



PUBLIC INVESTMENT MANAGEMENT FRAMEWORK

AUGUST 2023

**MINISTRY OF FINANCE AND TREASURY
SOLOMON ISLANDS**

Foreword

Public Investment Management (PIM) plays a crucial role in effectively managing, controlling, and monitoring financial assistance from Development Partners (DPs) to the country. The PIM Diagnostics 2018 has found that improvements in the systems, processes, and procedures supporting public investment can significantly increase its quality and efficiency.

Over the last decade, the funding provided by DPs to Solomon Islands lacked the necessary tools for managing external funding from a PIM perspective. Although there is an existing system and process, there are no clear management principles that have features that help to ensure that key risks are appropriately reduced through decision steps and controls within the government's structure. The process for external finance within the Solomon Islands Government (SIG) exhibits certain limitations that impact the execution of external finance initiatives. These shortcomings encompass the lack of a structured government approach to project proposals and the absence of a coordinated system for selecting externally funded projects.

The primary objective of the PIM Framework is to bridge the gap between ideal practices and the immediate need for practical guidance to support the country's intended reforms. It has been developed as part of the Solomon Islands' major reform programs to legislate under the Public Finance Management Act for the administration and management of external resources for public investment in the country.

It is hoped that readers will value the proposed revisions, which are intended to enhance our PIM process, particularly in understanding how these changes can bolster governance and oversight of all external funding and investments.

Lastly, the fundamental goal of PIM is to channel investments towards enhancing national and subnational capabilities for fostering social and economic development, along with effective service delivery nationwide. The PIM Framework establishes the necessary institutional and regulatory structures to provide guidance on selecting and allocating external finance to priority sectors in alignment with the National Development Strategy (NDS). This framework delineates guidelines for conducting project appraisals, selecting projects, selecting funding, overseeing implementation, and carrying out comprehensive Monitoring and Evaluation (M&E) of all funding from DPs to the country.

Hon. Harry Kuma
Minister of Finance and Treasury

Preface

In recent years, there has been a notable upswing in Development Partners (DPs) funding directed towards the country. The ongoing trend in expenditure for both physical and social infrastructure reflects a rapid rise in investments, encompassing both domestic and externally sourced funds. However, there are concerns, especially from DPs about the quality, effectiveness, and sustainability of these investments in relation to the capacity of SIG to carry out sound decisions related to public investments.

The challenges lie in establishing effective control and oversight mechanisms within the Public Investment Management (PIM) process to systematically address the shortcomings and gaps. This is especially pertinent concerning the absence of a structured approach to evaluating project proposals. This encompasses the absence of standardized guidelines for methodical evaluation and review of project proposals.

Furthermore, the absence of an established framework and coordinated system for selecting projects funded by DPs has had repercussions on SIG's ability to exercise appropriate control and oversight. The overarching purpose of the PIM Framework is to provide guidance to both DPs and SIG in navigating the due diligence process associated with negotiation, preparation, design, execution, and reporting of investments linked to development cooperation.

The PIM Framework has been formulated with the intention of being enshrined within the Public Finance Management Act, governing the administration and management of external resources for public investment within the country. It creates a structured framework that standardizes the process for project proposals and appraisals, offers guidelines for selecting projects and capital investments backed by development partners, and establishes a legal foundation supporting the implementation and enforcement of policy directives.

The PIM Framework formulates policies that offer direction for optimizing the utilization of external funds, fostering sustainability, and ensuring that investments deliver value for money. By instituting the PIM Framework, SIG aims to establish a platform that empowers it with a structured tool to coordinate and control the entire PIM process systematically and effectively.

Mckinnie Dentana
Permanent Secretary of Finance and Treasury

Acknowledgment

The Public Investment Management (PIM) Framework was prepared by the PIM reform team under the Ministry of Finance and Treasury (MoFT), benefiting from the invaluable assistance of Mr. Tomohide Uchida, Japan International Cooperation Agency (JICA)'s PIM Advisor. This framework serves as the cornerstone for the development of the PIM Chapter of the Public Financial Management Act, the PIM Policy, Guidelines, and Manual, collectively offering strategic direction for the proficient administration of financial aid from Development Partners (DPs) to the country.

