

**SOLOMON ISLANDS - EUROPEAN COMMUNITY**

**COUNTRY STRATEGY PAPER  
AND NATIONAL INDICATIVE PROGRAMME  
for the period 2002 - 2007**

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**SOLOMON ISLANDS**  
**Country Strategy Paper**

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

- (1) The Government of Solomon Islands, represented by (name and title), and the European Commission, represented by (name and title), hereinafter referred to as the Parties, held discussions in Honiara on .....2002 with a view to determining the general orientations for co-operation for the period 2002 - 2007. The European Investment Bank was represented at these discussions by (name and title)

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of 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. These discussions complete the programming process in 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 Solomon Islands for the period 2002-2007, an amount of € 6.7 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 €7.8 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 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 Chapter VI concerns the resources of the A-allocation. It also takes into consideration financing from which 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) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership Agreement and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Solomon Islands, within the limits of the A- and B-allocations referred to in this document and under the condition that sufficient resources are available in the general reserve of the eighth EDF. The respective projects and programmes shall be implemented according to the rules and procedures of the eighth EDF until entry into force of the Financial Protocol for the Ninth European Development Fund
- (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 Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement (see Chapter 6 for further details).
- (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 undertake a mid-term review and an end-of-term review of the Country Support Strategy and the Indicative Programme in the light of current needs and performance.

The mid-term review shall be undertaken within two years and the end-of-term review shall be undertaken within four years from the date of signature of the Country Support Strategy and the National Indicative Programme. 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.

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 ACP-EC Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

Signatures

For the Government of Solomon Islands

For the Commission

.....

.....

**Date,**

## **PART A : SOLOMON ISLANDS : Country Strategy Paper**

### **EXECUTIVE SUMMARY**

The main objective of the Country Strategy Paper is to define, on the basis of a comprehensive analysis of the economic, social and political situation, a response strategy for EC support under the 9<sup>th</sup> EDF, taking into account the current economic crisis and the on-going and planned activities of Government and other development partners.

Solomon Islands is located in the Pacific Ocean east of PNG and has a landmass of 27 990 sq km with a population of 409 000. GDP per capita has fallen from €810 in 1998 to €440 in 2001. The country is confronted with a serious economic and social crisis in the aftermath of a two-year ethnic tension. Poor governance and mis-management of public funds have compounded the crisis. Solomon Islands has valuable natural resources which, if managed properly, could allow for improved economic and social development. These resources could contribute to poverty alleviation and reduced vulnerability to outside influences. Furthermore, development contributes to reduce the possibility of ethnic tension and other civil strife.

Thus the medium term challenges of Solomon Islands are to:

- ◆ Re-build the country's economy after two years of ethnic conflict.
- ◆ Restore good governance.
- ◆ Attract investors and re-invigorate exports.
- ◆ Promote economic activities at village level.
- ◆ Address the demands for de-centralisation towards the provinces in a realistic and equitable way.
- ◆ Find a balance between respect for traditional values and modernity in such a way that economic changes can be accommodated without creating distortions to the social fabric.

Sustainable Rural Development has been selected for EC support as it corresponds very well to four of the medium-challenges mentioned above and takes into account other areas already covered by other interventions. The mechanism selected for delivering this assistance is the Micro-Projects concept which has already proven its success in Solomon Islands under the 8<sup>th</sup> EDF and which responds very well to the current administrative weaknesses of Central and Provincial Governments.

85% of envelope A, or €5.7 million is earmarked for Sustainable Rural Development and 15 % or € 1.0 million will be allocated directly to Non-State Actors in particular for capacity building.

### **1. ACP/EU CO-OPERATION OBJECTIVES**

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development co-operation 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.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, which puts main emphasis on the objective

of reducing and eventually eradicating poverty. Co-operation between the Community and Solomon Islands shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement – especially the principle of encouragement of the development strategies by the countries and populations concerned - and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership of development strategies.

In its communication on conflict prevention (April 2001), the Commission has announced its intention to focus more clearly its co-operation on addressing root causes of conflict in an integrated way. In this context, the Commission will seek to incorporate specific conflict prevention (or resolution) measures into its various sectoral programmes.

## **2. NATIONAL DEVELOPMENT STRATEGY**

Before the outbreak of the ethnic conflict in June 1999, the Government of Solomon Islands appeared to be on track with many of the reforms and areas of development as contained in its Medium Term Development strategy (MTDS) – see Annex 6. The conflict has derailed the process although Government remains formally committed to the principles of the MTDS, but this of little more than academic value at this juncture.

In fact, Government lacks, at present, a clear strategy for economic recovery from the ethnic tensions. Available finance (obtained largely from Taiwan) is being used to provide compensation payments so as to consolidate peace, in accordance with Melanesian tradition. Unfortunately, some unscrupulous politicians are exploiting the situation for their own short term gains. Remissions of taxes on imports of beer and sigarettessand on the export of logs are given freely by the Minister of Finance. Government has in fact yet to come to terms with economic reality. Once it does so, a major intervention by the BWIs will be necessary for reconstruction of the national economy.

### **3. ANALYSIS OF POLITICAL, ECONOMIC AND SOCIAL SITUATION**

#### **3.1. Introduction**

Solomon Islands is situated to the east of Papua New Guinea and the north east of Australia. The country is made up of six large and several hundred small islands, most of them populated, with a total land area of 27 990 km<sup>2</sup> and an ocean area within an exclusive economic zone of 1.34 million km<sup>2</sup>. The population of 409 000 is growing at 2.8% per year. 42% of the total population is under the age of 15. In the age range 5-14 years, 57% attended school during 1999. 15% of the population live in urban areas, with Honiara the capital being by far the largest urban centre (pop. 49 000). Only 23% of the population of 14 years of age and over are involved in paid work. This highlights the importance of the subsistence sector (agriculture and fishing) in the economy of the Solomon Islands.

Real GDP has dropped between 1996 and 1999 by 2.5% with a further decline in 2000 of an estimated 18%. GDP per capita in 2000 was estimated at €580 and has probably dropped to €440 in 2001.

The country is amongst the least economically developed in the Pacific. The country's main natural resources include timber, fish, gold, copra, cocoa and oil palm. Agriculture accounts for about 25% of GDP. Solomon Islands is ranked 123 in terms of its UN Human Development Index. There is no poverty line established but with a UN-Human Poverty Index of 49.1 Solomon Islands is among the poorer ACP countries. The country is prone to natural hazards, in particular cyclones. Solomon Islands is culturally rich and diversified and is amongst the most traditional societies in the Pacific. The country has, however, come to a crossroads regarding the model to adopt to make the transition from a traditional to a modern society. The ethnic conflict (1998 – 2000) is in some ways an illustration of the difficulties faced in the transition process.

#### **3.2. Political situation**

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 the Prime Minister. The legislature is the unicameral 50-seat National Parliament, elected for four-year terms by universal adult suffrage. There are 9 provinces, each with a provincial government headed by a Premier.

Since Independence in 1978, governments in Solomon Islands have had an average life span of two to three years. Policy objectives have not always been oriented towards sustainable development and have not necessarily been consistent from one government to the next one.

Since early 1999, the Solomon Islands has gone through a period of turmoil caused by ethnic tension on Guadalcanal -the main Island- between the original inhabitants and immigrants from the neighbouring province of Malaita. The immigrants came in over the past decades, first as labourers but later established themselves successfully as (small) traders and commercial farmers, taking up land apparently not in use by the local population at that time. The tensions have been brewing for a number of years but were aggravated in early 1999 by the emergence of the Guadalcanal Isatabu Freedom Movement (IFM) and the rival Malaita Eagle Force (MEF). In June 1999 the situation came to a head with increased violence, and subsequently an estimated 20,000 Malaitians and other non-Guadalcanal citizens left the island.

The tension culminated in a complete taking over of power in Honiara by the Malaita Eagle Force, assisted by a faction of the Police Force, on 5 June 2000. The Prime Minister was taken into custody. The move was negatively received by the international and donor community. The event happened during the visit of a ACP/EU Joint Assembly Mission to Solomons. Two days later, Government and the MEF agreed to seek a "constitutional" solution to the problem, the Prime Minister was released and it was agreed to discuss the issue during a special session of Parliament on 15 June.

