

Solomon Islands: Country Economic Memorandum

Unlocking New Sources
of Economic Growth

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Acronyms

ADB Asian Development Bank

ASR Adult Survival Rates

CBRM Community-Based Resources Management

CBSI Central Bank of Solomon Islands

CEM Country Economic Memorandum

CIIEWS Climate Information and Early Warning Systems

CLPE Customary Land Perpetual Estate

CP Control Points

CPIA Country Policy and Institutional Assessment

CPSD Country Private Sector Diagnostic

CRB Coconut Rhinoceros Beetle

EAP East Asia and Pacific

EEZ exclusive economic zone

EYS expected years of schooling

FADs fish aggregating devices

FDI foreign direct investment

FSS Franchise Shipping Scheme

GDP Gross Domestic Product

GER Gross Enrolment Rate

GFCF Gross Fixed Capital Formation

GNI Gross National Income

GPPOL Guadalcanal Plains Palm Oil Ltd

HACCP Hazard Analysis and Critical

HCI Human Capital Index

HIES Household Income and Expenditure Survey

ICT Information and Communications Technology

IMF International Monetary Fund

IPP independent power producer

IUU illegal, unreported, and unregulated

kW kilowatts

kWh kilowatt hour

LAYS Learning-Adjusted Years of Schooling

LDA Livestock Development Authority

LMA	Loka Mamata Association	PPA	Power Purchase Agreement
LMU	Labour Management Unit	PPP	Purchasing Power Parity
LTGM	Long Term Growth Model	PRIF	Pacific Regional Infrastructure Facility
MCILI	Ministry of Commerce, Industry, Labour and Immigration	RSE	Recognized Seasonal Employer
MEHRD	Ministry of Education, Human Resource Development	RTCs	Rural Training Centres
MFMR	Ministry of Fisheries and Marine Resources	SBD	Solomon Islands Dollar
MHMS	Ministry of Health and Medical Services	SCD	Systematic Country Diagnostic
MMERE	Ministry of Mines, Energy and Rural Electrification	SINSO	Solomon Islands National Statistics Office
MSMEs	micro, small, and medium enterprises	SME	small and medium-sized enterprises
MW	megawatts	TFP	Total Factor Productivity
NBPOL	New Britain Palm Oil Limited	TVET	Technical and Vocational Education and Training
NCDs	Non-communicable diseases	UN	United Nations
NDS	National Development Strategy	UNCTAD	United Nations Conference on Trade and Development
NER	Net Enrolment Rate	WCPFC	Western and Central Pacific Fisheries Commission
NRH	National Referral Hospital	WCPO	Western and Central Pacific Ocean
PALM	Pacific Australia Labour Mobility		
PICs	Pacific Islands Countries		



Executive Summary





ABSTRACT: A Country Economic Memorandum (CEM) is a diagnostic instrument to analyze key constraints to growth, support policy dialogue with the government, and inform engagement with different stakeholders. During February 2023 and March 2024, a CEM was conducted for Solomon Islands, titled ‘Solomon Islands: Country Economic Memorandum – Unlocking New Sources of Economic Growth’. The CEM examines key barriers to sustainable economic development, with a focus on challenges of economic geography, obstacles to private sector activity, and constraints in four key sectors with high growth potential (i.e., agriculture, fisheries, tourism, and labor mobility). The CEM provides actionable policy recommendations to help overcome the identified barriers and unlock new sources of economic growth.

Context

- 1. Solomon Islands is a small, remote archipelago that faces a unique set of development challenges, characterized by its economic geography and limited state capacity.** A population of 721,000, dispersed across 90 inhabited islands, complicates public service delivery and makes the provision of infrastructure disproportionately costly. A small domestic economy, internal division, and remoteness from large export markets limit private sector activity and international trade. Furthermore natural disasters and the impacts of climate change pose a continuous threat to sustainable development. Finally, limited state capacity tends to constrain the design and implementation of effective public policies, resulting in large development gaps. To illustrate, in 2022, Solomon Islands was ranked 156th out of 193 countries on the Human Development Index.
- 2. Economic growth in Solomon Islands has been slow and volatile, contributing to a widening gap in per capita incomes compared to peer countries.** For much of its history, economic growth in Solomon Islands has been volatile, driven by developments in the primary sector. In 1999, the level of per capita income in Solomon Islands was 28 percent lower than the average of lower-middle-income countries and broadly equivalent to the average of its structural peers.¹

However, the Tensions² and slowing growth in the last decade have caused the gap in per capita incomes to persist. Notably, by 2022, Solomon Islands had still not bridged the gap created by the Tensions, with per capita incomes 5 percentage points lower than 1999 levels. Additionally, Solomon Islands had no convergence in per capita incomes with its peer countries. By 2022, per capita income was less than one-fifth of the level of aspirational peers, having been closer to one-third of per capita income pre-Tensions.

- 3. The country’s historical growth driver, the logging sector, is in rapid decline, stressing the urgent need to unlock new sources of growth.** Solomon Islands has a long history in logging, dating back to pre-independence. At its peak in 2016, 3 million cubic meters of round logs were harvested, accounting for 22 percent of GDP, 70 percent of goods exports, and 19 percent of domestic revenue. After years of unsustainable extraction, the sector is now in long-term decline as reserves of sizable logs have largely been depleted. In 2022, log production dropped to 1.6 million cubic meters, a halving of output in merely seven years. Solomon Islands therefore faces a pressing need to find new sources of economic growth to offset the decline in forestry. Outside logging, however, most other sectors are underdeveloped.

¹Structural peers are Comoros, Kiribati, Micronesia, Samoa, Timor-Leste, and Vanuatu – selected based on economic and geographic characteristics. Aspirational peers are Fiji, Grenada, and Maldives – countries that have reached a higher level of economic development.

²The ‘Tensions’ is a term given to a period of civil unrest in the late 1990s in which inequities in resource distribution and economic opportunities sparked conflict between provincial ethnic groups.

- 4. Without reform, Solomon Islands is unlikely to achieve upper-middle-income status by 2050.** Assuming historical growth fundamentals continue, GDP growth will average 3.2 percent over the period 2024–2050, yielding a gross national income (GNI) per capita of US\$3,160 by 2050, well below the upper-middle-income threshold of US\$4,465. In this scenario, the country benefits neither from large productivity gains nor from sizeable investment accelerations. It is clear that without sustained reform and tapping into new sources of growth, Solomon Islands will not achieve the growth objective laid out in the National Development Strategy 2016–2035 (NDS), i.e., 5 percent GDP growth by 2025 and 7 percent by 2030 and beyond.
- 5. On the other hand, a comprehensive reform effort could provide a significant boost to long-term economic development.** Opportunities exist to address economic geography constraints through digitalization, improved transport connectivity, and better urban planning. Furthermore, enhancing the business environment may stimulate private sector investment, especially in tourism, agriculture, and fisheries. A focus on educating the workforce and a deeper engagement in temporary labor mobility programs may generate the skills needed for the private sector to thrive. A reform effort targeting these growth drivers would provide a significant boost to long-term economic development (through increased total factor productivity, human capital, and private investment). In an ambitious reform scenario, Solomon Islands would reach upper-middle-income status by 2040.

Overcoming Economic Geography Challenges

- 6. A challenging economic geography, amplified by limited transport and digital connectivity, is constraining economic activity.** Solomon Islands faces three types of geographical challenges: remoteness from large export markets; a small and dispersed population; and transport difficulties due to ruggedness and adverse maritime conditions. These characteristics make it difficult to realize economies of scale and make it costly to move goods, people, capital, and information within the country.
- Adding to these challenges is the country’s transport network, which currently is below standard, with poor quality roads and maritime infrastructure, irregular shipping services, and congestion at key connectivity points. While digitalization has the potential to overcome certain geographic challenges, only 17.5 percent of the 12+ population has access to the internet in Solomon Islands. Furthermore, internet access is geographically concentrated and distinctively gendered, with males having systematically higher access rates than females. Due to the country’s geography, expanding high-quality internet coverage is costly.
- 7. Furthermore, the rapid but uncontrolled migration to Honiara has delivered few economic benefits.** While Solomon Islands remains a predominantly rural country, its pace of urbanization has been among the fastest in the world. The annualized urbanization rate over 2009–2019 was 5.8 percent, more than double compared to lower-middle-income countries. Much of this growth occurred in Honiara, with a doubling in the city’s population between 2009 and 2019. While urbanization generally is a driver of growth through non-farm job creation and agglomeration externalities, in Solomon Islands it has led to increased urban unemployment and a lack of structural transformation. A key reason for the limited ability of Honiara to effectively absorb internal migrants is that the city government lacks many foundational tools for effective urban planning and service delivery.
- 8. Overcoming economic geography constraints may spur spatial development in Solomon Islands.** Results from analyzing the 2019 census indicate that improved transport connectivity is associated with a shift from subsistence farming to income-earning activities. Relatedly, improving last-mile transport connections (e.g., community jetties and marketplaces) has been shown to create scale at provincial transport hubs, resulting in increased economic activity. It is important to note that transport investments in rural areas can have unintended negative consequences if the enabling environment for private sector development does not exist. That is, analysis for this report shows that wharf investments in rural areas have increased

outward migration (to overcrowded Honiara), without any significant uplift in non-farm production, indicative of so-called 'straw effects'.³ In terms of digitalization, findings indicate a positive association between digitalization, employment, and poverty reduction. Furthermore, digitalization can also support financial inclusion, the provision of information services, facilitate remittance flows, and reduce gender disparities.

- 9. To benefit from agglomeration economies and improve transport and digital connectivity, several investments are needed, including in state capacity.** Honiara, as the leading area, has the potential to drive economic growth. This will require strengthening land administration systems, upgrading essential services, increasing local revenue mobilization, and adequate urban planning. There is also a need to address both demand and supply side constraints to facilitate job creation in the capital. Upskilling the labor force will require public intervention, but some aspects may be addressed at the firm level. Additionally, strategic public investments in provincial urban centers could generate economic benefits and reduce migration push factors. The binding nature of economic geography constraints in Solomon Islands means there is a rationale for improvements in transport connectivity (in a climate-resilient manner). It is recommended to implement an infrastructure condition survey, improve the existing road network, create scale in inter-island shipping, and revisit the Franchise Shipping Scheme. More generally, transport sector reforms are needed to achieve long-term sustainability. Finally, it is critical to enhance the availability and affordability of digital connections by providing 4G technology, continuing to expand coverage, updating the legal framework, and potentially tapping into innovations in satellite connectivity. Given the positive externalities associated with digital connectivity and binding equity constraints, public intervention will be required.

Stimulating Private Sector Development

- 10. The formal private sector is heavily concentrated in and around Honiara.** Of the estimated 2,071 registered businesses in the country, more than 85 percent are based in the nation's capital, followed by the Western Province and Malaita Province (6 percent and 4 percent, respectively). In rural regions, the number of formal enterprises decreases drastically, pointing towards the prevalence of sizable informal business activity. Micro enterprises comprise the majority of businesses, with approximately 80 percent of enterprises having fewer than five employees.
- 11. The sectoral composition of the economy has remained remarkably steady over the past ten years.** In 2022, the primary sector accounted for 28 percent of GDP, virtually unchanged compared to 2013. A relatively small, commercialized agriculture sector sits alongside subsistence production, which is dominated by an export-oriented forestry industry, though it also includes the harvesting of plantation crops and fishing. The industry sector is fairly limited, accounting for 15 percent of GDP. Mining, food processing, and construction are the main industrial activities. Urban-based government workers support the service-based economy – comprising 57 percent of GDP – mainly in urban areas like Honiara. Retail, transport, financial intermediation, public administration, and real estate are the largest service sub-sectors. Tourism is currently limited, despite an abundance of exquisite natural capital.
- 12. The business environment imposes high regulatory compliance costs on businesses which contributes to widespread informality.** The government has made progress in recent years beginning to digitalize service delivery – including in areas such as business registration, tax reporting, and trade – but most processes still require physical payments and submission of at least some hard documents. More than

³'Straw effects' of infrastructure occur when newly available connectivity options lead to (uncontrolled) migration to more developed locations instead of rural development (Ono and Asano, 2005).

80 percent of respondents in a World Bank Firm Survey conducted for this study identified digitalization of government to business services, improved access to finance, and reducing the cost and complexity of complying with business environment regulations as reforms that would reduce informality.

13. Several constraints explain the limited structural transformation and are preventing an acceleration of private sector led growth, including land use, labor market skills, access to finance, and affordable energy. The Firm Survey indicates that key constraints to private sector development – identified by both domestic and foreign enterprises – include difficulties in obtaining land, limited skills in the labor market, restricted access to finance, and the high cost of electricity. Around 80 percent of the land in Solomon Islands is unrecorded customary land, making access to land, and the ability to exchange it, severely limited. With respect to skills, Solomon Islands is among lower-middle-income countries with the highest share of workers being under-educated for the jobs they hold, at 54 percent. Private sector development is also hindered by limited access to finance, due to both supply and demand side factors. Finally, energy prices are amongst the highest in the world, while access to grid-connected electricity in Solomon Islands remains low.

14. Increasing the use of land for economic activity may unlock investment but will require long term reform and close collaboration among stakeholders. Strengthening land administration systems, including the development of an electronic cadastral survey system, would greatly improve the efficiency and reliability of acquiring land use rights. In addition, recording customary land (where supported by communal owners), the creation of a new customary land title, and bringing down the cost of land registration would facilitate the use of land for economic development. Furthermore, effective dispute settlement systems are indispensable for resolving land disputes. The government can also consider transferring underutilized public land to private agents. While addressing these constraints will require sustained policy reform, there are good examples of individual projects –

both large and small – that have succeeded with innovative land approaches. Learning from these experiences and scaling up the success stories can help boost value-added economic growth while working in parallel on long-term reforms. It is important to note, however, that institutional strengthening and complementary reforms are needed for land reforms to generate economic benefits.

15. Investing in skills for the workforce has significant potential to boost productivity and economic outcomes. This could be addressed by great prioritization of initiatives that increase the overall education level of the workforce, such as improving access to, and the quality of, primary and secondary education, vocational training, teaching quality – and a focus on first language learning. Additional steps to upskill the workforce include implementing adult education and training programs at the firm level, encouraging the development of formal employment opportunities to reduce reliance on the informal sector, and aligning educational investments with broader economic development plans to ensure that the education system supports the country's economic goals and supplies the necessary human capital for key sectors.

16. Policy and structural reforms are needed to improve access to finance for firms in Solomon Islands. Credit growth for businesses – particularly small and micro enterprises that constitute the vast majority of businesses by number – is constrained by several factors including high collateral requirements without an ability to pledge land as collateral, limited credit information, and the lack of financial literacy among enterprise owners. As a result, interest rate spreads remain large (around 10 percent), well above Pacific Island averages. Policymakers can play a role in addressing barriers to credit growth by expanding financial market infrastructure such as payment systems and the credit registry, improving digital connectivity and digital financial literacy, and supporting reforms related to the enforcement of contracts.

17. The transition to renewable energy represents an opportunity to improve the business environment and the regulatory framework of the energy sector. While most generating capacity in Solomon Islands is from diesel-fueled power generation, efforts have been made to switch to renewables. Furthermore, there is growing interest in Independent Power Producer (IPP) projects, own-use solar systems, and mini-grids, which could help alleviate challenges with access to and cost of power. The lack of an effective regulatory framework and economic geography constraints prevent these initiatives from coming to fruition. Putting these in place would increase transparency and predictability for businesses and help facilitate more inward investment. Relatedly, reforms are needed to restructure tariffs, update fees and charges, and improve energy sector regulation. An independent regulator is critical to the process of unbundling the sector, where the participation of IPPs is managed effectively through a power purchasing agreement.

18. Furthermore, expanding Solomon Islands' service sector could help improve competitiveness across the whole economy. The service sector is relatively large, accounting for 40 percent of employment. Wholesale and retail trade are the largest contributors to the service sector, followed by government services and transport. International trade in services is also sizable, equal to 18 percent of GDP. This includes travel and tourism, though revenues from these activities have not been as robust for Solomon Islands as other PICs. Further reducing barriers to trade in critical services such as transportation, logistics, freight handling, and finance would help improve the competitiveness of the wider economy and mitigate some of the costs associated with geographic remoteness.

Unlocking New Sources of Sectoral Growth

19. Overcoming economic geography challenges and private sector constraints may generate a growth dividend in agriculture, fisheries, tourism, and labor mobility programs. These sectors have high growth potential (World Bank, 2017), but face several constraints, including

connectivity challenges, limited access to finance and information, skills gaps, and a business environment that is not conducive to investment. Addressing key constraints – through digitalization, mechanization, infrastructure investment, skills building, and policy reform – may unlock private investment, raise productivity and human capital, and thus drive economic growth going forward. Additionally, temporary labor mobility programs and long-term migration may absorb the current slack in the labor market and provide several economic gains. However, action is needed to mitigate negative impacts of these programs, including the need to build a strong educational system.

Agriculture

20. Agriculture influences the lives and livelihoods of the vast majority of the population of Solomon Islands. About 84 percent of households grow crops, with 37 percent of households indicating crop sales as their main source of income. The sector – representing 17 percent of GDP in 2020 – consists mainly of smallholder (subsistence or semi-commercial) farmers and a small commercial sector that focuses on palm oil production and livestock raising. Large spatial variation exists in terms of crop production and dependence on agriculture for income generation. Gender disparities also exist, with men producing and selling more cash crops, and women concentrating on staple crops. Palm oil, coconut products (copra, crude copra oil, and virgin coconut oil), and cocoa are the primary goods exported, while the country imports a variety of food products, ranging from rice to poultry/meat.

21. Several opportunities exist to expand the agricultural sector. With large yield gaps, significant potential exists to increase domestic supply, which would increase consumer surplus and allow for more export opportunities. Next, apart from the existing export commodities, the domestic market could consider import substitutions for a number of goods, with upside potential in the poultry market. Furthermore, given the country's economic geography, downstream processing may add value for perishable goods and export crops. Finally, potential exists to re-develop vanilla farming in

certain locations – especially in the Guadalcanal plains where climatic conditions are favorable – and also introduce other high-value spices such as nutmeg.

22. To reap those opportunities, numerous constraints need to be addressed. Farmers have limited access to finance and insurance products, reducing working capital and farm investment. Limited infrastructure and information causes value chains to break down and increases cost, which puts farmers at a competitive disadvantage. A lack of mechanization and intermittent availability of input supplies affects agricultural productivity. Quality assurance, food safety, market access, and unpredictable supply further limits the opportunity to expand export markets. Disease burden, the rhinoceros beetle, and climate change pose additional challenges, while low aspirations and limited skills hold back growth at the farm level. So far, extension services have proved ineffective to address these constraints.

23. Modernizing the agricultural sector combined with measures to raise aspirations could lead to a substantial growth dividend. Currently, smallholders are using only basic hand tools to farm, which makes their work arduous and demotivates them from putting in more effort. Context-specific mechanization, modern production technologies, and cost-effective measures to raise aspirations would increase both productivity and motivation. Estimates suggest this could result in a 4.3 percent of GDP growth dividend. As far as possible, the private sector should take the lead in modernizing the sector, with appropriate public support. Furthermore, with digital connectivity set to expand, using Information and Communication Technology (ICT) more actively can support technology adoption, improve decision making, reduce information asymmetries, and even address financing constraints. Finally, to transform the agricultural sector, both public and private investment needs to increase.

Fisheries

24. Similar to agriculture, fisheries play a crucial role for Solomon Islanders. Small-scale fisheries make a vital contribution to food security and income generation. Approximately 47 percent of households engage in fishing activities, which are integral to providing a low-cost, highly nutritious protein source. Generally, fishing serves as a complementary livelihood activity for three-quarters of fishing households, though there is considerable spatial variation in the extent to which fishing is a primary income source. Alongside the subsistence fishing sector sits commercial fishing that includes relatively small domestic coastal fishing and aquaculture sectors, as well as a larger and more lucrative oceanic fishing sector, in which larger foreign and domestic vessels catch tuna at an industrial scale in Solomon Islands' waters. There is only limited domestic involvement in the tuna industry, with incomes mostly limited to access fees and revenue generated from the small share of the total catch that is processed onshore.

25. The combination of favorable endowments and established practices means there are growth opportunities in the fisheries sector. Linking small-scale fisheries with growing urban markets presents opportunities for sustainable and inclusive growth and for enhancing food security. The large and fertile Western and Central Pacific Ocean (WCPO), which holds the largest tuna fisheries globally, positions the country to derive additional revenue from sales of fishing access and the further onshoring of tuna processing and ancillary activities. Effective regional management of the shared marine resource means that the four main tuna species caught in the WCPO (skipjack, yellowfin tuna, bigeye tuna, and albacore) are all considered healthy and sustainable, and none are considered overfished.

26. However, the sector faces several constraints to growth. Small-scale fisheries are generally inefficient, with limited application of capital and limited extension support. Irregular transport and weaknesses in post-harvest practices – including a lack of a robust cold chain from the point of capture to the point of sale, leads to high spoilage rates and precludes access to higher-value

markets domestically and internationally. An unfavorable business environment further limits growth and investment in the sector. Climate variability and illegal, unreported, and unregulated (IUU) fishing activities also present challenges to the productivity and sustainability of fisheries. Weaknesses in monitoring and surveillance capabilities exacerbate these challenges.

27. To support growth in the fisheries sector, a holistic approach that focuses on the constraints of producers and environmental challenges is needed. Investments should address post-harvest challenges and improve connectivity, as well as enhance information dissemination and port/ freight handling. For instance, a robust and efficient cold chain that is able to eliminate spoilage could generate a 1.1 percent of GDP growth dividend by 2028. Investments and pilots must be based on detailed pre-feasibility studies and assessments of existing capabilities. Additionally, any push for commercialization must not be damaging to subsistence needs. ICT can play an important role in resource management. Better information dissemination can also benefit fishers by broadening the reach of extension services, sharing critical market intelligence – and providing opportunities for information and knowledge exchanges, training, mentoring, and collaboration. Adaptive management measures and early warning systems are also essential to address climate-related challenges and depletion of resources.

Tourism

28. Despite globally recognized potential, the tourism sector in Solomon Islands remains in its nascent stages. Solomon Islands is a pristine archipelago with an abundance of natural, cultural, and historical attributes. It boasts the largest saltwater lagoon in the world (Marovo Lagoon), was a key battleground in the Pacific Theatre of World War II, and offers some of the best scuba diving globally. Despite this potential, the tourism sector in Solomon Islands is underdeveloped. In 2019, it represented 10 percent of GDP, which dropped to 3.5 percent in

2020 due to the COVID-19 pandemic. In 2023, visitor arrivals recovered to 26,030, which is well above 2022 levels, but below the 2019 peak. Business and travel for other purposes have long dominated arrivals. Across all arrivals, Australia continues to dominate market share at 33 percent in 2023, followed by other PICS, the United States, and New Zealand.

29. With significant historical, natural, and cultural assets, Solomon Islands has the opportunity to develop niche markets. While Solomon Islands has the natural capital to develop mass market models, global competition in these markets is eroding profit margins, making it less desirable. Fortunately, alternative tourism segments exist, which could better suit the natural, cultural, and historical endowments of the country. For example, tourism destinations targeting historical diving enthusiasts are differentiated from mass market segments, allowing destinations to better appropriate value. These differentiated tourism segments also tend to be less sensitive to connectivity and safety concerns. Crucially, they also involve smaller accommodation providers that are less vertically integrated than mass market segments.

30. To reap these opportunities, there is a need to build tourism infrastructure, facilitate the ease of doing business, and improve governance in the tourism sector. It is critical to develop the necessary transport infrastructure, tourism accommodation and other tourism facilities, without infringing on land rights and environmental sustainability. Doing so may generate a 1 percent of GDP growth dividend in the medium term. In addition, there is a need to improve the business environment, including land use, access to finance, and skill development. Investment in the sector should be facilitated through incentives and partnerships between the government, local communities, and the private sector. A designated focal point for investor assistance would strengthen linkages and accountability within and across agencies. Finally, the establishment of tourism satellite accounts and studies to better understand global and local travel trends would help in making informed investment decisions in the sector.

Labor Mobility and Migration

31. New entrants to the labor market exceed the number of formal jobs created, resulting in a large share of Solomon Islanders engaging in low-productivity work.

Solomon Islands has a young and growing labor force, with an average of nearly 9,000 new workers entering the labor market each year. On the other hand, formal job opportunities in Solomon Islands are limited and confined largely to the public sector. Estimates show that only about 2,100 formal jobs are created each year, well below the number of new entrants to the labor market. As a result, a large share of workers engage in low-productivity subsistence farming and unpaid family work, especially among women and youth, and increasingly so in urban areas. Furthermore, workers in Solomon Islands are not adequately protected when they lose their job.

32. Temporary labor mobility programs and long-term migration may absorb the slack in the labor market, providing several economic gains.

Until recently, Solomon Islands did not actively engage in two important regional labor mobility programs,⁴ neither did the country hold a large stock of long-term emigrants. However, participation in the temporary mobility schemes has dramatically increased, while emigration accelerated, absorbing the slack in the labor market. These developments may bring significant economic benefits in terms of increased remittance flows and skill building. Evidence indicates that remittances are used to finance essential household consumption and contribute to meeting education expenses. Remittances are also associated with increased entrepreneurship. Furthermore, participation in seasonal worker programs may improve farming techniques, organizational skills, and financial management, while long-term emigration can assist with knowledge transfers, government accountability, and increased incentives to obtain higher education.

33. However, various challenges have been identified with labor mobility schemes, and long-term migration may have negative effects.

The increasing outflows of workers has raised concerns over brain drain, (low-skilled) labor shortages, and a related reduction in the working-age population. For Solomon Islands, estimates suggest the working-age population may reduce up to 5 percent by 2040 due to long-term emigration, which could negatively impact GDP growth. Other challenges relate to temporary migrant workers' welfare and behavior in host countries. Absence from home increases the workload of remaining family members, especially women, and affects a gendered division of labor. There are also reports of marital breakdowns, suspicions of infidelity, and adverse outcomes for children. In addition, adverse perceptions and gossip regarding returned female migrants are not uncommon.

34. To harness the benefits of labor mobility and long-term migration, a strong educational system, training, and improved governance are needed.

As the demand for workers expands to include higher-skilled professions, the government will need to invest in better-quality primary and secondary education, including increasing teaching quality, a focus on first language, and improved parental support. Furthermore, the development benefits of long-term migration depend on a high-quality education system. But even low-skilled workers need training to succeed in the overseas job market, including in soft skills, basic literacy, financial management, awareness of cultural norms, and proper workplace conduct. Next to training, measures are needed to mitigate the negative impacts of labor mobility programs, including health insurance arrangements and family support services. This will require building capacity in the government's Labour Management Unit (LMU). Next, developing a strategic approach to emigration will help in reaping the benefits from long-term migration. Finally, Solomon Islands would benefit from building a social protection and jobs system.

⁴New Zealand's Recognized Seasonal Employer (RSE) scheme and Australia's Pacific Australia Labour Mobility (PALM) program.

Table 1: Recommendations table

To overcome economic geography constraints:

Priority recommendations:

- *Transport connectivity:* Upgrade existing road network (MT); Create scale in inter-island shipping (MT)
- *Digital connectivity:* Expand coverage and affordability of internet access (MT–LT)
- *Urban planning:* Invest in provincial urban centers and strengthen planning (ST–MT); Improve local revenue mobilization (MT)

Secondary recommendations

- *Transport connectivity:* Revisit the Franchise Shipping Scheme (ST)
- *Urban planning:* Strengthen land administration systems (ST–MT); Upgrade essential urban services (MT)

To stimulate private sector investment:

Priority recommendations:

- Increase competition in the service sector (ST–MT)
- Develop a new customary land title and bring down registration costs (ST–MT)
- Support private sector involvement in the energy sector, including an independent regulator (MT)
- Expand financial market infrastructure (MT)

Secondary recommendations:

- Revise electricity fees and charges (ST)
- Introduce a single window and electronic payments (MT)
- Strengthen TVET training (MT)

To unlock new sectoral sources of economic growth:


Priority recommendations:

- *Agriculture:* Invest in mechanization (ST–MT); Raise aspirations (ST–MT)
- *Fisheries:* Invest in post-harvest facilities (MT)
- *Tourism:* Improve tourism governance (ST); Build tourism infrastructure (MT)
- *Labor mobility and migration:* Manage negative impacts (ST); Invest in better quality education (LT)

Secondary recommendations:

- *Agriculture:* Use ICT to support technology adoption and access to finance (ST–MT)
- *Fisheries:* Improve information dissemination (ST–MT); Develop adaptive management systems (MT)
- *Tourism:* Facilitate the ease of doing business (MT)
- *Labor mobility and migration:* Implement training programs (ST); Strengthen government capacity (ST); Develop social protection (MT–LT)

Note: ST = short-term action (1–2 years), MT = medium-term action (3–5 years), LT = long-term action (5+ years).



1. Solomon Islands Growth Performance: Trends, Outlook, and Key Constraints





1.1. Country Context

35. Solomon Islands is a lower-middle-income country with a low level of human development. The country's per capita GDP (purchasing power parity [PPP]) was US\$2,211 in 2022, well below the average of the Pacific Island Countries (PICs). Low incomes are also reflected in the country's low Human Development Index, which ranked 156th out of 193 countries in 2022. This compares to a ranking of 104 for Fiji, an aspirational peer for Solomon Islands. Notwithstanding some improvement since the turn of the century, the Human Capital Index (HCI) for Solomon Islands remains in the bottom 20 percent of countries worldwide: a child born today is only expected to achieve 42 percent of their full potential. According to the 2012/13 Household Income and Expenditure Survey (HIES), 61 percent of the population was considered poor (based on the lower-middle-income poverty line of US\$3.65 2017 PPP per person per day). A recent study indicates large reductions in multi-dimensional poverty between 2009 and 2019 (World Bank, 2024), but the COVID-19 pandemic may have reversed that trend.

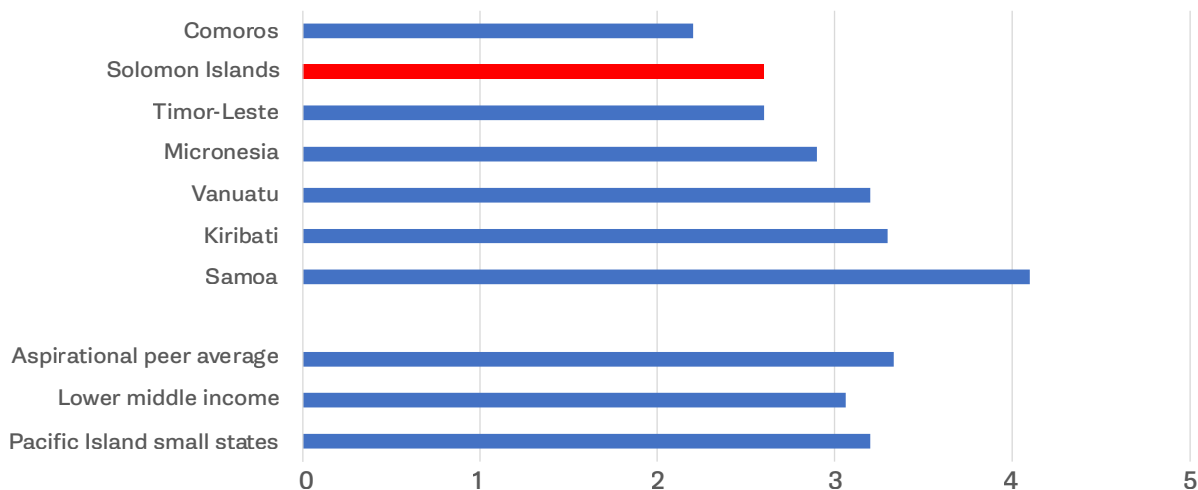
36. A challenging economic geography plays a key role in shaping these outcomes. Solomon Islands is the fifth most remote country in the world from large markets, being more remote than the average of the PICs. The population of 721,000 people is dispersed over an estimated 90 inhabited islands, stretching across 1.6 million square kilometers of ocean. Around 75 percent of the population lives in rural areas, mainly in smaller villages with an estimated 50 percent under the age of 20. The small and dispersed nature of Solomon Islands' population makes it difficult and expensive for the government to provide quality public services and infrastructure outside of urban areas. Additionally, a small domestic economy, internal dispersion, and remoteness from large export markets limits private sector development and international trade (World Bank, 1984; World Bank, 2010; World Bank, 2017; World Bank, 2018; International Growth Center, 2024).

37. Furthermore, natural disasters – which are likely to worsen with climate change – pose a continuous threat to sustainable development. Due to its location in the South Pacific tropical cyclone basin and the Pacific Ring of Fire, Solomon Islands is regularly buffeted by the effects of cyclones, heavy rainfall, earthquakes, volcanoes, and occasional tsunamis. Furthermore, the economic and humanitarian costs of natural disasters are expected to escalate with climate change, which is adversely affecting the country through increased temperatures, intensity of rainfall, storm surges, tropical cyclones, and sea level rise. The Pacific Catastrophe Risk Assessment and Financing Initiative estimated in 2015 that over the next 50 years, Solomon Islands should expect average annualized losses equivalent to 1.6 percent of GDP due to climatic events.

38. Compounding these disadvantages are limited state capacity and political economy dynamics which constrain the implementation of effective public policies (World Bank, 2018). The quality of public sector management and institutions in Solomon Islands is lower than most structural and aspirational peers (Figure 1).⁵ In part, this reflects the limited technical capacity of the bureaucracy (Haque, 2013), though it also reflects the prevailing political economy dynamics that elevate interest groups over bureaucratic strengthening (Besley and Persson, 2011). The combination of limited state reach, fragmented localized identities, and the value of resource rents create an incentive for personalized forms of political leadership to flourish. Indeed, the style of leadership in which Members of Parliament focus on securing resources for local constituents rather than focus on building state capability, is characteristic of Melanesian countries.

⁵See the annex for details on selection of structural and aspirational peers.

Figure 1: CPIA public sector management and institutions cluster average (1=low to 6=high)



Source: WDI.

39. These interconnected development challenges are the drivers of Solomon Islands’ institutional and social fragility. These dynamics have contributed to violent events, resulting in damage to property and the loss of lives. The most notable manifestation of this was the period of civil unrest in the late 1990s known as the ‘Tensions’, in which inequities in resource distribution and economic opportunities sparked conflict between provincial ethnic groups. The conflict wrought considerable human and economic destruction, with around 200 dead and many thousands displaced. It also caused a severe disruption to economic activity, as fighting destroyed capital stock, foreign investors left on mass, and major governmental institutions were rendered virtually inoperable. The mobilization of an international peacekeeping force in 2003 formally brought an end to open hostilities.

1.2. Characteristics of Economic Growth

1.2.1. Historical Trends

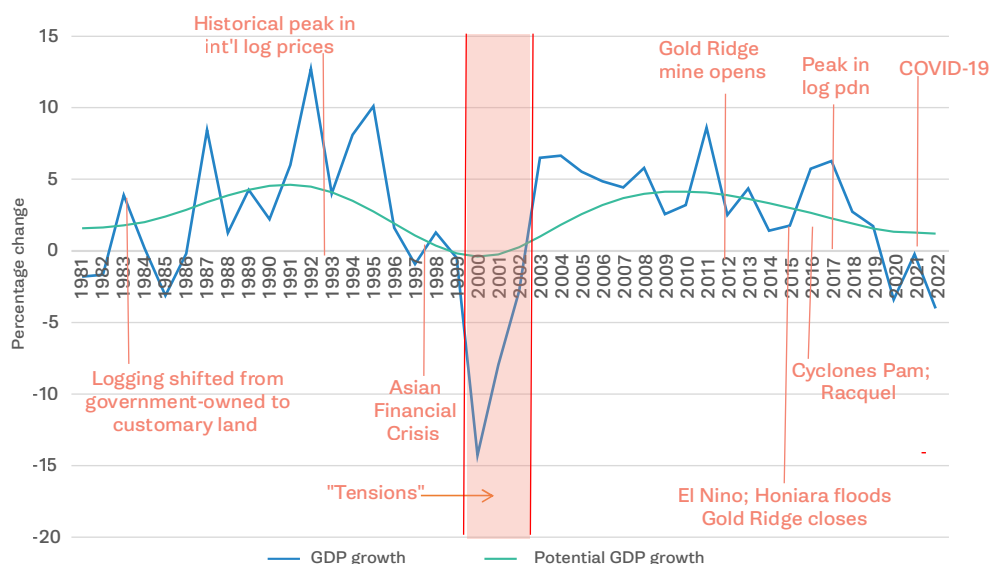
40. For much of its history, economic growth in Solomon Islands has been volatile, driven by developments in the primary sector (Figure 2). GDP growth over the period 1981–2021 averaged 2.5 percent. The standard deviation of growth in Solomon Islands over that period reached 4.9 percent, significantly higher than the average for lower-middle-income countries (1.9 percent). In the early 1980s, an influx of logging companies from Asia, alongside the opening up of customary land, led to a take-off in logging activities (Wairiu, 2007).⁶ In the 1990s, the growth pattern was heavily influenced by cyclical factors that affected agricultural exports. The 1997 Asian Financial Crisis severely reduced demand for log exports and caused growth to contract. Subsequently, the Tensions caused a 23 percent decline in economic activity. A period of strong and broad-based growth occurred between 2003

⁶Until this point, larger-scale commercial logging, which had been happening since the 1960s, had only occurred on government-owned and leased land.

and 2010 as the country rebuilt from the civil war. Between 2010 and 2019, growth averaged 4.2 percent. In the first half of the decade, favorable commodity prices, strong demand for timber, and the reopening of the Gold Ridge mine supported growth. However, a combination of adverse shocks, including declining commodity prices, electoral unrest, and a spate of natural disasters caused growth to decline in the second half of the decade. The COVID-19 pandemic, combined

with renewed civil unrest, and the impacts of Russia's invasion of Ukraine, caused a sharp decline in output between 2020 and 2022, with the economy contracting by 8.3 percent over the period 2020–2022. Growth rebounded to 1.9 percent in 2023 after a 4.1 percent contraction in 2022. The upturn was fueled by the hosting of the Pacific Games and substantial investments in the energy and transport sectors.

Figure 2: Solomon Islands GDP annual percent change



Source: World Bank.

Note: The Hodrick-Prescott (HP) filter is a statistical technique used to produce a smoothed measure of real GDP. The HP filter is calculated until year 2100 and smoothed at 100. Deviations from the smoothed curve would represent temporary deviations from the country's GDP growth potential.

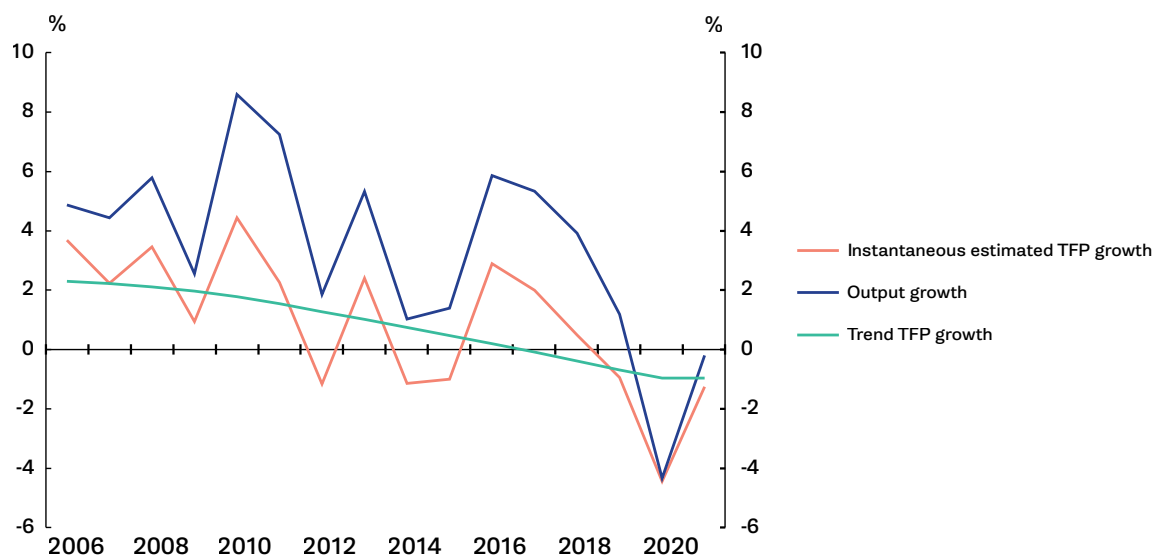
41. The weakening growth trend since 2011 coincided with a steady decline in productivity and the country's estimated potential growth rate. During the post-Tensions recovery, investments in new productive capacity caused potential output to gradually return to near its pre-Tensions level, peaking at 4.2 percent in 2010. Since then, however, there has been a steady decline in the pace of potential GDP growth (Figure 3). Prior to the pandemic, potential growth dropped to 1.5 percent in 2019, while through the pandemic period it weakened further, falling to 0.9 percent in 2022. From an input

perspective, the level of capital investment has been insufficient to replace the depreciation of the existing capital stock, which is likely to have further undermined labor productivity and limited potential growth. Additionally, with employment continuing to grow over the past ten years, the lack of investment is likely to have diminished the capital/labor ratio – limiting the productivity of each worker on average, as well as contributing to waning Total Factor Productivity (TFP) growth (Figure 3). Indeed, in 2019, Solomon Islands had a much lower capital/labor ratio than its peers. The upshot is that growth in Solomon Islands

has been more heavily dependent on growth in the labor force, and less on capital accumulation than peers (Figure 4). Much of the growth since 2011 has been driven by expanding employment,

with little impetus from either the capital stock or productivity. This stands in contrast to peers, where growth of the capital stock in particular has provided a boost to growth.

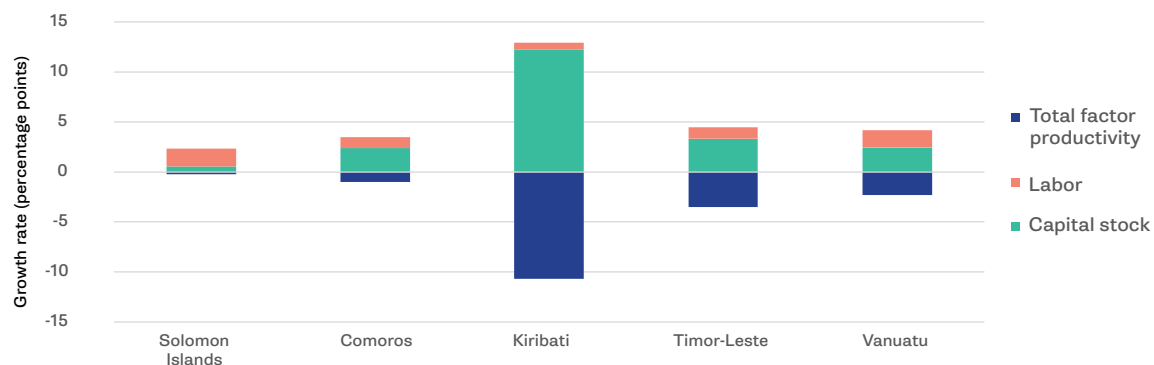
Figure 3: Solomon Islands annual growth rates



Source: World Bank.

Note: Instantaneous TFP is calculated as a Solow residual. Trend TFP is HP-filtered Instantaneous TFP. The HP filter is calculated until year 2100 and smoothed at 100.

Figure 4: Solomon Islands vs. comparators: Contributions to growth 2011–2021



Source: World Bank.

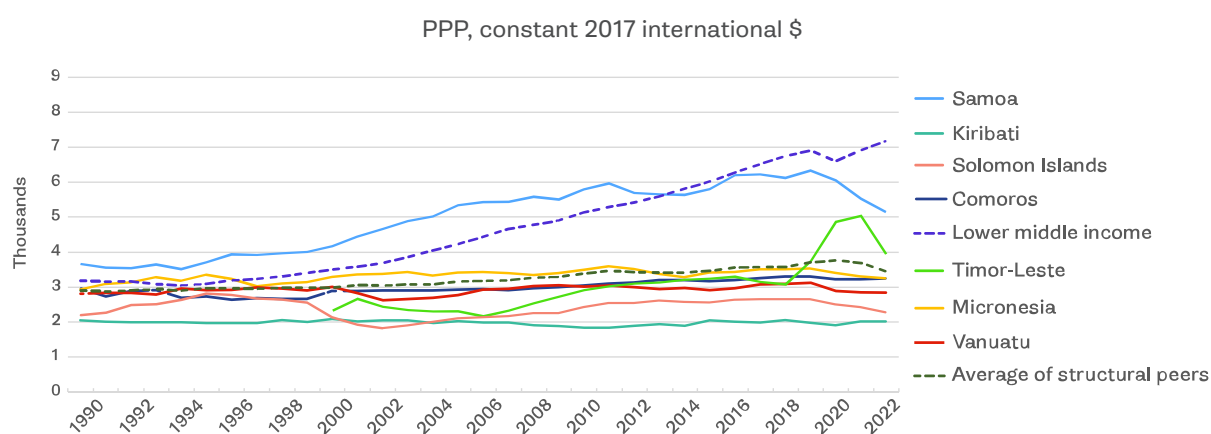
Note: GDP and gross fixed capital formation are measured in constant LCU, based on data from Macro-Poverty Outlook.

42. The net result is that growth has been slower, on average, than all structural peers over the past decade, leading to a growing gap in per capita incomes. In 1999, the level of per capita income in Solomon Islands was 28 percent lower than the average of lower-middle-income countries and broadly equivalent to the average of its structural peers. However, incomes markedly diverged between Solomon Islands and its peers during the Tensions. Subsequent slow growth has caused the gap in per capita incomes to persist (Figure 5). Notably, by 2022, Solomon Islands had still not bridged the gap created by the Tensions, with real per capita incomes still 5 percentage points lower than the 1999 level. Additionally, Solomon Islands had no convergence in per capita incomes with its aspirational peers (Figure 6). By 2022, per capita income was less than one-fifth of the level of aspirational peers, having been closer to one-third of per capita income pre-Tensions.

43. In addition, a very narrow and concentrated production and export base, focused on logging, is a key driver of economic volatility. There has been limited structural economic change in Solomon Islands since its independence around 40 years ago, with a dominance of largely low-

value-add activities. The intensive extraction of logs, which has proceeded at an unsustainable pace since the early 1980s, has been systemically important to the economy for some time.⁷ Despite high production costs, logging has been a viable industry in Solomon Islands for several decades due to the elevated rents it generates. Logging companies are major employers of local labor, responsible for around 5,000 jobs, albeit almost exclusively for men (World Bank, 2018). Timber (mostly unprocessed round logs with little value-add) dominates exports, accounting for around two-thirds of the value of all goods exported between 2017 and 2020 – a much higher export concentration than all structural peers as well as regional and income-group averages. Fueled by strong international (mainly Chinese) demand and a largely unregulated industry, log production has grown rapidly, resulting in accelerating depletion (with annual production up to ten times the estimated sustainable harvest). Increasing log production has also fueled a sharp rise in natural resource rents as a share of GDP, from 5 percent in 2000 to 19 percent in 2020 – a rate well above structural peers as well as regional and income-group averages.

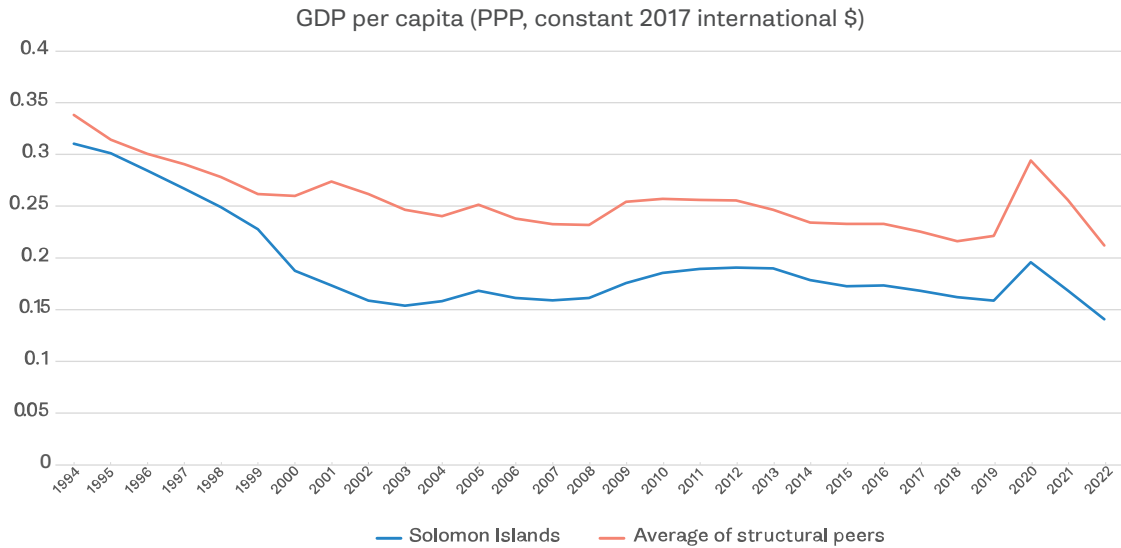
Figure 5: GDP per capita relative to peers



Source: World Bank Development Indicators.

