.1 >60%	3.1 JRM report	Main positions are filled i.e. Attorney-General, Auditor-General, Accountant-General
	DO4. Increased PFM technical capacities, better harmonized and aligned to Government policies and systems using new digital opportunities.	4.1 No of Ministry of Finance and Treasury staff trained on digital transformation	4.1 0	4.1 150	4.1 Survey performed by Ministry of Planning	None

⁹ The IMF’s website shows that real GDP-growth was 3.9% in 2018, 1.2% in 2019 and estimated at -4.3% in 2020. Hence, the average is 0.3%.

¹⁰ Page 25 of IMF/PFTAC’s annual report FY21, upper part of the table “Public Finance Management” with the six fields: (i) Improved PFM laws and effective institutions (red-x); (ii) Comprehensive, credible, and policy-based budget preparation (not reported); (iii) Improved budget execution and control (not reported); (iv) Improved coverage and quality of fiscal reporting (red-x); (v) Improved asset and liability management (red-x); (vi) Strengthened identification, monitoring and management of fiscal risks (not reported).

¹¹ In 2021 several TEWG-meetings took place and the CEWG-meeting with the Minister of Finance and other representatives from SIG (MNPDC, PMO, AOG etcetera) is expected in September. But ideally, this should at least take place twice a year (before and after the JRM).

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 7.5 million, and for complementary support it is EUR 0.45 million. This amount is based on experience with the previous Budget Support programs. Under the latest programme, i.e. *Improving governance and access to water, sanitation and hygiene promotion for rural people (rural WASH)*, there was EUR 13 million scheduled for five years. However, disbursements were delayed and disbursed only about every eighteen months.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the policy actions as stipulated by the CEWG in the rolling CEWG Policy Matrix and implementation of the related PFM reforms as mentioned in the National Development Strategy 2016-2035 and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement to be used for variable tranches may focus on the policy priority domestic revenue mobilisation, in particular new legislation and improvements in tax collection.

c) Modifications

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original

weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3. Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Solomon dollar (SBD) will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

4.4. Implementation Modalities

The Commission will ensure that the EU's appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures¹².

4.4.1. Direct Management (Procurement)

The procurement will consist of complementary support to either PFM-reforms or the achievement of CEWG- or NDS-goals. This corresponds to R1 & R2.

4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.6. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support SRBC – cf. section 4.3	7 900 000
Strengthened policy dialogue on PFM and SDGs for an inclusive development and poverty reduction countrywide	7 500 000
Procurement (direct management) – cf. section 4.4.1)	460 000
Evaluation – cf. section 5.2	40 000
Audit – cf. section 5.3	
Totals	8 000 000

¹² www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.7. Organisational Set-up and Responsibilities

The policy dialogue will take place at the CEWG-meetings and at the TEWG-meetings. The Ministry of Finance, but also the Ministry of Planning, will steer the dialogues. From the side of the Budget Support donors, there will be a rotating schedule. Both ministries are responsible for achieving the actions.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. For this purpose, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring are with the TEWG and CEWG.

The EU, like other Budget Support donors, will support the Government of Solomon Islands throughout the action and will monitor the progress through the informal meetings with Budget Support donors and the TEWG. In case the EU cannot participate physically in meetings in Honiara, online meetings will be organised as was done during the COVID-19 pandemic.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action via checks and balances, also from other partners (such as IMF/PFTAC on public finance data and legislation).

Ministry of Planning will perform survey to measure the baseline for the indicator associated with special objective (SO1) *Improved delivery of Government services and goods, with a special focus on the constituencies in the outer islands*. Ministry of Planning will also perform the end-survey in 2026 regarding this indicator, and the indicator on digitalisation (DO4).

The financing of monitoring by consultants shall be covered by another measure constituting a decision.

5.2. Evaluation

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components through a joint mission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular, the fragility of the country and its limited human capacities, and the fact that the EU may wish to support a follow-up Budget Support operation.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

Evaluations shall assess to what extent the action is taking into account the human rights-based approach working principles (i.e. applying all human rights for all; meaningful and inclusive participation and access to decision-making; non-discrimination and equality; accountability and rule of law for all; and transparency and access to

information supported by disaggregated data) as well as how it contributes to gender equality and women's empowerment. In this regard, expertise on human rights and gender equality will be ensured in the evaluation teams.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

Audit and verification may be contracted under a framework contract.

6. STRATEGIC COMMUNICATION AND PUBLIC COMMUNICATION

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.