Under duress, Prime Minister Ulufa'alu (from Malaita) resigned to make place for a new Prime Minister and Government which is supposed to be in a better position to restore law and order and to bring the militias together. Parliament (itself elected in free and fair elections in August 1997) elected on 30 June 2000 opposition leader Hon. Manasseh Sogavare, as next Prime Minister. In the procedure the constitutional and democratic process was followed and the new Government was recognised by the Commission and other donors as legitimate.

The new Government put efforts to restore peace as the only major point on its agenda. A cease fire was eventually signed on 5 August 2000, followed by a comprehensive Peace Agreement concluded in Townsville, Australia on 15 October 2000. Major elements are restoration of the police force, surrender of arms in exchange for amnesty, return of stolen property, more autonomy for the provinces, rehabilitation programmes. The arms surrender process is monitored by a small unarmed team from a number of Commonwealth countries. It appears, however, that the surrender of arms and restoration of law and order has not progressed as anticipated. Lack of proper financial crisis management and financial hand-outs by government to the Militias as 'compensations' is depleting the financial resources of Government to the detriment of their normal functions (health and education). It is a fact that the Townsville Peace Agreement appears to hold well, although armed militias are still around in parts of Guadalcanal causing a security problem.

General elections have taken place on 7 December 2001. All major bilateral donors provided financial and technical assistance to the electoral process and sent international observers. The elections took place in a peaceful atmosphere and were generally regarded as free and transparent. A new Government under Prime Minister Sir Allan Kemakeza was sworn in on 19 December 2001.

In the restoration of peace, and in bringing about transparency in political and good governance issues, Non-State Actors play an important role. Their position has been strengthened during and after the ethnic conflict.

Human Rights organisations have at times expressed concerns about violations of human rights including brutal killings by militant movements, and police brutality. Amnesty International heavily criticised the Townsville Peace Agreement to grant amnesty for crimes directly related to the ethnic tension. Various aid organisations, including the EU, provided humanitarian type of aid to internally displaced people during the height of the tension. With the gradual return to normalcy, respect for human rights in Solomon Islands restored.

### **3.3. Economic and social situation**

#### **3.3.1. Recent economic developments**

The collapse in law and order in June 2000, and an escalation of the ethnic violence between the two warring groups had disastrous effects on the service and manufacturing companies operating in Honiara and elsewhere, many of which are still closed. The situation was further

aggravated by a mass evacuation of foreign nationals, for fear of their safety and lives. These foreign nationals have been the driving force in private sector development particularly in the primary and services industries.

According to the Central Bank of the Solomon Islands exports fell by over 50% in 2000, partly due to either the closure of a number of companies or the suspension of activities and partly due to a drop in world prices. This impacted negatively on the Government's financial situation with revised revenue estimates for 2000 being more than 30% lower than the original budget. The year 2000 budget was essentially abandoned and replaced by short-term mini-budgets. Government called on donors to provide massive budget support to key sectors such as education, health and law and order. Government's cash problems were compounded by tax remissions given to selected companies as well as selected individuals and by additional expenditure, particularly in relation to peace dividend or 'compensation' claims.

The effects of the ethnic tension on the economy have been particularly severe in Guadalcanal. Solomon Islands Plantation Limited (SIPL) has been closed since June 1999, resulting in the cessation of palm oil exports (formerly this constituted around 20% of total exports, about 1800 jobs). It is highly unlikely whether the company will open again and it would take at least 24 months from restart before full production can be achieved.

In June 2000 gold exports (25% of exports in 1999) also ceased following the destruction of plant and equipment at Gold Ridge Mine (550 jobs were lost). Production for the first six months of 2000 had been high (50 000 ounces of gold and 20 000 ounces of silver). If the owners decide to resume production it will take at least 6 months from restart for production to begin again. Assets from both SIPL and Gold Ridge have been damaged through theft, vandalism and neglect and landowners have made demands to renegotiate contract terms.

Other traditional sectors as well as activities in other provinces have also been affected. Fish exports (about 21% of total exports in 1999) have fallen by over 20% due to a combination of poor world tuna prices and the ethnic unrest. National Fisheries Development in Central Province closed in December 1999 and Solomon Taiyo in Western Province suspended operations, following tension related incidents, in July 2000 (about 2500 jobs were lost). Copra and coconut oil exports have also been affected by a combination of low world prices and mis-management of the marketing agency (CEMA), which is technically bankrupt. Tourism in the country has effectively ceased. Exports of logs was temporarily affected with the evacuation of most of the foreign nationals working in the country. However, Government has been active in trying to fast track new deals with foreign companies in the logging industry in order to boost urgently needed foreign reserves. Similarly, the government agreed on a fisheries agreement with Taiwan to issue licences for one year to up to 40 pure-seiners at a cost per licence of USD 8,000. The deal also included income for the government as a percentage of the catch. Actual revenue figures have not been publicised and the deal has been criticised as being too unfavourable for Solomon Islands.

Total imports have fallen by about 35% and are expected to remain depressed for the rest of the year. In early 2001, foreign exchange reserves had declined to only slightly more than one-month of imports (approximately €20 million).

In its 2001 Peace budget amounting to € 140 million the government projected (optimistically) €44 million of foreign loans and €44 million cash grants from donors. Domestic revenue estimates, mainly trade and income taxes, amounted to €53 million as compared to €82 million for the 2000 budget prior to the coup. The 2001 budget figure

represents a 30% increase over the pre-coup 2000 budget. Essentially a large financing gap remains to be filled.

### **3.3.2. Economic structural characteristics**

A rapid population increase on certain islands represents a real challenge to maintaining the standards of living. Constraints on the use of land represent another major obstacle to development. Various investment proposals and existing investments have been abandoned or hampered because of refusals by land owners and/or because of land disputes. Most land in Solomon Islands is owned by clans or tribes with ownership rules differing from island to island (e.g. patrilinear in some, matrilinear in other). Very little land has been formally surveyed and registered. Existing traditional and more so legal procedures to settle land issues are tedious and lengthy. There is generally awareness that land problems represent an obstacle to development but concrete steps to address them have yet to be taken by the government in close collaboration with the traditional leaders and land owners or their representatives.

Many of the smaller populated islands are located several hundreds of miles from the nearest larger island. Few ships call in at these remote islands on a regular basis. The economy on these small islands is by and large subsistence oriented and only few basic services (education and health) are being provided by the government. Maintaining transport links with the remote islands, by air or by sea, is essential for nation building and from a social point of view even though it may be uneconomic.

The limited revenue generating capacity of the country, as a result of a small productive basis, economic mismanagement combined with the ever growing need for education and health services, public infrastructure, result in an unhealthy dependence on outside financial support. During the recent years, the full public investment budget and part of the recurrent budget have been financed by donors.

### **3.3.3. Consequence of Recent Economic Events on Society**

An estimated 5000 people (or 15% of formal employment) are unemployed as a direct result of key industries closing down on Guadalcanal and Western Province, and Government placed some 1000 public servants on unpaid leave.

The financial crisis due to the tension has had a severe impact on basic social services such as health and education. Shortage of trained medical staff and medicines has been felt in most rural and urban clinics. As many medical and teaching staff cannot be paid regularly, half of the schools and clinics throughout the country remain closed. Some clinics have re-opened owing to assistance by Australia in providing essential drugs. Assistance in providing teaching materials has helped a number of secondary schools. The migration of Malaitians has created overcrowding of the social infrastructure on Malaita Island. The situation in the capital Honiara is not much better than in the countryside: the Central Hospital in Honiara can only provide the most essential services and this even not on a continuous basis. The College of Higher Education in Honiara was also confronted with a financial problem which prevents it from functioning.

### **3.3.4. Social structural characteristics**

Female school enrolment is 36% for primary level and 18% for secondary level. About 64% of the people have access to safe water and 18% to sanitation. Although WHO has provided assistance to reduce malaria incidence, the disease remains a major health threat throughout the Solomon Islands, especially to young children and elderly persons. An estimated fifty street children have made their appearance in Honiara.

At 2.8% per year population growth rate is high at international level and too high when related to the growth rates of the past year of social and economic infrastructures. The 1999 census data reveal that 41.5% of the total population is under 15 years of age.

The high population growth has contributed to problems of malnutrition, low levels of primary education, poor health standards and overpopulation of certain islands. Additional population pressures are due to the displacement of over 20,000 people due to the ethnic tension.