⁷Commercial logging dates back to at least the 1960s, when five foreign companies carried out logging operations. In 1966, around 30,000 cubic meters of logs were exported (World Bank, 1969). Log production peaked in 2016, at 3 million cubic meters. The estimated sustainable harvest is estimated between 250,000 and 300,000 cubic meters per year.

Figure 6: Growth relative to aspirational peers (=1)



Source: World Bank Development Indicators.

44. Other sources of economic volatility are an inherently risky natural environment and the risk of social instability. Solomon Islands is one of the most vulnerable countries in the world to natural disasters and climate change impacts (World Risk Index, 2021). Reducing the impact and volatility associated with these risks calls for long-term planning to embed mitigation and adaptation into a wide range of economic and social policy issues (e.g., climate-resilient infrastructure, networks, and business models). A further driver of volatility is the extent of social inequality, which in turn is linked to horizontal inequality. Identity and politics in Solomon Islands are hyper-local. Yet the prevailing economic geography barriers, including poor connective infrastructure, limit the reach of the state and markets to certain areas of the country (and not others). This gives rise to an urban-centric model of economic activity and governance, and means that the benefits of growth are not broadly shared, with some islands and ethnic groups getting better access to opportunities than others. This horizontal inequality has historically bred enmity and conflict, and was a key trigger for the Tensions as well as civil unrest during the COVID-19 pandemic. Stronger and more diversified economic growth

beyond logging and mining, as well as more effective urbanization, will help better distribute the benefits of growth and reduce the future risk of social instability.

45. With logging now in long-term decline, Solomon Islands needs to find new sources of growth. The logging industry is expected to decline sharply during the next decade given the unsustainable nature of past activities. In 2022, log production reached 1.6 million cubic meters, down from 3 million cubic meters in 2016. Reserves of large logs have been rapidly depleted, leaving mostly smaller logs for which there is less external demand. Solomon Islands thus faces a pressing need for new sources of growth to offset the decline in logging. Outside logging, most other sectors remain underdeveloped. Tourism services have remained limited, while the industry sector plays a minor role. Manufacturing and construction are relatively small, while mining is presently limited to a few isolated pockets of the country, despite considerable natural resource endowments. It is therefore important to investigate the key constraints to economic activity and understand better which sectors can drive future growth.

Box. 1 Fragility, conflict, and violence: The impact on economic growth

Fragility, conflict, and violence (FCV) create significant barriers to sustainable development, which is intricately linked with issues of poverty, governance, and economic growth. The global landscape of FCV has significantly deteriorated over the past three decades, particularly affecting low- and middle-income countries (World Bank, 2020). By 2030, approximately 59 percent of the world's extreme poor will be living in FCV-affected countries (World Bank, 2023). These dynamics pose serious threats to livelihoods, disrupt economic opportunities, and weaken core state functions.

Solomon Islands continues to experience a significant level of institutional and social fragility. In the country, interconnected drivers of fragility include: (1) dependence on resource extraction dominated by elites; (2) low state capacity; (3) unresolved ethnic and regional disparities; (4) heightened geopolitical competition; and (5) vulnerability to external shocks and climate variability. These factors weaken social cohesion and undermine public trust, particularly in remote areas. The country's fragility became starkly evident during the November 2021 unrest, a violent outbreak rooted in deep-seated institutional and social vulnerabilities, demonstrating the ease with which previous development gains can be reversed. The value of physical damage from the riots was estimated at 7 percent of GDP. In addition, the disruption to retail and manufacturing activity in Honiara increased unemployment and reduced growth by 0.3 percentage points in 2021, with knock-on effects in 2022.

FCV has both short- and long-term negative impacts on economic growth, exacerbating macroeconomic stability, investment opportunities, and overall economic activity. Conflict and violence disrupt essential services such as education and health care, resulting in the long-term depletion of human capital. Research shows that FCV leads to reduced investment, infrastructure damage, market disruptions, and human capital flight (de Groot et al., 2022; Collier, 2003). Using global panel data from 1970 to 2014, de Groot et al. (2022) estimate that various dimensions of conflicts reduce GDP growth by an average of 0.9 percent during conflict years. Additionally, Zonda et al. (2024) suggest that violent episodes significantly lower the output levels of Sub-Saharan African countries by approximately 17–20 percentage points. From the institutional perspective, Pompe and Turkewitz (2022) emphasize that weak governance structures, corruption, and the absence of the rule of law in FCV-affected states erode investor confidence, hinder entrepreneurship, and impede overall economic development.

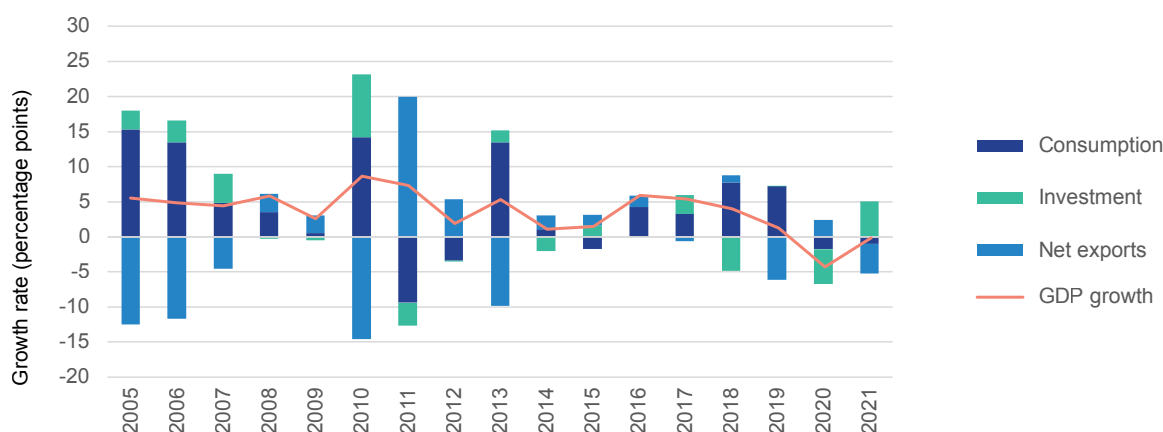
Violent conflicts also have negative consequences at the micro level. Research reveals a disproportionate rise in extreme poverty rates in FCV-affected nations, particularly evident in regions like Africa and Asia where widespread violence leads to the breakdown of essential service provision and undermines fundamental state functions (George et al., 2020; Verwimp et al., 2019; Baird, 2011). These challenges exacerbate poverty, trapping vulnerable communities in cycles of deprivation, marked by issues like food insecurity and domestic violence (Muriuki et al., 2023). Boege (2022) has linked climate change with violent conflict in the Pacific, suggesting that localized conflicts and scattered violence, such as domestic violence against women and children, are prevalent in many Pacific countries like Solomon Islands and Papua New Guinea, often intertwined with the social impacts of climate change.

1.2.2. Growth Decomposition

46. From the expenditure side, growth has been mainly driven by consumption, with investment and net exports playing a much smaller role (Figure 7). The influx of external funding – especially in the wake of the Tensions – helped underpin rapid growth in domestic demand. Public and private consumption rose strongly, which helped fuel rapid growth in services (particularly wholesale and retail trade and public administration) and the agriculture sectors.

Commensurate with the growth in spending, there was strong demand for goods imports which subtracted from growth in periods when imports outpaced exports. After the Tensions, investment returned to address pressing development needs but has subsided since 2011. Between 2015 and 2020, gross fixed capital formation averaged 12.3 percent of GDP, substantially below the average for lower-middle-income countries.⁸ The level of investment has been insufficient to replace the depreciation of the existing capital stock, which is likely to have undermined potential growth.

Figure 7: Annual contribution to total GDP growth



Source: World Bank.

Note: Based on data from MPO, Gross Domestic Product (GDP) and expenditure are measured in constant LCU.

47. From the production side, there has been little change in the composition of economic activity over the past decade. The structure of the economy has remained remarkably stable between 2012 and 2021 (Figure 8). In 2022, the primary sector accounted for 27.8 percent of GDP. Most agricultural production is small-scale

and largely uncommercialized, providing the rural population with food security and livelihoods. A relatively small, commercialized agriculture sector sits alongside subsistence production, which is dominated by an export-oriented forestry industry,⁹ but it also includes the harvesting of plantation crops and a well-established oceanic

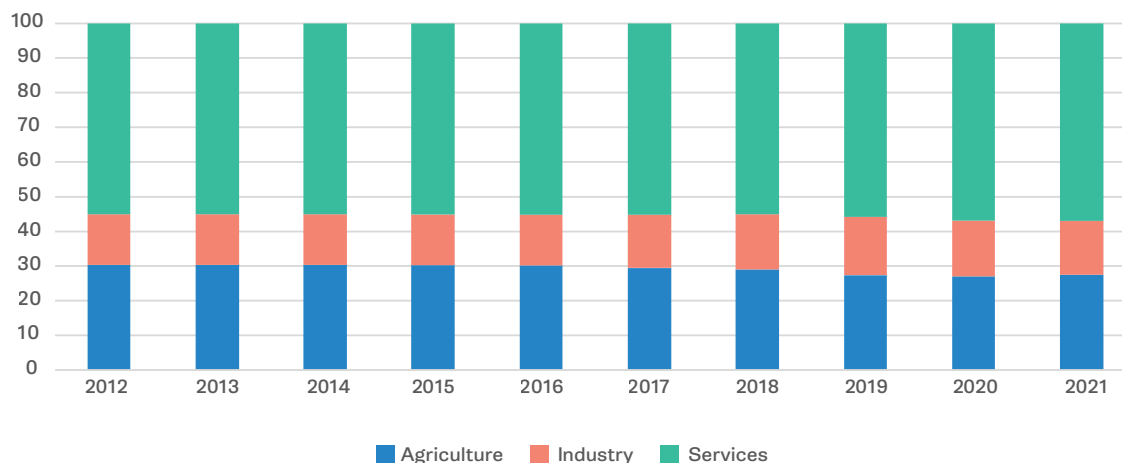
⁸Over the period 2016–2020, the average GFCF for lower-middle-income countries was 27 percent. The total value of capital assets in Solomon Islands is estimated to have declined from around 202 percent of GDP in 2011 to a low of around 180 percent of GDP in 2019, before picking up again to 188 percent by 2021. While the capital stock measured as a share of GDP is broadly comparable with structural peers (for which data are available), the much smaller economy of Solomon Islands means that in per capita terms, the capital stock is considerably smaller.

⁹At its peak in 2016, 3 million cubic meters of round logs were harvested, accounting for 22 percent of GDP, 70 percent of goods exports, and 19 percent of domestic revenue.

fishing sector. The industry sector is fairly limited, accounting for 15.2 percent of GDP. Mining, food processing, and construction are the main industrial activities. Mining is presently limited to a few isolated pockets of the country, despite considerable natural resource endowments.¹⁰ In 2022, the Gold Ridge mine reopened, which

is expected to contribute to GDP and exports. Urban-based government workers support the service-based economy – comprising 57.1 percent of GDP – mainly in urban areas like Honiara. Retail, transport, financial intermediation, public administration, and real estate are the largest service sub-sectors. Tourism is currently limited, despite an abundance of exquisite natural capital.

Figure 8: Sectoral contribution to GDP (share of total)



Source: World Bank.

1.2.3 Other Salient Aspects

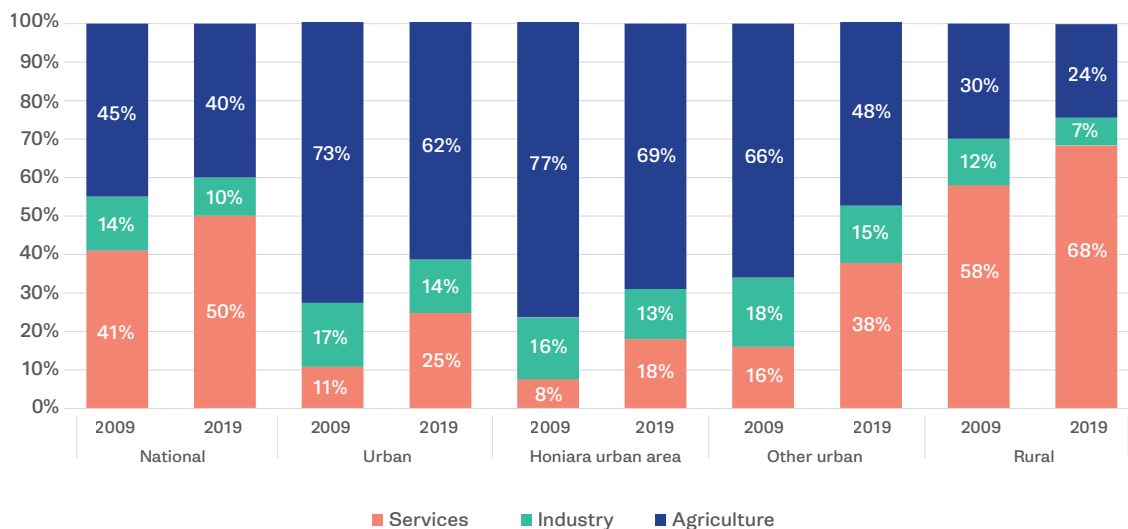
48. Relatedly, employment remained fairly stable, resulting in little labor productivity dividend.

Nationwide, 50 percent of workers are employed in agriculture, while 40 percent are employed in services, and only 10 percent in the industry sector. In rural areas, the percentage of workers engaged in the primary sector is higher at 68 percent. Figure 9 also shows there has been little change in the sectoral composition of employment in the past decade, reflective of the lack of structural transformation. Remarkably, however, in urban areas the share of workers

engaged in (low-productivity) agriculture has substantially increased, from 11 percent in 2009 to 25 percent in 2019. These trends are also reflected in limited increases in labor productivity – measured as total output per worker, which is an average annual rate of only 0.6 percent. Productivity growth was undermined by a drop in industry sector labor productivity, which declined by 2.1 percent per year on average between 2013 and 2019 (Figure 10). Somewhat offsetting the impact of the decline of the industry sector were small gains in productivity in both the services and agriculture sectors (0.3 percent and 1.2 percent on average, respectively).

¹⁰See ‘Solomon Islands Public Expenditure Review’ for a detailed analysis of the mining sector, including the governance challenges it faces (World Bank, 2022).

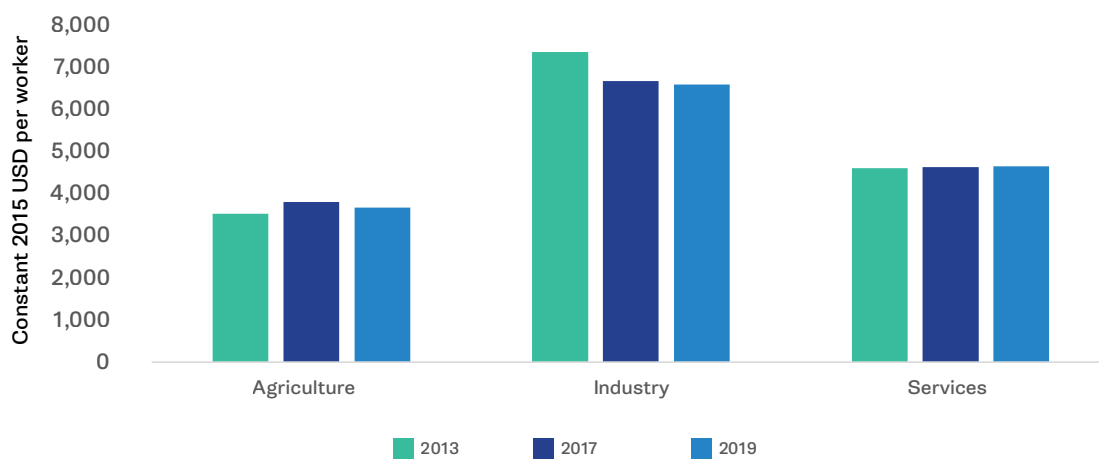
Figure 9: Sectoral composition of work, 2009-2019 (percentage of workers)



Source: World Bank (2024) based on ILO definition of labor.

Note: Honiara Urban Area includes the urban population in Honiara and Guadalcanal Province.

Figure 10: Value-add per worker by sector



Source: World Bank.

Note: Value-add is measured as Gross Domestic Product (GDP) in constant 2015 USD.

49. The narrow production base implies a large dependence on trade, which is hampered by an overvalued exchange rate. For the most part, the country is a net importer of goods; most consumer and capital goods are imported, with the largest goods imports being fuel, food, machinery, and manufactured goods. On the brief occasions that Solomon Islands has been a net exporter of goods, this has been driven by extraordinarily high logging exports, which is unlikely to be repeated. The negative trade balance tends to more than offset surpluses on transfers and contributes to persistent current account deficits. In recent years, this has been exacerbated by an overvalued real effective exchange rate. This approach suggests an overvaluation of 8.5 percent (IMF, 2023), which potentially weighs further on growth.

1.3. Growth Outlook

50. During 2024–2026, growth is expected to average 3 percent. The economy is projected to continue its recovery in 2024 with a 2.8 percent growth in real GDP, boosted by several large infrastructure projects in the transport and energy sectors and services growth (Table 2). The services sector is also expected to support growth in the medium term, followed by the construction sector. An uptick in the country's labor mobility program is expected to contribute to growth through remittances and knowledge flows (Chapter 4). The projected decrease in logging activity will contribute to a lower growth in the primary sector. Subdued global economic conditions and a growth slowdown in China may further reduce demand for logs. In the longer term, the tourism sector, which accounted for around 10 percent of GDP pre-COVID-19, has the potential to become a significant growth driver (Chapter 4). Tighter monetary policy, combined with a decline in commodity prices, is expected to contribute to a gradual deceleration of inflation in Solomon Islands to just over 3 percent by 2025.

51. The mining sector has the potential to drive growth in the medium term, but governance challenges need to be addressed. After the closure of the Gold Ridge mine in 2014, mining activity came to a standstill, contributing less than 0.5 percent of GDP. However, in the second half of 2022, gold production from Gold Ridge restarted, while two nickel projects have also commenced operations. Total nickel deposits are estimated at 180 million tonnes of nickel mineralization (0.7–1 percent Ni), which is valued at US\$43 billion (2,500 percent of GDP). Nickel ranks higher in exportable metal value than gold and bauxite, making it the most precious mineral in the country. For a sustainable mining sector to flourish, however, important governance challenges need to be addressed, including land use and regulatory capacity at central and provincial levels (see World Bank (2022) for a detailed analysis of the sector).

52. The current account deficit is projected to remain substantial, averaging 9.3 percent of GDP over the period of 2024–2026. This is primarily driven by high import demand related to infrastructure investments and a projected decline in logging exports. The trade deficit is also projected to improve in the medium term but remains substantial due to limited export growth and high import demand. Foreign Direct Investment (FDI) inflows are projected to increase steadily, supported by envisioned investment reforms. Official foreign reserves are expected to decline to 7 months of imports by 2026, which is still within the upper reserve adequacy range of 3 to 7.5 months assessed by the IMF (Table 2). That said, the country relies heavily on capital transfers to finance sustained current account deficits, which increases external vulnerability.

53. The fiscal deficit is projected to decline over the medium term, keeping the rise of public debt in check. After reaching 4.2 percent of GDP in 2023, the fiscal deficit is projected to decline over the medium term, reaching 3.3 percent of GDP in 2026 (Table 2). This partly reflects declining recurrent expenditure and the normalization

of development grants after the pandemic and post-Pacific Games.¹¹ Revenue and grants are expected to stabilize at around 31.2 percent of GDP (2024–2026), below the pre-pandemic period due to lower logging revenue donor grants. Public spending is expected to consolidate and stabilize at 34.9 percent of GDP over the medium term (2024–2026), in line with pre-COVID averages. Public debt is projected to rise to 27.2 percent of GDP in 2026 – below the government’s threshold of 35 percent, keeping Solomon Islands at a moderate risk of debt distress (World Bank/IMF, 2023). However, with uncertainty around the economic outlook, debt sustainability needs to be anchored by a prudent policy to rebuild fiscal buffers, while creating fiscal space for meeting development spending needs through stronger revenue mobilization measures and expenditure rationalization.

54. Macroeconomic risks are tilted to the downside.

The COVID-19 pandemic had a severe impact on the economy and exacerbated pre-existing weaknesses. The 2021 social unrest, the 2022 lockdown, and the commodity price shock related to Russia’s invasion of Ukraine further

deteriorated socioeconomic conditions. In addition, subdued growth in China may reduce demand for commodity exports, in particular demand for logs, with negative impacts on growth, the current account balance, as well as government finances. Fiscal risks have also increased; Solomon Islands faces significant fiscal liquidity challenges stemming from the current low level of the government’s cash balance and rising fiscal risks including the mismanagement of infrastructure projects. The country also remains highly susceptible to climate-related risks. These risks can have far-reaching consequences, including damage to infrastructure and disruption of key economic sectors such as agriculture and fishing. The 2024 general elections increased the risk of political instability, accompanied by economic uncertainty. On the upside, economic recovery in major trading partners could lead to stronger demand for Solomon Islands’ exports. Furthermore, the pace of recovery in the tourism sector and increased participation in regional labor mobility programs may bring economic benefits, while the acceleration in infrastructure investment could spur a stronger recovery.

¹¹In 2023, Solomon Islands organized the Pacific Games, a continental multi-sport event held every four years among athletes from Oceania. The total budget for the 2023 Pacific Games was around 17 percent of GDP, of which 11 percent was used on infrastructure spending. The Games were mostly funded through off-budget grants by bilateral donors, channeled through the National Hosting Authority and the Games Organizing Committee.

Table 2: Medium-term economic outlook

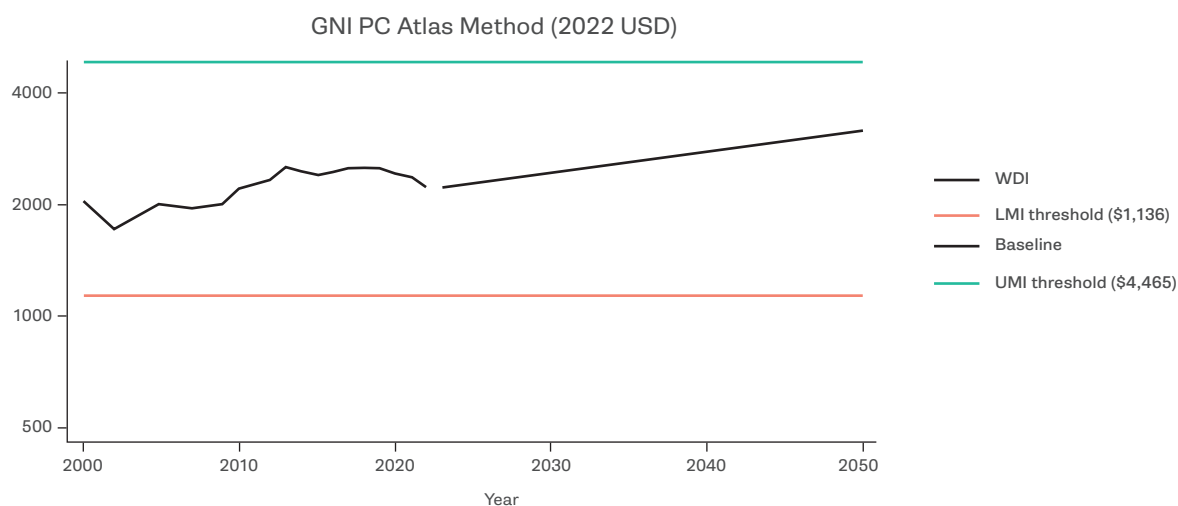
	2020	2021	2022	2023	2024	2025	2026
Real economy	Annual percent change and sectoral contribution to growth						
Real GDP growth	-3.4	-0.6	-4.1	1.9	2.8	3.1	3.0
Agriculture	-1.2	-0.3	-3.6	0.0	0.4	0.5	0.5
Industry	-0.6	0.4	0.0	0.8	1.0	1.0	0.9
Services	-1.6	-0.7	-0.5	1.1	1.4	1.6	1.6
Consumer prices (period averages)	3.0	-0.1	5.5	4.7	3.7	3.3	3.3
Public sector finances	Percent of GDP, unless otherwise indicated						
Revenues and grants	33.4	31.2	32.6	28.8	30.8	31.4	31.3
Expenditure	36.0	34.8	36.8	33.0	35.3	34.8	34.6
Overall fiscal balance	-2.5	-3.6	-4.1	-4.2	-4.5	-3.4	-3.3
Public debt	13.5	15.4	16.9	20.1	23.5	25.6	27.2
of which external debt	9.9	9.5	11.2	13.8	14.9	15.9	15.4
Balance of payments	Percent of GDP, unless otherwise indicated						
Current account balance	-1.6	-5.1	-13.3	-12.7	-10.2	-9.8	-7.9
Exports	27.9	26.8	24.4	29.5	27.2	25.8	25.0
Imports	36.2	40.1	45.4	48.0	44.4	42.4	39.6
Overall balance (BoP)	4.8	2.5	-0.4	-5.0	-1.6	-2.5	-0.8
Gross official foreign reserves (US\$, million)	660.6	694.5	641.0	560.7	541.7	498.9	485.5
In months of next years' imports	12.8	11.5	9.5	8.4	8.0	7.4	7.0
Memorandum items:							
Nominal GDP (US\$, million)	1,536	1,545	1,596	1,691	1,808	1,921	2,039
Credit to private sector (annual % change)	0.3	-0.4	0.8	2.0	3.5	5.0	5.0
Exchange rate (SI\$/US\$, period average)	8.2	8.0	8.2

Source: World Bank.

55. In the long-term, Solomon Islands will not reach upper-middle-income status without sustained reform. In a business-as-usual scenario, assuming historical growth fundamentals continue, modeling suggests that Solomon Islands' per capita GNI will reach US\$3,160 by 2050, well below the upper-middle-income threshold of US\$4,465 (Figure 11). This reflects average GDP growth of 3.2 percent over the period 2024–2050 and a decline in population

growth from 2.2 percent in 2024 to 1.6 percent in 2050 (see more detail on the long term growth model in the annex). It is clear that without sustained reform, the country will not achieve the growth objective laid out in the National Development Strategy (NDS) 2016–2035 (sustained and inclusive economic growth is one of the five NDS objectives, i.e., 5 percent GDP growth by 2025 and 7 percent by 2030 and beyond).¹²

Figure 11: Long-term growth trajectory, business-as-usual scenario



Note: Past values obtained iterating backwards using WDI GDP PC growth rate for 2021 and 2020, and WDI GNI growth rate before 2020.

Source: Authors' own calculations.

56. However, opportunities exist to increase total factor productivity, attract private investment, and augment human capital – unlocking new sources of economic growth. Digitalization, improved transport connectivity, better urban planning (Chapter 2), and land reform (Chapter 3) could enhance resource allocation, assist with technology adoption, and lead to efficiency gains – especially in agriculture and fisheries (Chapter 4). All of this will increase total factor

productivity.¹³ Furthermore, improving the business environment may stimulate private sector investment (Chapter 3), with upside potential in the tourism sector, fisheries, and agriculture (Chapter 4). Finally, a focus on educating the workforce and a deeper engagement in regional labor mobility programs may generate the skills needed for the private sector to thrive (Chapters 3 and 4).

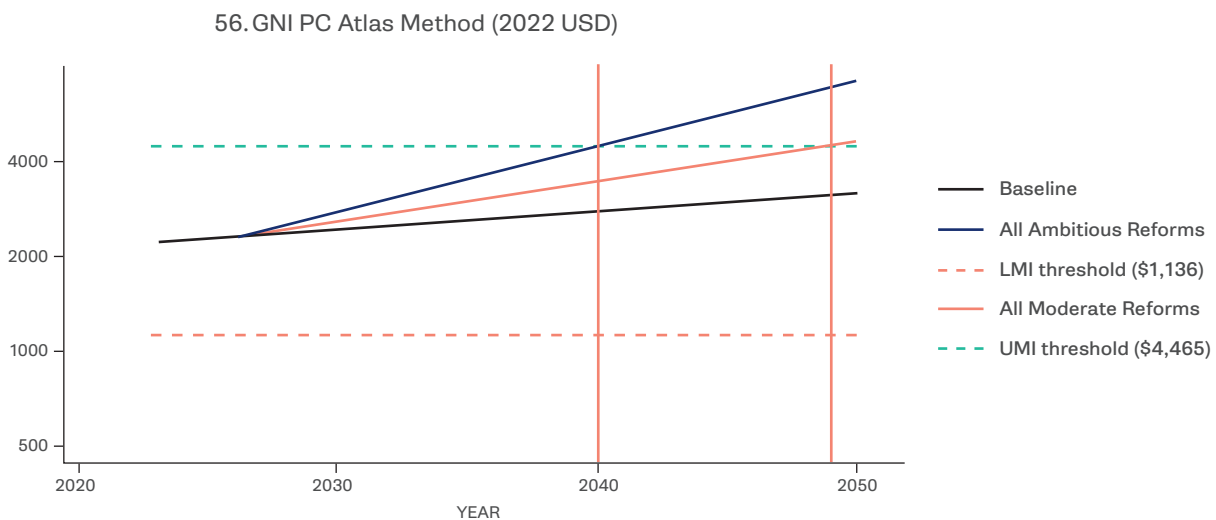
¹²To achieve the growth objective, the NDS recommends improving private sector development and investment; expanding connectivity infrastructure (including ICT); focusing on the primary and resource sectors; and strengthening land governance. This CEM provides analysis and policy recommendations on all these topics.

¹³In a Solow growth model, total factor productivity measures the portion of growth not explained by growth in capital or labor. Put differently, rising productivity can be defined as rising output while keeping capital and labor constant. It reflects technology adoption and the efficiency at which resources are allocated. This, in turn, is determined by a whole range of factors, including cultural attributes, institutional quality, policies, and the functioning of goods and factor markets (Acemoglu, 2010). See the annex for a formal growth model incorporating these elements and a table linking the topics analyzed in the CEM with the main growth drivers.

57. A comprehensive reform effort targeting these fundamental growth drivers would provide a significant boost to long-term economic development. With an ambitious reform effort to lift TFP growth to the 75th percentile of lower- and lower-middle-income countries, private investment to the median of lower-middle-income countries, and human capital to the 75th percentile of lower-middle-income countries¹⁴ – economic growth would reach 7 percent by 2030, meeting the NDS targets. Furthermore, in this scenario GDP growth would average 6.4 percent over

the period 2024–2050 and Solomon Islands would reach upper-middle-income status by 2040 (Figure 12). In a moderate reform scenario, mostly targeting the median of lower-middle-income countries for key variables,¹⁵ growth would accelerate to 5 percent of GDP by 2030 and Solomon Islands would reach upper-middle-income status by 2049 (Figure 12). In this scenario, GDP growth would average 4.7 percent over the period 2024–2050.

Figure 12: Long-term growth trajectory, reform scenarios



Source: Authors' own calculations.

¹⁴In the ambitious reform scenario, TFP growth increases from 0.5 ppts to 1.7 ppts by 2029 and private investment increases from 9 percent to 18 percent of GDP by 2029. In terms of human capital growth, the expected years of schooling reach 12 years, test scores reach the 75th percentile for lower-middle-income countries (0.66), and the percentage of stunted children under five reaches 17 percent – boosting human capital growth by 1.27 percentage points by 2050.

¹⁵In the moderate reform scenario, TFP growth increases from 0.5 ppts to 0.9 ppts by 2029 and private investment increases from 9 percent to 14 percent of GDP by 2029. In terms of human capital growth, the expected years of schooling reach 10.5 years, test scores reach the 50th percentile for lower-middle-income countries (0.62), and the percentage of stunted children under five reaches 25 percent – boosting human capital growth by 0.65 percentage points by 2050.

1.4. Key Constraints

58. Key constraints would need to be addressed, including a challenging economic geography, ineffective urbanization, an unfavorable business environment, and limited government effectiveness.¹⁶ First, a testing economic geography stemming from a combination of remoteness to large markets, population dispersion, and low density presents a fundamental challenge to economic development. Second, rapid but low-quality urbanization is leading to overcrowding and swamping the benefits of agglomeration. Third, the private sector in Solomon Islands is faced with an elevated cost of doing business, caused by a myriad of factors. Fourth, the abovementioned constraints are further compounded by the limited capacity of the government and political institutions which is hampering effective policymaking.

59. A fundamental underlying driver of economic challenges in Solomon Islands is an unfavorable economic geography. It arises from a three-dimensional challenge of remoteness from large export markets, internal dispersion of the population, and a lack of population density. Solomon Islands is the fifth most remote country in the world from large markets, as measured by GDP-weighted distance – being more remote than the average of PICs and lower middle-income countries. In addition, the country exhibits a high degree of internal dispersion. Its territory consists of nearly 1,000 islands with a total land area less than half the size of Tasmania in Australia, scattered across a vast area of ocean. The population is scattered across 90 islands, making Solomon Islands less densely populated (and more rural) than peers and lower-middle-income countries. This unfavorable economic geography raises production costs, constrains the reach of infrastructure, and inhibits public sector service delivery as well as private sector

development. Private sector growth opportunities are largely confined to industries that can generate rents sufficient to outweigh the higher costs of production that result from the small size of the domestic market, high costs of transport for all traded items, and susceptibility to natural disasters. These are predominantly natural resource-based industries or industries catering to niche markets.

60. Recent rapid but low-quality urbanization is an increasing constraint to growth, especially of urban service sectors. Growth in the urban population has averaged 4.7 percent per year over the past 20 years, the 16th fastest in the world, and the fastest among its structural peers as well as regional and income-group averages. The capital Honiara has been the chief recipient of urban migrants, with the population doubling in the past 10 years. This rapid urbanization has not translated into economic growth, however, with the costs of overcrowding, poor urban infrastructure, and periodic civil unrest swamping the benefits of agglomeration. Key issues include poor basic infrastructure (transport, energy, digital) as well as poor urban infrastructure (sanitation, waste collection, and law enforcement; petty crime is a growing problem). The slow pace of economic growth also means there is insufficient demand for labor to absorb the influx of migrants.

61. A high cost of doing business in Solomon Islands is a systematic barrier to private sector development. Several obstacles hinder private sector activity. First, the lack of access to, and ineffective use of, land is a key constraint. Notable issues include difficulties establishing boundaries, unclear lines of succession, abuse, and lack of proper consultation with customary landholding groups. Second, utility costs are high and well above regional peers, with electricity tariffs among the highest in the world. Third, a lack of access to, and high cost of, finance is another key

¹⁶The constraints were identified drawing on the CEM 2.0 approach, the Hausmann, Rodrik, Velasco (2005) growth diagnostic framework, a review of the literature, consultations with senior government officials, and a brainstorming meeting with the country team. The relative distance from the economic development frontier was used to help validate, quantify, and rank the relative size of the economic constraints (see the annex for more detail).

obstacle to private sector activity, partly due to a lack of verifiable collateral. Fourth, trading across borders is costly and time-consuming, with severe restrictions on trade in maritime transport services. Finally, firms also report having a hard time finding job-ready workers, especially in urban areas.

62. Multiple challenges in the education system are resulting in labor market shortages. In Solomon Islands, nearly one-in-five children are over age for their current education level. The issue is more pronounced in secondary education, where the national average of over age students rises to 44 percent. This is largely attributed to high repetition rates in the early years of education. Furthermore, the expected years of schooling in Solomon Islands is one of the lowest globally, at only 8.3 years due to high dropout rates. For example, only 10 percent of children who enroll in the education system complete senior secondary education, and a mere 4 percent reach the pre-tertiary preparatory year. As a result, Solomon Islands is among middle-income-countries with the highest share of under-educated workers, at 54 percent.

63. Inequalities in economic opportunity between men and women also limit growth potential. Although labor force participation is similar for men and women, existing gaps are largely driven by differences in the type of employment, with women concentrated in informal and low-productivity work. These inequalities are then exacerbated by social norms of family obligation

that fall disproportionately on women, high rates of gender-based violence, and limited female leadership and political representation. Closing these labor participation gaps would result in sizeable growth dividends (Pennings, 2022).

64. These constraints are further compounded by low state capacity and ineffective political institutions. Solomon Islands has consistently performed poorly on government effectiveness and regulatory quality, being in the bottom 20 percent of all countries since the Tensions. This reflects limited technical capacity of the bureaucracy (Haque, 2013), but also political markets and norms that are not conducive to effective policymaking (Besley and Persson, 2011; Besley, 2020; Enke, 2019; World Bank, 2018). In part, this explains why the country has made limited progress in overcoming the abovementioned constraints to economic development.

65. In the remainder of this report, key constraints will be analyzed, and the insights applied to four potential growth sectors. Chapter 2 will identify opportunities to help overcome economic geography by strengthening both transport and digital connectivity and improving the quality of urbanization. Chapter 3 will analyze the binding constraints to private sector activity, focusing on land use, the high costs of doing business, and competition and regulation in the services sector. Finally, Chapter 4 will apply those insights to discuss growth opportunities in four key sectors: agriculture; fisheries; tourism; and labor mobility and migration.¹⁷

¹⁷The selection of the growth sectors builds on the findings of the 'Pacific Possible' report (World Bank, 2017), which highlighted these sectors as having substantial growth potential. Furthermore, the selection of the sectors was informed and validated by dialogue with government counterparts.



2. Overcoming Economic Geography Constraints in Solomon Islands



66. A defining characteristic of Solomon Islands is the country's challenging economic geography.

Pacific Island states, including Solomon Islands, face a three-dimensional geographic challenge (World Bank, 2009). First is the isolation from large export markets; according to a metric developed by UNCTAD, Solomon Islands is the fifth most remote country in the world from centers of economic activity on account of its isolation from international shipping and aviation networks. Second is the extreme internal dispersion, with the relatively small population of 721,000 spread across a vast archipelago of nearly one thousand islands, atolls, and cays in around 1.6 million square kilometers of ocean. Third is the extreme difficulty of traversing across the country, with tracts of ocean, plus steep and rugged terrain dividing communities. This high degree of fragmentation is reflected in the considerable ethnolinguistic diversity, with more than 80 separate languages spoken throughout the country, plus hundreds of dialects and the fiercely localized identities based on kinship and language (World Bank, 2017).

67. Numerous studies have identified how geography constrains economic growth in Solomon Islands (World Bank, 2010, 2021; Utz, 2021). The small and dispersed population of Solomon Islands constrains the size of the local market and makes it challenging to realize economies of scale in non-traded goods and services. Large distances between populations, compounded by poor transport and a high degree of exposure to natural disasters, make it costly to move goods, people, capital, and information within the country. In addition to constraining economic growth, these challenges have led to spatially uneven development. Employment opportunities, public services, and infrastructure are strongly biased toward urban areas. In contrast, economic activity in most other places remains highly concentrated in low-productivity primary production and the exploitation of natural

endowments, such as logging, which generate sufficient rents to offset the high production costs.

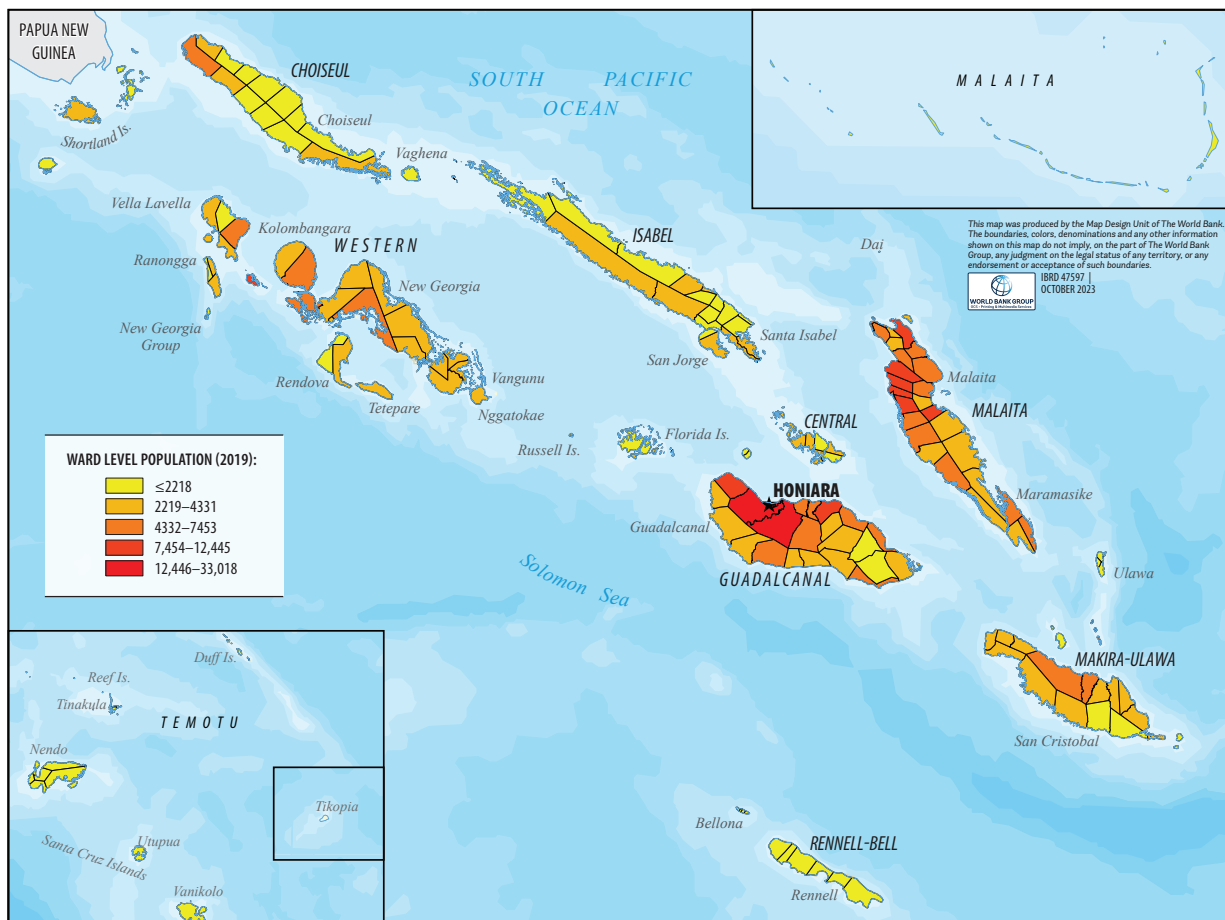
68. This chapter updates and extends the analysis of economic geography in Solomon Islands.

Section 2.1 provides a snapshot of economic geography in Solomon Islands and examines how it shapes the spatial distribution of the economy. Section 2.2 provides an overview of transport connectivity in Solomon Islands and its relationship with economic activity. Section 2.3 analyzes digital connectivity, while section 2.4 focuses on the Honiara Urban Area given its central importance to the economic prospects of the country. Section 2.5 concludes with a suite of recommendations to overcome the specific economic geography challenges identified in the chapter.

2.1. A Snapshot of Economic Geography in Solomon Islands

69. While Solomon Islands' population is widely scattered across the country's fragmented landmass, it is concentrated in certain places (Figure 13). It is estimated that 90 islands in Solomon Islands archipelago are inhabited. Most of the population, however, is concentrated on the six main islands: Choiseul, New Georgia, Santa Isabel, Guadalcanal, Malaita and Makira. Collectively, these six islands account for 72 percent of the country's territorial landmass and 84 percent of the population. Two islands, however, stand out: Guadalcanal and Malaita, which have 34 percent of the total landmass and 64 percent of the population. Sixty percent of the population lives away from the main island of Guadalcanal. This is a much higher rate than other Pacific Island Countries (PICs), which tend to have a combination of highly concentrated urban areas and smaller outer islands (Utz, 2021).

Figure 13: Ward-level population



Source: World Bank based on 2019 Census.

70. The key locus of population density in Solomon Islands is the capital city, Honiara. Located on the sheltered northern coast of the island of Guadalcanal, Honiara is the country’s hub of employment and government administration and the main international gateway for passengers and goods. The twelve wards of the Honiara City Council are home to 129,569 people. There are two peri-urban wards adjacent to Honiara (Tandai and Malango – both in Guadalcanal Province) which, if included, take the population up to 187,274 (26 percent of the total population). The concentration of most government administrative functions in Honiara has impacts on the distribution of economic activity and service delivery. The public sector is a major employer, and these urban-based workers support a thriving service-based economy in urban areas,

involving wholesale and retail trade, banking, accommodation, cafes and restaurants, real estate, and professional services. Additionally, Honiara is a hub of essential service provision, accounting for most of the country’s connections to the electricity grid, all sewerage connections, and most 4G connections. Honiara is also the site of the country’s main hospital, the National Referral Hospital (NRH), and the premier education institutions, including technical and vocational training institutes.

71. Outside of Honiara, a few smaller pockets of urban density exist, mainly in Malaita and Western Province. This includes the secondary cities of Auki, Gizo, and Nora, as well as the provincial capitals of Malaita and Western Province. Noro is the location of the country’s

other international deepwater port, mainly serving the fishing and processing operations of the nearby SoLTuna cannery. Each of these secondary cities is small, having only between 5–7 percent of Honiara’s population and much less density per square meter. However, similar to Honiara, each city has connections to the electricity grid and access to the 4G network. They are also the sites of most provincial hospitals and high schools. Employment rates among the 12+ population within these cities are also comparable to Honiara.

72. Most of Solomon Islands’ population, however, resides in rural areas. The rural share of the population (74 percent) is broadly equivalent to structural peers, though much higher than the average of Pacific Island States (61 percent) and lower-middle-income countries (57 percent). Importantly, rural areas are not homogenous: substantial differences exist between the peri-urban areas adjacent to Honiara – where rates of employment and subsistence production are similar to smaller urban areas – compared to areas that are more rural, where there are lower rates of employment, higher rates of agricultural production, and lower use of digital services. Moreover, distinctions can also be drawn between rural areas situated on or around the double chain of main islands and those that are much more remote from other population centers (i.e., in Temotu, and Rennell and Bellona Provinces, Ontong Java and Shortland Islands).

73. Most urban and rural settlements are in coastal areas, which increases climate vulnerability. All urban areas are coastal, and on most islands, households tend to cluster in small coastal villages. The notable exceptions are Guadalcanal and Malaita, which have some inland settlements on relatively flat land. While coastal settlements facilitate maritime trade and travel, it also helps to explain why Solomon Islands is among the most vulnerable countries in the world to the effects of natural disasters. In any year, there is a 14 percent probability of a natural disaster affecting more than 5 percent of the population

or inflicting damage/loss of more than 3 percent of GDP (IMF, 2018). The costs of natural disasters are only likely to escalate with climate change.

2.2. Transport Connectivity and Economic Geography

74. This section provides an overview of connectivity in Solomon Islands and its relationship with economic activity. Section 2.2.1 includes a stylized map of the national transport network in Solomon Islands and assesses the connectedness of wards to the capital Honiara. Section 2.2.2 highlights the connectivity challenges the country currently faces, while Section 2.2.3 examines the relationship between transport connectivity and economic activity.

2.2.1. The National Transport Network

75. In Solomon Islands, Honiara sits at the center of a nationwide hub and spoke system of maritime and aviation networks. Honiara Port at Point Cruz handles around 90 percent of the country’s international freight movements, excluding logging. The port has dedicated facilities for processing international container shipping and bulk commodities (such as copra) and for handling bulk liquids such as fuels and palm oil. Adjacent to the international port is the domestic wharf, with 12 jetties providing all the available berthing facilities for domestic vessels. These wharves service the inter-island network of passenger and cargo ships and are the main transshipment location for domestic goods heading for export and imports (most capital and consumer goods and fuels). Honiara is also the primary aviation hub, up until recently the sole international gateway. In 2019, Honiara airport handled nearly 90 percent of all domestic passenger movements, according to data from Solomon Airlines (see the annex for more detail on the country’s aviation network).

