

SOLOMON ISLANDS – EUROPEAN COMMUNITY

Country Strategy Paper

and

National Indicative Programme

for the period 2008 – 2013

The Government of the Solomon Islands and the European Commission hereby agrees as follows:

- (1) The Government of the Solomon Islands, represented by the Minister of Development Planning and Aid Coordination and National Authorising Officer, the Honourable Gordon Darcy Lilo, followed by the Honourable Steve Abana, and the European Commission, represented by Mr Aldo Dell'Ariccia, Head of the Commission Delegation to Solomon Islands, hereinafter referred to as the Parties, held discussions from March 2006 until August 2007 with a view to determining the general orientations for cooperation for the period 2008-2013.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of the Solomon Islands were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000 as revised in Luxemburg on 25 June 2005. These discussions complete the programming process in the Solomon Islands.

The Country Strategy Paper and the Indicative Programme are annexed to the present document.

- (2) As regards the indicative programmable financial resources which the Community envisages to make available to the Solomon Islands for the period 2008-2013, an amount of € 13,2 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of €3,3 million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV of the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The Indicative Programme under Part 2 concerns the resources of the A-allocation. It also takes into consideration financing from which the Solomon Islands benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet constitute a part of the Indicative Programme.
- (5) Resources can be committed within the framework of the present Country Strategy Paper and Indicative Programme upon the entry into force of the 10th EDF multi-annual financial framework for the period 2008-2013 of the revised ACP-EC Partnership but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the Solomon Islands within the limits of the A and B – allocations referred to in this document. Financing decisions can also be taken on the basis of Article 72(6) to the ACP-EC Partnership Agreement for humanitarian and emergency assistance funded from the B-allocations.

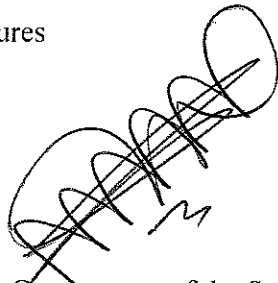
Financing decisions shall be taken and implemented according to the rules and procedures laid down in the EC Council regulations on the implementation of the 10th EDF and on the financial regulation applicable to the 10th EDF and in Annex IV to the ACP-EC Partnership Agreement.

- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Paragraphs 2(c) and 3 of Annex Ib to the ACP-EC Partnership Agreement regarding the 10th EDF multi-annual financial framework for the period 2008-2013.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertaken a mid-term review and an end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of current needs and performance.

The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in light of current needs and performance. Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased according to Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.

- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF multi-annual financial framework for the period 2018-2013, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicates the contrary before the end of this period.

Signatures



For the Government of the Solomon Islands



For the Commission



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ABBREVIATIONS

Abbreviation	Meaning
ACP	Africa, Caribbean and the Pacific
ADB	Asian Development Bank
ARDP	Agriculture & Rural Development Programme
AusAID	Australian Agency for International Development
ARDS	Agriculture and Rural Development Strategy
CBSI	Central Bank of the Solomon Islands
CEMA	Commodities Export and Marketing Authority
CEP	Country Environmental Profile
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DBSI	Development Bank of the Solomon Islands
DCIE	Department of Commerce, Industries and Tourism
DFEC	Department of Forestry, Environment and Conservation
DfID	Department for International Development
DFMR	Department of Fisheries and Marine Resources
DNPAC	Department of National Planning & Aid Coordination
DOFT	Department of Finance & Treasury
DSAP	Development of Sustainable Agriculture Programme (regional programme)
DSE	Development Services Exchange
EC	European Commission
ECANSI	Environmental Concern & Action Networking, Solomon Islands
EDF	European Development Fund
EIB	European Investment Bank
EPA	Economic Partnership Agreement
EPG	Eminent Persons Group
ESIRP	Education Sector Investment and Reform Programme
ESP	Education Strategic Plan
EU	European Union
ETR	End of Term Review
FLEGT	Forest Law Enforcement, Governance and Trade Action Plan
FFA	Forum Fisheries Association
FIU	Financial Intelligence Unit
FMO	Framework of Mutual Obligations
FSPI	Foundation of People in the South Pacific International
HIES	Household Income and Expenditure Survey (2005/06)
HOD	Head of Delegation
ILO	International Labour Organisation
IMF	International Monetary Fund
JICA	Japanese International Co-operation Agency
JPA	Joint Parliamentary Assembly
KFPL	Kolombangara Forest Products Limited
LDC	Less developed country
MAL	Department of Agriculture and Livestock
MDG	Millennium Development Goals
MDPAC	Ministry of Development Planning and Aid Coordination
MEF	Malaitan Eagle Force
MEHRD	Ministry of Education and Human Resources Development
MID	Ministry of Infrastructure Development
MP	Member of Parliament
MS	Member State
MSG	Melanesian Spearhead Group
MTR	Mid-Term Review

Abbreviation	Meaning
NAO	National Authorising Office
NERRDP	National Economic Recovery and Reform Programme
NIP	National Indicative Programme
NPV	Net Present Value
NSA	Non-state actor
NTF	National Transport Fund
NTP	National Transport Plan
NZAID	New Zealand Agency for International Development
PACER	Pacific Agreement on Closer Economic Relations
PACP	Pacific ACP (countries)
PDMC	Pacific developing member countries
PEIN	Pacific Environment Information Network
PGSP	Provincial Government Strengthening Programme
PICTA	Pacific Island Countries Trade Agreement
PIFS	Pacific Islands Forum Secretariat
PM	Prime Minister
PMO	Prime Minister's Office
PMU	Programme Management Unit
PNG	Papua New Guinea
PRIP	Pacific Regional Indicative Programme
PRS	Poverty reduction strategy
PS	Permanent Secretary
RAMSI	Regional Assistance Mission to Solomon Islands
RDP	Rural Development Programme
RSIP	Royal Solomon Islands Police
SI	Solomon Islands
SICHE	Solomon Island College of Higher Education
SIPL	Solomon Islands Plantation Limited
SOPAC	South Pacific Applied Geoscience Commission
SPC	South Pacific Commission
SPREP	South Pacific Regional Environmental Programme
SWAp	Sector wide approach
TCF	Technical cooperation facility
TID	Policy Transition & Implementation Document
TVET	Technical and vocational education and training
UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
VERIFOR	Verification of legal production and trade in timber and products
WB	World Bank
WBI	World Bank Institute
WWF	World Wide Fund for Nature

Currency (as at end 2006)

€ 1.0 = SI \$ 10.0

SUMMARY

The purpose of this Country Strategy Paper (CSP) is to provide a framework for EC co-operation with Solomon Islands under the Cotonou Agreement. The framework is based on global objectives of EC-ACP co-operation, Solomon Islands own development policy, an analysis of the political and economic situation in the country, and an assessment of the past co-operation programmes of the EC and other donors. It concludes with the proposed EC response strategy of the 10th EDF and a National Indicative Programme (NIP).

The Solomon Islands is a country located east of Papua New Guinea and is made up of over 990 islands with a total land area of 27,990 km² and an ocean area within an exclusive economic zone of 1.34m km². The official estimate of the population is about 482,000 (2006)¹, and the annual growth rate is high at around 2.8%.

The Solomon Islands (SI) has a recent history of conflict that broke out in particular in the period of the "tensions" in 1999-2003, and in the riots in the capital Honiara in April 2006. A weak democratic system compounded by endemic corruption and a youthful population that is poorly educated and lacks economic opportunities are the causes of this fragility. A regional force (Regional Assistance Mission to Solomon Islands, RAMSI) has played a prominent role in restoring the rule of law, improving the machinery of government and introducing economic reforms since July 2003, but there is still much to do in all of these areas. While appreciated for maintaining law and order, RAMSI has been perceived by some as taking control of key SI institutions, and setting the framework for future development.

Elections held in April 2006 were considered fair and peaceful. However the subsequent selection of Prime Minister by the parliament led to a serious crisis resulting in widespread rioting in Honiara (and Auki, the capital of Malaita) requiring the intervention of additional RAMSI military forces; the selected Prime Minister resigned and the current one was appointed.

On the economic front, recovery has continued since 2003, with real GDP growth estimated at 6.2% in 2006, and GDP/capita at €453, but the economy is heavily dependent on unsustainable logging (resource risk to be depleted by 2012 according to the IMF) and relatively massive donor support.

The current (Sogavare) Government's main stated objectives are to restore good governance in all areas, improve livelihoods in rural areas - particularly through supporting peoples' own efforts and a confident and re-invigorated private sector - and address constitutional reform. New policy priorities were issued in May 2006, and reflected in a Policy Translation & Implementation Document (dated August 2006).

The response to the current country situation reflects the new government's clear direction towards rural development and their expressed need to empower rural peoples. This is consistent with past policies and current EC country development objectives, which are primarily directed towards poverty reduction, education and capacity building.

¹ However a recent Household Income and Expenditure Survey (HIES) Report estimates the total population at 550,000

Under the 10th EDF the A envelope (programmable funds) is € 13,200,000 and the B envelope (funds for unforeseen needs) € 3,300,000. The **focal sector** is proposed to be **sustainable rural development with attention to capacity building for rural development**. The indicative allocation for the focal sector is **€11,220,000 (85% of envelope A)**. It is foreseen that the EDF 10 interventions in the focal sector will be fully consistent with the Agriculture and Rural Development Strategy (ARDS), which was finalised in the first quarter of 2007, and will reinforce and support the second phase of the Solomon Islands Rural Development Programme (RDP) due to be implemented over the period 2008-2011. The first phase of the SI RDP is jointly funded by the EU (STABEX 98, up to end of 2010), AusAID and WB. Support for urban youth issues, specific support to non-state actors and trade capacity building (including trade facilitation and promotion) will be provided as appropriate in keeping with regional programmes and increasing needs in these sectors.

Cross cutting issues taken into consideration in the focal sector include environmental, HIV/Aids and gender issues through supporting and strengthening the position and role of women and disadvantaged people. Particular attention should be paid to links with governance issues in the exploitation of natural resources, decentralisation and capacity building for provincial administrations and employment in rural areas in conjunction with technical and vocational education and training.

The indicative allocation for other programs in the **non focal sector** is **€1,980,000 (15% of envelope A)**, which includes support to the NAO and a Technical Cooperation Facility (TCF) from which necessary Technical Assistance, studies and essential EDF-related activities will be funded.

PART 1 STRATEGY PAPER**CHAPTER I. THE FRAMEWORK OF RELATIONS BETWEEN THE DONOR AND THE PARTNER COUNTRY****I.1. General objectives of the EC's external policy**

In accordance with Article 177 of the Treaty establishing the European Community, Community policy in the sphere of development cooperation shall foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them
- The smooth and gradual integration of the developing countries into the world economy
- The campaign against poverty in the developing countries.

Europe should project a coherent role as a global partner, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security.

The Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, humanitarian aid and financial assistance as well as the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc.).

EU external action including the Common Foreign and Security policy, common trade policy and cooperation with third countries provides a framework both for integrating all EU instruments and developing gradually a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has entrusted the EU with even greater responsibilities, as a regional leader and as a global partner. It should therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its neighbourhood and through its multilateral and bilateral policies which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, contributing thereby to global security and prosperity.

I.2. Strategic objectives of cooperation with the partner country

The Treaty objectives are confirmed in Article 1 of the *ACP-EU Partnership Agreement*, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the *Cotonou Agreement* is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Co-operation between the Community and the Solomon Islands shall pursue these objectives, taking into account fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and the populations concerned

and the essential elements and fundamental element as defined in Articles 9 and 11b of the Agreement.

While the Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries the recently adopted *European Consensus on Development* sets out the general policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda, and with particular attention to the Millennium Development Goals (MDGs). Human rights and good governance are recognised as other important objectives.

In May 2006 the European Commission issued a Communication to the Council, the European Parliament and the European Economic and Social Committee on "**EU Relations with the Pacific Islands – A Strategy for a Strengthened Partnership.**" The Council adopted this Communication in July 2006. The Strategy consists of three components: (i) a strengthened relationship between the EU and the Pacific region to allow for a broad political dialogue; (ii) more focussed development cooperation with a central theme relating to the sustainable management of natural resources, and (iii) more efficient aid delivery.

Better aid effectiveness is essential to achieving poverty eradication. Therefore the EU will advance coordination, harmonisation and alignment. It will promote better donor complementarities by working towards joint multi-annual programming based on partner countries strategies and processes, common implementation mechanisms, joint donor wide missions and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and it will capitalise on new Member States' experience to strengthen their role as donors.

Policy coherence for development will advance in a number of areas. The purpose is that all EU non-aid policies make a positive contribution to developing countries efforts to attain the MDGs.

The principle of concentration will guide the Community country and regional programming. This means selecting a limited number of priority areas of action, through the dialogue with partner countries, rather than spreading efforts over too many sectors. In this context the Community will be primarily active in the following nine areas, taking into account its comparative advantages in a number of these: trade and regional integration; the environment and the sustainable management of natural resources, infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; and social cohesion and employment.

The mainstreaming approach will be strengthened by four cross-cutting issues: democracy, good governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/Aids.

I.3. Main bilateral agreements

The European Commission is represented in the Solomon Islands by a regionalised Delegation in Honiara, which is attached to the Delegation in PNG. The Solomon Islands has a resident ambassador in Brussels. Other ambassadors reside in Canberra, New York, Port

Moresby and Taipei. The UK is the only Member State with a permanent representation in Honiara. Other Member States cover the Solomon Islands mainly from Canberra.

Negotiations regarding an Economic Partnership Agreement between the Pacific ACP countries and the EU are on-going. The EU signed a bilateral fisheries agreement in late 2006.

The EU has initialled a bilateral fisheries partnership agreement (FPA) in January 2004. This FPA has entered into force the 9th October 2006.

CHAPTER II. COUNTRY DIAGNOSIS

II.1. Analysis of the political, economic, social and environmental situation in SI

General Characteristics. The Solomon Islands gained independence from the United Kingdom in 1978 and with the Head of State as Queen Elisabeth II the Head of State, the country still maintains close links with the ex-colonial power. Since independence, the Solomon Islands has had to deal with increasingly fractious provinces, culminating in a period of tensions and civil unrest from 1998 to 2003, and calls by some provinces for a federal constitution bordering on independence. Since then the country has experienced continuing political instability with serious riots in the capital in April 2006 shortly after the national elections. It features as one of the fragile states in the DAC review.

The Solomon Islands is predominantly Christian and has over 80 different languages with English as the official language. It is made up of over 990 islands with a total land area of 27,990 km² and an ocean area within an exclusive economic zone of 1.34m km². The official estimate of the population is about 482,000 (2006), and the annual growth rate is high at around 2.8%. Over three quarters of the population are engaged in subsistence farming and fishing in the rural areas. The remainder live in provincial urban centres such as Honiara (the capital), or else work in primary industries such as plantations and logging.

Estimated GDP per capita at about USD 600 in 2006, ranks the country as an LDC and the poorest of the Pacific ACP countries. It is 128th out of the 177 countries listed in the 2005 UNDP Human Development Report, reflecting medium human development, on a downward trend. The economy is over-dependent on a narrow base, in particular logging, fisheries, and certain agricultural products such as copra and cocoa.

II.1.1. Political and institutional situation

Political events from 1998 to date. The Solomon Islands has a recent history of conflict exacerbated by successive governments that have failed to take the people's interests to heart. The country fell into the grip of 'warlords' from 1999 with a period of recurring violence centred on Honiara and Guadalcanal, with violence between the inhabitants of the two major islands of Guadalcanal (Guadalcanal Isatabu Freedom Movement) and Malaita (Malaita Eagle Force). One of the root causes of the conflict was poverty, since over time Malaitans left their island, the most heavily populated, for work and better opportunities in Guadalcanal. They established themselves by taking up land not in use by the local population at the time. An estimated 20,000 Malaitans fled Guadalcanal during the tensions

and the principal industries such as the oil palm plantations and timber processing plant on the Guadalcanal Plains, and the Gold Ridge gold mines were systematically looted and trashed.

The breakdown of the security situation culminated in June 2000 in a complete take over of power in Honiara by the Malaitan forces and the enforced custody and resignation of the then Prime Minister. After due constitutional and democratic processes, the leader of the opposition, Manesseh Sogavare, succeeded him as PM. A peace agreement signed in Townsville, Australia, in October 2000 failed to end the tensions, and elections held in December the following year brought a change of government, replacing Sogavare with Allan Kemekeza. However the armed militias continued to cause severe law and order problems and increasing cash outflows from government as they sought and obtained "compensations" from the Treasury.

Being unable to improve the situation, the PM requested assistance from Australia in April 2003. The response was a regional intervention, the Regional Assistance Mission to Solomon Islands (RAMSI), under the auspices of the Pacific Islands Forum. RAMSI arrived in the Solomon Islands on 24 July 2003 with a police force, backed by military from different Pacific countries, and deployed economic and financial experts in line positions at key ministries, such as finance, customs and justice. The three pillars of the RAMSI intervention comprise law and justice, governance, and economic development. Within days law and order was restored and after three months 4,000 weapons had been confiscated and 3,800 people charged with criminal offences.

