



**United  
Nations**

Committee for  
Development  
Policy

CDP2022/PLEN/8.g

## **Committee for Development Policy 24<sup>th</sup> Plenary Session**

United Nations  
21-25 February 2022  
Virtual meeting

Monitoring of countries graduating and  
graduated from the list of LDC category:  
Solomon Islands

**SUSTAINABLE  
DEVELOPMENT GOALS**

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## Summary

The Solomon Islands continues to meet the GNI and HAI criteria and is making slow but steady progress on both indicators. However, the economy remains highly vulnerable due to the high market concentration both in terms of products (timber) and markets (China) as well as the high disaster risk and civil unrest. The CDP does note the progress that has been made in expansion of output from other sectors such as fisheries and minerals over the past decade.

Solomon Islands has yet to report to the CDP on its preparation of the smooth transition strategy, but the Committee will hold a country consultation with the Government. However, the country has been proactively negotiating with development and trading partners to fully counteract any emerging vulnerabilities and challenges and has signed a number of agreements. The impact assessment shows no significant impact of graduation on development cooperation and other financial flows.

The CDP further observes that the Solomon Islands are facing substantial development challenges, with preservation of macroeconomic stability, strengthening transparency and governance, improvement in the business environment, and progress on financial market development. Governance remains a concern evidenced by weak public financial management and poor management of the logging industry and the emerging mining sector. The CDP stresses the importance of good governance and public sector reforms to make progress in these areas. Furthermore, the CDP expresses great concern at the outbreak of unrest and will continue to monitor the situation. All stakeholders are implored to pursue a peaceful resolution.

## Macroeconomic situation

The economy was hit hard by the COVID-19 pandemic as output from logging and fisheries fell and large construction projects were halted. GDP contracted by 4.3% in 2020 but is expected to return to growth in 2021<sup>1</sup>, as logging activity picks up and major construction projects resume. However, the decline of timber exports is expected to continue as the government pursues more sustainable logging practices.

The Solomon Islands have an undiversified production and export base as well as highly concentrated trade with one market (China) accounting for close to 70 percent of merchandise exports. The services sector is largely underdeveloped and operates at one-tenth of the goods export sector. The islands are rich in timber and heavily reliant on the logging industry which contributes 20 percent to domestic revenue and over 70 percent of exports. However, the resource has been over-exploited and is facing depletion. The Government's policy for sustainability would imply a halving of logging activity by 2023. Fisheries are also an important source of revenue and employment and there are also exploitable mineral resources although these remains largely undeveloped as low value-added commodity production. Non-timber exports more than doubled over the decade from 2010 to 2019, driven primarily by growth in fish and seafood, now comprise 12% of exports, and minerals, which now make up 5.0 % after being negligible 10 years ago. Other notable export commodities include palm oil (3.0%) and coconut oil (1.8%). While the current high price for timber is offsetting losses in export volume and the balance on trade in goods has not yet been impacted, new sources of growth are needed to sustain the economy and preserve the balance of payments in the longer term.

Higher investments in transport and communications are needed<sup>2</sup>. The ADB is providing grants and concessional loans to support upgrades to one-third of the country's road network and half of the country's wharves. Larger infrastructure projects such as hydropower development and rehabilitation and expansion of water and sanitation systems are also underway with development partner support. Poor internet connectivity is an impediment, leaving digitalization and industrial upgrades as a potential source of

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<sup>1</sup> IMF (2021). World Economic Outlook, accessed November 2021.

<sup>2</sup> ADB (2021) Asian Development Outlook (ADO) 2021

growth. The completion of a subsea fiber optic cable in December 2019 connecting Honiara to Australia helps address this concern. Prior to this the Islands relied solely on satellite for international voice and data communications.

The Solomon Islands are facing substantial development challenges, with preservation of macroeconomic stability, strengthening transparency and governance, improvement in the business environment, and progress on financial market development<sup>3</sup>. Governance remains a concern evidenced by weak public financial management and poor management of the logging industry and the emerging mining sector<sup>2</sup>. In November 2021 unrest in part caused by perceived unequal distribution of resources that has favored the larger urban broke out in Honoraria. Improved job opportunities in rural areas will be important to stimulate growth and preserve stability.

Construction and related business is expected to benefit from infrastructure projects, notably the Tina River Hydropower Project, upgrades to roads and shipping facilities, the rehabilitation and expansion of water supply and sanitation systems, and construction for the 2023 Pacific Games

Fiscal pressures are mounting as government revenues are expected to decline in the medium term because of lower duties collected from timber exports, while expenditures continue to rise. The Government is expected to go from a surplus in 2018 to a deficit of around 2.5% in 2021 increasing further to 4% in the medium term<sup>1</sup>. Tax reforms, budget prioritization and prudent public financial management including containing costs associated with spending on the 2023 Pacific Games and other infrastructure projects are likely needed to stem the budget deficit. The current account balance shrunk in 2020, but the deficit is estimated to increase in the medium term<sup>1</sup>.

