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Monitoring of countries graduating from the
list of LDCs

Solomon Islands

**SUSTAINABLE
DEVELOPMENT** **GOALS**

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Summary

Solomon Islands, having its graduation postponed to 2027, has resumed its preparations for LDC graduation. The Committee welcomes the adoption of the extension in line with its EMM. The government has devised a comprehensive work plan, timeline and outline for the STS, working towards an adoption of the STS in 2024 and is receiving assistance from the UN system. The Committee highlights the importance of addressing deep-rooted challenges for a sustainable graduation, including causes of tensions between different groups of islanders and the low level of productive capacities, including through the timely delivery of international support.

Macroeconomic situation

The macroeconomic situation on Solomon Islands improved in 2023 but challenges remain sizeable. Annual economic growth had been negative from 2020 to 2022, but resumed in 2023 driven by spending associated with the 2023 Pacific games and the resumption of investment projects that been halted during COVID-19. Latest forecasts by United Nations DESA expect annual GDP growth rates of 2.8 in 2023 and 2.6 per cent in 2024, before rising to 3.2 per cent in 2025. Hence, GDP growth is expected to outstrip population growth only slightly, as population growth will remain above 2 per cent annually during the period. Consequently, per capita income in real terms is expected to remain below the 2019 level for the forecast period.

In November 2022, inflation (as measured by the national statistical office) reached a peak of 9.7 per cent, mainly due to price shocks in global energy and food markets caused by the war in Ukraine. However, inflation has since fallen back to below 2.8 per cent in November 2023. The central bank of Solomon Islands maintains a tight monetary policy stance to keep price stability in the economy, as most recently confirmed in September 2023.

Fiscal deficit and debt levels continued to rise, due to diverging trends in expenditures (with an increase in expenditures for investments as well as for benefits and transfers) and revenues (with a decline in tax revenues only partially compensated by an increase in grants). Nevertheless, current levels of the fiscal deficit (estimated by IMF to be -4.1 percent in 2022) and central government debt stock (estimated to be 16.9 per cent in 2022) remain at moderate levels. Debt is expected to further increase to 27.8 per cent in 2028, still moderate in international comparison but a marked increase from pre-COVID levels. The current account also continued to deteriorate. Exports are in decline and remain volatile. However, the country has ample foreign reserves, reducing the risk that additional short-term shocks would turn into a liquidity or a currency crisis. In the third quarter of 2023, official reserves stood at \$ 666 million, sufficient to cover 11.4 months of imports.

Despite an uptick in exports during the first three quarters in 2023, export earnings appear to be on a downward trend. This is to a large extent due to reduced exports in logging. While this decline is in line with the efforts of the Government to increase the sustainability of the industry, it is also exerting pressure on fiscal resources and on the current account as diversification remains limited. This underscores the importance of reducing export concentration, both in terms of products and in terms of markets (as one market, China, accounts for close to 70 per cent of merchandise exports). Ongoing major investments undertaken by the Government with support from development partners might significantly strengthen other export-oriented sectors. Work on a second tuna processing plant is promising to create additional jobs on the island of Malaita. The upgrading of several airports might boost the tourism sector which remains underdeveloped despite large potential.