RAMSI is a prime political fact in the country. By the time of the Eminent Persons Group (EPG) mission in May 2005 the results were positive, with law and order re-established, rapid financial stabilisation, and an improvement in the economy and standards of living, albeit from a very depressed state. However, throughout that time, the underlying causes of the conflict were not tackled at a political level, and governance and corruption issues continued to undermine the standings of all levels of government. Some contentious issues emerged with RAMSI, such as loss of sovereignty on key issues and the government's apparent lack of ownership of the development process. By appealing to nationalist sentiments these points have been seized upon by those wishing to see an early departure of RAMSI,

General elections were held in April 2006, and although preparations for and the conduct of the election were considered peaceful and fair, allegations of corruption in the election of a new Prime Minister sparked a serious crisis, with civil unrest and large scale destruction of, principally Chinese owned, property in Honiara. It is estimated that the riots caused the loss of around 1,000 jobs in Honiara affecting some 10,000 to 12,000 dependents out of a population of around 60,000.

As a consequence, Mr. Snyder Rini, who was elected in the first round, resigned after 8 days following the tabling of a motion of no confidence. This enabled the then opposition candidate Mr. Manesseh Sogavare to be elected as Prime Minister. A coalition government of five opposition parties was formed, but the appointment of two ministers (Police/National Security and Tourism), who are facing charges related to the riots, seemed a deliberate provocation to RAMSI and its supporters, particularly to Australia and New Zealand, who fiercely criticised the new government. The appointments also triggered a demarche by the EU Presidency in May 2006, reminding the government of its commitments under the Cotonou Agreement and the need to appoint ministers who are beyond reproach.

These events continued into early 2007, resulting in a serious deterioration in relations with the Australian Government and RAMSI, which has also raised issues about the future presence of RAMSI and rearming the SI Police Force.

The potential harmful consequences that the dispute with Australia and RAMSI could bring to SI are of concern, as SIG has raised the issue of an exit strategy for RAMSI and re-arming the police force. The concern is that this could lead to a possible deterioration in law and order should RAMSI be withdrawn prematurely.

The SIG would like to see RAMSI (i) set a time table for certain of its tasks, (ii) review its transfer of skills and knowledge to SI staff through capacity building; (iii) clearly separate its activities from those supported by AusAID; and (iv) complement the SIG's efforts to focus on rural development.

The debate on the future presence of RAMSI and re-arming the police is also potentially politically divisive. Arming could provoke further tension in the country, especially in the settler communities in and around Honiara, as it would jeopardise the arms-free status of SI and raise the possibility of fresh attacks on key economic installations or the re-emergence of militias.

Thus, there are concerns over governance issues, the future stability of the Government, future relations with its donors and neighbours on which the Government relies so heavily for peace, prosperity and economic growth, and the potential that its own actions might lead to civil disorder which could degenerate again into ethnic tensions and violence.

Human rights. Traditionally a peaceful country, the Solomon Islands saw its human rights record deteriorate during the tensions, leading to some serious abuses, ethnic revenge killings, and the rape and abuse of women. The legacy of this period is being addressed by the Peace Commission, which is promoting reconciliation between different ethnic groups. The fact that nearly all arms have been collected by RAMSI (over 3,400 weapons in the first few months after their arrival) has helped to stabilise the situation. Nevertheless, as witnessed in the recent riots, there remains a propensity among the unemployed youth to be mobilised and used for criminal activities and for targeting minority groups.

On paper the constitution assures full respect for human rights, but in practice this is not always observed, and a certain level of impunity continues to exist particularly with respect to domestic violence and the strong cultural attachment to pay-back. Strengthening justice and making it more accessible to everyone will help counter this impunity. On the question of international agreements, Solomon Islands has acceded to the Convention Relating to the Status of Refugees (1951) and to that on the Rights of the Child (1995).

Gender situation. The Solomon Islands is culturally a male-dominated society. Women are severely under-represented in many political and government institutions and Parliament, and women are in some parts denied a role in community decision-making and in land use decisions. There are no women in the national Parliament and only four women out of a total of 20 Permanent Secretaries. Provincial governments have a few women as ministers but this is the exception rather than the rule. Domestic violence is common and widespread abuse of women during the tensions was noted by UNIFEM. A recent report and anecdotal evidence indicates that this continues to be a major problem.

Children's issues. Child labour does not appear to be a problem and the 2003 Government decision to abolish primary school fees has resulted in dramatic increases in primary school enrolment for both sexes at roughly the same level (over 90%). Gender disparity is more pronounced as girls progress through the system. A more recent phenomenon that has emerged is the use of adolescents, particularly girls, for prostitution on the foreign fishing and logging vessels and in logging camps. There have been press reports of children prostitution and the sale of children to these boats in some of the remote areas.

Migration. External immigration and emigration is not significant and only 1% of Solomon Islanders are foreign born. The small number of citizens who emigrate, do so mostly in pursuit of higher education. Overseas remittances are therefore not an important feature of the economy. With the large labour force resident in rural areas out-migration to neighbouring countries could present one of the options to boost the economy as it would reduce rural unemployment and enable remittances to be transferred back to rural areas. Regional opportunities for migration are primarily focused on Australia and New Zealand, but Australia in particular has not been willing to open up its labour market for seasonal labour which could offer ideal opportunities for Pacific Island countries. New Zealand has very recently agreed to set up a temporary migrants scheme.

There are some illegal immigrants entering or transiting the country and working in logging and fisheries. Inter-island migration of workers, especially from Malaita (due to population pressures) to Guadalcanal in pursuit of employment, is a continuing major issue and was one of the main causes of the ethnic tensions and conflict. A draft country migration profile is available in Annex 4.

Observance of democratic principles. The last two national elections were reckoned to be both free and fair by national and international observer groups. The one national newspaper (*The Solomon Star*) is reasonably independent and has campaigned for clean elections and candidates, whilst for the recent election civil society groups, e.g. the Winds of Change, campaigned along the same theme. However, the very nature of the electoral process in the country, from first past the post without well-developed political parties to the selection of a Prime Minister by Members of Parliament (MPs) behind closed doors is a recipe for poor representation and influence by lobby groups.

Thus, the recent elections revealed for example that the Honiara MPs were actually elected by less than 10% of the registered voters in their constituencies. Indeed the whole electoral process needs to be reformed before the next elections in order to reduce the scope for bribery and intimidation. Also, the annual Rural Community Development Fund grant (Republic of China, Taiwan-funded) for each MP to be spent in his/her constituency reinforces the position of the incumbent against new candidates.

Political system. The country is a constitutional monarchy with the British sovereign as head of state, represented by a governor general who must be a Solomon Islander. Executive power is in the hands of a Cabinet headed by a Prime Minister. The legislature is the unicameral 50-seat Parliament, elected for four year terms by universal adult suffrage. There are 9 provinces, each with a provincial government headed by a premier.

Organisation of government. The current government has restructured the government organisation by converting most departments into Ministries. There are now about 22 Ministries. In addition, there is an Office of the Prime Minister and Cabinet, which

includes a Department of Public Service. Thus there are 22 ministers, including the Prime Minister out of a 50-member Parliament.

The **Public Service Commission** should be at the centre of reform but has proved to be slow in initiating change. One of many consequences is protracted delays in the selection and appointment of new public servants and processing of promotion and career development of serving officers, leaving government departments understaffed and with low morale. This in turn has led to many departments underspending on their recurrent and development budget allocations.

Each of the nine provinces has its own elected government divided along the lines of national government, with representatives elected by wards. Most provincial civil servants are paid by their respective national departments leading to the potential for divided loyalties.

The weak performance of central government has led to demands for the creation of a federation of states, and a draft federal constitution has been prepared. However many people recognise that the expense of a federal system would be prohibitive and an alternative response would be to strengthen provincial administrations and clarify the linkages between national and provincial governments through decentralisation.

Overriding all this is a marked **lack of capacity and skills at all levels of government**. In particular there is a lack of capacity in provincial governments to provide basic social services. Both the national and the provincial public services are constrained by staffing issues, poor communication skills and infrastructure, poor management skills, gender discrimination, and low morale and productivity with the problem being far worse at provincial level. It is especially difficult to attract competent and experienced public servants to the provinces because of poor facilities and services, isolation, exposure to political pressures and lack of career paths. This is compounded by the geography of the Solomon Islands and the population spread throughout the islands.

Security system and the overall security situation. By early 2003 Solomon Islands was showing all the characteristics of a fragile state, and after the arrival of RAMSI was recognised as such by DAC (However, it is important to note in this context that the fragility was confined to two islands, and only part of these). Clearly the main intervention to arrest the decline in the Solomon Islands has been the deployment of RAMSI and its attention to the three pillars. RAMSI was reviewed by the ACP JPA mission in February 2005 and by the EPG in May 2005, and both recognised the need for the SIG to address the underlying causes of the conflict and to better link the stabilisation of law and order with development and economic growth.

The country remains fragile and without assistance to maintain law and order and justice, risks sliding back towards civil conflict. The underlying causes of the conflict have not been tackled. For example, Guadalcanal continues to be the focal point of economic development, thus causing resentment in other provinces, and sucking in labour to Honiara, creating tensions as new settlers take up land clandestinely, and unemployed youths often manipulated by unscrupulous politicians perpetuate the 'angry young man' syndrome which fanned the tensions. The ingredients are still present for violence as witnessed by the serious riots in Honiara in April 2006, highlighting the fragile nature of the country and the incapacity of the political system to address the problems and of the police to properly handle the insecurity created. Security in the capital Honiara is only assured by the continued presence of RAMSI

and support to the Solomon Islands Police, which has in times of crisis been supplemented by military troops

II.1.2. Economic and commercial situation

Economic situation, structure and performance. The Solomon Islands economic performance in 2005 and 2006 was steady, with the recovery progressing well since 2004. The Central Bank of Solomon Islands estimates that real GDP grew by 6.2% in 2006, (although that follows a contraction of nearly 50% during the tensions, when per capita GDP fell from €810 in 1998 to €420 in 2002). GDP per capita rose for the third consecutive year to €520 (USD 651) using the official population figure. However inflation has also been increasing particularly in Honiara where it reached 9% in 2006, spurred on by the RAMSI effect (on urban rents) and high fuel costs, the latter affecting all areas.

The new government has stated that its policy will be to adjust the exchange rate to the country's international trade and development needs. The SI \$ has remained relatively stable over the last year and is implicitly linked to the USD, the currency in which most of its exports and its most important import (fuel) are quoted. The SI \$ rate with the euro declined to SI \$ 10 = €1 level by the end of 2006 due to the decline in the USD.

Principal economic sectors. The principal economic sectors contributing to gross domestic product are logging, fisheries, agriculture (cocoa and copra) and mining. In 2006, the Solomon Islands benefited from strong global demand for cocoa and copra, with most of the production being driven by smaller plantations. Logging accounts for two thirds of export revenues but is taking place at four times the sustainable rate and will exhaust the natural forests by 2012 (IMF 2006 estimates). New commodities will be needed as substitutes, such as the relaunch of the oil palm plantation in Guadalcanal and the gold mine.

Infrastructure and communications. All infrastructure, including social infrastructure such as clinics and schools, deteriorated during the tensions and there is a backlog of rehabilitation works. Ongoing projects finance the restoration of roads and bridges in Malaita and Guadalcanal provinces. In addition a National Transport Plan 2007-2026 has been drafted. Recent developments in aviation and communications include the Government signing the Pacific Islands Air Services Agreement, which commits the Solomon Islands to an open skies policy, whilst a process has started to draft the options for a telecommunications strategy. Energy remains a major barrier to economic growth, with electricity supply still inadequate in all areas, although new JICA-funded generators should be in place in early 2007. The high cost of fuel is encouraging studies of renewable energy sources, especially solar, hydropower and bio fuels, especially based on palm oil grown in SI.

Sources of economic instability. The economy remains heavily dependent on logging and suffers from a narrow production and export base, and other constraints such as difficulty in obtaining secure land title, in accessing credit, and in finding skilled labour. Hence many economic activities remain constrained and this leads to the loss of potential foreign exchange and thousands of jobs. The Guadalcanal Plains Palm Oil Ltd reopened in April 2005 and achieved a significant level of production in the 2006 year, while the Gold Ridge mine is looking to open by the end of 2007 or early 2008. However, business confidence was shaken by the April 2006 riots. Other contributing factors to instability are the continued dependence on logging for government and export revenue, the impact of high oil prices (especially on inter-island trade), and the amount and timing of donor aid flows. Moreover, 50% of Solomon Islanders are under the age of 25, and unemployment is running at 45%.

The Honiara riots were testament to the strain that urban drift and youth unemployment places on social stability.

Structure and management of public finances. A range of expenditure reforms have been implemented to improve government expenditure, including reviewing and removing “ghost” payments to the public service and halting unauthorised government transactions by departments. Budget expenditure is now managed in accordance with Parliamentary appropriations and monthly expenditure statements are produced and distributed to ministries and departments. Some areas of public finance management still need further reform, such as the preparation and auditing (outstanding since 2000) of the Government’s annual accounts and. Although budget preparation is poorly coordinated, the recent “Policy Framework Document” indicates that the government is willing to consider merging the development and recurrent budgets, which might strengthen the overall budget process.

Management of external debt improved as a result of the Government’s commitments to the November 2005 Honiara Club meeting, designed to prevent debt reaching unsustainable levels again, freeze future borrowing and pursue grant financing. The Government also agreed to restructure its debts so that future debt servicing cannot exceed 15% of domestically resourced revenue. The Government of Australia agreed to an interest moratorium and will review progress towards the end of 2007. One adverse medium-term impact will be reduced government capacity to fund projects, although this gap is likely to be filled by increased bilateral grant aid.

Government debt. The principal arrears and significant debt servicing costs are unsustainable. Government debt currently stands at SI \$ 1.6 billion of which SI \$ 1.2 billion is owed externally. This figure divided by the population leads to a per capita debt burden of about SI \$ 3,200, and a 2006 debt servicing of SI \$ 138.8 million.

Assessment of the reform process. The areas that were identified as in need of reform and support were the governance structure and public institutions, the budget stabilisation programme, the formal vocational public service training on governance, and fiscal control. However, with the Economic Reform Unit in the Ministry of Finance (under the auspices of RAMSI) quick successes have been achieved in managing government finances, in concert with the solid re-establishment of law and order. Some important reforms have advanced, for example, the Foreign Investment Code and a number of tax reforms have been passed. Others, however such as the Forestry Bill and public service reforms, have run up against resistance or are taking longer than envisaged to complete.

Reform and financial services. The restoration of financial services has largely been achieved, although some poor practices remain. Transfer pricing still exists particularly in the natural resource sectors, duty exemption for log exports has been reviewed and is being readjusted. Tax reform and departmental services are in the process of being reviewed. Budget expenditure is now being managed in accordance with Parliamentary appropriations. Annual accounts of government since 2000 are not yet audited and an Anti-Money Laundering Commission was established in 2005. A Financial Intelligence Unit (FIU) was established in the Central Bank (CBSI) in 2005. Areas that are still in need of financial stability are strengthening and improving foreign reserves management, developing a national policy on rural finance services (hindered by slow progress in closing the DBSI, maintaining the Treasury Bills market, strengthening the FIU and enacting financial transactions reporting legislation.

Transparency and accountability. Some progress has been achieved in these areas. Reviews of public servant allowances and benefits are ongoing, whilst support schemes for nurses, doctors, prison staff and police have been agreed. Reforms of state owned enterprises are in place and management reforms are also being implemented in the electricity and water authorities and Solomon Airlines, with ADB providing significant support. However, the government still tolerates non-performance and nepotism in recruitment, procedures where followed, remain slow and staff structures top heavy, with some senior staff (Permanent Secretaries) remaining political appointments. The new Government's Grand Coalition Policy Document signals that it will give top priority to improving the transparency and accountability of public finance and intends to reform the way planning is conducted. An audit of both the forestry and fisheries departments has been carried out and exposed some glaring examples of corrupt practices.

Planning. Despite SI being a signatory to the Paris Declaration, strategic national and provincial planning and aid management have been identified as areas that government still needs to strengthen. National planning is now the responsibility of the PMO and development planning is under the renamed Ministry of Development Planning & Aid Co-ordination. Donor coordination with SIG remains weak and consultation with the PMO has not yet materialised. Therefore donors in some sectors have tended to take the initiative which has compromised government ownership of the development process. The quarterly donor meetings could be formalised as a committee mandated to ensure that new projects are aligned with national priorities. The annual government/development partners consultative meeting could also play a more proactive role.

