

# State Society and Governance in Melanesia

DISCUSSION PAPER

Discussion  
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## THE HIDDEN MECHANICS OF SOLOMON ISLANDS BUDGET PROCESSES – UNDERSTANDING CONTEXT TO INFORM REFORMS

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### INTRODUCTION

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In the first half of 2009 the Solomon Islands Government froze portions of its budget in the face of severe financial pressures. This followed several years of very strong revenue and expenditure growth during which the Solomon Islands Government appropriated increasingly large proportions of revenue to the consolidated development budget. This paper examines this budget from 2004-2008. It argues that for a variety of reasons much of Solomon Islands Government development spending over this period was poor, and that to improve budgetary outcomes in the face of weak future revenue, the consolidated development budget needs strengthening. In doing so, this paper suggests practical steps that Solomon Islands Government and donors could support to improve budgetary outcomes.

### WHY LOOK AT THE CONSOLIDATED DEVELOPMENT BUDGET?

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This paper examines the development funds managed by Solomon Islands Government (SIG) from 2004 to 2008 (called the consolidated development budget<sup>1</sup>). This may appear dry, but correctly interpreted, provides a wealth of information about how the SIG operates. First, because budgets aim to efficiently allocate resources to meet objectives, an analysis can present a better indication of the SIG's priorities than formal pronouncements, policies, or plans. Second, because the budget is the culmination of a process, examining the process illustrates how SIG operates. For example, whether the budget delivers high quality social services or benefits certain individuals, examining how this occurs offers important insights for reformers hoping to improve budgetary outcomes.

PETER  
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Examining this budget also comes at an important time for SIG financial management – in April 2009 SIG reserved portions of its budget appropriation, effectively freezing unessential spending (Solomon Star 2009). SIG now has to manage its funds more effectively than ever, particularly because future revenue prospects are weak (IMF 2008). Indeed, the IMF recently recommended that SIG restructure the budget to “enhance the transparency and accountability of spending by both the central government and line ministries to ensure that monies are not misspent” (IMF 2008). The analysis in this paper will hopefully be useful in this regard.

## **BACKGROUND TO SOLOMON ISLANDS**

The Solomon Islands has a population of approximately 500,000 and is located in the South-West Pacific. From 1998-2003 ethnic tensions engulfed parts of the country and government largely ceased to operate. A multilateral intervention led by Australia (the Regional Assistance Mission to the Solomon Islands (RAMSI)) arrived in 2003 and restored law and order. It also directed significant resources to help SIG rebuild the country, including the strengthening of its financial management. In 2008 the World Bank continued to classify the Solomon Islands as a fragile state<sup>2</sup>.

## **SIG BUDGET STRUCTURE**

Like many countries, SIG has a recurrent and development budget. The recurrent budget is prepared by Ministry of Finance and Treasury (Finance) and meets ongoing expenses such as salaries, utilities, consumables, and debt repayments. The majority of financial management is performed by Finance, and for this reason the majority of donor support and engagement on financial management is with this ministry. However, the development budget is prepared by the Ministry of Development Planning and Aid Coordination (Planning), which receives very little donor support. SIG development

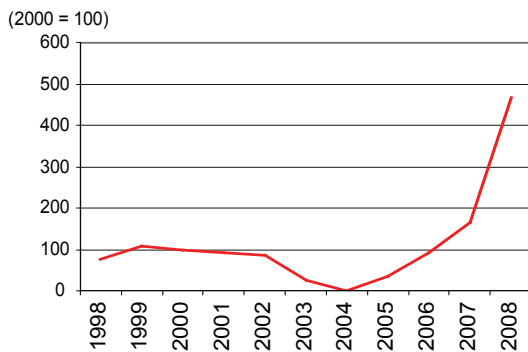
spending, which one could consider revenue that exceeds recurrent requirements, is used for one-off expenditures such as capital works or development projects. It is, hence, often used for complex undertakings with implications for future recurrent costs.