The PIM reform team extends its gratitude to JICA for its pivotal role in supporting the PIM reform. Appreciation is also due to Mr. Mckinnie Dentana, the Permanent Secretary of Finance and Treasury, as well as Ms. Susan Sulu, the Permanent Secretary of National Planning and Development Coordination. The team extends its thanks to the members of the Public Investment Management Steering Committee and the Public Investment Management Technical Committee for their valuable guidance and contributions during the drafting process of the PIM Framework.

Furthermore, the team expresses its acknowledgment to institutions such as Asian Development Bank, Australia, European Union, Japan, New Zealand, and World Bank. These entities have augmented the value of the preliminary PIM Framework and have provided substantial support to the PIM reform through their involvement in the policy matrix within the context of budget support and development policy operation.

Table of Contents

Foreword.....	i
Preface.....	ii
Acknowledgment	iii
Table of Contents.....	iv
Figures and Tables	iv
Acronyms/Abbreviations	v
1. Introduction.....	1
2. Public Investment Management Context.....	1
3. Rationale and Objective	2
4. Guiding Principles	4
5. Legal and Policy Framework.....	5
6. Roles and Responsibilities of Stakeholders.....	6
7. Conceptual Business Process	8
8. Conclusion	12
Appendix.....	13

Figures and Tables

Figure 1:	Public Investment Management Legal and Policy Framework	5
Figure 2:	Public Investment Management Process	11
Table 1:	Public Investment Management Reform Action Plan	13

Acronyms/Abbreviations

BSC	Budget Strategic Committee
CSOs	Civil Society Organisations
DMAC	Debt Management Advisory Committee
DPs	Development Partners
IAU	Investment Analysis Unit
JPRG	Joint Policy Reform Group
M&E	Monitoring & Evaluation
MNPDC	Ministry of National Planning and Development Coordination
MoFT	Ministry of Finance and Treasury
MTDP	Medium Term Development Plan
NDS	National Development Strategy
NGOs	Non-Governmental Organisations
OPMC	Office of the Prime Minister and Cabinet
PFM	Public Financial Management
PIM	Public Investment Management
PIMSC	Public Investment Management Steering Committee
PIMTC	Public Investment Management Technical Committee
PPP	Public Private Partnership
SIG	Solomon Islands Government
SINIIP	Solomon Islands National Infrastructure Investment Plan

1. Introduction

Public Investment Management (PIM) is key to enhance the efficiency of public investments to facilitating economic growth, job creation, enhanced service delivery and the attainment of the objectives as set out in the National Development Strategy (NDS) 2016 - 2035 and the Medium-Term Development Plan (MTDP) of the Solomon Islands Government (SIG).

Public investment refers to government spending to acquire or establish physical, human, and institutional assets for the purpose of enhancing production and delivery of public goods and services. Public investment projects are mainly financed in the forms of loans, grants, climate finance and the Public Private Partnership (PPP) by SIG, Development Partners (DPs), Non-Governmental Organisations (NGOs), Civil Society Organisations (CSOs), and the private sector.

PIM entails policies, institutional arrangements, processes, and tools to facilitate the identification, development, implementation, and Monitoring and Evaluation (M&E) of viable public investment projects to ensure the effective utilization of public resources and the attainment of value for money.

The PIM Framework sets the institutional and regulatory framework to provide guidance on external finance selection and allocation to priority sectors in alignment with NDS. The framework sets the guidelines to assist in conducting project appraisal, selection, funding, implementation, and M&E through facilitating the partnership with DPs, NGOs, CSOs, and the private sector.

2. Public Investment Management Context

There are some challenges underlying in the current PIM process for external finance. The Ministry of Finance and Treasury (MoFT) role in financial control and management over external finance is currently limited to debt assessment, aid coordination and policy

alignment assessment at the project appraisal stage. As a result, there is a lack of rigorous project appraisal, project selection, funding selection, M&E, and reporting undertaken by MoFT. In fact, there are no policy guidelines, decision criteria, standardized parameter values, and tools to support such a business process for external finance. There are also no legal and regulatory frameworks that protect the PIM process from risks and enhance prudent and effective management and oversight.