Qualified and competent people are scarce in both government and the private sector. Women are clearly disadvantaged if not discriminated against. Few women have become provincial or national leaders. Despite the difficulties confronting individuals, women's groups are nevertheless establishing themselves as an important pillar of civil society. Women are important in agriculture and in small trading of agricultural produce and consumer goods. An issue is the general problem of wife beating, a practice which meets increasing resentment from Civil Society organisations.

Analytical, managerial and technical skills are insufficient and impact negatively on the government's performance, on economic output, on social and political stability and on good governance.

Solomon Islands remains one of the most traditional societies amongst ACP countries. Monetisation is limited and goods and services are usually obtained through barter together with own-production. While the larger part of these systems are all Melanesian, the other being Polynesian and Micronesian, there is a wide diversity of social rules and structures, languages and rituals. The ethnic tension illustrates the extremely volatile and tense relations in the country between the various islands and within one island between different tribal groups. By contrast, the *wantok* system of intra clan economic and social support and protection safeguards most individuals from poverty and social hardship.

### **3.3.5. Environment**

Solomon Islands enjoy relatively unspoilt but extremely fragile ecological systems. These include the marine systems (fish, plants and reefs) and the remaining primary and secondary forests. Unsustainable logging and fishing represent real threats to these delicate systems. Although policy makers usually adhere in words to the principles of equitable and sustainable exploitation reality is often different. Successive governments have exploited the resources for quick revenue generation rather than for the sustainable economic development of the country. In addition, the human and technical capacity to design, manage and monitor properly the use of the country's natural resources, including mining, is currently hardly available in the Solomon Islands.

The Forestry Bill, submitted to Parliament by the previous Government, is currently under review. Although the Bill contains the first steps to come to a sustainable management of the Forestry resources, it still requires translation into more detailed and quantified measures and

targets. Before the Bill, harvest rates were 2.5 to 3 times the sustainable level, but these had begun to come down due to lower foreign demand and improving forestry practices. Recently, however, harvest rates have started to rise rapidly and monitoring of forestry activity has weakened considerably.

Fishing rights were granted early in 2001 to Taiwanese ships against rates regarded as well below the real value. Lack of Government control in the Post-Conflict situation gives cause for concern as it could lead to abandonment of sustainability principles in the exploitation of fisheries and forestry resources.

### **3.3.6. Status and role of non-state actors**

Civil society is gradually assuming a more important role in Solomon Islands, and especially in the Post-Conflict situation. The various organisations are not necessarily consulted systematically by the government on major policy matters but there is growing awareness amongst civic society groups of the need to develop a lobbying capacity.

There has been substantial mobilisation of civic society groups (NGOs, National Council for Women, Church groups, Youth groups, Amnesty International) during the ethnic tension. Several of the groups have approached donors for capacity building and have received a positive response. A number of NGOs have received support from European NGOs but there is room for longer term support to transfer know-how to local NGOs. It is recognised that more efforts are needed to promote closer collaboration between local NGOs.

Trade unions are operational and are capable of mobilising their members in the government and in the private sector. They have been pressurising the government in the aftermath of the tension to allow government workers sent on unpaid leave to return to their jobs or to for the workers to receive severance packages. Eventually, all workers were allowed to return to work and receive a salary.

### **3.3.7. External Environment**

#### *Regional Integration*

In order to foster the smooth and gradual integration of ACP States into the world economy, economic and trade co-operation under the **Cotonou Agreement** aims at concluding new WTO compatible trading arrangements, removing progressively barrier to trade and enhancing co-operation in all areas relevant to trade. Economic Partnership Agreements shall be negotiated as from September 2002, taking into account regional integration among ACP States.

The Solomon Islands is a member of the Pacific Island Forum. At their meeting in Nauru in August 2001, the Leaders of the Pacific Island Forum approved and signed: (1) an Umbrella Agreement including Australia and New Zealand, called "Pacific Agreement on Closer Economic Relations", (PACER) for future economic co-operation amongst Forum members; and (2) a free trade area amongst the 14 ACP Forum Island Countries (FICs) called "Pacific Island Countries Trade Agreement" (PICTA), without Australia and New Zealand.

PACER provides for the establishment of subsidiary agreements for free trade areas, notably PICTA, as well as negotiations of Forum-wide free trade areas including Australia and New Zealand. The free trade area among the ACP Forum Island Countries (PICTA), which will

enter into force after six countries have ratified it, provides for liberalisation within 8 years up to 2010, and until 2012 for the Small Island States and LDCs. However, sensitive industries will be protected through a negative list that will only be eliminated by 2016.

Solomon Islands has been a member of the Melanesia Spearhead Group (MSG) since 1993. The Group which comprises Solomon Islands, Papua New Guinea, Vanuatu, Fiji and the Kanaks of New Caledonia, has a free trade arrangement, covering some 240 listed products. Products such as tobacco and alcohol are not included on the list.

Although MSG has contributed to an increase in regional imports to Solomon Islands, there is a feeling that MSG does not provide any incentive for the growth of the Solomon Island industrial sector. The other three member countries already had a well established manufacturing industry before MSG came into effect and the level playing field caused by MSG means that Solomon Islands now has no comparative advantage in attracting investment in industry. The only produce that Solomon Islands currently exports regionally are handicrafts and beer, which are not covered by MSG.

Solomon Islands have also been involved in the early negotiations of the legal text for a Pacific Regional Trade Arrangement (PaRTA) to include the 14 Forum Island Countries (less New Zealand and Australia).

The Solomon Islands are a member of WTO.

### *Trade*

In 1999 the Solomon Islands exported most to Japan, which accounted for more than one third of total Solomon Islands exports. The Solomon Islands imported most from Australia, almost 40% of total imports. The EC accounted for 14% of total Solomon Islands exports and 6% of Solomon Islands imports.

In the year 2000, exports from the Solomon Islands to the EU dropped to €13 m., down from €35 m. in 1998 and €28 m. in 1999. Imports from the EU fell from €10 m. in 1999 to less than €3 m. in 2000. Thus, in 2000 both exports to and imports from the EU fell to their lowest levels for a decade (1990-2000).

In 2000 the Solomon Islands exported to the EU mainly prepared or preserved fish (62% of total exports to the EU) and products such as coconut “copra” (25%), while imports consisted in large part of machinery (for more than one third of imports from the EU).

The Solomon Island benefits, or can potentially benefit, from a number of preferential trade agreements and arrangements. These are:

- Lomé Convention/Cotonou Agreement;
- The EU's “Everything But Arms” regulation (February 2001), which extended duty- and quota-free access to all products originating in least-developed countries;
- SPARTECA: This agreement with Pacific Islands and Australia/New Zealand provides duty free access for agricultural products into the Australian/New Zealand markets
- Melanesian Spearhead Group (MSG) bilateral trade agreements.

### **3.4. Medium term challenges**

#### *(a) Macro-economic stability programme, mobilisation of donor resources*

A programme to achieve macro-economic stability has to be implemented consistently. This programme in combination with a revitalisation of the main industries would allow to gradually re-build the tax-base, increase foreign exchange reserves and meet government's debt servicing commitments. Fiscal policy would have to be consistent with macroeconomic stability. Measures to increase revenue and control expenditure would have to be enforced strictly.

In view of the catastrophic state of the economy and government finances, the BWIs will eventually have to provide a significant financial injection in support of a stabilisation programme.

#### *(b) Attract investors, re-invigorate exports*

The few major businesses that generated exports, employment and revenue nearly all closed as a result of the ethnic tension. The re-opening of some or all of these companies is necessary to re-establish local as well as overseas investors' confidence in Solomon Islands and to spur life into the economy. The government will have to follow consistently, i.e. without policy reversals, an economic policy which strengthens this confidence and allows for economic growth. This requires strong and visionary economic management capacity. This capacity is available in a limited amount and should be increased through better education of the next generations and specific training and capacity building for the current one.

#### *(c) Promote value adding activities at village level*

Dependency in the rural areas on copra as a cash earner could be reduced by promoting low cost value adding activities for coconut tree based products (e.g. ropes, mats, artifacts, coconut oil as fuel and for making soap, coconut water). Coastal Fishing is another activity with strong prospects for growth. Development at village level represents part of the answer to the problems accompanying growth of urban centres including youth unemployment and urban poverty.