The development budget process is also the principal SIG process for coordinating donor assistance. Whilst this paper does not examine this aspect of the development budget, the traits it exhibits have implications for aid coordination. Given the scale of development assistance, which from 2004-2008 was far larger than SIG revenue, donors and SIG need to both consider how they can support this part of the SIG budget process.

## **SIG DEVELOPMENT SPENDING**

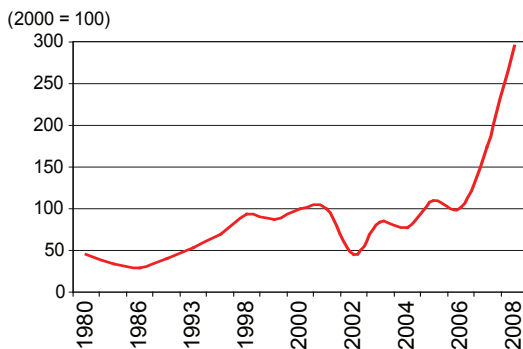
Between 2004 and 2008 SIG revenue is estimated to have increased at a remarkable 27% *per annum* (SIG 2008a), driven by unsustainable logging and large donor aid inflows (IMF 2008). This prompted a surge in SIG spending, so that by 2007 it had overtaken revenue and depleted cash reserves (IMF 2008). This unsustainable spending growth led the SIG's Medium Term Fiscal Strategy to urge spending cuts.

The spending surge was particularly noticeable in the development budget; from 2004 to 2008 consolidated development budget appropriations<sup>3</sup> more than doubled each year. As can be seen in figure 1, by 2008 they were five times greater than their 10-year inflation adjusted average. This growth, from just 9% of SIG's entire (recurrent and development) appropriation in 2004 to 23% by 2008, strongly suggests that over this period the SIG made funding its development budget a priority. It also suggests that the majority of donor support for financial management, which was concentrated in Finance, will have found it harder to support SIG's overall budget processes.



**Figure 1.** Change in SIG expenditure in the Development Estimates. (Source 2008 Development Estimates).

The composition of the development budget tells us about specific SIG priorities. Of particular note was the rapid growth in grant funds<sup>4</sup> managed by Members of Parliament (MPs). In 2007, 31% of consolidated development spending went on these grants, which after adjusting for inflation, is far above their historical average (figure 2). It is noteworthy that over this period the rapid increase in MP managed funding was also seen in the neighbouring countries of Papua New Guinea and Vanuatu.



**Figure 2.** Change in Consolidated (SIG and ROC) Development Expenditure funding for Rural Community Development grants. (Source SIG Development Estimates 1980 - 2008).

Unfortunately the quality of this spending is questionable, being *fraught with allegations of misappropriation, unfair distributions, and outright conversion* (SIG 2003). Yet it is precisely these allegations that make such grants appealing. First, it enables MPs to meet the demands of their constituents, whether they be a passage home, school

fees, or otherwise; 69% of Solomon Islanders consider the job of an MP is to help the individuals in his or her electorate (ANU 2007). Second, it presents an opportunity for personal gain, either through graft or by bestowing patronage - running an election campaign is expensive, and an MP's meagre salary necessitates some form of reimbursement. Indeed, it is noteworthy that Members of Parliament felt their delivery of goods and services to constituents was perceived by state institutions to be acts of corruption, whereas they were acting in response to long-held cultural expectations of them as community leaders (Hayward-Jones 2008). Third, SIG has struggled to deliver services, and MPs' impatience with the ability of the public service to quickly implement development projects has led some to believe that they can better meet the needs of their people directly. Taken together, this makes the impact of MP administered grant funds highly questionable, and dependent largely upon the individual MP. It may also be why only one MP reported on the use of their grants in 2007<sup>5</sup>.

Reducing the demand from MPs for these grants will be difficult; an analysis of past budgets shows that during the 1998-2003 tensions, despite a collapse in revenue that prevented SIG delivering most essential services, MP administered grant spending actually grew slightly, so that in 2001 it consumed 18% of all SIG revenue.

