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Monitoring of Countries Graduating from  
the Least Developed Country Category:  
Solomon Islands

**SUSTAINABLE  
DEVELOPMENT**  **GOALS**

# Monitoring of Countries Graduating from the Least Developed Country Category: Solomon Islands

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## Summary

The Solomon Islands has grown at a slow pace (2-3 per cent annually) with a limited export based (logging industry) and concentrated export market (China accounting for 70 per cent). Fiscal pressures are mounting with government revenues are expected to decline in the medium term because of lower duties collected from timber exports, while expenditures continue to rise during the COVID-19 pandemic. Despite the absence of community transmission, the COVID-19 is highlighting critical gaps in Solomon Islands' health security. While LDC indicators continue to improve, the Solomon Islands still remains vulnerable to shocks, represented by the EVI (40 per cent above the graduation threshold).

## Macroeconomic situation

Growth in the Solomon Islands economy has been slow at 2-3 per cent per annum (by DESA estimate, see table 1). While domestic cases of COVID-19 remain low, the economy has been hit hard by the pandemic and growth in 2020 is estimated at -5% by the IMF<sup>1</sup>. The main impacts stem from weaker external demand, disruptions to trade and supply chains, a complete stop in tourism arrivals and slowdown in infrastructure spending.

Table 1. Selected macroeconomic data for Solomon Islands, 2014-2019

Indicator	2014	2015	2016	2017	2018	2019
GDP growth rate (per cent, constant price)	2.3	2.5	3.5	3.5	3.4	3.0
Inflation rate (%)	5.2	-0.6	0.5	0.5	1.0	1.5
Government revenue (billions of national currency)	4.1	4.4	4.2	4.6	5.1	4.2
Government expenditure (billions of national currency)	3.9	4.4	4.7	5.0	5.0	4.4
Government balance (billions of national currency)	0.2	0.0	-0.5	-0.4	0.1	-0.2
Government balance (per cent of GDP)	1.8	0.0	-4.2	-3.4	0.9	-1.7
Net ODA received (millions of US dollars)	200.5	190.0	175.5	186.8	195.5	
Balance of Payments (millions of US dollars)						
Current Account	-49.6	-36.1	-48.8	-62.8	-47.8	-154.0
Goods, Credit (Exports)	455.2	420.7	432.1	468.0	536.0	460.9
Goods, Debit (Imports)	460.1	437.5	419.4	462.1	529.4	497.3
Balance on Goods	-4.9	-16.8	12.8	5.9	6.5	-36.4
Services, Credit (Exports)	112.6	105.2	122.7	125.9	144.7	130.4
Services, Debit (Imports)	223.6	182.8	207.3	217.0	218.8	255.6
Balance on services	-111.1	-77.6	-84.5	-91.1	-74.1	-125.3
Balance on Goods and Services	-115.9	-94.4	-71.8	-85.2	-67.6	-161.6
Balance on income	-14.2	-24.1	-41.6	-29.7	-20.4	-16.4
Balance on current transfers	80.6	82.4	64.5	52.1	40.2	24.0
Capital Account	70.6	55.2	53.3	60.5	60.0	63.6
Financial Account	9.4	20.1	-34.3	-12.2	54.1	-53.5
Direct investment (net)	-0.8	3.2	-0.2	5.4	7.4	2.4
Portfolio investment (net)	-0.1	0.7	1.7	2.1	-0.2	3.9

<sup>1</sup> IMF (2020). World Economic Outlook, accessed December 2020.

Other investment (net)	30.2	-3.8	-2.4	-2.0	2.0	6.7
Change in reserves						
Total Reserves (Millions of US dollars)	-0.4	50.7	2.4	23.7	68.2	-35.3
Reserves (months of imports)						

Source: GDP growth and inflation are from UN DESA, WESP, 2020 edition, accessed 18 Dec 2020. Government balance is from IMF, World Economic Outlook Database, October 2020 edition, accessed 18 Dec 2020. Net ODA is from OECD, OECD.Stat, accessed 18 Dec 2020. All external sector indicators are from IMF, Balance of Payment Data Reports, accessed 18 Dec 2020.

The Solomon Islands has an undiversified production and export base as well as a highly concentrated trade with 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. Fish and seafood comprise 12% of exports, while minerals make up 5.0 %. Other notable export commodities include palm oil (3.0%) and coconut oil (1.8%).