#### *(d) Capacity building*

General shortage of trained and skilled local personnel in the private sector as well as in government departments is a major impediment to development. A major investment into increasing education standards as well as institutional capacity building is generally recognised as urgent.

#### *(e) Address the demands for de-centralisation towards the provinces in a realistic and equitable way*

The demands from provinces for more decision-making power have been accepted by the central government. The success of the de-centralisation process is conditional upon well focussed, transparent and equitable management of financial and other resources.

(f) *Tradition versus modernity*

Solomon Islands is generally considered one of the most traditional societies in the Pacific. The country has, however, come to a crossroads regarding the model to adopt to make the transition from a traditional to a modern society. A compromise will have to be found between adapting (not abandoning) Solomon islanders' traditions to the internal and external pressures to move towards a modern society. Despite a number of serious structural impediments the country has considerable potential for development from its human resources, abundant natural resources, areas of magnificent natural beauty and a rich cultural history and traditions.

#### **4. PAST AND ONGOING EC CO-OPERATION : RESULTS, LESSONS AND EXPERIENCE**

##### **4.1. Summary of ongoing EDF actions**

EC support in the past has focussed on the transport sector (roads and sea) and rural development including agriculture, fishing and forestry. Support has been provided to the health and education sectors (formal and non-formal) and for capacity building within government. A structural adjustment programme in support of economic reforms (€4.2 mn.) was carried out in the context of a larger IMF, World Bank and Asian Development Bank supported programme. Assistance has been given to civic society and to the media during the tension and as part of the peace process.

Efforts have been made to gradually re-focus the ongoing programme to three areas. In each of these areas EDF is in financial terms a major player. The first is the education sector in the wider sense, i.e. including institutional capacity building and on-the-job training. The second sector is transport with interventions in both physical infrastructure as well as institutional capacity building and sectoral reforms. The third main area is support to grassroots development through the micro-projects programme.

The funds for the various interventions originated mainly from programmable resources through the National Indicative Programme (€20.9 million for 7<sup>th</sup> EDF, €19 million for 8<sup>th</sup> EDF), structural adjustment funds (€4.2 million) and from Stabex allocations (€41.8 million in 1998, €29 million in 1999). Budget resources have been used for forestry programmes and ethnic tension related rehabilitation (€2 million). The European Investment Bank provided three loans to the Development Bank of Solomon Islands (total €4.0 million) but the last intervention encountered difficulties as DBSI was not able to meet its commitments. A number of actions have been supported by the CDE. Finally, Solomon Islands benefited from the regional indicative programme in the areas of aviation, forestry and fishing including support to the Forum Fisheries Agency which is based in Honiara.

##### *Education and capacity building*

The objectives for the education sector are essentially twofold. The first one is to address the market needs, i.e. government and the private sector, for professionals. The Solomon Islands College of Higher Education, the National Institute of Public Administration and possibly other institutions require financial resources as well as management and accounting training. Similarly, the formal education system is being reformed so as to meet the future needs of the country. Finally the non-formal education sector, through the Rural Training Centres, provides education to those young people which have not been able to pursue their education in the formal schooling system. Similar to the transport sector, a start has been made to

fundamentally revise the education sector policy. Stabex 1999 funds have been entirely targeted to these efforts. The EDF assistance in the education sector is particularly recognised as the pre-condition and basis for specific donor interventions with the EU being the lead donor in the sector.

#### *Transport and communication*

The objectives of the interventions in the transport sectors are to improve the economic infrastructure in the short-term whilst at the same time building capacity to maintain and further improve this infrastructure. Past interventions, however, have been somewhat disconnected from one another. The need for concentration of efforts on road maintenance as opposed to road construction and on improving the marine sector in general was recognised and resulted in a series of actions aimed at establishing a general transport sector policy. This policy includes re-defining the role of government and of the private sector in the transport sector. More than 60% of the Stabex 1998 funds are being used to support these major structural reforms in addition to NIP funds. About 60% of 8<sup>th</sup> EDF funds are directed towards the transport sector. The EU is considered the lead donor with other donors consulting closely with the EU before engaging in specific interventions.

#### *Microprojects*

The micro-projects programme (€3.0 million) is particularly well suited to Solomon Islands because such projects provide an appropriate response to village needs in a flexible format. Microprojects also promote self-determination and active participation in development issues by grassroots groups. Microprojects indeed contribute to capacity building of grassroots groups as important members of Civil Society.

#### *Small enterprises*

The activities include setting up in a sustainable way rural fisheries centres, supporting capacity building in the eco-tourism sub-sector, revitalising credit sector for small businesses through the Development Bank of Solomon Islands.

A summary table the interventions under the 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> EDF is annexed (Annex 7).

## **4.2. Lessons and experience**

Evaluations (Rural Fisheries, RTCs, Stabex and MRIP) and reviews conclude that, by and large, past EDF projects have had positive and lasting impact more at the micro rather than at the macro level. A number of ministries and other institutions, clinics and schools, villages, farming communities and individuals have benefited from a wide variety of interventions.

Many times projects prospered during the first phase of implementation but ran into difficulties once they were handed over to the government or to the direct beneficiaries. Project design may have taken insufficient account of the relatively weak technical and managerial capacity of local beneficiaries or institutions and underestimated the need for long-term, rather than medium-term, training and other capacity building requirements. These requirements can only be addressed in a sustainable way by improving education standards, from primary to tertiary levels and including vocational training.

Over and above the difficulties at project level is the need to have a stable political and financial environment as well as government departments responsible for the project actually performing their duties and fulfilling their initial commitments. The EDF funded projects did not suffer as much in their implementation as expected initially. This is mainly due to the

substantial input in Technical Assistance and the funding of running costs for project management. In terms of capacity building this approach is, of course, not sustainable in the long term and will have to be revisited when the situation returns to normal.

### **4.3. Other donor programmes**

Donors are involved in a wide range of activities and as indicated above are expected to provide additional assistance to help the country cope with the devastating impact of the ethnic crisis.

The details of donor involvement, as at mid-2001, are shown in the donor matrix in Annex 2. This matrix covers the pre-conflict situation and was projected for the period 2000-2002. Many of the programmes are now off-track although commitments have not been withdrawn.

The social sectors receive substantial bilateral and multilateral support with the health sector receiving the larger part of bilateral assistance with additional involvement from the World Bank. The education sector is covered by various donors with the larger part being provided by the EC. Other donors indeed consider the EC's support to the sector as the foundation for their own targeted support.

The transport sector, mainly road construction and/or maintenance, benefits from multilateral assistance from ADB, Kuwait and the EC. The EC in addition provides substantial support to policy reforms in the sector and capacity building in particular.

Donors provide support for post-conflict stabilisation and rehabilitation in various sectors. Microprojects are funded by Australia, Taiwan and the EC.

The agricultural sector continues to receive support from the Republic of China with New Zealand and the EC have downscaled their inputs in absence of a long-term policy for reforms in the sector (including reform of CEMA). The EC's input focuses microproject type of interventions in the sector in the context of the post-conflict stabilisation programme.

Various capacity building actions are ongoing in the Ministries of Finance, Planning, Public Works, Health and Education. These are financed by Australia, the EC and the World Bank.

## **5. RESPONSE STRATEGY**

### **5.1. Steps taken immediately after the ethnic crisis**

The national policy responses to the crisis include in the short-term consolidation of the peace process and implementation of a macro-economic stabilisation programme.

In the aftermath of the ethnic tension, the short-term donor response has been to finance a post-conflict rehabilitation programme. Areas of concentration included the health and education sectors, micro projects or similar, infrastructure, police, water and electricity supply, peace process related activities, and actions aimed at de-centralisation of national responsibilities to the provinces. Under the Rehabilitation Budget Line, the Commission provided in 2000 a € 0.5 million programme for assistance to the displaced persons. Displaced persons will receive further assistance through a € 12.6 million Post-Conflict Rehabilitation package, agreed in July 2001 and funded from existing NIP and Stabex resources, which also includes emergency assistance to the education sector and the December 2001 elections.

In order to provide the basis for renewed economic and social development there is now an urgent need for a macro-economic stabilisation programme with essential support of the BWIs.

