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Monitoring of countries graduating and  
graduated from the LDC category:

Solomon Islands

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## Summary

Solomon Islands suffered large economic impacts from the COVID-19 pandemic, particularly due to the precautionary closure in 2020 and local outbreaks in 2022. Riots in Honiara included widespread looting and burning, with significant economic costs, especially in the public infrastructure. The war in Ukraine also had large impacts due to its high dependence in oil and food imports. Two earthquakes in November 2022 have affected key functions of government ministries leading the work on preparing for graduation and smooth transition.

Solomon Islands has triggered the Crisis Response Process under EMM, due to being impacted by multiple shocks and crises. The country reported that global crises and political turmoil have posed significant challenges to prepare a smooth transition in time.<sup>1</sup> Hence, the Solomon Islands has formally requested to extend the preparatory period by an additional three years.<sup>2</sup> The CDP prepared an interim crisis assessment, and consulted with the Government, Inter-Agency Task Force on LDC Graduation (IATF), and UN Country Team. It found that the country requires indeed additional three years as external shocks prevented the conduct of wide and inclusive consultations that are essential to prepare a sustainable graduation of the country. The Committee also urges the country to make a firm commitment to prepare a draft STS by December 2024 and implement appropriate policy measures to respond to multiple crises and promote productive capacity, with support from development and trading partners.

## Macroeconomic situation

The Solomon Islands has an undiversified production and export base as well as highly concentrated trade with one market, China, accounting for close to 70 per cent 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 per cent 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 remain 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 per cent of exports, and minerals, which now make up 5 per cent after being negligible 10 years ago. Other notable export commodities include palm oil (3 per cent) and coconut oil (1.8 per cent). 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.

Containment measures taken by the Government delayed and softened the health impact of the COVID-19 pandemic, but socio-economic hardships were faced as output from logging and fisheries fell, large construction projects were halted, tourist arrivals stopped and access to public services was interrupted.

The country has a history of internal unrest driven by lingering ethnic conflict and a perception of unequal distribution of resources that has favored the larger urban areas. These tensions erupted into riots in Honiara in November 2021, which are estimated by the Government to have resulted in direct costs of SBD 811 million, more than 6 per cent of GDP, from which the country is still recovering.

Inflationary pressure is increasing due to the war in Ukraine with food, fuel and fertilizer prices in particular having risen considerably. The consumer price index rose sharply in 2022 reaching a high of 9.5 per cent year on year in September, the latest month for which data is available. Having already faced

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<sup>1</sup> Letter from Solomon Islands to the UN Secretary General, dated 12 November 2022.

<sup>2</sup> Letter from Solomon Islands to the UN Secretary General, dated 19 February 2023.

high inflation during the height of the COVID pandemic the country is facing a cost-of-living crisis.

Because of these three crises and two earthquakes in November 2022, the economy has suffered three years of contraction. GDP fell by 4.3 per cent in 2020<sup>3</sup>, 0.8 per cent in 2021, and 2.5 per cent in 2022<sup>4</sup>.

Higher investments in transport and communications are needed.<sup>5</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 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>6</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> Improved job opportunities in rural areas will be important to stimulate growth and preserve stability.

Construction and related business are 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 5.8 per cent in 2022<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 deficit was approximately 10 per cent of GDP in 2022 and expected to stay high in the medium term.<sup>1</sup>

Table 1. Selected macroeconomic data for Solomon Islands, 2016-2021

Indicator	2016	2017	2018	2019	2020	2021
GDP growth rate (per cent, constant price)	5.9	5.3	3.9	1.2	-4.3	-0.8
Inflation rate (%)	0.5	0.5	3.5	1.6	3.0	3.5
Government revenue (billions of national currency)	4.2	4.6	5.1	4.2	4.2	4.3
Government expenditure (billions of national currency)	4.7	4.9	5.0	4.4	4.5	4.8
Government balance (billions of national currency)	-0.5	-0.3	0.1	-0.2	-0.3	-0.6
Government balance (per cent of GDP)	-4.2	-2.9	0.8	-1.6	-2.4	-4.4

<sup>3</sup> UNSD National Accounts Statistics: Analysis of Main Aggregates (AMA) database.

<sup>4</sup> UN DESA (2023). WESP.