New sources of growth are therefore needed to sustain the economy through economic diversification and production transformation. Poor internet connectivity is an impediment, leaving digitalization and industrial upgrading as a potential source of 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>2</sup>. 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>3</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. 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>.

Fiscal pressures are mounting with 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 5% of GDP in 2020 and 2021<sup>1</sup>. Tax reforms and prudent public financial management including containing costs associated with spending on the 2023 Pacific Games and other infrastructure spending are likely needed to stem the budget deficit. The current account balance deteriorated in 2019 driven by the increased infrastructure investment. The deficit is estimated to increase further in the near term<sup>1</sup>.

<sup>2</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>

<sup>3</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>

## LDC indicators

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 74.2 in 2021 continuing the upward trend.

Table 2. Indicators for LDC identification, Solomon Islands, 2017-2021

	GNI per capita	EVI	HAI
2017	1,677	45.8	72.6
2018	1,692	46.1	73.1
2019	1,686	45.7	73.6
2020	1,722	45.7	74.0
2021	1,785	44.8	74.2

Source: CDP Secretariat

Because of the high reliance on timber exports, high share of the labour 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 44.8, marginally lower than in previous years.

## Productive capacity

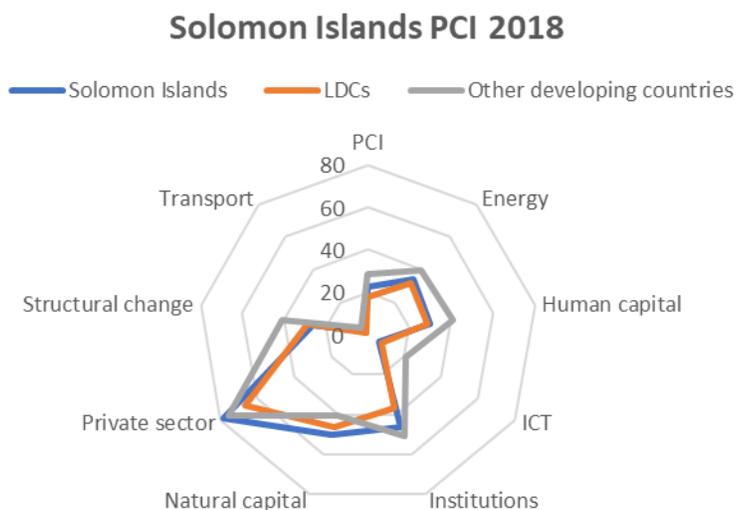
Similar to São Tomé and Príncipe, the PCI scores of the Solomon Islands tends to overstate the development its productive capacities in SIDS, due to the small basis effect (see table 3). Ahead of their graduation, the country's PCI score is one quarter higher than the LDC average. It exceeds the LDC average especially in transport and institutions. However, when compared with ODCs, the country lags behind in the overall PCI (by a margin of 20%) and in its sub-components, except natural capital and – to a lesser extent – private sector development. The deficit with respect to ODCs is especially wide in ICTs and transport, which points to the need for to accelerate investment in infrastructure. This should pave the way for diversification of the economy, the lack of which is reflected in wide gap in structural change as compared with ODCs. This largely reflects the country's dependence on fisheries and forestry products.

Table 3. Productive Capacity Index, Selected Countries, 2018 value

Country	PCI	Energy	Human capital	ICT	Institutions	Natural capital	Private sector	Structural change	Transport
Angola	14.5	34.1	23.8	5.0	30.2	48.1	57.6	21.5	0.3
Bhutan	28.5	49.7	37.9	13.8	62.4	43.7	72.0	35.3	2.4
Equatorial Guinea	18.0	25.1	24.4	8.0	22.3	37.9	64.8	31.7	1.3
Samoa	29.1	39.9	37.4	10.5	66.3	32.4	81.9	39.2	4.7
São Tomé and Príncipe	19.9	28.4	34.6	9.9	47.9	36.7	69.4	33.4	0.6
Solomon Islands	22.4	33.9	29.9	6.0	46.3	50.1	78.3	26.1	2.2
Vanuatu	25.1	29.2	31.3	8.7	55.0	34.4	78.5	36.5	3.6
LDCs	17.7	32.0	28.3	7.4	36.9	46.5	66.6	28.9	1.1
ODCs	28.4	39.3	40.7	20.7	50.8	40.4	76.0	40.7	4.4

Source: UNCTAD.