## 5.2. Possible focal sectors for EC support

Sectors, which are expected to remain a priority for the government for the medium term and which currently benefit from donor support are:

- health
- human resources development (education and capacity building)
- transport and communication
- rural development and community development
- development of natural resources
- small businesses and tourism
- police, judiciary

The above sectors have all benefited from EDF support in the past and a number of projects are still ongoing. A number of sectors (e.g. health, agriculture) continue receiving substantial support from other donors. The EDF is therefore no longer directly involved in these sectors.

Human resources development and to a somewhat lesser extent, the transport and communication sector, are arguably amongst the most essential areas to respond in a sustainable way to the immediate and medium term challenges facing Solomon Islands. The availability of sufficient managerial and technical capacity, obtained through good quality training and from formal as well as non-formal education, is a prerequisite for proper decision making at all levels and for economic, social, political and cultural development.

The improvement of education levels (primary, secondary, tertiary) and the strengthening of capacity is necessarily complemented by physical investments in order to accelerate economic and social returns on both the software (development of human resources) and the hardware (e.g. infrastructure).

This has been the view of the Government and the European Commission when allocating the Stabex 99 resources (€29 million) for the larger part (90%) to capacity building operations and education. Stabex 98 has been earmarked largely for transport infrastructure.

Small businesses support is, under the present circumstances, not an immediate priority but could become important once the situation has returned to normal.

The focal sector selected for our intervention under the 9<sup>th</sup> EDF is **Sustainable Rural Development and Community Development**, an area where EDF assistance has been forthcoming since several years. In order to assist further grassroots development beyond what is done through the existing Micro Projects programme (ending in 2003) it is proposed to allocate 85 % of Envelope A or €5.7 million of the amount to a micro projects phase II. This activity will be given an equitable nation-wide distribution.

There are strong reasons for the selection of this sector:

1. It takes into account other areas already covered by other interventions (see the chapter above)
2. The apparent demand for Micro Projects as demonstrated under Phase I (see Annex 5).
3. The sector responds very well to four of the six Medium Term Challenges as mentioned in Chapter 4.3 by bringing development without rudely disturbing the traditional rural

environment, promoting value added activities at village level, capacity building and promoting the process of decentralisation.

4. In term of planning and implementation the approach takes fully into account the administrative weakness of central and provincial Governments, which have been aggravated as a result of the ethnic conflict.
5. It gives full scope for the strengthening of Non-State Actors.
6. The Micro Project concept includes a local contribution component which fosters ownership of the individual projects.

Micro projects will contribute to the development of the village economy through the construction and operation of education, health, agriculture and other facilities as well as building capacity to develop and maintain social and economic infrastructure by government and communities. Micro-projects is a proven means to ensuring the alleviation of rural poverty. A feature of the micro-projects approach which helps encourage beneficiaries to maintain infrastructure is community ownership of the projects and the inclusion of their own contribution to the project costs.

Quality village based education and village services are an important means of strengthening the village economy. The strategic direction for the village economy will be to encourage greater production in the agriculture sector and the establishment of more village-based industries and services that will result in employment creation.

A successful intervention in this sector depends on high quality management in its implementation and conducive policy environment. Around 140 interventions can be foreseen. It is anticipated that around 20% of the rural population of Solomon Islands will benefit directly or indirectly from the Programme.

Outside the focal sector, 15 % of envelope A or €1.0 million will be directly allocated to Non-State Actors. Capacity building of Non-State Actors will be an important element in the Programme. Following earlier positive experiences under the 8<sup>th</sup> EDF Micro-Projects Programme, it is also envisaged that Non-State Actors will be important vehicles for the implementation of individual projects within the focal sector.

### **5.3. Consistency with Government Policy**

The proposal reflects one of government's policy priorities to improve living conditions in the rural communities. This would be done through community initiated and owned building or rehabilitation of basic rural infrastructure and income generating projects. This will in turn contribute to alleviating poverty. Women groups have been a beneficiary of the microprojects phase I and will continue to be.

The proposed intervention is coherent and complementary with existing EDF activities aimed at capacity building and upgrading of economic infrastructure.

The proposed microprojects intervention and further capacity strengthening assistance is furthermore in line with the principles outlined in the Cotonou Agreement to assist in the sustainable eradication of poverty in Solomon Islands.

### **5.4. Complementarity with other donors**

Australia and Taiwan are involved in medium/long term grassroots projects, but only in a limited extent.

There has been and is close co-ordination between the various donors (Australia,, Japan, New Zealand, Taiwan, United Kingdom, Asian Development Bank, International Monetary Fund, UNDP, World Bank).

Mechanisms such as regular meetings between donors will be maintained to ensure close co-ordination and optimal and complementary impact of donor support.

### **5.5. Involvement of non-state actors**

Consultation with representatives of the non-state sector have confirmed the need for further support to the rural communities.

NGO and Community based organisations currently benefit from EDF support through the existing micro-projects programme. A number of them indeed act as an intermediary between communities and the NAO. These organisations will continue benefiting from EDF support to strengthen their project initiation and management capacity. In addition, in accordance with the Cotonou Agreement, Non-State Actors will be granted a direct financial allocation from the 9<sup>th</sup> EDF Financial Envelope A, amounting to 15 % or €1.0 million, in particular for capacity building support in critical areas to reinforce their capabilities.

### **5.6. Other instruments available**

Solomon Islands is expected to continue benefiting from EIB and CDE support, albeit for relatively smaller interventions. Finally, Solomon Islands is anticipating increased support from the regional indicative programme.

Solomon Islands reaffirms its commitment to the Regional Integration objectives of the Regional Indicative Programme and will play its full role to ensure that these are realised. NIP resources may be used to complement regional resources in this regard especially in building trade analysis capacity.

### **5.7. Coherence with Community policies**

There are obvious linkages between the proposed response strategy for Solomon Islands and development policies advocated by the Community. First, the strategy is consistent with Article 177 of the EU Treaty. Two of its principal objectives are poverty eradication and sustainable development.

In fisheries, the EC will ensure coherence between its commercial interests in harvesting tuna from the Pacific, and the developmental imperatives of equitable returns, promotion of onshore fish processing and coastal fisheries, transparency in providing accurate information on fishing effort and catch, and strict adherence to the principles of resource conservation and sustainability.

## **PART B : SOLOMON ISLANDS NATIONAL INDICATIVE PROGRAMME**

### **6. NATIONAL INDICATIVE PROGRAMME**

#### **6.1 Introduction**

Within the general framework of the present Country strategy paper, the Parties have agreed on the main priorities for their co-operation and on the sector(s) on which the support of the Community will be concentrated. A detailed Indicative Programme including a set of tables on commitments and disbursement forecasts as well as a preliminary chronogramme is presented hereunder. It is based on the resources of the A-allocation.

#### **6.2.**

The EC Country Support Strategy for Solomon Islands will be financed through different instruments with following indicative allocations:

- (a) **9<sup>th</sup> EDF A-envelope** (€6.7 million). This amount shall serve to cover long term development operations within the framework of the Support Strategy. It is to be divided as follows:
- Sustainable Rural Development (85%)
  - Direct Support to Non-State Actors (15%)
- (b) **9<sup>th</sup> EDF B-envelope** (€7.8 million.). This will be mobilised to provide additional support when this becomes necessary as a result of external factors.

Apart from the above-mentioned financial instruments, of which the A-envelope is the main programmable basis for the Indicative Programme, the 9<sup>th</sup> EDF also includes the "Investment Facility" as a financing instrument managed by the European Investment bank (see Part A, chapter 5). The Investment facility does not form part of the Indicative Programme.

Specific action could be financed via budget lines, especially in the areas of decentralised co-operation, NGO financing, human rights and democracy. These are subject to specific rules and regulations and depend on availability of funds. Solomon Islands can also benefit from the Regional Indicative Programme or from trade specific operations, according to needs and availability of funds. More details will be discussed in the framework of the 9<sup>th</sup> EDF regional programming for the Pacific Island States.

#### **6.3. Areas of Concentration**

Within the general framework of the present Country strategy paper, the Parties have agreed on the main priorities for their co-operation (see previous chapter) and on the sector(s) on which the support of the Community will be concentrated. It is based on the resources of the A-allocation.

Amounts mentioned in this chapter indicate the global repartition of funds between the focal sector and other programmes. This repartition can be modified in the context of operational, performance or ad hoc reviews.

