

POLICY DIALOGUE ON AID FOR TRADE

MANAGING AID FOR TRADE AND DEVELOPMENT RESULTS

Solomon Islands Case Study



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**Prepared for the Ministry of Foreign Affairs and External Trade,
Government of Solomon Islands
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EXECUTIVE SUMMARY

This is one of six country studies commissioned by OECD in response to global interest in understanding the results of aid for trade. The Solomon Islands is at the beginning of developing a trade policy and directing the efforts of development partners. It receives high levels of aid overall, but nominally low amounts of aid for trade. The study therefore presented an opportunity to consider the structures needed to develop stronger country positions on trade and, in the longer run, to attract additional support in this area.

The Solomon Islands is a small Least Developed Country, the poorest in the Pacific region. Growth has been rapid since 2003, but it has been based principally on the extraction of logs. There is an urgent need to diversify export earnings, to improve the supply side in order to take advantage of market access, and to pursue internal reforms.

In the National Development Strategy 2011-2020 (NDS) increasing growth and equity is a central theme, and improving the environment for private sector-led growth is an important element. Activities with trade dimensions are included in the strategy, but do not represent a comprehensive and measurable set of plans to address supply side constraints. The government is preparing a monitoring and evaluation framework for the NDS and seeking better donor co-ordination and alignment with the government's objectives and priorities. Systems to monitor outcomes at a national level and to integrate development partner activities into implementation and monitoring are therefore at an early stage of development. However, there are other models in the country, based on sectors or themes, for setting and tracking objectives and binding development partner support to nationally owned outcomes, which may offer a way forward for trade and aid for trade.

A Diagnostic Trade Integration Study (DTIS) was carried out for the Solomon Islands in 2009. The Government has accepted its recommendations, and action is being taken on a number of them. But the 80 recommendations do not in themselves form an operable policy. Developing a trade policy framework is an acknowledged priority. However, trade development efforts currently remain fragmented among different agencies. Development partners finance some activities, such as customs reform, which have trade-related elements, but none of the partners considers itself to have an aid for trade portfolio and none is being challenged to measure the benefits of its activities for trade.

Apart from putting in place a trade policy with measurable outcomes, other basic requirements are clear roles and responsibilities among the government agencies carrying out different parts of the trade agenda, and an institutional structure for the co-ordination of trade policy implementation. Further down the road, the country also needs a means of carrying out a structured dialogue with development partners about progress in trade policy and how additional aid, or different emphases within existing aid, might be beneficial

As a result of considering these issues the Ministry of Foreign Affairs and External Trade (MFAET), as the co-ordinating agency for trade policy, has determined that while a trade policy is under preparation it will start by initiating an evidence-based discussion among stakeholders based on data on some key trade-related measures. A simple draft matrix has been prepared. It received broad support at a workshop held in Honiara and attended by representatives of the government, the private sector and development partners. The draft will be finalised by early 2013, and arrangements will be made to reconvene interested agencies to review the data. Initial indications are that agencies

represented at the workshop welcome a more structured and collaborative approach to the consideration of trade issues.

The broader policy conclusions from the study are that:

- Putting the spotlight on aid for trade, in terms of measuring results or trying to build up volumes, is a low priority for countries where the institutional basis for using aid for trade, including an operational trade policy, is in the process of formation. It may be a distraction from the more basic choices that such countries, with the support of development partners, need to make about the direction they want to take in developing trade.
- The link between policy and practice in regard to aid for trade cannot be taken for granted among development partners. They may be committed in principle to providing and reporting aid for trade, but they need a strong lead from host governments at country level to engage in the trade agenda and a dialogue about how aid can help.
- One possible way to use the convening power of a trade co-ordinating agency constructively is to promote an evidence-based discussion among stakeholders, based on a limited range of indicators that can be adapted as policies are developed. Developing the habit of this sort of discussion is unlikely to be wasted effort, even if the set of indicators changes over time.