Trade policy and constraints. Exports to Europe have risen from 2% in value terms in 2002 to 7.5% in 2005, mainly to Germany, Belgium and Italy. The main exports to Europe are fish, copra and, recently, seaweed. Imports from Europe have declined from 2.4% to 1.6% over the same period. The Solomon Islands' main trading partners are Australia, Singapore, Malaysia, Papua New Guinea, Japan and China. Trade policy in Solomon Islands is reflected in various laws and regulations. The current tariff policy is managed in five bands (top rate 20%), with some non-ad valorem tariffs for specific products. However, it is possible to further develop trade and promote exports by encouraging downstream processing of products and further investment could be generated by strengthening and re-aligning various government policies with regional and international commitments.

Trade policy and the external environment. The scope for dynamic regional integration is limited but there is room for further cooperation on the issue of conservation and resources management (fisheries and logging). Issues such as ethnicity, the similarity of goods produced in the Pacific island countries, the wide range of currencies, and the high cost of inter-island transport present significant operational obstacles to smooth regional integration. There is potential for the larger producers to develop regional processing facilities, buying raw materials from their smaller neighbours.

The Economic Partnership Agreement (EPA). The EPA is still in negotiation with the SIG using the Pacific Island Forum Secretariat (PIFS) which has the role of coordinating negotiations for the PACP. The latter submitted a negotiating document to the EU in mid-2006 covering reforms on the rules of origin, a quota-based labour mobility scheme (Mode IV) and proposals to enable European investment sources to more effectively address the needs of SMEs. At a meeting of Pacific ACP leaders in October 2006, concerns were raised regarding the funding mechanism for the development costs for the EPA, fisheries (sustainable management of tuna resources) and Mode IV. ACP leaders had hoped that the

adjustment costs would not come from existing EU programmes but rather through additional and binding resources without resorting to the EDF. It was also stressed that negotiations need to be accelerated in order to meet the deadline for concluding them by the end of 2007.

Regional trade agreements. The EU is contributing to funding a variety of Pacific regional programmes that also benefit the SI, the bulk of which are focused on the fisheries sector, as well as those concerned with environment, tourism, education and sustainable agricultural development. These are presented in Annex 11 in Volume II. The Pacific Regional Indicative Programme (PRIP) currently has 17 projects being implemented and valued at €68 million under EDF 8 and 9. Programming of a new PRIP under the 10th EDF started with a draft Regional Strategy Paper submitted by the Pacific ACP Group in 2006 to the EC for comments.

Trade under the PICTA (a free trade area of Pacific countries excluding Australia and New Zealand) has not yet started region wide. However, the Regional Trade Facilitation Programme under PACER (a trade agreement including Australia and New Zealand for future economic cooperation among Forum members), which was signed in 2001, is progressing.

Bilateral Agreements. The EC/SI Fisheries Partnership Agreement, initialled in January 2004, entered into force in October 2006 for three years. This FPA allows access by EU fishing vessels to SI waters to catch tuna and in which the financial contribution of the EU is of €400,000 per year out of which 30% will be devoted to support the sectoral fisheries policy of SI with a view of promoting responsible and sustainable fisheries in the Islands' waters. This FPA covers a reference tonnage of 6,000 tons of tuna per year and fishing opportunities for four purse seine vessels and 10 long-liners. From the second year, at the request of the Community, the number of purse seine vessels may be increased if scientific assessment warrants such an increase.

II.1.3. Social situation, including decent work and employment

General. The Solomon Islands is one of the least developed among the ADB's Pacific developing member countries (PDMCs), with social and health indicators amongst the lowest in the Pacific. Provision of adequate social infrastructure and services, especially in rural areas remains a difficult task due to financial and management constraints, poor transport and communications and significant capacity constraints. Improvements will be a long-term process. Thus, whilst some progress on a number of MDGs can be expected, the country is unlikely to meet many of them by 2015. An overview of the MDG indicators and where data is lacking is presented in Annex I. There is no data yet available for 2006, except for the number of HIV/Aids cases, and there are gaps in the data for earlier years. The MDG global targets that are quantified are entered in the 2015 column. The SI is making some progress on the MDG's, particularly where statistical data is available, such as in the education sector, but in other cases, a lack of statistics makes it difficult to analyse progress.

Food security. Although the Solomon Islands is primarily a subsistence-based economy food shortages are rare, because of favourable natural conditions and the *wantok* (clan self-help) support system. Food markets exist throughout the country and in the provincial centres, for farmers to sell products. There is usually a wide variety of foods available including root crops and tubers, vegetables and fruits, poultry, pigs and fish. However, there are reports of malnutrition, especially in children, due to poor nutritional value. The forecast is less clear. It is not known if the effects of climate change will affect the

country and in particular rainfall and inshore fish stocks. The government does not have a policy on or investment in disaster preparedness for this type of situation.

Health sector-general. Social services declined seriously during the period of tensions. Progress on the preparation of infant and child health indicators is limited, infant mortality is high and maternal mortality rate has worsened in recent years. Rural communities continue to experience health problems consistent with current high poverty levels and fertility rates, and a rising incidence of “first world” diseases such as heart disease, diabetes and cancer. Malaria rates used to be very high, but the incidence has fallen significantly although it is still endemic and represents a serious disease in Solomon Islands.

Health sector-HIV/Aids. The number of potential cases is an emerging concern, and whilst reported cases are few, studies indicate that the number of unconfirmed cases may be several hundred. Moreover a 2005 behaviour surveillance survey of young peoples’ habits concluded that their behaviour should be classified as high risk, whilst it is likely that HIV/Aids will increase due to the high youth unemployment and access to fishing boats and logging teams employing foreign workers. The latter are serious vectors for the spread of the disease, with young girls easily lured with the promise of benefits.

In recognition of the threat, the Ministry of Health has recently updated its HIV/Aids national strategic plan, and a National Aids Council was recently formed. There are challenges, generally arising from the low levels of education and awareness among youth and the difficulty of accessing of accessing the crews of large fishing boats and remote logging camps. The current STABEX Education programme includes a small component of support for HIV/Aids schools based interventions in collaboration with the National Aids Council and the Ministry.

Education. Intake rates into primary school increased dramatically due to the removal of primary school fees in 2005, and primary school participation for girls is nearly the same as for boys (92.5% compared to 94.1%). Gender disparity in favour of boys is more pronounced as pupils progress through the system. The government is prioritising education improvements, total government expenditure on education and human resource development sector rose from 19% of public expenditure in 2003 to 28% in 2006. With substantial donor assistance (primarily EC through STABEX 99 funds and NZAID), a sector wide Education Sector Investment and Reform Programme (ESIRP), provides the framework to support primary and secondary schools, as well as tertiary education (including technical and vocational training), based upon a revised Education Strategic Plan (ESP). In this context, progress towards achieving the MDG targets in education (universal basic education by 2015) is expected. In addition, the government is making progress in improving access at all levels, improving the quality of education, particularly at primary and junior secondary level, improving teacher training, reforming the curriculum and strengthening sector management and planning. In previous years, tertiary scholarships exceeded budget caps and their allocation was less than transparent. Major investment is needed in school infrastructure and the quality of education is still an issue, with constraints yet to be resolved.

Social systems and protection. Solomon Islanders have maintained traditional ways of living including the *wantok* (clan) culture, which acts as the social protection system in the absence of a public social security system. It instils in all members of a given *wantok* a strong sense of social responsibility to care for, support and live peacefully with all other members of the clan. This also means that individuals, in the main, cannot own land; it is owned

collectively by the *wantok*. Social cohesion is starting to break down in the urban areas particularly among young people in Honiara. There are no private pension schemes in SI.

Disadvantaged and vulnerable groups. These groups are poorly served with a few voluntary organisations, nearly all based in Honiara, supporting disabled/challenged persons, principally children and young adults. A community-based rehabilitation initiative under the AusAID-funded health institutional strengthening project is as yet having limited impact in providing support. Vocational training is limited to one rural training centre in Makira and a few employers offer limited job opportunities.

Employment opportunities and working conditions. Employment opportunities are limited to Honiara and the main towns and to natural resource exploiters (logging companies, fishing fleets, plantations, and the gold mine). There is little paid casual employment in rural areas, other than in agro-processing such as copra/cocoa processing and milling timber. There is no culture of daily labour as there is in other parts of the world. There is limited industry in the Solomon Islands; most of it is based around Honiara. Working conditions vary but the large-scale manufacturers such as in textiles; heavy industry, large agro and other processing facilities are not present at all. Although "sweatshop" conditions are not prevalent, worker safety is not addressed, particularly in the forestry sector.

Housing. Housing is not a serious problem in the Solomon Islands. Virtually everyone has accommodation in houses of varying sizes. There are no slums in the towns, although Honiara has an area of "settlements" at the periphery where many Malaitans in Guadalcanal live. In addition, the presence of RAMSI personnel has affected rents in Honiara with a knock-on effect, even for those in smaller accommodation. The government also has a stock of houses throughout the country for civil servants and a recent report prepared for the Department of Finance & Treasury recommends that these be disposed of.

Rural development. With high population growth rates in rural areas, and with some areas facing population pressures, limited skills and opportunities, limited social and revenue producing infrastructure, and lack of credit, the drift of young people to urban areas is becoming more pronounced. These problems are being addressed through the EC/World Bank/AusAID-funded Agriculture and Rural Development Strategy (ARDS), the EC-funded seaweed project and micro-projects programme, and other donor investments. In addition, there are outstanding conditionalities under STABEX and other donors for the government to address the logging question through a new Forestry Act (see also II.1.4).

Access to markets for many rural residents, especially those in remoter areas, is constrained. Access is usually only by sea for produce, and the inter-island shipping system faces problems through restrictive practices at the provincial government level (such as the requirement of a licence issued by the province). Private sector involvement is limited because of below-cost competition, and because of limited wharves, navigational aids and rural road access. All these are areas under review by the ADB/EC as part of its involvement in the transport sector and the ongoing EC-funded marine infrastructure project. Export crop marketing was formerly undertaken by a parastatal monopsony (Commodities Export and Marketing Authority, CEMA), but this is now largely carried out by the private sector (under nominal CEMA supervision/licensing). The rapid increase in the cost of fuel has also altered the terms of trade for rural areas.

Civil Society. Traditionally weak in the Solomon Islands, the role and importance of civil society became apparent during the ethnic tensions particularly human rights, and gender and

social issues. Subsequently new sectors of interest have arisen such as governance and environment. As a result there is a strong momentum now to develop their capacity, which has been and still is very weak and fragmented. There is also a growing public awareness of the role that they can play on a widening range of issues calling for their attention. The involvement of civil society in the drafting of the CSP is explained in Annex 5.

II.1.4. Environmental situation

Country environmental profile. The Solomon Islands has yet to produce a 'Country Environmental Profile' of its own. However, the ADB produced a comprehensive environmental report at the end 2005 and this is reflected below. A more detailed summary is set out in Annex 3.

Current environmental situation. The environment and natural resources play a critical role in the economic life of the Solomon Islands. Accordingly, maintaining the sustainability of the environment and natural resource base is a high priority in order to sustain economic growth. The country has fragile ecological systems (marine and the remaining primary and secondary forests). However, landowners and successive provincial governments and some national leaders have allowed resources to be exploited for quick revenue generation, based mainly on over-fishing and unsustainable and ill-managed logging prevail. These in turn have had significant effects on rural incomes and tourism.

Policy, institutional and legal framework. The Environment and Conservation Division of the Department of Forest, Environment and Conservation is the principal government agency charged with environmental management and monitoring responsibilities.

Over the years, there has been a lack of a national sustainable development policy and of a well-articulated statement regarding environmental mainstreaming as a clear policy objective. Coupled with weak institutions and the lack of a budget allocation to support effective environmental monitoring and management, it has not been possible thus far to integrate environmental considerations into the country's economic and development planning processes.

The principal piece of environmental legislation is the Environment Act of 1998, which defines institutional responsibilities, and framework for an environmental impact assessment process. It has a number of weaknesses, and would benefit from review and further strengthening including steps that need to be taken to harmonize existing laws in other sectors. In addition, government has not formulated an overall strategic process to assess the social and environmental impacts of development projects. It is also important to note that customary landowners are empowered, through national legislation, to act as the decision-makers for natural resources and environmental management practices on their lands, and this is especially relevant in the context of forestry.

Further, previous governments' resolve in tackling difficult forestry issues is reflected in the current situation. The Forestry Act currently in force is pre-independence (1969); a Forestry Act was passed in 1999 but never published, whilst a 2004 Forestry Bill remains to be considered by the new Parliament. The forestry audit completed in 2005 exposed some serious examples of corrupt practices, and while some progress has been made including the termination of tax exemptions to logging companies, many of the others problems remain.

The SI is a signatory to several international and regional conventions that address a range of environmental issues. These include the United Nations Framework Convention on Climate Change, the Convention on Biological Diversity, and the UN Convention to Combat Desertification. It is also important to note that Solomon Islands is not yet a party to several other important conventions, including the Convention on International Trade in Endangered Species, and the Ramsar Convention for the protection of globally-important wetlands.

Environmental Concerns and Constraints. The major environmental issues faced by the country include: (i) *unsustainable logging practices* (aggravated by corrupt practices which undermine good governance in rural areas) that result in widespread adverse environmental impacts on streams, rivers and marine reefs; (ii) *inappropriate land use practices* due to slash-and-burn and steep-slope farming systems that accelerate land degradation; (iii) *unsustainable fishing practices* that are depleting valuable and fragile coastal and marine resources; and (iv) *increased risk from extreme weather events* due to climate change, posing threats to food security.

The Solomon Islands is also vulnerable to natural disasters such as cyclones, tsunamis, earthquakes and volcanic eruptions. Like many other Pacific islands, the Solomon Islands are vulnerable to climate change, climate variability, and sea level rise and will be among the first to suffer the impacts of climate change. In addition to significant coastal impacts climate change will affect biodiversity, soils and the water supplies of small islands.

Solomon Islands experienced a devastating earthquake (8.1) on 2 April 2007 affecting Choiseul and Western Province leaving 56 dead and over six thousand homeless. In August 2007 a 6.7 earthquake shook Guadalcanal Province, the epicentre was 75km from the capital Honiara. Solomon Islands and international communities response to the tsunami in April was swift in terms of recovery and assistance, but thousands remain homeless 5 months on from the disaster with little rehabilitation being seen despite millions of Solomon dollars donated by aid organisations and concerned citizens. Displaced rural people no longer wish to live by the coast, preferring to move inland to safer and higher ground. Land issues (kastom rites) are cited as the main reason for lack of progress with regards rehabilitation.

In addition, the main barriers that constrain effective environmental management and mainstreaming in the Solomon Islands include institutional weaknesses in environmental and natural resources management at all levels; a policy and legal framework that needs to be further strengthened; absence of effective mechanisms for linking and integrating the customary land tenure system with modern systems for land management; absence of political will and poor governance in certain key areas, increasing population that puts added pressure on resources that are already threatened; and data gaps that constrain effective and informed decision-making and planning for sustainable development. As a result, significant and often irreversible losses of environmental values and depletion of natural resources occur as a result.

II.1.5. Solomon Islands in the international context

In the regional context, the Solomon Islands represents a point of instability which could be exploited, especially if, as in the past, the government falls prey to the influence of small but locally powerful criminal groups based in Honiara, and largely involved in illegal logging and gambling. To support the return to the rule of law and the re-establishment of governance, Australia gave its backing to RAMSI, as an essential element for the continued engagement for much of the international community in the country. RAMSI, led and funded overwhelmingly by Australia, sets the development framework in the Solomon Islands, but

has in its three years of presence, been weak on dialogue with the SIG and on building capacity for the government to assume its responsibilities.

Following the events of 11th September 2001 and the Bali bombings, Australia and neighbouring countries were stimulated into action because the Solomons represented a risk of instability, along with all the dangers of arms smuggling, people smuggling and money laundering. Australia as the regional force, also attracts migration out of neighbouring countries. Currently Australia has resisted opening its doors to migration from its Pacific neighbours (with the exception of New Zealand). From an international perspective, the Solomon Islands is responsible for a very significant public good, 1 million km² of a resource rich and biodiverse ocean, representing its exclusive economic zone.

II.2. Poverty reduction analysis

Poverty reduction information and strategies. There is limited data on the prevalence of poverty and inequality. The Household Income and Expenditure Survey 2005/6 was published in October 2006 with initial analyses but no international comparisons. Median daily per capita expenditure ranges from USD1.4 in rural to USD3.5 in urban areas and USD1.5 for the country as a whole. As a measure of inequality the Gini Coefficient^{1/} is 0.361 for the Solomon Islands-, 0.286 for urban and 0.316 for rural areas indicating relatively wider inequality in the rural areas. Food accounts for 54% of average annual household expenditure, followed by household bills (7.3%) and house rent (5.3%) – though for rent there is a large difference between urban (at 14%) and rural areas at 1%.

Current situation. About 84% of the population rely on subsistence agriculture and fishing, and most live in geographically remote locations. Whilst subsistence farming and kinship relationships prevent extreme hunger, both access to basic social services, and opportunities to supplement subsistence production with cash income, are poor for many rural areas. An unmeasured conclusion is that the poverty situation has been exacerbated by the relatively high birth rate, by the tensions leading to the disruption of essential services and the contraction of economic activities especially in rural areas. Localised studies of poverty situation in rural areas indicate severe poverty and constraints in selected areas. There are signs that rural/urban income gaps and differences between islands and between Honiara and the provinces have increased.

