

**FOR
AGENDA**

SM/09/251
Supplement 2

September 23, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Solomon Islands—Staff Report for the 2009 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2009 Article IV consultation with the Solomon Islands (SM/09/251, 9/23/09), which will be brought to the agenda for discussion on **a date to be announced**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Solomon Islands indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Cowen (ext. 37207) and Mr. Tokuoka (ext. 36844) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, October 1, 2009; and to the Asian Development Bank and the European Commission, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

SOLOMON ISLANDS

Staff Report for the 2009 Article IV Consultation—Informational Annex

Prepared by the Asia and Pacific Department

September 21, 2009

| | Contents | Page |
|---|----------|------|
| I. Fund Relations | | 2 |
| II. Support from the Pacific Financial Technical Assistance Center..... | | 4 |
| III. Relations with the World Bank..... | | 5 |
| IV. Relations with the Asian Development Bank..... | | 8 |
| V. Statistical Issues..... | | 10 |

ANNEX I. SOLOMON ISLANDS—FUND RELATIONS

(As of August 31, 2009)

I. Membership Status: Joined September 22, 1978; Article VIII

| II. General Resources Account: | SDR Million | Percent Quota |
|---------------------------------------|--------------------|----------------------|
| Quota | 10.40 | 100.00 |
| Fund holdings of currency | 9.85 | 94.73 |
| Reserve position in the Fund | 0.55 | 5.29 |

| III. SDR Department: | SDR Million | Percent Allocation |
|-----------------------------|--------------------|---------------------------|
| Net cumulative allocation | 8.36 | 100.00 |
| Holdings | 7.72 | 92.26 |

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

| Type | Approval Date | Expiration Date | Amount Approved | Amount Drawn |
|-----------------|----------------------|------------------------|------------------------|---------------------|
| Million) | | | (SDR Mission) | (SDR |
| Stand-by | 6/22/1983 | 6/21/1984 | 2.40 | 0.96 |

VI. Projected Payments to Fund:

(SDR Million; based on existing use of resources and present holdings of SDRs):

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------|-------------|-------------|-------------|-------------|-------------|
| Charges/Interest | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

VII. Implementation of HIPC Initiative: Not applicable.

VIII. Implementation of MDRI Assistance: Not applicable.

IX. Exchange Rate Arrangements:

Since November 2000, the exchange rate for the Solomon Islands (SI) dollar has been based on a trade-weighted basket of its major trading partners' currencies, with the U.S. dollar as the intervention currency. The Solomon Islands now maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

X. Last Article IV Consultation:

The 2008 Article IV Consultation discussions were held in Honiara during July 16-25, 2008. The staff report (SM/08/358, September 10, 2008) was considered by the Executive Board and the consultation concluded on October 20, 2008.

XI. Technical Assistance:

| Date | Department | Purpose |
|--|-------------------|---|
| January 2005 | PFTAC | Financial reporting system |
| February 2005 | PFTAC | Financial supervision of insurance |
| April 2005 | PFTAC | Financial supervision |
| May, August, and October 2005; and February 2006 | MFD | Financial supervision of insurance |
| May 2005 | PFTAC | Tax policy and administration |
| August 2005 | MFD | Reserve management |
| August 2005, February and April 2006 | PFTAC | Statistics |
| September 2005 and February 2006 | PFTAC | AML/CFT |
| October 2005 | LEG | AML/CFT |
| November 2005 and July 2005 | STA | Monetary and Financial Statistics |
| January 2006 | PFTAC and LEG | Tax policy |
| April and June 2006 | MFD | Central Bank Accounting |
| May, August, and October 2006 and January 2007 | PFTAC | Public Financial Management and Accounting |
| October 2006 | MCM | TA program monitoring |
| October 2006 | MCM | Financial sector supervision |
| October 2006 | MCM | Reserve Management |
| December 2006 | PFTAC | Business Revenue Reform |
| February 2007 | PFTAC | Balance of Payments Statistics |
| February and November 2007 and May 2008 | PFTAC | National Income Accounts |
| March 2007 and March 2008 | MCM | Accounting |
| February 2008-February 2009 | STA | Peripatetic Export on Import Price Index Statistics |
| February-March 2008 | PFTAC and FAD | Tax Policy |
| April 2008 and February 2009 | PFTAC | Balance of Payments Statistics |
| June 2008 | LEG | Review of Central Bank Act |
| April 2008-April 2009 | MCM | Peripatetic Advisor to CBSI |
| June and September 2008 and June 2009 | MCM | Monetary Operations and Liquidity Management |
| July 2008 | STA | Money and Banking Statistics |