Table 1. Selected macroeconomic data for Solomon Islands, 2015-2020

Indicator	2015	2016	2017	2018	2019	2020
<b>GDP growth rate (per cent, constant price)</b>	1.4	5.9	5.3	3.9	1.2	-4.5
<b>Inflation rate (%)</b>	-0.6	0.5	0.5	3.5	1.6	3.0
<b>Government revenue (billions of national currency)</b>	4.4	4.2	4.6	5.1	4.2	4.2
<b>Government expenditure (billions of national currency)</b>	4.4	4.7	5.0	4.9	4.4	4.5
<b>Government balance (billions of national currency)</b>	0.0	-0.5	-0.4	0.1	-0.2	-0.3
<b>Government balance (per cent of GDP)</b>	0.0	-4.2	-3.4	0.9	-1.5	-2.4
<b>Net ODA received (millions of US dollars)</b>	190.0	175.5	186.8	195.6	223.9	
<b>Balance of Payments (millions of US dollars)</b>						
<b>Current Account</b>	-36.1	-48.8	-62.8	-47.8	-154.0	-25.1
<b>Goods, Credit (Exports)</b>	-16.8	12.8	5.9	6.5	-36.4	-25.3
<b>Goods, Debit (Imports)</b>	437.5	419.4	462.1	529.4	497.3	404.0
<b>Balance on Goods</b>	-16.8	12.8	5.9	6.5	-36.4	-25.3
<b>Services, Credit (Exports)</b>	105.2	122.7	125.9	144.7	130.4	50.1

<sup>3</sup> IMF (2020). Article IV Consultation: Solomon Islands, retrieved on 6 January 2021 from <https://www.imf.org/en/Publications/CR/Issues/2020/02/18/Solomon-Islands-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-49060>

<b>Services, Debit (Imports)</b>	182.8	207.3	217.0	218.8	255.6	152.2
<b>Balance on services</b>	-77.6	-84.5	-91.1	-74.1	-125.3	-102.1
<b>Balance on Goods and Services</b>	-94.4	-71.8	-85.2	-67.6	-161.6	-127.4
<b>Balance on income</b>	-24.1	-41.6	-29.7	-20.4	-16.4	35.8
<b>Balance on current transfers</b>	82.4	64.5	52.1	40.2	24.0	66.5
<b>Capital Account</b>	55.2	53.3	60.5	60.0	63.6	62.3
<b>Financial Account</b>	20.1	-34.3	-12.2	54.1	-53.5	16.4
<b>Direct investment (net)</b>	-27.5	-36.0	-35.9	-15.9	-28.7	-5.7
<b>Portfolio investment (net)</b>	0.7	1.7	2.1	-0.2	3.9	1.5
<b>Financial derivatives (other than reserves) and employee stock options</b>	...	...	0.0	0.0	0.0	0.0
<b>Other investment (net)</b>	-3.8	-2.4	-2.0	2.0	6.7	-31.4
<b>Reserve assets</b>	50.7	2.4	23.7	68.2	-35.3	52.0
<b>Reserves (months of imports)</b>	9.0	8.7	9.2	9.1	8.4	13.7

Source: GDP growth and inflation are from UN DESA, WESP, Government balance is from IMF, World Economic Outlook Database. Net ODA is from OECD, OECD.Stat. All external sector indicators are from IMF, Balance of Payment Data Reports.

### LDC criteria and supplementary indicators

Because of the high reliance on timber exports, high share of the labor force engaged in farming, fishing, and artisanal forestry, remote location and the high risk of natural disasters the Solomon Islands' EVI is well above the graduation threshold. In 2021 it was 48.7, marginally lower than in previous years.

Since 2015 Solomon Islands' GNI per capita is above the corresponding graduation threshold, reaching \$1,7285 in 2021. The HAI has been above the graduation threshold of 66 since 2005 and is 73.5 in 2021 continuing the upward trend the upward trend.

Table 2. Indicators for LDC identification, Solomon Islands, 2018-2022.