76. The secondary cities of Auki, Gizo, and Noro are the main provincial nodes in the domestic transport system. These cities are relatively well connected to Honiara by trunk maritime and aviation routes (Figure 14). Near-daily scheduled

shipping services for passengers and/or freight operate between Honiara and each of these cities.¹⁸ Auki and Gizo have dedicated passenger vessels, with the route to Auki also serviced by a fast passenger boat, while shipping between Honiara and Noro is mainly freight. Critically, each route also traverses relatively protected waters, which helps contain operating costs. Port infrastructure at these provincial hubs can handle passengers and break bulk and deck cargo with ramps to facilitate front-loading landing craft and enable ‘roll on, roll off’ cargo handling. Honiara and Noro are the only ports capable of handling containerized cargo, though this is only used for international shipping and not at the respective domestic wharves.

77. A network of roads also link some inland wards to these provincial transport hubs as well as Honiara. Solomon Islands has a road network of around 1,500 km – the third largest in the Pacific behind Papua New Guinea and Vanuatu – and 440 bridges. Three-quarters of the existing road network (useable and unusable) is in Guadalcanal, Malaita, Western Province, and Honiara. In addition to town roads in urban areas in these provinces, arterial roads link areas of relative population density in rural areas to the respective urban hub (and to the inter-island shipping network): in Guadalcanal, in the east and west of Honiara via the Kukum Highway; and in Malaita along the northeast coast of the island.¹⁹

78. Much of the country, however, has poor transport connectivity with Honiara. Of the 183 wards in Solomon Islands, 114 (representing more than two-fifths of the population) have poor transport connectivity. These wards, which are effectively isolated from the inter-island shipping network, include the farthest reaches of the archipelago: Temotu, Rennell and Bellona, and Shortland Islands; difficult-to-reach locations, such as the weather coasts of Guadalcanal and

Makira, which receive, at best, monthly shipping services; as well as communities on main islands that can only access the nearest transport hub with considerable difficulty.

79. Filling the gaps in connectivity across much of the country is a thriving network of small-scale maritime services. The general lack of road connectivity within islands means many communities in Solomon Islands cannot effectively move around via overland routes. Accordingly, smaller boats with outboard motors – ‘banana boats’ and dinghies – are the only feasible transport option for traveling relatively small distances between islands and along coastlines. Small boats function as the last mile of transportation, moving consumer durables, capital goods, food, and people between where most people live and the nearest market and/or transshipment hub. They are a highly versatile form of transport, operating on a charter basis. They can also navigate shallow waters and fringing reefs where communities are located and can be piloted to land on beachheads and at community jetties. Boats can carry up to 600 kg, or 8–10 people at a time; loading and unloading is relatively quick (10–20 minutes).

80. Since 2010, a subsidy scheme known as the Franchise Shipping Scheme (FSS) has helped to improve connectivity of the most remote and hard-to-reach areas. With development partner support, the Solomon Islands Government has established a subsidy scheme to incentivize private shipping operators to deliver passenger and freight services on eight specified routes (Figure 14). Previously, these routes were considered commercially unviable and thus received only ad hoc services and special charters. Operators were chosen using a national competitive bidding process involving a single-stage, two-envelope system. Bidders are obligated to submit documents that set out

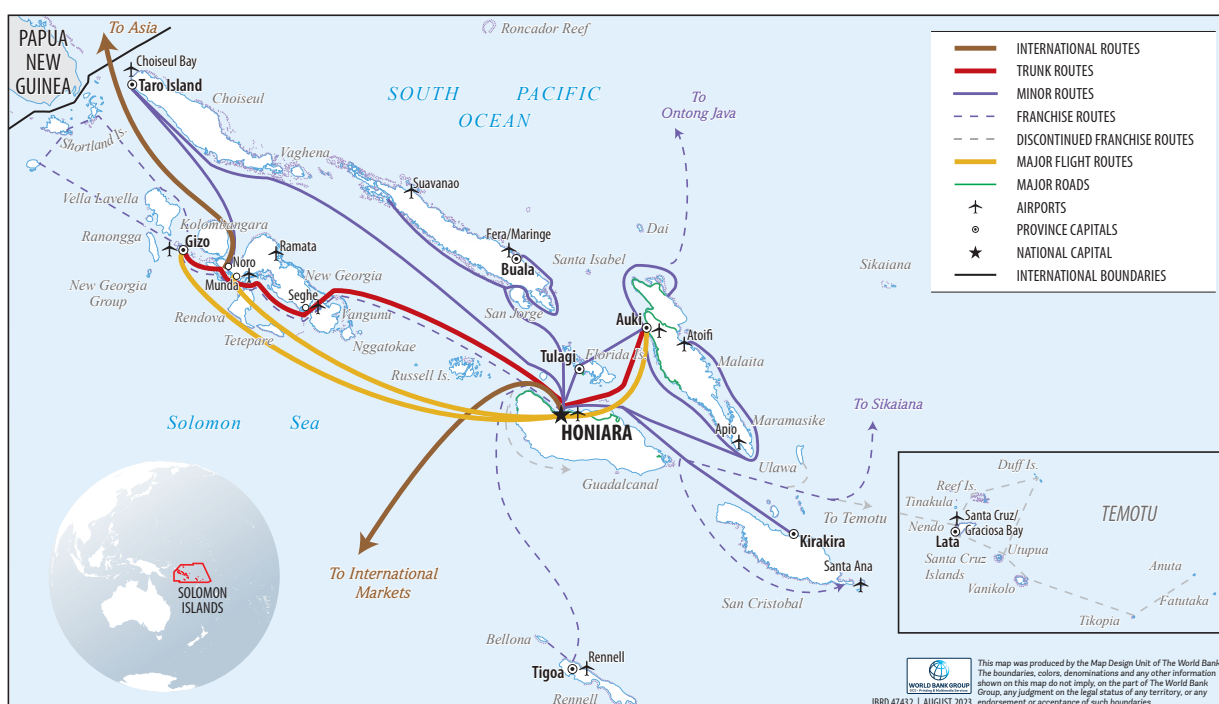
¹⁸Communities situated along trunk shipping routes are also relatively well connected with Honiara. On longer routes, such as between Honiara and Western Province, inter-island shipping vessels make stops at selected wharves enroute to their destination. Additionally, some wards not directly connected to the inter-island shipping and road networks are considered moderately connected because of their proximity. Populations in certain locations can access Honiara directly, or a major provincial hub, with moderate effort.

¹⁹Roads have also been constructed to Atori, on the west coast of Malaita, and Huahui south from Auki, though at the time of writing these were in poor condition. The Solomon Islands Roads and Aviation Project (2019–2024) is providing the routine maintenance and regravelling for 17 km of North Road between the Auki Gwaunaru'u Airfield turnoff and Dala, and 21 km of East Road between Dala and the midpoint of East Road to Atori. These road sections are mostly in good condition.

expected costs and revenues and the proposed subsidy needed over the contract period. Winning bidders were awarded two-year, output-based contracts with subsidies tied to performance – this included providing, at a minimum, monthly services on designated routes (with requirements

to stop at multiple call points in remote destinations), plus measures of the inward tonnage of copra, number of passengers, and reliability and safety of the vessels.

Figure 14: Stylized map of the transport network in Solomon Islands



2.2.2. Transport Connectivity Challenges

81. Internal connectivity is a crucial enabler of economic growth, insofar as it shapes the extent of spatial integration within countries (World Bank, 2009). While population dispersion is a valuable proxy for remoteness in Solomon Islands, it does not account for the idiosyncrasies of transporting goods and people around the country. For instance, the Weather Coast on the southern coast of Guadalcanal is relatively close to Honiara – measured by the Euclidean distance, but by land it is completely disconnected from the capital. The region relies entirely on (irregular) shipping for trade and transport from Honiara, with boats required to navigate the fierce Solomon Sea. Dispersion also does not account for the extent of digital connectivity, which allows

information and knowledge to be diffused and connects people with markets and public services without physically moving locations.

82. At the core of the connectivity challenge in Solomon Islands is diseconomies of scale (World Bank, 2023a). Passengers and cargo are shipped around the country using a privately owned fleet of around 90 small and timeworn merchant boats (passenger, passenger/cargo, cargo, and landing craft). In addition to high operating costs on a per-unit basis, unbalanced demand means boats that are full when they depart from Honiara often embark on return journeys partially empty. These cost disadvantages are most acute on longer trips across the open ocean and more indirect routes to smaller communities (such as those serviced by the FSS). However, even on the trunk

and minor routes, operators face challenges in remaining commercially viable. The high costs and low operating margins provide little incentive to invest in additional capacity and quality, which further constrains growth. These poor operating returns may help explain the occasional use of public sector funds to cover capital costs of vessels.²⁰

83. Critically, poor shipping services mean that inter-island connectivity can be much worse than shipping schedules indicate. While some locations are better serviced than others, moving people and goods across the country – even to notionally well-connected wards – remains extremely challenging. Overall, the market for domestic shipping is thin. Trunk routes have more boats than more minor routes, reflecting the additional demand, though the market is far from competitive. Minor routes may only have one or two operators. Last-minute cancellations are common, and both shipping and aviation services are known to prioritize more lucrative cargo, leaving passengers behind. The generally poor condition of the inter-island fleet also means that boats are regularly out of service for ongoing repairs, which further limits supply and causes interruptions to schedules. Boats are increasingly being withdrawn from service for being non-compliant with safety regulations.

84. Additionally, connectivity is adversely affected by the poor quality of maritime infrastructure. According to data from the Ministry of Infrastructure Development, there are 91 marine structures spread around the country (wharves, jetties, anchorages), with 44 wharves capable of berthing the inter-island shipping fleet. However, just 60 percent of these wharves were deemed operable, with the rest requiring major rehabilitation and even reconstruction.²¹ Isabel, Western, and Choiseul are the best-served

provinces in terms of their functioning wharf-to-population ratio. The island of Makira is notable for currently not having a single operational wharf for its population of 46,000.²² When ships cannot berth at wharves, transfers of passengers and cargo must instead occur via mid-water exchange, which heightens user costs and risks. It also means that when seas are rough, communities are effectively isolated from inter-island shipping.

85. The small-scale maritime sector is unregulated and carries risks. Small boats can be easily overloaded and are vulnerable in rough seas. In many places, there are no designated spots for berthing, which means pilots attempt dangerous beach landings. This can endanger passengers and cargo. Indeed, Solomon Islands Maritime Administration indicated that banana boats are the focus of most search and rescue cases in the maritime sector. In Honiara, the only designated landing zone for banana boats is an area of gently sloping beach to the west of Point Cruz – located some distance from Honiara Central Market and the other side of the Port – which squeezes producer margins with goods subsequently needing to be loaded on trucks of various sizes, or busses and taxis after landing (Georgeou et al., 2019).

86. Consistent with international experience of franchise shipping schemes, Solomon Islands' FSS had been plagued with challenges. Throughout the project, significant difficulties were faced in the tendering process. On several of the longer and more challenging routes there was very little interest in tendering for the route. At the core of the matter has been the variability of returns: review of the FSS routes found that even after subsidies, operators may face a loss. Even on routes where contracting was completed, operator's non-performance plus vessel accidents

²⁰On some routes, there are also boats operating that have been purchased by individual Members of Parliament using their Constituency Development Funding. The ownership structure of these boats is unclear, though anecdotally some find their way into private hands, meaning that the capital costs of some privately operated boats in the marketplace are likely to have been subsidized by public money.

²¹Notably, the information on wharf conditions is dated, with the most recent survey done between 2010–2013. Accordingly, the rate of wharf inoperability may be even higher today due to the government's systematic underinvestment in climate resilience and effective maintenance (World Bank, 2022).

²²It is important to note that the construction of provincial wharves is planned at Kira Kira in Makira-Ulawa Province and Ahanga in Rennell and Bellona Province.

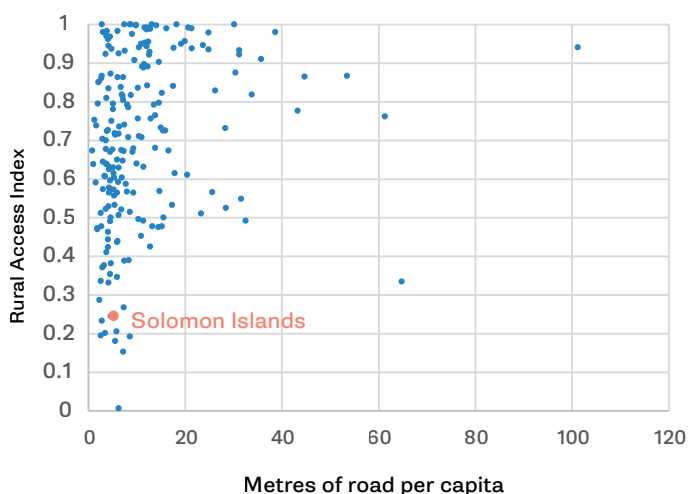
and vessel damage meant that many initial contracts were also terminated before they expired. These contracts were retendered – often attracting no (acceptable) bids. By 2023, only five of the eight routes were operational.

87. Congestion at Honiara’s domestic wharf also inhibits the functioning of the inter-island shipping network. The configuration of the Honiara domestic wharf, with twelve narrowly spaced multi-functional jetties creates considerable congestion and hazards around the jetty area when numerous vessels are simultaneously berthed. Dilapidated and makeshift fenders and mooring bollards also create safety risks for boats, passengers, and cargo. A lack of designated cargo handling areas at the wharf means that various goods (including fuels, building materials, bags of copra, and perishable food) are haphazardly delivered and set down on the roadway, creating blockages on the only point of access in and out of the area. The mix of passengers, taxis, and commercial traffic in the roadway makes the area even further congested and unsafe. The roadway itself is unsealed. Critically, access to the roadway is via Commonwealth Avenue, the sole point of entry from the city center to the international terminal at Point Cruz, and a significant choke point for traffic flow in the city. At provincial wharves,

where there tends to be only one jetty, these issues are not so acute, though wrecks and other debris can block access to wharves.

88. On land, poor quality roads and drainage increase the costs of transport. Only 12 percent of the overall road network is sealed and is mostly located in urban areas and nearby natural resource extraction enclaves (PRIF, 2021). Overall, only 15 percent of the road network is in fair-to-good condition, and 67 percent in maintainable condition, while the rest requires substantial rehabilitation to become maintainable (ADB, 2021). The result is that an estimated 24 percent of the rural population lives within 2 km of an all-weather road, among the lowest rate of access in the world (Figure 15). Such limited road connectivity clearly constrains economic activity. For instance, one study in Madagascar found that agricultural yields are up to 50 percent lower for isolated areas, in part explained due to increased transportation costs (Stifel and Minten, 2009; see Berg et al., 2017 for a review of the literature). Additionally, the road and bridge network is highly susceptible to natural hazards. For instance, a recent flood that destroyed a bridge south of Auki effectively severed the connectivity of communities beyond the bridge to urban hubs and the inter-island shipping network.

Figure 15: Roads and roads accessibility



Source: RAI.

2.2.3. Transport Connectivity and Economic Activity

- 89. Transport links presently shape the spatial distribution of production.** Pockets of commercialized private sector activity concentrate around connectivity. For instance, the SolTuna cannery has a direct link with international markets via the containerized shipping yard at Noro, the palm oil factory in Guadalcanal Plains is well connected to Honiara by road, and the Ranadi industrial estate is linked with the port through Kukum Highway. Furthermore, a small cottage industry of businesses involved in manufacturing and selling end-use consumer products relies on domestic aviation and shipping to sell to consumers in Honiara and the tourism market.²³ Sellers of perishable food in Honiara tend to be located near the city and with good transport links. A study of Honiara Central Market showed that the main supply origins of staple foods were East Guadalcanal and West Guadalcanal, as well as smaller nearby islands, such as Savo Island and Nggela Islands in Central Province (Georgeou et al., 2019). Most produce travels by a combination of small boats and roads.
- 90. Primary production, critical to rural economic development, is hampered by ineffective transport links.** A vibrant smallholder agriculture and fisheries sector has important potential as a sustainable and inclusive source of growth and livelihood support that fits with Solomon Islands' existing comparative advantage (World Bank, 2017). Yet much of the primary sector is presently waning, dominated by small-scale and uncommercialized production of food plus cash crops that are sold in small lots due to the infrequent and irregular nature of domestic shipping. Producers face little incentive to look beyond local markets and commercialize or invest in new capacity, capital, and scale to move up value chains. As a result, the existing drivers of primary production are those that can withstand the infrequent and irregular nature of domestic shipping. Commercial fisheries hold their catch,

which is predominantly destined for canning, in refrigerated brine, which keeps produce stable over long sea journeys. In agriculture, commercialized production and smallholder cash crop production typically involves goods that have relatively limited spoilage while producers wait for ships to arrive (e.g., cut logs, coconut, cocoa, betelnut).

- 91. Improved transport connectivity can spur new markets for perishable goods.** Any growth from increased food sales to urban markets is likely to preference nearby communities, given their cost advantages over more distant communities and the challenge of transporting perishables long distances. This is particularly true for widely produced staples, for which the market is relatively competitive. Yet more regular transport links to urban areas allow trade in perishable goods that would not be possible with more intermittent services. This is already evident in Honiara Central Market, where the notable exceptions to the localized produce are sellers of higher-value melons and pineapples, which originate from well-connected areas in Malaita, and good quality fish, which is regularly transported in coolers with ice on ships traveling from Western Province. Some prized marine foods such as lobster and shellfish, which command larger margins, arrive by plane from outer provinces such as Isabel and Temotu. Thus, with better connectivity, communities may be better able to capitalize on intra-country comparative advantages while at the same time widening the choice set available for urban consumers.
- 92. Production and onshore processing of non-perishable goods will also hinge on whether goods can be efficiently moved through the inter-island shipping networks.** The cannery operations at Noro provide a clear example of the potential of provincial development when the connectivity settings are correct. The nearby containerized port streamlines links between the factory and export markets, and growth in the cannery's operations has acted as a stimulus for the more-than-doubling of industrial

²³One notable example is SolAgro, which harvests and processes ngali nuts in Western Province before transporting various finished food products to Honiara and select international markets for sale.

and agricultural jobs in the town during the intercensal period. In contrast, the 2017 Solomon Islands National Agricultural Survey showed that in major areas of cash crop production (Western and Malaita Provinces), producers could not translate harvests into sales, with transport barriers and high rates of spoilage as key factors. Moreover, poor post-harvest handling of cash crops, including a lack of proper storage while in transit and at waypoints, plus unreliable shipping schedules, mean that agricultural goods are susceptible to spoilage and only ever reach the less lucrative bulk trade market. Accordingly, the development of new, higher-value markets, such as the ones being considered – kava, dried seaweed, spices, and virgin coconut oil – will also require an ecosystem of downstream agribusiness (transport, traders, warehouses, and processors) that link producers with international markets while maintaining quality and minimizing spoilage. New commercial developments, such as the proposed tuna cannery at Bina in Malaita, will also require streamlined links to export markets – directly or via the containerized international ports in either Honiara or Noro – to be commercially viable.

93. Improving last-mile transport connectivity has been shown to create scale at transport hubs and promote economic activity. The construction and refurbishment of community jetties and marketplaces in provincial centers of density can encourage market concentration and growth. Survey data indicate that such investments in Noro, Gizo, and Munda resulted in increased economic activity for nearly half of all boat operators surveyed. Key to the increased activity is increased safety and convenience and reduced operator costs. By providing a functioning, safe, and convenient alternative to risky shore-based landings, jetties improved the

safety of passengers and goods, reduced travel time and boat damage. Notably, the investments in the jetties can be directly linked to increased economic activity – particularly by women – in local markets. This includes encouraging new market participants, with 15 percent of sellers indicating they had not sold goods anywhere before the investments. Investments have also crowded in sellers from other markets (while this is trade diversion, it nonetheless increases scale at the hub). Of those already selling at the markets, around 60 percent stated they were coming to market more and staying longer, 48 percent said they were selling a more diversified array of goods, and 41 percent indicated they were selling more than before.

94. At the community level, transport connectivity is correlated with a shift from subsistence to income-earning activities. Linear regression analysis of 2019 census data shows that well-connected wards had a 5 percent higher share of the 12+ population involved in either wage income or agricultural production for cash – a proxy for economic activity – compared with poorly connected communities, with the difference statistically significant (Table 3).²⁴ In urban wards the population is also more likely to be engaged in income earning activities. On the flip side, well-connected wards had a lower share of the population predominantly involved in subsistence activities, with statistically significant differences. Moderately-connected wards also experienced a faster transition from subsistence to income earning in the intercensal period (2009–2019). In these wards, the share of the population involved in subsistence declined by 4 percentage points and the share of the population earning income increased by 0.9 percentage points, relative to poorly connected wards, with the differences statistically significant in each case (results available upon request).

²⁴This analysis involved regressing ward-level dependent variables (income earning and subsistence) on a constant, plus ward level remoteness (which incorporates both geographic distance from population centres and community size) and dummy variables for well-connected wards, moderately-connected wards, urban wards, and the location of functioning airports. Well-connected wards are those situated on trunk shipping routes or with good road connection to such a location. It also includes wards with good overland connections to Honiara. Moderately-connected wards are situated on minor shipping routes, or access to Honiara is only possible with a small boat or a longer overland journey (see the annex for more information).

Table 3: Linear regression results transport connectivity

Y: Income earning	Coefficient	Robust std. err.	t	P>t	[95% conf. interval]	
Remoteness	0.0008597	0.0104857	0.08	0.939	-0.02825 0.029973	
Well connected	5.114953	2.010084	2.54	0.064	-0.46593 10.69584	
Moderately connected	1.25632	2.449554	0.51	0.635	-5.54473 8.057372	
Urban	11.07562	1.947279	5.69	0.005	5.669106 16.48213	
Airport	1.165883	2.393438	0.49	0.652	-5.47937 7.811134	
Constant	20.99414	4.482695	4.68	0.009	8.548186 33.4401	
Observations	171					
R-squared	0.10					

Source: Authors' own calculations based on 2019 census. See the annex for more detail on model and data.

95. Yet transport investments in rural areas can have unintended negative consequences if the enabling environment for private sector development does not exist. For instance, so-called “straw effects” of infrastructure occur when newly available connectivity options lead to (uncontrolled) migration to more developed locations instead of rural development (Ono and Asano, 2005).²⁵ Evidence from a difference-in-differences analysis of twelve donor-supported wharf refurbishments completed in rural communities across 2014–2016 points to such straw effects (Table 4 and the annex for more detail). Using ward-level data from two census periods (2009 and 2019), the difference-in-differences analysis shows that communities that received these wharf investments experienced

much higher rates of out-migration across the intercensal period than untreated wards. Moreover, treated communities experienced increases in multidimensional poverty. Critically, there was no significant uplift in formal employment and non-farm production due to the investments. The results suggest that the non-poor used the additional connectivity benefits afforded by functioning wharves to relocate, most likely to the overcrowded urban hub, Honiara. While there may have been some positive impacts on growth from labor mobility at a macro level, the departure of potentially the most productive individuals is likely to have deleteriously impacted rural communities and undermined growth potential.

Table 4: Difference-in-differences regression results of wharf investment

Y:	Impact of wharf investments
Poverty	+
Population	-
Income earning	0
Non-farm production	0

Source: Authors' calculation based on 2009 and 2019 census.

Note: See the annex for more details on the model and data.

²⁵The inference is that just as a straw allows juice to be sucked out of a glass, newly built transport infrastructure that causes a decline in trade costs may lead to an increase in core population at the expense of the hinterland (Krugman, 1991; Puga, 1999; Fujita et al., 1999; Ottaviano and Thisse, 2004). For example, Faber (2014) and Baum-Snow et al. (2020) find that the development of new highways in China adversely affected hinterlands.

96. Connectivity is also an important factor in tourism development, though other underlying constraints must also be addressed (Coste et al., 2023). Currently, tourism in Solomon Islands is small in scale and concentrated in and around the World Heritage-nominated Marovo Lagoon in Western Province and Honiara. While there are many aspects of tourism development – including governance, policy and management, the ecosystem of tourism service providers, availability of skills, land access, and safety – the tourism sector relies on passengers connecting through the aviation network. Increasing tourism will, therefore, need to occur in lockstep with increasing aviation capacity and reliability – particularly on routes to Western Province. Investments in rehabilitating the airport at Munda mean that visitors can now fly directly into Western Province. Also critical to the sector’s growth is ensuring key regional airports can handle larger planes and are resilient to inclement weather. To that end, investments in sealing and lengthening the runways to make them all-weather and capable of landing the larger Dash-8 aircraft at Seghe and Choiseul Bay airports are well-targeted at promoting growth. The upgrading of the Santa Cruz (Lata) Airfield runway in Temotu Province is scheduled to commence in the second half of 2024.

2.3. Digital Connectivity and Economic Geography

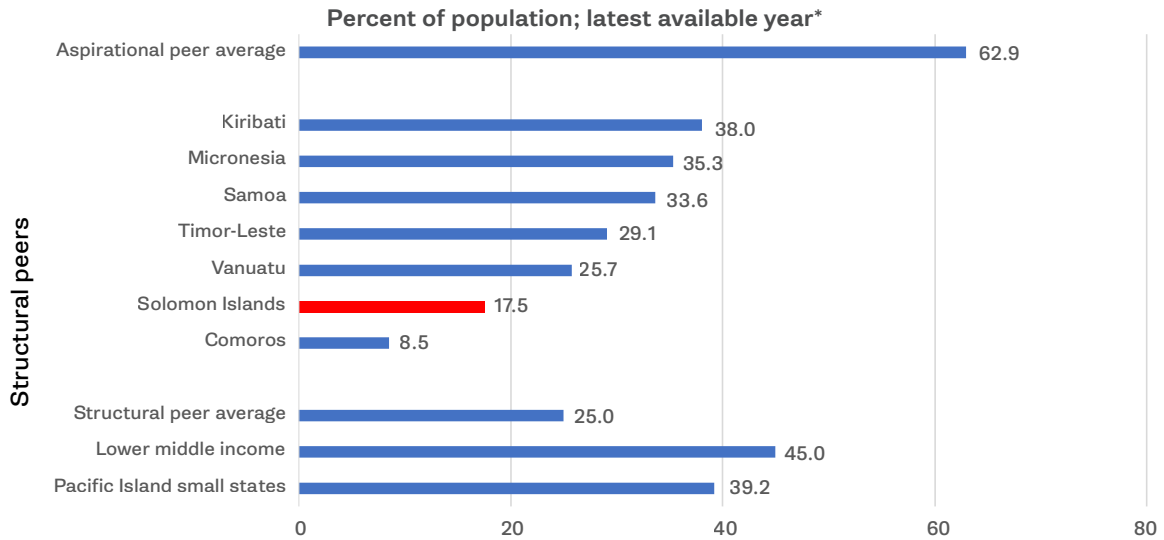
2.3.1. Digital Connectivity

97. Digital connectivity in Solomon Islands depends heavily on data connectivity from mobile phones, which is still to reach most of the population. Apart from some businesses which still use landlines, almost all internet connections

in the country are now via prepaid mobile phones. Accordingly, digital connectivity is correlated with the penetration of mobile phones and the amount of mobile internet subscribers. Data from the Telecommunications Commission of Solomon Islands indicate that mobile phone penetration has risen rapidly over the past decade, from around 20 percent in 2010 to 62 percent in 2021, as mobile subscriptions increased nearly four-fold. Additionally, the share of mobiles subscribed to internet services has increased from 7 percent to 38 percent in the same timeframe. However, with overall digital mobile penetration around 23 percent, the extent of internet connectivity remains small compared with most structural peers, with 17.5 percent of the 12+ population using mobile/cell phones to access the internet (Figure 16).

98. The introduction of the undersea fiber optic internet cable supports connectivity by improving overall functionality and unblocking bottlenecks. The Coral Sea Cable was declared ready for service on February 1, 2020. It links Sydney and Honiara and then passes to three provincial nodes (Noro, Auki, and Taro), which has reduced the reliance on satellite connections and has substantially widened the country’s bandwidth capacity (from 2Gbps to 6Gbps). According to the Telecommunications Commission, the increased capacity has helped eliminate rationing on the bandwidth and supported volumetric wholesale pricing. This has led to substantial falls in prices: Telekom retail cost of data (measured as SBD/MB) declined by 40 percent between 2020 and 2021 – having already fallen by 93 percent between 2016 and 2020. To enhance resilience and reduce the threat of single cable outage, Solomon Islands is planning the deployment of a second cable.

Figure 16: Individuals using the internet



Source: Solomon Islands 2019 Census; WDI.

Note: *Solomon Islands = 2019 (expressed as % of population 12+); Cambodia, Vanuatu, Papua New Guinea, Pacific Island Small States average = 2017; Fiji = 2018; Benin, Cabo Verde, Honduras, and Lower middle-income average = 2020.

99. The Solomon Islands Government is making new investments in tower infrastructure to broaden digital connectivity. Against a backdrop of slow private sector expansion of towers, an expected 161 new mobile phone towers will be constructed. The aim is to provide up to 75 percent of the population with access to 3G and 4G services. According to the Ministry of Communications and Aviation, the selection of the tower sites was based on the location of digital deserts plus population densities. Ownership of the towers will remain with the government, though access will be leased to private operators.

2.3.2. Digital Connectivity Challenges

100. The absence of last mile connections leads to limited coverage and high costs. Access to high-quality digital connectivity is limited. According to data from the Telecommunications Commission of Solomon Islands, around 205 live towers nationwide provide 2G, 3G, and 4G LTE networks. While this provides nearly 95 percent of the population with mobile coverage, most connections are 2G. Only 45 percent of the population is covered by 3G and

25 percent by 4G; these are the lowest rates of 3G and 4G coverage in the Pacific (United Nations, 2023). The geographic concentration of digital infrastructure is a key reason for the low coverage rates: 4G towers are limited to Honiara and larger provincial centers. The 3G network has also grown slowly despite the government’s policy to phase out 2G towers for 3G. The abovementioned investments by the Solomon Islands Government may help speed up this transition. Despite recent price falls, internet access is still costly by international standards: a 2GB data-only package costs around 9 percent of GNI per capita – well above the UN Broadband Commission’s estimate for affordability of 2 percent. A key factor for this is limited competition. There are only two major providers of mobile telecommunications services, with only one able to provide meaningful coverage in areas outside of cities. With new capacity, increased competition in the mobile telecommunications market has the potential to improve quality and reduce prices, as was the case in Papua New Guinea, with the entry of Vodafone in 2021 leading to a sharp fall in retail prices.

101. Accessibility issues are reflected in the spatial and gender distribution of internet use. The greatest mobile/cell phone use for accessing the internet among the 12+ population was in the wards of Honiara, with 43 percent of people aged 12+ using the internet (Figure 17). The internet use rate in Honiara was almost twice as high as the next province, Rennell and Bellona (24 percent). The lowest internet usage rates were in Makira and Temotu (4–5 percent). In Guadalcanal, there was a noticeable difference between the peri-urban wards (23 percent) and

the rest of the province (7 percent). All wards recorded some internet use, indicating that no individual ward was a digital desert. However, it is understood that large areas of the country remain without digital connectivity, particularly in rural areas. Notably, access to the internet in Solomon Islands is distinctly gendered, with every ward of the country, save for two, having a greater proportion of males using the internet than females, with the average difference nationwide of 4.7 percentage points and in some places, such as Rennell and Bellona being more than 20 percentage points.

Table 5: Connectivity factors, digitalization initiatives, and legal coverage in Solomon Islands

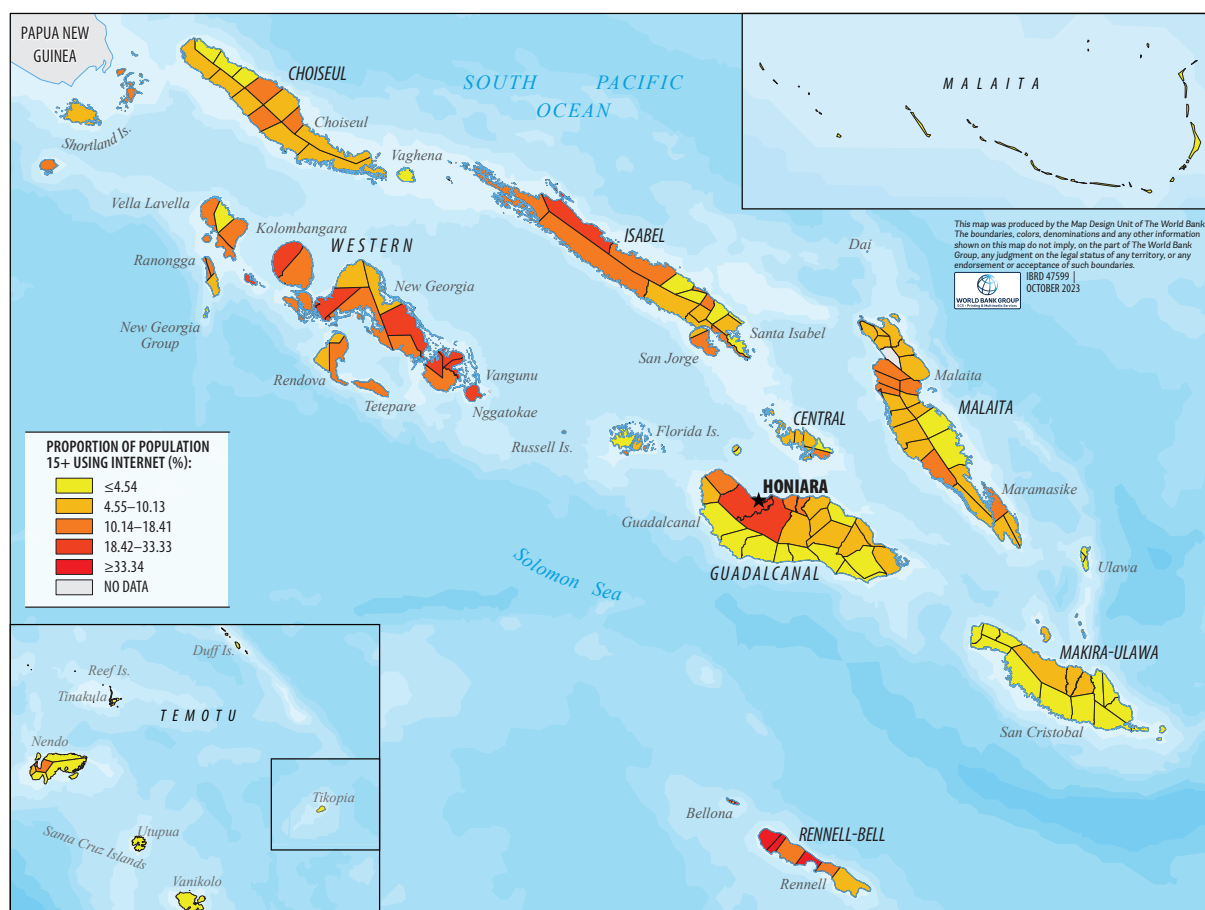
Connectivity Factors		
International Submarine Cable		✓
International Submarine Cable Redundancy		✗
Middle Mile Fiber Optic Network		✗
Last Mile Fiber Optic Network		✗
Meets Affordability Targets		✗
Outer Islands Broadband Connectivity		✗
Digitalization Initiatives		
Comprehensive Digital Strategy		✗
Integrated Payment Systems		✗
Digital Identification (ID)		✗
Core Government Services Online		✗
Legal and Regulatory Coverage		
Digital Identity		✗
E-signatures		✗
Data Protection		✗
Cyber-security		✗
Digital Payments & Transactions	✓	Payments Systems Act 2022
Telecom	✓	National Numbering Plan 2016; National Radiofrequency Spectrum Band Plan 2009; Telecommunications Act 2009
Consumer protection	✓	Consumer Protection Act 1996
AML/CTF	✓	Money Laundering and Proceeds of Crime Act 2002

Source: World Bank (2024).

102. Gaps remain in establishing the legal framework for digitalization. Solomon Islands currently has no legislation which deals with cybercrime or cybersecurity (Table 5). The rise in cyber threats, from hacking and identity theft to data breaches and financial fraud, underscores the crucial need for comprehensive cybersecurity frameworks. While Solomon Islands has enacted the Money Laundering

and Proceeds of Crime Act 2002 and there is active legal and regulatory enforcement of this area by the Central Bank, gaps remain towards compliance to Financial Action Task Force recommendations.²⁶ Also digital identity, e-signatures, and data protection remain largely unregulated. Furthermore, enforcing digital standards and policies has proven difficult, in part due to resourcing challenges.

Figure 17: Ward-level internet usage (proportion of population 15+ using internet)



²⁶With respect to its anti-money laundering/counter terrorism financing compliance, the last MER was conducted in 2019 where it was found that Solomon Islands was deemed compliant for four, largely compliant for eight, and partially compliant for 17 Financial Action Task Force recommendations. As at 2019, Solomon Islands was listed as non-compliant in relation to 11 recommendations.

2.3.3. Digital Connectivity and Economic Activity

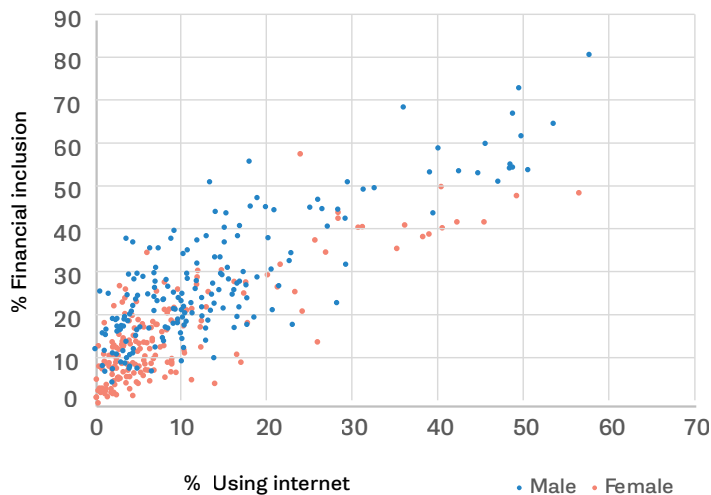
103. Digitalization has the potential to better integrate leading and lagging regions and improve the functioning of markets. There is strong international evidence that the expansion of digital technologies reduces the costs of obtaining information, speeds up the diffusion of knowledge about market conditions, and enables consumers and producers to connect at low cost (Foster et al., 2023). Moreover, digital connectivity influences private sector development by enhancing firm productivity and employment, promoting business-to-consumer links, and facilitating government-to-business service delivery (United Nations, 2023). ICT also shapes market efficiency, reducing the price dispersion of agricultural products – especially the perishable ones that cannot be stored (Foster et al., 2023). Additionally, digital connectivity can promote online/remote work opportunities, potentially benefiting both urban and rural areas. Online working – sometimes described as ‘telemigration’ – has not yet been a feature in the Pacific (World Bank, 2023b).

104. At the community level, digitization is correlated with higher employment and reduced poverty. Linear regression analysis of 2019 census data shows that a 1 percent increase in the proportion of the community using the internet via cellular connections is associated with a 0.77 percent increase in the proportion involved in non-farm employment nationwide (with the rate increasing to 0.90 percent in the wards outside of Honiara), with the coefficient statistically significant in each case. Notably, the increase in non-farm employment appears to have come at the expense of involvement in small-scale agriculture, with a 1 percent increase in connectivity associated with a 0.1 percent

decline in the proportion of the population producing agriculture for sale and a 0.5 percent decline in the proportion involved in subsistence production. Moreover, digital connectivity is linked to lower rates of multidimensional poverty. However, the effect is small, with a 10 percent increase in connectivity associated with a 0.05 percent decline in the poverty index within wards (results available upon request).

105. Further, improved digitization can support financial inclusion by allowing more individuals to engage with banking services. At present, Solomon Islands trails well behind aspirant country Fiji in most financial inclusion indicators, with only around one-quarter of the population having a bank account. Women are disadvantaged for various reasons including limited formal literacy, a lack of proper documentation, distrust of formal institutions, and persistent beliefs that men should have the final say (UNCDF, 2021). These barriers are likely even more substantial in remote areas where overall literacy is poorer and there is little experience of such institutions. Digital literacy programs should be expanded to increase equitable access to digital resources and opportunities. Census data show that for both men and women, digital connectivity is highly correlated with the use of financial services and financial inclusion at the ward level. New fintech models such as digital wallets EziPei, iumiCash, and the youSave app (a voluntary saving scheme designed especially for the self-employed) are helping to overcome remoteness by allowing essential banking functions to be undertaken electronically. Accelerating the rollout of digital services should enable more people to access these features.

Figure 18: Digital and financial inclusion* (2019)



Source: World Bank based 2019 Census.

Note: *Use of financial services (banking, credit union, microfinance, and savings groups) in the past three months

106. Digital connectivity is a key way to address the skills and knowledge disparities that drive gender gaps in employment opportunities and economic outcomes, particularly in rural areas. Online skills training and job coaching can target the types of skills suitable for available jobs, and make these services available to women for whom household responsibilities and safety concerns make travel to places of education more challenging. For women in rural and remote areas in particular, digital provision of training is extremely valuable. Government programs, aimed at improving agricultural production and pest control skills, experience difficulties reaching women in these areas and find a potential lack of knowledge around business ideas such as the cost of producing goods, market value of goods, and risk (World Bank, 2019).

107. The benefits of fintech also extend to remittances. The youSave program and other digital payment platforms can also

assist migrants in circumventing costly and cumbersome over-the-counter money transfer operators when sending money home.²⁷ More timely and regular remittances may help make participation in seasonal worker programs easier on participants and their families left at home; rather than waiting to bring cash home upon their return, workers can make regular payments and support families from abroad (Hamel, 2009).

108. Enhanced digital connectivity with appropriate digital strategies can also improve the responsiveness of governments. The dispersion of population makes it challenging for governments to provide adequate levels of public services. Digital records and payment systems can facilitate improved targeting and implementation of government payments. In a move to enable the increased use of electronic payments, the Solomon Islands Government enacted the National Payment Systems Act 2022. This is a key step the government has

²⁷Because of the underdeveloped nature of many Pacific financial systems, sending money home to relatives can be very costly for diaspora communities, with commissions averaging 10 percent of the transaction amount (United Nations, 2023).

undertaken in collaboration with the Central Bank of Solomon Islands to increase access to affordable digital payment services, reduce reliance on cash, and drive broad-based financial inclusion across the country where many adults do not have access to a bank account. This development is also set to benefit small businesses by making everyday banking transactions easier. Local governance could potentially benefit through better capacity for information sharing, streamlined communications between government agencies, and improved monitoring. Indeed, the innovative use of mobile phone networks has helped enhance fishery surveillance in remote areas and transmit the findings to authorities.²⁸ This not only helps compile information on market conditions and prices but can also help protect the country's fisheries from poaching. The Ministry of Fisheries and Marine Resources also leverages satellite and broadband connectivity to implement real-time electronic monitoring of fishing activities at sea. It could also help establish robust digital identification platforms.

2.4. The Honiara Urban Area

109. An important dynamic has been the rapid concentration of the population in and around the capital city. While Solomon Islands remains a predominantly rural country, its pace of urbanization has been among the fastest in the world, with an annualized urbanization rate of 5.8 percent over the ten years to 2019, more than double compared to structural peers and lower-middle-income countries (Figure 19). Much of this growth has occurred in Honiara. Since before Independence, Honiara's population growth has been significantly above the national average (SIG, 2009). The result has been a more than 10-fold increase in the city's population since 1970 and a doubling between 2009 and 2019 (Figure 20) – growing more than twice the national average rate (7.2 percent per year, compared with 3.4 percent).

110. Internal migration has been an important driver of Honiara's population growth. Spatial shifts of populations are a feature of Solomon Islands, with around 7 percent of the total population relocating from provinces in the past five years. Honiara was one of the few places in the country where there was a positive net migration rate, with the twelve wards of Honiara City Council recording a net migration rate 39 people per 1,000 population (World Bank, 2024).²⁹ However, this pales in comparison with the migratory inflows to the two adjacent peri-urban wards around the city (Tandai and Malango), which had a combined net migration rate of 186 people per 1,000 population – nearly five times as fast as Honiara. Overall, migration to the broader Honiara Urban Area (which accounts for the peri-urban area) accounted for around half of the people who migrated across provinces between 2014 and 2019. Indeed, recent migrants accounted for 14.9 percent of the population of the broader Honiara Urban Area in 2019, which is well above the national average (7.1 percent). Another notable feature of the migration patterns was the net outflow of residents from provincial towns to Honiara Urban Area, with Noro in Western Province the notable exception. This reveals a general pattern of rural residents migrating to both Honiara Urban Area and provincial towns, and from provincial towns to Honiara Urban Area, likely in search of better economic opportunities and access to services.

111. In addition to the push and pull of economic drivers, migration to the Honiara Urban Area is being accelerated by climate change. Solomon Islanders have used temporary and permanent migration between geographic hubs for generations to relieve population pressure in small islands, atolls, and other environmentally precarious places. Exposure to natural hazards has, therefore, been one of a mix of economic and social drivers for migration. Importantly, migration is not necessarily fixed; much migration is short-term or circular to capitalize

²⁸A notable example is the USAID funded Hapi Fis, Hapi Pipol! (Happy Fish, Happy People!) project.

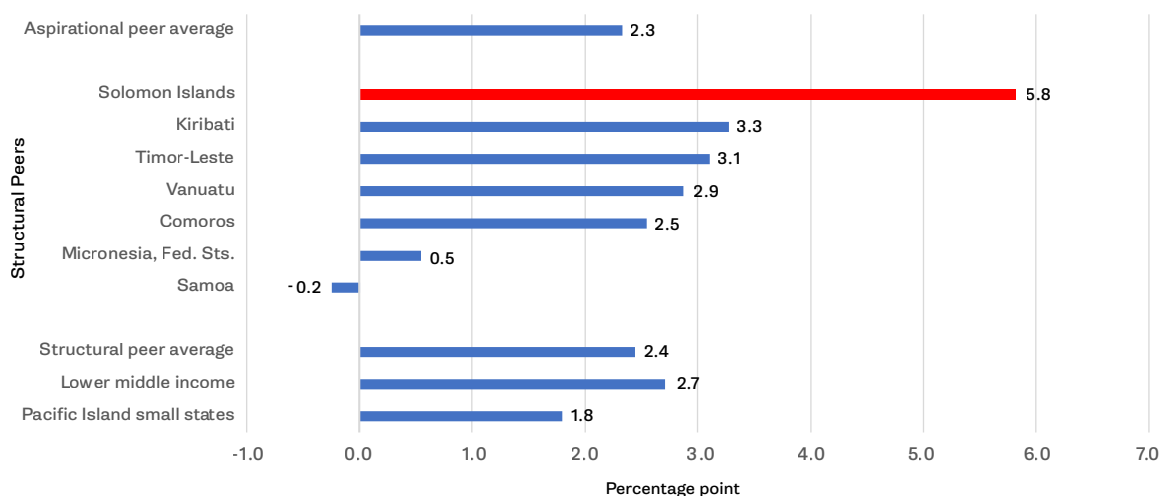
²⁹Net migration rate calculated as the difference between the number of people entering and leaving a province (ward) per 1,000 individuals in the period 2014–2019.

on economic opportunities with the expectation of returning home. Increasingly, climate change is accelerating this dynamic through the effects of sudden onset shocks that displace residents, and via slower onset changes that progressively undermine the livability of homelands and, thus, their resilience to shocks.

112. Critically, rapid urbanization has delivered relatively few economic benefits. While urbanization has been a driver of growth through the creation of non-farm jobs and agglomeration externalities for most countries, in Solomon Islands urbanization has not led to a structural shift in employment. Between 2009 and 2019, the sectoral composition of workers in agriculture has increased at the national level.