ABBREVIATIONS

CEWG	Core Economic Working Group
DTIS	Diagnostic Trade Integration Study
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
FDI	Foreign direct investment
ICT	Information and Communications Technology
LDC	Least Developed Country
MDPAC	Ministry of Development Planning and Aid Coordination
MFAET	Ministry of Foreign Affairs and External Trade
MCILI	Ministry of Commerce, Industry Labour and Immigration
MoFT	Ministry of Finance and Treasury
MSG-FTA	Melanesian Spearhead Group Free Trade Area
NDS	National Development Strategy 2011-2020
NIU	National Implementation Unit
PACER	Pacific Agreement on Closer Economic Relations
PICTA	Pacific Island Countries Trade Agreement
RAMSI	Regional Assistance Mission to the Solomon Islands
SIG	Solomon Islands Government
SOE	State-owned enterprise
WTO	World Trade Organization

Introduction

This is one of six country studies commissioned by the OECD in response to global interest in understanding the results of the significant and growing amounts of aid that are directed towards increasing and diversifying trade and maximising its potential social and economic benefits. Starting from the observation that many of the results currently available are from individual donor projects, the set of country studies aims to focus attention on identifying results that are meaningful for policy, not just for the purposes of tracking donor inputs; to promote the integration of results measurement at different levels of programme theory into a country's own performance information systems; and to document and disseminate good practice where it exists.

Compared with some of the other countries covered by these studies, the Solomon Island is, at the very beginning of managing aid for trade effectively. This study provided an opportunity for action learning rather than an analysis of experience. The process involved an external consultant working with the country's Ministry of Foreign Affairs and External Trade (MFAET) to identify the government's and development partners' concepts of trade and of aid for trade in the context of the Solomon Islands, and then working backwards to a practical starting point for further progress, namely development of a simple results matrix that would be a basis for:

- stakeholder discussion of key trade-related issues, which does not currently occur; and
- subsequent better informed dialogue with development partners about gaps and how external support could help to fill them.

The term "trade development" has been used in this report to cover the range of issues the Solomon Islands is addressing related to trade, including trade facilitation, investment and increasing productivity.

Background

The Solomon Islands is a small Least Developed Country (LDC) whose population is around 600 000. With GDP per capita of USD 1 030 (2010), it is the poorest country in the Pacific region. Around three-quarters of the population depends on agriculture. Growth has been rapid from a low base in 2003, following a prolonged period of civil unrest and violence known as the Tensions. This period was brought to an end through the intervention of the Regional Assistance Mission to the Solomon Islands (RAMSI). However, growth has principally been based on extraction of logs, which accounted for 46% of exports in 2011 (other major contributors were minerals 16%, fish 11% and palm oil 10%). The country faces a significant challenge in diversifying the economy away from logging, in particular by building up alternative mineral or agricultural exports. Analysis by the World Bank suggests that no single sector will make up for the loss of growth and revenue as forestry resources are exhausted.

The Solomon Islands is a member of the Melanesian Spearhead Group Free Trade Area (MSG-FTA), the Pacific Island Countries Trade Agreement (PICTA) and the Pacific Agreement on Closer Economic Relations (PACER). It is also a member of the World Trade Organization (WTO). It is active in negotiations with the European Union for an Economic Partnership Agreement (EPA) and in discussions on a follow-up to PACER, called PACER Plus.

The main destinations for the Solomon Islands' exports are East and South East Asia, particularly China. Non-oil imports come mainly from Australia. Despite market access arrangements, there are relatively few exports to Australia, New Zealand and the EU. A Diagnostic Trade Integration Study (DTIS) carried out in 2009 notes that the Solomon Islands, like many other LDCs and Pacific island economies, has considerable market access to both developed and developing economies. The key challenge is to develop the supply side to take advantage of this market access. The central

recommendations of that study and the 2009 WTO trade policy review of the Solomon Islands were to improve the country's capacity for trade and economic policy formulation and implementation, to pursue micro-economic reforms, especially reforms of state owned enterprises, and to align taxation and regulation of investment and production more closely with the multilateral trading system. Around one-third of domestically generated revenue comes from customs and excise duties, so that trade policy is intimately bound up with public financing requirements, a situation which further complicates the development of an effective trade regime.

The Solomon Islands depends on aid to finance its current account deficit and development needs. Following the RAMSI intervention in 2003, the country has received substantial external assistance for reconstruction and development, including for transport infrastructure. Aid receipts are about 25% of GDP, making the Solomon Islands the most aid-dependent of the larger Pacific Island countries.¹ Much of the aid received in the last nine years has been concentrated on restoring basic state functions, social provision and infrastructure; relatively little, apart from some analytical work, has been devoted to helping the country prepare for future challenges such as pursuing growth through trade. The Solomon Islands is among the lowest ten recipients of aid for trade in the world, as recorded in official aid statistics (an average share of around 8% of aid identifiable by sector in 2006-10²).