XII. Resident Representative: None

ANNEX II: SOLOMON ISLANDS—SUPPORT FROM THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTER¹

Over the past few years, support for the Solomon Islands from the Pacific Financial Technical Assistance Center (PFTAC) has focused on the following areas:

Tax policy and administration: A PFTAC mission in December 2006 and follow up visit in May 2007 assisted the authorities in the preparation of a project plan for implementing business revenue reform. A joint FAD-PFTAC regional mission took place in February–March 2008 and recommended strategies for addressing future revenue needs, with a follow up visit in May 2008. However, the government’s revenue policy remains to be finalized.

Bank supervision and examination: A PFTAC mission in October 2008 reviewed the implementation of Basel I by the Central Bank of Solomon Islands (CBSI) and the adequacy of regulatory reporting requirements for banking institutions. A follow-up mission in February 2009 completed the review and revised the reporting requirements. During these visits, PFTAC Advisor also provided assistance and training to the CBSI supervision staff in the proper use of regulatory enforcement actions and conduct of an onsite examination of the National Provident Fund. Additional visits are planned to assist the CBSI in strengthening its off-site monitoring and analysis of banking institutions through the introduction of formalized output analysis reports to be generated by the new regulatory reporting forms. PFTAC also will provide support for an IT expert in August 2009 to assess the CBSI’s computer needs and reconfigure the current FRE\D database used by the Supervision Department to accommodate the new regulatory reporting requirements and forms.

Statistical issues: A monetary and financial statistics (MFS) mission visited in July 2007 to assist the CBSI in moving towards the *MFS Manual 2000* reporting standards. During a two-year period ending February 2009, a PFTAC statistics advisor and short-term experts undertook eight visits to the Solomon Island to assist the authorities strengthening compilation of balance of payments statistics, developing import prices statistics, and improving the quality and timeliness of national accounts statistics. Constant price GDP estimates have been rebased to 2004 prices. A follow-up mission on national accounts statistics is planned for February 2010.

¹ The Pacific Financial Technical Assistance Center in Suva, Fiji, is a regional technical assistance institution operated by the IMF with financial support of the Asian Development Bank, Australia, Japan, Korea, and New Zealand. The Center’s aim is to build skills and institutional capacity for effective economic and financial management that can be sustained at the national level. Member countries are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu.

ANNEX III: SOLOMON ISLANDS—RELATIONS WITH THE WORLD BANK GROUP
(As of August 2009)

The Solomon Islands has been a member of the World Bank since the country's independence in 1978, receiving 11 IDA operations to date totaling US\$63.4 million in education and health, roads and rural development, and energy, as well as a structural adjustment credit. Following the repayment of all outstanding arrears in 2003, the Solomon Islands emerged from nonaccrual status, and country relations were normalized. The Solomon Islands qualifies for grant funding under the IDA Debt Sustainability Framework and is eligible for an IDA15 allocation of US\$9.8 million.

The World Bank Group's (WBG) assistance is motivated by the need for reengagement in a low capacity, post-conflict country, while recognizing the abundance of donor funds. Bank activities in the Solomon Islands are currently addressed under the *Regional Engagement Framework FY06–FY09 for Pacific Islands*. However, the World Bank and International Finance Corporation (IFC) are now preparing a joint stand-alone *Interim Strategy Note* addressing the period FY10–12. The opening of a WBG country office in 2008, together with the Asian Development Bank (AsDB), reflects increased institutional and regional commitment to small and fragile states.

The Bank's current activities in the Solomon Islands are concentrated in the following areas:

Energy: The Bank has two projects under implementation in the energy sector. The first is the Sustainable Energy Project comprising an IDA14 grant of US\$4.0 million, which aims to support reform of the Solomon Islands Electricity Authority by enhancing its operational efficiency, system reliability and financial performance and by strengthening its financial and operational management through a commercialization program, with a view to reducing power losses and increasing the reliability of generation and distribution systems. The Tina River Hydropower project, currently under preparation, is expected to reduce the country's high level of dependence on imported diesel, while providing a more reliable and sustainable power supply. The Bank's contribution will take the form of a partial risk guarantee, based on US\$4 million in IDA resources. The regional Sustainable Energy Finance Project provides US\$0.5 million in loan guarantees for the purchase of household sustainable energy systems—a scheme implemented by the Central Bank of Solomon Islands.