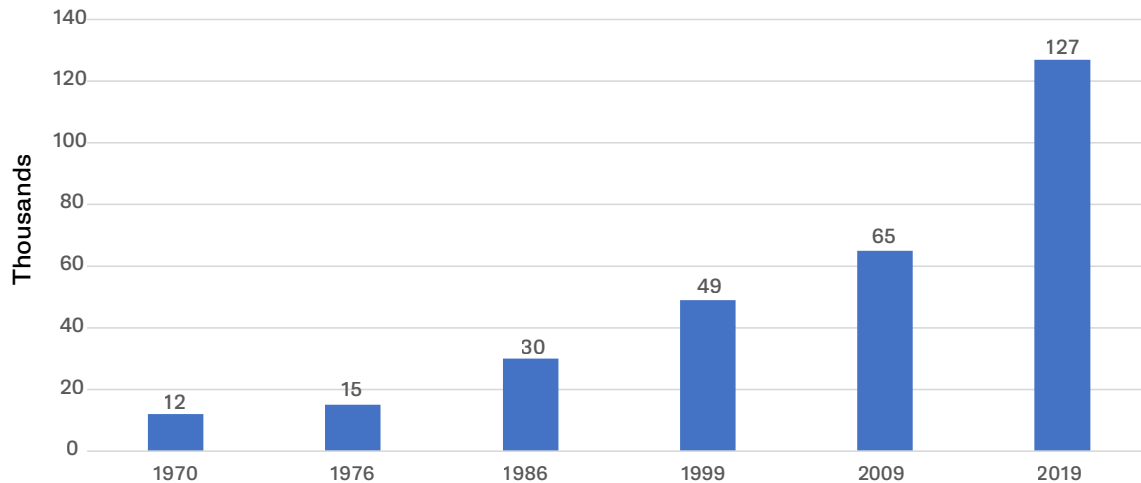
What is more, there has been a sharp increase in agricultural jobs in Honiara Urban Area. The largely informal agricultural sector accounted for about 40 percent of the overall job growth in the Honiara Urban Area between 2009 and 2019. As a result, there has been a notable shift in urban employment towards agriculture, increasing from 11 percent in 2009 to 25 percent in 2019. Female workers were 16 percent more likely to be working in the agricultural sector than male workers, while recent migrants only have a slightly higher likelihood of being employed in agricultural jobs (1 percent higher). The difference becomes more pronounced when comparing poor workers, with a 3.2 percent higher probability.

Figure 19: Urban population average annual growth rate (2009–2019)



Source: Solomon Islands Census; World Bank Development Indicators.

Figure 20: Honiara population total



Source: SINSO.

113. Another key implication of the rapid growth in urban populations is a rise in urban unemployment as the pace of urban growth has outstretched job creation in the formal sector (World Bank, 2024). The unemployment rate in the Honiara Urban Area was nearly 8 percent in 2019, much higher than 4 percent in 2009. At the ward level, areas that have experienced a rapid population increase due to migration also experienced a corresponding rise in unemployment rates, indicating a link between migration and unemployment. Recent migrants to the Honiara Urban Area are more likely to be unemployed after controlling for key observable characteristics.

114. Critical urban infrastructure and essential services have not kept pace with the burgeoning urban population, especially in informal settlements. Electricity services are subject to regular and lengthy interruptions, as system diesel generators fail to cope with growing peak loads on the Honiara grid (PRIF, 2021). Essential urban infrastructure and services, including solid waste management, piped water, storm drainage, and street lighting are provided only to certain parts of the city, with service quality having deteriorated over time due to minimal maintenance. There is no centralized sewerage system in Honiara, and

the existing infrastructure is old and outdated. Roads have become more congested due to increased population and vehicle ownership, steeply sloping terrain, and a lack of investment and maintenance. Severe traffic bottlenecks are common, and floods occasionally inundate sections of major roads. There is also a lack of people-centered urban amenities, with few recreational facilities and limited pedestrian walkways.

115. A key reason for the limited ability of Honiara to effectively absorb internal migrants is that the city government lacks many foundational tools for effective urban planning and service delivery. Existing plans are dated and not risk-informed, and enforcement mechanisms and capacity are weak. A key challenge is the lack of effective inter-jurisdictional coordination and resourcing. Mandates and responsibilities are shared by several national, provincial, and city entities (the latter for Honiara City only), but there are no adequate systems for information sharing and integrated planning. Decision-making is heavily top-down, with limited outreach and engagement with communities. Moreover, outdated legislation and policies hamper the planning and financing of services across urban boundaries (such as between Honiara City and Guadalcanal Province).

116. Additionally, there are major challenges in the urban land administration system. Roughly 80 percent of land in Solomon Islands is held through customary tenure. The country's land registry is outdated. The provinces and city councils utilize the records and valuations of the Ministry of Housing Lands and Survey. The cadastral mapping system is largely manual and not yet digitized. Paper records are not protected from (climate) hazards. Overall, land administration and management services, and revenue collection are hampered by system inefficiencies. Especially in the dynamic, informal, and rapidly urbanizing context, it is challenging to understand who owns what property and the type, value, or location of built assets. In Honiara City, only 8,000 of an estimated 18,000 properties are recorded.³⁰ The most current land valuation exercise was carried out in 2010. The inefficiencies have knock-on effects on revenue collection (and thus service delivery), planning, informality and tenure security, and the investment environment.

2.5. Policy Recommendations for Improved Spatial Development

117. To benefit from agglomeration economies, there is a need to invest in Honiara. Economic growth and prosperity tend to concentrate spatially in leading regions (World Bank, 2009). In such regions, the clustering of populations and production leads to economies of scale, specialization, and exchange of knowledge and technology. Additionally, the density of population and producers lowers the unit cost of service delivery and infrastructure. Honiara, as the leading area in Solomon Islands, has the potential to drive economic growth. However, this requires strengthening land-administration systems, upgrading essential services, increasing local revenue mobilization and adequate urban planning to reduce

congestion costs and promote efficient use of resources.³¹ For instance, public investments in infrastructure that promote the safe and efficient circulation of people and goods around the city are paramount. The Honiara City Council will be a key stakeholder in this respect. Finally, there is a need to address both demand-side and supply-side constraints to facilitate job creation in the capital. On the demand side, it is important to improve the business environment, while on the supply side, there is a need to address the lack of skills among the labor force. While upskilling will require public intervention, some aspects may be addressed at the firm level (Chapter 3).

118. Additionally, investments in provincial urban centers may generate economic benefits and reduce migration push factors. Only 10 percent of the country's urban growth between 2009 and 2019 occurred outside of Honiara, with many individuals leaving these towns for the capital (World Bank, forthcoming). However, as indicated above, targeted investments in provincial urban centers can create scale and promote economic activity. The development of provincial towns could also reduce the influx of migrants into Honiara and improve the capacity to accommodate the inflow of migrants from the outer islands. It will be important to calibrate the investments to the local context and aim to overcome the structural barriers that inhibit local economic development and growth. Furthermore, limitations in the capacity of urban areas to absorb migrants could increase the risk for conflict between established populations and new arrivals.

119. Outer island development, however, involves a complex trade-off between efficiency and other social objectives. Economic returns to investments in physical capital tend to be low – or even negative – for many activities in the outer islands. Moreover, such interventions have a high opportunity cost in terms of forgone lower-cost interventions on the more densely

³⁰Despite the population of Honiara having increased by some 65,000 people between 2009 and 2019, only 1,087 residential approvals were issued in total by Honiara Town Council between 2010 and 2019.

³¹A useful starting point for urban planning is the Greater Honiara Urban Development Strategy and Action Plan which is a coherent roadmap for the broader Honiara urban area – a key foundation for developing an urban master plan. It should also help improve coordination between government agencies and development partners, which are likely to be key financiers of urban renewal projects.

populated main islands. Accordingly, the scope for successful spatially targeted activities that promote growth and living standards is severely constrained in most outer islands. As a result, where spatially targeted policies are implemented to promote rural economic growth, they should be aimed at exploiting carefully studied comparative advantage and economic potential – especially concerning agriculture, tourism, and extractive industries – rather than by a desire to try to equalize economic opportunities across islands.³² However, spatially targeted investments may be needed given the country’s socioeconomic and ethno-linguistic divisions. Furthermore, investments in human capital – health and education services – should be available to all populations, regardless of location. At the margin, improved service delivery in rural locations should reduce push factors driving urban migration (World Bank, 2017).

120. The binding nature of economic geography constraints in Solomon Islands means there is a clear rationale for improvements in transport connectivity. International evidence from a wide range of studies shows that investments in transport infrastructure in developing countries have promoted growth by enabling the flow of production factors from low productivity to high productivity. The upsides of improved market access include greater rural employment and consumption, reduced poverty, and even reduced push migration factors (Foster et al., 2023; Berg et al., 2017). Effective targeting of investments will be essential. The substantial opportunity costs of capital investments and high maintenance intensity mean it is neither feasible nor desirable to provide all communities

with good direct connections to Honiara. Precedence is given to maintenance and rehabilitation before greenfield investments. Following any rehabilitation works, adequate funding must be provisioned for maintenance (World Bank, 2022). More generally, transport sector reforms are needed to achieve long-term sustainability, including the separation of the policy and implementation function.

121. In line with the National Transport Plan (2017–2036),³³ the following recommendations can be considered to improve connectivity:

- **Undertake an updated survey on the condition of existing infrastructure.** Currently, the government has dated estimates of the condition of roads and wharves, while a large share of existing infrastructure has no data. Therefore, a comprehensive condition survey of all the domestic wharf and ramp structures, roads, and airfields should be undertaken in order to effectively prioritize investments.
- **Develop an asset management strategy.** The government needs to develop a proper asset management policy, an inventory of assets, a model for asset deterioration, guidelines on financing (e.g., Asset Management Fund), measures to enhance capacity of the local construction industry, and empowered agency to implement annual asset management programs.
- **Upgrade the domestic port at Honiara, possibly in conjunction with the relocation of the international terminal.** The port at Honiara is the hub of the entire inter-island shipping network. However, the wharf infrastructure and surrounding roadway facilities are not fit for purpose, with rehabilitation and possibly even replacement needed.

³²Spatially targeted interventions should generally not be used as an instrument for income redistribution (World Bank, 2009).

³³Notably, the National Transport Plan provides a longlist of around 250 separate investments in wharves, roads, and airfields as an idealized list of a 20-year investment program. This feeds into the five-year Medium-Term Transport Action Plan (2017–2021). It provides a comprehensive and costed assessment of the various transport investment options. The 25 top-ranked projects, including rehabilitation and new projects, were qualitatively assessed for their impact on growth and provincial equity without explicit reference to growth projections. Some investments are already the subject of donor-funded investment programs.

- **Invest in a multi-purpose containerized transport yard in Malaita.** Presently, containerized transport is only available at the publicly owned international ports in Honiara and Noro. However, there are several reasons why a third container port located in or around Auki may be worthwhile. First, Malaita is the home to the largest population and is a significant producer of cash crops destined for export. Second, a containerized port in Malaita would also serve as a key transshipment area for the eastern part of the country and potentially alleviate some demands on the port at Honiara. Third, as with the SolTuna cannery in Noro, a nearby container port will facilitate the proposed new tuna cannery operation at Bina Harbour.
 - **Improve existing road connections to essential port infrastructure and (disconnected) pockets of density.** Roads and bridges broaden the reach of the inter-island transport network by directly linking inland areas and places where reliable shipping services cannot be provided to the inter-island shipping network. Apart from opening markets to additional producers and consumers, road connectivity has clear efficiency benefits for consolidating and moving larger loads to and from wharves. Investments should first target the rehabilitation of the existing network, prioritizing links between urban areas and rural centers of density and economic growth potential. Rehabilitation and construction of roads may also be justifiable to connect populated areas of the country that are otherwise disconnected due to rough seas, like the Guadalcanal Weather Coast or the northern coast of Makira.
 - **Create scale in inter-island shipping by reducing frictions at the last mile of connectivity.** Improving the speed, safety, and quality of the small-scale maritime sector is necessary for promoting rural economic development and building the required scale at key ports to encourage growth in the inter-island shipping network. Jetties near key transshipment locations and markets should be targeted, as they are critical to the effective functioning of the small-scale maritime sector. The dysfunctional jetty alongside Honiara Central Market would appear to be a strong candidate for refurbishment, provided it can be developed as an all-weather berth.
 - **Revisit the Franchise Shipping Scheme (FSS).** The FSS may not have a large impact on growth, but there is a legitimate public interest in being able to maintain some connectivity to the outer islands. To ensure that the FSS operates effectively, it will be important to improve the way that franchising arrangements are tendered out and the way in which new entrants can be facilitated to enter the market. Experience from other franchise schemes indicates that reviewing the contracting process for franchising, the applied performance criteria (and their enforcement), and the setting and financing of subsidies will be important for success.
- 122. Unlike transportation, digital connectivity should be universal, with the most significant benefits potentially accruing to the most disadvantaged in the community, including women.** For instance, with better access to market information, smallholder producers can make faster and more informed choices about how best to allocate their land and time and respond more quickly to fluctuations in commodity prices.³⁴ Additionally, better telecommunications connectivity offers the

³⁴Melanesian smallholder production has generally been shown to be highly price elastic.

prospect of a faster diffusion of modern agricultural knowledge and techniques. However, expanded access comes with risks of deforestation which will need to be managed. As women are more likely than men to be involved in subsistence agriculture and less likely to have access to digital services, investments in digital infrastructure that facilitate a transition from subsistence toward income-earning activities should support women's economic participation. Given the positive externalities associated with digital connectivity and binding economic geography and equity constraints, public intervention will be required.

123. It is therefore critical to improve the availability of digital connections, its affordability, and the regulatory framework. The following recommendations can be considered:

- **Transition towers to 3G and 4G.** Essential to broadening digital connectivity is that connections are functional: consumers need quality internet connections capable of handling modern websites and video. To that end, it is essential that towers continue to be transitioned from outdated 2G technology to 3G, and ultimately 4G. The new government telecommunications towers should assist in accelerating this transition.
- **Expand coverage competitively.** There must be a focus on linking users to digital networks, a stated goal of the National Development Strategy (2016–2023). A key barrier to overcome is cost, partly inflated by a lack of competition, particularly in rural areas. Therefore, the use of government-built towers in rural areas must be offered to both major telecommunications operators and any new entrants into the market via a leasing agreement.
- **Innovations in satellite internet connectivity may be an option for the hardest-to-reach areas.** Starlink satellites offer an

opportunity to connect to the internet without any connectivity to terrestrial telecommunications towers, which may be an option in digital deserts.

- **There is a need for further regulatory reforms and enhancing enforcement.** The legal and regulatory coverage is adequate in the telecom, digital payment and transactions, consumer protection, and anti-money laundering/counter terrorism financing space, while digital identity, e-signatures, data protection, and cyber-security remain largely unregulated. Improvements in the regulatory environment need to be complemented with adequate resourcing and building capacity for implementation and enforcement.

124. Finally, improving connectivity is not an end, there must be a holistic approach to spatial economic development. In the same way that economic geography is one of an interlocking set of binding constraints on growth, transport and digital connectivity alone are insufficient for stimulating growth and development. Consequently, investments in improving access to transportation and digital networks should be considered part of a broader strategy for spatial development, involving policies and programs appropriately calibrated to the local context to overcome the structural barriers that inhibit economic development, including climate change considerations. In the absence of access to credit, public goods and services, and effective downstream functions that incentivize and support value-add activities, there is a risk that the purported benefits of investments will not be realized. For instance, digital development relies on users having devices and reliable power to use them, plus the requisite digital literacy. United Nations (2023) notes that structured learning to enhance digital literacy across populations – including women, people living in rural areas, and marginalized communities – will be vital to building inclusive digital economies.

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3. Boosting Private Sector Development

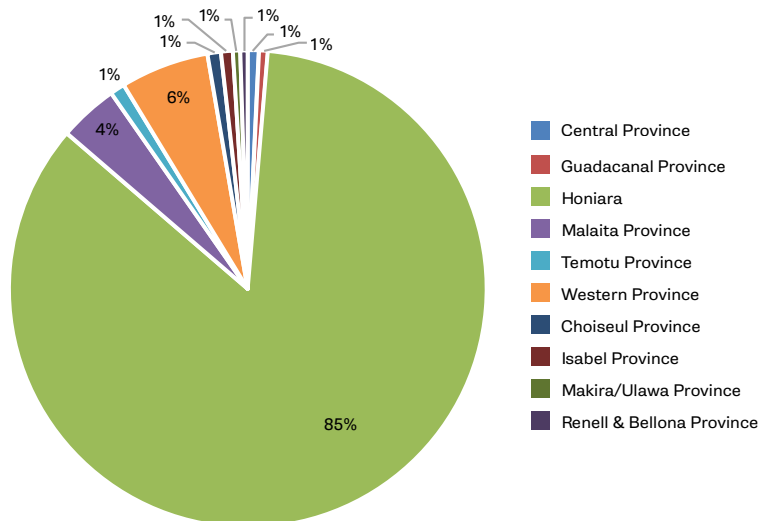


3.1. Snapshot of the Private Sector

125. As of December 2022, there were 2,071 operational registered enterprises in the private sector in Solomon Islands. The Solomon Islands National Statistics Office (SINSO) maintains a record of formal businesses across multiple economic sectors and geographical locations. Their data show

that 85 percent of formal businesses are concentrated in and around Honiara, followed by Western Province and Malaita with a large gap (6 percent and 4 percent, respectively). In rural regions, the number of formal enterprises decreases drastically.

Figure 21: Breakdown of formal enterprises by location

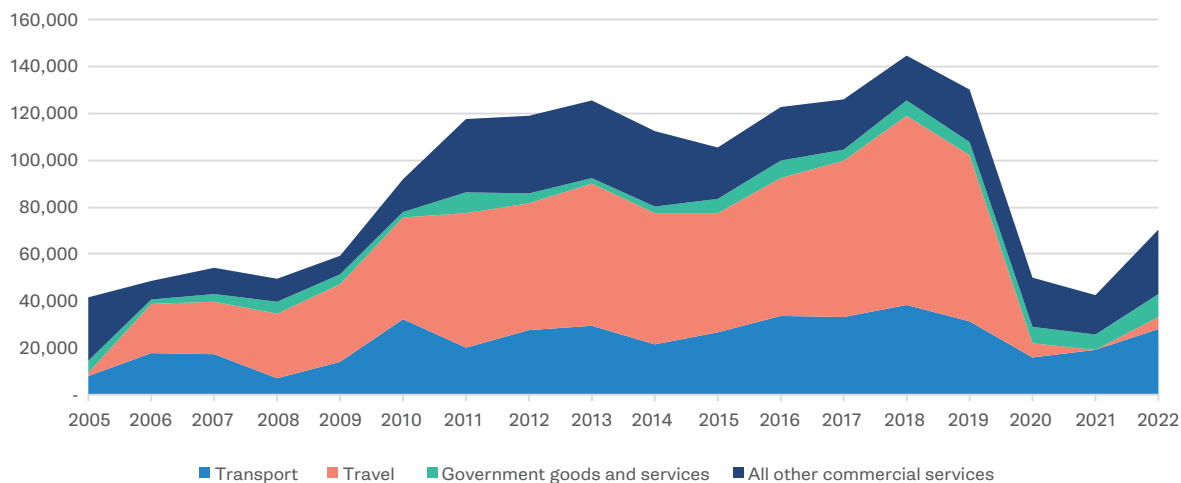


Source: SINSO Business Registry.

126. The concentration of formal firms in Honiara is a function both of rapid urbanization as well as the better access to infrastructure and services. As highlighted in the previous chapter, the considerable challenges and costs associated with providing infrastructure and services to dispersed populations across divided territories has led to a concentration of formal enterprises in Honiara (Solomon Islands Government, 2023a). The sectoral composition of these enterprises is heavily focused on services, with 32 percent in wholesale and retail trade, 46 percent in other services, 14 percent in manufacturing and construction, and 8 percent in agriculture.

127. The service sector in Solomon Islands is relatively large for a country at its stage of development, accounting for 49 percent of GDP and 26 percent of employment as of 2020. Travel and tourism have comprised the majority of the country’s service exports. While significant for the country, revenues from these activities have not been as robust for Solomon Islands compared to other PICs, suggesting a relatively weak competitive advantage. While revenues predictably collapsed during the COVID-19 global pandemic, they have also been slow to recover following the reopening of the country’s borders in 2022.

Figure 22: Solomon Islands' service exports thousand US\$ (2005–2022)



Source: International Trade Centre.

128. Across all sectors, micro enterprises are by far the largest in number followed by small-, large-, and medium-sized enterprises. Micro, small, and medium enterprises (MSMEs) play a vital role in Solomon Islands, contributing

22 percent to total household income and representing 28 percent of employment income. The predominant business activity for MSMEs across all provinces is small-scale retail trade (Solomon Islands Government, 2023a).

Table 6: Enterprise size

Size of the enterprise	Number of employees	Percentage of enterprises
Micro	1-5	80%
Small	6-25	10%
Medium	26-50	4%
Large	>50	6%

Source: SINSO Business Registry.

129. Informality is widespread in Solomon Islands, as is the case with most developing countries around the world. Informality is spread across all economic sectors but particularly concentrated in rural agriculture. In addition, in and around Honiara, there are several informal markets housing unregistered family-owned firms engaged in wholesale and retail trade, and basic services such as small motor vehicle repair shops and the manufacturing

of furniture. In 2017, the informal sector accounted for 30.4 percent of GDP (SINSO, 2020) and almost 80 percent of the country's working population aged 15 years and over (ADB, 2016). The scope of informality may have increased following the COVID-19 pandemic. The Solomon Islands National Statistics Office is currently working to update the estimated scale of informality.

130. The government has developed a National Formalization Action Plan aimed at addressing informality. The plan aligns with Solomon Islands National Development Strategy and builds on various government initiatives that integrate business development for small enterprises with their formalization. It identifies financial inclusion and digitalization as the key drivers of transition to formality.³⁵ These priorities were validated in the World Bank Firm Survey conducted for this report, which asked businesses about reforms that would encourage formalization. More than 80 percent of respondents identified digitalization of services between government and businesses, improved access to finance, and reducing the cost and complexity of complying with business environment regulations as priority reforms.

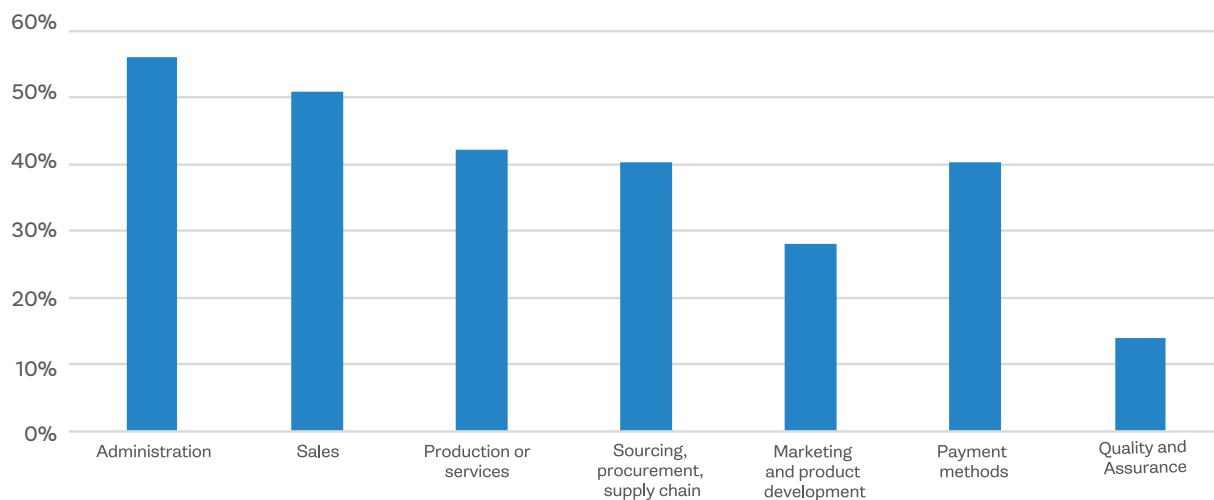
131. The business environment is improving through digitalization but remains burdensome. Starting a business involves company registration, obtaining a tax identification number, and obtaining operating licenses. Foreign investors also need to obtain a foreign investment certificate and many businesses will also need to register as employers with the provident fund and obtain sector specific licenses and permits. The Company Haus and Solomon Islands Trade Portal maintain up-to-date information on the processes, fees, and contact information for each requirement. In addition, some parts of these processes can now be partially completed online. For instance, applications for business

registration with the Company Haus can now be lodged online but the payment must still be made in person with the Ministry of Finance and Treasury, and then the receipt of payment delivered in person to the Company Haus. Procedures in other areas such as business licensing, paying taxes, and trading across borders have seen similar limited digitalization. Still, 43 percent of firms in the survey identified business licensing and permits as an obstacle to their business.

132. At the firm level, most companies are making use of some technology and structured management practices. Firm adoption of digital technology and structured management practices has been empirically shown to increase total factor productivity (Paula et al., 2020). While there is not comparable data for Solomon Islands to benchmark technology adoption and managerial practices with structural or aspirational peers, the World Bank Firm Survey provides some country data. More than 96 percent of firms report using technology for one or more business functions, with the highest share in administration and sales. At the same time, more than 66 percent do not make sales online for reasons ranging from a lack of need for online sales to the high costs and fees associated with processing payments online. With regard to managerial practices, 88 percent of firms report monitoring key performance indicators, with 41 percent tracking four or more indicators. More than two-thirds of firms (69 percent) set sales targets.

³⁵https://www.ilo.org/empent/areas/ef/WCMS_888182/lang--en/index.htm#:~:text=The%20National%20Formalization%20Action%20Plan,Solomon%20Islands%20National%20Development%20Strategy.

Figure 23: Share of firms applying technology across business functions

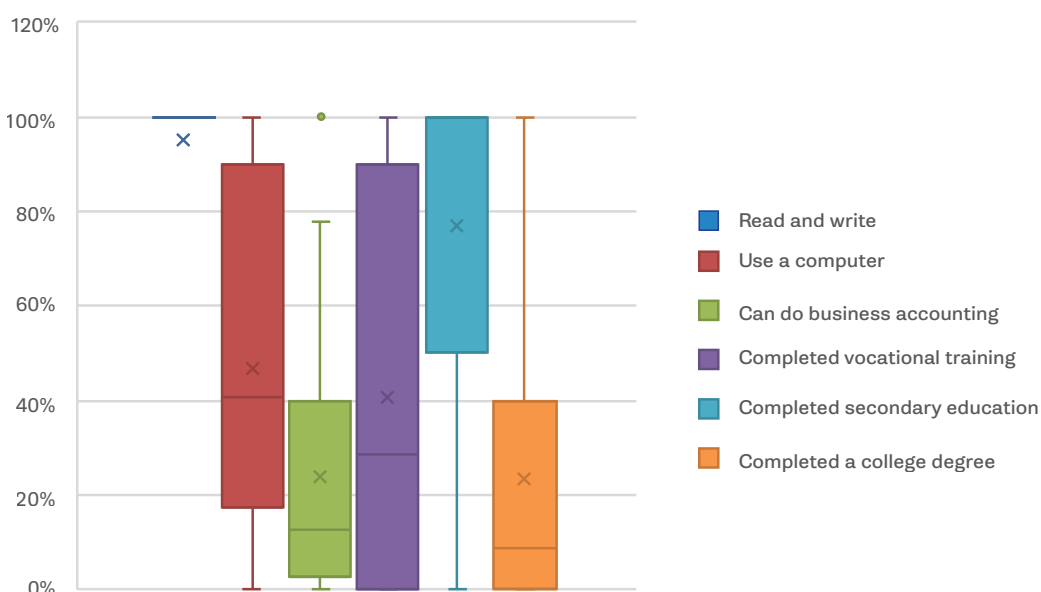


Source: World Bank Firm Survey.

133. While the capabilities of the workforce vary across firms, education and skills are a significant constraint. Firm survey data show a large spread in the share of employees with key competencies such as literacy and computer skills, as well as with the level of educational attainment (Figure 24). Anecdotal feedback from firms and associations indicates that many enterprises invest in upgrading skills

and technical qualifications for their staff. Nonetheless, the lack of qualified labor is one of the most significant constraints for businesses. Solomon Islands is also among the top of lower-middle-income countries for the share of workers being under-educated for the jobs they hold. Section 3.2.2 covers labor market skills in more detail.

Figure 24: Share of employees with capability/education



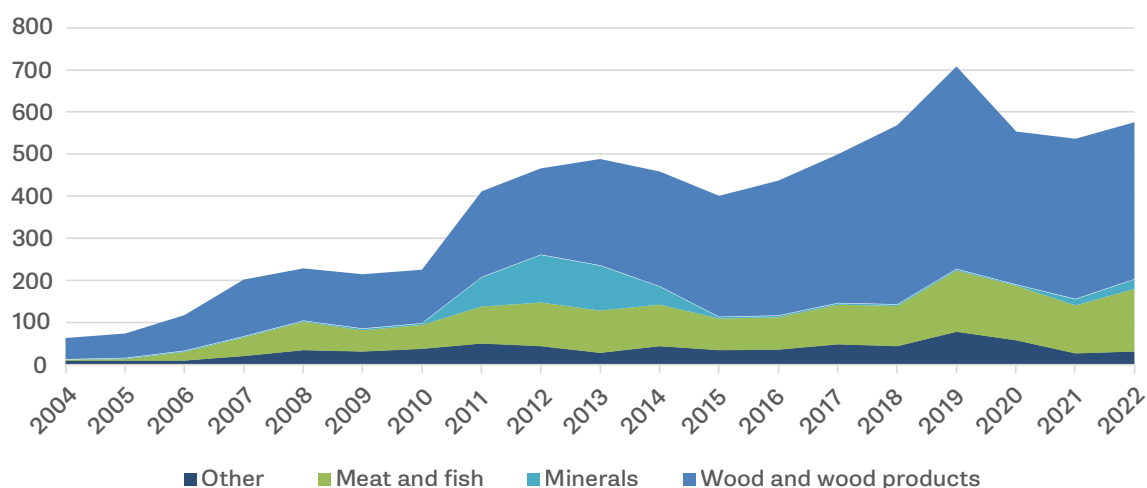
Source: World Bank Firm Survey.

134. Solomon Islands exports are heavily concentrated both in products and destination markets.

While merchandise exports from Solomon Islands have grown consistently since 2004, this is almost entirely driven by the forestry industry with wood and wood products growing from US\$34 million in export value in 2004 to more than US\$370 million in 2022. During this time, meat and fish exports grew more slowly, reaching an average annual value of just over US\$100 million.

Trade partners are similarly concentrated with more than 50 percent of total exports going to China (including more than 80 percent of timber exports) and Italy, India, and Australia accounting for the majority of the remainder. The Hirschman Herfindahl Market Concentration Index – a measure of the dispersion of trade value across an exporter's partners – shows Solomon Islands is more concentrated than any structural or aspirational peer aside from Kiribati.

Figure 25: Nominal exports (US\$ million)



Source: International Trade Center Data. 2018–2022 reflects mirror data.

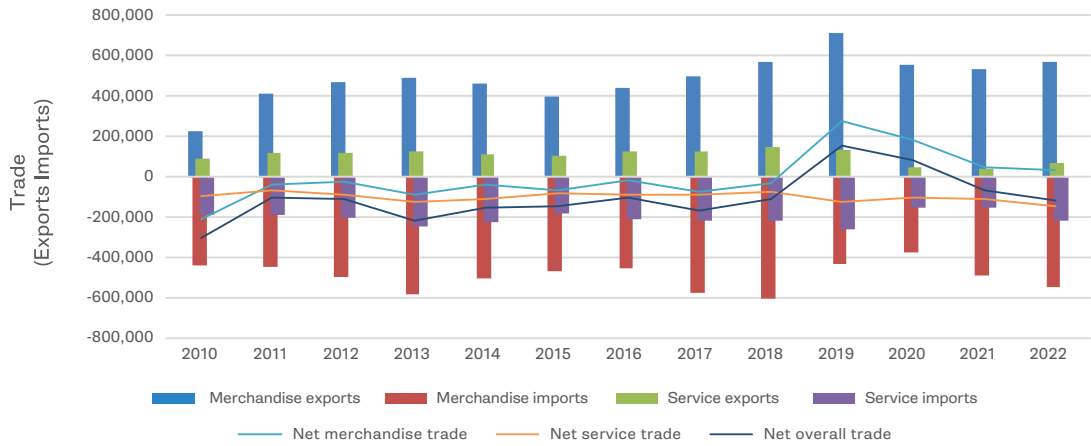
135. Exports exhibit limited competitiveness in foreign markets.

While the number of products exported from Solomon Islands and the number of export destinations has grown over time, few new products or destinations exhibit sustained growth, and many products exit their export markets within three years of initial entry. In addition, the complexity and specialization of the export basket is low, reflecting a reliance on semi-processed, low value-added exports.

136. International trade in services is also sizable, equal to 18 percent of GDP.

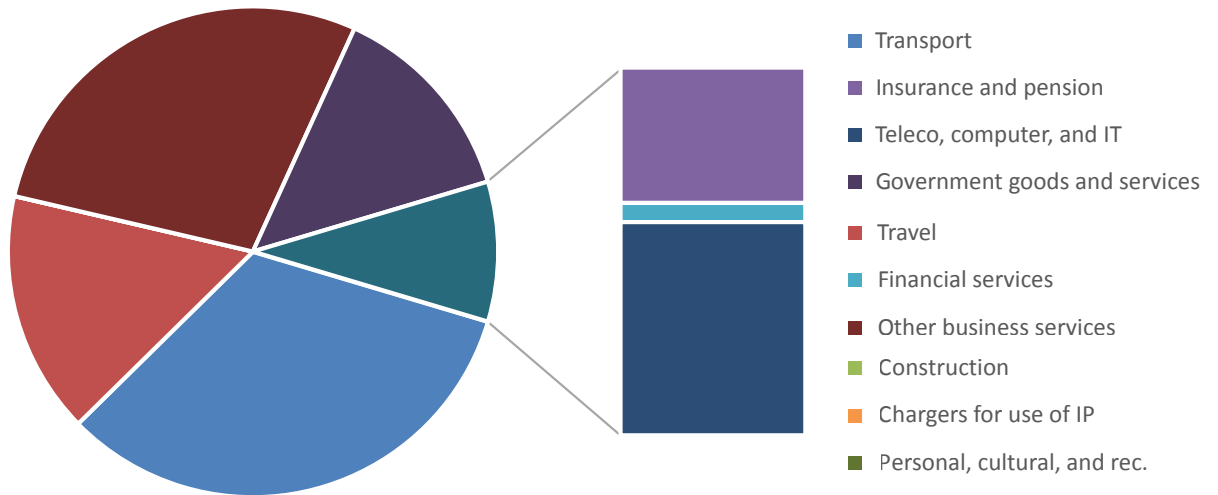
This includes service exports (4 percent) and imports (14 percent). While Solomon Islands is a net importer of services, this is not necessarily to the detriment of growth: imports are often just as crucial to growth as exports in order to broaden value creation within an economy. For instance, import of financial services can help reduce the cost of capital for domestic businesses. Yet, despite the presence of net service imports into the economy, there is likely much room for further efficiency enhancement in these markets.

Figure 26: Solomon Islands' trade balance, 2005–2022



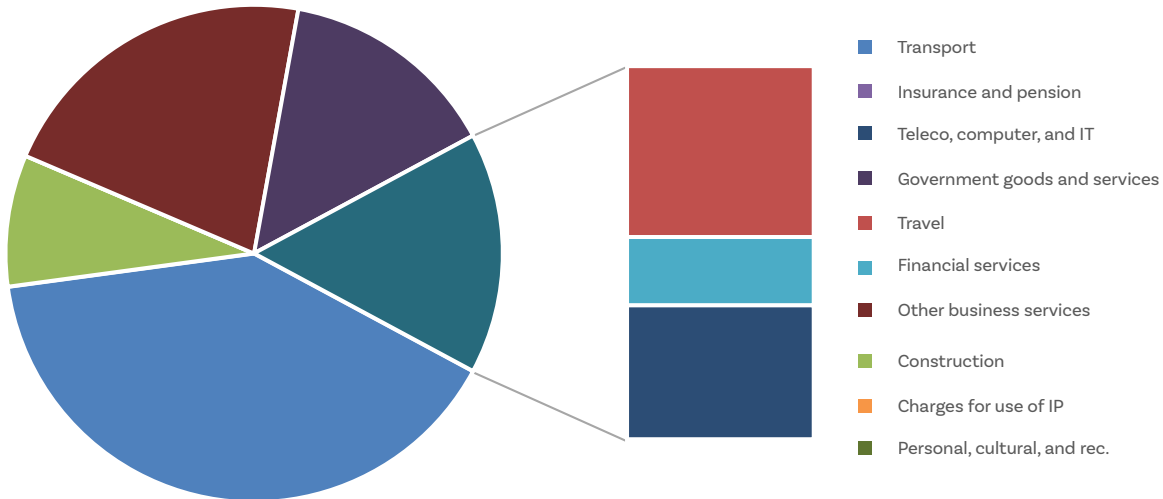
Source: International Trade Center.

Figure 27: Solomon Islands' service import composition (2022)



Source: UNCTAD.

Figure 28: Solomon Islands' service export composition (2022)



Source: UNCTAD.

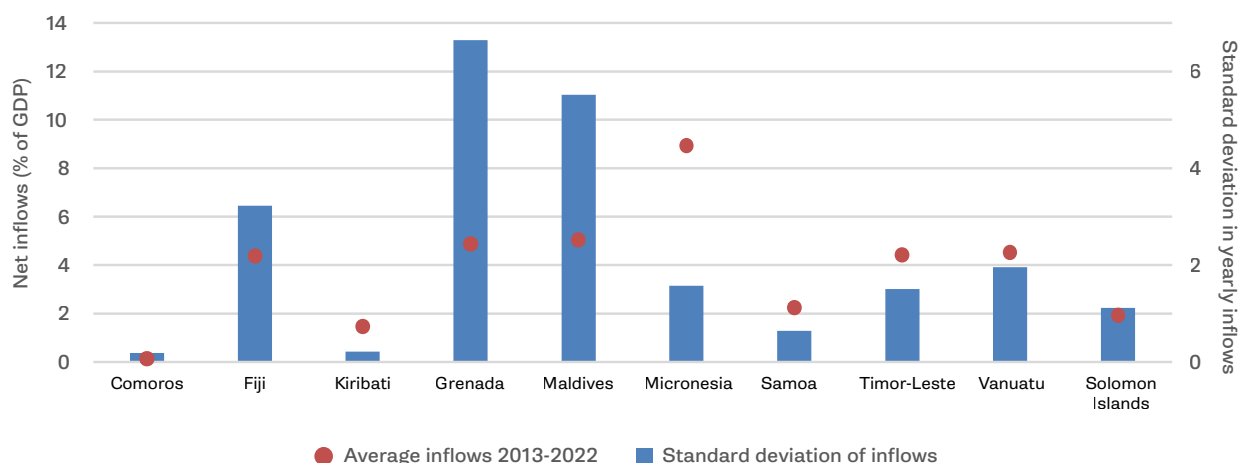
137. Service market competition and efficiency in Solomon Islands are constrained by a variety of factors which increase cost and reduce competitiveness. Competition is constrained both by intrinsic factors, including the limited scale of the internal market and remoteness, as well as by policy choices. For instance, maritime cargo handling services (i.e., port operation) are the exclusive domain of the state-owned Solomon Islands Ports Authority which also acts as the regulatory authority, infrastructure owner, and operator of maritime cargo handling services for the country's two international terminals. Greater competition could help reduce port charges, which – in Solomon Islands – are among the highest in the region. Efficiency is also constrained by more complex restrictions and regulations. World Bank analysis on service trade restrictions highlights how these barriers to trade can increase costs across the private sector. For instance, imported merchandise is

equivalent to one-third of GDP, so high shipping costs have a very immediate impact on firm competitiveness and household expenditure. Yet there are a number of horizontal and vertical restrictions that increase the cost of shipping. These include the Exchange Control Act (Foreign Exchange) Regulations of 1977, which imposes a US\$30,000 transaction limit on money transfers to foreign service providers. This indirectly affects shipping companies by limiting firms to the charter of other domestic vessels (i.e., those of competitors), or foreign ones with limited cargo capacity. As a result, increases in demand for freight services can result in significant price spikes for customers. Similarly, the Shipping Act of 1998 bans foreign-owned companies from establishing branches in Solomon Islands or registering their vessels under the national flag. It also imposes significant requirements for the employment of Solomon nationals on domestically flagged ships. These restrictions add significant costs or deter entry by new firms, particularly those with foreign investment.

138. Solomon Islands consistently attracts around 2 percent of GDP on average in inward foreign direct investment (FDI). This level of inward FDI is consistent with structural peers while also being less volatile year-to-year than most peers. The Foreign Investment Act in Solomon Islands establishes requirements for foreign investors and sets out economic activities that are reserved for domestic businesses. There are 14 reserved economic activities, mostly aimed at protecting very small business activities such as roadside stalls, fixed bus route

transportation services, small scale timber milling, and food stalls or small cafes working in spaces under 25 square meters. While the act contains good practice provisions such as a requirement for regular review, regional and global evidence has shown that reserve lists can be abused to artificially restrict foreign competition. Foreign businesses are also required to obtain an annual foreign investment certificate to operate in the country.

Figure 29: Average foreign direct investment, net inflows, percentage of GDP (2013–2024)



Source: World Bank.

139. A breakdown of FDI since 2018 shows retail and wholesale trade as the largest receiving sector and China as the largest originating market. Retail and wholesale trade top the chart with 105 registrations, followed by professional services with 43. In Solomon Islands, China registers the highest number of foreign investors with a total of 191 registrations since 2018. It is followed

by Australia with 78, Malaysia with 60, and Bangladesh with 54 registrations. Honiara is the most popular destination for FDI coming into Solomon Islands with 74 percent of the new registrations being made in the capital since 2018. Guadalcanal follows with 19 percent of the registrations, Western Province with 3 percent, Malaita with 1 percent. Trailing behind are all the other provinces with almost non-existent foreign direct investment.³⁶

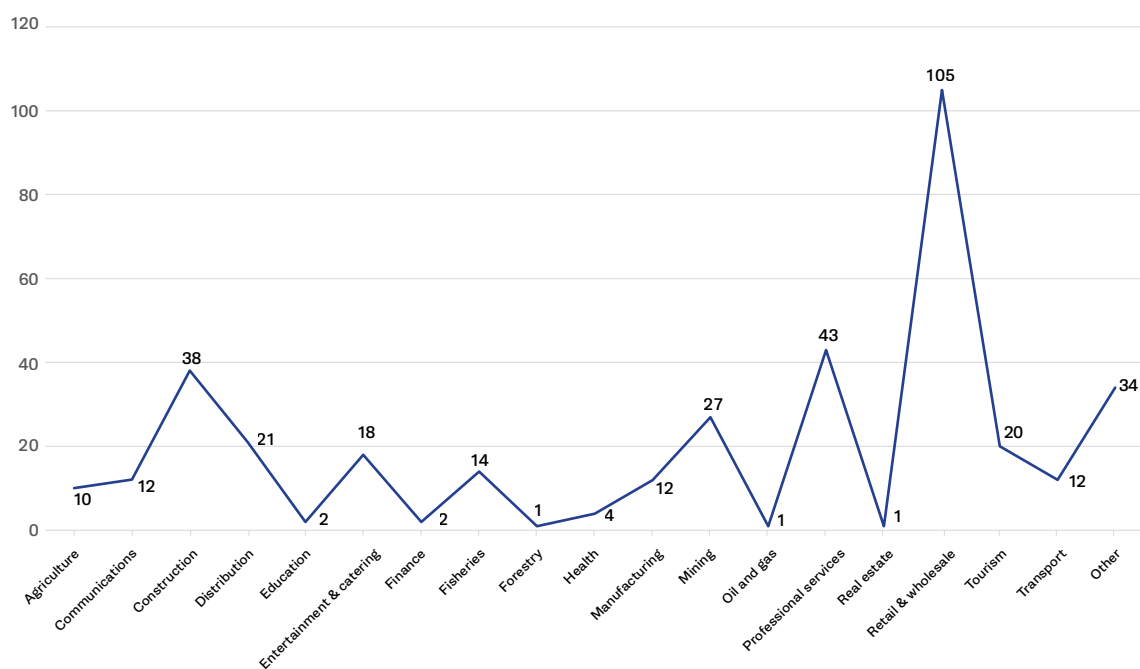
³⁶Data from Ministry of Commerce, Industry, Labour and Immigration.

Table 7: Foreign direct investment inflows by country and volume

Year	Total New Registration	Total Investment SI\$
2018	203 [58 China, 20 Australia, 125 other]	\$438,098,305.00
2019	118 [48 China, 23 Australia, 47 other]	\$525,620,241.00
2020	66 [27 China, 11 Australia, 28 other]	\$540,247,500.00
2021	42 [12 China, 12 Australia, 18 other]	\$415,409,300.00
2022	63 [29 China, 8 Australia, 26 other]	\$693,423,986.00
2023	35 [17 China, 4 Australia, 14 other]	\$422,797,139.75
Total	527	\$3,035,596,471.75

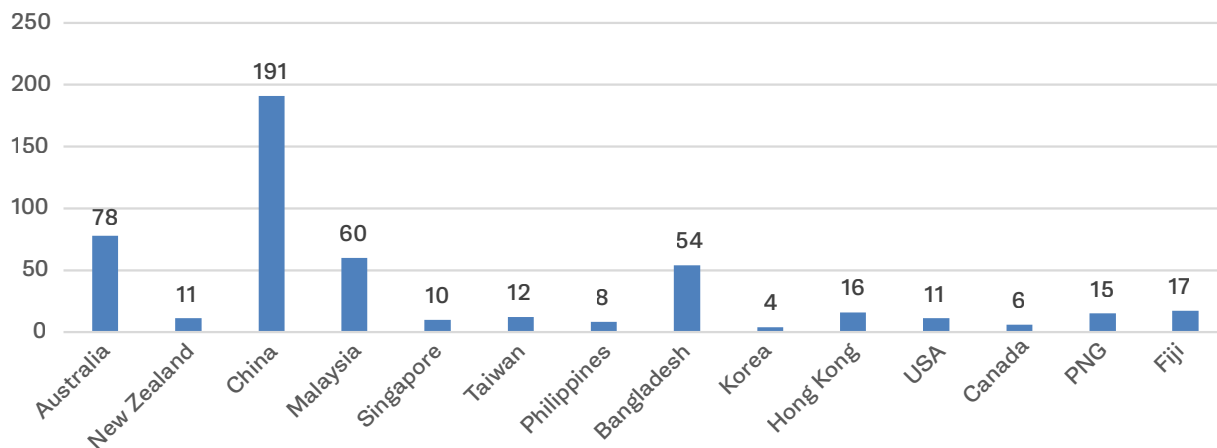
Source: Ministry of Commerce, Industry, Labour and Immigration.

Figure 30: Total number of new registrations per sector (Jan 2018–Jun 2023)



Source: Ministry of Commerce, Industry, Labour and Immigration.

Figure 31: Total number of new registrations per country (Jan 2018–Jun 2023)



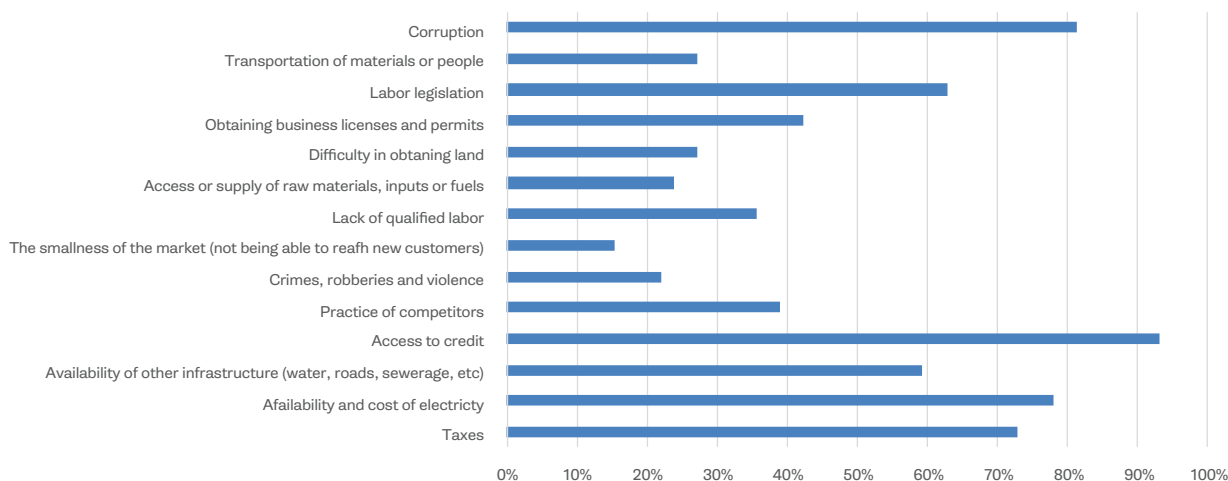
Source: Ministry of Commerce, Industry, Labour and Immigration.