Poverty reduction prospects. The above factors greatly increase the challenge of meeting development goals. Heavily supported by external assistance, the Government is seeking to redress these significant problems. A key strategy is to restart rural economies and reduce urban drift. This was included under the National Economic Recovery and Reform Programme (NERRDP) 2003-06 developed under the last government, whilst the new government in its “Policy Framework Document”, dated May 2006, set out its mission as achieving *inter alia* “development through a bottom up and holistic approach ... through rural development strategies, (and) the pursuit of Millennium Development Goals...”. However, it lacks a formal poverty reduction strategy (PRS).

^{1/} The Gini Coefficient is a broad measure of inequality, showing the concentration of income (or expenditure) between households. The Coefficient is zero if income (or expenditure) is distributed equally and will be one if only one person owns all the income and everyone else has none.

New policy perspectives. The new government's long term agenda for the SI is set out in detail in new policy and implementation documents, namely the Policy Framework Document (May 2006), and the Policy Transition & Implementation Document (TID) (August 2006). These documents represent a comprehensive review and proposals aimed at improving rural livelihood and employment. The agenda covers all facets including productive sectors, social sectors, commerce and industry, infrastructure, environment, tourism, foreign affairs, police and security, governance, anti-corruption, gender and social welfare. The government's main policy response to the underlying lack of growth in the rural sector is a local development focus, that is, an emphasis on a broad based bottom-up approach. This will be through the constituencies (the geographical area for election of MPs to Parliament), which sit between a ward (lower level) and the provincial government (higher level). The constituencies will become staffed administrative units responsible for coordinating local plans with national and provincial government, although their roles are not yet clear. One conclusion is that it makes national politicians directly responsible for development in the areas they represent, and is an approach to constitutional reform, but whether or not this will satisfy the different provinces is not yet clear. It is also unclear whether this constituency-based model will eventually bring the intended benefits to the population, and notably final beneficiaries in rural/remote areas

Donors and poverty reduction. All major donors are active in poverty reduction through community and rural development projects and the EC's CSP/NIP and STABEX policies are focused on poverty reduction with a series of relevant projects, often working with other donors. It is expected that a degree of poverty reduction is likely to be achieved as a result of these various programmes, but a significant reduction will only follow more major concerted efforts at national and provincial levels by governments and donors, including the preparation of a poverty reduction strategy, thus enabling a set of sector strategies to be formulated.

II.3. Solomon Islands development strategy

Basis of the current development strategy. The country's current development strategy is set out in the "Policy Framework Document" (issued in May 2006 by the new Grand Coalition for Change Government), followed by the Translation Document in August. These reflect a view of development that starts from empowering people with an emphasis on stressing rural development, pursuing the MDGs, revitalising the economy, improving law and order, delivering effective services, and devolving powers and functions.

The medium term planning framework The new government strategy, drawn up without donor consultation, has to prove the new government's beliefs in its rural development policy and deliver results to its electorate. The new policy framework document provides the foundation for a change in direction and succeeds the NERRDP 2003-06, which was designed to address the post-conflict recovery problems and was supported by donors. The ARDS and three other related implementation programmes (RDP, PGSP and NTF) which were being finalised in early 2007 with multi-donor support, including that of the EU, are seen as the key mechanisms to support the new rural development focus.

Summary. The present government wishes to demonstrate a move away from a dependency culture, particularly at the village level, where people should once again take control and ownership of their lives. Achievement of the MDGs is also considered a top priority, as is devolving powers and functions to lower levels. Partnership amongst all stakeholders is specifically spelt out as a prerequisite. Devolution or constitutional change, a

major area of immediate attention, seems to be addressed through setting up a new administrative unit, that of the constituency.

Many of the reforms that were ongoing before the change in government will be continued. Whilst the new government has taken a strident position against corruption at all levels, it remains to be seen how and to what extent this corruption is tackled in practice this will be the benchmark by which the country's partners measure the resolve of the new government. Good governance and justice must remain high on the agenda.

Capacity building, which had been weakened as the tensions exacerbated a brain drain, with qualified Solomon Islanders leaving to join the regional institutions or to work in NZ and Australia, is crucially important in the civil service, together with meaningful ownership and leadership roles for Solomon Islanders.

II.4. Analysis of the viability of current policies and medium term challenges

Problems of population growth. The high population growth rate poses major challenges for meeting economic and MDG targets. The official growth rate at 2.8% is very high on the international scale. However a recent HIES study indicates a significantly higher population (550,000) than estimated at present and an even higher growth rate (3.4%) due to irregularities in the 1999 census which was conducted during the unrest. A new census is scheduled for 2009, which, with an analysis of population trends, should verify the growth rate. Whatever the precise figure, the government needs to develop a population policy.

The population figures also reveal that 40% of the population is below the age of 15 years. The implications as this bulge moves forward for schooling, employment, urban drift, the potential spread of HIV/Aids and the disruptions caused by disenchanted young people, especially those in and around Honiara will be significant.

Other areas. The Government, supported by external assistance, is seeking to redress significant problems in which a key strategy is to restart rural economies and reduce urban drift. All major donors are active in poverty reduction through community and rural development projects. It is expected that a degree of poverty reduction is likely to be achieved as a result of these various projects and programmes, but a significant reduction will only follow if there are major concerted efforts at national and provincial levels by governments and donors.

In this, all donors will need to work closely with RAMSI, but should also encourage greater expression of the regional element and Solomon Island ownership of the process. One key advantage of the EU is that it is seen as non-partisan with no vested interests.

The EC response to this complex environment will be to achieve poverty reduction by financing programmes to reduce rural deprivation and at the same time to enhance economic activities. However skills training in rural areas, especially for younger people, is essential. To achieve these goals, the EC needs to pool resources with other donors in certain sectors.

CHAPTER III. OVERVIEW OF PAST AND PRESENT EC CO-OPERATION, COMPLEMENTARITY AND CONSISTENCY

III.1. Overview of past and present EC cooperation (lessons learned)

Lessons Learned. The lessons learned from the various projects and programmes implemented in the Solomon Islands are as follows:

- There is an acute lack of national capacity, and therefore the involvement of national personnel in all aspects of the development cycle is not always assured. This weakens ownership and delays the process and should be remedied by capacity building
- Where there are in-country conflicts, such as the tensions between 1999 and 2003, suspension of funding except for emergency activities is the correct decision as projects that were implemented faced significant and in some cases overwhelming difficulties. This has led to delays and with the already limited national capacity it is difficult to meet deadlines in a fragile state, but at the same time support is more necessary than before.
- Programmes and projects in a particular sector require continual and sustained investments and support in order to achieve lasting effects. Thus, the education sector investments spread over 7-8 years are starting to provide sustainable benefits.
- Donor coordination in various sectors is especially important in a fragile state, like the SI, where it is important for all parties, including government, to be united in policy
- Where non state actors have limitations in organisation and resources, as in the Solomon Islands, support should be directed at improving their capacity. This is reflected in the provision of support as a focal sector under EDF 9

III.1.1.1. Focal sectors and macroeconomic support

Summary. The main focal sectors over EDFs 7 to 9 indicate continuing support for sustainable rural development and human resource development. This reflects the rural nature of the country's society, and the lack of capacity at all levels. Other focal areas have been identified but these reinforce the main themes. Thus, support to non state actors (EDF 9) is also human resource development, whilst the rural transport and communications under EDF 8 has involved the building of rural infrastructure intended to support rural incomes. STABEX 98 and 99 funds have added to these sectors.

EDF 7: €19,547 million. Two focal sectors were identified (i) rural development, and (ii) human resources development. The rural fishing enterprises project (third phase) for €1.9 million offered assistance to rural fishermen by supporting six provincial fishing centres. The project was subject to a mid-term review that considered the project largely a failure due to the breakdown of credit repayments and the high cost of fuel for fishermen. However, the project identified the potential for seaweed exports (now included under STABEX 98).

Human resource development covered technical assistance to the Department of Provincial Government and Constituency Development for €0.5 million to provide help in cost/benefit analysis of decentralization and assistance in drafting a federal constitution.

EDF 8: €16,4 million. Three focal sectors were identified: (i) rural development, (ii) human resources development and education, and (iii) rural transport and communications. The rural development programme was the first micro-project programme (€4.73 million) and was shared between social infrastructure and income generating projects. Evaluation found the former were successful, but the latter in the main failed due to poor design, wide

geographical spread, difficult logistics caused by the tensions, a lack of service providers, the prevalence of the "Cargo cult" (a form of popular belief, linked to the events during the Second World War, according to which 'resents will come from abroad, brought by foreigners'), and insufficient emphasis on a participatory bottom-up approach and follow-up technical support.

The human resources development and education focal sector involved a follow-on phase of the rural training centres project (€1.96 million), which provided technical and financial support for rural vocational/training centres in staff training, school materials, curriculum development and capacity building. The programme is currently being integrated into the ESIRP (Education Sector Investment and Reform Program) and will provide a foundation for the TVET programme under the 9th EDF. A second project was the support to the Royal Solomon Islands Police (RSIP) for €0.75 million by providing the Police Commissioner whose mandate was to strengthen the RSIP in securing law and order up to the end of 2004.

The rural transport and communications investment was the marine infrastructure project (€6 million) involving the construction of wharves and essential navigational aids on international routes. A second phase of wharf construction using STABEX 98 funds started end of 2006.

EDF 9: €22,09 million (Envelope A: 14,29 and Envelope B: 7,80). The main focal areas of the EDF 9 under the NIP are (i) sustainable rural development and (ii) direct support to non state actors. Sustainable rural development placed a particular emphasis on micro-projects and capacity building through a micro-projects programme (€5.7 million) started in late 2005. This is the second phase of a similar programme under EDF 8 (see above) but with a change in emphasis to capacity building and institutional development of beneficiaries and intermediaries (including non-state actors).

The direct support to non-state actors aims to reinforce the network organisations with appropriate skills and the means to deliver requested development services to their members effectively and efficiently and to enable a constructive dialogue with the Government and donors. The project was approved in January 2006 but the implementation was delayed following the unavailability of local management agency. A rider to the Financing Agreement will be required to cater for the recruitment of TA.

The MTR carried out in 2005 did not propose any change in focal sector, but did recognise the need to support capacity building and in this respect the remaining funds have been used to programme a support to the Technical and Vocational Education Training - TVET (8,23 million) and a Provincial Governance Support Program – PGSP (€4,6 million). Both program triggered by end of July 2007 a positive opinion from the EDF Committee (written procedure) The ETR in 2006 confirmed the MTR findings. Cross cutting issues are important, particularly on gender, human rights and governance, the environment and HIV/Aids.

A bilateral EC-SI Fisheries Partnership Agreement (FPA) was signed in October 2006 which provides the country with an annual financial contribution of €0,4 million.

Macro-economic support. Budget support has not been possible because of the unsatisfactory fulfilment of the eligibility criteria as defined in the EC Budget Support guidelines. In particular, there remain weaknesses in the PFM system with no sufficiently clear or credible programme of reform yet in place, while there are doubts about the

government's commitment to, or ability to sustain, a stable macroeconomic environment, particularly in what remains a fragile political context.

III.1.2. Projects and programmes outside focal sectors

EDF 9. A Technical Co-operation Facility – TCF (€1.3 million) was approved in late 2005. It has been used to fund TA to assist the Government in the identification and formulation of projects as well for ad hoc inputs to respond to specific needs.

III.1.3. Utilisation of the B envelope

EDF 9. The B envelope was mobilised by an order for services dated 13 March 2003 and the subsequent mid term review approved the use of the B envelope (€ 7.8 million) and residues from EDF 6, 7 and 8 in the same sectors as the A envelope, retaining €0.55-m for humanitarian assistance. Thus €8,23m were earmarked for support to a TVET programme and the balance of €0.55m for a regionally managed multicountry program to support disaster risk reduction and preparedness.

III.1.4. Other instruments

Summary of STABEX. The restoration of law and order under RAMSI allowed the resumption of cooperation using the very significant resources available under STABEX 98 and 99. These are material both in relation to other donors and for the needs of the country as a whole.

Stabex 98: €50,109 million. The main focal area of the STABEX 98 is sustainable rural development and capacity building covering the following main sub-sectors. Commitments must be completed by end 2008 and disbursed by end 2010. The sectoral breakdown of the Rider # 1 to the FMO STABEX 98 is as follows (in €):

1. Rural Transport (*)	18,165,823
2. Sustainable Forestry/Conservation	8,900,000
3. Agricultural and Marine Resources Development/ Product Diversification (*)	13,354,716
4. Capacity Building related to Stabex implementation, Programme Management and Post Conflict activities (*)	7,688,468
5. Tsunami Recovery Schools Rehabilitation	2,000,000
Total Programmed	50,109,007

(*) Also includes funds for the recovery program following the earthquake and tsunami which hit the country on 2 April 2007. Globally, 15.5% will be allocated for the tsunami recovery (approx. €7,800,000). All the proposed activities fall within the objectives and components already foreseen in the FMO rider, with the exception of school rehabilitation, which is added by above Rider.

Activities supporting post-tsunami recovery will be funded from a number of Implementation Protocols. Following are the main activities:

- i) *Rehabilitation of tsunami affected schools* (approx. €2 million).
- ii) *Rehabilitation of tsunami affected Roads, Bridges and drainage* (approx. €3 million). This component will be implemented through a Contribution Agreement with the Asian Development Bank (ADB).
- iii) *Rehabilitation of Wharves* (approx. €0, 9 million). This support will be framed in the context of a larger initiative foreseen under a new IP for Sustainable Rural transport currently being finalised (totalling €3,000,000).
- iv) *Aids to Navigation* (approx. €1,1million for the post tsunami needs). This support will be framed in the context of a larger initiative (totalling €3,7 million), which will now prioritise Western and Choiseul Provinces.
- v) *Agriculture development* (approx. €0, 8 million for tsunami affected areas). This support will be framed in the context of a larger initiative totalling €9 million co-funded by AUSAID and the World Bank.

The Rural transport component (36%) covers 2 IPs: the phase 2 of Marine Infrastructure and navigation aids (€8 million) and the Sustainable Rural Transport programme (€9,9 million). The latter comprises the support to the ADB emergency recovery program (Contribution Agreement of €3 million), the rehabilitation of wharfs particularly in the disaster area, the support to inter-island shipping and design studies. It funded also 2 studies in the transport sector.

The Forestry component (18%) through 2 IPs supports 2 projects on sustainable plantation forestry and sustainable forestry and conservation. The first one includes support to the Kolombangara Forestry Products Limited (KFPL), in a joint public/private partnership with the EIB and the SIG. The second will complement other donor programmes notably AusAID. Two programmes have been approved, and will include support for a feasibility study of the introduction of FLEGT.

The Marine resources Development (4,3%) supports the establishment of a competent authority with the required capacity and laboratories for the Solomon Islands to reach EU List 1 status health standards. In addition, diversification into seaweed production and export is supported.

The Agriculture component (18%) A coherent and comprehensive sectoral strategy and policy framework (ARDS) and implementation programme (RDP) for agriculture and rural development are being jointly addressed by the EC, the World Bank and AusAID. The strategy is now available and the Rural Development Program was finalised mid-July. The ECF-WB Administration Agreement was signed end of July 2007.

The Micro-projects program under post conflict MOU represents 4,4% of Stabex 98

Institutional support and capacity building in sector programme management (15%) to strengthen the Programme Management Unit at the National Authorising Officer Office, the DNPAC's and line Ministries capacity to manage the implementation of Stabex and EDF projects. This support will continue until 2010.

Rebuilding or rehabilitation of tsunami affected schools (4%) including the procurement of equipment and material.

All the STABEX 98 funds are committed except the funds of the last component (schools rehabilitation) as the rider # 1 to the FMO STABEX 98 has not been signed yet by AIDCO.

STABEX 99: €31,974 million. The focal sector of STABEX 99 is education comprising several substantial components supporting the implementation of the sector wide Education Sector Investment and Reform Programme (ESIRP), which is being co-funded by the NZAID and the SIG. It runs from 2003 to 2009. ESIRP provides the framework to support primary, secondary schools, and tertiary education (including technical and vocational training), based upon a revised Education Strategic Plan (ESP), and includes support to SICHE. A mid term review in 2006 has determined the allocation of the remaining funds up to 2009. The 9th EDF support to TVET will mean that there is a continuing involvement in the sector and this can be used to enhance the institutional framework on which planned future capacity building in rural areas depends.

Budget lines. Two projects are currently running: (i) Technical training in life skills for secondary school leavers (EC contribution €750,000) is a 3-year project, being implemented by an NGO in Honiara and (ii) A conservation and sustainable use of marine and coastal biodiversity project (EC contribution €1.8 million of which one third is intended for Solomon Islands) started at end of 2005 and is being implemented by the WWF.