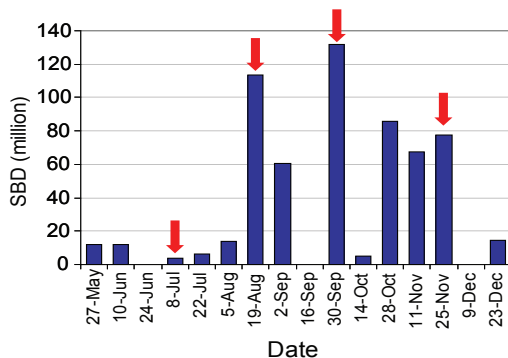
In addition to the growth in MP administered funds, the development budget shows a strong growth in grants managed by 'productive sector'<sup>6</sup> ministries. In 2007, nearly half of all consolidated development spending was on these grants. This spending is slightly more transparent than that of MP administered grants, for expenditure is processed through Finance. However, when these ministerial grants have been examined by the Office of the Auditor General, the findings were alarming. For example, the Tertiary Scholarships Program suffered a *gross failure of budgetary procedures, with decisions made by government officials outside the normal ...approach and with Ministerial favouritism applied* (SIG 2007a).

The remaining fifth of the 2007 consolidated development budget was spent principally on constructing or refurbishing buildings.

## PREPARATION OF THE DEVELOPMENT BUDGET – A GLIMPSE OF INFORMAL PROCESSES

In preparing the development budget, all ministries are meant to submit spending proposals to Planning for appraisal. These proposals often take lots of time and effort to prepare, and require a suite of skills that are in great demand across SIG. Once received, Planning appraises the spending proposals, consults with relevant ministries, and discusses funding options with donors. Ultimately Planning recommends specific proposals to Cabinet for domestic funding as part of the budget process.

Unfortunately, adherence to this process is poor. Figure 3 was prepared by Planning (SIG 2007b), and illustrates the submission of 2007 development budget proposals. Time is across the horizontal axis, and the value of development budget submissions in million of Solomon Islands Dollars (SBD) is on the vertical axis. As can be seen, spending proposals arrive throughout the year. 95% of all spending proposals by value arrived after the initial deadline (first arrow).



**Figure 3.** Value of new proposals each fortnight during 2006. (Source: Presentation by SIG Ministry of Development Planning and Aid Coordination).

When the deadline was extended by six weeks (second arrow), many more spending proposals arrived. This followed a concerted effort by Planning officers to engage with officials in line ministries –

numerous individuals responded positively, and genuinely strove to meet deadlines. Often these individuals simply were unaware of due process, or lacked specialist skills that Planning were able to augment - a capacity constraint in line ministries, if you will.

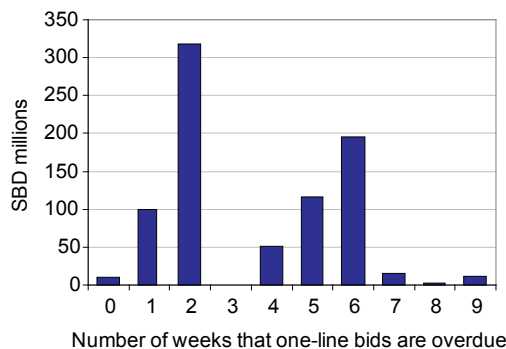
However, it also became clear that capacity was not the only issue - budget deadlines slipped despite the availability of support from Planning. The resulting delays had critical impacts on the quality of the budget. First, Planning officials had less time to appraise spending proposals, and less time for consultations with line ministries. This removed any real opportunities for Planning to constructively engage with line ministries on the budget process and their spending proposals. Second, it was more difficult for officials in Planning and Finance to ensure the development and recurrent budgets were coherent. This makes it far more difficult to ensure domestic and donor spending is relevant, appropriate and sustainable. Third, real opportunities for SIG to engage with donors on projects that could have received external financing were missed. Given the constant demands from SIG that donors should better reflect domestic development priorities, this is surprising.