3.2. Constraints to Private Sector Development

140. Businesses face a number of constraints to market entry and growth. The World Bank Firm Survey found that more than 90 percent of businesses identified access to credit as a constraint to growth, followed by corruption (81 percent), the availability and cost of electricity (78 percent), and taxes (73 percent). Other factors viewed as obstacles include access

to land, crime, licensing procedures, access to finance, practices of competitors, and high costs for transportation. When asked about the single greatest obstacle, firms cited taxes (34 percent) followed by the availability and cost of electricity (19 percent) and then the availability of other infrastructure (8 percent). These results are broadly consistent with the most recent World Bank Enterprise Survey (2015). In the remaining part of this section we discuss four key constraints in more detail: land, skills, access to credit, and energy costs.

Figure 32: Share of firms identifying each issue as an obstacle to their business (percent of respondents)



Source: World Bank Firm Survey (2024).

3.2.1. Land Use

- 141. Access to land and the ability to exchange it are important for economic growth, private sector development, and poverty reduction (World Bank, 2003).** Land is a key asset that provides the basis for economic activity and livelihoods, especially for the rural poor. Secure land rights – not necessarily formal titles – increase investment and provide households with better access to credit. Furthermore, the transfer of land rights tends to improve allocative efficiency towards more productive producers. For instance, land laws to improve tenancy security increased agricultural productivity in India (Banerjee et al., 2002). Relatedly, the introduction of private property rights in Vietnam increased economic activity (as measured by increased nighttime light intensity) (Ho, 2021). Important to note that land rights need to be administered and enforced by institutions that have both legal backing and social legitimacy, in a cost-effective way. To maximize economic and social benefits, particular attention needs to be paid to women, who are typically disadvantaged (World Bank, 2003).
- 142. In Solomon Islands, land serves as the cultural foundation of social and economic life.** Across the country, people identify their connections to each other and to particular places through stories of their ancestors. These oral histories are strongly connected to land and sea and may encompass vast areas of land, often into neighboring territories. This gives land tenure a strong cultural dimension. Furthermore,

people access land through a wide range of relationships, not only patrilineal and/or matrilineal descent (McDougall, 2020). Land tenure in Solomon Islands should therefore be understood both in terms of biological descent and kinship, as well as emplaced stories and oral histories that are fundamental to people's identity. As a predominantly rural society, land also provides a crucial role in housing, food security, income generation, and social cohesion.

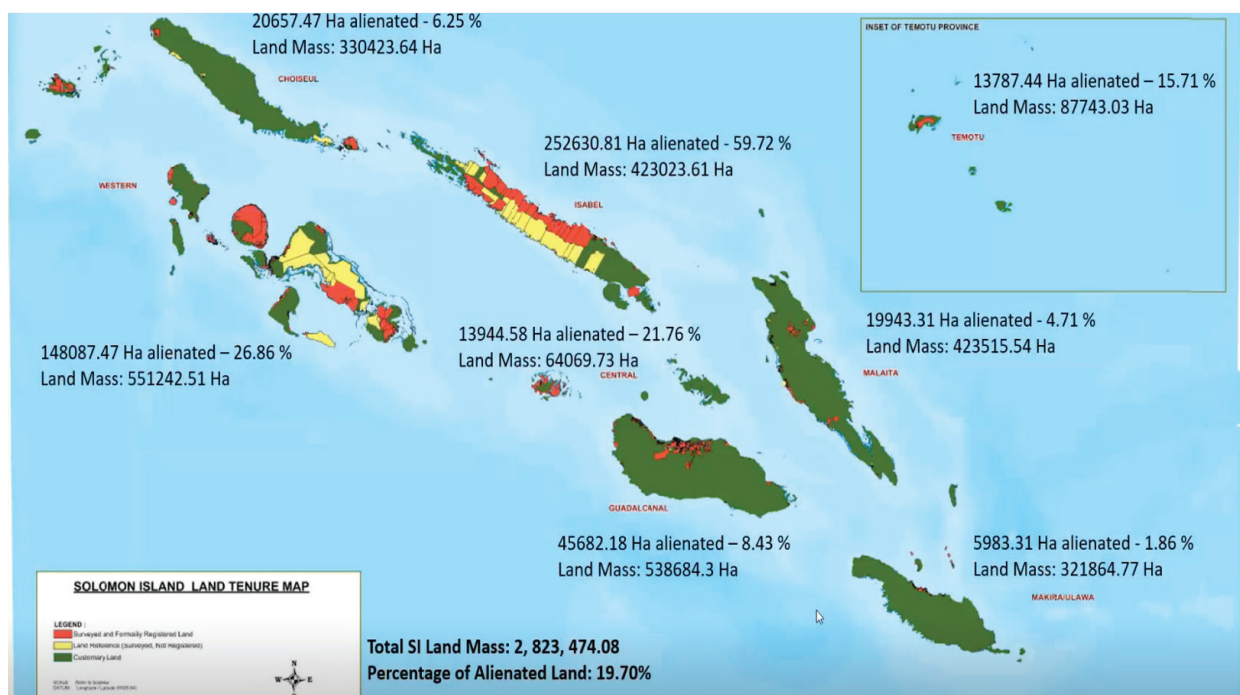
- 143. The land tenure system in the country is heavily influenced by its colonial history.** In pre-colonial times, all land in Solomon Islands was held under customary tenure. However, during the British protectorate era (1893–1978), land laws were enacted to create private land and public land. Customary land was deemed vacant – at times inappropriately so – and was granted to individuals and business entities (Foukona, 2017).³⁷ Prior to independence, amended legislation converted freehold and longer leases held by foreigners into fixed-term estate leases of 75 years, while the state held the perpetual estate title. After independence, the new Constitution restricted land ownership and holdings by foreigners, and protected the interests of customary landowners, ensuring customary land transactions complied with the rules of custom.

³⁷Initially, British subjects acquired land through direct negotiations with landowners (or the people they assumed to be landowners), and from the 1880s they could forward the deed of sale documents to the Western Pacific High Commission in Fiji, which would register those documents as evidence of land claims. Ongoing concerns about land alienation led to the introduction of the Solomons Islands Land Regulation 1914. This prohibited the sale of land to foreigners. The idea of land being 'waste' or 'vacant' has been widely criticized, reflecting a Eurocentric view of land use. Furthermore, much of the land that was deemed vacant was acquired after minimal investigation into its use or claims over it.

144. The current land law and administration in Solomon Islands is built on two tenure systems: customary and non-customary land.³⁸ The Constitution refers to the categories of customary and non-customary land and provides that only Solomon Islanders may hold a perpetual interest in land. The state holds the perpetual estate in most non-customary land and may give perpetual or fixed-term estates of a maximum of 75 years to private individuals and entities, including churches and businesses. Titleholders may (sub-)lease the land or sell the title, subject to approval

from the holder of the perpetual estate. At the moment, 8 percent of land is used as public land and 5 percent of land is being leased for commercial, residential, or other purposes (Table 8). Next to non-customary land, more than 80 percent of land is held under customary tenure (Figure 33). The Constitution recognizes customary law as a general source of law while the Lands and Titles Act specifies that the manner of holding, occupying, using, enjoying, and disposing of customary land is determined by ‘customary usage’.

Figure 33: Geographical distribution of customary and non-customary land



Source: Ministry of Lands.

Note: Red: Surveyed and registered land; Yellow: Surveyed, but not registered customary land; Green: Non-surveyed customary land.

³⁸For more detail on land tenure in Solomon Islands, see Foukona (2017). For a summary of land tenure regimes, including the extent of land registration, as well as key debates and challenges across the region, see AusAID (2008).

145. Land registration is relatively limited in Solomon Islands due to governance challenges, legitimacy concerns, and limited returns. The registration of customary land allows it to be purchased or leased by the government, in principle expanding its economic use.³⁹ However, land registration and acquisition in Solomon Islands is uncommon. Key reasons include the limited reach of the state, lack of state legitimacy and trust, strong informal institutions and cultural traditions, and challenges in identifying boundaries and landowners (Foukona, 2007). Furthermore, numerous problems with maintaining the land register – land records are not always updated and may be inaccurate – provide a

disincentive for engaging in land registration. Finally, registering land is a costly affair, with costs reaching up to SI\$1 million. Even when land becomes registered, the legislation does not set out provisions for land governance – e.g., regulations to identify membership of a landholding group – nor minimum standards for external stakeholders to engage with landholding groups. Furthermore, past land registration efforts have often disadvantaged women and make land prone to elite capture. To date, land registration has rarely delivered the legal certainty and tenure security needed for economic development (Allen, 2008; Platteau, 1996; World Bank, 2003).

Table 8: Land types and registration processes

Alienated land	A popular rather than strictly legal term that refers to land that has ceased to be customary land, typically (but not always) land that was transferred to non-Indigenous interests during the colonial period. Some of this land may have returned to the customary claimants, but may still be considered alienated land.
Customary land	In a legal sense, refers to land that has always been held in accordance with customary usage and not transacted under the colonial regime. In popular parlance it sometimes refers to land that is informally, or in practice, regulated by custom.
Land recording	The process for recording boundaries and interests in customary land, but not proceeding to registration, set out in the Customary Land Records Act [Cap 132].
Land registration	The process of registering boundaries and interests in the central land register set out in the Land and Titles Act [Cap 133] which may occur via systematic settlement (Part IV) or purchase or lease of customary land through agreement or compulsory acquisition (Part V).
Leasehold land	Land held under lease. This can only be done via the national or provincial government, which holds the perpetual estate and leases it to others as fixed term estates.
Public land	Land vested as perpetual estate in the Commissioner of Lands and held in trust for the benefit of the Solomon Islands Government.

Source: Ministry of Commerce, Industry, Labour and Immigration.

³⁹See the annex for more detail on the land acquisition process in Solomon Islands. An alternative system of recording customary interests exists under the Customary Land Records Act. The Act provides that any landholding group or person who claims to hold a 'primary right' to land may apply to the Land Record Office to have that right and the boundaries of the land recorded. See the annex for more detail on customary land recording.

146. In Solomon Islands, customary land faces challenges in supporting economic activity.

Customary land is essential for the smallholder cash cropping sector, which is vibrant and critical to livelihoods across Solomon Islands, as well as central to the formation of more value-add agricultural processing (Allen, 2008; see also Chapter 4). Customary landholders face challenges in increasing the value add of their own production, in part due to limited access to finance, which is in turn exacerbated by the inability to collateralize customary land. Larger investment projects often require collaboration across multiple customary landholding groups, which can lead to higher complexity and project risk in structuring a common approach to access land and its use. Relatedly, (non-resource) investors may be reluctant to develop and invest in non-registered customary land – due to tenure insecurity – and would rather have a registered interest in land (through fixed-term estates or leases). As such, a large share of customary land remains ‘locked’ for investment and development.

147. Alienated land is not free from challenges.

Alienated land includes the most economically viable land in the country, though there is increasing pressure on urban land to satisfy both residential and commercial needs (Williams, 2011). Furthermore, while alienated land offers a clearer structure through long-term lease for use by commercial entities, investors still face uncertainty in the time and process needed to secure a lease. Next, land disputes regarding alienated land are not uncommon as original landholding groups make claims to return alienated land.⁴⁰ Disputes also

arise during land recording and registration processes. Land disputes are often contests over material resources, but they also involve debates about the meanings attached to land and the identities of people. Unresolved disputes reduce tenure security and land productivity, which is further exacerbated by weak state capacity and limited legitimacy. For instance, a study from Uganda showed that unresolved land conflict reduced agricultural output up to 11 percent, disproportionately affecting women (Deininger and Castagnini, 2006). Resolving land tenure and use conflicts with land (on alienated land) can be complex and time consuming, with few legal precedents to secure final land rights.⁴¹ Finally, weaknesses in the planning code and poor coverage of utilities also undermine land as an input to economic activity.

148. However, promising examples of large land-based investments that involve a mix of customary and alienated land could serve as guides for future investment. These include national projects such as the Guadalcanal Plains Palm Oil Ltd (GPPOL) plantation and the Tina River Hydro Project. Both projects involve deep contact between small kin groups, and a range of larger institutional actors, including government departments, political bodies, and national leadership. Even where large investments are fully operating on alienated land, customary landowners may continue to make various claims to land that has been registered, and have ongoing, legally-recognized interests in the surrounding customary land. The case studies highlighted in Box 2 could serve as examples for how investments could address land use issues in their projects.

⁴⁰Current land disputes often have long histories that stretch back to the colonial period. For example, disputes over the boundaries of Honiara town land, or large commercial holdings such as those held by RIPEL (Box 4), are grounded in debates about the legitimacy of colonial land transactions (Foukona, 2015; Monson, 2023).

⁴¹Disputes over customary land must be referred to the local chiefs or other traditional leaders in the locality for adjudication according to custom before they can be referred to the courts. If the matter is not resolved using traditional means, it can be referred to the Local Court. Decisions of Local Courts may be appealed to the Customary Land Appeal Court, and both of these courts apply customary law. Disputes arising from the process of land registration follow the adjudication system. Decisions of a land acquisition officer may be appealed to the Magistrates Court, with a further and final right of appeal to the High Court. The higher courts regularly refer matters of custom back to the chiefs. This process means that disputes over land can cycle through the courts for many years.

Box 2: Land solutions: Guadalcanal Plains Palm Oil Limited – Outgrowers Association – Tina River Hydro

The Guadalcanal Plains Palm Oil Limited (GPPOL) project emerged out of the civil unrest on Guadalcanal (1998–2003) and is administered through a mix of formal regulation and customary principles. GPPOL began its oil palm operation in 2005 following an agreement between New Britain Palm Oil Limited, the Solomon Islands Government, the Guadalcanal Province, and the Guadalcanal Plains landholding groups.

Plantation Leasing

Under the agreement, formerly alienated lands were split into 58 parcels and returned to the five land groups (mamata) on a fixed term (with the perpetual estate remaining with the Commissioner of Lands). The history of land registration and ownership arrangements varies amongst the parcels, with differing degrees of consensus within owner groups on the propriety of trustee and ownership arrangements.

These mamata own 20 percent of the shares in GPPOL via a landholding company with representation of all five mamata. This investment yields cash benefits (land rental and royalties) to landowners on behalf of the company. GPPOL is responsible for the plantation production and management operation. It pays land rental on a quarterly basis and royalties monthly. Based on this company-landowner configuration, the landowners had three income streams from oil palm development on their land: annual dividends; land rentals; and 10 percent of the value of the fresh fruit bundle of the palm oil harvested each month (50 percent to the land association account and 50 percent to an investment fund).

Outgrowers Association

The Guadalcanal Outgrowers Association is an example of a different land ownership structure working with GPPOL. The Outgrowers Association operates on land that is registered, and comprises both customary and alienated land, under a variety of individual and family control arrangements. The perpetual title is held by landowners via the Loka Mamata Association. Since 2005, the Association has not leased the land to GPPOL under the plantation leasing model. As a result, members do not receive rental or royalty payments for their registered land. However, the outgrowers – through the Association – have an arrangement with GPPOL to sell palm fruit directly to the company. The Association is responsible for organizing all plantation maintenance and harvesting by contracting GPPOL workers or others on a cash or food barter basis.

Individual outgrowers, on land managed by the Association, have control over the oil palm production and selling because they are not bound by the GPPOL palm oil organization arrangement with Guadalcanal Plains Resources Development Association. They are a diverse group of actors with exposure to service and retail sectors as well as cocoa, coconut, and livestock small holdings. They are involved as occasional producers of palm oil who sell it through an agreement with GPPOL or channel the producing and selling of their palm oil through the Association. They have the option to utilize their land (registered or customary land) for other development activities, not just palm oil – such as cocoa, coconut, or other cash cropping activities (Solomon Islands Government, 2017; Roughan et al., 2010).

Tina River Hydro Project

A second national project is the Tina River Hydro project, located on registered land. It is another development model introduced to progress a major contemporary renewable energy project. In an attempt to strengthen land tenure security, the government used three instruments: Part V Division 2 of the long-term agreement to acquire the customary land; a Memorandum of Understanding signed with several parties; and a land record using the process under the Customary Land Records Act. These instruments provided the legal basis for mobilizing the land for the national project while recognizing that customary landholders should not 'lose' their land. Such recognition has been the basis for project plans and negotiations with those tribes whose land would be acquired, for an equitable arrangement that will provide the best basis for ongoing social stability and support of the project. The productive life of a hydro project is in excess of 100 years, so social stability and support are key.

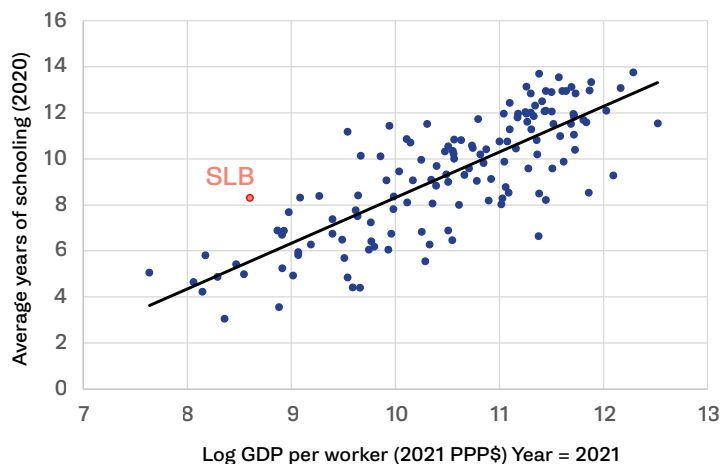
The Tina River Hydro project developed a unique arrangement for co-ownership of the land. The perpetual estate of the land acquired for the project is held by the Tina Core Land Company which would have 50 percent ownership by the government on behalf of Solomon Islanders, and 50 percent by the tribes whose land would be acquired. The tribes would hold these shares via tribal companies, not trustees, and the tribes would have one director each on the board of the Tina Core Land Company. The Tina Core Land Company then would lease the land to the international hydropower developer (project company) for the duration of their contract to operate the power station (approximately 30 years). The project company is owned jointly by the developer (51 percent) and the Tina Core Land Company (49 percent). After 30 years the developer would relinquish its 51 percent share to the Tina Core Land Company. This would mean the government and landowners would become sole owners of the plant, which will sell wholesale electricity to the Solomon Islands Electricity Authority. This is a model of landowner partnerships, with an emphasis on benefit sharing based on the concept of build, own, operate, and transfer (PHCG, 2015; Solomon Islands Government, 2017; Solomon Islands Government, 2017a; Kabutaulaka, 2019).

3.2.2. Labor Market Skills

149. Quality education and human capital form the backbone of a thriving private sector, fostering innovation, attracting investment, and contributing to overall economic growth and social well-being. Human capital, which includes skills, knowledge, and experience, is a key driver of economic growth – particularly for higher productivity and innovation-oriented sectors, contributing to a more efficient and competitive private sector. Countries with higher levels of human capital attract more

foreign and domestic investment, as investors seek talent pools for their businesses, and achieve higher levels of economic development (Figure 34). For instance, Gennaioli et al., (2013) use subnational level data across 110 countries and find that educational attainment is the most important predictor of regional economic performance. They also show that the human capital of entrepreneurs plays an important role in explaining productivity differences across firms (see Rossi (2020) for a recent review of the literature).

Figure 34: Educational attainment and economic development

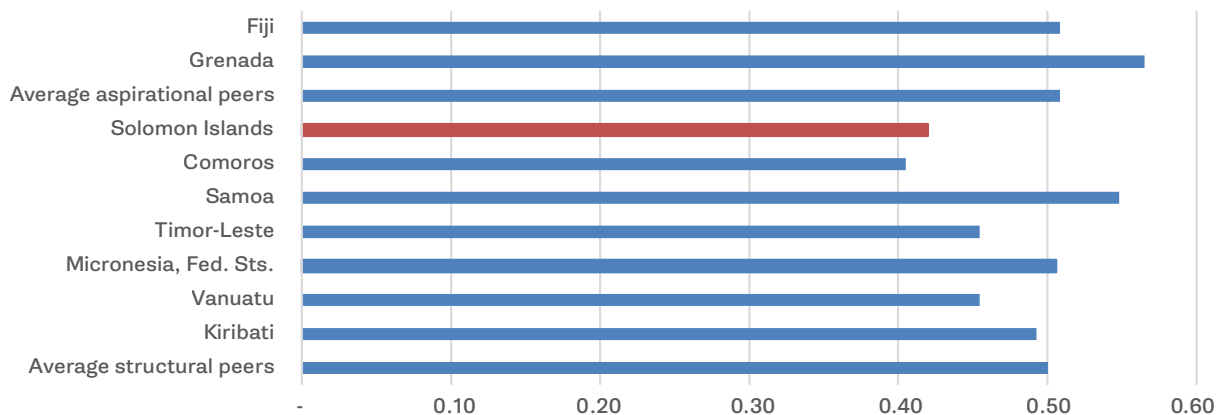


Source: World Bank Development Indicators; Barro and Lee (2015); Our World in Data

150. A child born today in Solomon Islands will attain 42 percent of their potential human capital by their 18th birthday. The Human Capital Index (HCI) is a composite score that combines health and education outcomes to benchmark human capital formation globally and is often used as an overarching assessment of the status of human development policies. Figure 35 compares the HCI score of Solomon Islands against structural and aspirational

peers. While the HCI score of Solomon Islands is nearly 90 percent of the average of its structural peers, additional investment towards health and education policy would close the gap towards Fiji and other structural peers. As will be shown, the majority of the current gap can be explained by the high upper secondary dropout rate, implying that policies towards ensuring enrolment in the final years of basic education would at least achieve parity with regional HCI leaders.

Figure 35: Human Capital Index

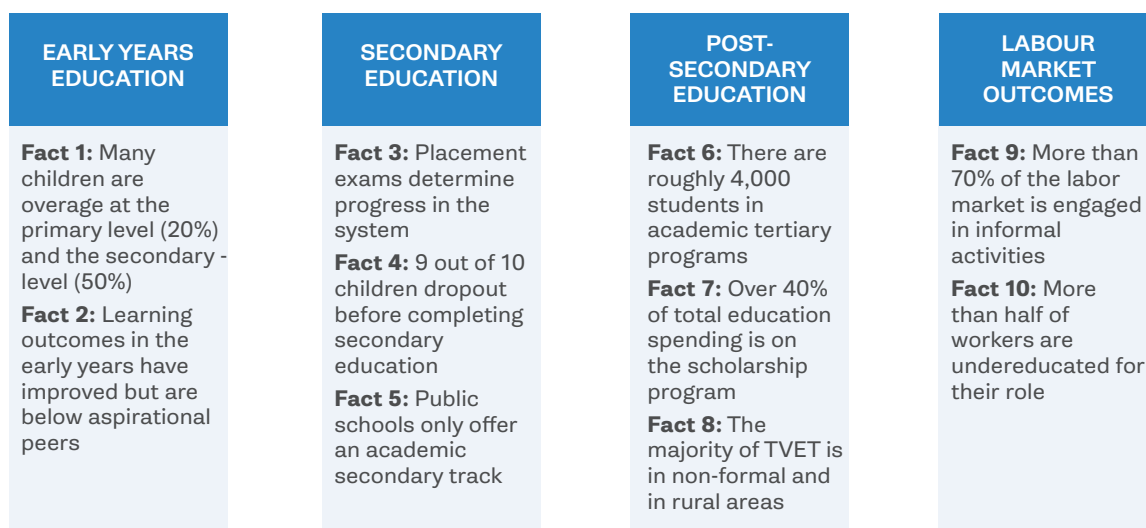


Source: World Bank.

151. The education system in Solomon Islands is grappling with multiple challenges, particularly with respect to over age students and declining enrolment rates. Figure 36 presents ten summary facts on key issues facing Solomon Islands' education system starting from early childhood education to labor market entry. Data reveals that nearly one-in-five children are over age for their current education level. The issue is more pronounced in secondary education, where the national average of over age students rises to 44 percent. This is largely attributed to high repetition rates in the early years of education, and the problem is especially severe

in less densely populated provinces. While primary education enrolment rates are high, with a gross enrolment rate (GER) exceeding 100 percent, it reflects the inclusion of over age children. When considering only age-appropriate children, the net enrolment rate (NER) falls to 77 percent. As students advance through the education system, enrolment rates decline sharply, particularly in junior secondary years, where the GER is 68 percent, and the NER is just under 20 percent. In senior secondary years, the gap between GER and NER narrows, but this is largely due to a significant number of students dropping out of the system.

Figure 36: Ten summary facts on key issues facing Solomon Islands' education system

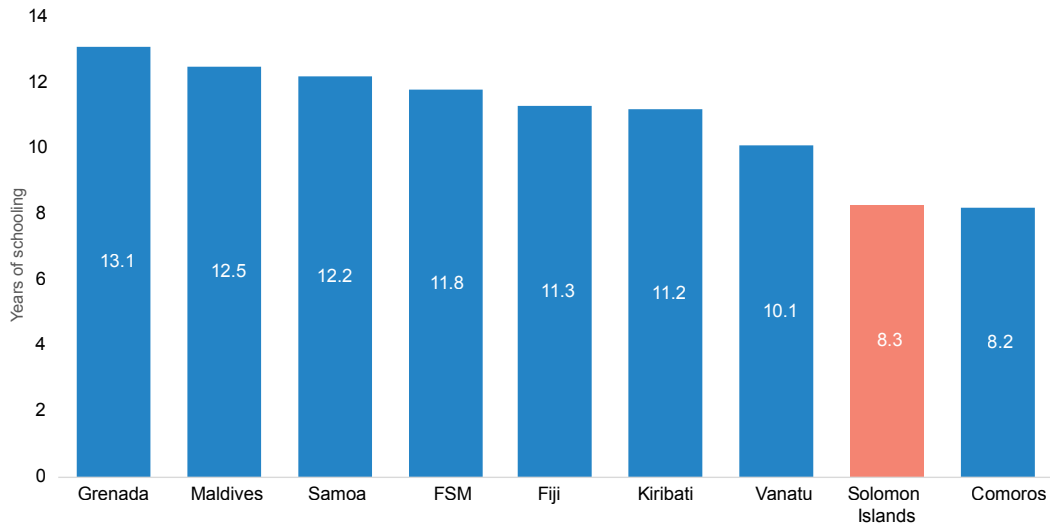


Source: World Bank Development Indicators; Barro and Lee (2015); Our World in Data

152. The expected years of schooling (EYS) in Solomon Islands is one of the lowest globally, at only 8.3 years and the dropout rate is also concerning. The EYS is nearly five years less than the leading aspirational peer country (Figure 37) and places Solomon Islands in the bottom decile of global comparators. The low EYS has significant implications for the country's HCI, which is a critical measure for understanding the potential impact of education policy reforms on economic

development. In addition, only 10 percent of children who enroll in the education system complete senior secondary education, and a mere 4 percent reach the pre-tertiary preparatory year. Geographical disparities in survival rates are evident, with some provinces producing no senior secondary graduates, and many students who remain in the system by the end of year 12 are from Honiara, underscoring the deep inequalities in educational provision across Solomon Islands.

Figure 37: Expected years of schooling



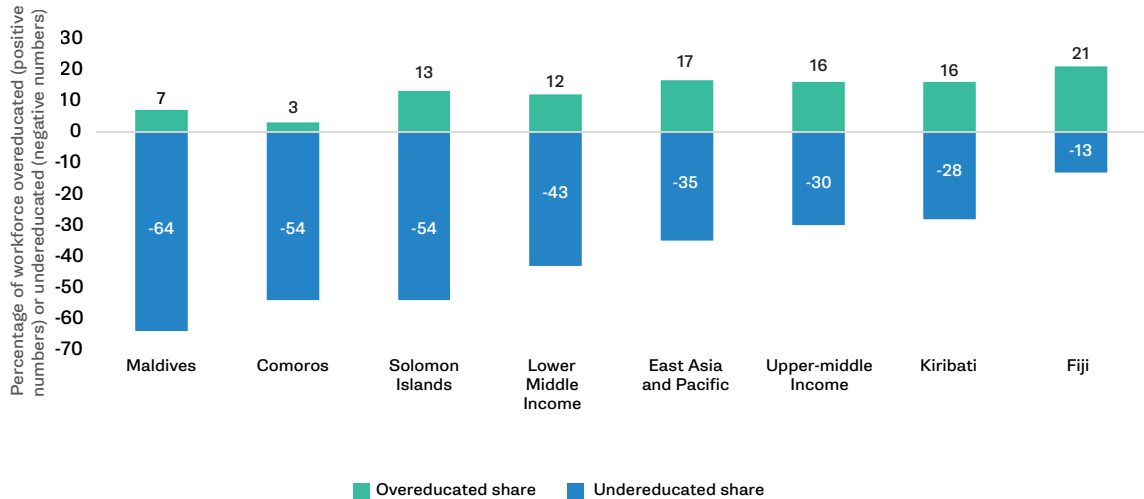
Source: World Bank.

153. Despite allocating a significant portion of its budget to education, which is higher than most structural and aspirational peer countries, challenges persist. Approximately 33 percent of the annual budget and 12 percent of GDP is spent on the sector. Education financing favors tertiary education, with a disproportionate amount of spending per student at this level compared to primary education. This prioritization is evident in the per-student expenditure, which is substantially higher for tertiary education. Tertiary spending is more than twice that of primary, even though the number of primary students is 32 times greater than those in universities. A large portion of tertiary education funding goes to scholarships, managed by the Solomon Islands Tertiary Education and Skills Authority, with detailed opportunities for post-graduate students (World Bank, 2022).

154. With multiple challenges in the education system, the labor market in Solomon Islands is also struggling, particularly in terms of education and skills development. Among lower-middle-income countries globally,

Solomon Islands is among those with the highest share of workers being under-educated for the jobs they hold at 54 percent (Figure 38). An inefficient Technical and Vocational Education and Training (TVET) sector contributes to this result. The lack of information and oversight of the Rural Training Centres (RTCs) presents a significant challenge for the development of the TVET sector, especially for students who have dropped out of the formal education system and are not engaged in the labor market. The high percentage of workers who are under-educated for their jobs, the lack of training programs offered by businesses, and the disparities in educational attainment between genders all point to systemic issues that could hinder economic growth and development. The fact that there is no meaningful difference in education levels between employed and unemployed individuals suggests that the education system may not be aligned with the needs of the labor market, which could be a disincentive for individuals to pursue further education and skills development.

Figure 38: Share of over and under-education in the workforce

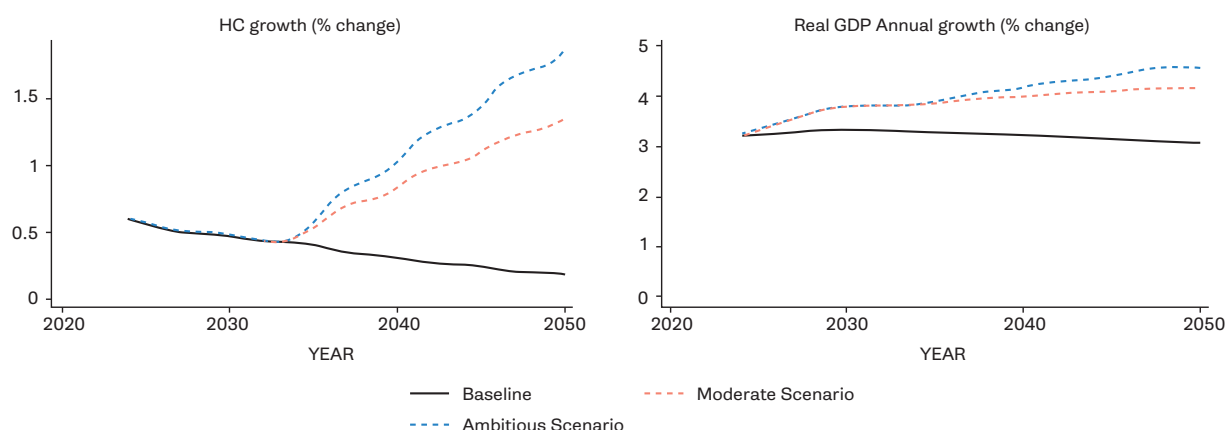


Source: World Bank Development Indicators; Barro and Lee (2015); Our World in Data.

155. There is a significant educational mismatch in the workforce. This situation is exacerbated by the concentration of advanced education opportunities among a limited number of individuals through scholarship programs, which may not be the most efficient use of educational funding (World Bank, 2022). The high rate of undereducation in the workforce suggests that the current investment in tertiary education scholarships may not be addressing the broader educational needs of the population. With a large portion of the labor force engaged in informal activities, a comprehensive approach to education and training is necessary to support a diverse and inclusive labor market. Informal work often lacks the protections and benefits of formal employment, and workers in the informal sector may not have the necessary education or skills to transition to formal employment or to adapt to changing labor market demands.

156. Scenario analysis suggests that undertaking reforms to tackle the challenges highlighted above could significantly impact human capital formation and economic growth. Three scenarios were conducted with varying degrees of reform by 2035, focusing on two key factors: years of schooling and quality of education. The moderate scenario increases years of schooling to 11.8 and test scores to 450, while the ambitious scenario aims for 12 years of schooling and test scores of 500. These changes could lead to human capital growth rates of 1.4 to 1.7 percent by 2050, from a near-zero baseline, and boost GDP growth rates by 0.8 to 1.1 percentage points (Figure 39). The assumptions are conservative, focusing solely on education reforms and projecting benefits up to 2050, suggesting that the actual impact could be even greater with broader, sustained reforms across various sectors.

Figure 39: Summary of human capital and economic growth projections



Source: Authors' own calculation.

3.2.3 Access to Finance

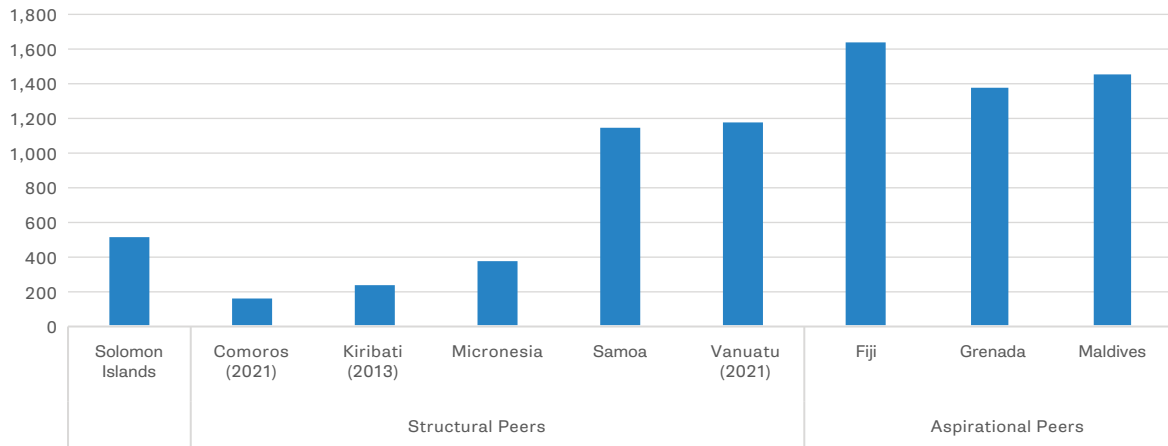
157. Studies suggest that greater financial development, including through digitization, can boost economic growth. Several studies point to the importance of financial development for economic growth. Levine (2005) and Popov (2018) show a positive and significant relationship between financial depth measures and long run growth. Sahay et al. (2015) find that financial inclusion has a significant impact on growth, above and beyond the impact of financial depth. Relatedly, Loukoianova et al. (2018) conclude there are considerable growth benefits from financial inclusion, with the largest gains for low-income and developing countries. Interestingly, the study also found that broader access to technology in Pacific Island countries led to greater financial inclusion. McKinsey (2016) claims that digital finance, including mobile money and mobile banking, could increase GDP of emerging economies by 6 percent. Khera et al. (2021) find that digital financial inclusion has

a positive impact on economic growth and that improving digital financial inclusion in payments is found to increase annual economic growth by up to 2.2 percentage points.

158. However, financial inclusion and depth in Solomon Islands remain limited. The 2019 Census showed that only 30 percent of the total population in Solomon Islands have at least one account in a financial institution, of which 35 percent are within the banking sector.⁴² By deposit accounts per thousand adults, Solomon Islands ranks behind structural peers Samoa and Vanuatu, but ahead of Comoros, Kiribati, and Micronesia (Figure 40). Access to formal banking services such as commercial bank branches and ATMs in Solomon Islands remains well below other Pacific Islands countries (IMF Financial Access Survey 2023). Financial sector depth, as measured by commercial banks' outstanding loans as a share of GDP, was also lower than Pacific Island countries like Fiji, Samoa, and Marshall Islands.

⁴²In Solomon Islands, commercial banks account for about 60 percent of financial assets. The country's commercial banking system consists of four firms: ANZ (a large international player from Australia), Bank South Pacific (privately-owned from PNG), Pan Oceanic Bank (locally incorporated in 2014 with Sri Lankan shareholders), and BRED Bank (French-owned and operating since 2017). In addition, the National Provident Fund is a systematically important financial institution, accounting for 34 percent of total assets of the financial sector, and a large share of its assets held as deposits in the banking system.

Figure 40: Number of deposit accounts with commercial banks per 1,000 adults

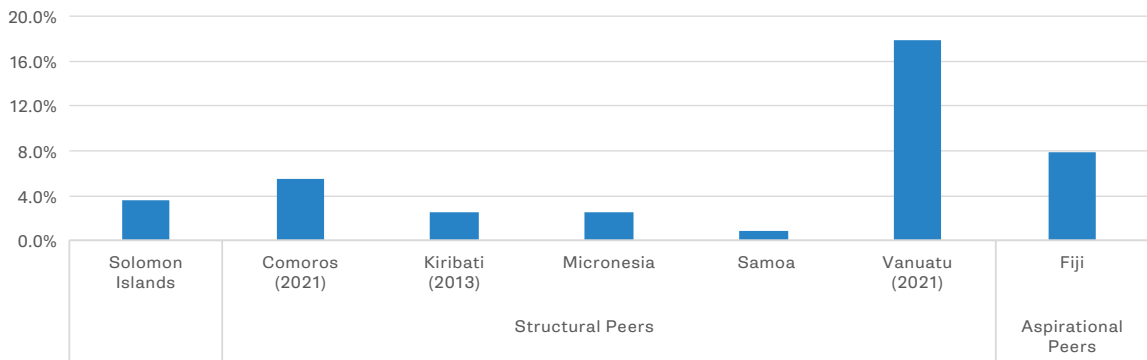


Source: IMF Financial Access Survey 2023.

159. The limited size of Solomon Islands’ banking sector also means that access to finance by the private sector is limited. Credit growth is largely constrained by two factors: weaknesses in collateral frameworks and banks’ difficulty in assessing counterparty risk (ADB, 2019). The former relates to the prevalence of customary land practices, which limit the use of land as collateral, especially in rural areas, while the latter stems from a lack of reliable credit data

and financial reporting. Limited creditor rights due to poor enforcement mechanisms present further challenges. As a result, interest rate spreads remain large (around 10 percent), well above Pacific Island averages. Banks have also complained that commercially viable projects are few and that single-borrower limits constrain their ability to lend to large, creditworthy corporates.⁴³

Figure 41: Outstanding SME loans with commercial banks (percentage of GDP, 2022)

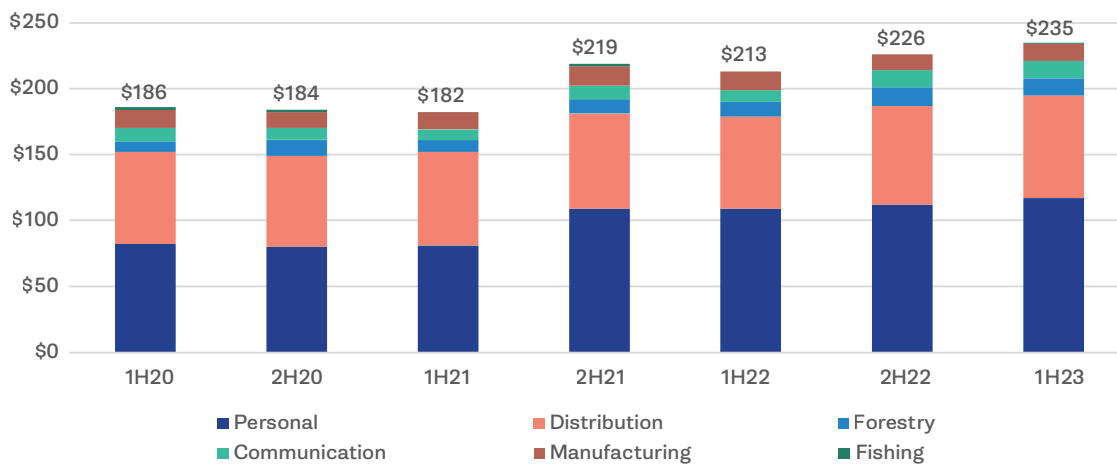


Source: IMF Financial Access Survey 2023.

⁴³ Commercial banks are prohibited from having a single borrower account for more than 10 percent of their outstanding loan book.

160. Loans to individuals and to the distribution/transport sector have dominated issuance for commercial banks in recent years. This dynamic of concentration may exist due to a lack of demand for loan capital in some cases, but could also relate to businesses' difficulty in obtaining collateral. Lending to the fisheries industry is almost non-existent, registering at just US\$7 million since the first half of 2020.

Figure 42: Loans and advances by sector (US\$ millions), 1H20-1H23



Source: CBSI.

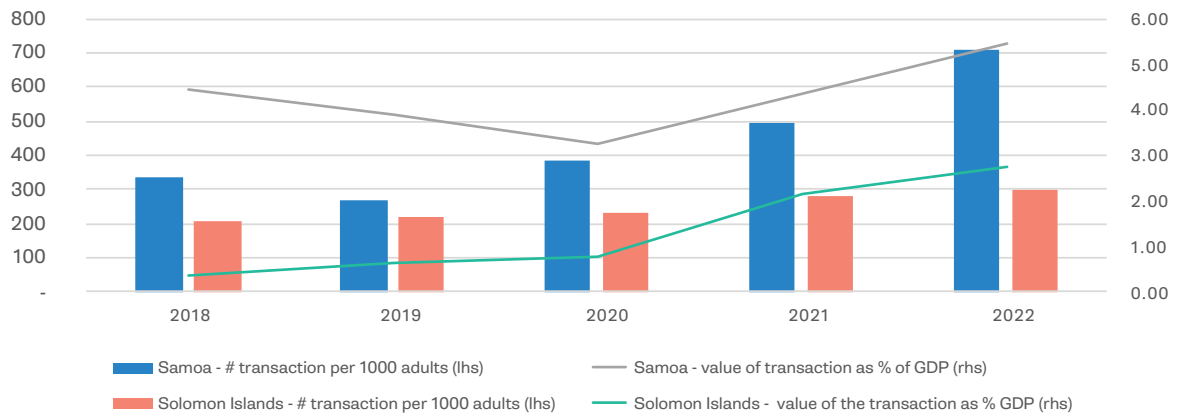
161. The Solomon Islands National Provident Fund also plays a significant role in the country's financial sector. While commercial banks together hold US\$814 million on their balance sheets, the Fund has an asset base of US\$474 million – including US\$100 million of bank deposits. The Fund is the only mandatory savings scheme for formal employees; over 55,000 informal sector employees also participate through the voluntary youSave program. Contributions are invested to meet future withdrawal needs. However, of the Fund's US\$393 million in investments, 87 percent is invested domestically, including US\$198 million in the equity of unlisted companies.

162. Several factors may have contributed to limited financial inclusion in Solomon Islands. On the supply side, geography and infrastructure are obstacles: most financial service providers are concentrated around the capital city, Honiara, which limits financial access to the rural population. Access to

electricity is a persistent challenge, which in turn limits internet availability (at less than 50 percent, Solomon Islands' internet access rates are among the lowest in the region).

163. However, there are signs that growing adoption of digital technologies could ease supply constraints and facilitate access to financial services. Both the volume and value of mobile and internet banking transactions in Solomon Islands has risen steadily since 2018 (Figure 43), though both lag in growth behind structural peers like Samoa. It is likely that the trend towards digitalization will continue, especially following the recent introduction in 2023 of M-Selen, a mobile money service offered by telecommunication services provider Our Telekom that allows customers to send and receive money through their mobile phone. M-Selen is expected to improve access to financial services in rural areas, where penetration remains particularly limited.

Figure 43: Volume and value of digital banking transactions in Solomon Islands and Samoa, 2018–2022



Source: IMF Financial Access Survey 2023.

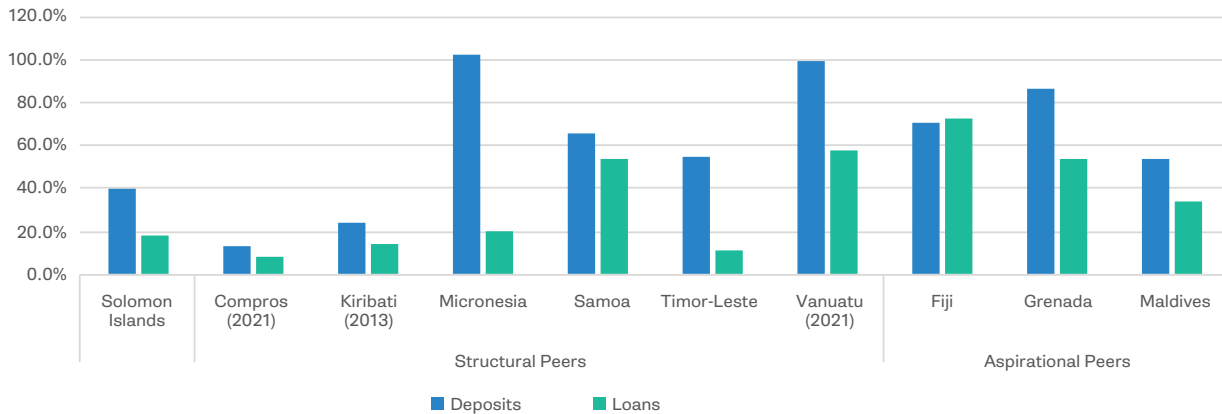
164. Gender gaps in financial inclusion are present.

In both rural and urban settings, men have greater access to formal financial services than women, irrespective of age, education level, income, and employment status. A recent study found that digital financial literacy in Solomon Islands is significantly lower among women, particularly rural women, and adults with lower levels of education and income (UNCDF, 2023). However, gender gaps in financial inclusion remained wide regardless of access to financial literacy training or distance to nearest access point.

165. On the demand side, Solomon Islanders' frequent lack of reliable sources of income also discourage use of financial services.

In the 2019 Census, nearly 80 percent of Solomon Islanders without a deposit account did not earn a regular income, either from wages, salaries, or remittances. This informality – coupled with the country's relatively limited service-sector growth – means that bank deposits as a share of GDP are low relative to other structural peers (Figure 44).

Figure 44: Outstanding loans and deposits from commercial banks as share of GDP, 2022



Source: IMF Financial Access Survey 2023.