The Focal Sector is **Sustainable Rural Development**. The overall objective is to reduce poverty, social inequality and dependence on state intervention. The following specific

objective shall be pursued: to respond to expressed needs of rural communities for social and socio-economic development within their socio-cultural context.

85 % of envelope A or €5.7 million shall be reserved for this sector.

The major interventions foreseen are:

Successful completion of about 140 microprojects over a period of 4 to 5 years in the rural areas to contribute to:

- access to improved and/or extended social services (education, health, support to women and youth) and public utilities
- increased employment and income within target groups
- access to improved and/or extended economic infrastructure
- better organised and more self-reliant communities

From envelope A, the balance of 15 % or €1.0 million will be directly allocated to Non-State Actors, in particular for capacity building projects. Non-State Actors will also perform a major role in the implementation of the individual projects.

#### **6.4. Macroeconomic support**

The Indicative programme does not foresee macroeconomic support. However, in the light of changing circumstances, it may be decided to reallocate funds from other headings in the Indicative programme to this type of support. Such a decision may be taken by specific agreement between the Chief Authorising Officer and the National Authorising Officer or in the context of an operational, performance or ad hoc review.

### 6.5. 9<sup>th</sup> EDF Indicative Programme: Intervention framework in Rural Development

	<b>Performance indicators</b>	<b>Sources of verification</b>	<b>Assumptions</b>
<b>Long-term national sector targets:</b> Social and Socio-economic development of rural communities	Increased number of people having access to education, health, water and income generating activities.	Reports and statistics of Ministries of Planning, Health and Education.	
<b>Intervention objectives:</b> Improved access to education, health and water facilities.	Number of well functioning classrooms, health centres, water supply systems, income generating activities	Reports and statistics of Ministries of Planning, Education, Health.	Rural Development remains a priority for Government policy
<b>Results:</b> (1) 140 projects completed to create and rehabilitate social and economic infrastructure facilities. (2) Community contribution 25% to develop sense of ownership. (3) Improved Community skills to plan and implement projects.	Number of projects successfully completed  Full community contribution and participation  Quality of community management	Project reports  Mid-term review  Final evaluation  Delegation reports	Good quality of Project Implementation
			High quality management  Communities have the cash or other resources to contribute to project costs

## 6.6. ACTIVITY PIPELINE CHRONOGRAMME

Titles	Amounts (in €million)	Identification	Appraisal	Financing decision
Rural Development programme	5.7	2001/2	2002/1	2002/2
Support to NSAs	1.0	2002/1	2001/1	2002/2

## 6.7. Tentative forecast of estimated commitments of 9<sup>th</sup> EDF resources (€million)

		Cumulative commitments										
	Indicative total	2001/2	2002/1	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2
Rural Development programme			-	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Support to NSAs				1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
<b>TOTAL (cumulated)</b>		-	-	<b>6.7</b>								

## 6.8. Tentative forecasts of estimated payments of 9<sup>th</sup> EDF resources (in €million)

		Cumulative payments										
	Indicative total	2001/2	2002/1	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2
Rural Development programme				1.5	2.9	4.2	5.2	5.7	5.7	5.7	5.7	5.7
Support to NSAs				0.1	0.4	0.6	0.8	1.0	1.0	1.0	1.0	1.0
<b>TOTAL</b>				<b>1.6</b>	<b>3.3</b>	<b>4.8</b>	<b>6.0</b>	<b>6.7</b>	<b>6.7</b>	<b>6.7</b>	<b>6.7</b>	<b>6.7</b>

**ANNEX 1: Donor Matrix - period 2000-2002**

<b>Solomon Island Government Development Strategy</b>				
	Economic development	Social development	Productivity sector	Post-conflict rehabilitation
Government	Export / Industrial development in accordance with Townsville Peace Agreement	Education (scholarships), Rural Community development		Support to peace process
Non-state actors (NGOs, churches)		Non-formal education, village development, promotion of gender equality		Support to peace process
European Commission	Transport	Education, Micro-projects	Farmer support	
Republic of China (Taiwan)	Transport	Up-grading of Central Hospital, Micro-projects (Rural Constituency Development Fund)	Rice farming	Compensation for lost properties as a result of ethnic tension.
Australia	Strengthening of Ministry of Finance (financial management, customs)	Health, Education, Support to Police		Support to peace process, Community peace and restoration fund
Asian Development Bank				Infrastructure rehabilitation (schools, roads, bridges, water supply systems, clinics, prisons)
World Bank		Health, Education, Population planning		
United Kingdom		Primary Education		Emergency budgetary support (primary education)
Other	Honiara road up-grading (Kuwait)	Education (NZ), micro-projects (NZ), support to Police (NZ), Health (UN), Sports infrastructure (FIFA)		Emergency support to health sector (WHO)

## **ANNEX 2: Description of the programming process in Solomon Islands**

The ethnic tension has resulted in the collapse of the economic reform programme which had been in place from 1998 onwards. Medium term policies had to be abandoned in favour of short-term conflict resolution actions. People's minds, including staff in various government departments, were not oriented towards medium term planning but focused on the day-to-day crisis confronting the country. A revised medium term policy document formally adopted by Parliament or Cabinet and reflecting the new economic and social priorities and actions was not available.

In absence of these formal new policy guidelines the existing Medium Term development Strategy 1999-2001 was used as starting point for the present country support strategy even though it had been put aside. The assumption that the larger part of the MTDS would still hold once the ethnic tension would be resolved was verified with and confirmed by the NAO.

The programming process was furthermore hampered by the absence of up-to-date sectoral assessments and reliable economic and social statistics.

In order to overcome the existing handicaps in terms of availability of formal policy and other documentation a series of meetings were held with government officials and sectoral experts (transport, education, finance, agriculture, fisheries, microprojects,...) to provide an updated assessment of the status and main problems confronting the country's development. Inputs were also taken from IMF/World Bank assessments and reports and from regular co-ordination meetings with other donors.

The High Commission of the United Kingdom, the only EU Member State present in Solomon Islands was invited and commented on the draft. The draft strategy paper was reviewed with the NAO and staff of the Ministries of Finance, Planning, Transport and Education.

Non-state actors were informed of the strategy during a meeting organised jointly by the European Commission and the NAO. They were consulted on an ad-hoc basis during the process. They are expected to continue to play an important role in the implementation of the NIP as the micro projects concept is ideally suited to the type of assistance they can provide.

**Selected macro-economic indicators**
**ANNEX 3**

Nominal GDP (1999)

USD 359 million

GDP/capita (1999)

USD 879

	1996	1997	1998	1999	2000 proj	2001 proj
Real GDP growth rate (%)	3,5	-2,3	1,1	-1,3	-14,0	3,4
Consumer prices (end-of-period)	N/A	10,4	10,3	8,0	6,0	N/A

*Government accounts in million USD*

Government revenue and grants	34,7	29	35,5	38,6	29,5	37,5
Government expenditure	38,6	33,2	37,1	41,3	34	39,3
Overall balance	-3,9	-4,1	-1,6	-2,7	-4,5	-1,8
Domestic borrowing	0,9	3,4	-1,7	-0,7	5	0,6
Foreign borrowing	1,6	0,7	3,2	1,7	-0,5	1,2
Privatisation	1,4	0	0	1,6	0	0

*Money and credit (annual percent change)*

Net foreign assets	152,4	41,9	48,6	9	-37,8	11,6
Net domestic assets	-4,3	-6,3	-19,8	0,5	62,8	5,6
credit to government	-1,2	1	-20,6	-0,1	41	3,3
credit to private sector	5,1	10,1	25,3	8,3	7,7	12,8
Broad Money	15	6,7	4,8	4,9	9,5	7,4

*Balance of payments in million USD*

Exports, FOB	162,4	173,9	140,8	149,7	105,9	118,6
of which timber	98,4	83	40,7	46,2	45	51,2
fish	29,7	48,9	40,3	32,9	21,9	24,1
gold	0,1	0,1	14,1	37,2	18,2	20
other	34,3	41,9	45,6	33,4	20,8	23,4
Imports, CIF	-151,2	-209,4	-146,9	-140,1	-119,3	-134,2
Current account	12	-37,9	16,4	35,1	7,1	21,6
Percent of GDP	2,9	-8,7	4,6	9,8	2,5	7,4
Grants	53,5	40	56,3	56,3	28,6	51,2
Capital account	-2,6	31,9	3,7	-33,3	-24,6	-21
Overall balance	9,4	-6	20,1	1,8	-17,5	-0,6