Telecommunications: The Bank is providing technical assistance (TA) to the government to examine ways to improve the competitiveness of the sector, in order to reduce telecommunication costs and improve service quality and coverage, in particular outside Honiara. Supported by a proposed US\$ 3.8 million IDA operation, this work will (i) assist government in managing the transition from a monopoly to competition; (ii) establish a regulator with the appropriate legal, regulatory, and technical expertise; and (iii) assist in

implementing a sustainable, self-financing connectivity program for rural and remote areas. Board consideration is anticipated for end 2009.

Rural Development: The Bank launched the Rural Development Program (RDP) in February 2008, focusing initially on four provinces. The program is expected to expand to include the remaining provinces in 2010. Implemented by the Ministry of Development Planning and Aid Coordination, the RDP aims to raise the living standards of rural households by (i) providing local services and basic infrastructure through community grants; (ii) increasing the capacity of Ministry of Agriculture and Livelihoods to provide agriculture extension services; and (iii) supporting rural business development. Approved in September 2007, total project financing is approximately US\$21.8 million including an IDA grant (US\$3.2 million), EC grant (US\$10.1 million), and AusAID grant (US\$ 6.6 million).

Health: A Health Sector Support Technical Assistance Program was approved in March 2008 with an IDA grant of US\$1.2 million, complementing the larger AusAID Health Sector Support Program SWAp with TA for the Ministry of Health and Medical Services in (i) public expenditure management and medium-term planning at the provincial level; (ii) sector performance monitoring; and, (iii) training and capacity building. Following initial implementation delays, project activities are expected to start in October 2009.

Economic Analysis: In 2008, the government requested World Bank and IFC support to identify sources of revenue to replace the anticipated decline in logging, which in 2008, accounted for 16 percent of GDP, 60 percent of exports, and 18 percent of government revenue. This initiative aims to encourage policy changes and actions by government, donors, and the private sector to increase economic growth based on realistic assessments of the medium-term fiscal outlook and growth prospects across key sectors of the economy. The work has three streams: (i) Near and Medium-Term Growth Prospects to 2013; (ii) Long-Term Growth Prospects, 2013 and Beyond; (iii) case studies of customary land tenure carried out by the Bank's Justice for the Poor program. The first stream has been completed, with preliminary findings presented in March 2009; the second stream will be finalized in the latter half of 2009.

In addition, the Ministry of Finance and Treasury (MoFT) has asked the World Bank to assist in undertaking a *Public Expenditure Review* (PER). The move to a PER reflects the desire of the ministry to improve public financial management (PFM), and as such forms an important component of Government's response to the Public Expenditure and Financial Accountability (PEFA) conducted in late 2008. The PER will be critical to overall improvements in PFM, maximizing the development impacts of the government's limited resources, as well as rationalizing financial flows and spending at the provincial level.

Rapid Employment Program (REP): The REP will be a labor-based public-works program to create employment in Honiara and peri-urban settlements. It will provide an alternative

source of income to those most vulnerable to the effects of the global financial crisis and contractions in government spending, with the overarching objective of helping to reduce risks of social instability. The REP aims to (a) address unemployment, underemployment, and poverty; (b) augment basic life skills and household incomes, particularly for the working poor; and (c) increase economic productivity through investing in the maintenance of infrastructure assets.

Regulatory Simplification and Investment Policy and Promotion Project (RSIPP):

Undertaken by the IFC's Investment Climate Advisory Services, the RSIPP fosters public-private dialogue to bring about simplifications in business processes and improvements in investment climate. Components include streamlining business startup and licensing, reducing the time and cost of contract enforcement, improving investment promotion, and speeding up and making more affordable land transfers. A gender component seeks to assess and reduce gender-based barriers to private sector participation. In the area of business licensing, the IFC is coordinating closely with the AsDB.

IFC Investments: IFC is considering substantial loan and equity positions in a mining enterprise (Gold Ridge mine), which is expected to resume production soon. The project has two main components: (i) the rehabilitation of the processing plant and equipment by an engineering contractor, and (ii) the redevelopment of the mine and associated costs of infrastructure. IFC is also actively pursuing potential investments in sustainable agriculture and fisheries.