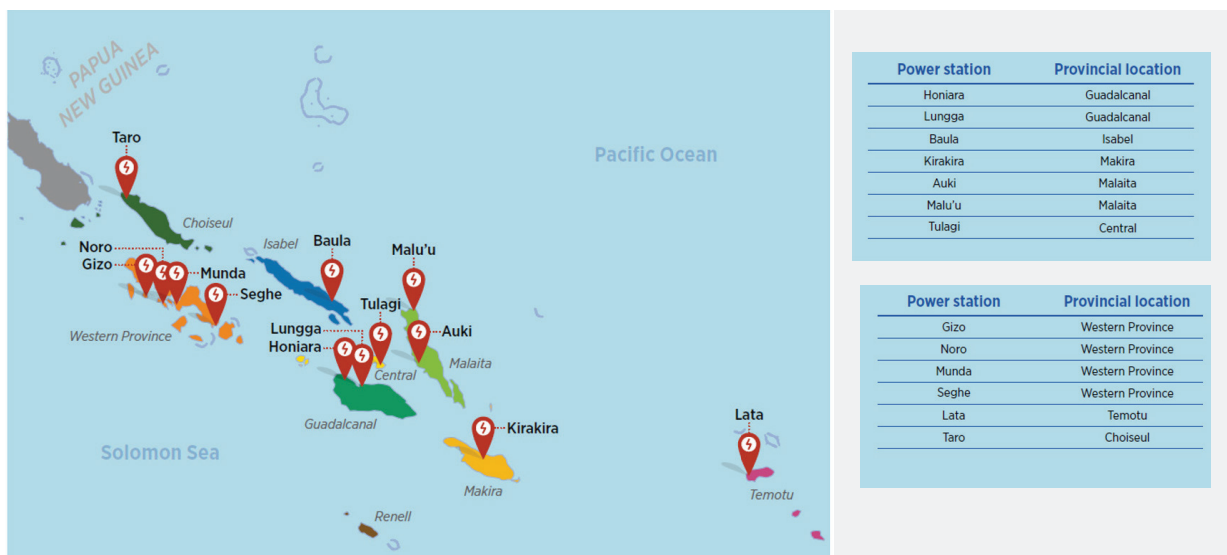
3.2.4 Energy

166. Access to affordable and reliable energy is crucial for attracting investment and expanding economic activity. High costs for electricity, limited access, and poor reliability can be significant challenges for the private sector to operate profitably and may discourage both domestic and foreign investment. Research bears this out. In the case of EU, it was found that a 10 percent increase in electricity prices decreases FDI by as much as 0.4 of GDP (Bartekova and Ziesemer, 2019). Energy constraints can also act as a deterrent to investment in power-intensive industries, which often include higher productivity manufacturing and service subsectors, thereby biasing growth towards more labor-intensive sectors (Ravago et al., 2019). High energy prices are one of the reasons why gold smelting is not taking place in Solomon Islands, despite the reopening of the Gold Ridge mine. The economic implications of unplanned power outages are also significant. For instance, a study focusing on Africa found that a one percent increase in power outages could reduce long-run GDP per capita by 2.9 percent (Andersen and Dalgaard, 2015).

167. In Solomon Islands, Solomon Power is responsible for electric power generation, transmission, and distribution to all urban and rural provincial centers. Solomon Power was established through the Electricity Act 1969 as the national, state-owned utility.⁴⁴ The retail tariff is nationally uniform and is regulated by The Ministry of Mines, Energy and Rural Electrification. The Ministry is responsible for legal and regulatory development and supervision of the utility. Since an independent regulatory authority does not exist, Solomon Power is given the authority to issue licenses to entities who wish to generate and distribute electricity (which may create a conflict of interest). The Honiara electricity system is the largest grid in Solomon Islands, supplying Honiara and at least nine other town centers around the capital (Figure 45). The grid is supplied almost exclusively through diesel generators, with the majority of the electricity supply coming from the power station at Lungga. Peak demand on the Honiara grid in 2022 was 15.5 megawatts and the annual energy produced was 97.3 gigawatt hours, making up about 89 percent of the total energy consumption in Solomon Islands.

⁴⁴Solomon Power was close to insolvency in 2010, mainly due to the long-term civil unrest, rising oil prices, and unsustainable debt levels. However, following a restructuring of the company and its finances, its financial performance has been improving. Solomon Power is now financially stable, has substantial cash reserves, and has been making a profit since 2010. Solomon Power has generated average net profits of SI\$80 million between 2017–2021, accumulated cash reserves and, as of 2021, held only SI\$18 million in interest-bearing debt.

Figure 45: Solomon Power operation sites



Source: Solomon Islands RAA, 2024, IRENA.

168. Private investment in the energy sector remains limited, due to regulatory constraints, a non-conducive business environment, and economic geography challenges.

Investment in the sector as an independent power producer (IPP)⁴⁵ requires many steps including: business registration, land access, and acquisition – which have been reported as major constraints;⁴⁶ the development of social and environmental assessments; the granting of a license to connect, generate, and sell electricity; procurement and project approval; and agreement on commercial terms (IFC, 2021). Due to the lack of a proper regulatory framework, the few IPP agreements that exist are currently managed on a case-by-case basis. Next to IPPs, residential, commercial, and industrial customers can invest in solar capacity for their own use. Customers who install more than 50 kilowatts (kW) of generation for self-

supply require a license from Solomon Power, need to be synchronized with the grid, and meet certain terms and conditions. Despite interest from large commercial customers, large, own-use (solar) projects have not taken off. Finally, developers could also invest in off-grid systems that are not connected to the Solomon Power grid, so-called mini-grids, but this also requires a retail and generation license from Solomon Power.⁴⁷ Furthermore, the country's economic geography severely limits the commercial viability of privately operated mini-grids (IFC, 2021).

169. Access to grid-connected electricity in Solomon Islands remains low and uneven.

The unique geographical characteristics and dispersed population of Solomon Islands present significant challenges with respect to the electricity sector. The generally small

⁴⁵ An IPP is considered a private investor that develops generation capacity and sells it to the utility.

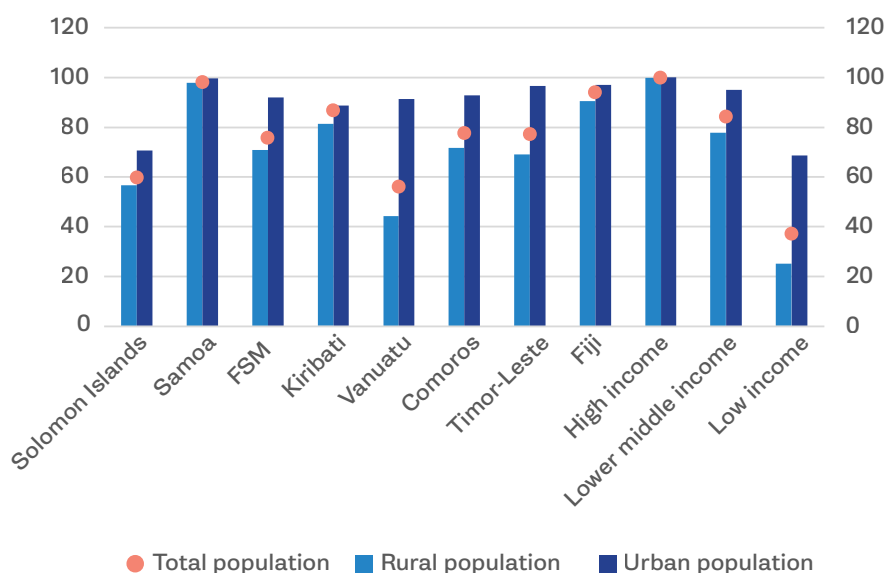
⁴⁶ For instance, Solomon Power aimed to develop the Fiu River hydro plant, funded by the ADB (capacity of 750 kW). However, due to a land dispute, the project was canceled.

⁴⁷ The Ministry of Mines, Energy and Rural Electrification, with the assistance of Solomon Power, has identified 35 priority mini-grid opportunities. The Ministry and Solomon Power recognize their limited capacity to develop all these projects quickly and are therefore open to private sector involvement.

and dispersed market for electricity increases generation and supply costs, posing financial constraints on the sector. According to the 2019 Census, only around 15 percent of the total population has access to electricity supplied by Solomon Power. Grid connections are mainly concentrated in Honiara, though are not comprehensive, with the access rate around 64 percent. Relatedly, about 50 percent of urban households have electricity access, the majority from the Honiara grid. While Solomon Power operates outstations in

several provincial urban areas (Figure 45), rural access to grid connections is only 3 percent of households. Increasing rural communities' access to grid electricity is constrained by long distances and difficult topography, high connection costs, and limited finance for grid expansion (IRENA, 2024). In the absence of the grid, many rural areas depend on small off-grid electricity systems – mainly diesel generators – to power homes, clinics, and schools, though some solar and wind systems are also used.

Figure 46: Access to electricity, percentage of population (2012–2020 average)



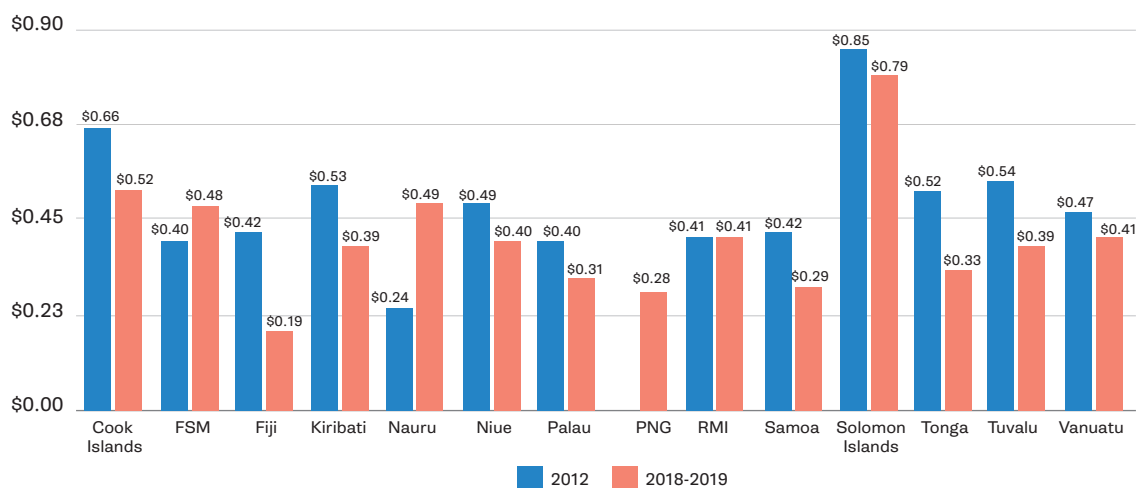
Source: World Development Indicators

170. Solomon Islands has the highest electricity tariffs in the Pacific, while the supply of power is hindered by unplanned outages. Electricity tariffs in Solomon Islands are the highest in the Pacific and among the highest in the world, with an average retail electricity tariff of US\$0.8 per kilowatt-hour (kWh),⁴⁸ more than twice the regional average of US\$0.29 per kWh (Figure 47). The high reliance on imported fossil fuels for diesel generators, low renewable energy

penetration, excess capacity of diesel plants, low production efficiency, and the lack of an independent regulator all contribute to high electricity tariffs. Furthermore, unplanned outages are concerning (as they affect business investment decisions and operations). These outages are caused by a number of factors, including natural disasters, adverse climatic conditions, and an inefficient maintenance regime.

⁴⁸There are three domestic consumption blocks: Domestic <50 kWh; Domestic 50 – 200 kWh; Domestic >200 kWh. Electricity is purchased in blocks, with typically the lowest total energy charge applied to the lowest consumption block and the highest charge applies to the largest consumption block. There is a spread of +/- 1 SBD between the three consumption blocks. In February 2024, the middle-block domestic tariff was US\$0.84, while the commercial tariff stood at US\$0.77.

Figure 47: Electricity tariffs for commercial users



Source: PRIF (2021).

171. The lack of affordable and reliable power is a major constraint on business. The 2015 Enterprise Survey indicated that most firms – mainly located in urban areas – invested in diesel generators as backup due to electricity outages. Approximately 90 percent of the firms surveyed had experienced electrical outages. The reliance on diesel makes generation costs expensive for households and businesses, and also disadvantages those who live further from Honiara where the cost of diesel is higher. In the 2024 World Bank Firm Survey, more than 70 percent of enterprises cited the availability and cost of electricity as a constraint to their business.

172. Solomon Power has made some progress in its efforts to switch to renewables. Since 2016, the utility has converted eight out of its ten outstation operations to solar diesel hybrid systems with battery storage. It also developed two new mini-grid renewable hybrid systems, a new one at Seghe (Image 1), and refurbished an existing grid at Taro. In 2018, Solomon Power’s board approved the extension of the Henderson solar array to 3 megawatts (MW)

from the current 1 MW installed capacity and the installation of an additional 220 kilowatts of rooftop solar at Ranadi. This was in addition to Solomon Power and Tina Hydropower Limited signing the Power Purchase Agreement and associated commercial agreements for the Tina River Hydropower Project, a 15 MW hydropower facility near Honiara. Collectively, these investments would increase the share of renewable energy generation on the Honiara grid to over 70 percent.

173. Potential exists for solar resource generation as well as hydro, which can be exploited further to reduce the cost of power generation. The government maintains a database of over 100 potential hydropower sites with over 300 MW of generation potential, yet only a handful are close to load centers. Wind power could also be viable in Solomon Islands, but further technical assessment and country-wide mapping are needed. Solar is a proven renewable energy resource in Solomon Islands, but large-scale solar power requires appropriate and sufficient land, i.e., 1 MW of ground mounted solar requires in the order of one hectare of land.

3.3 Policy Recommendations

Cutting Red Tape and Improving Service Delivery for Businesses

- 174. There is excellent potential to build on business environment reforms and cut red tape.** The government has made progress in moving some parts of service delivery online, but these reforms are undermined by gaps where steps still need to be done in person. Improving the national payment system to allow for online payments of all fees to the government would make a big difference, particularly to smaller businesses, rural businesses, and businesses that frequently trade across borders. In addition, improving coordination among government agencies to seamlessly deliver services to businesses could enable a one-stop-shop or single window approach to regulatory compliance.
- 175. Reforms to increase competition can help attract investment, reduce costs for key service inputs, and incentivize firms to increase productivity.** Service sector inputs to competitiveness are particularly important in areas such as transportation services, financial services, and quality services related to exporting (testing, packaging, etc.). Many of these services are constrained by either regulatory barriers limiting investment, particularly foreign investment, or by the presence of state-owned enterprises. The World Bank has conducted an audit of service trade restrictions in Solomon Islands that could serve as the basis for potential reforms. Beyond the service sector reforms, the Foreign Investment Act contains a set of 14 reserved activities where foreign investors cannot enter the market. Most of these relate to business activities at the micro level that are important to household income generation, but the list should be carefully assessed for the potential impact on competition in these areas. Reducing these barriers to trade and investment would bring direct benefits at the sectoral level, as well as indirect benefits through reduced costs for inputs to other businesses.

- 176. Targeted activities related to investment and export promotion could complement wider business environment reform.** There is significant empirical evidence that investment promotion can influence FDI inflows, and that export promotion can improve firm performance as measured by sales, value add, and exports. While Solomon Islands has existing investment and export promotion divisions under the Ministry of Commerce, Industries, Labour, and Immigration, these divisions are very small and they perform a range of investment and regulatory functions. A functional review could be carried out to identify which services and products would have the biggest impact on FDI and trade outcomes and then to define the most effective way to deliver these services. In the survey of firms, one-third of businesses who are not exporting cited a lack of knowledge about demand in foreign markets as a reason they are not exporting. This suggests that more targeted export promotion and export market development activities could facilitate more firms to export. However, it should be emphasized that such activities do not substitute for an efficient and predictable business environment and without underlying reforms, promotion alone is unlikely to significantly impact trade or investment outcomes.

Increasing Confidence in Land Markets

- 177. To improve the economic use of customary land, it is recommended that progress is made in recording customary land and creating a customary land title.** Currently, the large majority of customary land is unrecorded, limiting its economic use and potential benefits from land-based development for customary landholders. As a first step, efforts need to be made to increase the recording of customary land, which provides the basis for legal recognition. This requires strengthening land administration systems, including the development of an electronic cadastral survey system. Rather than registering customary land that has been recorded, efforts are currently ongoing to create a new customary land title, in the form of a Customary Land Perpetual

Estate (CLPE) to the landowning group (rather than individuals purportedly representing the group).⁴⁹ Such a land title would minimize the risk of misappropriation and fraud, while at the same time making customary land available for economic development, including subdivision, grants of profit, leases, bank charges, and rights of way.

178. The government can consider transferring underutilized public land to private agents and scale up innovative land use approaches.

While in principle state ownership of land does not preclude efficient allocation – lengthy procedures, limited state capacity, and commitment problems can increase tenure insecurity, reduce investment, and pose obstacles to productive land use (World Bank, 2003). The government could therefore consider inventorying state lands, devising a state land asset strategy, and then transferring underutilized public land to private agents. This is particularly relevant for peri-urban areas where rural-urban migration has increased the demand for land substantially (Chapter 2). This could be done by auctioning off land to the highest bidder (Deininger et al., 2023), barring any equity concerns. In parallel, the government can build on the innovative approaches developed for GPPOL and Tina River and facilitate replication in other investment opportunities.

179. To ensure the success of land reform and productive use of (customary) land, institutional strengthening and complementary reforms are needed.

Improving the effectiveness of institutions to enforce land rights and facilitate land transactions will boost the economic benefits of reform. This should include bringing down the costs of land registration. Land registration should be coupled with broader rural and urban development programs. Although land is the most significant asset to low income earners, property rights need to be combined with other complementary inputs, especially access to credit and skills.

180. Effective dispute settlement mechanisms and functional customary justice systems are needed to solve land disputes. While dispute mechanisms exist, resolving land disputes in Solomon Islands is time consuming and costly. Relatedly, the functioning of local courts is hampered by a lack of financial resources. Furthermore, justice systems may be dominated by local power holders – mostly senior men – which could lead to discrimination and elite capture. To resolve (longstanding) disputes, there is a need to strengthen alternative land dispute settlement mechanisms, including simplifying administration. Failing to do so may stymie investment and negatively affect long-term development (Kasanga and Kotey, 2001). Where customary institutions continue to enjoy sufficient legitimacy, they should be used to resolve land disputes as they operate at a lower cost and at closer proximity than judicial dispute resolution (World Bank, 2003). In addition to using local institutions, enhancing the public’s knowledge of law and custom, and access to information, will be key for effective dispute resolution.

Strengthening Skills in the Workforce

181. By reallocating education investments, Solomon Islands could reduce the educational mismatch in the workforce and foster a more robust and adaptable economy. To tackle this, a multifaceted approach could be considered, including: (1) expanding access to quality primary and secondary education to raise the baseline education level; (2) strengthening vocational education and training (TVET) to provide skills that are in demand in the labor market; (3) implementing adult education and training programs at the firm level to upskill the current workforce; (4) encouraging the development of formal employment opportunities to reduce reliance on the informal sector; and (5) integrating education policy with economic planning to ensure that the education system supports the country’s economic goals and supplies the necessary human capital for key sectors.

⁴⁹ Creating such a land title would require an amendment of the Land and Titles Act and the development of regulations to establish the governance framework. This includes guidance on how to define the landowning group, collaboration with the relevant Houses of Chiefs, consent and benefit sharing rules, and dispute settlement mechanisms. Specific attention should be dedicated to female representation

182. To enhance the TVET sector and provide better opportunities for students, a deeper understanding of the RTCs is indeed essential. This would involve: (1) conducting an inventory of all RTCs to verify the total number and their geographic distribution; (2) evaluating the infrastructure and resources of each RTC to identify what improvements are needed; (3) gathering comprehensive data on student enrolment, demographics, and the programs offered at RTCs; and (4) assessing the accessibility of RTCs for students in rural and remote areas. Such an assessment would not only help in understanding the current landscape of vocational education in Solomon Islands but also in planning and implementing effective strategies to strengthen the TVET sector, making it more inclusive and aligned with the labor market demands.

183. Additionally, there is a need to invest in teaching quality, parental support, and focusing on first language education (World Bank, 2024). Research has shown that teaching quality is a significant predictor of education outcomes, also in East Asia and the Pacific (World Bank, 2023). Strengthening the quality and effectiveness of teaching in the region will require action on three levels: selecting more effective teachers; strengthening teachers' subject knowledge and skills; and incentivizing teacher effort. Actions to reach improved teacher quality include: the establishment of a merit-based system; targeted instruction and the use of EdTech; and measures to reduce teacher absenteeism. Improved teacher quality may also assist in bringing down the high drop-out rates, while parental support and involvement has been proven to improve educational outcomes. Finally, teaching in the first language tends to improve educational quality and academic improvement (Bender et al., 2005).

Expanding Access to Finance

184. Policy and structural reforms are needed to improve access to finance in Solomon Islands. Policymakers can play a role in addressing barriers to credit growth by supporting reforms

related to the enforcement of contracts, as well as facilitating access to information that could be used to create a credit profile of a potential borrower. The establishment of a credit bureau in 2015 marked an important step in this process. Sector stakeholders can build on this success by ensuring both the integrity and availability of transaction data and credit histories captured by databases. This is especially important as the country's collateral gap is unlikely to be addressed anytime soon.

185. Improving financial inclusion can also support, and serve to strengthen, the depth of the banking sector. While digital technologies can be a driver of this effort, the government needs to do more to address infrastructure gaps that constrain access and use of online services. Moreover, authorities should continue their efforts to improve digital financial literacy, particularly among women, rural populations, and citizens with low levels of education and/or income. Greater collection of financial inclusion data is also likely to provide insights on where efforts are most needed.

186. Implementing the National Payments Systems Act of 2022 and expanding payment system infrastructure will be a key priority. The high cost of payments and lack of ability to process payments for government services online imposes a significant friction to expanding ecommerce, government service delivery, and digitalization in firms. Key modules of the payment system are expected to launch in the first half of 2024 and work is ongoing to draft regulations for the Act. Ensuring these reforms are fully implemented and the payment system is used by public and private entities will be an important priority in improving the business environment. Strengthening consumer protection frameworks and data privacy laws to allow safe use of digital financial services should also be considered. The development of a national ID system could also support this effort by strengthening financial institution integrity.

Improving Energy Affordability and Reliability

187. Private investment, both domestic and foreign, is needed to catalyze Solomon Islands' transition to renewable energy and help lower electricity costs. Currently, private investment in the energy sector is limited, due to regulatory constraints, a non-conducive business environment, and economic geography challenges. While some challenges are immutable (e.g., the country's geography), it is paramount to improve the enabling environment for private sector involvement in the sector, both for IPPs and own-use solar. This will require regulatory action on several fronts, including the finalization and adoption of a grid code, the establishment of standard net metering terms and conditions, and the removal of the demand charge for non-regular customers. At the same time, the grid needs to be upgraded to allow for the integration of renewable energy onto the system (so that non-renewable energy production is aligned with renewable production, which, in the case of solar, peaks during daytime hours). Furthermore, there is a need to develop technical expertise to install and maintain own-use solar systems and information campaigns to build local demand. Finally, as mentioned above, addressing land constraints and access to finance are also needed for increased investment in the sector.

188. It is recommended to continue the process of legislative reform in the energy sector, including the establishment of an independent regulator. Realizing energy sector challenges, the government is starting to engage in legislative reform. In 2023, it amended the Electricity Act to support the expansion of renewable energy in Solomon Islands.⁵⁰

Second, the amendment allows the Ministry of Mines, Energy and Rural Electrification to set the tariff based on the recommendation of the Director of Energy – instead of the utility – after consultation with relevant stakeholders. The amendment thus promotes greater independence and transparency in the tariff setting process as a first step toward independent regulation in the energy sector. However, continued reforms are needed to further lower electricity tariffs, including the development of a new Energy Sector Bill, a revision of the Tariff Regulations, and measures to improve governance and capacity at Solomon Power. An important aspect is the establishment of an independent regulator – critical to the process of unbundling the sector – where the participation of IPPs is managed effectively through power purchasing agreements (IRENA, 2024). The regulatory function should have clear mandates, administrative processes, and procedures. Improving the nexus between renewable energy and critical sectors would help with private sector development, improve lives and livelihoods, and promote sustainable development. These reforms would provide flexibility to develop new business models to decarbonize Solomon Islands' electricity sector and reduce dependency on fossil fuels to deliver sustainable and affordable energy, together with supporting the government to meet its climate commitments and SDG Goal 7.

⁵⁰ The amendment adjusts the definition of installation to include any electricity generation equipment. As such, it clarifies the regulatory ambiguity on the development and installation of renewable energy generation in Solomon Islands.



4. Unlocking New Sectoral Sources of Economic Growth



189. This chapter examines growth opportunities across four key sectors, in light of the constraints identified in Chapters 2 and 3. The four key sectors are agriculture, fisheries, tourism, and labor mobility. Agriculture and fisheries are key sectors for the economy, representing 24.1 percent of GDP and employing the large majority of the country's workforce (primary sector employs 68 percent of the workforce). While tourism and labor mobility programs are currently still developing, both sectors have the potential to support growth, including the external accounts, and compensate for the decline in logging.⁵¹ However, to reap those growth opportunities, substantial constraints need to be overcome, including infrastructure and transport connectivity, capital deepening, technology use, land access, access to finance, energy costs, skills gaps, and information deficits.

190. Addressing key constraints in these sectors may unlock investment, raise productivity and human capital, and thus drive economic growth going forward. Digitalization can support technology adoption, information provision, and raise aspirations in agriculture and fisheries, while enhanced connectivity infrastructure may improve the functioning of markets. Mechanizing agriculture and investments in cold chains has the potential to improve both the quantity and quality of agricultural produce. Facilitating the ease of doing business – including access to finance, land reform, and energy prices – may increase investment in those sectors (with concrete prospects in fisheries). Labor mobility programs and migration have the potential to increase skills and stimulate cross-border knowledge flows (even though these programs are not without risks).

4.1 Agriculture

4.1.1 Context

191. Agriculture influences the lives and livelihoods of the vast majority of the population of Solomon Islands. Ninety-two percent of the total population is, at least partially, involved in agricultural activities. About 84 percent of households grow crops – mostly cash crops such as vegetables, betelnut or coconut, with 37 percent of households indicating crop sales as their main source of income (SINSO, 2023). Relatedly, the primary sector employs 68 percent of all workers (81 percent the rural areas). Forty percent of the country's land mass – around 1.1 million hectares – is designated for agricultural holdings, of which 53 percent is used for production.⁵² However, most of the agricultural land holdings are concentrated in three provinces: Guadalcanal, Malaita, and Makira, which account for 70 percent of the total (SINSO, 2019).

192. The agricultural sector, consisting mostly of smallholder farming, accounted for 16.6 percent of GDP in 2020.⁵³ The share of agriculture has been relatively stable, indicative of limited structural transformation. Furthermore, the contribution of agriculture to GDP in Solomon Islands is much higher compared to its structural and aspirational peers. The sector is characterized by three types of systems: (1) smallholder subsistence agriculture with occasional excess sales, (2) semi-commercial smallholders with subsistence food production and deliberate

⁵¹ The World Bank's 'Pacific Possible' report also highlighted these sectors as having substantial growth potential (World Bank, 2017). Furthermore, the selection of the sectors was informed and validated by dialogue with government counterparts.

⁵² Of the 1.1 million hectares, 53 percent is used for agriculture production, including 20 percent for annual crops, 16 percent for perennial crops, 8 percent for home gardens, and 5 percent for livestock yards. Twenty percent of the agricultural land holdings are unused, while 15 percent are classified as residential buildings, and 10 percent classified as other.

⁵³ However, the widespread prevalence of non-monetary production means that the true macroeconomic contribution of primary production may well be underestimated.

market production, and (3) a small commercial sector, including plantations.⁵⁴ Except for a palm oil plantation and a few poultry and pig units near Honiara, all agricultural production is smallholder farming, predominantly located in rural areas.⁵⁵ Production is used to sustain livelihoods, provide food security, or as a source of income. The importance of food crop production was evident during the COVID-19 pandemic, when many people residing in Honiara returned to their home provinces to grow food.

193. Smallholder agriculture in Solomon Islands is a family affair, with distinct gender differences.

All family members are involved in some form of agriculture, including children. However, the farm population is aging, and it has proven difficult to engage youth in the agriculture sector (FAO, 2020). It is important to note there are pronounced gender differences in the roles performed, with men taking care of land clearing and women responsible for food crop production. Men are also more involved in the selling of high-value cash crops, and hence often control the income generated from these activities, while women tend to market low-value cash crops such as fruit, vegetables, and root crops. Furthermore, decisions on land use are often made by men, even in communities where land ownership is matrilineal. Access to extension services is also tilted towards men.

194. An estimated 47 percent of households raise livestock, predominantly poultry. Practically all the livestock is raised by smallholder farmers, with a few semi-commercial and commercial farms around Honiara as the exception. In 2017, the livestock sold was valued at US\$6.9 million (0.5 percent of 2017 GDP), with pigs

accounting for more than two-thirds of the sales income. Sixty-five percent of all livestock are poultry, followed by pigs (32 percent), goats (2 percent), and a limited number of cows and horses (less than 1 percent). Poultry includes village chickens, broilers, layers, and ducks. All the broiler and layer stock originate from imported fertile eggs, incubated in Honiara and sold to farmers as day-old chicks. Broilers and layers are fed imported formulated feeds which are very expensive. Twenty-five percent of households own pigs; they perform important customary functions and are considered a sign of wealth. The bulk of the pigs are kept in small numbers by smallholder farmers in rural areas and fed on local feeds. The demand for pigs outstrips supply, resulting in pork imports. Only a limited number of households keep cattle, despite several attempts at rehabilitating the cattle stock.

195. The lack of a functioning abattoir in Solomon Islands forces many outlets to import meat.

In 1977, the Livestock Development Authority was established to promote livestock development. During its prime time, the Authority ran an abattoir for cattle, pigs and poultry, a chicken hatchery, and cattle and pig breeding and distribution facilities. These operations closed in 1999 due to the Tensions and never reopened. Since the closure of the Livestock Development Authority abattoir in 1999 all poultry, pigs, and cattle slaughtered for market consumption have been ‘backyard slaughtered’ or ‘bush-killed’, without any proper meat inspections. As a result, many meat outlets, hotels, and restaurants prefer to import meat than risking the locally produced products.

⁵⁴ Guadalcanal Plains Palm Oil Limited is the only major employer of agricultural workers in the country. It employs about 1,500 workers, of which 60 percent are male. Apart from the Guadalcanal Plains Palm Oil Ltd, some family operations will engage groups for certain activities (land clearing, weeding, pruning, harvesting) as required. As a corollary, there is very limited formal employment in the agricultural sector.

⁵⁵ In the rural areas, 68 percent of workers are engaged in the primary sector, while in the urban areas the share of agricultural workers drops to 25 percent (World Bank, 2024). Relatedly, 75 percent of all rural households are smallholder farmers, either subsistence or semi-commercial.

196. Coconut, tubers, and root crops are the major agricultural products. In 2017, a total of 53,884 tonnes of produce was harvested – 90 percent from ten major crops (Table 9). Coconut accounted for 33 percent of the weight, corresponding to a crop value of US\$24 million (1.6 percent of GDP). Root and tuber crops (sweet potato, cassava, pana, taro, yam, and kongkong taro) accounted for 43 percent of the crops harvested, with sweet potato and cassava valued at US\$13 million (0.9 percent of GDP). Other important crops include cocoa, slippery cabbage, bananas,

and betelnut. In 2017, betelnut production was valued at US\$12.6 million, coming in second after coconut; it plays an important role in serving the domestic market. Cocoa was valued at US\$12.1 million (0.8 percent of GDP). The majority of households grow sweet potato (70 percent), cassava (67 percent), and bananas (54 percent). Thirty-four percent of households grow coconut and about 15 percent grow betelnut and cocoa. Most crops are grown for a combination of subsistence use and market production. Notable exceptions are oil palm and cocoa, which are exclusively sold for marketing/exporting purposes.

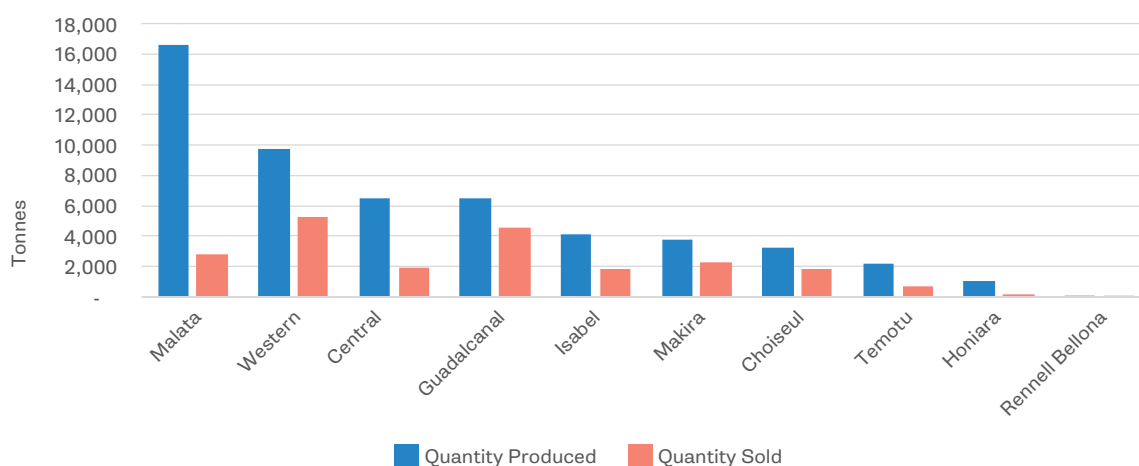
Table 9: Crop production in Solomon Islands

Crop	Quantity harvested	
	Weight (tonnes)	Proportion of total harvest
Total	53,884	
Coconut	17,816	33%
Pana	6,713	12%
Sweet potato	4,855	9%
Cassava	3,507	7%
Cocoa	3,437	6%
Taro	3,422	6%
Yam	3,034	6%
Cabbage	2,762	5%
Kongkong taro	1,709	3%
Banana	1,069	2%
All other crops	5,562	10%

Source: Report on National Agricultural Survey 2017, Solomon Islands National Statistics Office, 2019.

197. Large provincial variation exists in terms of crop production and crop marketing. Malaita had the highest crop production in 2017 (16,613 tonnes) and accounted for 31 percent of the total production (Figure 48). Western province came in second with 18 percent (9,770 tonnes), while Central and Guadalcanal provinces both accounted for 12 percent of total production (6,526 and 6,474 tonnes, respectively). Despite the large production in Malaita, the Western province produced the largest volume of cash crops (5,266 tonnes sold), followed by Guadalcanal (4,590 tonnes sold). The proximity of sizeable fresh produce markets in Honiara, Gizo, Munda, and Noro partly explains this pattern. The value of the produce sold from Guadalcanal province reached US\$15.6 million in 2017, accounting for 35 percent of the value of all crops sold and nearly twice the value sold from Malaita.

Figure 48: Crop production and sale, by province

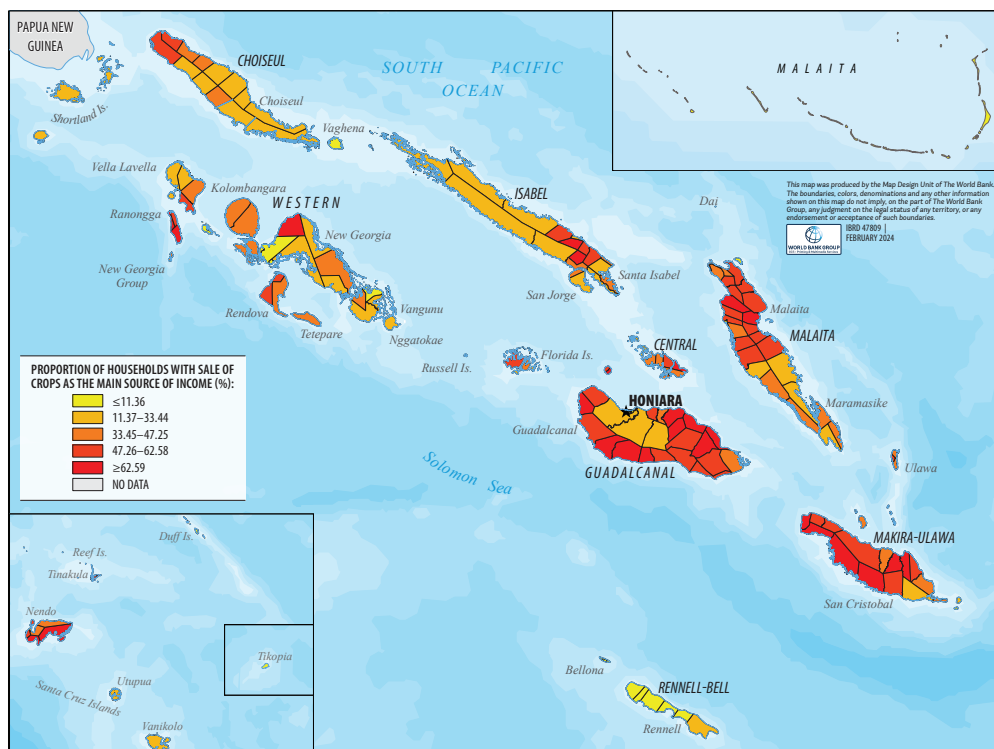


Source: Report on National Agricultural Survey 2017, Solomon Islands National Statistics Office, 2019.

198. Similarly, there is large spatial variation in households' dependence on agriculture as the main source of income. The majority of households in the Guadalcanal Weather Coast, East Guadalcanal, North Malaita, Central Province, Makira, and Temotu rely on crop sales as their main source of income. There is substantial variation in the type of cash crops grown. For instance, noni production is concentrated in Guadalcanal, while kava is mostly produced in Makira and Malaita. In contrast, in Western Province, Isabel and Choiseul households tend to rely on other income generation activities, mostly fishing.

Interestingly, in Rennell and Bellona, households count on handicraft sales and other activities as important sources of income. While the general trends are clear, there is notable intra-provincial variation in terms of main economic activities. For example, in the eastern wards of Makira the majority of the households engage in fishing rather than agriculture while the northern wards of Isabel are involved in tobacco production.

Figure 49: Main source of income from crop sales



Source: Own calculations based on 2019 census.

199. Yield gaps in Solomon Islands are very large, suggestive of substantial inefficiencies in the sector. The harvested crop yield for commonly grown crops – kilograms harvested relative to the area cropped - is much lower than the expected yield (Table 10).⁵⁶ For instance, the yield for coconut was only one-third of what would be expected if best agronomic practices are followed. For other crops like banana

and pawpaw, crop yields are only 0.3 and 0.1 percent of full potential, respectively. Various reasons explain the large yield gaps, including disease burden, poor farm management, lack of harvesting, senile trees, limited pruning, adverse climatic conditions, suboptimal spacing, and missing price information (Section 4.1.2).

⁵⁶ The expected yield values reflect the theoretical yields produced if best practices are followed under normal environmental conditions. The expected yield values are derived from the Solomon Islands Crop Farmers Manual unless otherwise stated (Ministry of Agriculture and Livestock, 2015).

Table 10: Yield gaps for main commodities

Crop	Area of crop harvested (ha)	Quantity harvested (tonnes)	Crop yield (kg/ha)	Expected yield* (tonnes/ha)	Expected production (tonnes)	Actual harvest as percent of potential
Coconut	35,985	17,816	495	1.5	53,978	33.0%
Betelnut	6,875	420	61	3.8	25,780*	1.6%
Cocoa	13,109	3,437	262	2.5	32,771	10.5%
Sweet potato	37,735	4,855	129	10.0	377,353	1.3%
Cassava	15,083	3,507	232	10.0	150,834	2.3%
Banana	12,773	1,069	84	25.0	319,320	0.3%
Taro	7,911	3,422	433	12.0	94,926	3.6%
Slippery cabbage	37,617	2,762	73	8.0	300,934*	0.9%
Yam	3,256	3,034	932	10.0	32,564*	9.3%
Peanut	11,784	290	25	2.5	29,459	1.0%
Pana	2,704	6,713	2,482	10.0	27,041*	24.8%
Kongkong taro	415	1,709	4,119	12.0	4,978	34.3%
Pawpaw	3,471	237	68	60.0	208,245	0.1%
Eggplant	195	177	905	20.0	3,905	4.5%

Source: Report on National Agricultural Survey 2017, Solomon Islands National Statistics Office, 2019.

Note: Expected production sourced from Solomon Islands Crop Farmers Manual, Ministry of Agriculture and Livestock 2015 unless otherwise stated (*)

200. Coconut, betelnut, and cocoa are the main income crops for farmers. Although root and tuber crops accounted for 43 percent of the weight harvested, the value of coconut (US\$12.4 million) sold in 2017 was higher than the value of root and tuber crops sold (US\$8.9 million). Coconut accounted for 28 percent of the value of all crops sold in 2017. The value of betelnut sold was US\$8.2 million, similar to that of all root and tuber crops combined, indicating the importance of betelnut in Solomon Islands' economy. The value of cocoa sold amounted to US\$7.2 million.

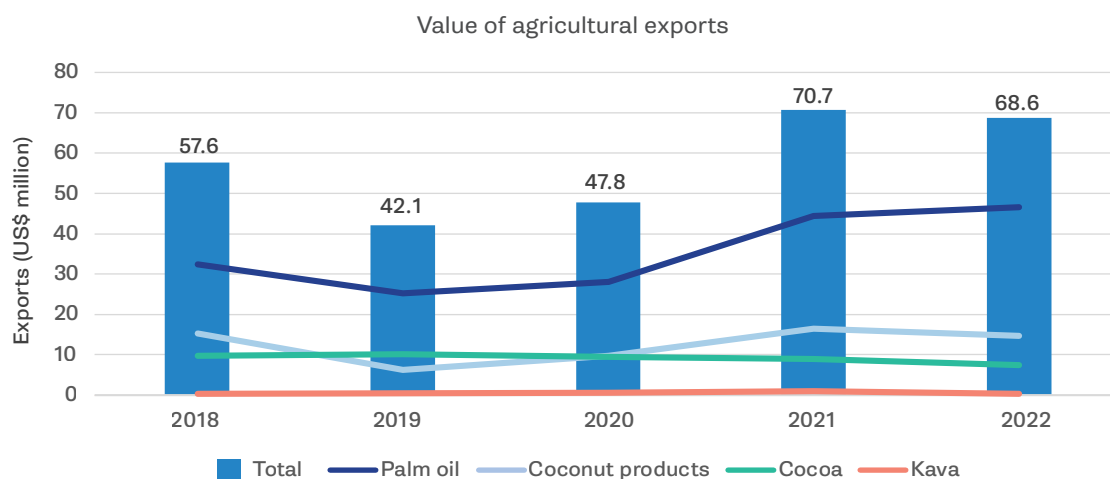
201. Palm oil, coconut products, and cocoa are the primary exports goods. The value of agricultural exports totaled US\$68.8 million in 2022 (4.3 percent of GDP). Palm oil is by far the largest agricultural export commodity, accounting for 65 percent of agricultural exports and valued at US\$46.6 million in 2022 (2.9 percent of GDP).⁵⁷ Around 90 percent of the palm oil is exported to Europe (Netherlands, UK, and Switzerland). Coconut products – copra, crude copra oil, and virgin coconut oil – accounted for about 22 percent of the agricultural exports and were valued at US\$15 million in 2022. Copra is predominantly exported to the Philippines, while coconut oil

⁵⁷ There is currently one palm oil estate in Solomon Islands – Guadalcanal Plains Palm Oil Limited, the only large-scale agricultural operation in the country with about 9,000 hectares of oil palms and 400 smallholder outgrowers.

is mainly exported to Europe (Netherlands, Switzerland, UK and Belgium). Cocoa is the third major agricultural export good, contributing 16 percent of agricultural exports and worth about US\$7.4 million in 2022. Most of the cocoa from Solomon Islands is exported to Malaysia, into the lower value bulk market. However, about 50 tonnes of cocoa as sold to the boutique market, that focuses on specialized, bean-to-bar chocolate makers that

require relatively small quantities of high-quality beans, at a premium price.⁵⁸ There has been a concerted effort to grow the boutique market, but several constraints limited its expansion, including transport costs – both domestic and international, and quality and volume issues. Finally, there is a small amount of downstream cocoa processing, producing cocoa powder, cocoa nibs, and chocolate for the domestic market and for export to New Zealand.

Figure 50: Main agricultural exports



Source: CBSI.

202. Commodity exporters in Solomon Islands are mostly family-owned SMEs with limited resources and working capital. This includes exporters of copra, other coconut products, cocoa, kava, root crops, and noni. Palm oil, and a couple of copra and cocoa exporters are larger, foreign owned groups. The majority of cocoa exporters all sell to the same bulk market buyer, Holland Commodities, who consolidates and sells the beans to the international cocoa grinders. Currently, 17 cocoa exporters and four copra exporters are registered with the Solomon Islands Commodity Export Marketing Authority. There is a high turnover of exporters – especially cocoa exporters, with the majority functioning for less than 5 years.

203. Solomon Islands imports a variety of food products. Food imports were valued at US\$130 million (8 percent of GDP), almost double the value of agricultural exports. The value of unprocessed agricultural products imported has been increasing, reaching about US\$78.4 million in 2018. Rice imports constitute the biggest share (55 percent), followed by poultry meat (17 percent), wheat and maize (8 percent), coffee, tea, and spices (6 percent), milk and egg products (5 percent), beef (4 percent), and pork (1 percent). Dietary changes, a preference for non-perishable items, and relative price changes have been driving this trend. Increased consumption of less nutritious foods has been linked with the rise of non-communicable diseases in the country, especially in the urban areas.

⁵⁸The boutique price is on average 42 percent higher than the bulk price.

4.1.2. Opportunities and Challenges

- 204. Increasing domestic supply would lower the domestic price and allow for more export opportunities.** Currently, the domestic price of many agricultural goods is higher than the export price. For example, the price of cassava in the local market is generally between SI\$10–15 per kg of fresh tubers. However, to be competitive for export, the price for fresh cassava would have to be in the range of SI\$2–4 per kg of fresh tubers. Augmenting production and/or addressing other cost factors may increase overall consumer surplus and open up new export markets. The large yield gaps for many agricultural goods – e.g., cassava farmers currently produce only 2.3 percent of the expected yield – suggest there is ample scope to do so.
- 205. Potential exists to export agricultural goods to other Pacific Island countries (and beyond).** As a number of Pacific countries have high food import needs, an opportunity exists to establish trade links with those countries. For instance, negotiations are ongoing to establish protocols for the export of agricultural products to Kiribati. Approval has already been obtained for the export of frozen taro and cassava to the country, but transport links and the high cost of freight still need to be addressed. Recently trade links have been established to export processed noni juice to the United States. In January 2024, a 40-tonne shipment left for Los Angeles, with noni drink exports expected to rise in the future.
- 206. Import substitution opportunities exist.** Apart from the existing export commodities, the domestic market could consider import substitution for a number of goods that Solomon Islands currently imports. For instance, the development of a poultry market, focusing on broiler and egg production, would improve self-sufficiency and reduce import needs. In that value chain, imported livestock feed accounts for 65 to 75 percent of livestock operation costs, especially for pigs and poultry.

Developing the backward linkages of the poultry market by locally producing livestock feed would provide an opportunity to use by-products such as copra meal, fishmeal, cassava peelings, and fruit and vegetable waste – again reducing import needs. Even pests like giant African snails and coconut rhinoceros beetle larvae could be harvested as a protein source for pig and poultry feed.

- 207. Downstream processing may add value, especially for perishable goods and export crops.** Due to the country's economic geography, the lack of a cold chain, and irregular shipping – downstream processing offers an opportunity to convert perishable goods into stable products, while concurrently adding value and facilitating transport. The longer shelf life of processed foods also increases export potential. Examples include producing flour from root crops, turning banana and breadfruit into dried fruits, and the milling of nuts and spices. Most villages in Solomon Islands have women who sell buns and ring-cakes using flour from imported wheat. This flour could be substituted with flour produced in the village from locally grown root-crops or breadfruit using appropriate machines and technologies. Similarly, there is an opportunity to add value to traditional export crops, including the production of downstream coconut products (cooking oil, virgin coconut oil, coconut flour, coconut cream, and cosmetic products).
- 208. The development of vanilla and other high-value spices can be considered.** During the early 2000s, when vanilla prices were close to historical highs, Solomon Islands' farmers started growing vanilla for exportation. However, when world prices dropped, the vanilla trade was abandoned. Nevertheless, potential exists to re-develop vanilla farming in certain locations – especially in the Guadalcanal plains where climatic conditions are favorable – and also introduce other high-value spices such as nutmeg.