These limitations over the PIM process have prompted MoFT to come up with the PIM Framework that provides the platform to improve the efficiency of externally financed public investment. It will guide all stakeholders to effectively use the PIM Policy and Guidelines to address weakness in the external finance process and ensure all public investments must be aligned to the NDS 2016-2035, the MTDP as the national priorities spelled out in the Solomon Islands National Infrastructure Investment Plan (SINIIP) and other relevant SIG policies and plans.

The PIM Framework is purposely to guide DPs and SIG on the due diligence process that will be applied when negotiating, preparing, designing, implementing, M&E and reporting on development cooperation for public investments.

3. Rationale and Objective

Rationale

The PIM Framework has been developed as part of the Public Financial Management (PFM) reform in Solomon Islands. The aim is to incorporate in the Public Financial Management legislation providing administration and management of external resources for public investment in the country. The PIM Framework provides the foundation that will guide all stakeholders to address the limitations in the PIM context and improve the SIG's analytical scrutiny and oversight roles for external finance through the implementation of the PIM Policy and Guidelines.

Objective

The objective of the PIM Framework is to provide a platform that enables SIG to facilitate the efficiency of externally financed public investment through the implementation of the PIM Policy and Guidelines, contributing to sustainable and climate-resilient economic growth and poverty reduction in Solomon Islands.

The PIM Framework allows SIG to undertake rigorous project appraisal, project selections, funding selections, implementation, and M&E for external finance through harmonizing with other existing frameworks, such as SINIIP, the Solomon Islands Aid Management and Development Cooperation Policy and the Partnership Framework for Effective Development Cooperation.

The Framework has the following attributes:

- a) **Objectivity** – The framework is free from bias and focuses on the need to improve and strengthen PIM to protect and safeguard externally financed projects, and the effective implementation and monitoring of projects to deliver productive and durable results;
- b) **Scope** – The framework provides a scope that adequately covers core areas of the PIM process, especially those relating to appraisal of the project concept note and project proposals of all externally financed projects.
- c) **Completeness** – The framework is sufficiently complete to the degree to which the intended purpose of legal and statutory instruments is included to ensure risks to the system and process are covered under the framework.
- d) **Relevance** – The scope and structure of the framework is relevant for the purposes of M&E and control over all externally financed investments in the country.
- e) **Inclusive** – The framework has a scope that is inclusive of all the parties involved in the external financing process.
- f) **Participatory** – The framework provides a structure and methodology that allows the participation of all the parties involved in the PIM process.

4. Guiding Principles

The fundamental principles that guide the PIM process include the following:

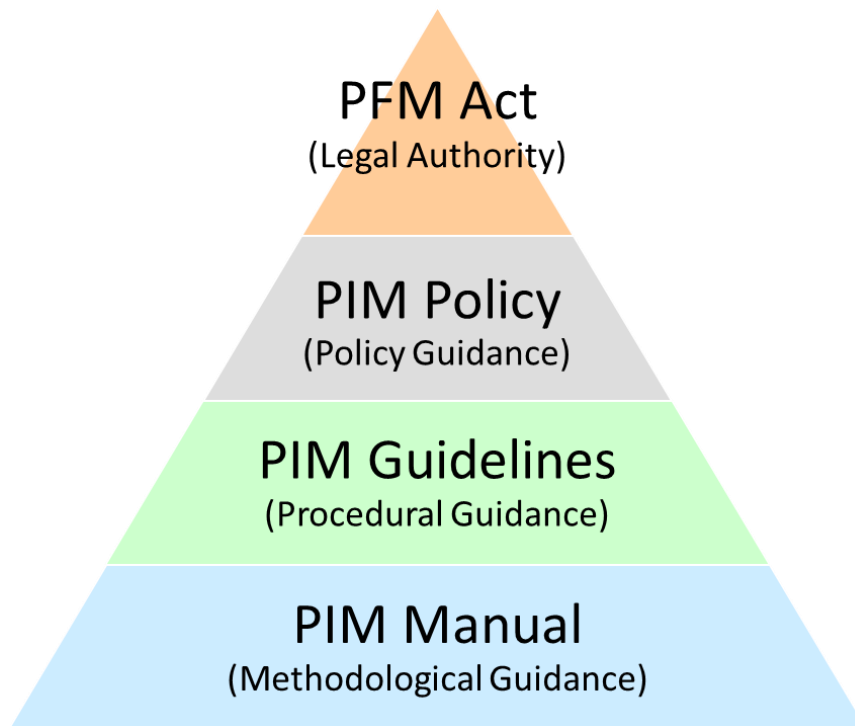
- a) **Transparency and Accountability** – defines the role of the stakeholders and make their roles clear and provide information for a timely and open manner to all stakeholders relating to the process for application, evaluation, approval, and implementation of project funding;
- b) **Authoritativeness** – specifies the decision-making process and authority at each stage and level of the PIM process;
- c) **Periodicity** – specifies the timelines and milestones for all grant project and loan project application submissions for funding;
- d) **Specificity** – has the policy targets and timeframe and ensure all project funding and investments are in line with the PIM Guidelines;
- e) **Credibility** – has guidelines that ensure all externally financed projects are implemented in accordance with the financial provisions in the PFM Act and service delivery output and outcome targets are attained;
- f) **Sustainability** – ensures that the PIM Policy and Guidelines do not compromise the well-being of the present and future generations and take into account climate change impacts;
- g) **Equity** – ensures equitable distribution of resources for national development;
- h) **Comprehensiveness** – ensures the PIM Policy covers all public resources that are deemed investments financed externally;
- i) **Responsiveness** – ensures the that purposes of development assistance are responsive to the developmental needs of the citizenry; and

- j) **Performance** – ensures result-orientation in the formulation and execution of projects established under the PIM program.

5. Legal and Policy Framework

The PIM Framework has a four tiers legal and policy framework, including the PFM Act, the PIM Policy, the PIM Guidelines, and the PIM Manual, that focus on the effective management of eternally financed public investment (See Figure 1).

Figure 1: PIM Legal and Policy Framework



PIM Chapter in the PFM Act & Regulations

The PIM Chapter in the forthcoming revision of the PFM Act will establish a legal framework for the effective management of externally financed public funds and assets. The provisions and regulations will be established under the PFM Act.

PIM Policy

The PIM Policy will set the policy framework for providing guidance to optimize the utilization of external finance, promoting sustainability and climate resilience, and ensuring value for money investments.

PIM Guidelines

The PIM Guidelines will provide procedural guidance, including basic procedural guidelines, high-level decision criteria, roles and responsibilities and the designation of analytical tools that governs the appraisal, selection, funding selection, implementation, and M&E of externally financed projects.

PIM Manual

The PIM Manual will provide methodological guidance, including detailed criteria, standardised parameter values and procedural documentation that outlines the processes and have the required forms and documents for completion by line ministries including the minimum requirements as required by the guidelines.

6. Roles and Responsibilities of Stakeholders

Development Partners (DPs)

DPs have been providing financial and technical assistance to the country over the years. DPs projects vary but the rules for appraisal are standardised which requires the need to complete and attach the project concept note template, the project proposal template, economic analysis template, life cycle cost analysis template, quarterly project monitoring report template, etc. DPs are requested to complete these forms and submit them to MoFT through line ministries.

Line Ministries and Spending Agencies

Line ministries are to work together with DPs to provide guidance on the process to secure funding. For loan and grant projects, line ministries prepare project concept notes, project proposals, and quarterly project monitoring reports and submit them to MoFT for appraisal.

Ministry of Finance & Treasury (MoFT)

MoFT plays the key role of overseeing the PIM Framework for external finance and has the statutory role of making sure the PIM Policy and Guidelines are enforced in the processing of all loans and grants financed by DPs. The role of Chairperson of the PIMSC will be undertaken by the Permanent Secretary of Finance and Treasury.