As with many other small states, human resource capacity in the Solomon Islands is extremely low. There are eight staff dealing with external trade, of whom three are in the National Implementation Unit for the Enhanced Integrated Framework (EIF) project. Two of the eight staff are expatriate advisers. Co-ordination mechanisms for issues which cross Ministry lines within the Solomon Islands Government (SIG) typically require regular momentum from senior levels, which is not always available. Analytical capacity is generally recognised as a systemic weakness.

Trade and development objectives and measurement

The aim of the SIG is to ensure that resource revenues and continued growth contribute to improving the quality of life of all Solomon Islanders in the next ten years. The country's development objectives are set out in the National Development Strategy 2011-20 (NDS). In accordance with SIG policy, they are centred on:

- employment and income earning opportunities;
- increasing household production and food security;
- improved national and rural infrastructure and connectivity;
- health, education, and the advancement of women and youth;
- the business environment;
- increased productivity in mining, agriculture, fisheries, forestry and tourism;
- climate change and disaster management; and
- improved governance.

¹2011 IMF Article IV report. The ratio has fallen since 2006, when at 61% it was one of the highest in the world.

² Given the high proportion of aid expenditure on transport infrastructure, this figure may be understated.

There are trade-related elements throughout the NDS, notably in areas dealing with small business development, transport, and ICT infrastructure. But the objective which covers business and trade policy is NDS objective No 5: *to increase economic growth and equitably distribute employment and income benefits.*

Within this broad objective, measures to improve the environment for private sector-led growth include removing regulatory obstacles to investment and business activity and a “trade policy focused on increased sustainable trade in goods and services by addressing supply-side constraints and taking advantage of opportunities in existing bilateral, regional and multilateral trade and economic agreements.” Although trade is stated to be the core of growth, the trade-related actions listed in the Strategy – preparation of a trade policy, pursuit of international trade agreements, mainstreaming of trade considerations in national and sector policies, improved statistics and legislation, and diplomatic outreach – are typically activities for an external trade *department* but do not yet amount to a comprehensive and measurable set of plans to address supply side constraints. These constraints are addressed, to some extent, commodity by commodity in productive sector strategies. However, trade policy for important export products is dealt with as an extension of production rather than in the context of national trade priorities, making it more difficult to identify cross-cutting priorities for strengthening the supply side and synergies between the requirements of different products.

A recognised weakness of previous attempts at national-level planning has been a lack of systems within SIG for monitoring, evaluation and reporting.³ Moreover, while many development partners generate monitoring and evaluation information, SIG does not necessarily participate in the process or, consequently, own the results or have the ability to demand information enabling SIG to manage towards its own objectives. To address these problems, two related initiatives are planned by the Ministry of Development Planning and Aid Coordination (MDPAC):

- a monitoring and evaluation framework for the National Development Strategy
 - A draft, which is in circulation for consultation, aims to deal with the shortage and unreliability of domestically generated data due to reliance on indicators that are measured by international data or a public survey carried out by RAMSI. It is outcomes-based, but the time lag between changes in policy or public sector inputs and changes in international data sets will be significant;
- renewed efforts to engage with the management and monitoring of development partner programme and activity cycles
 - The NDS identifies the need for better donor co-ordination and alignment with the government’s objectives and priorities, consistent with international commitments. It is recognised that this will require strengthening of capacity in MDPAC and line ministries to influence designs, implementation and monitoring.

In respect of measuring results from aid for trade within nationally owned monitoring systems, the following conclusions can be drawn:

- Comprehensive arrangements for monitoring national outcomes are at very early stages of planning.
- Even if this were not the case, there is currently no coherent trade theme within the NDS that could be measured as part of national outcomes.

³ National Development Strategy, section 9.2

- Assessing the effectiveness of aid is seen as very much the business of government, not just development partners; but it is recognised that there is little capacity either centrally or in line ministries to do this.
- Assessing the additionality of aid over government efforts is problematic in the Solomon Islands, where aid provides 80% of development expenditure. To the extent that the country can afford to invest in monitoring and evaluation, it is pragmatic to focus first on the results of total public expenditure, including aid, rather than attempt straight away to identify the results from aid.