Figure 1. Productive Capacity Index 2018, Solomon Islands



Source: UNCTAD

## Data gap

Solomon Islands' statistical capacity index was 48.9 in 2019, much lower than the small states average (58.2). The country shares the same difficulties with other small island countries in building national capacity in updating national accounting.

## Smooth transition and country specific factors

Solomon Islands is scheduled to graduate in 2024 but has yet to report to the CDP on its preparation of the smooth transition strategy. The Government requested technical supports from DESA, ESCAP and OHRLLS and a field mission was scheduled in 2020, which was postponed due to the COVID-19.

Regarding trade, Solomon Islands has deposited its act of accession to the EU-Pacific EPA on 7 May 2020, becoming the 4th Pacific island State to the Economic Partnership Agreement, alongside Fiji, PNG and Samoa. Provisional application of the Economic Partnership Agreement became effective on 17 May 2020. Solomon Islands ratified the Pacific Agreement on Closer Economic Relations (PACER Plus) on 22 June 2020, which will improve market access to Australia for specific products produced under the program and bolster PHAMA Plus, and aid for trade program by Australia.<sup>4</sup>

The impact assessment as well as the OECD transition finance diagnostic show that no significant impact of graduation on development cooperation and other financial flows are expected<sup>5</sup> and the government

<sup>4</sup> Government of Australia, Oct 2020, Solomon Islands Covid-19 Development Response Plan

<sup>5</sup> CDP (2018). Ex-ante Impact Assessment of likely Consequences of Graduation of Solomon Islands from the Least Developed Country Category, Retrieved from <https://www.un.org/ohrlls/sites/www.un.org.ohrlls/files/cdp-pl-2018-5e.pdf>, and OECD (2020). Solomon Island transition finance country diagnostic: Preparing fro graduation from LDC status, retrieved from [https://www.oecd-ilibrary.org/development/solomon-islands-transition-finance-country-diagnostic\\_a4739684-en](https://www.oecd-ilibrary.org/development/solomon-islands-transition-finance-country-diagnostic_a4739684-en).

has started its process for preparing for graduation<sup>6</sup>. 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<sup>7</sup>. 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<sup>8</sup>. The Government is also pursuing trade agreements with a number of other trading partners including China<sup>9</sup>.

Despite the absence of community transmission, COVID-19 is highlighting critical gaps in Solomon Islands' health security. Solomon Islands was already facing economic and fiscal hardships prior to COVID-19 – the country is one of the highest per capita recipients of aid in the world and one of the countries that are severely off track in reaching the SDGs. The country is faced with a difficult task to recover from the impacts of the COVID-19 and to accelerate progress towards the SDGs at the same time.

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<sup>6</sup> UN (2019). Joint UN Workshop and related activities in support of the Graduation of Solomon Islands from the category of LDCs, retrieved from [https://www.un.org/ohrlls/sites/www.un.org.ohrlls/files/solomon-islands-joint-graduation-workshop\\_summary.pdf](https://www.un.org/ohrlls/sites/www.un.org.ohrlls/files/solomon-islands-joint-graduation-workshop_summary.pdf)

<sup>7</sup> European Commission (2020). EU-Pacific States Economic Partnership Agreement (EPA), retrieved from [https://trade.ec.europa.eu/doclib/docs/2020/october/tradoc\\_158988.pdf](https://trade.ec.europa.eu/doclib/docs/2020/october/tradoc_158988.pdf)

<sup>8</sup> Department for International Trade (2020) Memorandum of Understanding between the UK and the Solomon Islands, retrieved from <https://www.gov.uk/government/publications/memorandum-of-understanding-between-the-uk-and-pacific-states-on-the-economic-partnership-agreement/memorandum-of-understanding-between-the-uk-and-the-solomon-islands>

<sup>9</sup> Solomon Times (2021). More Trade Agreements as Solomon Islands Prepares for Graduation. Retrieved from <https://www.solomontimes.com/news/more-trade-agreements-as-solomon-islands-prepares-for-graduation/10567>