As the 2007 development budget process continued, it became apparent where the real deadline was. The third arrow in figure 3 represents the date that Cabinet were to consider the draft budget. Many bids arrived in anticipation of this meeting. Cabinet was delayed, finally considering the draft budget at the fourth arrow. As can be seen, 41% of spending proposals by value arrived in the four weeks preceding this meeting. This made it impossible for Planning to adequately consider spending proposals. It also suggested that many SIG officials saw the Cabinet meetings as the key decision making step in the budget process. And rightly so - in 2006, 2007 and 2008, approximately 50%, 17% and 50% respectively of development funding was decided during Cabinet budget meetings without reference to any spending proposals (RAMSI 2008). To some degree this phenomenon can be seen in all countries, including developed, and represents political imperatives. However, the proportion of development spending decided by cabinet is remarkably high.

The likelihood that Cabinet will make a poorly informed decision removes many of the incentives for SIG officials to adhere to due process. Preparing good development budget submissions takes lots of preparatory work. Even if staff with the requisite skills are available to do this work, at appraisal Planning may not support the proposal. Moreover, even if Planning does support the proposal, Cabinet may not. Thus, by working hard and following due process, obtaining funding is difficult and rejection at Cabinet would be disheartening. A far easier means of obtaining funding would be to lobby Cabinet members to support your spending proposal, particularly if you believe Planning will argue against you.

Planning also observed two other characteristics during the 2007 development budget process (SIG 2007b). First, funding proposals were often of poor quality, conveniently rounded to the nearest million dollars. Second, the total funding requested was about ten times greater than available funding. Taken together it was clear that many spending proposals were speculative, undermining the attempts of those SIG officers preparing genuine spending proposals.

Given the dynamic experienced in the 2007 development budget process, a two stage process was envisaged for the 2008 development budget. The first step would be very simple; ministries submitted proposals of just one sentence to Finance who, in consultation with Planning, prepared a Cabinet Submission. The intention was to engage Cabinet at an early stage in the budget process and seek their direction on what spending proposals were interesting. Theoretically, with direction from Cabinet, ministries could concentrate on preparing a smaller number of better quality proposals. Unfortunately, as illustrated in figure 4, almost all single sentence bids were submitted late (SIG 2007c). Deadlines slipped and the problems identified in 2007 reoccurred. However, unlike in previous years, the simplicity of this step led many to conclude that a lack of 'will' rather than a lack of 'capacity'<sup>7</sup> was culpable – for a variety of reasons, SIG officials were reluctant to follow the new process.



**Figure 4.** 2008 Development Budget - delays in process compliance. (Source: Presentation by the SIG Ministry of Development Planning and Aid Coordination).

## SPENDING FUNDS – MORE INFORMAL PROCESSES

The poor process compliance during budget preparations had severe implications for the quality of SIG expenditure.

In an effort to quantify how well non-MP administered funds<sup>8</sup> were used in the 2007 development budget, Planning used two very simple measures; total expenditure as an indicator of quantity, and expenditure compliance<sup>9</sup> as an indicator of quality (SIG 2007b).

The first measure used monthly expenditure reports prepared by Finance. It revealed significant under-spending against some budget items, and worrying over-spending against other budget items. The scale of the problem suggests that in 2007 the consolidated development budget did not deliver: under-spending totalled 40% of SIG's development appropriation and over-spending was 32% of SIG's development expenditure.

Under-spending means that projects are not implemented on time, and in some instances, are never implemented. For example, funds appropriated for improving Gizo town's water supply were only partially spent, and following the April 2007 tsunami, were redirected towards other activities.

The causes for this under-spending were identified by Planning as basically threefold. First, what is termed by many, capacity constraints - many SIG officials lack the specialist skills needed to plan, tender and implement complex development projects, or are simply unaware of procedural requirements.

This lack of capacity in SIG middle management has been compounded by the very ambitious growth in the consolidated development budget from 2004-2008. For example, during the preparation of the 2008 development budget the Ministry of Infrastructure Development had just one engineer and one architect to support the implementation of nearly fifty projects. Moreover, in 2008 implementation was particularly difficult because delays in the budget process meant that the Appropriation Bill was not enacted until after the first financial quarter had already passed (SIG 2008b), so SIG officials had just 9 months to implement the budget.