209. To reap those opportunities, several constraints need to be addressed. Farmers have limited access to finance and insurance products, reducing working capital and farm investment. Lacking infrastructure and missing information cause value chains to break down and increase costs, which puts farmers at a competitive disadvantage. A lack of mechanization and intermittent availability of input supplies affects agricultural productivity. Quality assurance, food safety, market access, and predictable supply further limit opportunities to expand export markets. Disease burden, the rhinoceros beetle, and climate change pose additional challenges. Low aspirations and limited skills hold back growth at the farm level. So far, extension services have proved ineffective to address those constraints. Finally, a challenging business environment restricts private investment in the sector.

210. Access to finance and insurance are restricted for the large majority of farmers, reducing working capital and limiting investment. Commercial banks require a fixed security, a 3-year cash flow history, and a business plan before extending a loan. Furthermore, interest rates range from 13 to 17 percent, making bank borrowing very restrictive for the average smallholder farmer, especially as (customary) land often cannot be used as collateral.⁵⁹ As a result, only 0.5 percent of all agricultural households accessed credit to finance agricultural activities (SINSO, 2019). Furthermore, traditional insurance instruments are not available to the majority of farmers in the country. As a result, agricultural households lack the necessary working capital and risk-sharing instruments needed for commercial production, which is holding back farm growth (Karlan et al., 2014).

211. Lack of adequate infrastructure and coordination failures increase costs for all participants in the value chain. As discussed in Chapter 2, limited connectivity and poor transport infrastructure severely constrain the movement of agricultural goods and increase cost. For example, total freight charges for copra – for both land and sea transport – amount to 35 percent of the sales price. Furthermore, the lack of storage facilities at ports of call, the absence of a proper cold chain, and a shortage of post-harvest packaging degrades product quality. Next, a high wharf and delays in loading and unloading commodities in Honiara further reduces profitability. Unreliable shipping schedules, a lack of communication (on the volumes of produce to be shipped), and slow loading complicate coordination along the value chain.⁶⁰ Finally, the absence of a formal marketing system creates frictions in the functioning of agricultural markets. Anecdotal evidence suggests that collusion and peer pressure among middlemen is leading to rent seeking behavior at main marketplaces.

212. Missing information complicates decision making and technology adoption at the farm level. Farmers need updates on weather forecasts, prices, and market demand in order to make informed decisions about agricultural activities (Fafchamps and Minten, 2012). Furthermore, information provision and communication can also support technology adoption, i.e., recommended input use and efficient agronomic practices (Van Campenhout, 2021). However, no regular market or price information is available to farmers. Similarly, there are no accurate weather forecasts provided, while technology adoption remains limited. This makes it difficult

⁵⁹Next to commercial lenders, a number of alternatives exist. The Development Bank of Solomon Islands is a financing institution that was re-established in 2018 to facilitate the development of rural areas. It has more favorable lending conditions than commercial banks, but still requires a financial report and two-year cash flow projections. The MSME Business Loan Guarantee Scheme jointly initiated by the Ministry of Commerce, Industry, Labour and Immigration and Ministry of Finance and Treasury provides financial support for the extension of capital to businesses in rural areas. Finally, credit unions and savings clubs provide financial services to rural households that do not have access to formal financial institutions.

⁶⁰According to the Central Bank, irregular inter-island shipping was one of the main contributing factors for reduced cocoa production in 2022. Anecdotal evidence from cocoa and copra traders indicates it is not uncommon for them to wait three to four months for a ship to transport their produce to exporters in Honiara. To bridge this period, traders have to invest in storage which reduces demand (as they are financially constrained). In response, farmers stop harvesting, causing the value chain to break down.

for farmers to plan and adjust their activities. Limited digital connectivity is an important reason why information does not diffuse to rural areas, where most smallholder farmers are based (Chapter 2).

213. A lack of mechanization and intermittent availability of input supplies affects agricultural productivity. All agricultural processing and production equipment is currently imported. This adds cost, limits after-sales service, and increases the risk of buying low-quality goods. The resulting limited mechanization – most farming is done manually with only a few basic tools – reduces productivity and decreases the motivation to engage in laborious work. With only 1 percent of agricultural households applying irrigation, 2 percent using pesticides, and 4 percent employing inorganic fertilizers – the use of modern production technologies is very limited (SINSO, 2019). Solomon Islands’ farmers depend on foreign input supplies, which can lead to breakdowns in the value chain. For instance, a shortage in the production of fertilized eggs in New Zealand resulted in hatcheries in Honiara not being able to meet the demand for chickens.

214. Quality assurance, food safety, market access, and predictable supply limit the opportunity to expand export markets. There is a clear ambition to further develop export markets for agricultural commodities. However, a number of factors make it difficult to achieve this objective. First, export markets generally have specific requirements for imported produce, with high-quality standards. Farmers and exporters often lack the quality assurance mechanisms to meet external demand.⁶¹ Second, food testing and the enforcement of food safety standards – such as Hazard Analysis and Critical Control Points (HACCP) standards – are limited as the country does not have an operational food safety lab (the Ministry of Health is currently developing one). Third, biosecurity issues – e.g., fruit flies – further limit access to importing markets.⁶² Fourth, most export markets require a regular supply of a reasonable volume of product to be viable, which has been difficult to achieve. For instance, China will only import a minimum of 10 containers of cassava per month, a volume Solomon Islands has not been able to produce (despite efforts to establish that trade link).

⁶¹ For instance, coconut exports to Brisbane ceased as the exporter could not meet the size range requirements imposed by the Australian market.

⁶² Important to note that the Ministry of Agriculture and Livestock is in the process of installing an experimental sized vapor heat treatment unit in Honiara to help develop export protocols for fruits and vegetables.

Box. 3 Constraints in the agricultural value chain

Cocoa fermentation

A cocoa fermentory owner on the Weather Coast in Makira buys wet cocoa beans from smallholder farmers to ferment and dry. It takes about 10 days to ferment and dry the cocoa beans. The dried beans are then shipped to a buyer in Honiara. Depending on the timing of the next ship it may be over 1 month before the cocoa arrives in Honiara. Then it will then take up to two weeks for the fermentory owner to be paid and receive the money in Makira. So, overall, it can take up to two months for the fermentory to receive payment, which is the financing the owner needs to make their next purchase from farmers. Due to liquidity constraints, a lack of working capital, the need to pay the cocoa beans in cash, and limited connectivity – the fermentory works on a start-stop basis, operating at 25 percent capacity. As a result, farmers may lose crops, especially when other wet bean buyers are not operating in the market.

Taro farming

A Taro farmer in Temotu Province produces about 30 bags (weighing 50 kg each) of taro two to three times a year for the Honiara market. The transport costs are considerable – 25 percent of turnover: SI\$400–600 for the truck to Lata (capital of Temotu province), SI\$70 per bag of freight, SI\$2,000 for return boat tickets, and truck hire from the wharf in Honiara to the market, which is SI\$300-500. Additionally, daily market fees in Honiara are SI\$37, which is a substantial cost, given it takes two to three weeks to sell all the taro. As a result, the price per bag in Honiara is about SI\$700 (if sold in Lata, that would be about SI\$250). Additionally, if the ship is delayed, which regularly happens, part of the produce will rot and be lost, which can reach up to 40 percent of the gross output.

215. Disease burden, the coconut rhinoceros beetle, and climate change pose additional challenges for agricultural development.

Incidence of black pod disease and pests like rats and parrots affect cocoa production. High mortality rates (40 to 60 percent) for broiler and layer chickens, supposedly caused by the infectious bursal disease, is affecting the poultry industry. The rhinoceros beetle is a significant threat to coconut, palm oil, and other commodities like betel nut. The beetle causes widespread destruction of coconut and oil palm production by damaging the trees, risking a reduction in coconut production by 50 percent.⁶³ The increase in temperature caused by climate change will increase the incidence of pests and diseases. Furthermore, climate change is also expected to increase the intensity (and frequency) of natural disasters,

lead to more unpredictable weather patterns and increased sea water intrusion, which all negatively affect agricultural production.

216. Low aspirations and limited skills hold back farm growth. Rural households in Solomon Islands earn income through multiple activities, including farming, fishing, logging, weaving, etc. Although rural households might own plantations and livestock, often they are not fully committed to farming operations as they place a higher value on community, tribal, social, and religious obligations. Furthermore, the price elasticity of agricultural supply in Solomon Islands is high and households tend to stop farming when subsistence needs are met. Relatedly, farmers do not consider themselves as entrepreneurs and expect governments to sustain their businesses. Such (socially

⁶³ The Ministry of Agriculture and Livestock has a coconut rhinoceros beetle response plan in place, supported by the New Zealand Government.

determined) aspirations and expectations may lead to underinvestment, poverty traps, and sustained inequality (Genicot and Ray, 2017; La Ferrera, 2019). Finally, farmers and others in the agricultural value chain tend to be undereducated and have limited knowledge of financial literacy, business management, and efficient agronomic practices.

217. So far, extension services have proved ineffective to address those constraints. The Ministry of Agriculture and Livestock is the main provider of support services to farmers.⁶⁴ According to the 2017 Agricultural Survey, only 4 percent of agricultural households received extension services, with around half of these receiving support from the government, one-quarter from non-governmental organizations, and the remaining quarter from private sector extension. The country's economic geography,

limited state capacity, and availability of funding are the main contributing factors for the low coverage. Furthermore, the extension services provided proved ineffective due to a lack of up-to-date extension information, poor accountability, and limited qualified personnel at the Ministry (Kama, 2021).

218. Finally, a high cost of doing business has resulted in limited investment in the sector. Challenges in land use, expropriation risk, elevated cost of finance, high utility prices, difficulties in trading within and across borders, and institutional uncertainty all limit investment in the agriculture sector. As a result, the country lacks a sizeable agribusiness market, with foreign investors missing. A high-profile and unresolved industrial dispute continues to dissuade foreign investors from participating in the sector (Box 4).

Box. 4 Russell Islands Plantation Estate Limited (RIPEL)

In 1995, RIPEL purchased a plantation in Central Province (Russell Islands) from Levers Pacific Plantations Ltd. The shareholder structure involved multiple parties: landowners (25 percent), the Commodity Export Marketing Authority (20 percent), Central Province (20 percent), RIPEL employees (20 percent) and private investors (15 percent). At the time, RIPEL was the biggest plantation in Solomon Islands and one of the main contributors to Solomon Islands' economy. It consisted of around 4,500 hectares of coconut and a further 800 hectares of cocoa. RIPEL employed 800–900 people, and women made up around 45 percent of the workforce. The plantation was producing 400–600 tonnes of copra per month and around 200 tonnes of cocoa per year. However, in 2004 RIPEL faced an industrial dispute related to land rights, including a strike by its employees, which has not been resolved until this day. This has resulted in a rapid depreciation of the capital (mill, storage sheds, wharf, offices houses, workshops, etc.) and a complete neglect of the plantation.

⁶⁴ The Ministry of Commerce, Industry, Labour and Immigration is mandated to assist with the commercialization, downstream processing, and marketing of agricultural products while the Commodity Export Marketing Authority is a state-owned enterprise to promote agricultural exports. Other relevant ministries include the Ministry of Health and Medical Services which is responsible for food safety, the Ministry of Environment, Climate Change, Disaster Management and Meteorology which works to improve climate change preparedness and response, the Ministry of Education and Human Resources Development which is responsible for the agricultural curriculum in schools, and the Solomon Islands Tertiary Education and Skills Authority which facilitates tertiary education and vocational skills in the field of agriculture, including through rural training centers.

4.1.3 Recommendations

219. The sector needs to be modernized with appropriate technologies and tools. Currently, smallholders are farming using only basic hand tools which makes their work arduous and demotivates them from putting in more effort. For example, it takes 36 working days for the harvesting and processing of 1 tonne of dried copra (leaving aside plantation management and cleaning). Labor-saving tools such as motorized transport, firewood, and mechanized de-husking equipment would greatly assist in reducing manual labor. Mechanization would both increase productivity and motivation and is expected to result in increased crop yields (Pingali, 2010). However, effective mechanization solutions need be custom-designed for smallholders, including equipment that is culturally fit-for purpose, robust, low cost, and easy to maintain due to availability of spare parts (Adekunle et al., 2016; World Bank, 2023). Furthermore, there is a need to increase the usage of modern input supplies (e.g., agro-chemical inputs) and farming technologies (e.g., irrigation), which could substantially increase farm performance (Aihounton and Christiaensen, 2024). As far as possible, the private sector should take the lead in modernizing the sector, with appropriate financing mechanisms (e.g., leasing) (DIE, 2017). Finally, regulation is required to avoid environmental damage due to deforestation or unsustainable farming methods.

220. Using ICT more actively can have substantial gains. Currently, the majority of smallholder farmers rely on information by word-of-mouth (colloquially known as ‘coconut news’) or radio broadcasting; the national broadcaster is a good source of information. However, the information transmitted is often limited or even biased. With the telecommunications network set to expand, it is recommended that ICT is used to share knowledge, reduce information asymmetries, and provide virtual extension services. For instance, it has been

shown that short videos are effective in supporting technology adoption and increasing agricultural yields. A study in Uganda found that reported maize yields were 10 percent higher for households that were shown a short extension video (Van Campenhout et al., 2021). These households were also more likely to apply recommended practices and use fertilizer. ICT tools can also be used to disseminate share prices, market information, and weather conditions – thus enhancing market efficiency (Van Campenhout, 2022).⁶⁵

221. Effort must be made to increase youth participation, raise aspirations, and build skills. The development of the agricultural sector needs to take a holistic approach and ensure continued youth participation in the sector. Developing a youth profile by understanding the nature and conditions under which youth (dis)engage in agriculture is an important first step. Stimulating peer-to-peer learning and awareness campaigns about the opportunities in agriculture can further solidify youth involvement in the sector (World Bank, 2023). As indicated, low aspirations and a dependence on government holds back farming growth. However, low-cost interventions may be able to raise aspirations and increase agricultural production. For instance, a study in Ethiopia has shown that exposing farmers to a one-hour documentary about success in agribusiness increased long term investment and effort in agriculture. Interestingly, those households also increased investment in children’s education (Bernard et al., 2023). However, care should be taken that raised aspirations do not lead to frustration, crowd out other preferences or jeopardize livelihoods (Genicot and Ray, 2020).

222. Modernizing the agricultural sector combined with measures to raise aspirations could lead to a substantial growth dividend. Given the large yield gaps in the sector, significant potential exists to grow agricultural output.

⁶⁵ Important to note that ICT is not a panacea, as information can be biased or ignored, especially when persistent beliefs are involved (Smets, 2020; Van Campenhout, 2022).

Estimates suggest that an effort to support modernization – through enhanced up-take of modern inputs, irrigation, and mechanization – combined with cost-effective measures to raise aspirations and effort could increase agricultural output by 26 percent in the medium term, resulting in a 4.3 percent of GDP growth dividend.⁶⁶ This would require both public and private action. Furthermore, the provision of information (through ICT) along the value chain could further increase efficiency and lead to even greater growth impacts.

223. To transform the agricultural sector, public and private investment needs to increase.

The government's spending on the agricultural sector dropped from US\$6.7 million (0.5 percent of GDP) in 2017 to an average of US\$2 million over the period 2018–2022 (0.1 percent of GDP). In contrast, the budget required to implement the Agriculture Sector Growth and Investment Plan 2021–2030, which focuses on export promotion and import substitution, amounts to US\$322 million over a 10-year period (of which 30 percent is recurrent budget and 70 percent is capital investment). Therefore, without a substantial increase in targeted public financing, it is unlikely that agricultural transformation will be achieved. To achieve scale in agriculture, however, private investments are also needed. It is therefore important to reduce the cost of doing business and address the binding constraints to private sector development in the sector (transport, cost of finance, elevated utility prices, dealing with government, trade facilitation, etc.) (Chapter 3). Additionally, a revival of agricultural cooperatives may increase scale and spur economic activity in the agricultural sector.

4.2. Fisheries

4.2.1. Context

224. Small-scale fisheries are an essential source of food security and income generation for a large share of Solomon Islanders. Communities across the country leverage rich coastal habitats, extensive coral reefs and lagoons, and inland networks in freshwater streams and rivers to harvest diverse finfish species, nearshore pelagic fish, and invertebrates. Fishing involves a combination of techniques, such as spear fishing, shallow-water hand-lining from dugout canoes, and netting. Harvesting of invertebrates gleaned from intertidal and subtidal areas is extensive, may exceed finfish harvesting, and is often undertaken by women. The 2019 Census indicates that 47 percent of households were involved in fishing activities. For most, fishing serves as a complementary livelihood activity, providing a relatively low-cost, highly nutritious source of protein and generating occasional income through market sales. However, one-quarter of fishing households, or one out of eleven households, specializes in fishing as a key source of income (World Bank, 2024).

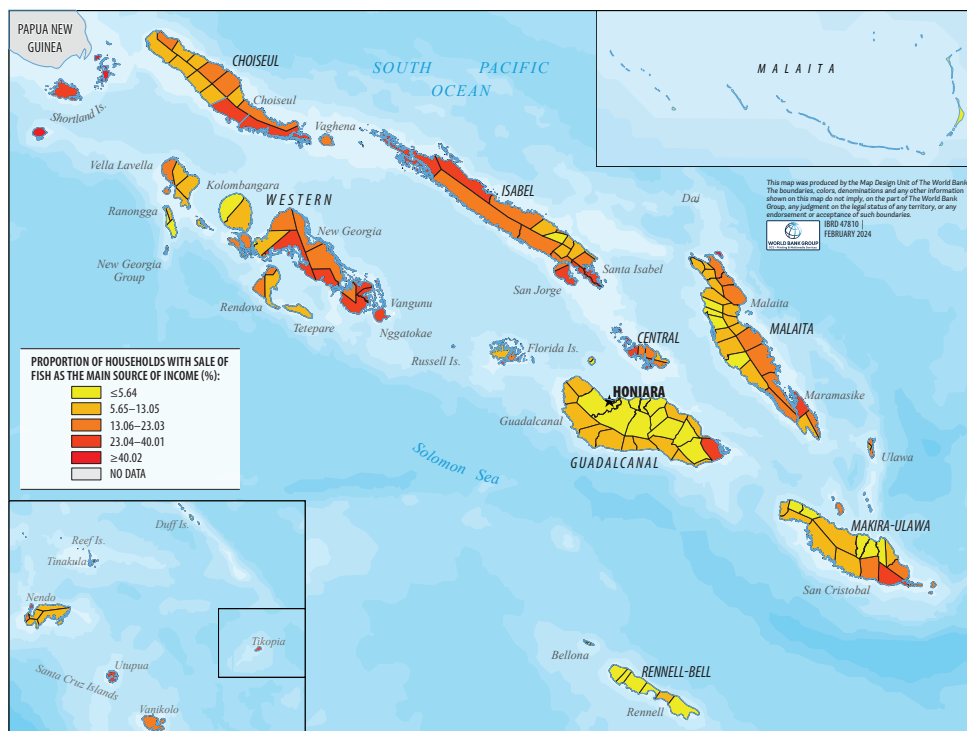
225. Similar to agriculture, there is spatial variation in households' dependence on fishing as the primary source of income (Figure 51). Notwithstanding the considerable ward-level variation in the reliance of households on fishing income, there is distinct geographical clustering in the extent to which households nominate fishing as a primary income source, including the northern part of Isabel, the southeastern part of Choiseul, around Marovo Lagoon in Western Province, and the east coast of Malaita.

⁶⁶ The estimates are based on a Cobb-Douglas production function with constant returns to scale, with the output elasticity of capital equal to 0.4 and the output elasticity of labor equal to 0.6. The model assumes a 50 percent increase in the capital stock – which is conservative given the low levels of capital in the sector – through enhanced up-take of modern inputs, irrigation, and mechanization and a 10 percent increase in effective labor through an aspirations program (corresponding to the estimates of Bernard et al., 2023).

226. The economic contribution of the fishing sector is estimated to be around 6 percent of GDP (Gillett and Fong, 2023). While widespread, limited information is available on the macroeconomic contribution of informal coastal subsistence fisheries. The best estimate is that informal fisheries contribute around three-quarters of all sector value-add, with harvest levels between 17,500 and 33,600 tonnes annually.⁶⁷ The commercial fishing sector is relatively small, accounting for one-quarter of the sector’s value-add. It involves oceanic fishing undertaken on an industrial scale by larger foreign and domestic (chartered) vessels in Solomon Islands’ vast maritime zone, catching mainly tuna. Despite its small size, the

tuna sector is an important source of income, export earnings, and public revenue for the country. According to data from the Forum Fisheries Agency, US\$193 million worth of tuna was caught in national waters during the period 2019–2021 (US\$79 million in 2021; 5.1 percent of GDP). The national fleet tuna catch – either inside or outside national waters – during this period is estimated at US\$112 million (Gillett and Fong, 2023). Export revenues from tuna products were US\$80 million (to Europe and Asia, see Figure 52); revenue from fishery access and license fees was US\$34 million. The tuna sector also employed 3,425 people, mainly in fishing and onshore processing activities.

Figure 51: Main source of income from fishing

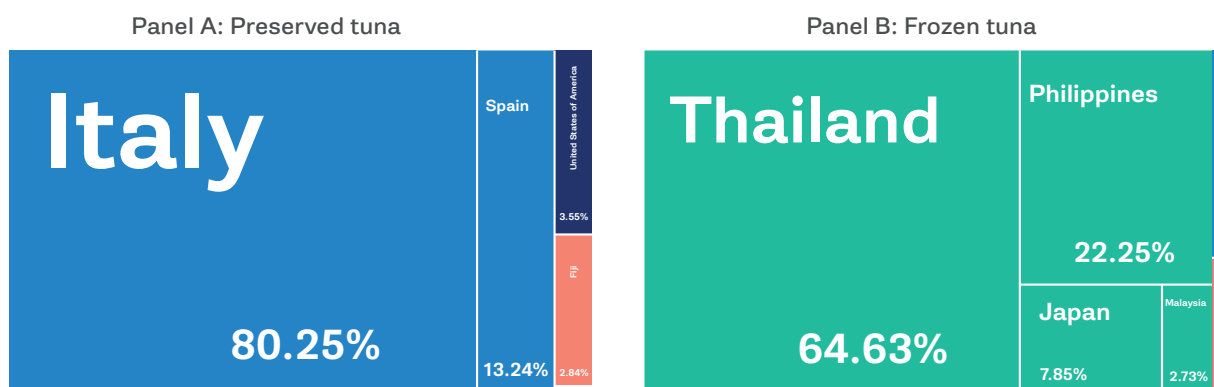


⁶⁷ Solomon Islands National Fisheries Policy 2019–2029: A policy for the conservation, management, development, and sustainable use of the fisheries and aquatic resources of Solomon Islands/Ministry of Fisheries and Marine Resources. Similar to agriculture, the prevalence of non-monetary production in fisheries means that the actual macroeconomic contribution of fishing may well be underestimated.

227. There is, however, only limited domestic involvement in the tuna industry. Of the 179 vessels licensed to operate in national waters in 2021, 134 were foreign vessels licensed to operate only in the exclusive economic zone (EEZ), the balance probably consists of chartered vessels (or foreign locally-based vessels). Additionally, most of the 109,000 tonnes of tuna caught within Solomon Islands' waters in 2022 were processed outside of Solomon Islands. Income from these operations

is therefore largely limited to access fees paid to fish in Solomon Islands' EEZ, which represent around 20 percent of its ex-vessel value. SolTuna Limited, located in Noro in Western Province, is presently the only domestic tuna processing operation comprising a cannery, loining, and cold storage facility. It obtains its product from the National Fisheries Development Ltd based in Noro, the only domestic tuna fishing operation.

Figure 52: Export destinations for tuna (2020)



Source: Atlas of Economic Complexity.

228. A smaller commercial coastal fisheries and aquaculture sector also exists. Coastal commercial fisheries focus on demersal fish, nearshore pelagic fish, invertebrates consumed within the country, and those destined for export. Notwithstanding limited monitoring, the 2021 estimate reported that the commercial catch is around 5,000 tonnes and worth around US\$9 million. Currently, commercial aquaculture is limited to seaweed production, which Gillett and Fong (2023) reports reached 3,150 tonnes in 2021. Research and development is ongoing into the larger scale farming of sea cucumbers and tilapia, which are currently only produced at a small scale.

229. Women are heavily involved in fisheries, both formally and informally, but inequalities persist. A government report from 2020 stated that 67 percent of SolTuna's 1800 workers were women, however, turnover and absenteeism (often due to safety concerns around fisheries) and sex segregation in the types of roles performed has resulted in low productivity and profitability (Solomon Islands Government, 2020; Krushelnytska, 2016). As in agriculture, women catch fish for subsistence purposes too but are much less likely than men to have any say in the management of local fisheries (Gomese et al., 2020).

4.2.2. Opportunities and Challenges

230. Linking small-scale fisheries with urban markets presents an opportunity for sustainable and inclusive growth. Currently, agricultural production, including fisheries, is not keeping pace with population growth, and Solomon Islands, like many PICs, is a net food importer. Solomon Islands is one of the PICs where shortfalls in food fish production are projected to be most serious – estimated to be around 8000 tonnes per year by 2035.⁶⁸ An expanding and maturing domestic market, particularly in urban areas, thus offers fishers an opportunity to increase sales of locally produced food. The government has recognized the importance of small-scale fisheries in this regard, reiterating its commitment to improving and strengthening their contribution to food security and socioeconomic benefits (Solomon Islands Government, 2023). Funds in the 2023 budget that have been earmarked include boosting production of hatchery-raised sea cucumber and juveniles for fish restocking, rehabilitating infrastructure to support the development of rural fish markets, and reviewing ongoing finfish market supply from provinces to urban centers such as Honiara.

231. Further domiciliation and domestication of the tuna sector should provide greater value and support growth. Of the estimated value of US\$193 million of tuna caught in Solomon Islands' waters across 2019–2021, only around US\$62 million are captured domestically through access fees and onshore processing and handling. Further investments in onshore facilities could increase the quantities of tuna landed and processed and add a further US\$1,000 per tonne in processing revenue.⁶⁹ The government intends to develop the onshoring of the tuna fishery further. Feasibility studies for constructing a new processing plant in Bina Harbour (Malaita

Province) are being prepared. The Bina Harbour Tuna Processing Plant is expected to generate up to US\$40 million in foreign direct investment and an annual revenue stream for the government of US\$3.5 million. However, without complementary investments in nearby transport infrastructure, including a containerized port akin to that in Noro (Chapter 2) to streamline links between the factory and the export markets, the full potential benefit of the cannery operations may not be realized. Relatedly, as Solomon Islands is competing with other countries for fish processing, there is a need to improve the business environment, including more affordable energy prices and more efficient port and freight handling (Table 11 and Chapter 3).⁷⁰

232. Enhancing the contribution of domestically harvested and processed fish and displacing imports may promote food security. Imported proteins such as tinned fish/meat are often highly processed and underpin Solomon Islands' 'triple burden of malnutrition', in which persistent undernutrition and micronutrient deficiencies coexist with a growing burden of obesity and related non-communicable diseases. Increasing consumption of fresh fish offers a range of benefits, including highly bioavailable micronutrients, high-quality protein, and essential fatty acids. Additionally, households' continued high reliance on imported foods also provides a direct conduit to global food and agriculture market disruptions, resulting in rapid transmission of price shocks, even to the country's most remote corners (Feeny and McDonald, 2016).

⁶⁸ Diversifying the use of tuna to improve food security and public health in Pacific Island countries and territories.

⁶⁹ Assumptions are that whole round tuna have a value of US\$1,000 per tonne and processed tuna a value of US\$2,000 per tonne.

⁷⁰ Note that Solomon Islands is currently internationally competitive due to its preferential trade access to the EU. With Least Developed Country graduation set to take place in 2027, tariffs and duties may be imposed, which could have substantial implications for fishing exports.

Table 11: Production cost of canned fish across Solomon Islands and other countries in EAP

Direct cost (per kg of fish 2022 US\$)	Solomon Islands	Thailand	Philippines	Papua New Guinea
Labour	0.04	0.06	0.05	0.10
Electricity	0.22	0.02	0.04	0.11
Fuel	0.35	0.09	0.03	0.29
Water	0.20	0.03	0.00	0.11
Freight to Europe	0.28	0.15	0.15	0.29
Other production costs	3.17	3.19	3.16	3.34
Total production cost	4.26	3.54	3.43	4.24
EU tariff	0%	24%	24%	0%
Total production cost with tariff	4.26	4.39	4.25	4.24

Source: EY (2023).

Note: Electricity and freight charges are discussed in Chapter 3. The high fuel cost for Solomon Islands is related to demurrage and pipeline charges, port operating costs, government duties, and the country's limited fuel storage capacity.

233. Favorable marine endowments also mean that Solomon Islands can derive significant additional revenue from offshore fisheries.

Solomon Islands has access to one of the most extensive and most fertile offshore fishing grounds. The WCPO contains the largest tuna fisheries in the world, accounting for around 55 percent of global tuna catch in 2021. Critically, effective regional management of this vital common resource has helped ensure the sustainability of fish production.⁷¹

234. Developing a domestic small-scale tuna fisheries sector could be one of the solutions for addressing the fish shortfall.

One of the success stories in the fishing sector in recent years has been the development of small-scale fishing around anchored fish aggregating devices, which transfer shallow-water fishing efforts on resources with limited remaining

production potential to alternative fisheries further offshore with higher production potential.⁷² Among the benefits of anchored fish aggregating devices is that they make tuna resources more accessible to domestic small-scale fishing fleets, which can then be harvested for sale in domestic markets. However, relocating efforts are not without risks to the safety of fishing vessels and crews. Reducing risks can be accomplished through improvement of sea safety regimes, which includes enhancing the safety characteristics of boats, making personal safety equipment available, and training/certifying crew in fishing operations.

235. However, much of the domestic fishing sector remains small in scale and inefficient, with limited application of capital and limited extension support. Limited data is

⁷¹ Solomon Islands is a signatory to a variety of multilateral conservation and management agreements, including the Conservation and Management Measures established by the Western and Central Pacific Fisheries Commission and the Harmonized Minimum Terms and Conditions of the Forum Fisheries Agency, which is a vital tool for regulating fishing access by foreign fishing vessels. Solomon Islands is also a member of the Parties to the Nauru Agreement, which controls around 50 percent of the global supply of skipjack tuna. The result is that the four main tuna species caught in the WCPO (skipjack, yellowfin tuna, bigeye tuna, and albacore) are considered healthy and sustainable, none are considered overfished, and no overfishing occurs.

⁷² It is important to note that fish aggregating devices in the region have a short life expectancy (~12 months) and contribute to ocean pollution. Therefore, fish aggregating device programs require measures to address the downside risks, such as life span and environmental impact.

available on the small-scale fisheries sector, particularly inland fisheries, including value chains and distribution channels to market outlets. Analysis from the 2017 Solomon Islands Survey indicates that capital and skill are drivers of labor productivity in fishing. The lack of extension services also limits the potential for information dissemination about updated harvesting and processing practices, sharing of critical market intelligence, as well as opportunities for information and knowledge exchanges, training, mentoring, and collaboration.

236. Weaknesses in post-harvest practices undermine the commercial value of small-scale fisheries. Irregular transport services and the absence of a robust cold chain from the point of capture to the point of sale are major limiting factors for transporting fresh seafood from remote communities to urban markets. Poor handling and improper storage and transportation conditions can lead to food-borne disease and impair the product's safety, quality, and nutritional value. No information is available on current levels of spoilage in small-scale fisheries in Solomon Islands. However, the United Nations Food and Agriculture Organization reports that it can be as high as 30 percent in small-scale fisheries. These challenges are problematic for the sector, especially since fish and seafood products are highly perishable and freshness is the key driver of their commercial value. Additionally, temperature-controlled supply chains are required in high-value domestic niche markets (e.g., hotels, restaurants) and export markets. Mismatches of market power between producers and intermediaries can also erode the producer surplus accruing to communities. While intermediaries are often regarded as capturing most of the value-add elements in fish products to the detriment of fishers, they also assume high risks in bringing these fragile products to markets.

237. Climatic variability presents a significant challenge for the fisheries sector. Under global warming scenarios (Representative Concentration Pathway 8.5 and 4.5),⁷³ models forecast that tuna catches in Solomon Islands' waters could decline by as much as 26.1 and 8.7 percent, respectively, by 2025, and access revenues between US\$10.8 and US\$3.6 million. With a long-term climate-induced eastward shift of key tuna stocks, Solomon Islands must adapt its oceanic fisheries and onshore processing infrastructure to minimize the economic impacts such changes may have. Other climate drivers also shape the distribution and abundance of tuna species. During the La Niña events (every three to seven years), tuna are mostly caught further to the west, and fishing efforts decrease in the central Pacific. During El Niño events, revenues from access fees in Solomon Islands decline as fishing operators negotiate access to countries whose waters are further to the east. By 2100 a decline of 20–50 percent in production of demersal fish and 10–20 percent in production of invertebrates in PICs is forecasted as a result of degradation of coral reefs.⁷⁴

238. Over-exploitation of fishing resources and IUU fishing also pose significant threats to the sector. A paucity of data on small-scale fishing leads to uncertainty about stock status, increased risk of overfishing, and resource depletion. However, there is increasing recognition that the depletion of fisheries resources associated with growing populations and pollution, combined with the effects of climate change, is a major challenge that can seriously harm coastal and riverine communities' food security, health, and livelihoods. IUU fishing is also a challenge. In 2020, the Forum Fisheries Agency reported that the annual volume of harvested or transshipped products involving IUU activity in Pacific tuna fisheries for 2017–2019 was 192,186 tonnes, with an ex-vessel value of US\$333.5 million.

⁷³ A Representative Concentration Pathway is a greenhouse gas (GHG) concentration trajectory adopted by the Intergovernmental Panel on Climate Change. The pathways are labelled after a possible range of radiative forcing values in the year 2100. The higher values mean higher GHG emissions and therefore higher global temperatures and more pronounced effects of climate change.

⁷⁴ Adapted from Bell, Johnson, and Hobday (2011).

With anticipated reductions in tuna abundance due to climate change, the success of the tuna fisheries hinges on effective national and regional conservation and management efforts. Accordingly, the need to eliminate IUU fishing with improved monitoring, control, surveillance, and enforcement remains paramount.

4.2.3. Recommendations

239. Investments and policies to promote commercial fisheries and growth in domestic production must be well-targeted and balance the challenges of overexploitation and the impacts on subsistence. Greater fish commercialization requires investments in addressing the shortfall of robust cold chains and infrastructure and know-how for receiving, handling, and processing catches – and selling and distributing quality fish. Additionally, there is a need to improve the overall business environment, including energy prices and utility costs, as well as port and freight handling (Chapter 3).⁷⁵ Investments and pilots should be carefully identified based on detailed pre-feasibility studies to ensure they represent value for money. Additionally, the adverse impacts of the development of commercial fisheries on subsistence fishers' access to fish should be minimized to protect food security and nutrition. Better monitoring and surveillance to provide greater certainty about stock status and resource exploitation are key to balancing the imperatives of income and food. Effectively migrating fishing efforts from depleted and vulnerable areas to species and areas that are not overfished would also support this agenda.

240. Investments in post-harvest facilities could enhance the growth of domestic fisheries. Investments in a robust cold chain from the point of capture to the point of sale should support growth in the informal fisheries sector

by reducing spoilage. This, in turn, would increase the sale of fish and other marine products to urban and other markets via an upscaled inter-island shipping network. If the cold chain boosts immediate production capacity in the informal fisheries by around 20 percent through reduced spoilage, the fisheries sector could generate a 1.1 percent of GDP growth dividend by 2028 (compared to a baseline without a cold chain).⁷⁶ Growth impacts could be greater if investments also facilitated a shift toward higher quality produce and entry into niche export markets. The introduction of a cold chain is likely to require partnerships between the public and private sector. Cold storage requires ice making and/or cold storage plants and reliable power. Given the constraints to private sector development in rural areas, these facilities will likely require initial public investment. To maximize impact, investments should be strategically located at key ports and waystations on the interisland shipping network near known fishing communities. However, also crucial is that private shipping vessels are equipped to carry temperature-sensitive products for extended periods of time.

241. A coastal fisheries information management system would help improve the effectiveness of resource management of coastal fisheries. An information system would focus on collecting and analyzing data on fishers, fish workers, fishing vessels, and fisheries infrastructure (with priority given to the use of existing censuses, the Household Income and Expenditure Survey, and similar surveys). The data captured would underpin any coastal fisheries licensing and registration system. It would also be beneficial from the perspective of planning, budgeting, and evaluation by facilitating assessments of stock status, activity, and efficiency (catch per unit effort) in

⁷⁵ For instance, freight costs to and from Noro are nearly four-times more costly relative to Jakarta, indicating that ocean freight is disproportionately expensive compared to competitors in the fisheries industry (EY, 2023). See Chapter 3 for more detail.

⁷⁶ For the baseline estimates, the fisheries sector expands at 2021–2022 trend growth, reaching 6.7 percent of GDP by 2028. The introduction of a cold chain is assumed to eliminate spoilage, which is estimated at 20 percent (SINSO, 2019). Investment in the informal fisheries sector is estimated to generate growth multipliers, resulting in a fisheries sector accounting for 7.8 percent of GDP by 2028, thus boosting growth by 1.1 percent of GDP.

different parts of the country. Better monitoring would also support improved allocative efficiency of investments by providing a better understanding of spatial and socioeconomic dimensions of fishing and its local importance and viability as a growth prospect.

242. Technology has an important role to play in resource management and productivity.

Effectively supporting remote fisheries will also require access to and use of ICT that provides data and information services in near real-time. ICT can facilitate data capture – improving local monitoring and enforcement capacity and supporting resource management, such as Community-Based Resources Management, and any fisheries licensing and registration systems. ICT can also facilitate access to new markets by enhancing producers' knowledge of seafood distribution channels, building business-to-business relationships, and creating a new alliance between fishers to jointly manage resources and extract greater producer surplus. Critically, ICT can also amplify the reach of extension services and training, opening the door to essential learning and upskilling (e.g., on preservation techniques), innovation, and greater resilience for all in fishing communities, including women and youth.

243. Additionally, to avoid the threats associated with early onset resource depletion, the Ministry of Fisheries and Marine Resources will need to implement adaptive management measures.

The future of both the oceanic and coastal fisheries sectors requires an understanding of how much fish can be sustainably harvested – taking into account the impact of climate variability and change on fishery productivity, robust enforcement to ensure that fishers will comply with management measures and reduce their participation in illegal activity, and diligent monitoring to measure the impact of

management measures and adjust them. The absence of capacity to monitor and surveil coastal fisheries in scattered communities requires finding an alternative model to central government command and control. Community-Based Resources Management and sentinel fisheries (where fishers agree to collect scientific data) offer some opportunities to manage coastal fisheries more effectively, but it will take time to build capacity in communities and responsible stewardship of resources.

244. The imperative of conservation may require imposing restrictions on the extent of fishing activities.

This may require restrictions regarding the type and amount of fishing gear used, the number and size of fishing boats, fishing grounds (spatial and temporal closure), or the number of participants in the fishery. Experience has shown that such measures are often difficult to accept by fishers unless displaced fishers can access alternative fisheries and if, in the longer term, no alternative sources of livelihoods are developed to absorb excess fishing labor. Social protection interventions could be integrated with community-based fisheries management measures to provide livelihood support to mitigate the negative impact of fishing restrictions.

4.3. Tourism

4.3.1. Context

245. Despite globally recognized potential, the tourism sector in Solomon Islands remains in its nascent stages. Solomon Islands is a pristine archipelago with an abundance of natural, cultural, and historical attributes. For instance, it boasts the largest saltwater lagoon in the world (Marovo Lagoon), was a key battleground in the Pacific Theatre of World War II, and offers some of the best scuba

diving globally with remarkable marine life. Two international airports are located in key tourism areas (i.e., Honiara and Munda) (Figure 53). The airports offer access with a direct flight from Brisbane taking three hours, and flights from New Zealand – via Vanuatu – taking just under five hours.⁷⁷ Its closeness to Fiji, PNG, and Vanuatu provides opportunities for long-haul visitors to these countries to extend their holidays with a stop-over in Solomon Islands.⁷⁸ Despite this potential, the tourism sector in Solomon Islands is underdeveloped. In 2019, it represented 10 percent of GDP, which dropped to 3.5 percent 2020.⁷⁹ In 2022, tourism-related employment (direct and indirect jobs from tourism and other interlinked sectors) was estimated at 23,894 or 7 percent of the total workforce. The country's international tourism arrivals are lower compared to its PIC peers. In Fiji, tourism surged, with visitor arrivals rising from 542,000 in 2009 to about 900,000 in 2019, contributing 23.2 percent of GDP and 30 percent of employment. While Fiji's arrivals surpassed pre-COVID-19 levels in December 2022, Solomon Islands' arrivals were approximately half of December 2019 levels (see the annex for a detailed comparison between Fiji and Solomon Islands). In 2023, visitor arrivals recovered to 26,030, which is well above 2022 levels, but below the 2019 peak of 28,930 visitors. The Pacific Games, held in November 2023, were an important

contributing factor to rising tourist arrivals. Business and travel for other purposes have long dominated arrivals, registering a combined 49 percent in 2019. Holiday travel reached 28 percent in 2019. Across all arrivals, Australia continued to dominate market share at 33 percent in 2023, followed by other PICs, the United States, and New Zealand.

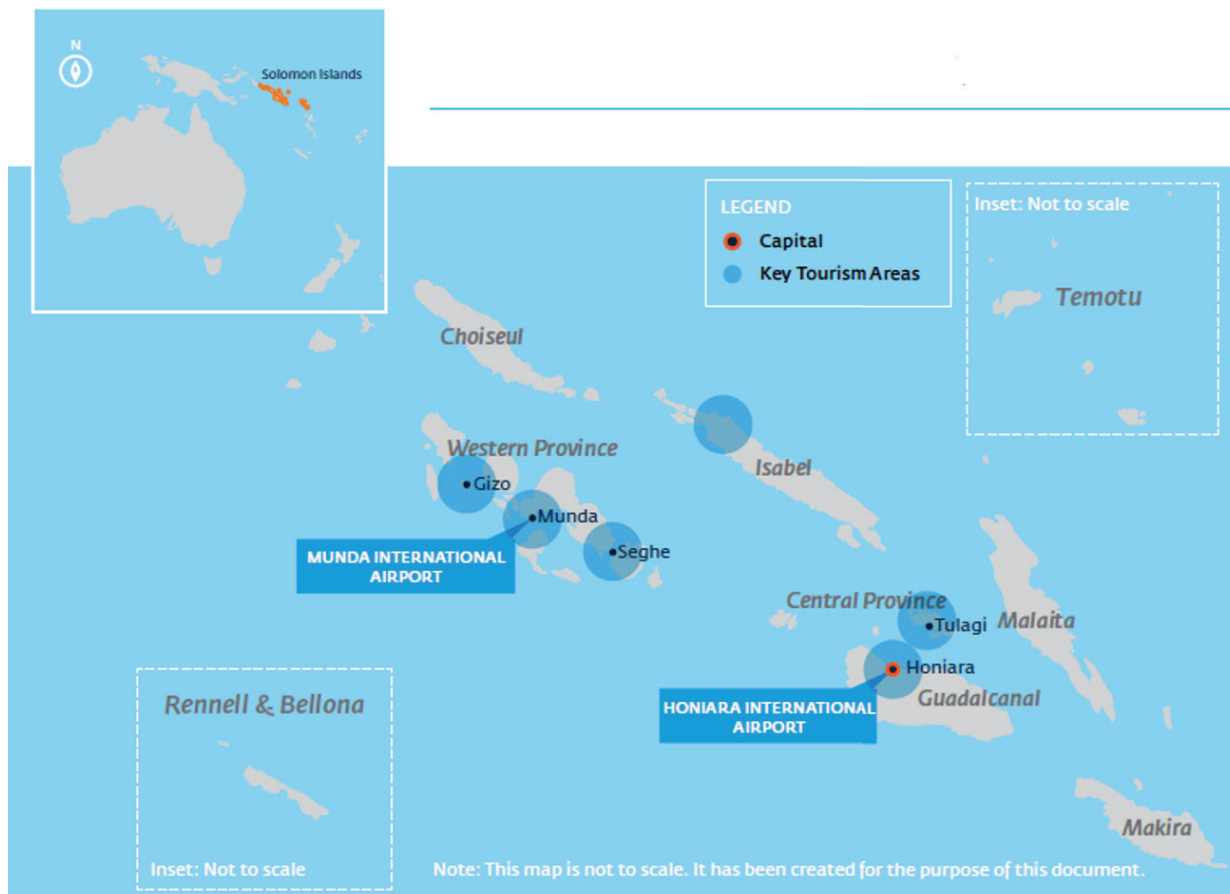
246. Key tourism activities include snorkeling and diving, culture and history, and natural attractions or eco-tourism. In line with its comparative advantage, the top activities for leisure arrivals in Solomon Islands include: (1) water-based activities (visiting the beach, swimming, snorkeling, and diving); (2) cultural interactions (visiting local markets, villages, battle sites, and museums); (3) land-based touring (going to restaurants or bars and sightseeing); and (4) shopping (for local crafts, produce, and art). Survey research indicates these activities receive a high satisfaction score of more than four out of five (except for restaurants and bars, museums, and shopping for art). The least appealing aspects cited for Solomon Islands include the environment and rubbish, infrastructure, and cost. With visitors spending on average US\$1,465 per person per trip, based on an average length of stay of 9.6 nights, they are seeking better value for money. Meeting visitor expectations would require quality product development, enabling infrastructure development, and better environmental management.

⁷⁷ Close proximity to Australia and New Zealand offers potential to access a portion of outbound travel markets of 9.5 million and 3.1 million trips per year, respectively.

⁷⁸ However, this opportunity has not yet been realized due to infrequent and sometimes unreliable flight schedules, lack of alignment of the value propositions and target market segments for each country, and the high cost of Solomon Islands relative to the perceived value of products offered (niche experiences such as diving being the exception).

⁷⁹ Little is documented about tourism pre-independence, but the island nation saw visitor numbers grow to 15,800 in 1998 for business and leisure travel, with the latter driven by the scuba diving and World War II history segments. In 1999, Solomon Islands faced the start of an extended period of civil unrest, known as the Tensions that disrupted international leisure tourism until 2003. It took 10 years to return to pre-crisis levels, and despite a decline with further riots in 2014, arrivals grew overall until 2019, when 28,907 visitors were recorded. In 2019, the country's accommodation inventory stood at 2,000 rooms in 181 properties, none of which are international or regional brands along with a reported 20 local tour operator businesses (SPTO, 2019; ADB, 2021).

Figure 53: Key tourism areas in Solomon Islands



Source: IFC (2023).

4.3.2 Opportunities and Challenges

247. **With significant historical, natural, and cultural assets, Solomon Islands has the opportunity to further develop niche markets.** There is a tendency in the Pacific region towards the development of mass market tourism segments, i.e., ‘sun and sand’ tourism. Such mass market models focus on all-inclusive resorts and large volumes of visitors. While Solomon Islands has the natural capital to develop mass market models, global competition in these markets is eroding appropriable margins, making it less desirable (World Bank, 2023). Yet, alternative tourism segments exist, which could better suit the natural, cultural, and historical endowments of the country. For example, tourism destinations

targeting historical diving enthusiasts are differentiated from mass market segments, allowing destinations to better appropriate value. These differentiated tourism segments also tend to be less sensitive to connectivity and safety concerns. Crucially, they also involve smaller accommodation providers that are less vertically integrated than mass market segments.

248. **Developing the tourism sector would create formal employment for women in Solomon Islands, but gender gaps that undermine female participation in the sector would need to be addressed.** Compared to other sectors, employment in tourism tends to employ men and women in more equal proportions. Given

the high sector-segregation present in many PICs, the opportunities in hospitality and retail that tourism creates are particularly valuable for women who otherwise face limited opportunities for paid employment (World Bank, 2023c). However, current employment in the sector, in Fiji for example, is often concentrated in low- and medium-skilled occupations and the risks of gender-based violence towards women remain challenges that constrain women's productivity. As such, developments to the tourism industry should be mindful of these challenges and be accompanied by measures to avoid exacerbating existing gender inequalities.