Others. ECHO, through the French Red Cross and Save the Children, financed from the EC Humanitarian Aid Budget of 2007 an emergency assistance program (€0.55) in the Western and Choiseul provinces following the 2 April 2007 tsunami.

The country has not been successful yet in tapping into any of the facilities such as energy or water, primarily because of lack of awareness and capacity. However, the SI energy agency has recently submitted a proposal for support under the energy facility.

European Investment Bank (EIB). EIB activities in the Solomon Islands were suspended after the Development Bank of Solomon Islands (DBSI) defaulted on its repayments. The DBSI is now under administration by the CBSI and repayment of the debt to the EIB remains an issue to be resolved. However, the EIB has approved a new loan to KFPL in the forestry sector in a joint international/public sector venture, which is also be supported with STABEX 98 funds.

Pacific Regional Programmes. The EU is contributing to or funding a variety of Pacific regional programmes that also benefit the Solomon Islands, the bulk of these are focused on the fisheries sector, while other cover the environment, tourism, education and sustainable agricultural development. These are presented in Annex 10

III.2. Information on the programmes of Member States and other donors

Member States. There are virtually no programmes funded by Member States. The one exception is a small grant scheme of around £50,000 per annum administered by the United Kingdom High Commission. It aims at poverty alleviation in line with DfID policies and is similar to a micro-projects programme.

Other donors' activities in rural development. The involvement of other donors is considerable and is set out in Annex 2. Major donors include AusAID, NZAID, JICA, and Taiwan, and all have projects aimed at the rural development sector. AusAID, by far the largest donor, has started a major Community Sector Programme, which aims at improving rural livelihoods through provision of grants and associated support at the community level, similar to the EC micro-projects programme. In fisheries the sector is receiving support from NZAID and in the forestry sector AusAID is funding a forest management project.

Other donor activities in other sectors Law and order, public policy and economic and fiscal management receive considerable support from AusAID/RAMSI. The social sectors are supported by AusAID and NZAID (health, nutrition and social protection), and the EC and NZAID in education. Transportation and communications is supported by the ADB and the EC, whilst JICA and Taiwan provide direct investments on the ground in the form of roads, airfields, water supply, sanitation and waste management. Rural development, agriculture and natural resources receive intervention support from the EC, AusAID and latterly the World Bank.

Other donors' activities in human resources. The two main donors in the education sector are the EC and NZAID. They have divided their respective responsibilities with New Zealand focussing on basic education (primary schools and teacher training) and the EC focussing on secondary and tertiary education and capacity building.

III.3. Other EC policies

Other EC policies have tended to have limited impact on or relevance to the Pacific Region. For the first time relations with specific regions of the ACP are being studied and a communication "EU relations with the Pacific – a strategy for a strengthened partnership" has just been adopted. This will look at how the EU can help in the management of the Pacific as a public good, with particular reference to natural resources, the environment and biodiversity, and global climate change. The EU fisheries policy and environmental policy will have a bearing in the Pacific Region. Regional trade as the focus of the EPA is highlighted while other issues such as migration and security are of interest to the EU but primarily in so far as they impact on bilateral relations with the major regional players such as Australia and NZ. Transport, energy and water policies have little impact at present.

III.4. Description of the political dialogue with the Solomon Islands

EU dialogue with the Government took place during the time of the tensions when the ACP JPA mission visited the country in June 2000 and actually left on the day of the coup. There then followed a period when relations were difficult for all donors on account of the deteriorating security and governance situation in the country and this led to many projects being put on hold. The arrival of RAMSI allowed a resumption of normal relations but also changed the dynamics of dialogue, especially because of the quasi abdication of the SIG from certain responsibilities.

During 2006 mixed messages emerged from the Government on its perception of the RAMSI intervention particularly concerning issues of ownership and sovereignty and the dominance of the Australian presence. The tensions created have led to a serious deterioration of relations between the Government and Australia and the Australian role in RAMSI. The EU and other donors have expressed concerns regarding an apparent decline in standards of governance in the government (the EU undertook two demarches to SIG in 2006 on this matter) and regarding the security situation, especially if RAMSI were to be prematurely withdrawn.

A Pacific Island Forum (PIF) review of RAMSI took place in April and June 2007. Related report is to go to the Foreign Ministers of the PIF for approval during next October meeting in Tonga. Once approved by the PIF, the report will be sent to the Leaders for their endorsement. During the debriefings to donors, one came to know about 2 main

recommendations: the appointment of Special Coordinators within RAMSI and Government (appointed in the mean time, it has smoothen down RAMSI-SIG relations) and a staggered (instead of a at once) withdrawal of RAMSI once specific milestones have been reached such as the achievement of a sufficient degree of institutional capacity and security.

III.5. Description of the state of the partnership with the Solomon Islands and progress towards harmonisation

The environment in which the partnership takes place is referred to in Section II.1.1, in particular the predominance of RAMSI

EC relations with the NAO are facilitated by the presence of a Project Management Unit (PMU) located in the Ministry of Development and Aid Coordination, which also assists in the organising of meetings for programming and project implementation with the government and other stakeholders (for example the Stabex Committee).

Coordination and harmonisation between donors takes place around monthly donor meetings which provides the forum for updating each other on new projects and on upcoming issues. However not all elements of the RAMSI programme are shared at these open meetings. More problematic has been donor-government coordination and this is made more difficult by the lack of capacity and consistency of policies on the part of the government. Meetings are infrequent (half-yearly at best) and lack strategy. The Government has been able to mobilise a donor's consultation each year in November, and this has provided the opportunity to take stock of progress and constraints, as well as changing priorities, and provides a forum for donors to express their views. However no such high level meeting was held in 2006 and this was a matter of concern to donors, although lower level SIG/donor meetings have continued.

There have been some specific donor agreements to foster harmonisation and synergies, for example the EC and NZ have a memorandum to facilitate working closely together on the education sector. The EC, WB and AusAID have jointly assisted SIG to prepare the ARDS and a subsequent Rural Development Programme (RDP). Similar collaboration is expected in the transportation sector to implement the National Transport Plan with ADB, Aus Aid and NZAID, whilst the EC, UNDP and AusAID are collaborating with SIG to implement the PGSP.

Harmonisation with EU member states is not of relevance given that UK is the only one represented in country and it does not have a cooperation programme. The monthly donor meetings offer a regular opportunity for exchange but in addition there are *ad hoc* bilateral meetings to keep the Member States fully briefed on the implementation of EC programmes and on the political dialogue with government.

CHAPTER IV. RESPONSE STRATEGY

IV.1. Solomon Islands Government policy and EC development co-operation

The previous Government's post conflict strategy was set out in the NERRDP, but was never wholeheartedly implemented, partly because of lack of capacity and partly due to a lack of vision and ownership of the process by the last government. The new Solomon Islands development strategy articulated by the new government his clearly directed to rural

development, recognising the 84% of the population lives in rural areas. This is consistent with past policies but with an even stronger emphasis, and reflects the progress of the country away from past internal strife whilst looking towards the future development of its people.

The current EC development objectives are primarily directed towards poverty reduction, education and capacity building, and based on the various policies and actions outlined above there seems no justification to change. However, interventions under EDF 10 should take into account those EC investments already ongoing or about to be started, as well as the interventions and areas of concentration of other donors. In view of these the possible focal sectors for EC support are education, capacity building and sustainable rural development. Given the size of the envelope it has been recommended that only one focal sector be chosen.

Education has received a considerable amount of funding through Stabex 99 and this will continue to the end of 2009 after a 7-8 year intervention period. However, whilst it is unlikely that the government will be able to fully fill the funding gap after 2009, much of the infrastructure rehabilitation and other investment will have been completed. In addition the EC will support a TVET programme under the 9th EDF (which will end in 2011) and will remain closely associated with the ESIRP along with NZAID, the other big donor in education.

Support for the rural sector and on-going support for the education sector will assist the Government in reducing poverty and create opportunities for economic growth.

Risk Analysis. The volatility that the April 2006 riots exhibited, and the earlier tensions, has left an underlying unease, especially about the possibility of RAMSI being withdrawn prematurely and the police re-armed. The riots also reminded potential investors of the ease with which property rights are abrogated in SI and therefore investor confidence may have been reduced.

The new government is committed to a number of governance and economic reform processes and a focus on rural development with a bottom-up approach. Improvements in governance, however, remain patchy. Increasing attention to governance indicators will be needed as this will be part of the mid-term assessment under the 10th EDF.

Implementation of reforms is also dependent on building capacity both in central and provincial governments. The new government's strategies recognise this. Donor supported programmes prioritise capacity building, especially at provincial level. The differences emerging on governance and judiciary issues, however, have resulted in the departure of a number of key RAMSI advisers.

The government's core rural development programme is heavily dependent on massive donor support, and private sector investor confidence. The risk is that in the event of an escalation of confrontation with Australia and premature RAMSI withdrawal, tensions and violence could resurface, especially in the settler communities in and around Honiara, and deter the private sector, as well as cause donors to reassess their level of support to SI.

IV.2. Description of the focal and non-focal sectors

Based on discussions and agreement with government and civil society **the focal sector** selected for intervention under EDF 10 is **sustainable rural development with capacity building** to support the intervention. The proposed allocation is €11,220,000 (85% of

envelope A). The focal sector is justified as supporting the new government's main policy focus on rural development; and supporting and consolidating the gains of current interventions (forestry, agriculture and rural development, and transportation). Possible intervention areas, which are fully consistent with the new government's policy framework document, include agricultural and forestry methods, technologies, rural information systems, and developing rural opportunities and skills, creating employment opportunities both for people who are not trained and for those who are trained but cannot find jobs; providing required capacity building for government departments, the private sector and NGOs; and the possibility to sustain ongoing interventions in technical and vocational education and training.

The Agriculture and Rural Development Strategy (ARDS) which was finalised in the first quarter of 2007 will provide the framework for investment in Rural Development in the medium term and is fully consistent with the new government's policy framework document. EDF 10 interventions in the focal sector will reinforce and support the RDP, a sector-wide programme jointly funded by the EU, AusAID and WB, and due to be implemented over the period 2008-2011 (up to 2010 for the EU).

The RDP includes the development of the model for sustainable rural development involves encouraging dialogue between all different local actors: local government, NGOs, local communities, traditional authorities and private sector, as well as a strong focus on capacity building activities for local communities to enable them to identify their needs, to assess the development potential in their own territory, to set priorities or to participate in local development planning with local governments and local decision-making bodies. Particular attention should be paid to links with governance issues in the exploitation of natural resources, decentralisation and capacity building for provincial administrations and employment in rural areas in conjunction with technical and vocational education and training. Support to urban youth issues and specific support to non state actors, trade capacity building including trade facilitation and promotion will be provided as appropriate in coherence with regional programmes and increasing needs in these sectors. The mainstreaming of both environmental and gender issues through supporting and strengthening the position and role of women as well as disadvantaged people will be ensured in all focal sector interventions.

The allocation for the **non focal sectors** is **€1,980,000 or 15% of the A envelope**. The main interventions identified are a Technical Cooperation Facility, including support for the NAO office, which reflects the need to provide technical expertise in project identification and formulation, as well as ad hoc inputs based on needs. This intervention also provides short term training for government staff and support for international events and studies. Formal governance support is not foreseen at this time because of the RAMSI intervention through its machinery of government programme.

IV 3. Other instruments available

The Solomon Islands will be able to benefit from the thematic programmes under the Development Cooperation Instrument. These programmes cover support for sectors such as energy, water, environment, democracy and NSA's. To date, projects have started in youth training and conservation of marine ecosystems, and new projects have been submitted in the energy sector and for further support to NSA's (non-focal sector). Regarding the rule of law and security, the use of appropriate EC budgetary instruments to support this field could be considered.

The Solomon Islands will also continue to benefit from the ongoing Pacific regional programmes, many of which are focussed on the fisheries sector, which will benefit rural livelihoods as fishing is one of the main pillars of rural incomes. A bilateral fisheries partnership agreement with the EU also entered into force concerning access by EU fishing vessels to SI waters to catch tuna. An annual allocation of €400,000 for three years, out of which 30% will be devoted for support to development of sector policies for sustainable management (aspect also supported by DEVFISH programme in the FFA).

As for fisheries, it should be noted that one of the priorities of the EU in this area, which nowadays is becoming increasingly important, is the fight against the illegal, unreported and unregulated (IUU) fishing activities which is a drain on the economy of Solomon Islands. The new Fisheries Partnership Agreement will take into account this important aspect, which is also being addressed with the recent SCIFISH regional intervention, financed from 9th EDF.

It has been noted that the Solomon Islands is susceptible to natural disasters, the impact of which will be made worse by the fragile political situation of the country. The EU response to this risk, now agreed with the NAO, is addressed in a regional programme, which will start under the 9th EDF in 2008. Disaster preparedness and risk reduction in current and future programmes (bilateral and regional) should include reinforcement of the national capacity to respond to disasters and should encourage countries to propose their own strategies.

The EIB has approved a loan to support a forestry project (in KFPL) in conjunction with Stabex 98 funds in a joint SIG/private sector project. This will contribute to change to sustainable forestry development from the present unsustainable logging of natural forests.

IV. 4. Coherence with EC policies

There are clear linkages between the proposed response strategy of the Solomon Islands and the development policies advocated by the EC. First the strategy is consistent with Article 177 of the Cotonou Agreement, in that two of its policies are poverty eradication and sustainable development. The proposed actions are also consistent with the development priorities that have been followed in the past, building on the lessons learnt and the experience gained in these sectors.

Annex 1 – The Country at a Glance: Macroeconomic indicators

	2000	2001	2002	2003	2004	2005	2006	2007
Basic data US\$ to €	0.98	0.92	0.97	1.14	1.30	1.25	1.28	1.30
1 Population (in '000s)	409	420	431	443	456	469	482	496
- annual change in %		2.7%	2.6%	2.8%	2.8%	2.8%	2.8%	2.8%
2a Nominal GDP (in millions €)	US\$292 €298	US\$289 €314	US\$267 €275	US\$285 €250	US\$296 €228	US\$305 €252	US\$315 €246	US\$327 €251
2b Nominal GDP per capita (€)	US\$714 €728	US\$687 €746	US\$619 €638	US\$625 €548	US\$649 €499	US\$651 €520	US\$653 €510	US\$659 €506
2c – annual change GDP in %	n/a	(1.25%)	(7.6%)	4.0%	2.98%	3.29%	3.68%	3.7%
3 Real GDP (annual change in %)	n/a	n/a	(17.7%)	(5.6%)	(3.7%)	(3.7%)	(6.2%)	(5.0%)
4 Gross fixed capital formation (in % of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
International transactions								
5 Exports of goods and services (in % of GDP)	42%	27%	29%	30%	35%	37%	35%	37%
- of which the most important: (in % of GDP)	n/a	3	6.16	5.11	18.2	19.74	n/a	n/a
6 Trade balance (in % of GDP)	(13.1%)	(11.8%)	2.8	0.63	9.14	(5.7)	n/a	n/a
7 Current account balance (in % of GDP)	(8.9)	(6.9)	(1.0)	4.05	24.3	0.73	n/a	n/a
8 Net inflows of foreign direct investment (in % of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
9 External debt (in % of GDP)	42	49	n/a	n/a	62	61	n/a	53
10 Service of external debt (in % of exports of goods and non-factor services)	n/a	n/a	9.57	7.9	5.92	7.74	n/a	n/a
11 Foreign exchange reserves (in months of imports of goods and non-factor services)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Government								
12 Revenues (in % of GDP)	6.9	12.6	14.7	13.8	34.6	34.55	n/a	n/a
- of which: grants (in % of GDP)	0.2	1.84	4.39	4.16	9.79	7.2	n/a	n/a
13 Expenditure (in % of GDP)	15.6	16.32	27.2	11.73	29.6	35.9	56	56.9
- of which: capital expenditure (in % of GDP)	0.2	1,84	4.39	4.16	9.79	7.2	25.43	n/a
14a Deficit (in % of GDP) including grants	(9.0)	(4.06)	(12.4)	(6.27)	4.97	(1.31)	(1.59)	n/a
14b Deficit (in % of	(0.91)	(7.5)	(16.8)	(6.27)	(4.8)	(8.52)	(8.7)	n/a

	2000	2001	2002	2003	2004	2005	2006	2007
GDP) excluding grants								
15 Debt (in % of GDP)	n/a	n/a	62	32.4	81.68	73.9	n/a	n/a
- of which: external (in % of total public debt)	n/a	n/a	231	224.2	218.1	180.8	n/a	n/a
Other								
16 Consumer price inflation (annual average change in %)	n/a	n/a	9.4%	10.1%	6.9%	7.2%	8.5%	8.0%
17 Interest rate (for money, annual rate in %)	15.07	15.27	15.45	4.8	7.1	8.2	n/a	n/a
18 Exchange rate (annual average of national currency per 1 €)	4.73	4.80	6.43	8.50	9.31	9.38	9.00 (est.)	9.00 (est.)
19 Unemployment (in % of labour force, ILO definition)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
20 Employment in agriculture (in % of total employment)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Table of MDG indicators