Other means of measuring results and exercising mutual accountability have, however, emerged within different parts of SIG. For example, Australia and other development partners have worked with the Ministry of Health to develop information systems that track specific outcomes of drug availability, distance from health services, bed net coverage, and facilities with safe water and access to specialist maternal and child health services. The results are used in regular discussions about the management of SIG and development partner programmes. A further example is the Core Economic Working Group (CEWG) covering economic and financial management issues. This is possibly of more interest to staff managing trade policy because, like trade, it is multi-sectoral in coverage.

The CEWG was created in 2009 to co-ordinate development partner support for the Solomon Islands in the aftermath of the global financial crisis. It brings together SIG and representatives of the World Bank, the Asian Development Bank (ADB), the European Union (EU), Australia and New Zealand, and RAMSI. The CEWG introduced initiatives to deal with immediate economic and financial problems and has subsequently served as a forum for sequenced financial management and microeconomic reforms, which are captured in a policy matrix of SIG commitments. Progress against policies triggers performance payments from a number of development partners. The assessment of government and development partners is that the group has increased the predictability and flexibility of development partner funding and enabled development partners to align more closely with government priorities; and that it has promoted an honest and open dialogue. The key elements have been agreement on the urgent necessity of reform and on priorities for action, and strong political backing from SIG (the CEWG is chaired by the Finance Minister).

Development partner programmes

The Solomon Islands' significant development partners fall into four main groups:

- RAMSI, which operates under a partnership with SIG that is separate from the partnerships with contributing countries. RAMSI has been a significant development partner in its own right, channelling funds for the stabilisation and reform of law and justice, economic and public financial management, and the machinery of government. The non-policing elements financed by Australia will soon transition to the Australian bilateral programme;
- development partners such as Australia, New Zealand and the EU, which provide programmatic investment in specific sectors and flexible performance-based aid. Australia and New Zealand both operate target-based partnerships with the Solomon Islands for their main sectors;
- partners whose support is mainly based on discrete capital projects (Japan and Taiwan) and specific technical assistance; and
- multilateral agencies (ADB, World Bank, UN system) providing policy advice and technical assistance in their areas of expertise and, in the case of ADB, substantial grant investment in transport infrastructure.

In principle, all development partners align their programmes with the current national development strategy. However, the potential for SIG-led sector programmes to bind development partners to common results and aid delivery methods depends on how long sectoral relationships have been in place. Genuine alignment with SIG priorities is variable. Nevertheless, development partners would welcome greater direction from the government in respect of emerging policies.

A number of activities supported by development partners have direct or indirect trade implications. Apart from transport infrastructure, these include technical assistance for: tax reform in general and reform of the mining tax regime in particular; customs modernisation; reform of state-owned enterprises; reducing the costs of business inputs; increasing access to financial services; and meeting processing and phytosanitary standards in Australia and New Zealand for horticultural and agricultural products. However, all these activities have different origins and policy emphases, and none has been designed as a response to a prioritised set of Solomon Islands-led actions in pursuit of trade targets.

No development partner has a trade specialist in its resident office, and in general none sees itself as having an aid for trade stream in its programme. Indeed, it comes as a surprise to some development partners to be told that their activities have a trade dimension.

The Solomon Islands and the EIF

As noted above, the Solomon Islands has benefited from a range of analysis of the context and priorities for trade policy in the country. In October 2012, following early support from the Enhanced Integrated Framework (EIF) to prepare the Diagnostic Trade Integration Study (DTIS) and set up institutional arrangements to implement it, a full-fledged Tier 1 project was approved by the EIF Board to strengthen the National Implementation Unit (NIU) for the EIF (including in monitoring and evaluation). The objectives are:

- to enhance capacities to formulate, manage, implement and monitor trade-related technical assistance and aid for trade in support of country's trade development agenda;
- to support SIG in trade mainstreaming (*e.g.* into national development strategies);
- to strengthen public-private consultation mechanisms (regular dialogue on contemporary economic and trade issues); and
- periodic review/stock-taking and updating of DTIS and support for its implementation.

Even with increased capacity, there will be a limit to what the NIU can do, given the very broad set of issues identified for action in the DTIS and the difficulties of co-ordinating across government. Its influence will need to come from the quality of its analysis and communication, rather than its ability to direct change. Hence it is important to find simple mechanisms that will help the NIU and MFAET, more widely, to begin to build interest around a consistent set of trade issues. The remainder of this report focuses on what is possible in this respect in the Solomon Islands context.