Table 1: Selected macroeconomic data for Solomon Islands, 2017-2022

| Indicator | 2017 | 2018 | 2019 | 2020 | 20201 | 2022 |
|--|-------|-------|--------|--------|--------|--------|
| GDP growth rate (per cent, constant price) | 3.1 | 2.7 | 1.7 | -3.4 | -0.6 | -4.1 |
| Inflation rate (%) | 0.5 | 3.5 | 1.6 | 3.0 | -0.1 | 5.5 |
| Government revenue (billions of national currency) | 4.23 | 4.38 | 4.26 | 3.91 | 3.55 | 3.83 |
| Government expenditure (billions of national currency) | 4.33 | 4.18 | 4.46 | 4.22 | 4.00 | 4.37 |
| Government balance (billions of national currency) | -0.11 | 0.19 | -0.20 | -0.31 | -0.46 | -0.54 |
| Government balance (per cent of GDP) | -0.9 | 1.5 | -1.5 | -2.4 | -3.6 | -4.1 |
| Net ODA received (millions of US dollars) | 186.8 | 195.6 | 223.9 | 214.3 | 264.7 | 252.7 |
| Balance of Payments (millions of US dollars) | | | | | | |
| Current Account | -62.8 | -47.8 | -154.0 | -25.1 | -78.2 | -218.5 |
| Goods, Credit (Exports) | 468.0 | 536.0 | 460.9 | 378.7 | 371.2 | 340.9 |
| Goods, Debit (Imports) | 462.1 | 529.4 | 497.3 | 404.0 | 468.5 | 546.3 |
| Balance on Goods | 5.9 | 6.5 | -36.4 | -25.3 | -97.2 | -205.4 |
| Services, Credit (Exports) | 125.9 | 144.7 | 130.4 | 50.1 | 42.4 | 70.5 |
| Services, Debit (Imports) | 217.0 | 218.8 | 255.6 | 152.2 | 151.0 | 218.4 |
| Balance on Services | -91.1 | -74.1 | -125.3 | -102.1 | -108.6 | -147.9 |
| Balance on Goods and Services | -85.2 | -67.6 | -161.6 | -127.4 | -205.8 | -353.3 |
| Balance on Income | -29.7 | -20.4 | -16.4 | 35.8 | 17.9 | 10.6 |
| Balance on Current Transfers | 52.1 | 40.2 | 24.0 | 66.5 | 109.7 | 124.2 |
| Capital Account | 60.5 | 60.0 | 63.6 | 62.3 | 65.8 | 137.8 |
| Financial Account | -12.2 | 54.1 | -53.5 | 16.4 | -9.5 | -69.4 |
| Direct investment (net) | -35.9 | -15.9 | -28.7 | -5.7 | -23.0 | -38.4 |
| Portfolio investment (net) | 2.1 | -0.2 | 3.9 | 1.5 | 6.2 | -2.4 |
| Financial derivatives (other than reserves) and employee stock options | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investment (net) | -2.0 | 2.0 | 6.7 | -31.4 | -71.6 | -4.6 |
| Reserve assets | 23.7 | 68.2 | -35.3 | 52.0 | 78.9 | -24.0 |
| Reserves (months of imports) | 9.2 | 9.1 | 8.4 | 13.7 | 12.7 | 9.7 |

Source: GDP growth and inflation are from UN DESA, WESP 2024. 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, a high share of the labour force engaged in farming, fishing, and artisanal forestry, its remote location and the high risk of disasters from natural hazards the Solomon Islands' EVI is well above the graduation threshold. In 2024, it was 49.5, following a slight downward trend. It should be noted that the EVI score is higher than in the actual 2021 review because of the refinements to EVI introduced in 2023. In particular, the refinement to the export concentration index, that now

incorporates both product and market export concentration, increased the EVI score, thereby better reflecting the high vulnerability discussed above.

Since 2015 Solomon Islands' GNI per capita is above the corresponding graduation threshold, with the latest three-year average (2020-2022) now reaching \$2,281, revealing a slight decline reflecting the negative growth rates between 2000 and 2022. The HAI is 79.4 in 2023, well above the graduation threshold of 66. This is a significantly higher value of 73.8 than at the time of 2021 triennial review, reflecting more refinements to HAI than actual progress on the ground. It should be acknowledged that in the absence of estimates from UNESCO for the official SDG indicator on lower secondary school completion rate, the gross intake ratio for the last grade of lower secondary school has been used as proxy. The proxy only partially reflects the problem of overage schooling which has been found to be severe in Solomon Islands.

Table 2: LDC criteria, Solomon Islands, 2020-2024

| Year | GNI per capita | HAI | EVI |
|------|----------------|-------|-------|
| 2020 | 2,193 | 78.83 | 52.11 |
| 2021 | 2,284 | 78.96 | 51.57 |
| 2022 | 2,348 | 79.19 | 51.69 |
| 2023 | 2,342 | 79.32 | 50.04 |
| 2024 | 2,281 | 79.41 | 49.59 |

Source: CDP Secretariat, Time series estimates (LDC criteria) dataset (2002-2024), available at <https://bit.ly/LDC-data>

Note 1: For GNI per capita, Year refers to the year of a (actual or hypothetical) review. The data reflects the latest three-year average available for a review, i.e., the value for 2024 refers to the 2020-2022 average. Data differ from previous official triennial review data due to data revisions.

Note 2: For EVI and HAI, 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.

Note 3: Data differ from previous official triennial review data due to data revisions, changes in data sources, methodological changes and most notable, changes in composition of the composite indices HAI and EVI. Minor differences can also occur due to rounding.