Ministry of National Planning and Development Coordination (MNPDC)

MNPDC has played a vital role in supporting the PIM Framework for external finance and ensuring they are aligned with NDS, MTDP, SINIIP, and other relevant plans and policies. The MNPDC's role is to assist in project concept notes and project proposals for appraisal, project selection, funding selection, and M&E through the Public Investment Management Technical Committee (PIMTC) and the Public Investment Management Steering Committee (PIMSC). The role of Co-Chairperson of the PIMSC will be undertaken by the Permanent Secretary of National Planning and Development Coordination.

Office of the Prime Minister and Cabinet (OPMC)

OPMC is represented by the Policy Secretary and the National Consultant to assist policy assessment of project concept notes and project proposals through PIMTC and PIMSC.

Public Investment Management Steering Committee (PIMSC)

The PIMSC's role is to ensure the delivery of the PIM Policy outputs and the achievement of the policy outcomes and impact. They provide quality high-level and prudent assessment and oversight over the processing and coordination of DP's funding and other external public investments. The role of PIMSC is to review the results of the assessment for project concept notes, project proposals, and M&E reports from PIMTC. PIMSC also provides advice to the Minister of Finance on matters relating to the PIM process and system.

Public Investment Management Technical Committee (PIMTC)

The role of PIMTC is to ensure DPs and line ministries comply with the PIM Guidelines in the PIM Process. They are responsible for evaluating the results of the assessment for project concept notes, project proposals, and M&E reports submitted by IAU and making recommendations on loan and grant project submissions to PIMSC.

Debt Management Advisory Committee (DMAC)

The role of the DMAC is to fulfil its statutory requirements by facilitating high-level oversight and policy coordination of debt management issues. DMAC provides assessment and advice on government borrowing, including government borrowing, on-lending or guarantees. The DMAC is obliged to carry out its statutory responsibility of doing an analysis and evaluation of the effects and impacts of loan projects on the government's financial position and make recommendations.

Budget Strategic Committee (BSC)

The Budget Strategic Committee (BSC) provides analysis and advice on the effects and impacts of proposed projects. Their key role is to carry out an assessment of impacts on the budget, especially development and recurrent forward estimates and counterpart funds associated with externally financed projects.

7. Conceptual Business Process

The Conceptual Business Process outlines the approved systematic process for the proposal submission, appraisal, funding selection, implementation, and M&E of externally financed projects (See Figure 2). It is a requirement that DPs and line ministries submit the project concept note templates, project proposal templates, and project monitoring report templates within the comply to this process. The process is as stated below:

Project Concept Note Stage

In the first appraisal stage, line ministries are required to submit a project concept note with its template to IAU. They will assess it and submit the assessment results to PIMTC and subsequently PIMSC. These committees will provide guidance on the project concept note

and an option for funding sources at technical and policy levels. Once approved by them, it will be forwarded to the Debt Management Unit (DMU) and the Debt Management Advisory Committee (DMAC) for debt assessment, and the Financial Economic Development Unit (FEDU) for aid coordination. Finally, the project concept note will be submitted to the Minister of Finance for approval.