Building blocks for managing for development results in trade

It is clear that the Solomon Islands still needs to put in place a number of building blocks that would allow an analysis of how well the country is doing in developing trade and, further down the road, how effective aid is in supporting that progress. These are, at a minimum:

- a national trade policy
 - The Solomon Islands has accepted the recommendations of the 2009 DTIS, and action is being taken on a number of them. But the 80 recommendations do not in themselves

form an operable policy. Without progress on the other building blocks, updating the DTIS risks being a multiplicity of policy prescriptions without the fundamentals to implement them. The Solomon Islands has the nucleus of a trade policy in its agreed positions on regional trade talks. Building on these to develop a policy framework is an acknowledged priority. Support is available from the Pacific Islands Forum Secretariat.

- clear roles and responsibilities
 - There is diffused responsibility for trade within SIG. MFAET leads on external trade, but important decisions about the domestic investment and trading climate are made by the Ministry of Commerce, Industry, Labour and Immigration (MCILI) and Ministry of Finance and Treasury (MoFT) while development partner support is managed by the Ministry of Development Planning and Aid Coordination (MDPAC). Productive sectors and infrastructure have their own ministries. In the absence of clear institutional arrangements, incentives for participation in co-ordination discussions vary and responsibilities are often a matter for repeated negotiation.
- an institutional structure for the co-ordination of trade policy
 - The Solomon Islands has a National Steering Committee for the EIF, which has met to discuss priorities for external support, particularly from the EIF itself. However, it does not currently have a mandate to discuss trade policy more generally or to track the progress of aid for trade. There is presently no forum in which trade issues are regularly discussed with the private sector. There is a prospect of change, with proposals having been prepared, subject to Cabinet approval, to transform the Committee into a National Trade Development Council (NTDC). National co-ordination takes place to prepare Solomon Islands positions for international trade negotiations, but it could be more frequent, take place on the basis of better understanding by stakeholders, and be more inclusive.
- a basic means of tracking progress
 - While accepting that the results of trade policy are complex and need to be tracked at different levels, it is important to begin at the simplest level. The policy imperatives for trade in the Solomon Islands currently revolve around achieving greater volumes of primary commodity exports and, to some extent, higher levels of tourism. The focus of interest is on understanding what returns are immediately available from government action. Using the typology set out in the OECD paper “Managing Aid to Achieve Trade and Development Results: An Analysis of Trade-related Targets” (COM/DCD/TAD(2012)12), the Solomon Islands is at present primarily concerned with results at the level of direct outcomes (competitiveness and openness). Ideally, the results tracked should be derived from the national trade policy, but equally they can be drawn in the interim from a process of building consensus about what the important factors to track are.
- a means of structured dialogue with development partners
 - There is currently no forum in which trade-related results can be shared with development partners. One option would be to integrate trade policy commitments into the policy matrix for the CEWG. That agenda is already crowded, however, and it may be better to start a separate, more informal but still evidence-based dialogue on the effectiveness of trade development efforts and the opportunities for aid for trade.

Towards a national results framework for trade

There are conceptual constraints on a national results framework for trade, in addition to the institutional constraints listed above. Trade is not a “bounded” problem for which inputs are necessary and sufficient to bring about outcomes. On the contrary, trade outcomes (at the level of trade volume, trade diversification, and the impact of trade on human development) arise from a complex interplay of external and domestic factors over which governments have variable degrees of control. Governments of small states like the Solomon Islands have severe capacity constraints, even by the standards of larger countries in the same income group, and their ability to influence the factors affecting trade outcomes is particularly limited. Therefore, they face the question: If we have to match the co-ordination and implementation of trade policy to our capacity to influence outcomes, and so our trade policy is deliberately partial at this stage, how do we prioritise activities for inclusion? The same question applies to maintaining a results framework: If we cannot measure everything, where do we start?

The Solomon Islands hopes to benefit from the experience of other countries included in the current set of country studies in establishing indicators at levels appropriate to the monitoring and analytical capacity of small states. In the meantime, MFAET has concluded that the best way to use the concepts and momentum from the study is to develop a simple results matrix for trade outcomes *as a starting point* for unifying consideration of trade issues across government. As part of following up on the study, the concept of the matrix and its draft content were discussed at a stakeholder workshop in Honiara. The matrix and the further work to be carried out on it represent the main follow-up to this country study. For details, see Annexes 1-3.