Table 3 presents some areas for continued attention by the CDP, based on the supplementary graduation indicators (SGI). For more on SGIs, see the Annex 1.

Table 3: Supplementary graduation indicators for Solomon Islands, 2019-2022

| Indicator | 2019 | 2020 | 2021 | 2022 |
|---|--------|--------|--------|--------|
| Renewable electricity capacity per capita in KW | 0.0052 | 0.0051 | 0.0050 | 0.0072 |
| Government effectiveness | -0.881 | -0.692 | -0.834 | -0.675 |
| Quality-adjusted years of schooling | | 4.68 | | |
| Mortality rate attributed to NCD | 39.2 | | | |
| Social protection coverage | 1.1 | | | |
| Cereal import dependency | 97% | 96% | 97% | |

Source: CDP Secretariat, Supplementary graduation indicators (SGI) dataset (2000-2024), available at <https://bit.ly/LDC-data>

Productive capacity

The overall productive capacity index (PCI) of the Solomon Islands lies midway between the averages of LDCs and other developing countries. The country ranks above LDC average in the components measuring hard infrastructure, i.e., energy, transport and Information and Communication Technology (ICT), as well as institutions and private sector. The low score in structural change, substantially below LDC average, is a testament of the Solomon Island's dependence on timber exports.

In the period 2012-2022, the Solomon Islands have made good progress in overall productive capacities. Increases were registered in the components natural capital, energy, ICT, institutions, private sector and structural change. However, no progress was achieved in human capital development and the score in transport decreased, albeit from a high base value. As with most SIDS, the comparative advantage of Solomon Islands lies in the services sector such as tourism, banking and finance, real estate, and ICT-based services. Deepening structural transformation in the island calls for fostering knowledge and technology-intensive services sector.

Table 4: Productive Capacity Index, Solomon Islands, 2022

| | PCI | Human capital | Natural capital | Energy | Transport | ICT | Institutions | Private sector | Structural Change |
|----------------------------|------|---------------|-----------------|--------|-----------|------|--------------|----------------|-------------------|
| Solomon Islands | 38.2 | 24.9 | 45.2 | 37.4 | 46.1 | 28.1 | 49.7 | 53.4 | 31.2 |
| Other developing countries | 46.8 | 44.3 | 38.4 | 61.2 | 34.1 | 49.6 | 51.1 | 50.9 | 53.2 |
| LDCs | 30.9 | 27.9 | 49.8 | 26.3 | 19.7 | 25.2 | 38.3 | 37.8 | 41 |

Source: UNCTAD

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. The results of the 2019 census published in September 2023 improves data availability, including of data on spatial inequalities which have also been associated with the domestic unrest that were a key factor for the economic decline in 2022 and the interruption of the country's preparation for LDC graduation.

Smooth transition

As a graduating country Solomon Islands is expected to submit an annual report to the CDP starting in 2019-2020 monitoring cycle. However, CDP did not receive such report. The participation rate in the EMM has increased to 37.5 per cent, with no monitoring report and three out of four consultation meetings (2022, 2023 and 2024).

Solomon Islands 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. It also mitigated the main impact of graduation identified by UN DESA in its 2018 impact assessment, the loss of access to the Everything-But-Arms (EBA) initiative of the European Union. The country joined the Economic Partnership Agreement between the EU and Pacific Island economies in 2020, which provides, among other benefits, for duty-free and quota-free market access, with more favorable rules of origin for the tuna processing industry than under the EBA. It also acceded to the similar Economic Partnership Agreement with the United Kingdom of Great Britain and

Northern Ireland (UK) with effect from 31 March 2022.

From 2020 to 2023, the preparations for graduation were disrupted by the COVID-19 pandemic, the war in Ukraine, disasters from natural hazards and domestic civil unrest. Therefore, the Government triggered in November 2022 the crisis response process under the CDP's enhanced monitoring mechanism. In response, CDP prepared a crisis assessment, and consulted with the Government, Inter-Agency Task Force on LDC Graduation (IATF), and United Nations Country Team. It found that the country required 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 urged the country to make a firm commitment to prepare a draft smooth transition strategy (STS) by December 2024 and to start implementing appropriate policies to respond to minimize the negative impacts of the external shocks and promote productive capacity. Subsequently, ECOSOC endorsed the findings of CDP and the General Assembly extended in August 2023 the preparatory period accordingly until 13 December 2027.