Second, poor process compliance during the preparation of the development budget often means that preparatory work only starts after funding has been secured. This can delay implementation significantly, particularly if it involves the resolution of legal issues or extensive consultation, as is in the case in land acquisition. And as noted above, it also requires specialist skills that are scarce in Solomon Islands.

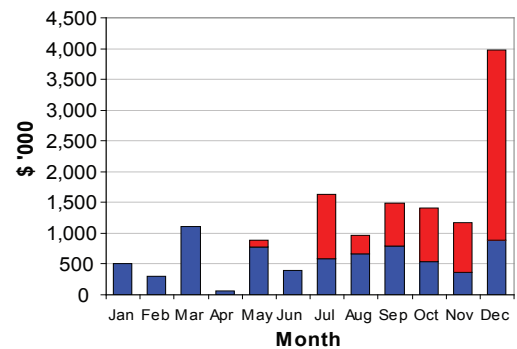
Third, on occasion, the original vision for a project changes following appropriation. Officials then have to redesign projects to reflect this new thinking, which takes time.

Examining the nature of over expenditure revealed alarmingly poor process compliance. As stated, in 2007, 32% of all SIG development spending was over-expenditure. The majority of this was contrary to financial instructions or on occasion illegal, as it was greater than what was budgeted or greater than the parliamentary appropriation. In reading local newspapers and examining the budget for which projects over-spent, it is clear that in 2007 most of the over-spending occurred in select productive sector ministries shortly before a change in Government<sup>10</sup>. It is arguable that this spending was in fact an attempt to maintain the cohesion of the ruling coalition.

Indeed, it is widely thought that *Members of Parliament were sometimes motivated by a need to obtain funds quickly to threaten a vote of no confidence* (Hayward-Jones 2008). This partly explains the popularity of grant funding in general, and the broader unwillingness to follow due process - the *ad hoc* disbursement of development funds is ideally suited to the fluid relationships and politics which characterise life in Solomon Islands.

The development funds provided by the Republic of China (Taiwan) (ROC) were also poorly managed by SIG, and raise process compliance issues. Examination of the 2008 Development Estimates show that in 2007 the SIG spent SBD 20.2 million of its own funds on projects that were to be funded by ROC<sup>11</sup>. Moreover, in the 2008 Development Budget Estimates it is clear that some ROC funding was spent without any appropriation.

Attempts to adhere to due process can cause serious implementation delays. For example, figure 5 illustrates monthly spending in the 2006 development budget (SIG 2007b), excluding grants managed by MPs. Spending that followed due process is represented as red, and that which did not follow due process is blue. As can be seen, it took several months for ministries to spend funds in line with due process, yet unapproved spending remained reasonably consistent throughout the year. These delays contributed to levels of spending that were far below the appropriation – if all funds were to be used, average spending would have been closer to December’s levels.



**Figure 5.** 2006 expenditure as a proxy for implementation. (Source: Presentation by the SIG Ministry of Development Planning and Aid Coordination).

These implementation delays have potentially serious consequences for those project managers trying to follow correct procedures, as Cabinet becomes frustrated with that individual. Moreover, delayed spending may result in Cabinet using funds for alternative purposes. For example, as widely reported in Solomon Islands media in 2007, after spending four months preparing detailed implementation plans for a SBD 4 million reforestation project, appropriated funds were then spent on sawmilling equipment. This damaged the morale of those officials who prepared the original project, and weakened the incentives for future process compliance. Furthermore, because the SIG development budget has no forward estimates, and funds are only available for one year, delayed projects risk curtailed future funding, particularly if the government or ministers change. Together this may be a contributing factor for the popularity of grant funding from MPs and ministries – it can be spent quickly and in the eyes of constituents, yields immediate results.