Next steps

Completing the matrix. MFAET will continue consultations with ministries and the private sector, including agencies not represented at the workshop, to narrow down and complete the matrix. Consultations may reveal that proposed indicators are difficult to measure, or that there are better indicators available. Negotiations will need to be undertaken with possible providers of information on the frequency and level of detail of information to be provided. The result will be circulated to those consulted. The matrix will not be a finished product. For one thing, if the national policy framework comes up with a different set of indicators, attention will need to pass to these indicators. Moreover, it is likely that the process of discussing results will itself lead to expansion and modification. One important potential ally not yet brought into the process is the National Department of Statistics.

Create space for policy discussion. MFAET has discussed with members of the National Steering Committee of the EIF a widening of its terms of reference to become the oversight body for trade co-ordination in the country. The terms of reference will include ownership of the results matrix and discussions based on the results. This will require Cabinet approval.

Continue discussions with MDPAC. In principle, it is important that as a national monitoring framework emerges, trade considerations are captured and the implications of progress or lack of it in key areas related to trade are set out for policy makers. There are no trade-related outcomes in the current MDPAC draft of the monitoring framework for the NDS. Discussions on this issue have been initiated between MFAET and MDPAC. However, as the NDS monitoring arrangements are currently designed, they do not call for integration of sectoral monitoring frameworks at the national level and leave considerable space for determination of sectoral objectives and monitoring mechanisms. It may be more realistic to accept that the national and sectoral processes are different, are aimed at different audiences, and can be allowed to evolve to a certain extent independently.

Create a forum for dialogue with development partners. MFAET will consider arrangements to extend the life of the reference group for the current case study to form a forum for discussing with

development partners the state of support for trade development efforts.⁴ Possible subjects for future consultations include the development of a national trade policy framework.

Develop a national trade policy. As noted above, this is in MFAET's work programme. The Pacific Islands Forum Secretariat was fortunately able to participate in the workshop, and will provide continuity of support for the ministry.

Conclusions

The Solomon Islands is *still in the process of determining its trade priorities*. It is not yet in a position to give a strong lead to development partners on its requirements for support for trade development, or to provide a conceptual framework for the trade-related activities currently in place. There is therefore no aid for trade "portfolio" recognised by SIG or development partners on the ground. The Solomon Islands is also in the process of setting up performance measurement systems that will allow SIG to make judgements about the effectiveness of aid, but these are not yet in place.

Putting the spotlight on aid for trade, in terms of measuring the results or trying to build up volumes, is a low priority for the Solomon Islands at present, and may be a distraction from the more basic choices that SIG, with the support of its development partners, needs to make about the direction it wants to take in developing trade.

The immediate priority is to provide *a more structured basis for consideration of trade policy and implementation* than exists at present. A simple evidence base to underpin such consideration is one starting point, which is within the control of MFAET as the co-ordinating ministry. In these circumstances it matters less what is in the trade results matrix, as long as it forms an acceptable starting point for stakeholders, than that an attempt is made to collect the evidence base and structure dialogue around it.

There is every likelihood that as the main source of export revenue dries up, the political profile of trade will increase. Once a trade policy framework is in place and the results matrix is adapted to it, *more coherent discussions can take place with development partners* about priorities for support, and the policy and its results framework can be used as the context for the design and monitoring of development partner inputs. This approach is not new in the Solomon Islands. It is already being used in some sectors, and for wider economic policy through the CEWG.

Additional resources for the NIU provide an *opportunity for MFAET to exercise greater leadership within SIG* and other stakeholders through improving communications, disseminating information including results from tracking the matrix, and maintaining contacts with development partners.

⁴ The Joint Government-Donors Round Table on Aid for Trade is included in the EIF Tier 1 project activities, so the reference group for the current case study will be transformed into the forum to discuss trade development agenda/issues.

ANNEX 1: A RESULTS MATRIX FOR TRADE IN THE SOLOMON ISLANDS

During a preliminary visit in July 2012, the consultant worked with MFAET to develop a draft results matrix. The principles underlying this draft were:

- Start small – no more than 15 indicators to begin with (the draft allows for cutting down).
- Be specific – ideally keep the required outcomes within the control of one entity in the country.
- Be realistic – stick to outputs and outcomes which are important, but where the prospect of collaboration from stakeholders is higher.
- Pitch the outputs and outcomes to be measured at a level that is sufficiently close to current departmental programmes.
- As a starting point, use trade-relevant activities which are already under way. Although they may not have a specific trade development focus now, including them in the trade agenda will help to sharpen that focus.
- Use existing measurement and reporting systems where possible.