The Government of Solomon Islands has since recommenced its preparations for LDC graduation. The Government has developed a work plan, timeline and outline for the STS, with support from the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), one of the two co-leads of the IATF for Solomon Islands. In line with the finding by CDP in 2023, the Government works towards an adoption of the STS in the second half of 2024. The smooth transition strategy will be integrated into the national planning framework and will be consistent with the National Development Strategy (NDS) for the period 2016-2035 which aims at "Improving the Social and Economic Livelihoods of all Solomon Islanders"¹ and is currently under review, as well as other relevant national, regional and global development agendas. The STS will also identify LDC-graduation specific measures to be implemented by various Ministries and departments. In the development of the STS, the country will require continued support by its development and trading partners, including the United Nations.

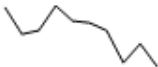





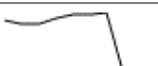


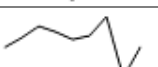


¹ Ministry of Development Planning and Aid Coordination (2016), National Development Strategy 2016 to 2035: Improving the Social and Economic Livelihoods of all Solomon Islanders, retrieved from <https://www.pacificclimatechange.net/sites/default/files/documents/4837.pdf>

Annex 1. Supplementary graduation indicators (SGIs)

The supplementary graduation indicators (SGIs) complement the official LDC criteria. They provide quantitative, internationally comparable data for vulnerabilities and other factors that are not fully captured by the LDC criteria but that might be relevant for graduation from the LDC category.

For more detailed information on indicators and data sources, see the SGI dataset available on the CDP website.

All data are current as of 13 March 2024.

| | Indicator | Source | Latest available data | Year most recent data refer to | Relative performance in latest year (legend below) | Trend (last decade) |
|------------------------|---|------------------------------------|-----------------------|--------------------------------|--|---|
| ECONOMIC VULNERABILITY | GDP growth rate (%) | United Nations Statistics Division | -4.07 | 2022 | |  |
| | GDP growth volatility | United Nations Statistics Division | 3.65 | 2022 | |  |
| | External debt (% of GNI) | World Bank | 31.30 | 2022 | |  |
| | Total debt servicing (% of exports and primary income) | World Bank | 2.46 | 2022 | |  |
| | Personal Remittances, received (% of GDP) | World Bank | 5.08 | 2022 | |  |
| | ODA received as percentage of GNI | World Bank | 16.46 | 2021 | |  |
| | Tourism receipts as share of exports | World Bank | 1.63 | 2020 | |  |
| | Current account balance (% of GDP) | World Bank | -13.68 | 2022 | |  |
| | Standard deviation of net barter terms of trade over 20 years | World Bank | 8.95 | 2021 | |  |
| | Cereal import dependency | Food and Agriculture Organization | 0.97 | 2021 | |  |
| | Tax revenue as share of GDP | World Bank | 20.67 | 2021 | |  |
| | Gross domestic savings (% of GDP) | World Bank | 11.97 | 2020 | |  |

| Indicator | | Source | Latest available data | Year most recent data refer to | Relative performance in latest year (legend below) | Trend (last decade) |
|-----------------------------|--|--|-----------------------|--------------------------------|--|---------------------|
| | Adjusted net savings (% of GNI) | World Bank | 16.88 | 2020 | | |
| | Share of employment in agriculture | International Labour Organization | 37.29 | 2022 | | |
| | Productive capacities index | United Nations Conference on Trade and Development | 38.19 | 2022 | | |
| | Percentage of individuals using the internet | World Bank | 36.13 | 2021 | | |
| | Renewable electricity capacity per capita | International Renewable Energy Agency | 7.21*10 ⁻³ | 2022 | | |
| | Percentage of population with access to electricity | World Bank | 76.35 | 2021 | | |
| ENVIRONMENTAL VULNERABILITY | Environmental Performance Index | Yale/Columbia University | 35.00 | 2022 | | n/a |
| | Global Adaptation Index | University of Notre Dame ND-GAIN | 39.84 | 2021 | | |
| | INFORM Climate Change Risk Index | European Commission - Joint Research Center | 4.30 | 2022 | | n/a |
| | Economic loss from natural disaster (% of GDP) | United Nations SDG Global Database | 1.18*10 ⁻³ | 2020 | | |
| | Annual mean levels of fine particulate matter (e.g. PM2.5) in cities (population weighted) | United Nations SDG Global Database | 7.83 | 2019 | | |
| | Access to at least basic sanitation (% of population) | United Nations SDG Global Database | 35.02 | 2021 | | |
| | Access to at least basic drinking water (% of population) | United Nations SDG Global Database | 67.45 | 2021 | | |
| | Freshwater withdrawal as a proportion of available freshwater resources | United Nations SDG Global Database | | | | n/a |
| | Proportion of water basins experiencing high surface water extent changes | United Nations Water | 70.00 | 2020 | | n/a |
| | Red list index, showing trends in overall extinction risks of species | United Nations SDG Global Database | 0.75 | 2023 | | |