## **SUMMARY OF ISSUES SO FAR**

This paper has identified three issues. First, that from 2004-2008, the development funds managed by SIG increased to historic highs. Most of these funds were either transferred directly to MPs or poorly managed SIG grants. However, very little donor support is provided to the operation of this budget. Second, it is clear that SIG processes are not followed during the preparation of the development budget, due to a combination of inadequate will and capacity constraints. Third, that again due to capacity and will shortfalls, spending does not follow correct procedures.

## **GENERATING IMPROVEMENTS**

The SIG development budget is part of the wider budget process. It is designed to ensure that aid is well managed, and that some domestic funds are used for development priorities that donors won't support. However, as documented in this paper, the preparation and expenditure processes around SIG managed development

funds are poorly followed, and consequently spending outcomes are weak.

In this context, the growth in SIG appropriations to the development budget has made its sound management important. Moreover, if SIG's expenditure growth is to be restrained, as urged by the SIG's Medium Term Fiscal Strategy and IMF, the development budget needs attention.

Improving the development budget is the responsibility of SIG. Donors can only support their efforts. This may explain why, even with significant levels of donor support to Finance since 2003, past attempts to improve national budgeting have only had modest successes – most recommendations of the SIG Office of the Auditor General and SIG Public Accounts Committee have not been followed up, and of late there has been no improvements in financial management across SIG (RAMSI 2008).

The improvements to the budget that donors successfully facilitated were generally piecemeal and taken opportunistically. Broader reforms, such as those promulgated during the preparation of the 2008 budget process, were unsuccessful (RAMSI 2008). Thus, whilst modest incremental improvements to the budget will be possible, extensive reforms will be difficult given existing incentives within SIG - the late Solomon Island Auditor General noted that: *weak processes and systems provide opportunities for inappropriate behaviour; there are few consequences for inappropriate behaviour or rewards for good behaviour, and; there is a lack of demand for good governance which ensures [the] ongoing transparency, accountability and integrity of government* (SIG 2007a).

Changing attitudes to financial management will be a slow process, for the Solomon Islands has no bureaucratic tradition. The position of the ruling elite will thus have a huge impact on the ultimate success of any reforms (Fukuyama 2004). Interestingly, Solomon Island media has commented that the adoption of a preferential voting system akin to the one introduced in Papua New Guinea in 2007 may remove some incentives for MP grants being used as patronage.

In this context, donors should consider maintaining flexible program designs to

enable advisors to operate in an iterative manner, supporting reformers when they emerge, across the whole of SIG. This is a departure from the normal 'planned' approach so often used by donors.

## IMPROVING BUDGET PREPARATION

Weaknesses in the preparation of the development budget translate into poor development outcomes. Improving this situation requires capacity development, generating 'will', and supporting reform 'champions'. Donors have opportunities to enhance their existing models of assistance to support such an approach.

First, as increasingly recognised by donors, support for financial management needs to include Planning, for it manages the development budget. Second, support needs to strengthen the ability of line agencies to plan, budget, tender and manage projects. In particular, to support the preparation of spending proposals. This has been recognised for some time, but was not pursued owing to a *failure of coordination* amongst donors (RAMSI 2007).

To promote greater change, individual advisors in central agencies of Finance and Planning should focus on building closer relationships with key figures in line ministries and adopt a supportive role to complement their current policing and policy roles. This was considered by Planning officers a key element of improved process compliance during the preparation of the 2007 development budget (SIG 2007b).

Third, support in line ministries that is provided under various donor programs could better support SIG officials in the budget process. This has yielded good results in the past. For example, TA to the National Parliament actively supported participation in the development budget process with great success. In addition to solid project outcomes, this flexible approach won the support of SIG colleagues, built their awareness of due process, and helped forge stronger relationships between SIG officials in Planning and National Parliament.

## IMPROVING EXPENDITURE COMPLIANCE

It has long been recognised that robust systems can be used to obligate process compliance, and conversely, that weak systems provide opportunities to bypass due process. Moreover, good systems can yield efficiency dividends, simplify processes and facilitate analytical work.