Project Proposal/Feasibility Study Stage

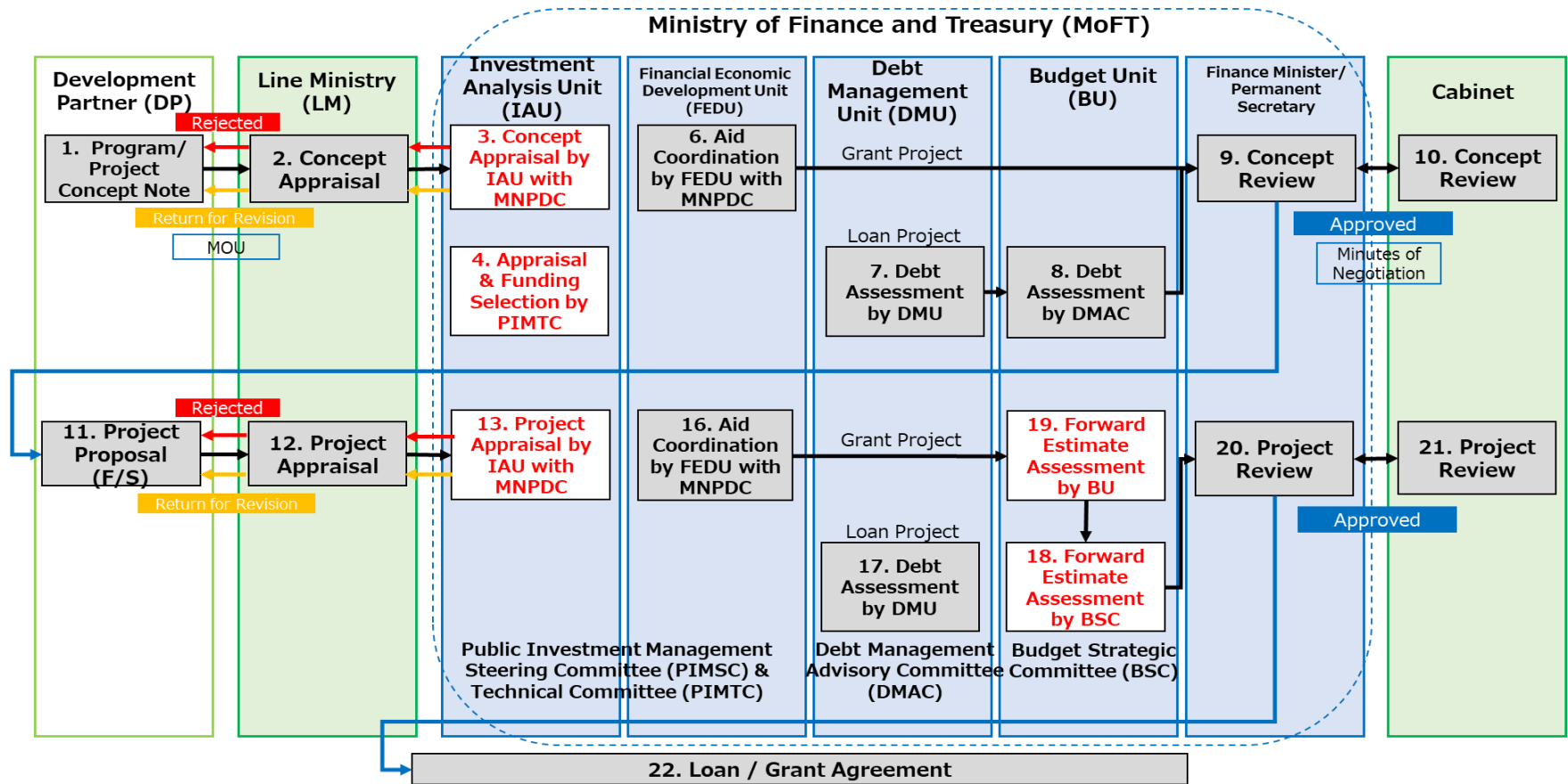
After the Finance Minister's approval, in the second appraisal stage, line ministries will submit Feasibility Studies (F/S) along with the project proposal templates, economic analysis templates, and life cycle cost analysis templates to IAU. IAU will appraise it and submit the appraisal results to PIMTC and then PIMSC. These committees will provide guidance on the project appraisal, project selection, and funding selection at technical and policy levels. Once approved by PIMTC and PIMSC, F/S will be forwarded to the DMU and FEDU, respectively. Subsequently, it will be further forwarded to the Budget Unit (BU) and the Budget Strategic Committee (BSC), which will analyse the forward estimates of development and recurrent expenditures associated with externally financed projects by accessing data from the economic analysis template and the life cycle cost analysis template. The forward estimate data will be shared with the Strategic Planning and Budget Allocation Division (SPBAD) at MNPDC and will be incorporated in the forthcoming Medium-Term Budget Framework (MTBF) as part of the on-budget reform. After approval, the Minister of Finance will sign the loan/grant agreement with the concerned DPs.