| | Indicator | Source | Latest available data | Year most recent data refer to | Relative performance in latest year (legend below) | Trend (last decade) |
|--------------|---|--|-----------------------|--------------------------------|--|---------------------|
| | Change in forest cover (percentage) | United Nations SDG Global Database | -0.03 | 2020 | | n/a |
| | Domestic material consumption per capita | United Nations SDG Global Database | 28.34 | 2019 | | |
| HUMAN ASSETS | Human development index | United Nations Development Programme | 0.56 | 2022 | | |
| | Multidimensional poverty index | United Nations Development Programme | | | | n/a |
| | Proportion of population covered by at least one social protection benefit | United Nations SDG Global Database | 1.10 | 2019 | | n/a |
| | Prevalence of undernourishment | Food and Agriculture Organization | 19.00 | 2022 | | |
| | Mortality from CVD, cancer, diabetes or CRD between exact ages 30 and 70 (%) | World Bank | 39.20 | 2019 | | |
| | Diphtheria tetanus toxoid and pertussis (DTP3) immunization coverage among 1-year-olds (%) | World Health Organization | 89.00 | 2022 | | |
| | Gross secondary school enrolment rate | United Nations Educational, Scientific and Cultural Organization | 48.26 | 2012 | | n/a |
| | Mean years of schooling | United Nations Development Programme | 5.88 | 2022 | | |
| | Learning-adjusted (expected) years of school | World Bank | 4.68 | 2020 | | |
| | | United Nations Development Programme | 3.87 | 2023 | | |
| | Dependency ratio, i.e. the ratio of youth (Age 0-14) and elderly (age 65+) to population of age 15-64 | United Nations Development Programme | 73.57 | 2023 | | |
| | Labor force participation rate, female (% of female population ages 15+) (modeled ILO estimate) | World Bank | 82.43 | 2022 | | |
| INCOME | Gross national disposable income (GNDI) per capita, market exchange rates | World Bank | 2393.23 | 2022 | | |
| | GDP per capita, market exchange rates | United Nations Statistics Division | 2205.31 | 2022 | | |

| | Indicator | Source | Latest available data | Year most recent data refer to | Relative performance in latest year (legend below) | Trend (last decade) |
|-------|---|---|-----------------------|--------------------------------|--|---------------------|
| | Gross national income (GNI per capita) at purchasing power parity conversion factors | World Bank | 2670.00 | 2022 | | |
| | Gini coefficient of disposable income | Standardized World Income Inequality Database | 42.40 | 2013 | | n/a |
| | Percentage of population below international poverty line (\$2.15) | World Bank | 26.60 | 2012 | | n/a |
| OTHER | Battle deaths per 100,000, 20-year average | Uppsala University | 0.00 | 2022 | | |
| | Population of concern to UNHCR as percentage of total population | United Nations High Commissioner for Refugees | 0.14 | 2022 | | |
| | Stock of persons internally displaced by conflict as percent of total population | International Displacement Monitoring Centre | $9.31 \cdot 10^{-2}$ | 2022 | | |
| | Intentional homicides (per 100,000 people) | World Bank | 3.68 | 2008 | | n/a |
| | Voice and accountability, capturing perceptions of citizens' participation in selecting governments as well as of freedom of expression, association, and media | World Bank | 0.32 | 2022 | | |
| | Government effectiveness, capturing perceptions of the quality of public services and policies | World Bank | -0.67 | 2022 | | |
| | Women empowerment index, providing information on women's civil liberties, civil society participation, and political participation | Varieties of Democracy | 0.56 | 2022 | | |

Legend:

On the chromatic scale below, dark blue indicates the most positive performance relative to a reference point; and the darkest orange indicates the poorest relative performance. The reference point is determined, for each indicator, as the performance of the group of LDCs relative to all developing countries (e.g. the 33rd percentile).



No data available for the corresponding indicator

n/a denotes that a trend cannot be presented due to either only one data point or no data being available for the last ten years.