ANNEX IV: SOLOMON ISLANDS—RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of August 2009)

Since joining the Asian Development Bank (AsDB) in 1973, the Solomon Islands has received 16 loans amounting to US\$79.3 million, nine grants amounting to US\$53.6 million and 61 technical assistance (TA) projects amounting to US\$18.3 million. The Solomon Islands is eligible for Asian Development Fund (ADF) grants available to countries that are very poor, heavily indebted, or in a post-conflict situation. The AsDB approved ADF grants of US\$5.0 million and US\$14.0 million in 2007 and 2008, respectively. The 2007–08 ADF allocations for the Solomon Islands succeeded in catalyzing substantial grant cofinancing from the governments of Australia and New Zealand, the European Commission, and the Regional Assistance Mission to Solomon Islands (RAMSI).

The AsDB's country assistance strategy seeks to reduce poverty by promoting equitable private-sector-led economic growth through improved transportation infrastructure and services and a stronger business-enabling environment.¹ An Interim Country Partnership Strategy (2009–11) is being prepared for approval in September 2009. Capacity development and the promotion of good governance are guiding priorities. In light of the global economic turbulences, the AsDB is adjusting its operations to support the government in terms of mitigating the impacts, currently through analytical support and adjustments in the design and delivery of investment projects to increase local content. AsDB assistance is currently provided entirely on a grant basis and, in line with government policy, no new lending to the country will be provided until public finances stabilize.

In transport infrastructure, the AsDB supports the institutional strengthening of the Ministry of Infrastructure Development. Investment projects, all grant funded, include an Emergency Assistance Project in response to the 2007 earthquake and consequent tsunami that is rebuilding damaged roads, bridges, wharves, and water supplies; the Solomon Islands Road Improvement Project to rehabilitate roads and bridges; the Domestic Maritime Support Sector Project for the establishment of a franchise shipping scheme for services to remote locations and the construction of selected wharves. A transport sector development project is being prepared for approval in 2010.

AsDB operations in private sector development focus on business law reform, public enterprise reform, and access to finance. Specific interventions include the modernization of the company registry; establishment of a secured transactions registry; and selected state-owned enterprise (SOE) reform, privatization, and public–private partnership support.

¹ The Country Strategy and Program Update 2007–09 can be found at <http://www.adb.org/Documents/CSPs/SOL/2006>, and the Country Operations Business Plan 2009-2011 at <http://www.adb.org/Documents/CSPs/SOL/2008/COBP-SOL-2008.pdf>.

These interventions complement recent reforms such the passing, in March 2009, of the new Companies Act and Companies (Insolvency and Receiverships) Act.

The AsDB's Pacific Liaison and Coordination Office in Sydney is responsible for country programming, project implementation, and administration, supported by the Pacific Operations Division in Manila.

Solomon Islands: Loans, Approvals, and Disbursements, 1999–2007
(In millions of U.S. dollars)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Loan approvals | 10.00 | -- | -- | -- | -- | -- | -- | -- | -- |
| Loan disbursements | 0.00 | 0.00 | 0.00 | 0.00 | 0.89 | 2.76 | 4.09 | 3.75 | 0.073 |
| Cumulative loan amount approved (as of end-of-year) | 79.31 | 79.31 | 79.31 | 79.31 | 79.31 | 79.31 | 79.31 | 79.31 | 79.31 |
| Cumulative net effective loans (as of end-of-year) | 54.30 | 64.05 | 64.83 | 65.87 | 66.31 | 79.31 | 79.31 | 79.31 | 79.31 |
| Cumulative disbursements (as of end-of-year) | 54.07 | 54.07 | 54.07 | 54.30 | 55.16 | 57.91 | 62.00 | 65.75 | 65.82 |

Contact person: Eugenie Zhukov, Regional Director, Pacific Liaison and Cooperation Office, AsDB Sydney (ezhukov@adb.org).