Project Monitoring and Evaluation Stage

During the project implementation, monitoring, and ex-post evaluation stages, the Program Quality Division (PQD) and the Development Cooperation and National Authorizing Office Division (DCNAOD) at MNPDC, and FEDU at MoFT will take the main responsibility for tracking both the project M&E and performance M&E with the concerned DPs and line ministries. They will closely coordinate with concerned DPs and line ministries to obtain the latest data and reports timely during the project implementation and ex-post evaluation periods. PQD, DCNAOD, and FEDU are required to submit the

DP's project work plans and cash flows, quarterly project monitoring reports, project completion reports, and ex-post M&E reports to PIMTC and subsequently, PIMSC for their endorsement of each milestone and/or undertaking measures if any issues and risks are associated with the projects.

Figure 2: Public Investment Management Process



8. Conclusion

The PIM Framework provides a platform that enables SIG to manage the PIM process efficiently and effectively through the implementation of the PIM Policy and Guidelines. The PIM Framework enhances SIG to undertake inclusive and prudent project appraisal, project selections, funding selections, implementation, and M&E of all externally financed projects through harmonizing with the NIIP and the Aid Management and Development Cooperation Policy with the intention of enhancing the efficiency of externally financed public investments in Solomon Islands.

Any changes to PIM will be as stated in the PFM Act and any such changes will be approved by the Minister of Finance and the Cabinet.

Appendix

Table 1: Public Investment Management Reform Action Plan

	Framework	Actions	Contents	Timeline	Remarks
1	Institutional Arrangement	<ul style="list-style-type: none"> Approval of Investment Analysis Unit (IAU) 	<ul style="list-style-type: none"> Assessing DP's project concept notes and proposals 	August 2023	<ul style="list-style-type: none"> Approvals by Ministry of Public Services (MPS)
2	Institutional Arrangement	<ul style="list-style-type: none"> Establishing Public Investment Management Steering Committee (PIMSC) and its Technical Committee (PIMTC) 	<ul style="list-style-type: none"> Reviewing IAU's assessment on DP's project concept note and proposals and funding selection 	August 2023	<ul style="list-style-type: none"> Approval by Finance Minister
3	Framework	<ul style="list-style-type: none"> Drafting Public Investment Management (PIM) Framework 	<ul style="list-style-type: none"> Framing legislation, policy, procedural rules, and methodological guidance for external finance 	August 2023	<ul style="list-style-type: none"> Approval by Finance Minister
4	Policy Guidance	<ul style="list-style-type: none"> Drafting PIM Policy 	<ul style="list-style-type: none"> Guiding PIM process for external finance 	October 2023	<ul style="list-style-type: none"> Harmonizing with the forthcoming Planning Bill Approval by Finance Minister
5	Procedural Guidance	<ul style="list-style-type: none"> Drafting PIM Guidelines 	<ul style="list-style-type: none"> Guiding PIM procedures for external finance 	October 2023	<ul style="list-style-type: none"> Harmonizing with the Planning Manual Approval by Finance Minister
6	Decree	<ul style="list-style-type: none"> Ministerial Decree for PIM Policy and Guidelines 	<ul style="list-style-type: none"> Disseminating the PIM Policy and Guidelines to line ministries Requesting concerned line ministries to use the MNPDC's project proposal template, the MoFT's economic analysis template and life cycle cost analysis template, and submit full documents of DP's project proposals to IAU, MoFT 	December 2023	<ul style="list-style-type: none"> Approval by Finance Minister
7	Official Letter	<ul style="list-style-type: none"> Official Letter to DP for PIM Policy and Guidelines 	<ul style="list-style-type: none"> Disseminating the PIM Policy and Guidelines to DPs Requesting concerned DP to use the MNPDC's project proposal template, the MoFT's economic analysis template and life cycle cost analysis template, and submit full documents of DP's project proposals to IAU, MoFT through line ministries 	December 2023	<ul style="list-style-type: none"> Approval by Finance Permanent Secretary
8	Regal Authority	<ul style="list-style-type: none"> Incorporating PIM Chapter into the revised Public Financial Management (PFM) Act and its rules and regulations 	<ul style="list-style-type: none"> Authoring DP's project prioritizing and funding selection process by adding "Part 7: Public Investment Management" to the Act and its corresponding parts of the rules and regulations 	April 2024~	<ul style="list-style-type: none"> Harmonizing with the forthcoming Planning Bill Approval by Parliament