The principle of developing a results framework was discussed at a reference group meeting primarily attended by development partner representatives on 2 August 2012. The meeting agreed that the proposed work was a practical way of harnessing potential interest within SIG and the development partners in trade development. The note prepared for the meeting is at Annex 2.

The draft was discussed at a stakeholder workshop on 24 October 2012 attended by representatives of relevant ministries, the private sector and development partners. Attendees were asked to agree or disagree that the proposed indicators were appropriate measures of trade development, and to suggest other indicators, or issues for which indicators might be found, currently missing from the draft. They were also asked how they would want the results, once collected, to be used.

The discussion in itself was evidence that there is a lively interest in broad trade issues in the Solomon Islands which is not being systematically tapped. The conclusions were that all the indicators except No. 5 (increased savings from employment) were interesting and appropriate indicators. Suggestions for further areas for investigation included:

- Development of a national trade policy framework (in conjunction with indicators 8 and 9);
- Infrastructure development that deals with key trade bottlenecks;
- The country's record in regard to having shipments of horticultural and agricultural produce accepted at export destinations;

- Better certification and standards;
- The existence of small and medium-sized enterprise policy and growth in SMEs; and
- Access by provinces to trade and investment information.

It was suggested that the priorities for the private sector were greater foreign direct investment, tax reform and customs efficiency.

Participants agreed that results should be disseminated through print and electronic media and made available to decision makers.

Participants were also asked why their organisation was interested in knowing about the results from trade-related activities in the Solomon Islands. The answers are presented in Annex 3. The main motivation, which can and should be built upon in further consultations, is to provide better service and information to clients; the second most cited motivation was that it would help the organisation to better understand trade development and its own role in it.

Format for Trade Results Matrix

Output (current work programme)	DTIS matrix reference	Outcome (result hoped for in three years, or according to agency work programme)	SIG agency responsible (person/contact)	Comment (e.g. importance to trade agenda, ease of measuring success)
1. Review of customs policy, procedures and documentary process to ensure ICT reform through the development of functional system prototype	4.3, 4.4	Reduced document requirement and processing time for imports and exports, leading to higher placement on Trading across Borders element of Doing Business indicators. <i>Need to check with CED that the reforms will produce this outcome</i>	Customs and Excise Division ...	A key part of facilitating trade and important to improving Solomon Islands' reputation Output measured and verified through CEWG matrix. Outcome measured by Doing Business
2. Reduce discretionary tax and duty exemptions.	5.2	Business reports tax regime is more transparent	MoFT	Output measured and verified through CEWG matrix. Outcome may be difficult to measure
3. Fiscally sustainable Community Service Obligation agreements for SOEs in place; increasing number of SOEs progressively to comply with SOE Act	1.5	SOEs providing efficient service, making expected returns and operating market related pricing. <i>Check actual expected outcomes and means of measurement</i>	MoFT	Output measured and verified through CEWG matrix. Outcome measured through MoFT assessments
4. Legislation for a mining tax regime	1.2	Higher levels of investment in mining. <i>Check what is currently measured</i>	MoFT	Output measured and verified through CEWG matrix
5. Reform tax regime to encourage savings from employment		Higher rates of saving. <i>Is this measured? CBSI? And does it have a sufficient link to trade?</i>	MoFT	NDS commitment (objective 5) should be captured in reporting on the NDS
6. Prepare a development-focused investment policy to promote private sector	3.1 and NDS Objective 5	Higher rates of foreign and domestic investment. <i>Check sources – CBSI reports FDI applications but may not have actual investments</i>	-	FDI is usually easier to measure than domestic. <i>Investigate possibility of using domestic bank lending as a proxy?</i>