ANNEX V. SOLOMON ISLANDS—STATISTICAL ISSUES
As of September 1, 2009

| I. Assessment of Data Adequacy for Surveillance | |
|---|-------------------------|
| General: Data provision has some shortcomings, but is broadly adequate for surveillance. | |
| <p>National Accounts: Recent technical assistance (TA) from the Pacific Financial Technical Assistance Center has led to improvements in constant and current price GDP estimates. Revised estimates have been produced for 2005 to 2007, but await final analysis before being published. Currently, GDP estimates produced by the National Statistical Office differ from those used by the Central Bank of Solomon Islands (CBSI). No official expenditure-based GDP estimates are published. A census survey, which will be a basis of future GDP estimates, is scheduled to be completed later this year. While limited data on employment can be obtained from the National Provident Fund, wage data are not compiled. In light of the inadequacy of labor statistics, the authorities plan to conduct a <i>Labor Force Survey</i> in 2011.</p> | |
| <p>Price statistics: A monthly consumer price index (CPI) is produced with a short lag (about a month), but covers only the capital Honiara. The weights of this index were revised in 2007, based on the results of the 2005–2006 <i>Household Income and Expenditure Survey</i>. The authorities plan to compile a nationwide CPI, and have already compiled a list of goods to be contained in the basket. However, the timing of actual compilation is unclear due to lack of funds. TA has been provided on the development of an import price index but, due to resource constraints, there has been little progress in implementation.</p> | |
| <p>Government finance statistics: Currently, annual fiscal data are prepared for the central government, but they do not cover provincial governments. Tentative monthly revenue and expenditure data are available, but they are generally not consistent with annual statistics. The authorities started collecting disbursement information on donors' grants in 2006. The quality of public debt data has been improved recently through better coordination between the Ministry of Finance and Treasury and the CBSI. To expand coverage of general government activity, major state-owned enterprises' financial accounts have recently been produced for the first time up to 2007, with accounts for 2008 expected to be available by late 2009.</p> | |
| <p>Monetary and financial statistics: The CBSI publishes monthly monetary and financial statistics (MFS) in summary form and provides more detailed data in its quarterly and annual reports. An integrated monetary database is operational as a result of TA from the IMF's Statistics Department, and MFS are reported to the Fund using the standardized report forms (SRFs). A follow-up mission is scheduled for January 2010 to derive the SRFs for the other depository corporations and other financial corporations based on a soon-to-be introduced call report form to collect balance-sheet data from reporting corporations.</p> | |
| <p>External Sector Statistics: The CBSI has been compiling quarterly balance of payment statistics (BPS) using its own survey since 2006. Compared to the previous method, which was based on foreign exchange transactions reported through the banking system, the newly compiled BPS has improved both coverage and data accuracy. However, these quarterly data have not yet been reported to the IMF's Statistics Department, and only annual BOP data are currently available in the Balance of Payments Statistics Yearbook up to 2006.</p> | |
| II. Data Standards and Quality | |
| Solomon Islands does not participate in the General Data Dissemination System (GDDS). | No data ROSC available. |
| III. Reporting to STA (Optional) | |
| No data are currently reported to STA for publication in the <i>Government Finance Statistics</i> . | |

Solomon Islands: Table of Common Indicators Required for Surveillance
(As of September 1, 2009)

| | Date of latest observation | Date received | Frequency of Data/7 | Frequency of Reporting/7 | Frequency of Publication/7 |
|---|----------------------------|---------------|---------------------|--------------------------|----------------------------|
| Exchange Rates | 31/07/09 | 18/08/09 | D | M | M |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities/1 | 30/06/09 | 24/07/09 | W | M | Q |
| Reserve/Base Money | 30/06/09 | 24/07/09 | M | M | M |
| Broad Money | 30/06/09 | 24/07/09 | M | M | M |
| Central Bank Balance Sheet | 30/06/09 | 24/07/09 | M | M | Q |
| Consolidated Balance Sheet of the Banking System | 30/06/09 | 24/07/09 | M | M | Q |
| Interest Rates/2 | 30/06/09 | 24/07/09 | W | M | Q |
| Consumer Price Index | 30/06/09 | 21/07/09 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing/3 – General Government/4 | NA | NA | NA | NA | NA |
| Revenue, Expenditure, Balance and Composition of Financing/3– Central Government | 31/12/08 | 23/07/09 | A | A | A |
| Stocks of Central Government and Central Government-Guaranteed Debt/5 | 31/12/08 | 20/07/09 | A | A | A |
| External Current Account Balance | 30/06/09 | 24/07/09 | Q | Q | Q |
| Exports and Imports of Goods and Services | 30/06/09 | 24/07/09 | Q | Q | Q |
| GDP/GNP | 31/12/08 | 19/07/09 | A | A | A |
| Gross External Debt | 31/12/08 | 20/07/09 | A | A | A |
| International Investment Position/6 | 30/06/09 | 24/07/09 | Q | Q | Q |

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

7/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).