<sup>5</sup> ADB (2021) Asian Development Outlook (ADO) 2021

<sup>6</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>

Net ODA received (millions of US dollars)	175.5	186.8	195.6	223.9	214.3	263.7
Balance of Payments (millions of US dollars)						
Current Account	-48.8	-62.8	-47.8	-154.0	-25.1	-78.2
Goods, Credit (Exports)	432.1	468.0	536.0	460.9	378.7	371.2
Goods, Debit (Imports)	419.4	462.1	529.4	497.3	404.0	468.5
Balance on Goods	12.8	5.9	6.5	-36.4	-25.3	-97.2
Services, Credit (Exports)	122.7	125.9	144.7	130.4	50.1	42.4
Services, Debit (Imports)	207.3	217.0	218.8	255.6	152.2	151.0
Balance on Services	-84.5	-91.1	-74.1	-125.3	-102.1	-108.6
Balance on Goods and Services	-71.8	-85.2	-67.6	-161.6	-127.4	-205.8
Balance on Income	-41.6	-29.7	-20.4	-16.4	35.8	17.9
Balance on Current Transfers	64.5	52.1	40.2	24.0	66.5	109.7
Capital Account	53.3	60.5	60.0	63.6	62.3	65.8
Financial Account	-34.3	-12.2	54.1	-53.5	16.4	-9.5
Direct investment (net)	-36.0	-35.9	-15.9	-28.7	-5.7	-23.0
Portfolio investment (net)	1.7	2.1	-0.2	3.9	1.5	6.2
Financial derivatives (other than reserves) and employee stock options	...	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-2.4	-2.0	2.0	6.7	-31.4	-71.6
Reserve assets	2.4	23.7	68.2	-35.3	52.0	78.9
Reserves (months of imports)	8.7	9.2	9.1	8.4	13.7	12.7

Source: GDP growth is from UN DESA, WESP 2023 for 2021 data and UNSD for 2016-2020 data. Inflation is from UN DESA, WESP 2023. 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 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 2023, it was 47.6, marginally lower than in previous years.

Since 2015 Solomon Islands' GNI per capita is above the corresponding graduation threshold, with the latest three-year average (2019-2021) now reaching \$2,349. The HAI is 73.3 in 2023, well above the graduation threshold of 66.

Table 2. Indicators for LDC identification, Solomon Islands, 2019-2023.

Year	GNI per capita	HAI	EVI
2019	2,122.2	72.5	48.8
2020	2,193.4	72.9	49.0
2021	2,284.9	73.0	48.1
2022	2,348.4	73.2	49.1

2023	2,348.6	73.3	47.6
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Source: CDP Secretariat Time series estimates (LDC criteria) dataset (2002-2023), available at <https://bit.ly/LDC-data>

Notes: a) Year refers to the year of a (actual or hypothetical) review. The timeliness of source data varies by indicator; generally, criteria capture data up to two years prior to a review. See the ‘read me’ in the source as well as the data sheet (Annex 1) for details on original data sources.

b) Data for 2021 might differ from official triennial review data and previous monitoring reports due to data revisions.

Table 3 presents some areas for continued attention by the CDP. Broadband subscription remains very low for the country, and the Government effectiveness is not improving. Mean years of schooling is below 6 years, and the mortality rate attributed to non-communicable disease (NCD) is close to 40, which requires more recent data to monitor.

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

Indicator	2018	2019	2020	2021
Fixed broadband subscriptions per 100 people	0.2	0.2	0.1	
Government effectiveness	-1.0	-1.0	-0.8	-0.9
Mean years of schooling	5.5	5.7	5.7	5.7
Mortality rate attributed to NCD	39.7	39.2		

Source: CDP Secretariat, Supplementary graduation indicators

## Data gap

Solomon Islands’ statistical score was 55.56 in 2020, 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

As a graduating country Solomon Islands is expected to submit an annual report to the CDP starting in 2019-2020 monitoring cycle. However, it has yet to report to the CDP on its preparation of the smooth transition strategy. The participation rate in the EMM is 17 per cent, none for the inputs on monitoring (2020-2023) and one out of two consultation meetings (2022 and 2023).

The ex-ante impact assessment conducted by DESA in 2018 showed 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 a workshop in October 2019 organized by the United Nations Inter-Agency Task Force on LDC Graduation (IATF) in collaboration with the Government. Solomon Islands has begun to 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. In September 2022 Solomon joined the US-Pacific Partnership deal which includes commitments of \$810 million for increased action on climate change, economic development and security cooperation in 14 Pacific nations. The Government is also pursuing trade agreements with a number of other trading partners.

A National Development Strategy (NDS) for the period 2016-2035, with which the STS of Solomon Islands would need to be in line, aims “Improving the Social and Economic Livelihoods of all Solomon Islanders”<sup>7</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 November 2022, Solomon Islands has triggered the Crisis Response Process (CRP) under EMM, due to being impacted by multiple shocks and crises. The country reported that global crises and political turmoil have posed significant challenges to prepare a smooth transition in time.<sup>8</sup> In February 2023, the Solomon Islands has formally requested to extend the preparatory period by an additional three years.<sup>9</sup>

In response to the request to trigger the CRP, the CDP prepared a crisis assessment, and consulted with the Government, Inter-Agency Task Force on LDC Graduation (IATF), and UN Country Team. It found that the country requires indeed additional three years as external shocks prevented the conduct of wide and inclusive consultations that are essential to prepare a sustainable graduation of the country. It also notes the importance of resuming the preparation and the finalization of the STS of Solomon Islands. The Committee urges the country to make a firm commitment to prepare a draft STS by December 2024 and implement appropriate policy measures to respond to multiple crises and promote productive capacity, with support from development and trading partners.

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<sup>7</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>

<sup>8</sup> Letter from Solomon Islands to the UN Secretary General, dated 12 November 2022.

<sup>9</sup> Letter from Solomon Islands to the UN Secretary General, dated 19 February 2023.