investment, consistent with the NDS objectives				
7. Pursue negotiation to remove barriers to temporary and long-term migration that are restricting access to foreign labour markets	6.10 and NDS objective 5	Increased remittances. <i>Check sources – CBSI?</i>	MFAET	Most Pacific countries can measure remittances
8. Develop an inclusive and nationally owned framework to co-ordinate trade negotiations	5.7 and NDS objective 5	Solomon Islands negotiates developmentally beneficial trade agreements	MFAET	Need to develop definition of “developmentally beneficial”
9. Establish National Trade Development Council (NTDC) and strengthen the Department of External Trade	4.1, 5.6	Government has a wider source of advice on trade policy; results regularly reviewed; ministries and private sector understand trade implications of policy and are better informed about outcomes of trade negotiations. <i>These need tightening as outcomes</i>	MFAET	
10. Develop a national trade policy framework (in conjunction with indicators 8 and 9)		A National Trade Policy Framework prepared/published	MFAET	
11. Infrastructure development that deals with key trade bottlenecks				

ANNEX 2: NOTES FOR REFERENCE GROUP MEETING, 2 AUGUST 2012

The OECD pilot studies on managing aid for trade are aimed at eliciting good practice in developing countries in setting out trade policy; mainstreaming it in national and sector policies; determining the place of aid in delivering on trade policies, and development partner alignment with national policies; and measuring the results of country and aid contributions to changes in trade-related indicators. The overall objective is to inform developing countries on a set of standardised options for managing aid for trade towards national objectives. In the event of there being no trade-related results framework in the country, the study is intended to describe what an appropriate framework might be, and what capacity would be needed to create it.

The study will suggest that *managing aid for trade is not a priority for the Solomon Islands at present*, at least not in the systematic way suggested by the terms of reference for the studies. Greater priority needs to be given to:

- developing a national trade policy (under way);
- strengthening the institutional framework for embedding trade policy across government and broadening participation in trade policy decisions; and
- opening a dialogue with development partners about trade issues, without creating a new aid “sector”.

This is not another gap analysis. There is plenty going on in the country that is relevant to external trade, but it needs to be brought together in a compelling way in an appropriate forum.

The Ministry of External Affairs and Trade will take the opportunity of the study to create a simple results matrix for trade over the coming months, using the following principles:

- Start small – no more than 5-7 indicators to begin with.
- Be specific – ideally keep the required outputs within the control of one entity in the country.
- Be realistic – stick to outputs and outcomes which are important, but where the prospect of collaboration from stakeholders is higher.
- Pitch the outputs and outcomes to be measured at a level that is sufficiently close to current departmental programs not to require a lot of evaluation capacity to establish the links.
- Seek the views of ministries and the private sector on current priorities and their suitability for being included in a results matrix. This will include negotiation on how much information ministries and their development partners could be expected to supply.
- Use existing systems where possible and build a relationship with the National Statistics Office.

The matrix will be discussed with the National Steering Committee for the Enhanced Integrated Framework with a view to it becoming the forum in which results are discussed. The NSC already oversees the strengthening of trade-related capacity in some areas.

Individual consultations will be held with ministries and possibly with development partners on priorities and information sources. A draft results matrix that balances breadth of coverage with MFAET's capacity to monitor and report will be developed and presented to this group in late October. The process will be documented and will form the basis of the case study. But more importantly, possible outputs for Solomon Islands are:

- a more evidence-based discussion in an appropriate forum of progress on implementing trade policy, which can be adapted as the trade policy emerges;
- a greater awareness among ministries of everyone's role in promoting trade; and
- the possibility of drawing advice and assistance from development partners within their existing programmes.

What will be needed from ministries?

- agreement to work with MFAET staff to identify priorities and results from current work programmes;
- participation in discussions on a broader role for the National Steering Committee; and
- participation in a reference group workshop in October 2012.

What will be needed from development partners?

- occasional advice and guidance to the MFAET team;
- participation in a reference group workshop in October 2012; and
- nomination of a contact point willing to engage in discussions on behalf of the agency on trade issues into the future.

ANNEX 3: MOTIVATIONS FOR BEING INVOLVED IN TRACKING RESULTS

Numbers of workshop participants citing the specific reason for their organisation being interested in tracking results of trade development in the Solomon Islands (some participants cited more than one reason):

Provide better service and information for clients (farmers, association members)	7
Helps me to do my job better / provides analytical background / puts my work in context of overall trade efforts	4
Seeing the results on trade of my organisation's aid activities	2
Opportunity to advocate for clients' interest	1
Contribute to tracking results from organisation's own information sources	1
Opportunity to align aid activities better to Solomon Islands' real needs	1