Gross official reserves (million USD)	32,2	31,7	47,9	50,6	33,4	34
In months of imports	1,6	1,3	2,8	2,7	2,4	2,2

Government gross debt as a % of GDP (end-of-period)	49,7	53,4	55,4	58,9	75	71,2
domestic	23,9	22	22,1	21,4	29,3	27,7
foreign	25,8	31,3	33,2	37,5	45,7	43,5
in million of USD	104,2	106,4	118,1	128,3	126,7	130,2

Exchange rate SBD/USD, end-of-period	3,62	4,75	4,86	5,08	5,09	-
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Source :

- 1) IMF Staff report for the 2000 Article IV consultation, January 5, 2001
- 2) IMF "Recent economic developments", January 5, 2001

**GDP by sector of origin (in %)****in million SBD  
dollars**

<b>estimates in 1992 prices</b>	1996	1997	1998	1999	1996	1997	1998	1999
primary sector	173,5	175,6	161,1	154,6	17,8	18,5	16,7	16,3
of which agriculture	46,3	51	49,1	37,6	4,8	5,4	5,1	4,0
forestry	69,5	64,9	44,7	52	7,1	6,8	4,6	5,5
fishing	57,7	59,7	67,3	65	5,9	6,3	7,0	6,8
secondary sector	102,9	88,2	93	113,8	10,6	9,3	9,7	12,0
mining and exploration	0,2	0,2	16,7	41,1	0,0	0,0	1,7	4,3
manufacturing	37,9	38,3	39,6	39,6	3,9	4,0	4,1	4,2
electricity and water	17,5	18,8	19,8	20,9	1,8	2,0	2,1	2,2
construction	47,3	30,9	16,9	12,2	4,9	3,2	1,8	1,3
Tertiary	397,5	386,3	400,7	368,7	40,8	40,6	41,7	38,8
retail and wholesale trade	94,1	93,9	102,4	95,9	9,7	9,9	10,6	10,1
transportation and communication	45	41,7	52,3	37,2	4,6	4,4	5,4	3,9
finance	113,4	105,3	91,2	85,5	11,6	11,1	9,5	9,0
other services	145	145,4	154,8	150,1	14,9	15,3	16,1	15,8
Monetary GDP at factor cost	673,9	650,2	654,9	637,1	69,2	68,3	68,1	67,1
Non-monetary GDP at factor cost	166,2	170,6	175,1	182	17,1	17,9	18,2	19,2
Real GDP at factor cost	840,2	820,8	830	819,1	86,3	86,3	86,3	86,3
Taxes less subsidies	133,6	130,5	131,9	130,2	13,7	13,7	13,7	13,7
Real GDP at market prices	973,8	951,4	961,9	949,3	100,0	100,0	100,0	100,0
Nominal GDP at current market prices	1461	1612	1728	1739	-	-	-	-

Source:

- 1) IMF Staff report for the 2000 Article IV consultation, January 5, 2001
- 2) IMF "Recent economic developments", January 5 2001

**Basic population statistics 1999 population census data**

1. Total Population	1970	160,998
	1976	196,823
	1986	285,176
	1999	409,042
2. Annual Rate of increase, 1986 – 99		2.8%
3. Sex Ratio, males per 100 females		107
4. Life expectancy at birth	Males	62.2 years
	Females	65.3 years
5. Age groups, 1999	0 – 14	42%
	15 – 24	21%
	25 – 59	32%
	60+	5%
6. (provisional) infant mortality, per 1000 live births		28
7. (provisional) Total fertility rate, children per woman at child-bearing age		4.5 children
8. Children 5 – 14 years attending school		57 per cent
9. Literacy rate (15 years and over)	Total	76%
	Male	83%
	Female	68%
10. Economic Activities		
Population in paid work		57,472 (23% of Population greater than 14 years of age)
Population in unpaid work		111,905 (45% of population greater than 14 years of age)
Population looking for paid employment		28,000 persons
11. Percentage of households with the following facilities available		
Access to piped drinking water		52%
Modern toilet facility		23%
Electricity		16%
Working radio		41%
Bed-net		80%
12. Average household size, persons per household		6.3 persons

## ANNEX 4

### Sector of Concentration - Sustainable Rural Development

The activities under the sector of concentration will be undertaken within the framework of the Micro Projects concept. The experiences with the Micro Projects implemented under the 8<sup>th</sup> EDF are summarised hereunder.

The Micro Projects Programme in Solomon Islands (€ 3 million) commenced on 1 November 2000. The team consists of a Project Manager, Technical Adviser, locally recruited Engineer and a Secretary/Clerk.

During the set up period the team put together guidelines for the Programme and an application format which were available for distribution to interested parties. Procedures were developed for the Office and the appraisal and implementation of Projects. Standard forms were designed for appraisals and reporting, and for recording of receipts and payments and community contribution. Provincial centres were visited and the provincial planners and technical officers were briefed on the Programme. Six individuals were approached to serve on the Steering Committee which would meet monthly and these included a Director of an NGO and the President of the National Council of Women.

The Annual Work Programme commenced on 1 March 2001 and the team began to appraise the applications which had already been submitted. Since the terms of reference covered over eight different sectors and the funds had to be allocated over nine provinces a basis of distribution was established to allocate the annual budget to each province and then to each sector.

A preliminary appraisal form is completed for each application and reference is made to cost, number of beneficiaries and the risk and sustainability of the project. This form is then checked by another member of the team and a decision made as to whether to reject the application, obtain more details or recommend a site visit. During the site visit a meeting will be held with the community to confirm their agreement with the project and their willingness to meet the community contribution. Specific questions will be raised with the women of the community to ensure the gender issue has been addressed. If the results of the site visit are satisfactory a formal appraisal is carried out by the Project Manager and Technical Advisor and this is presented with the project proposal to the Steering Committee with their recommendations. At each meeting a list is also submitted of those projects which have been rejected and the reasons why.

Up to May 2001 five project proposals have been approved with a total funding value of € 110.000. One is a water supply project to complete over 40 village water projects in all provinces, there is a women's skills and business training project, a Provincial Ward Development and Strategic Planning Workshop (including Project Cycle Management), a school water supply project and the supply of an oil screw press for a rural training centre. With the return of normalcy following the ethnic conflict it is expected that project submissions will increase. There are several projects in the pipeline. Standard designs are now being produced for clinics, classrooms and staff houses together with material and labour costing and it is hoped and these will accelerate implementation

## ANNEX 5

### Medium Term Development Strategy

The initial period of the MTDS (conceive in the pre-conflict period) covered the three years from 1999 to 2001 but the implementation of the strategy was originally expected to go several years beyond 2001. Below is an extract from the MTDS with comments.

The overall goal of the MTDS is the attainment of a higher and sustainable level of economic growth consistent with a more equitable distribution of the benefits from economic development, amongst all Solomon Islanders.

#### 1. Macroeconomic and general policy reforms

The areas of concentration include the public finance and budget reforms, public sector reform, reforms of state-owned enterprises and facilitating private sector development.

Major progress was made between early January 1998 and early 2000 in each of the four above areas. The coup of June 5<sup>th</sup>, the change of government and the priority being put on obtaining peace resulted in the reform agenda being interrupted. In early 2001 the government announced the creation of the Ministry of Economic Reform and Structural Adjustment, the mandate of which is to revitalise the economic reform programme, including privatisation of State Owned Enterprises. No progress has been achieved to date.

#### 2. Sectoral strategies

The priority areas for the sectoral strategies include human resource development, improvement of physical infrastructure and natural resource development and environment and finally development of tourism, small businesses and foreign investments and trade.

##### *Education*

The objective of reform in education is to redirect resources to the majority of the population at the primary, secondary school and community education levels. Higher education will continue, but the level of public funding will be drastically reduced and redirected at the lower reaches of the education system.

Education has been and remains a priority for the government. This applies to secondary education and in the aftermath of the coup the government has recognised the need also to strengthen considerably primary level education.

##### *Health*

In the medium term, health reform will aim to shift resources towards preventive healthcare and encourage the public to meet the resource shortfall in curative health through user pay and other cost recovery schemes.