Most SIG financial management systems are located in Finance and numerous weaknesses have been identified by the Office of the Auditor General. To their credit, the SIG has recently started to upgrade these systems, but with mixed results. SIG attempted to upgrade the general ledger when it appropriated funds in the 2008 development budget. However, the upgrade did not progress as planned, and contrasts with the successful implementation of a new payroll system through a co-funding arrangement between SIG and RAMSI (RAMSI 2007).

The success of this joint initiative provides two important lessons: donor co-funding of genuine SIG priorities can be highly successful because it compliments 'will', and; donor co-funding can be used to improve how well SIG funds are used.

With this in mind, in addition to improving systems and co-funding SIG projects, donors have significant opportunities to strengthen SIG process compliance by using the processes themselves, as per the Paris Declaration on Aid Effectiveness (OECD 2005) and the Accra Agenda for Action (OECD 2008). In adopting such an approach, donors need to more explicitly consider the potential development returns against likely fiduciary risks, for accepting some fiduciary risk may yield significant development returns. To minimise donors' fiduciary risks, processes can be adopted by donors as and when they are sufficiently robust, with low risk project design, monitoring, evaluation, and reporting being adopted well before financial and procurement processes. A corollary of these shared management arrangements should be reduced management costs, closer working relationships and reduced administrative burdens on SIG.

## THE ROLE OF TECHNICAL ASSISTANCE

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Much has been written on capacity development and technical assistance in Solomon Islands, and this paper only makes reference to it in a few regards.

Firstly, the fragility of the SIG administration requires donors to adopt a 'do-no-harm' approach (OECD 2007). This is because, as Fukuyama suggests in Africa, despite the best intentions of donors, over the long-term their actions may have destroyed capacity (Fukuyama 2004). In this regard, it is fundamental that the supplementation of capacity over the short-term (to meet immediate needs) is carefully balanced with genuine capacity development over the long-term.

Secondly, given the political and cultural complexity of the Solomon Islands, as stated earlier, for genuine success a 'piecemeal reform' approach that operates iteratively and opportunistically is more likely to deliver sustainable results than the planned design traditional employed by donors. This requires TA with sufficient delegated authority to enable them to operate flexibly and make decisions independently. In this regard, the growing pressure on donors to deliver demonstrable results presents a particular risk, as advisors may concentrate on delivering outputs rather than developing capacity. For example, *a large amount of effort ...has gone into creating new systems ...so that the advisor can meet the outputs and deadlines specified in their terms of reference* (RAMSI 2007).

Third, an iterative approach requires certain types of advisors. All need a suite of strong interpersonal and relationship management skills that enable them to operate across SIG. Such skills are recognised by Solomon Islanders as far more important than technical prowess. Indeed, *the engagement of SIG staff with RAMSI counterparts seems largely dependent on the quality and nature of their personal relationships which play the determinant role in shaping their professional lives* (Morgan 2007).

In an iterative reform scenario, seasoned development practitioners with many years of field-experience can provide strategic

direction and consider the polity of reforms for individuals at the different management levels of SIG. Moreover, because change takes time, continuity in the provision of advisors will better retain and augment knowledge, and provide sufficient time for relationships and trust to blossom.

Lastly, because doing no harm is paramount, advisors should concentrate principally on strengthening existing SIG processes and systems before promoting large procedural reforms.

## IMPROVED TRANSPARENCY

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Improved transparency can encourage better process compliance because people are more aware of who is doing what. It can also stimulate demand for further improvements. For example, the sterling work of the SIG Office of the Auditor General from 2004-2008 has enlivened national debate and stimulated widespread interest in SIG financial affairs.

In the development budget, two immediate improvements are apparent. First, there can be better and more regular reporting, particularly to key decision makers. For example, Finance does not even collect data on the level of compliance with Financial Instructions across the public service (RAMSI 2008), and whilst Planning compiles useful information on basic process compliance (see figure 5), it is not part of a reporting process. Moreover, Planning currently does not monitor or report on project implementation *in situ*, making it impossible to verify the delivery of projects. This paper does not advocate complex monitoring or reporting, merely the improvement of reporting to promote transparency.