Indicator	2000	2003	2004	2005	2015 MDG Target
% Population below 1\$/day	n/a				50% reduction from 1990
% Under 5 yrs underweight	21(1999)				
% Under 5 yrs mortality rate	73 (1999)				66% reduction from 1990
% Enrolment primary education, net	74	79	86	94	100
% Primary completion rate		30		70	100
% Enrolment secondary education, net	18.5	20	19	23	
% Junior secondary completion rate		66			
Ratio boys to girls – Primary	0.86(1999)			0.89	1
Secondary	0.70(1999)			0.80*	1
Tertiary	0.41(1999)				1
% births attended by skilled person	85	87			
% 1 yr old immunised against measles	55	61			
HIV cases in total population		2	3	5 (8 in 06)	Halt and begin to reverse
% popln with access improved water	62 (1999)	62			50% reduction from 1990
% popln with access improved sanitn.	23 (1999)				50% reduction from 1990
% rural popln with improved water	44 (1999)	52			
% rural popln with improved sanitn.	11 (1999)	14			
No. Malarial cases/1,000 (incidence)	175	240	196		80**
No. Malarial cases/1,000 (deaths)			0.75		
Infant mortality rate (/1000 live births	66 (1999)				27
Life expectancy at birth (yr)	61 (1999)				
Maternal mortality ratio/100,000 births	195 (2001)	295	184		75% reduction from 1990

Sources: ADB, SIG MDG Dev Goals Report 2004, MEHRD Digest of Education Statistics 2005, National Health Review 2006 and SI Health Status Assessment 2005. Note: * in junior secondary schools, in senior secondary the ratio falls to 0.66; ** target year 2010;

Annex 2 – Financial donor matrix by sector for 2006

Sector	Donor	AusAID (SBDS)	NZ (SBDS)	Taiwan(S BDS)	Japan (SBDS)	EC (SBDS)	ADB (SBDS)	WB (SBDS)	Others (SBDS)	Total (SBDS)	%
Natural Resources		18.0	2.0	10.0	22.8	11.0	0	1.9	4.0	69.7	7.7
Human Resources and Community Development		85.0	10.9	26.2	14.9	69.6	0	0	13.8	220.4	24.4
Commerce, Industry and Finance		0	1.8	0	0	0	0	0.8	0.6	3.2	0.4
Governance and Security		417.8	12.8	35.0	4.3	23.7	3.5	0.8	0.7	498.6	55.3
Infrastructure and Utilities		0	0	2.8	92.5	1.9	9.6	3.3	0	110.1	12.2
Total		520.8	27.5	74.0	134.5	106.2	13.1	6.8	19.1	902	100
€ equivalent		57.8	3.1	8.2	14.9	11.8	1.5	0.8	2.1	100.2	
%		57.7	3.0	8.2	14.9	11.8	1.5	0.8	2.1	100	

Source: Government year 2006 approved development estimates: development grants (excluding loans) cash and non cash. Others include FAO and other UN agencies

Notes:

1. Figures are estimates as some donor financial years do not correspond with the government financial year
2. Only includes definite projects. This some projects that are not definitely approved are excluded
3. Two facilities (€4.5 million from NZAID and €0.5 million from EC (Technical Co-operation Facility) not included as funds are not considered accessible

4. Excluding government contribution (SI \$ 44.3 million) from table above
5. Table excludes loans and budget support. NZAID makes, in addition to the above, a contribution of SI \$40 million to budget support (appears in recurrent expenditure). There are also two loans that were agreed prior to the tensions and restarted following Australia's clearing of the arrears; these are for ADB and WB (in the transport and health sectors respectively). NZAID is also using some SI \$40 million for ADB to implement a road project)
6. The AusAID column represents only Asia's contribution and excludes most elements of RAMSI. Out of the total AusAID contribution some 66% is technical assistance. In addition, RAMSI support is largely made up of line personnel
7. AusAID is part of the Asia's Solomon Islands transitional country strategy for an 18 month period from 2006 to mid 2007 that totals AUD\$98 million (or €61 million) made up of AUD\$32 million (€20 million) to law and justice, AUD\$19 million (€12 million) to economic governance and broad based growth, AUD\$10 million (€6 million) to machinery of government, AUD 19 million (€12 million) to basic service delivery and AUD\$9 million (€6 million) to peace and community. Of this total AUD\$70 million (€44 million) is RAMSI funding. Australia's total aid to Solomon Islands in 2005-2006 is estimated at AUD\$247 million (€154 million) including this AUD \$98 million (or €61 million). Recently published is that the total Australian funding commitment for the four year period (2006-2009) amounts to AUD\$841 million (or €526 million)

— Financial donor matrix by year

Year	Donor	(All amounts in €equivalent)														
		AUSAid ^{2/}	RAMSI ^{2/}	NZAID	Taiwan	Japan	EC (including Stabex)	ADB ^{3/}	WB ^{3/}	Others	Total					
2002																
2003																
2004			26.9	1.1	4.0	2.1	9.8	0	0	1.8	45.7					
2005			43.1	3.1	17.2	18.5	17.2	1.6	0.1	2.9	103.7					
2006			57.8	3.1	8.2	14.9	9.3	1.5	0.8	2.3	97.9					
2007		21.0	49.0	10.8	9.9	10.6	21.9	0.6	0.8	2.5	127.1					
2008		21.0	49.0	11.0	9.9	7.8	25.7	0.6	1.6	2.5	129.1					
2009		21.0	49.0	11.3	9.9	7.4	10.7	0.6	2.0	2.5	114.4					
2010		21.0	49.0	11.0	9.9	6.8	5.8	0.6	2.0	2.5	108.6					
							5.8									

Notes:

- 1/ Few donors have budgets beyond 2009. Likely to be similar to previous years but will depend on political developments close to that time
- 2/ Budgets combined in previous analysis. Amounts exclude support provided for funding Australian Federal Police, Customs and Defence Forces (about €100 million/annum)
- 3/ Both ADB and World Bank are providing grants only. No long-term development loans/credits are envisaged for the Solomon Islands, other than those already approved in earlier years

– List of donor projects by sector

Sector/Thematic Area	Development Partners
A. Law, Economic Management, Public Policy and Capacity Building	<ul style="list-style-type: none"> • EU-PMU in NAO/NDPAC (EC) • Economic Development Report (2005) ADB • State-Owned Enterprise Reforms and Private Sector Participation (2004) ADB • Community Peace and Restoration Fund (AusAID) • Machinery of Governance (RAMSI) • Capacity Building and Institutional Strengthening for Customs and Excise (RAMSI) • Provincial Grants Facility (RAMSI) • Land Administration and Management – Institutional Strengthening Project (AusAID) • National Disaster Management Office (AusAID) • Law and Justice Institutional Strengthening Programme (AusAID) • Capacity Building Project (NZAIID) • National Peace Council (NZAIID) • Provincial Offices Reconstruction (Taiwan) • Visit Solomons Campaign (Taiwan) • Police Housing (Taiwan) • Isabel Provincial Government Office (UNDP)
B. Industry and Trade	<ul style="list-style-type: none"> • Business Environment Reforms (2005) ADB • Private Sector Participation Program (2006) ADB • Small Business Programme (NZAIID) • Ecotourism Development (NZAIID) • Rural Tourism Development (Taiwan)
C. Finance	<ul style="list-style-type: none"> • Ministry of Finance Strengthening Programme (RAMSI) • Support to Central Bank of Solomon Islands (WB) • Secured Transactions Reforms (2006) ADB
D. Education	<ul style="list-style-type: none"> • Australian Training and Education Awards (AusAID) • Australian Development Scholarships (AusAID) • Preparatory Studies, Restructuring, and Support for Ministry of Education (EC) • Education Sector Investment and Reform Programme (NZAIID and EU) • Educational Materials (EC) • Assistance to SICHE (EC) • Secondary School Infrastructure Rehabilitation (EC) • Tertiary Scholarships (EC) • Emergency Support for Secondary Education (EC) • Rural Training Centres Phase IV (EC) • Tertiary Training and Education Awards (NZAIID) • SI Training and Education Awards Scheme (NZAIID) • School Rehabilitation and Construction Project (JICA) • Scholarships for Studying in Japan (JICA) • Regional and In-Country Scholarships (Taiwan) • Basic School Supplies Project (Taiwan) • Post graduate Scholarships (UK)
E. Health, Nutrition, & Social Protection	<ul style="list-style-type: none"> • Micro Projects Scheme Phase I and II (EC) • Assistance to Non state Actors (EC) • Competent Authority Project (EC) • Community Sector Programme (AusAID) • Institutional Strengthening Project (AusAID) • Support for a Peaceful Civil Society Fund (AusAID) • Funds for Save the Children (AusAID) • Support for Kastom Garden (AusAID) • Human Rights Small Grants for Women (AusAID) • Health Sector Support Trust Fund (AusAID) • Red Cross Capacity Building (NZAIID) • Civil Society Leadership Development (NZAIID) • Global Fund Against TB, AIDS, Malaria County Program • Health Sector Development Projects (WB) • WHO Solomon Islands (WHO)

Sector/Thematic Area	Development Partners
	<ul style="list-style-type: none"> • Integrated Management of Childhood Illnesses (UNICEF) • Reproductive Health and Family Planning (UNFPA) • Extended Immunisation Program (JICA) • Clinic Renovations (JICA) • Provincial Hospital Upgrades (JICA) • Support for SICHE Nursing School (JICA) • Upgrading of National Referral Hospital (Taiwan) • Strengthening of Primary Health Care (Taiwan) • HIV/AIDS Programme (SPC) • Community-Based Grass Roots Projects (JICA) • Rural Constituency Development Fund (Taiwan) • Small Grants Scheme (UK) • Youth Development Program (UK) • Women, Peace, and Security (UNIFEM)
F. Transport and Communication	<ul style="list-style-type: none"> • Marine Infrastructure Program II (EC) • Solomon Islands Transport Sector (ADB with NZAID and AusAID) • Institutional Strengthening for Ministry of Infrastructure Development (2004) ADB • Diagnostic Study of Interisland Transport (2004) ADB • Implementation of Inter island Transport Reforms (2005) ADB • Ministry of Infrastructure Development Reform Program (2006) ADB • Honiara International Airport Development (JICA) • Wharves Repair Project (JICA) • Rural Communication Improvement Project (JICA) • Completion of Gizo Road (Taiwan) • Provincial Airfields Development (Taiwan) • Provincial Shipping (Taiwan) • Munda – Noro Road (Taiwan) • Port Handling Equipment Replacement (Taiwan)
G. Energy	<ul style="list-style-type: none"> • Assistance to Solomon Islands Electricity Authority (AusAID) • Generator parts to Lunga power station (JICA) • Rural Electrification (Taiwan)
H. Water Supply, Sanitation, and Waste Management	<ul style="list-style-type: none"> • Support for Solomon Islands Water Authority (JICA) • Rural Urban Water Supply Rehabilitation (JICA) • Micro Water Projects (JICA) • Renbel Micro Water Supply (JICA) • Reducing Vulnerability in Solomon Islands (SOPAC)
I. Rural Development, Agriculture and Natural Resources	<ul style="list-style-type: none"> • Micro Projects Scheme Programme II (EC) • Sustainable Forestry and Conservation Programme (EC/EIB/CDC) • Seaweed Commercialisation Project (EC) • Agriculture Sector Strategy and Investment programme (EC/WB/AusAID) Community Sector Programme (AusAID) • Honeybee Industry Development Support (NZ AID) • National Biodiversity Strategy and Action Plan (GEF) • National Bio-Safety Framework (GEF) • International Waters Programme (GEF) • National Capacity Self Assessment Project (GEF) • National Action Plan (NAP) on Land Degradation (GEF) • Forest Management Program II (AusAID) • Charcoal Burner Support to Organic Farming (JICA) • Rice Production and Marketing (Taiwan)

Annex 3 Country Environmental Profile

Introduction

A comprehensive EC format Country Environment Profile (CEP) for the Solomon Islands is not currently available. A thorough review of the information available from other agencies such as World Bank, ADB, JICA and UNDP shows that the ADB has produced a Country Environmental Analysis, dated November 2005. The information given in this CEP, therefore, is based on this document, and will be subject to modification once a CEP is available.

Therefore, a CEP for the Solomon Islands is required and the content for the CEP will follow that proposed by the EC Environment Handbook and other EC CEPs prepared in the region.

Summary

There are clear benefits from the natural resources and environment bestowed on the Solomon Islands. The country has tropical rainforests and to date a limited population. There is an impressive range of ecosystems, a high number of endemic species and profuse diversity of life. However, these resources are under threat from a range of pressures such as habitat loss, harvesting and invasive species. The lack of large reserve areas does not help.

Cultural conditions of land ownership is both a strength and a weakness, which is not helped by a high population growth rate, and which will lead to significant damage to, depletion and likely permanent loss of many of the country's unique and globally important natural resources. In addition, the dispersed nature of the population in remote rural areas living on a subsistence basis creates conditions that hamper delivery of basic services and economic growth. As a result social and health indicators – adult literacy and child malnutrition – are the worst in the Pacific.

The Solomon Islands economy has been termed a dual economy, cash-based in some sectors and subsistence-based in most rural communities. This division together with population growth has led to a movement of people from rural to urban areas.

Like many other Pacific islands, the Solomon Islands are vulnerable to climate change, climate variability, and sea level rise and will be among the first to suffer the impacts of climate change. In addition to significant coastal impacts climate change will affect biodiversity, soils and the water supplies of small islands.

Environmental policy has reflected the post tension period (from late 2003 on) and emphasis on economic has resulted in it being relegated to a second tier level of importance. The principal piece of environmental legislation is the Environment Act of 1998 but it has a number of weaknesses. The Environment and Conservation Division (in the Department of Forestry, Environment and Conservation) has defined roles to play from the Act but is hampered by severe staffing and capacity deficiencies and lack of other resources. In summary the Division is not able to operate effectively and cannot support its important functions in field-based activities, or in developing higher-level facilities and capacities. Responsibilities are also devolved to provincial governments but these have little effect in practice as provincial government organisations have even less capacity than those at the national level and there is a disconnect between centrally assigned functions and

implementation at the local level. The Division also coordinates with other national sectoral departments and bodies but all suffer from financial and institutional weaknesses.

There are other supportive groups both regionally and in civil society and these appear to be more effective and better able to fill the gap left by government institutions. Integration of environmental concerns into the main sectors has been hampered by a number of factors - customary land ownership issues which is a major constraint on economic development; agriculture, which is based on low intensity shifting cultivations systems; non sustainable forestry extraction rates; increasing pressure on coastal fisheries through the use of environmentally unfriendly practices; pollution problems in the main habited areas through weak local institutions; a poor infrastructure network; and a lack of tourism for many of the above reasons.

The key objectives for reinforcing the mainstreaming of environmental considerations are improved delivery of basic services especially in rural communities; improved food security; strengthened institutions responsible for environmental planning and management; and creation of an enabling environment to support sustainable livelihoods in order to reverse the current trends of environmental degradation, habitat loss and over-exploitation of resources.

Future strategic actions include hydropower development particularly in Guadalcanal, strengthening of legal regulations in the institutional framework for environmental management at all levels, infrastructure to support sustainable tourism, pilot projects in sustainable mariculture, and finally capturing economic advantages in the agriculture sector.

Annex 4 Country Migration Profile

Internal migration is a phenomenon of increasing importance in the Solomon Islands. The strong population growth, combined with limited local opportunities for wage employment induce people to migrate in search for work. At the time of the 1999 census, one in six Solomon Islanders, more than 68 thousand persons, were living outside their province of birth, and one in ten had moved in the preceding 28 months. The main destinations for migrants are Honiara and Western province. For a long time, Guadalcanal province was the second most important destination, but the displacement in the wake of the ethnic tension caused its sudden decline. All other provinces except Central experience net losses of population due to lifetime migration, with Malaita as the main source of migrants. However, this does not imply that the population of these provinces is actually declining, as natural increase (the surplus of births over deaths) is an important factor in population growth in the Solomon Islands.

Migration linkages are strongest between the provinces of Malaita, Guadalcanal, Western, and Honiara, with the latter functioning not only as a major current destination for Solomon Islanders from the other provinces, but also as a temporary, 'transit' residence for those moving between other provinces. Neighbouring Choiseul and Western province also have relatively intensive migration links. But direct migration linkages between the other provinces are generally weak, reflecting the lack of economic bonds between them.

Honiara is unequivocally the single most important focus of migrants. As the country's capital, it houses all ministry head offices, functions as a primary commercial centre, serviced by both a port and the country's only international airport for regular cargo and passenger traffic, and is the major centre for higher education in the country. The 'bright lights' of Honiara, the only big town in the country, no doubt contribute to its attraction for migrants. The population of Honiara is the only one to consist in majority of people born elsewhere, and the strong in-migration is a major factor in the rapid growth of the capital, spilling over now as settlements in Guadalcanal Province. But the capital's population is also highly outwardly mobile: although many migrants and native-born Honiarans stay to work and live there, others return home after some time or move on to yet another destination.