Similar to the education system health services have deteriorated, at national and provincial level, as a direct result of government's major financial difficulties after the ethnic tension. The sector is also considered a priority by the government.

##### *Women and youth*

Government will encourage a greater balance in gender roles, by creating more equal opportunities for females in all fields including education, employment and in decision-

making. Gender based violence towards women and children is recognised as a possible problem which is studied by UNPFA. The important role of the women in the Peace Process in Solomon Islands is widely recognised.

Policy will aim to harness the potential of the young through education, training and involving them in specific social and economic development programs at the community level.

#### *Transport and communication*

Substantial new investment was to be injected into the transport and communication sector for the construction of new roads and bridges, the rehabilitation and upgrading of existing roads and their maintenance. Marine transport and air navigation will also be improved.”

Substantial investments were to be made to upgrade roads in Guadalcanal and Malaita as about 90% of all road traffic is located in those 2 provinces. The government was committed to improve its maintenance capacity considerably, with donor assistance. Likewise, the government intends to improve marine infrastructure and domestic shipping services. Various initiatives were identified after the ethnic tension to employ jobless youths and ex-militants in labour based road and bridge maintenance programmes.

#### *Natural Resource Development (agriculture, forestry, fisheries)*

Key actions in the agricultural sector include promotion of rural development by increasing food production and improving living standards. Research and extension services should be provided to replace shifting cultivation by more intensive farming through technology transfer and better farm management. A second action is to promote expansion of plantation agriculture. Minimisation of land disputes through a faster registration of land will be pursued. Thirdly, policy action will be taken to improve tax collection from agricultural exports. Finally, the privatisation of State Owned Enterprises (SIPL, CEMA) will continue.

Relatively little progress has been made in implementing the above policy. A major reform programme was being identified with donor assistance but was put on hold during the ethnic tension.

Policy in the Forestry sector would aim to restore the logging rate to sustainable levels and strengthen sustainable management capacity.

Until early 2000 substantial efforts were underway to improve management of the forestry resources. A new and progressive forestry act was part of this policy. The results were partly undone during the tension but the government, keen to increase export revenue after the tension, intended to strengthen monitoring of logging and exports. Exploitation of the country's forest resources in a sustainable way is a major and essential issue, and has given rise to concern in the past, which continues in the present, equally in terms of the Government's cash crisis and loans from Taiwan. Existing forestry legislation has to be translated into practical measures.

Policy reform in the commercial fishery sector will be directed at inducing more foreign investment (capital, management, technology and marketing expertise) in the sector; developing more inshore facilities and reducing government ownership of companies in the sector. In fact Government's ownership of Solomon Taiyo has increased. Care is to be taken to ensure that the commercial exploitation remains sustainable. In the artisanal fishery sector most of the 31 fish centres established throughout the Solomon Islands have failed, largely because provincial administrations could not manage them. In the medium term, consideration will be given to privatising these fish centres or injecting more investment to build up management capacity. The artisanal fisheries sector is of

importance for the creation of rural income and have great value as a protein source in the local diet.

Similarly to the forestry sector there is a need for a long-term strategic plan to improve management of the country's vast fisheries resources and ensure their sustainable harvesting.

#### *Tourism and small businesses*

The government will support the development of tourism by ensuring that there is political and macroeconomic stability in the country. Offering appropriate incentives will encourage foreign and domestic investment (including indigenous Solomon Islands) to enter into the eco-tourism sector. Training will also be provided at all levels of the industry, including marketing and promotion, in order to raise the quality and international competitiveness of the tourism service.

The tourism sector was hard hit by the ethnic tension with tourist levels reduced to a minimum. In order to generate export revenues and jobs the government is committed in the longer term to revitalise the eco-tourism sector.

## Solomon Islands - EDF and budgetlines commitments and disbursements (OLAS Sheets)

ANNEX 6

NIP (total)	Primary commitments				Secondary commitments				Disbursements		
	Before 1999	1999	2000	Total	Before 1999	1999	2000	Total	1998	1999	2000
6th EDF (16,000,000)	15.276.905	0	150.000	15.426.905	14.953.386	-3.050	458	14.950.794	14.708.379	45.956	-5.835
7th EDF (20,900,000)	16.562.701	1.203.778	2.798.534	20.565.013	12.175.948	3.181.338	2.604.618	17.961.905	8.425.076	3.074.586	3.480.860
8th EDF (19,000,000)	0	1.953.000	11.044.000	12.997.000	0	0	2.446.200	2.446.200	0	0	629.347
<i>Sub-total</i>	<i>31.839.606</i>	<i>3.156.778</i>	<i>13.992.534</i>	<i>48.988.918</i>	<i>27.129.334</i>	<i>3.178.288</i>	<i>5.051.276</i>	<i>35.358.899</i>	<i>23.133.455</i>	<i>3.120.542</i>	<i>4.104.373</i>
SAP	Before 1999	1999	2000	Total	1998	1999	2000	Total	1998	1999	2000
8th EDF	0	3.700.000	500.000	4.200.000	0	1.800.000	389.000	2.189.000	0	1.800.000	0
<i>Sub-total</i>	<i>0</i>	<i>3.700.000</i>	<i>500.000</i>	<i>4.200.000</i>	<i>0</i>	<i>1.800.000</i>	<i>389.000</i>	<i>2.189.000</i>	<i>0</i>	<i>1.800.000</i>	<i>0</i>

STABEX	Commitments				Commitments (same as primary one)				Disbursements to joint account EU/ACI		
	Before 1999	1999	2000	Total	Before 1999	1999	2000	Total	Before 1999	1999	2000
6th EDF	31.268.105	0	0	31.268.105	31.268.105	0	0	31.268.105	31.268.105	0	0
7th EDF	8.097.193	0	0	8.097.193	8.097.193	0	0	8.097.193	8.097.193	0	0
8th EDF	182.989	41.820.222	0	42.003.211	182.989	41.820.222	0	42.003.211	182.989	0	41.820.222
<i>Sub-total</i>	<i>39.548.287</i>	<i>41.820.222</i>	<i>0</i>	<i>81.368.509</i>	<i>39.548.287</i>	<i>41.820.222</i>	<i>0</i>	<i>81.368.509</i>	<i>39.548.287</i>	<i>0</i>	<i>41.820.222</i>

EIB	Commitments				Commitments (same as primary one)				Disbursements		
	Before 1999	1999	2000	Total	Before 1999	1999	2000	Total	Before 1999	1999	2000
6th EDF	0	0	0	0	0	0	0	0	0	0	0
7th EDF	2.000.000	0	0	2.000.000	2.000.000	0	0	2.000.000	648.275	651.225	0
8th EDF	0	0	0	0	0	0	0	0	0	0	0
<i>Sub-total</i>	<i>2.000.000</i>	<i>0</i>	<i>0</i>	<i>2.000.000</i>	<i>2.000.000</i>	<i>0</i>	<i>0</i>	<i>2.000.000</i>	<i>648.275</i>	<i>651.225</i>	<i>0</i>

Budget lines	Commitments				Commitments (same as primary one)				Disbursements		
	Before 1999	1999	2000	Total	Before 1999	1999	2000	Total	Before 1999	1999	2000
Budget lines	450.000	0	1.316.620	1.766.620	450.000	0	1.316.620	1.766.620	450.000	0	1.316.620
<i>Sub-total</i>	<i>450.000</i>	<i>0</i>	<i>1.316.620</i>	<i>1.766.620</i>	<i>450.000</i>	<i>0</i>	<i>1.316.620</i>	<i>1.766.620</i>	<i>450.000</i>	<i>0</i>	<i>1.316.620</i>

<b>OVERALL TOTAL</b>	<b>73.837.893</b>	<b>48.677.000</b>	<b>15.809.154</b>	<b>138.324.047</b>	<b>69.127.621</b>	<b>46.798.510</b>	<b>6.756.896</b>	<b>122.683.028</b>	<b>63.780.017</b>	<b>5.571.767</b>	<b>47.241.215</b>
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## Actual payments for STABEX projects

	before 1999	1999	2000
EDF 6 and 7	31.268.105	1.800.000	1.500.000 balance of FMO 86-93 and 94-95
EDF 8	0	0	0 FMO signed end 2000