Such reporting can be encouraged in several ways: the automation of reports through system upgrades; the need for mutual accountability espoused in the Paris Declaration (OECD 2005), and; joint reporting as donors integrate their processes into those of SIG. There are significant opportunities under the latter option, a corollary being capacity development of SIG officers.

Second, the format of the budget could be improved to promote transparency. A single budget document that includes the recurrent and development estimates would make it easier for decision makers to see the big picture. This need not alter budget processes nor the roles of SIG Ministries. In doing so, the inadequately detailed development budget can improve specificity. Conversely, the recurrent budget could be simplified, for its excessive detail does obscure the big picture. Three-year forward estimates in the recurrent budget would make the true cost of development projects more transparent by presenting and making provision for the ongoing costs of development funding decisions. Moreover, both budgets need to link their inputs more to their stated outputs. Ideally, at some stage in the future, the recurrent budget could move from an input budget, which specifies what funds will be provided each year, to an activity budget, that specifies what will be done with the funds, as per the current format of the development budget.

## **SUMMARY**

The increasingly large amounts of development spending by Solomon Islands Government from 2004-2008 were generally of poor quality. In many respects, the appropriations grew faster than SIG's ability of the effectively administer them. Given the Solomon Islands Government is now facing serious financial pressures, it is more important than ever that the preparation and management of the national budget is considered in its entirety, and this requires strengthening the development budget process in addition to the recurrent budget. The 'will' to improve budget management will ultimately come from SIG, but donors have a number of opportunities to accelerate prospective reforms to the development budget. Importantly, recognising where this will lies in the complex politics of the Solomon Islands requires an iterative approach to piecemeal reforms, with donors supporting Solomon Islanders via the deployment of TA with strong interpersonal skills. Real gains will probably come by widening the traditional focus on Finance to include Planning and line ministries. Donor use of low fiduciary risk SIG systems and processes such as

planning, monitoring and reporting would also strengthen capacity and improve SIG development expenditure.

## **AUTHOR NOTES**

Peter Coventry worked for nearly three years with the Regional Assistance Mission to the Solomon Islands (RAMSI) as advisor to the Solomon Islands Ministry of Development Planning and Aid Coordination. He now works in Papua New Guinea for the Australian Agency for International Development (AusAID). The views expressed in this paper are those of the author and based on an analysis of publically available documents. They do not represent the position of AusAID or RAMSI.

## **ENDNOTES**

1. Consolidated development funds include SIG revenue and development assistance from the Republic of China (Taiwan).
2. The World Bank definition of a fragile state covers low-income countries scoring 3.2 and below on the Country Policy and Institutional Assessment (CPIA), which is the primary tool they use to assess the quality of governance. The Solomon Islands' 3-year average CPIA from 2005 to 2007 was 2.8 (Joint IMF/World Bank Debt Sustainability Analysis of Solomon Islands, September 10, 2008).
3. To spend budgeted funds, SIG needs approval from Parliament, which is known as an Appropriation.
4. MP administered funds have had a variety of names since 1980. Of late the most well known has been the Rural Constituency Development Fund (RCDF), which has no reporting requirements and is transferred in tranches directly into bank accounts nominated by MPs.
5. The Honourable Fred Fono, Member for Central Kwara'ae.
6. The 'productive sector' is represented by the ministries of Agriculture, Commerce, Fisheries, Forestry, and Tourism.

7. Capacity is often cited as an impediment to complying with process. However, the simplicity of complying with this step suggested compliance incentives or 'will' was the determining factor.
8. MP administered grant funds were excluded from this analysis because process compliance could not be measured as it could for SIG administered funds.
9. Expenditure process compliance is relatively simple – ministries must prepare a project work-plan and have it approved by Planning. Spending and achievements against this work-plan are then monitored by Planning.
10. This was deduced using media reports in conjunction with an analysis of the 2008 Development Budget Estimates.
11. This was calculated by examining the 2007 and 2008 Development Budget Estimates.

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