Apart from Honiara, there are definite magnets of attraction in many other provinces too, with high rates of both in and out-migration. Such magnets are in the first place the centres of commercial activity, where the locally available labour supply is often too small to satisfy demand: the fast growing town of Noro with its large fish cannery (Western province), and the wards harbouring the larger plantations, such as those on the northern Guadalcanal plains and in Western and Central provinces, and the Goldridge mines in Guadalcanal, have been main destinations for Solomon Islanders in search of wage employment.

Migration flows reversed as a consequence of the ethnic tension, which also heralded a period of rapid economic decline associated with the suspension of plantation and mining activities in northern Guadalcanal, and of the cannery in Noro. The massive displacement associated with the ethnic tension strongly distorted the 'normal' migration patterns summarised above, especially those of Guadalcanal, Honiara and Malaita. In 1999 some 35 thousand men, women and children left their homes in Guadalcanal province (24.6 thousand)

and Honiara (10.7 thousand). Refugees who originally came from outside Guadalcanal or Honiara turned to their places of origin or otherwise to places where close relatives live. Outside the island of Guadalcanal, this resulted in a concentration of displaced in northern Malaita, as well as in Temotu, burdening the demand for services. In the other provinces, the direct population effects of displacement were minor and scattered.

Employment opportunities in Guadalcanal and Honiara contracted rapidly from 1999 with the closure of the SIPL plantations, the Goldridge mines, and the budget cuts in ministries and other government offices or government subsidised sectors, such as medical and educational services. However since the arrival of RAMSI in July 2003 and the re-establishment of law and order, migration to Honiara has rapidly re-emerged as an important phenomenon. Many of those who left are returning and sustained economic growth over the last three years, including the reopening of the palm oil plantations and factory has encouraged a massive influx of new immigrants to the town, to the extent that land issues with the Province of Guadalcanal is again becoming a prominent issue.

In summary, migration, then displacement and again recently migration, thus have important consequences for the (re)distribution of the population. Added to the natural growth of a population, an increase caused by migration brings with it an increase in the demand for services. Apart from obvious services there is also an increased demand for housing and land. Land shortage and disputes over land use may cause conflict in the situation of the Solomon Islands, where property structures are complicated, available land is becoming increasingly scarce in some of the more densely populated regions, and migration is creating increased cultural diversity within regions.

International migration is of modest significance for the Solomon Islands: before the political events of 2000, the Solomon Islands housed approximately 2.2 thousand foreigners (about 1% of the total population), mostly temporary employees of international companies or joint ventures, such as the logging, fishing, and plantation industries. Almost three out of four people born overseas were born in Oceania, and within that region Papua New Guinea and Kiribati were the most important, accounting for 26 and 23 percent of foreign-born people in the Solomon Islands, followed at a distance by Australia (8 percent) and Fiji (5 percent). Unsurprisingly, foreign-born inhabitants are strongly concentrated in Honiara. The majority were evacuated in June 2000 but some have returned since, and it is expected that the number of foreign residents will gradually increase as the economy grows. Nevertheless the riots in April 2006 saw a sizeable part of the Chinese community leave, and the bulk of foreigners in Honiara today are made up of temporary RAMSI staff.

Emigration of Solomon Islanders does not seem to be an important phenomenon. The most important destinations are Papua New Guinea, Fiji, Australia and New Zealand. The pursuit of higher education is probably a main motive for (temporary) emigration, while labour emigration appears to be rare. Therefore the role of remittances in the economy is small. Up to now, the strong reliance on a subsistence economy combined with as yet sufficient land resources to support such an economy have made it unnecessary for Solomon Islanders to move abroad in large numbers to earn a living. Also, unlike the citizens of many other Pacific countries, Solomon Islanders do not have easy immigration access to countries with larger economies and higher wage levels.

As the population grows the pressure for outward migration will increase and already there are demands that the two largest economies in the region open their doors to temporary guest workers from the Pacific islands. This would have economic benefits for the region, through remittances to the home countries, and lower unskilled wage costs for Australia and New Zealand. New Zealand has in principle accepted the idea of temporary guest workers, particularly in demand in the agricultural sector, while Australia has resolutely rejected the idea.

The current economic boom in the Solomons has shown the scarcity of skills in the country, and this has been confirmed by a recent skills survey showing a large proportion of vacancies in Honiara for which there are simply no suitable local candidates. This will put pressure on companies to recruit from outside.

Annex 5: Participation of NSA and local authorities in the CSP

The objectives of the CSP were explained to a wide audience of Government and civil society at an early stage in the process, and then again towards the end of the process. All meetings were chaired by the NAO and were fully minuted.

The first meeting took place on 22nd May 2007 when the options for the focal and non focal sectors were discussed with all the principle permanent secretaries and representatives of civil society.

After substantial discussions around the 2 possible focal sectors (Education & Sustainable Rural development), there was a general consensus that the focal sector for 10th EDF should be "Sustainable Rural development & Capacity Building". The following reasons were given as justifications:

- (a) To support and consolidate the gains on current undertakings such as: Support to Forestry sector, Agriculture and Rural Development Strategy (ARDS) and Transport Sector etc.
- (b) The recent events in the country clearly demonstrate the urgency for the government to create employment opportunities for a lot of people who have completed their trainings but could not find jobs in the country.
- (c) Sustainable Rural Development & Capacity Building is clearly associated and the Government departments, private sector & NGOs need capacity building.
- (d) Generalisation of the proposed focal sector provides flexibility and encompasses inclusion of 2nd phase of TVET.

The meeting also identified possible areas for **non-focal sectors** – (environment, main streaming of gender issues, governance, HIV AIDS & Civil Society). While there was no final agreement it was concluded that they should include environment, gender and governance in some form and this would be elaborated in the process of drawing up the draft.

Following this meeting there bilateral consultations held with key government departments, donors, RAMSI, and with individual NGO's and representatives of civil society. Issues consulted included trade and commerce, government policy and priorities, economic reform, donor coordination and future areas of cooperation, governance, security, peace and reconciliation, and civil society issues including gender, human rights and environment.

The second meeting took place on 30th June when the first draft was presented but attendance was poor due to an unexpected reunion of permanent secretaries. As a result of this it was decided to hold a second presentation after comments had been received and after the summer recess.

A new meeting was held on 22nd September, at which there was a very good turnout, including representatives of donors. There was a power point presentation of the CSP followed by a question and answer session, with answers provided by the NAO, PMU and the EC delegation.

Annex 6: Harmonisation Road Map

A harmonisation road map has not been prepared for Solomon Islands. Notwithstanding the fact that there are no EU member states with cooperation programmes in the Solomon Islands, the Paris Declaration has been discussed with the principle donors, Australia, New Zealand and Japan in the monthly donor coordination meetings. Because of the specific nature of political environment, and the overwhelming presence of RAMSI with a very specific agenda, agreed country specific objectives in relation to harmonisation and alignment have not been formulated.

Donors have however agreed to a sectoral approach and in a number of instances to pooled funding which will ensure alignment. In particular this has been adopted in the agricultural sector where there is joint funding between EU, Aus Aid and the WB. Another example of harmonisation is the Provincial Governance Support Program due to start in 2008, which is jointly supported by the EU, RAMSI and UN and will be managed by UNDP.

Donor coordination is taking place in the education sector where joint review missions are carried out by the EU and NZAID. A similarly coordinated approach is envisaged in the transport and infrastructure sectors.

Annex 7: Status of international agreements to which SIG is a party

1. Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women
Entry into force on 22 December 2000
Solomon Islands acceded to the convention and the optional protocol on 6 May 2002
2. Convention on the Prevention and Punishment of the Crime of Genocide, 1948
Entry into force on 12 January 1951
Solomon Islands has not acceded to the convention
3. Convention Against Torture & Other Cruel Inhuman or Degrading Treatment or Punishment, 1984
Entry into force on 26 June 1987
Solomon Islands has not acceded to the convention
4. International Covenant on Civil and Political Rights, 1966
Entry into force on 23 March 1976
UK signed 16 September 1968, UK ratified 20 May 1976. Through UK ratifying the covenant it was made applicable to the Solomon Islands, since we were a territory of UK at that time.
5. Optional Protocol to the International Covenant on Civil and Political Rights
Entry into force on 23 March 1976
Solomon Islands has not acceded to the Optional protocol
6. Second Optional Protocol to the International Covenant on Civil and Political Rights aiming at the abolition of the death penalty
Entry into force on 11 July 1991
Solomon Islands has not acceded to the second optional protocol
7. Rome Statute of the International Criminal Court
Entry into force on 1 July 2002
Solomon Islands signed on 3 December 1998 but has not ratified the statute.
8. Convention Relating to the Status of Refugees, 1951
Acceded to by the Solomon Islands Government
9. International Convention on the Elimination of All Forms of Racial Discrimination, 1966
Acceded to by Solomon Islands Government (1982)
10. International Covenant on Economic, Social and Cultural Rights, 1966
Acceded to by Solomon Islands Government (1982)
11. **Rights of the Child acceded to by Solomon Islands Government (April 1995)**

Annex 8: Debt Sustainability Analysis:

The debt sustainability analysis is taken from the recent IMF “Staff Report for the 2006 Article IV Consultation” dated August 30, 2006.

Summary

The staff’s medium-term baseline scenario would achieve only small increases in living standards, and leave the Solomon Islands at high risk of debt distress. Assuming macroeconomic stability and continued donor involvement, but only limited progress in structural reforms, this baseline downgrades macro forecasts, especially growth, compared to the 2005 Article IV due to greater uncertainty regarding the government’s reform agenda.

Although the debt situation has improved compared to last year, historical scenarios and several stress tests—even some temporary ones—still lead to a significant rise in the debt burden.

Medium-term Scenario

Under the medium-term baseline scenario, real GDP growth is projected to converge to about 3 percent, only slightly above population growth. This scenario assumes that the two large projects that have recently started (palm oil production and the rehabilitation of a gold mine) will continue, but not many new non-timber activities would commence. Inflation eases but remains around 7 percent. The real effective exchange rate is assumed to be constant. Export growth falls to about 1.0 percent given limited new activities to replace logging which is expected to wind down to about half of its current harvest rate by 2011.

The current account deficit gradually improves as import growth declines given lower official development assistance (ODA) and investment inflows, but stays at about 9 percent of GDP. The reserve coverage falls as ODA and exports ease, but remains adequate at above 4 months of imports. The budget position would need to maintain a small surplus due to financing constraints and the desire to avoid abrupt fiscal retrenchment, and to reduce the high public debt. Risks to the baseline appear roughly balanced. The country’s history of political instability and volatile growth and export performance pose downside risks. On the other hand, the government may build upon the reforms started by the previous administration, which could boost non-timber private sector activity and growth.

Debt

Some progress has been achieved in regularising the debt situation. The Honiara Club initiative led to a short-term moratorium on principal payments and the forgiveness of interest payments during the moratorium (0.2 percent of GDP) from one creditor, as well as the possibility of debt forgiveness and arrears settlement after a planned review in 2007. The review will focus on the government’s commitments to continue to regularize its debts, maintain fiscal discipline, refrain from contracting new loans, and advance on structural reforms. Given uncertainties on the content of the final agreement under the Honiara Club, this analysis does not assume debt forgiveness, but incorporates the impact of the short-term moratorium and related interest forgiveness. Successful negotiations with external

commercial creditors achieved debt relief amounting to 2½ percent of GDP. The stock of informal arrears also fell by about 2 percent of GDP to 4½ percent of GDP.

These developments helped reduce total public debt to 80 percent of GDP in 2005—lower than the starting point at the time of the 2005 Article IV consultation of 92 percent of GDP in 2004—despite the calling of a government guarantee on a loan to the state fishing company. In February 2006, agreement was also reached with the Central Bank of the Solomon Islands (CBSI) on outstanding advances and interest arrears.

Debt Sustainability in the Baseline Scenario

Results of the baseline external debt sustainability analysis are mixed. At end-2005, the NPV of external debt to GDP at 40 percent was higher than its Board-endorsed threshold, but is expected to fall below it by 2009. All other indicators, including the ratios of the NPV of debt to exports and revenue, and debt service ratios were below their thresholds, and are expected to decline over time. This assumes that the government's current policy of incurring no new debt will continue from its official creditors. Four creditors participated in the Honiara Club, namely, the Export Finance and Insurance Corporation (EFIC), the European Investment Bank, and the International Fund for Agricultural Development.

Albeit declining, the overall central government debt remains high. At end-2005, public domestic debt including arrears stood at 26 percent of GDP, about half its peak of 51 percent in 2003. In 2006, domestic debt is expected to decline further to 20 percent of GDP, partly reflecting the settlement of the bulk of remaining informal arrears. Nevertheless, total public debt would still be 42 percent of GDP in 2011, and the NPV of public sector debt to revenue ratio stays above 100 percent until 2012.

Risks to the debt dynamics - Historical scenarios and even some *temporary* stress tests demonstrate the country's vulnerable debt position:

- **External Debt:** Key variables at their historical averages set the NPV of external debt to exports on a rising path. Even a temporary export growth decline increases the NPV of debt to exports to over twice its threshold. If all recognised contingent liabilities are realised (13.5 percent of GDP), the NPV of external debt to GDP would exceed 30 percent of GDP until 2015
- **Public Debt:** Lower GDP growth, even temporarily, and a return of growth and the primary balance to their historical averages causes the NPV of public debt to GDP and revenue ratios to rise dramatically.

These tests seem especially relevant given the country's volatile economic and political history, poor credit history, and uncertainties surrounding the government's reform orientation.

These results are indicative given major uncertainties surrounding important variables. Macroeconomic variables (especially GDP) are subject to large measurement errors. ODA plans are uncertain and contingent liabilities are likely to increase as audits of SOEs and provincial governments are under way for the first time in many years.

Annex 9: List of Government Commitments

The new Grand Coalition for Change Government took office on 4th May 2006 – and issued a Policy Framework Document on 24 May 2006 and a Policy Translation and Implementation Document in August 2006. Several Policy statements are reflected in the following list of commitments.

1.	Political democratic governance	Prospective commitments
	- Human rights	
	- Fundamental freedoms	
	- Electoral process	Consistent with Government's Rural Development Strategy, integrate rural community development fund into the development budget expenditure, allocated to sectoral priorities of each of the Provinces and their sub-regions by end of 2007
	- Principles of constitutional democracy	
2.	Political governance - rule of law	
	- Judicial and law enforcement system	Table legislative amendments to strengthen administrative efficiency of regional magistrate courts and also increase their civil jurisdiction.
3.	Control of corruption	
		Fund and strengthen the Auditor General's Office and undertake routine audits of national and provincial departments and complete the backlog (since 1998) by end of 2008.
4.	Government effectiveness	
	- Institutional capacity	
	- Public finance management	
5.	Economic governance	
	- Private sector/market friendly policies	Implement the Foreign Investment Act of 2005 and create an environment conducive to both domestic and foreign investment to stimulate and broaden the country's economic base.
		Implement the reforms of the administration and regulatory framework for shipping services by end of 2008

		Approve the Regulatory Framework and operational Procedures for a Government Infrastructure Development Maintenance Fund, and guarantee a minimum annual recurrent budget investment by 2008
	- Management of natural resources	Enact the <i>Forests Bill</i> by 2008 and implement the relevant general and specific undertakings made within the framework of the Stabex FMO 98
6.	Internal and external security	
	- Internal stability / conflict	Consult provinces and enact the Tribes & customary Land Titles Act by end of 2008.
	- External threats and global security	
7.	Social governance	Ratification of the fundamental ILO conventions by end 2008.
		Prepare a National Report on the implementation of the CEDAW Report by end 2008.
8.	International and regional context	
	- Regional integration	
	- Involvement in regional peer review mechanisms (e.g. APRM)	
	- Migration	
9	Quality of partnership	Organise six monthly SIG/donor consultation meetings.
	-Political dialogue	Hold regular political dialogues with HOD as stipulated in Art 8 of the Cotonou Agreement.
	-Programming dialogue	Hold regular meetings with EC Delegation to assess progress, challenges and measures to be taken in implementation of EC programmes.
	-Non state actors	Promote and facilitate Non State Actors' participation in the formulation and implementation of EC programmes.