Year	HAI	EVI	GNI
<b>2018</b>	72.6	49.4	2158
<b>2019</b>	72.9	48.9	2164
<b>2020</b>	73.2	49.0	2241
<b>2021</b>	73.4	48.3	2316
<b>2022</b>	73.5	48.7	2343

Source: CDP Secretariat

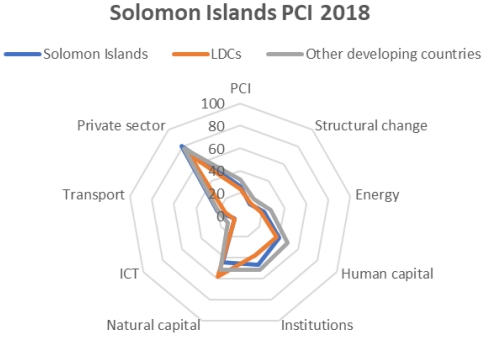
Table 3. Supplementary indicators for Solomon Islands, 2018-2021

Indicator	2018	2019	2020	2021
<b>Current account balance (% of GDP)</b>	-28.8	-22.1	-19.5	-19.8
<b>Current account balance (% of GDP)</b>	-3.5	-4.2	-3.0	-9.8
<b>Environmental Performance Index</b>				26.7
<b>Fixed broadband subscriptions per 100 people</b>	0.18	0.23	0.16	

<b>Government effectiveness</b>	-1.011	-1.018	-0.999	-0.913
<b>Human development index</b>	0.561	0.562	0.564	0.567
<b>Learning-adjusted years of school</b>	5.3	5.0		4.7

Source: CDP Secretariat

Productive Capacity



Source: UNCTAD.

The state of development of productive capacities of the Solomon Islands is typical of a SIDS. Its level of productive capacities is higher than that of the average LDC, though this is mainly due to its physical and population smallness. It outperforms LDCs both in terms of the PCI and most of its subcomponents. The major exceptions are Natural Capital and ICTs. At the same time, the country lags behind other developing countries in terms of productive capacity development and most PCI subcomponents. The gap vis-à-vis ODCs is especially wide in the case of ICTs and structural change.

During the 2010, the Solomon Islands has developed its productive capacities both overall and in terms of most of the dimensions. ICTs is the area where the Solomon Islands improved most during the 2010s, though from a very low base.

Data gap

Solomon Islands’ statistical score was 55.56 in 2019, lower than the LDC average (59.9) and well below the East Asia and Pacific average (74.54 excluding high income). Availability of source data is a particular concern, while the country scores better on methodology and periodicity.

Smooth transition, national plan and country specific factors

The impact assessment shows that no significant impact of graduation on development cooperation and other financial flows and exports are expected, and the government has started its process for preparing for graduation. The process kicked off with at a workshop in October 2019 organized by the United Nations Inter-Agency Task Force on LDC Graduation on LDC Graduation in collaboration with the Government. Solomon Islands has already begun to proactively negotiate with development and trading partners to fully counteract any emerging vulnerabilities and challenges. The Government joined the Economic Partnership Agreement between the EU and Pacific Island economies in 2020 and have provisionally started applying the agreement. Among other benefits the agreement ensures duty free and quota free access, which is particularly important for the tuna processing and palm oil sectors. A Memorandum of Understanding with the United Kingdom of Great Britain and Northern Ireland (UK) to ensure similar access to UK markets

after the partnership agreement ceases to apply in respect of the UK. The Government is also pursuing trade agreements with a number of other trading partners including China.

A National Development Strategy (NDS) for the period 2016-2035 with the aim of “Improving the Social and Economic Livelihoods of all Solomon Islanders” are in the early years of implementation<sup>4</sup>. The SDGs, the Istanbul Programme of Action and the SAMOA Pathway have been mainstreamed into this 20-year vision. The NDS underlines the importance of good governance and public sector reforms.

In country consultations held on 2 February 2022, the Government highlighted the impact of the current COVID outbreak in the country, which is having severe economic and social impacts. There are disruptions to supply chains, food supply, education and the health sector, compounded by business closures and job losses. In addition, the Government provided an update on the November riots, which the central bank now estimates to have caused losses in the order of \$65 million and a 0.6% contraction of the economy.

The Government informed the CDP that the preparation of the STS had been stalled after the outbreak of the pandemic. A preliminary draft was prepared in 2019, but work would need to resume to finalize the strategy. In terms of UN support the Government highlighted the development of the STS itself as well as analysis and advice on graduation issues as areas where assistance would be appreciated.

Solomon Islands has yet to submit its report on preparation of a smooth transition strategy to the CDP.

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<sup>4</sup> Ministry of Development Planning and Aid Coordination (2016), National Development Strategy 2016 to 2035: Improving the Social and Economic Livelihoods of all Solomon Islanders, retrieved from <https://www.pacificclimatechange.net/sites/default/files/documents/4837.pdf>