Annex 10 - Regional Projects/Programmes

The EU is contributing to or funding a variety of Pacific regional programmes that also benefit the SI, the bulk of which are focused on the fisheries sector in the Pacific region as follows:

- (i) FISHDEV, which aims to assist Pacific-ACP Countries in the development of tuna fishing so as to raise the benefits to the local fishing industries; it is implemented through the SI based Forum Fisheries Agency (FFA)/Secretariat for Pacific Community (SPC)
- (ii) PROCFISH, which combines former coastal marine management and an oceanic fishing programme and is assisting the SI fisheries sector
- (iii) FFA is a multi-donor (AusAID/NZ/EU and others) regional programme based in SI to support member countries fishing industries through advice, surveillance, capacity building, administration of multi-lateral fishing agreements and to provide a useful discussion forum;
- (iv) SOPAC a South Pacific Oceanic Resources project aimed at sub-marine mineral resources,
- (v) The Foundation of People in the South Pacific International (FSPI) – a multi-donor marine resources and coastal communities targeted programme, which was completed in 2005.
- (vi) DSAP a regional agricultural programme for developing sustainable agriculture,
- (vii) South Pacific Tourism Programme,
- (viii) South Pacific Regional Environmental Programme (SPRET),
- (ix) Pacific Regional Development of Education (PRIDE) and
- (x) Pacific Environment Information Network (PEIN) for 3 years to establish environmental information networks across all ACP Pacific countries.

PART 2 INDICATIVE PROGRAMME**1.1 Introduction**

On the basis of the cooperation strategy presented in Part One and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up as a set of tables showing the intervention framework for each sector, the financial programming timetable, and a detailed timetable of activities for all listed programmes over a three year period.

The figures given in this chapter indicate the overall breakdown of funds between the focal sectors, macro-economic support and other programmes. The breakdown may be adjusted in the light of operational, mid-term final or *ad hoc* reviews. However, any adjustment resulting in a substantial change to the structure of the response strategy requires a formal decision in the form of an addendum to the strategy document.

1.2 Financial Instruments

The implementation of the EC's cooperation strategy with the Solomon Islands will be covered by several financial instruments. The following is an indication of their mobilisation as currently envisaged.

1.2.1 10th EDF, A envelope €13,200,000: This will cover long-term programmable development operations, in particular:

Focal sector	Amount (€)	% of total	Financial instruments
Sustainable rural development with capacity building	€11,220,000	85%	Projects and Sector Policy Support Programmes
Other Programmes, including Non focal sectors:			
Technical cooperation facility, including support to the NAO	€1,980,000	15%	Projects

1.2.2 10th EDF, B envelope, €3,300,000:

This envelope will cover unforeseen needs such as emergency assistance, where such assistance cannot be financed from the EU budget and contributions to internationally agreed debt relief initiatives, and support to mitigate adverse effects of instability of export earnings.

In accordance with Article 3(5) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or *ad hoc* reviews.

1.2.3 Investment Facility:

In addition to the financial instruments mentioned above, of which the A envelope is the main programmable basis for the NIP, the 10th EDF also includes an Investment Facility, which is an instrument managed by the European Investment Bank. The Investment Facility is not part

of the NIP. Some specific activities may be supported by the Centre for the Development of Enterprise (CDE) and the Centre for the Development of Agriculture (CTA).

1.2.4 10th EDF, regional indicative programme

The regional indicative programme will cover long-term programmable development operations under the regional strategy for the Pacific region. The allocation is not part of the NIP but may have repercussions at the national level depending on the participation of the Solomon Islands in the programmes proposed under the regional framework.

1.2.5 Other financial instruments:

.Specific activities may be supported by Intra-ACP allocations as well as by external actions funded by the general budget of the European Community carried out under the financial framework for 2007-2013 subject to special procedure and availability of funds, and out of the own resources of the EIB. Actions funded by the general budget include, among others, programmes funded under the Development Cooperation Instrument such as the thematic programmes "investing in people", "non state actors in development", "migration and asylum", "environment and sustainable management of natural resources" and "food security", as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance.

1.2.6. Monitoring and evaluation

Monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions that are attached to each individual Financial Agreement prepared to implement this CSP.

The results and impact of the Community's cooperation with the Solomon Islands implemented through the NIP and through other external actions funded by the general budget of the European Community, will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

1.3 Focal sector: Sustainable rural development and capacity building

The following specific objective will be pursued: to enhance sustainable rural livelihoods through strengthened capacity in both public and private sector. As an indicative amount, approximately € 11,22 million will be set aside for this field.

Context:

The current Government's main stated objectives are to restore good governance in all areas, improve livelihoods in rural areas particularly through supporting peoples' own efforts and a confident and re-invigorated private sector, and address constitutional reform. New policy priorities were issued in May 2006, and reflected in a Policy Translation & Implementation Document (of August 2006).

The NIP takes into account the change in government and its new development strategy, with its clear direction towards rural development, recognising that 84% of the population lives in

rural areas. This is consistent with past policies but with an even stronger emphasis. The 9th EDF development objectives are primarily directed towards poverty reduction through rural development, education and capacity building and there seems no justifications for change. However, interventions under EDF 10 take into account those EU investments already ongoing or about to be started, as well as the interventions and areas of concentration of other donors. Given the size of the envelope it is recommended that only one focal sector be chosen. Education, which has received a considerable amount of funding through Stabex 99 and which will continue to end 2009 after a 7-8 year intervention period, is therefore not included in the focal sector, although on-going activities aimed at education in rural areas will assist in reducing poverty and create employment. The focal sector selected for intervention under EDF 10 is sustainable rural development with capacity building to support the intervention.

Overall objectives:

to reduce poverty throughout the country, with specific focus on the rural population

Programme purpose:

- to enhance sustainable rural livelihoods through strengthened capacity in both public and private sector;

Expected results:

- real incomes of rural households increased on a sustainable basis;
- markedly improved delivery, quality and range of services to rural population;
- enhanced provision of skills development and training for rural and urban populations
- central government, provincial administrations and non-state actors competence and capacity improved to effectively identify and prioritise needs and secure delivery.

Activities:

Activities to be supported under the 10th EDF will be identified and agreed as part of the formulation process. Support will be provided preferably through a **sector wide approach to sustainable rural development**, supplementing ongoing and forthcoming interventions in agriculture and rural development, forestry, fisheries, and transportation. **Capacity building for rural development** will be an integral part of this support and may also include the interaction of youth with urban areas (in view of the serious youth unemployment) including the integration of the TVET aspects. . The programme will build on the strategy development, status of implementation and lessons learned from activities funded under Stabex FMO's 98 and 99 and under the 9th EDF (TVET, Micro Projects Programmes).

The development approach will be community driven, with a major focus on strengthening the local and national institutions, systems and mechanisms that are necessary to ensure sustainable community development in the future, and concentrating on the demand and supply of public goods. Ongoing interventions in the rural sector have generally focused on direct donor assistance to communities through parallel structures established outside of permanent government systems. Development efforts need to focus on rebuilding the institutional framework that will support long term growth with equity; and promote involvement of communities and regions through their own governance structures. Rural

development can be built around two key principles – that decisions taken by a local community are more likely to meet the needs of that community; and that a community which invests its own time and effort in designing, developing and delivering a strategy that addresses local rural development priorities is more likely to use and maintain the services provided.

Such priorities are identified through a local development strategy based on integrated and sustainable development drawn up by a partnership of people drawn from the local administration, business and civil society. The proposed approach, based on development planning at local level and coordinated through provincial government, is meant to ensure that development plans are consistent across sectors and tailored to local needs.

The interventions in the focal sector will include as appropriate:

Studies and formulation missions related to the focal sector, and follow up of PGSP and RDP programmes, which will have direct links with capacity building and can also support trade capacity building.

Support for non-state actors covers non-state actors eligible for funding as defined in Article 6 of the Cotonou Agreement and Article 4(1)(d) of Annex IV to the revised Agreement. Depending on their mandate, support to non-state actors may cover activities including capacity building, advocacy, research, awareness raising, monitoring and delivery of services to the population. In supporting non-state actors, the EC may make use of Article 15 (4) which allows it to be the Contracting Authority.

Support for trade development and capacity building priorities identified under the Integrated Framework for trade-related TA to least developed countries.

Mainstreaming gender, HIV/Aids and environment issues will be ensured with the objective to provide support to strengthen women's and disadvantaged groups, and to raise awareness, including working with non-state actors involved in these areas and also providing investment support to skills development to such groups.

Policy commitments and cross cutting issues:

The main sectoral policy measures to be taken by the Solomon Islands Government as a contribution to the implementation of the response strategy in this field is agreement to major structural institutional reforms in the natural resources sector (agriculture, forestry & fisheries). Specific reforms are needed, such as the budgetisation of the constituency funds, advancement of the Forest Bill, and continuation of the economic reforms, as well as commitment to fully staffing the public sector. Another key area for government action is to develop a more coherent and harmonised planning process with improved donor dialogue and consultation process.

The government will also ensure mainstreaming of the cross cutting issues such as inclusion of women and youth as programme beneficiaries, and systematic environmental impact assessment (EIA). The Commission will screen all programs to determine if an environmental assessment is needed and will ensure that it is adequately undertaken and that its conclusions are taken into account to adapt the programs.

Main Indicators:

The key indicators will be the level of increase in rural incomes in real terms; availability of rural services especially to rural entrepreneur, health and education; availability of communications and transport in the rural areas; numbers of young people receiving useful training and becoming gainfully employed; properly functioning provincial administrations; reforms enacted at national level.

More specific indicators are shown in the attached logframe.

1.4 General budget support

The indicative programme does not provide for general budget support. However, in the light of changing needs, it may be decided to reallocate funds from other application points in the NIP to this type of support. Such a decision can be taken in the form of a specific agreement between the Chief Authorising Officer and the National Authorising Officer or within the context of an operational, mid-term, final or *ad hoc* review. Over the period of the CSP, the activities related to establishing compliance with the eligibility criteria, in particular with respect to the robust and transparent Public Finance Management system, will be pursued. In addition, the priority measures (e.g. PEFA assessment studies, reinforced policy dialogue on the national/sectoral development strategies etc.) and a tentative agenda specific for Solomon Islands should be identified.

1.5 Other programmes

In addition to the focal sector activities it is agreed to set aside an indicative amount of €1.980.000 or 15 % of the NIP to support to the NAO and finance a Technical Cooperation Facility (TCF), which will provide funding for technical assistance in the areas of good governance and identification and formulation of new funding initiatives, to prepare the groundwork for budget support operations, to support project/programme implementation where required, to carry out studies (e.g. environmental impact assessments) and to strengthen institutional capacity by providing technical assistance and training. The TCF may also be used to finance necessary measures in support of governance issues linked to the governance plan outlined in Annex 3B, regional integration and EPA trade-related activities, such as priorities under the integrated framework.

The main measures to be taken by the government as a contribution to the implementation of the response strategy in the non-focal areas are the provision of adequate human and financial resources to ensure efficient and effective operation of the EC funded programmes, and to ensure the effectiveness of institutional support measures financed under the TCF.

1.6 Intervention framework

The intervention framework for the focal sector is presented in section 1.6.1. Alongside this focal sector there will be on-going support to the education sector through the projects which will have started under the 9th EDF, and the Delegation will remain closely associated with the SWAp for education.

Indicators are covered in the log frame. However, whilst national economic indicators will be available, those relating to poverty levels, especially in rural areas, will require specific

surveys to reveal progress. Certain social indicators including MDG targets are also likely to be unavailable, although in the education and health sectors more data should be available as a result of improved data collection systems being implemented. Environmental indicators are likely to be largely qualitative.

1.7 Timetable of indicative commitments and disbursements

The timetable of indicative global commitments and for the various interventions proposed is attached as **1.7.1 Indicative timetable of global commitments** and for the indicative disbursements as **1.7.2. Indicative timetable of disbursements**.

1.8 Timetable of activities

The timetable of activities is attached as **1.8 Timetable of activities**.

1.6 Intervention Framework & Performance Indicators
1.6.1 Focal Sector – Sustainable rural development and capacity building

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objectives	Poverty of the rural population of the Solomon Islands reduced	<ul style="list-style-type: none"> Economic, social and environmental indicators for Solomon Islands 	<ul style="list-style-type: none"> National surveys MAL, DCIE, DFEC, DFMR & MEHRD reports and statistics 	The new Government will be committed to advancing the peace process, improving governance, and sustaining RAMSI's peacekeeping operations in the medium term
Programme Purpose	Sustainable rural livelihoods significantly enhanced through strengthened capacity in both public and private sector	<ul style="list-style-type: none"> Per capita income in rural areas increases Provincial administration actively engaged in facilitating and where appropriate, funding increased range and levels of service delivery through public and private partnerships. Improved provision of skills training and development for rural and urban populations. 	<ul style="list-style-type: none"> Baseline data Rural household surveys Programme reports 	Continued priority will be given by the Government to agriculture and rural development Governments at all levels will be willing to enhance a conducive environment for

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Results				service delivery and provision of business services Government at all levels will be willing to pursue institutional reforms, including sector management
1	Real incomes of rural households increased on a sustainable basis.	<ul style="list-style-type: none"> Rural businesses expanded and supported by advice and access to development services. 	<ul style="list-style-type: none"> Rural household surveys HIES (2011/12/13) Programme reports Reports by multilateral organisations 	
2	Markedly improved delivery, quality and range of services to rural population.	Number of and access to services available increased (including health, education, information, communication, transport, etc)	<ul style="list-style-type: none"> Programme reports User group reports Evaluation reports Service Providers accounts 	
3	Enhanced provision of skills development and training for rural	3.1 Skill training centres & service providers provide a range of qualitative and relevant programmes	- Education Sector Coordinating Committee quarterly & annual reports	

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
	and urban populations.	<p>3.2 Quality and relevance of training strengthened</p> <p>3.3 Capacity of planning and implementing authorities strengthened</p> <p>3.4 Development of relevant curricula for education in practical subjects in the formal school system supported</p>	<ul style="list-style-type: none"> - Programme & TA reports - Training Centres & Service Providers curricular & accounts - User group reports 	
4	Central government provincial administrations and non state actors with competence and capacity to effectively identify and prioritise needs and secure and deliver funding for economic and social development.	<p>4.1 Roles and responsibilities of central and provincial administrations and non state actors clearly defined.</p> <p>4.2 Systems and procedures for planning and public expenditure established and staff recruited, trained and competent in their operation.</p> <p>4.3 Public-private partnerships developed and implemented in service delivery. Human Resources development processes established and strengthened in provincial administrations and civil society.</p>	<ul style="list-style-type: none"> - Programme reports - Programme Mid Term Review & Final Evaluation reports - Issued laws & regulations - SIG statements & resolutions - TA reports - Regulatory framework - Licences & public-private contracts 	

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
5	Rural businesses and capacity growing sustainably and providing services and employment.	<p>5.1 Relevant vocational courses introduced.</p> <p>5.2 Meaningful and practical research results & extension advice issued.</p> <p>5.3 Value added to rural outputs increased.</p> <p>5.4 Access to rural financial services increased.</p>	<ul style="list-style-type: none"> - User groups reports - Business & Bank accounts - Course curricular - TA reports - National Statistics & accounts - Media coverage 	<ul style="list-style-type: none"> • Strengthening TVET for Sustainable Rural Livelihoods in Solomon Islands is implemented until 2011 as planned • Business confidence is not significantly reduced as a result of April 2006 riots • Agriculture & Rural Development Programme is approved and starts beginning 2008 latest <p>Risks/conditionalities:</p> <ul style="list-style-type: none"> • Government agrees to major structural institutional reforms in the natural resources sector (agriculture, forestry & fisheries) • Positive efforts will be made to include women and youth as beneficiaries

1.7 Indicative timetable for commitments and disbursements

1.7.1 Indicative timetable of global commitments

	Indicative allocation	2008		2009		2010	
		1	2	1	2	1	2
FOCAL SECTOR - Sustainable rural development and capacity building							
- Sustainable rural development and capacity building	€11,220,000			€11,220,000			
NON FOCAL SECTORS							
- Support for NAO and TCF	€1,980,000						
Support to NAO							€1,220,000
TCF			€760,000				
Total Commitments:	€13,220,000		€760,000	€11,220,000			€1,220,000
Total Cumulative Commitments:			€760,000	€11,980,000			€13,200,000

1.7.2 Indicative timetable of disbursements

	Indicative allocation	2008		2009		2010	
		1	2	1	2	1	2
1st FOCAL SECTOR – Sustainable rural development and capacity building							
Sustainable rural development and capacity building	€11,220,000					€1,000,000	€1,500,000
NON FOCAL SECTORS							
- Support for NAO, and TCF	€1,980,000				€200,000	€500,000	€500,000
-							
Total :	€13,220,000				€200,000	€1,500,000	€2,000,000
Total Cumulative Disbursements:					€ 200,000	€1,700,000	€3,700,000

1.8 Timetable of activities

1 st FOCAL AREA	Indicative Allocation	2008				2009				2010-->			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Sustainable rural development and capacity building	€11,22 M				FS		AF	AAP		FD	X	X	X
-													
NON FOCAL AREAS)		2008				2009				2010-->			
Support for NAO	€ 1,220,000	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
TCF	€760,000			AF	AAP					AF			AAP

FS: Feasibility Study

AF: Action Fiche

AAP: Annual Action Plan

FD: Financing decision

X : Project implementation

NB: The adoption of Annual Action Plans (AAPs) is needed for the implementation of the indicative programme, once approved by the Commission, the AAP will also serve as financing decisions for all the actions contained therein.