249. Despite some recent headways, substantial gaps remain in the country's tourism infrastructure. Solomon Islands had approximately 180 accommodation properties (2,000 rooms) available in 2019 – more than half were in or around the capital, Honiara. It hosted several business-oriented medium- to large-size hotels at various quality levels, none of which were internationally branded. Other tourism destinations in outer provinces offered smaller, typically more rustic accommodations. In comparison, Fiji has a total of 421 licensed accommodation providers with a combined inventory of over 12,000 rooms. Inadequate and prohibitively expensive domestic transport (see also the annex on the domestic aviation network), inadequate and costly ICT and energy supplies, combined with a limited supply of market-ready tourism businesses hinders the growth potential of the sector. Relatedly, a lack of waste management and sanitation facilities limits tourism growth and leads to pollution on beaches and reefs. Private-sector investment in two international standard hotels in the capital in 2009 and 2015 responded to business market demand. In addition, donor and public investments in Munda as a tourism hub – including an upgrading of the airport –

kickstarted efforts to realize the province's long-stated tourism potential. A weekly international flight from Australia to Munda commenced in 2019, and financial and technical assistance for the province's SME accommodation providers was provided. While progress was disrupted by COVID-19, the Brisbane-Munda flight was reinstated in January 2024. However, it remains a challenge for the airline (Solomon Airlines) to reach commercial viability given low passenger numbers, in part due to the shortage of international-quality accommodation once tourists arrive in Western Province.

250. Weak tourism governance and a costly business environment hamper the further development of the sector. The Tourism Division of the Ministry of Culture and Tourism is responsible for tourism development and investment, while Invest Solomons supports tourism investment in a regulatory and coordination role. Nonetheless, a lack of human and financial capacity in these institutions limit their effectiveness in attracting and facilitating tourism development. Identifying land for tourism investment continues to be a key constraint (Box 5 and Chapter 3), but efforts are underway to address this.⁸⁰ Moreover, disputes between lessees, titleholders, and host communities can arise even after entering in a land agreement, and agreements sometimes risk being broken or changed without notice. Complexities around business registration also pose an issue (see the annex for an overview of the tourism investment process), including high licensing fees, especially for business licenses issued by provincial governments. Uneven enforcement of business licenses, with no ability or capacity to check compliance, further complicates tourism development. Other constraints include access to finance, limited engagement by international investors and operators, and a low success rate in engaging local communities in the sector.

⁸⁰ Between 2017–2021, International Finance Corporation – working closely with the government, development partners and the private sector – conducted a Western Province Tourism Investment Needs Assessment which identified 39 specific investment needs and confirmed that a lack of investable sites remains a key constraint. To address this, a site selection methodology was developed and implemented by International Finance Corporation and the Ministry of Culture and Tourism. This resulted in a portfolio of approximately 70 sites in Western Province that were identified as having high tourism development potential.

Box. 5 Tourism development and land-related constraints in Solomon Islands

Sea Sound Resort

Sea Sound Resort is a tourist resort that started operation in late 2010. It was established near the Gwaunaru Airport, Malaita Province. The resort is on a coastal stretch of land owned by the Kwaruiasi/Biranakwao tribe. There is no clear articulation regarding who the members of this tribe are, and what rights they have to the land. The land comprises 10,579 hectares and is registered as a perpetual estate (Parcel No. 15-005-1 LR 60). It has been subject to disputes regarding who has ownership rights over land.

The resort is owned by Helen Kofana, who is from Gwaunaru'u village and is married to a Chinese entrepreneur. The Chinese entrepreneur is responsible for providing the capital for establishing and operating the resort.

Mrs Kofana was advised by the Malaita Provincial Government tourist officer to consult the landowning tribe and obtain a consent letter from the registered joint individuals to use the land for a tourist resort. When the tourist officer saw a copy of the consent letter, a provincial business license was issued and Mrs Kofana was advised to proceed with the resort operation.

However, it was not clear whether the signatories to the consent letter were those registered as the owners of the perpetual estate (Parcel No. 15-005-1 LR 60) and representatives of the landowning group. Neither was it clear whether the consent letter constituted a mutual agreement between joint owners, members of the landowning group, and the investor. In effect, a ruling from the High Court indicated that the consent letter was not sufficient to create a binding agreement between her and those who have an interest in the land to ensure there is sustained security that is free from disputes (Roughan et al., 2010).

4.3.3. Recommendations

251. To expand development into niche tourism segments, Solomon Islands needs to build physical assets and facilitate the ease of doing business. It is critical to develop necessary transport infrastructure, tourism accommodation, and other tourism facilities. This also includes marine and terrestrial biodiversity conservation efforts to preserve the country's exquisite natural assets. The development of the tourism sector should not infringe on land rights and should respect environmental sustainability. In addition, there is a need to improve the business environment

and land use – including maintaining a social license with the communities, access to finance, and skills development (Chapter 3). Investment in the sector should be encouraged through incentives and partnerships between the government, local communities, and the private sector.⁸¹ Investment in the sector can also be facilitated by simplifying the investment process and more targeted investment promotion activities.⁸² Currently, activities are ongoing to identify investable tourism sites in the Western Province, Guadalcanal, and Central Province (IFC, 2023), in line with

⁸¹ In 2017, the Ministry of Culture and Tourism launched a range of incentives to attract tourism investment, ranging from tax holidays to import duty exemptions. See the annex for an overview. Furthermore, the Ministry has established a Tourism Grant to support local start-ups in the tourism sector. Estimations suggest that the successful implementation of these reforms could generate a 1 percent of GDP growth dividend by 2028. This reflects a 7.4 growth rate in tourist arrivals for 2025–2026 and an 8.3 percent growth rate over the period 2027–2028.

⁸² See the annex for an overview of the process to register a foreign investment in Solomon Islands' tourism sector.

the National Tourism Development Strategy, the Guadalcanal Tourism Development Plan 2023–2032, and the Central Islands Culture and Tourism Policy 2018–2022.

252. A designated focal point for investor assistance would strengthen linkages and accountability within and across agencies. This would help facilitate tourism investment and ensure that tourism considerations are integrated into major infrastructure projects like ports and airports. Targeted technical assistance is also crucial to build capacity within the Ministry of Tourism and the Ministry of Commerce, Industry, Labour, and Immigration – enhancing their ability to attract and support tourism investments. To empower investors and landowners, it is important to identify and document engagement models that clarify the process of negotiating commercial agreements for tourism investments.⁸³

253. To better understand the tourism sector, tourism satellite accounts and further analytical work are needed. Tourism satellite accounts currently only exist for Fiji and PNG in the Pacific. Measuring tourism's economic impact and having more detailed data of the impact on skilled jobs, tourism receipts, labor force participation, direct tourism employment, entrepreneurship, and poverty reduction in vulnerable groups would be beneficial to Solomon Islands and would set the foundation for government policymaking in the sector. Improving the collection, analysis, and dissemination of tourism industry data is also vital. This data, encompassing both supply and demand metrics for domestic and international visitors, can inform investment decisions for local SMEs, which typically lack the resources for extensive research, as well as for potential foreign investors. Relatedly, there is a need for

Solomon Islands' stakeholders to be supported to access and utilize information on global travel trends and how these can be maximized to be more competitive in the niche market segments of adventure tourism such as diving, historical, or nature-based travel.

4.4. Labor Mobility and Migration

4.4.1. Context

254. Solomon Islands has a young and growing labor force. Between 2015 and 2022, the labor force is estimated to have grown from approximately 307,000 to 369,000 workers, with an average of nearly 9,000 new workers entering the market each year. The working-age population, i.e. those aged 15–64 years old, has been steadily increasing from 52 percent of the total population in 1990 to 59 percent in 2019. While this proportion is roughly on par with structural and aspirational peers, the country is still expected to enjoy a favorable demographic structure in the medium term.

255. Overall, unemployment is low, with moderate gender differences. The labor force participation rate was 62.7 percent in 2019 according to the latest Population and Housing Census, roughly comparable to structural and aspirational peers. The national unemployment rate stood at 5.3 percent, according to data from the 2019 Census. Unemployment was moderately higher among those aged 25–34, at 7.2 percent, whereas the unemployment rate for youth (15–24 years old) and older workers (35–44) amounted to 5.3 percent and 5.2 percent, respectively. Interestingly, gender gaps in labor market participation and employment appear

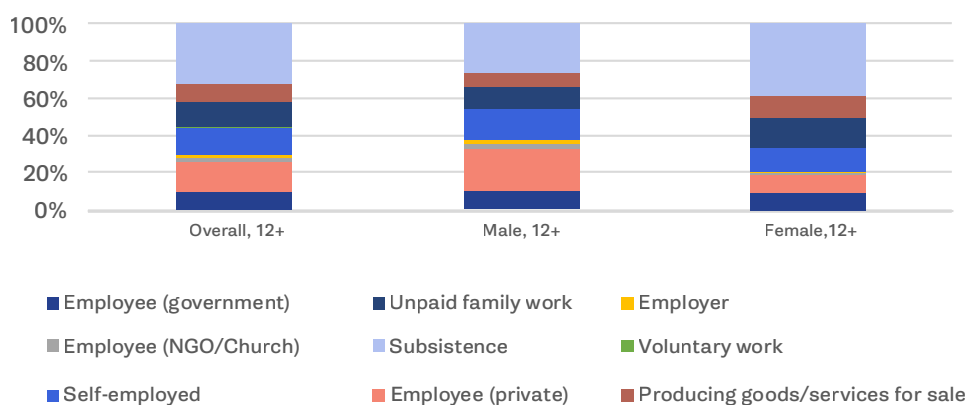
⁸³ Under its 'Accessing Land for Tourism Investment Activity', the International Financing Corporation is delivering a program of investment promotion activities, leveraging its work and outputs from Western Province, and replicating this process in the Central and Guadalcanal Provinces. It is working through this activity with the Ministry of Culture and Tourism, Invest Solomons, and a Tourism Investment Task Force to conduct investor outreach and take to market the sites identified by stakeholders as the highest potential. Currently, the priority sites identified are in Western Province, however the final selection may also include sites in Isabel, Guadalcanal, and Central.

moderate. There is only a marginal difference in unemployment between the sexes: 5.6 percent among males and 5.1 among females, although men are more likely to be employed, resulting in a moderately larger labor force participation rate (66.1 percent versus 59.1 percent).⁸⁴

256. However, low unemployment masks critical issues on job quality. Low-productivity subsistence and unpaid family work account for a large share of all employment, especially among women and youth (Figure 54). Almost

one-third of employed Solomon Islanders aged 12+ engage in subsistence activities that involve producing goods and services for own consumption, while another 13 percent are unpaid family workers. Relatedly, employment is highly concentrated in the agricultural sector, and to a lesser extent, elementary occupations consisting of simple and routine tasks (Figure 54). High skilled professionals and technicians together account for merely one-tenth of all jobs.

Figure 54: Type of economic activities by gender, 2019



Source: World Bank based on 2019 census.

⁸⁴ Gender differences are more noticeable in terms of the type of employment. Women are more likely to undertake subsistence and unpaid work, more likely to be in unskilled occupations, and much less likely to work in a formal workplace.

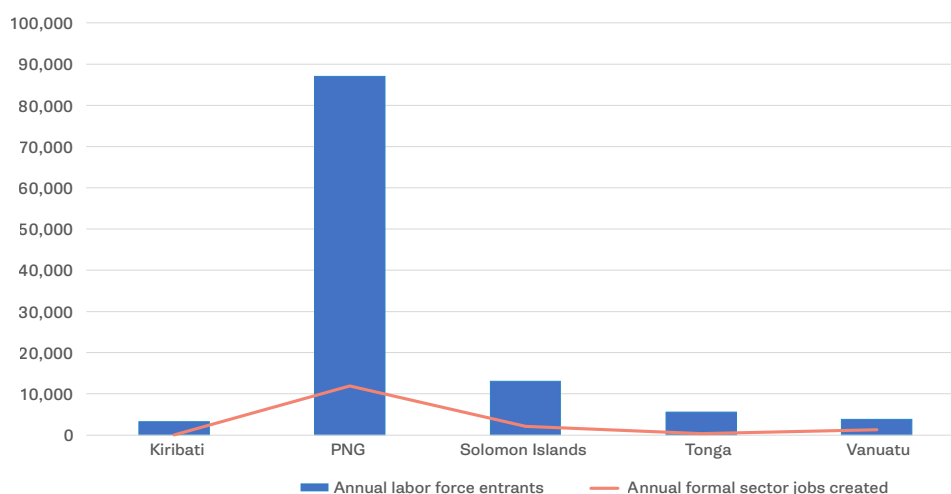
257. Furthermore, social protection systems in Solomon Islands do not protect employees when they lose their jobs and do not support them to find new jobs or develop necessary skills. The formal social protection system is limited to the National Provident Fund pension scheme, which has 131,000 active members who are in formal employment. Since most women in Solomon Islands are in the informal sector, 71 percent of contributions to the scheme are made by men. Most Solomon Islanders rely on traditional and informal social safety nets in times of hardship, through the wantok system. While traditional and informal systems continue to play a vital role in Solomon Island communities, it cannot be assumed that these systems always function effectively and equitably. COVID-19 and recent natural disasters have shown that these traditional local systems may not have sufficient capacity and resources to respond to widespread needs, especially during covariate shocks or disasters that affect communities.

258. Formal job opportunities in Solomon Islands are limited and confined largely to the public sector, similar to peers. Estimates show that only about 2,100 formal jobs are created each year, well below the number of new entrants

to the labor market (Figure 55). Data from the 2015 Enterprise Survey also suggest low labor demand – about one-third of surveyed businesses reported having no vacancy in the last two years, largely due to a poor business environment (Chapter 3). More recent data from the 2019 census also indicates the small size of the formal sector in Solomon Islands. Only 43 percent of Solomon Islanders reported working in a formal workplace, whereas 55.1 percent reported working in a private household.

259. Poor basic education and skills formation have manifested into prominent skills shortages and mismatches. Nearly one-third of the working age population have not completed primary school and only about 40 percent completed at least Year 9 of secondary education. Solomon Islands is one of the lower-middle-income countries with the highest share of under-educated workers at 54 percent. Relatedly, the vast majority of businesses (94.7 percent) surveyed in the 2015 Enterprise Survey reported that an inadequately educated workforce is an obstacle to their operation – which is also echoed in the 2024 World Bank Firm Survey, with 30.5 percent rating the problem as either a major or very severe obstacle.

Figure 55: Estimated formal job creation and labor market entrants



Source: World Bank (2017).

4.4.2. Opportunities and Challenges

260. Temporary labor mobility may absorb some of the slack in the labor market, providing several economic benefits. New Zealand's Recognised Seasonal Employer (RSE) scheme and Australia's Pacific Australia Labour Mobility (PALM) scheme are two key labor mobility programs in the region (see the annex for more detail). In 2022–2023, approximately 30,300 workers had found jobs in the PALM scheme and another 17,400 in the RSE. Workers in these schemes earn significantly more than what they might make at home. Earnings, net of deductions from seasonal work, are estimated to exceed potential earnings at home by three to four times in the case of Tongan workers,⁸⁵ and nine to ten times among ni-Vanuatu (World Bank, 2023). Even after subtracting living expenses in the host country, seasonal workers remit US\$390 per month on average, nearly two-times the average earnings in their home countries (Table 12). Remittances from these schemes finance essential household consumption, including food, school fees, and health care, and contribute to building human capital (World Bank, 2023). Many Pacific seasonal workers reported that they had acquired useful skills overseas, such as farming

techniques, organizational skills, financial management, and English (World Bank, 2023). Remittances have also cushioned labor-sending households against income shocks, as evident during the COVID-19 pandemic.

261. As these labor mobility schemes expand, opportunity exists for Solomon Islands to increase its participation. Up until 2022, Solomon Islands was a small participant in the RSE and PALM schemes, with only 0.6 percent of the working age population participating, making up 7.7 percent of all RSE and PALM workers. However, this has changed recently, with more than 5,500 participants by August 2023.⁸⁶ Demand from both New Zealand and Australia is set to increase going forward: New Zealand is considering a new scheme similar to the semi-skilled PALM stream, whereas Australia has announced a new pathway for permanent residency through the Pacific Engagement Visa, with PALM workers eligible to enter the ballot. At the same time Samoa, Tonga and Vanuatu – the three major sending countries – are reviewing their participation in the schemes and considering participation caps. These developments open up new opportunities for Solomon Island workers.

⁸⁵ Workers employed under the RSE and PALM schemes incur several costs, such as airfares to the destination country and health insurance, which are often paid upfront by their employers and gradually deducted from their earnings once they start working.

⁸⁶ Workers are recruited through one of three pathways: (1) direct recruitment by employers; (2) a government-managed work-ready pool; and (3) four private recruitment agents. The Labour Management Unit administers the government-led labor mobility program, which includes selection, training, and the development of a reintegration framework. The Unit is receiving financial support from DFAT to help with the implementation of the PALM scheme, without which it would be unlikely to cope with the growing workload.

Table 12: Income premium of temporary labor mobility schemes

		Avg. earnings in domestic market (USD/month)	Avg. amount remitted (USD/month)
Overall		216.9	388.4
Scheme	SWP	259.1	431.1
	RSE	153.4	322.7
Nationality	Kiribati	175.8	266.5
	Tonga	393.2	641.9
	Vanuatu	115.8	265.3
Gender	Male	196.4	375.7
	Female	303.7	442.3

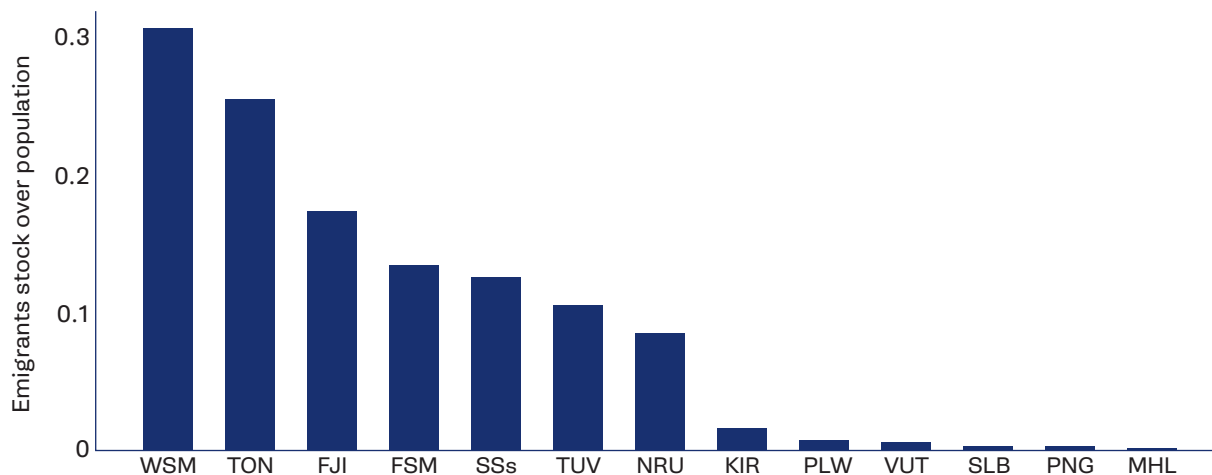
Source: World Bank (2021b).

Note: In July 2023, the Seasonal Worker Programme (SWP) and the Pacific Labour Scheme were consolidated and streamlined into the PALM scheme.

262. Solomon Islanders are also increasingly considering long-term migration. Currently, Solomon Islands has a small stock of emigrants – less than 0.1 percent of the population (Figure 56), but the emigration rate has picked up significantly after the COVID-19 pandemic. The UN projects net immigration to increase at a yearly growth rate of 4.4 percent, reaching 0.5 percent of the working age population by 2032. Similar to seasonal worker programs, long-term migration is expected to increase remittance inflows. Estimates suggest that with projected emigration flows, per capita remittances may increase by 32 percent over the next ten years (Seruwaia et al., 2024). Analysis of the 2019

census data indicates a positive association between remittances and the likelihood of engaging in non-subsistence activities such as crop sales and the provision of services (i.e., the opening of a canteen). Households receiving remittances are also more likely to have a financial account. Next to the development benefits of remittances, long-term migration can also facilitate knowledge transfer, economic activity, government accountability – and increase incentives to acquire higher education (Gibson and McKenzie, 2011; Fackler et al., 2020; Bastos and Silva, 2012; World Bank, 2023).

Figure 56: Stock of emigrants



263. It is important to note that various challenges have been identified with the labor mobility schemes in Australia and New Zealand. The increasing outflows of workers have raised concerns over brain drain and low-skilled labor shortages across the regions. Localized labor shortage has been documented in Vanuatu, for instance, especially for physically demanding work such as construction or planting subsistence gardens, due to men being away (World Bank, 2023a). Other issues relate to migrant workers' welfare in host countries – such as excessive salary deductions, insufficient health insurance coverage, disagreement with employers, and challenges related to their reintegration upon return. Negative impacts on labor-sending families and communities are often directly related to workers' absence from home. This increases the workload of remaining family members, especially women, and affects the gendered division of labor. There are also reports of marital breakdowns, suspicion of infidelity, and adverse outcomes for children such as neglect and behavioral problems. In addition, adverse perceptions, moral judgments, and gossip regarding returned female migrants are common, especially when only a few women from a community participate in the schemes. Issues regarding male participation in seasonal work include men sometimes squandering their

pay, especially on alcohol, and therefore having lower savings on return compared to more family-focused female workers (World Bank, 2018).

264. Long-term migration, if not managed well, can also have negative effects, most notably through a reduced working-age population and brain drain. Increased net emigration will reduce the available working-age population. While currently less of a problem due to slack in the labor market, large and sustained net emigration flows may have a sizeable impact on the labor market in the long term, especially given the country's small size. Estimates suggest that the working-age population may drop up to 5 percent by 2040 due to long-term emigration, which would generate wage pressures and reduce total GDP compared to a counterfactual without emigration. Relatedly, given the country's small size and low level of human capital, brain drain (the net emigration of skilled workers whose skills are also needed in the origin country) may be holding back growth and development in Solomon Islands (Kerr and Kerr, 2011). Finally, while remittances bring many benefits, they also tend to increase imports, reducing net international inflows into Solomon Islands.

4.4.3. Recommendations

- 265. To harness the benefits of labor mobility schemes, training is needed.** Even low-skilled workers need training to succeed in the overseas job market. Workers need a core set of foundational and soft skills, including basic literacy, financial management, awareness of different cultural norms in the receiving country, and proper workplace conduct. Training should also serve to manage expectations around earnings and potential deductions in the host countries. Experience has shown that workers who are well-prepared in these aspects are more successful, more likely to remain employed overseas, and earn a good reputation that leads employers to employ them again and recruit more workers from their country. This underscores the need for investment in robust pre-departure and worker readiness training programs, to fully prepare those going overseas.
- 266. A strong foundational education system is key to maximizing the advantages of migration.** As the demand for workers expands to include higher-skilled professions,⁸⁷ the government will need to invest in better quality primary and secondary education. Relatedly, for emigration to incentivize education and mitigate brain drain effects, a high-quality and affordable education system is required. Efforts should be made to improve teacher quality, stimulate learning in the first language, and improve parental support. Without this, it is unlikely that emigration will boost educational attainment.
- 267. It is recommended to develop a social protection and jobs system in Solomon Islands.** Existing social protection measures are limited and have proven to be inadequate to respond to large scale disasters and

shocks. It is therefore critical to develop a social protection policy which is adaptive to shocks. In the short term, the government may focus on social assistance programs to protect the vulnerable, which subsequently can be expanded to include other elements such as unemployment benefits and reskilling programs. The development of an adaptive social protection system will require investment in management information and targeting systems.

- 268. Finally, there is a need to develop a strategic approach to emigration and improve governance aspects of migration programs.** When handled well, labor migration can benefit origin countries (World Bank, 2023). Therefore, it is recommended to develop a strategic approach to emigration, including the development of labor agreements, training and orientation, a focus on reducing the cost of remittances, and an active return policy. Furthermore, increased digitalization and a conducive business environment will allow Solomon Islands to fully grasp the development gains (e.g., knowledge transfer, economic activity) from long-term migration. Similarly, in order to maximize the benefits from seasonal worker programs, governance aspects need to improve, including the implementation of a reintegration framework (e.g., allowing return workers to withdraw their hosting country superannuation) and measures to mitigate adverse social impacts such as workshops and family support services. This will require building capacity in the government's Labor Management Unit and proper resourcing.

⁸⁷These high-skilled professions include aged care and hospitality workers, which require stronger interpersonal skills, literacy, and numeracy.

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Annex

Benchmarking Solomon Islands Against its Peers

In this study, Solomon Islands' performance will be benchmarked to:

- **Structural peers:** Comoros, Kiribati, Micronesia, Samoa, Timor-Leste, Vanuatu
- **Aspirational peers:** Fiji, Grenada, Maldives
- **Aggregates:** East Asia and Pacific (EAP); Lower-middle-income countries; and Pacific Islands Countries (PICs).

Structural peers have been selected based on the economic and demographic characteristics of the country, employing the following criteria:

- Categorized as a lower-middle-income country
- Categorized as a small state
- A rural population of at least 40 percent of the total population
- Value added by the agricultural, fishing, and forestry sector of at least 8 percent of GDP.

For aspirational peers, the following criteria were used:

- Categorized as an upper-middle-income country
- Categorized as a small state
- A rural population of at least 25 percent of the total population
- Value added by the agricultural, fishing, and forestry sector of at least 5 percent of GDP.

Solomon Islands Long-Term Growth Model

The analysis of long-term growth prospects for Solomon Islands uses two extensions of the World Bank's Long Term Growth Model (LTGM): the public capital extension (LTGM-PC), and the human capital extension (LTGM-HC), which are described in this annex. The LTGM-PC simulates most of the components of GDP but the LTGM-HC provides additional detail on the evolution of human capital. More information about the LTGM is available in Loayza and Pennings (2022).

LTGM-PC. The LTGM Public Capital Extension (Pennings and Devadas, 2018) is a neoclassical (supply side) model of potential growth (like the standard LTGM) but allows for the decomposition of physical capital and investment into public and private portions, with the public component including infrastructure investment.⁸⁸ More specifically, GDP (Y_t) is given by a simple Cobb-Douglas production function:

$$\text{Eq. A1} \quad Y_t = A_t (K_t^G)^\phi (K_t^P)^{1-\beta-\phi} (h_t L_t)^\beta$$

Where A_t is the total factor productivity (TFP), K_t^G and K_t^P denote public and private capital stocks, and ϕ is the usefulness of public capital for production. $h_t L_t$ is effective labor used in production, which is decomposed into h_t , human capital per worker and L_t the labor force. The labor force is further decomposed into $L_t = \varrho_t \omega_t N_t$, where ϱ_t is the participation rate, ω_t is the working-age population to total population ratio, and N_t is total population. The parameter β is the labor share. The stock of public capital follows $K_{t+1}^G = (1 - \delta_G) K_t^G + I_t^G$, where I_t^G denotes public investment and δ_G is the depreciation rate. An analogous expression determines the

⁸⁸ The LTGM-PC also allows for variation in the efficiency of public investment, though in Solomon Islands' context we do not utilize this aspect due to missing data. The efficiency of public investment does not affect its growth contribution so long as it is assumed to always have been constant.

dynamics of private capital. One can express GDP in per capita terms by dividing Equation A1 by N_t . Public and private investment rates are assumed to be exogenous (as a percentage of GDP). Population projections and demographics come from the UN population division.⁸⁹ h_t is calculated using the LTGM-HC, which is described further below.

To understand the drivers of growth, GDP growth can be expressed as follows (using a log-linear approximation, where g_{t+1}^X denotes the annual growth rate of variable X in period t+1):

$$\text{Eq. A2} \quad g_{t+1}^{GDP} \approx g_{t+1}^A + \beta(g_{t+1}^h + g_{t+1}^o + g_{t+1}^\omega + g_{t+1}^N) + (1 - \beta - \phi) \left[\frac{I_t^P}{Y_t} / \frac{K_t^P}{Y_t} - \delta^G \right] \\ + \phi \left[\frac{I_t^G}{Y_t} / \frac{K_t^G}{Y_t} - \delta^P \right]$$

In the short and medium terms, TFP growth has the largest effect on growth: a 1 percentage point (ppt) increase in TFP growth (g_{t+1}^A) leads to an exact 1ppt increase in GDP growth. A 1ppt increase in the growth of human capital, labor force participation, and working-age population ($g_{t+1}^h, g_{t+1}^o, g_{t+1}^\omega$) increase GDP growth by β ppts. Population growth (g_{t+1}^N) also increases GDP growth by β ppts, though reduces GDP per capita growth. The effect of an increase in the public investment rate (I_t^G/Y_t) depends on both the usefulness of public capital for production (ϕ), as well as the scarcity of public capital, as measured by the public capital-to-output ratio (K_t^G/Y_t). For example, if $\phi=0.17$ (as we calibrate for Solomon Islands for essential infrastructure) a 1ppt of GDP increase in the public investment rate raises short-run growth by 0.15ppts per year if $K_t^G/Y_t=1.14$ (close to our initial calibration) but only 0.075ppt if $K_t^G/Y_t=2.28$.⁹⁰ This means that a public investment-led growth strategy which causes public capital to accumulate faster than GDP will quickly become less effective, unless it is accompanied by other reforms to boost productivity, human capital or participation to mitigate the increase in K_t^G/Y . The effect of an increase in the private investment share of GDP is analogous but will depend on the private investment share of income adjusted for congestion ($1 - \beta - \phi$), as well as the scarcity of private capital, as measured by the private capital-to-output ratio (K_t^P/Y_t). In our initial calibration, Solomon Islands is short of private capital, with $K_t^P/Y_t=1.23$. Combined with $1 - \beta - \phi=0.33$, a 1ppt of GDP increase in private investment provides a large 0.27ppts increase in growth, though this effect diminishes as K_t^P/Y_t rises due to higher rates of private investment.⁹¹

In the long-run, the private capital-to-output ratio and public capital-to-output ratios are roughly constant, and so $g_t^{GDP} \approx (1/\beta)g_t^A + g_t^h + g_t^o + g_t^\omega + g_t^N$.⁹² This means that the effect of all non-capital drivers of growth are amplified because they induce further capital accumulation. As a rule of thumb, a 1ppt increase in TFP growth would boost GDP per capita growth by $1/\beta$ ppts, and there would be a one-to-one effect of $g_{t+1}^h, g_{t+1}^o, g_{t+1}^\omega, g_{t+1}^N$, or g_{t+1}^A . Note however, that capital adjustment is very slow, and takes several decades to converge. However, the long-run effects are a useful upper bound, and the effects of drivers of growth through our simulation period (2024-2050) will fall in between the 'direct short-run' and 'long-run effect'.

⁸⁹ Labor force participation rates are assumed constant as they are already high in Solomon Islands. There is no unemployment.

⁹⁰ The total initial capital-to-output ratio $K/Y=2.37$ is calculated using the perpetual inventory method. The public K/Y ratio is calculated using historical public investment data (back to 2007 from the MFMOD dataset), and the assumption that public investment was 7% of total expenditure before that (based on the share in 2007). The private K/Y ratio is a residual.

⁹¹ The depreciation rate δ and labor share are missing for Solomon Islands, so we calibrate the labor share $\beta=0.5$ and total depreciation rate $\delta=4.6\%$, both based on the median of LMI countries from PWT10. The public (infrastructure) depreciation rate is $\delta^G=0.02$ (as they are structures), and the residual private depreciation rates $\delta^P=0.07$. We also assume TFP growth of 0.5% in the baseline, based on a growth accounting exercise over 2010-19 (taking into account HC).

⁹² This implies $\frac{I^G}{Y} / \frac{K^G}{Y} = g^{GDP} + \delta^G$ and $\frac{I^P}{Y} / \frac{K^P}{Y} = g^{GDP} + \delta^P$. Substituting into Eq A2 generates the long run relationship.

LTGM-HC. The LTGM human capital extension (LTGM-HC) seeks to provide a detailed analysis of the effect of changes in the different components of the World Bank Human Capital Index (HCI) – schooling quantity, schooling quality (test scores) and health – on the productivity of the workforce h_t .⁹³ But unlike the HCI, the LTGM-HC focuses on dynamics by embodying human capital in individual age cohorts, and tracing how those cohorts move in and out of the workforce. The resulting time series for the human capital of the workforce, h_t (measured in productivity units) is then fed into the LTGM-PC to estimate the effect on economic growth. Specifically, the human capital of cohort of age a at time t takes the same form as the HCI (without child mortality):

$$\text{Eq. A3} \quad h_t^a = H e^{\phi(LAYS_t - 14) + [\gamma_{ASR}(ASR_y - 1) + \gamma_{NS}(NotStunted_t - 1)]/2}$$

Where $LAYS_t = quality_t \times EYS_t$ ($LAYS$ are Learning-adjusted years of schooling and $EYS=8.34$ are Expected years of schooling, and $quality=350/625=0.561$) and Adult Survival Rates (ASR)= 0.86 and not stunted rates ($=0.683$) are health measures. $\phi = 12\%$ is the return to $LAYS$ and analogously $\gamma_{ASR} = 0.65$ and $\gamma_{NS} = 0.35$. Historical years of schooling data (for older cohorts) is from Barro and Lee. The human capital of the workforce 20-64 used in production h_t is given by the weighted average of the human capital of individual age cohorts, where $\omega_{a,t}$ is the share of the workforce of that age at time t :

$$\text{Eq. A4} \quad h_t = \sum_{a \in \{20,64\}} \omega_{a,t} h_t^a$$

CEM Topics and Drivers of Growth

The table below gives a schematic overview of the links between the topics studied in the CEM and the main drivers of a neoclassical growth model. Generally, the direction of causality runs from the CEM topic to the growth driver. For instance, the implementing the CEM recommendations for transport connectivity should increase total factor productivity and public capital (as it is recommended to implement transport projects). Note that total factor productivity is considered a residual growth driver, encompassing many elements, such as cultural attributes, institutional quality, policies, and the functioning of goods and factor markets.

⁹³ Note that the LTGM-HC is currently in beta version, and so is not available yet on the LTGM website.

Table A.1: Link between CEM topics and drivers of growth

Topic	Total Factor Productivity (A ^t)	Public Capital (K ^g)	Private Capital (K ^p)	Human Capital (h ^t)	Labor (L ^t)
Transport connectivity	*	*			
Digital connectivity	*	*	(*)	*	
Urbanization	*	*	(*)	*	
Access to finance	*		*		
Energy	*	*	*		
Skills				*	
Land use	*		*		
Trade	*		*	*	
Agriculture	*	*	*	*	*
Fisheries	*	*	*		
Tourism	*		*	*	
Labor mobility	*		*	*	*

Source: Authors.

CEM 2.0 Approach

The Country Economic Memorandum (CEM) 2.0 approach proposes a framework to conduct a growth diagnostic study. It emphasizes selectivity over comprehensiveness and focuses on the narrower concept of economic growth rather than on wider development. This is also what distinguishes the CEM with other core Bank analytical products, such as a Systematic Country Diagnostic (SCD) which emphasizes sustainable and inclusive growth, and a Country Private Sector Diagnostic (CPSD) that focuses on private sector development.

CEM 2.0 starts with a Country Scan, a diagnostic exercise intended to guide the CEM team to uncover a country's growth story better. By addressing 20 general questions, 10 guiding questions at the macro level, and 10 guiding questions at the micro level (Table A.2), a Country Scan can help make a case for the topics that merit in-depth analysis. A Country Scan was conducted for Solomon Islands and is available upon request. It is important to note that not all guiding questions were discussed due to limited availability and quality of the data.

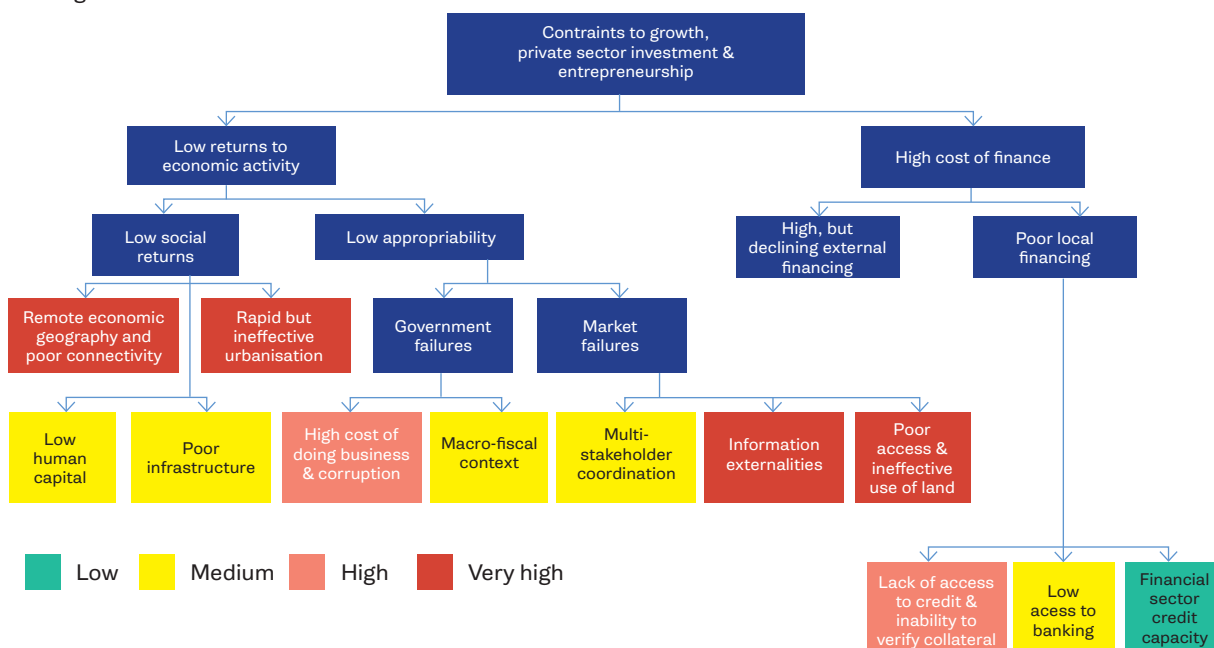
Table A.2: The guiding questions

General questions	
A. What is the period of the analysis	
B. Who are the structural and aspirational peers	
Macro questions	Micro questions
<p>Is recent economic growth more due to cyclical or structural factors?</p> <p>What are the characteristics of growth (from the demand and supply sides)?</p> <p>Is the macro-fiscal framework adequate?</p> <p>Is GDP growth driven by productivity growth?</p> <p>Which sectors are driving jobs growth?</p> <p>What is the contribution of structural change to economic growth?</p> <p>What are the key determinants of growth – domestic vs. external factors?</p> <p>What is the potential contribution of structural reforms to growth?</p> <p>How complex is the economy?</p> <p>What would the Growth Commission say?</p>	<p>What are the firm-level productivity dynamics?</p> <p>What is the quality of managerial practices?</p> <p>What is the quality and stock of human capital?</p> <p>What is the quality of ICT capital?</p> <p>Are firms innovating?</p> <p>Are product and service markets competitive?</p> <p>a) How open is the country to trade? (b) How open is the country to investment?</p> <p>How does the legal and regulatory system support business growth?</p> <p>Are financial markets well developed to support growth?</p> <p>What is the stock and quality of infrastructure?</p>

Key Constraints to Economic Growth

Figure A.1 Constraints according to the Hausmann-Rodrik-Velasco (2005) framework

Binding constraints framework



Source: Adapted from Hausmann, Rodrik, Velasco (2005).

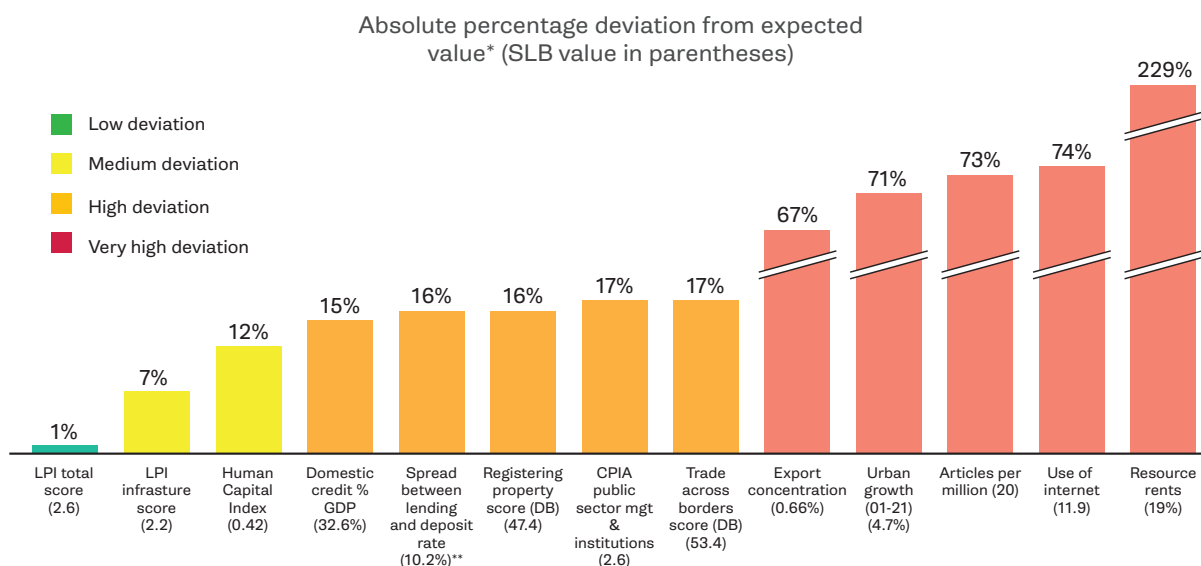
Table A.3: Constraints identified in the literature

Publication	Key constraints
Solomon Islands Country Economic Memorandum – World Bank (1984)	<ul style="list-style-type: none"> • Land tenure • Low productivity in the primary sector • Infrastructure deficit • Low human capital • Population growth • Inter-island connectivity
Solomon Islands Growth Prospects. Constraints and Policy Priorities – World Bank (2010)	<ul style="list-style-type: none"> • Economic geography • Limited public sector capacity • Infrastructure • Human capital • Cost and access to finance • Business conditions
Pacific Possible – World Bank (2017)	<ul style="list-style-type: none"> • Economic geography • Environmental fragility • Poor governance and limited public sector capacity
Solomon Islands Systematic Country Diagnostic – World Bank (2018)	<ul style="list-style-type: none"> • Economic geography • Political economy • State fragility • Urbanization • Land
Solomon Islands Growth Assessment – International Growth Centre (2023)	<ul style="list-style-type: none"> • Economic geography • Limited infrastructureHigh cost of electricity • Land tenure • Human capital • State capacity and fragility • Low internet usage

Relative Size of the Economic Constraints

For each indicator, the absolute percentage deviation from the expected value for Solomon Islands, based on its per capita income levels, was calculated based on a regression for the variable in question versus income per capita for all countries where there was data available. According to this analysis, the constraints with the highest deviation, by far, are those related to unfavorable economic geography, ineffective urbanization and information externalities. Constraints with high deviations are those related to connectivity, access to credit, government effectiveness, and public sector governance. Finally, ‘medium-sized’ constraints relate to human capital and infrastructure. Macro-fiscal constraints were also classified as ‘medium sized’ given that the country’s risk of debt distress and exchange rate valuation compare relatively favorably against structural peers.

Figure A.2 Solomon Islands key indicators



Solomon Islands Aviation Network

Domestic aviation complements the inter-island shipping network, though high prices mean it remains beyond the reach of most Solomon Islanders. Presently, Solomon Airlines – the only domestic carrier – flies to 24 airports across the country, including one in each provincial capital and places where demand makes the routes economically viable. The network relies on a fleet of small turboprop aircraft, including the Dash-8 (capacity for 30 passengers) and a smaller twin otter (17 passengers).⁹⁴ Similar to shipping, the busiest sectors are those between Honiara and urban hubs (Gizo, Munda, near Noro, and Auki), accounting for 42 percent of the domestic trips taken in 2019.

The main tourism routes are between Honiara and airports in New Georgia (Seghe and Ramata) and Suavanao in Isabel, which operate 4–5 days a week and accounted for 11 percent of passenger traffic in 2019. Overall, the propensity to fly is low by international standards, with high prices likely a key barrier. In 2019, there were only 0.13 flights per person – among the lowest utilization rates in the Pacific – with prices high relative to household incomes and much higher than in neighboring Vanuatu for routes of similar length (World Bank, 2017). A passenger ticket on a flight from Honiara to most provincial cities is around three to five times more expensive than an equivalent boat ride. This makes aviation prohibitively expensive for all but those with the highest propensity to spend and traders of the highest value goods, such as premium seafood, despite the considerable savings in time.

⁹⁴ Only seven airports have runways that can accommodate the larger Dash-8 plane, which must be at least 900 m in length (the main international airports at Honiara and Munda) smaller and remote airports at Santa Cruz and Lomlom in Temotu; Bellona in Rennell and Bellona, Kiarakira in Makira, and Manaoba in north Malaita. Donor-funded projects are underway to extend the runways in Seghe in Western Province and Choiseul Bay.

Table A.4: Domestic transportation prices from Honiara to major provincial destinations as of August 2023*

Destination (province in parentheses)	Shipping		Aviation	
	Price for one passenger	Time taken to reach destination	Price for one passenger	Time taken to reach destination
Auki (fast boat)	SBD 250	2 hours	SBD 1,173.32	20-30mins
Auki (slow boat)*	SBD 150	9 hours		
Buala (Isabel)	SBD 300	7 hours	SBD 1,325.28	40 mins
Taro (Choiseul)	SBD 600	5 to 7 days	SBD 2,421.54	2 hours
Kira Kira (Makira)	SBD 450	17 hours	SBD 1,569.50	45 mins
Tulagi (Central)	SBD 150		NO FLIGHTS TO DESTINATION	
Gizo (Western)	SBD 600	15 hours	SBD 2,036	1 hour 05 mins
Noro/Munda (Western)	SBD 570	11 hours	SBD 1,868	1 hour
Lata (Temotu)	SBD 1,000		SBD 3,067	2 hours
Tingoa (Rennell & Bellona)			SBD 1,568	1 hour
Weather Coast Guadalcanal	SBD 400- 450	18 hours	NO FLIGHTS TO DESTINATION	

*Reflects best attempts to capture the price of the most direct boat trip, though this involves multiple stops in some instances, such as the Auki slow boat.

Source: Staff calculations based on data provided by various transport operators.

However, aviation provides somewhat of a lifeline in the most remote areas. A few weekly flights in larger Dash-8 planes service routes between Honiara and the outlying provinces of Rennell and Bellona, and Temotu. While the propensity to fly is higher than the national average (Rennell and Bellona Province: 2.17 trips per year; Temotu: 0.22 trips), the overall scale is still low, implying that aviation cannot offset these areas' structural disadvantages. The combination of weak demand, small planes, and long distances also means that Solomon Airlines faces many of the same diseconomies of scale that affect inter-island shipping.⁹⁵ According to Solomon Airlines, domestic demand for aviation is growing, given the poor quality of inter-island shipping. The fastest growing routes are also those that are the largest: between Honiara and Munda, Gizo and Choiseul Bay.

Extreme weather and land disputes can disrupt aviation schedules. This is particularly true during the cyclone season (Nov–Apr). However, outside these extremes, functioning infrastructure can be rendered inoperable due to its configuration and/or exposure to weather conditions. Within aviation, most provincial airports still lack an all-weather airstrip and have outdated infrastructure and facilities that are poorly maintained and do not meet market expectations. This can lead to long delays in passenger and freight movements and adversely affect tourism flows when weather conditions are poor. Land disputes can also shut down airports; recent examples include the airports of Manaoba in north Malaita and Marau in east Guadalcanal, where flights have been suspended indefinitely due to disputes with local landowners.

⁹⁵ Smaller twin otter planes, which are the only planes that can land at most provincial airports, must carry fuel for return journeys. This reduces payloads and means that only around half of all seats can be booked for longer journeys (for instance to Choiseul, Makira and Isabel). Flights between Honiara and Lomlom in Temotu, only had 64 percent of the passengers in the return journey to Honiara. On the Honiara-Bellona route it was 90 percent. This bucks the nationwide trend, in which there is typically more passengers flying to Honiara than on the equivalent route out.

Connectivity Regression Analyses

For the linear regression analyses, the following model was estimated:

$$y = X\beta + \varepsilon$$

With y the share of the ward-level 12+ population engaged in income earning activities, X a set of covariates including a constant, a measure for remoteness (the average distance of each ward to all other wards, weighed by population), a set of dummies for connectedness, urban wards and wards with an airport. ε is a well-behaved error term. Due to the cross-sectional nature of the data and non-random assignment, the interpretation of coefficient estimates should be treated caution. Data and variables are based on the 2019 census.

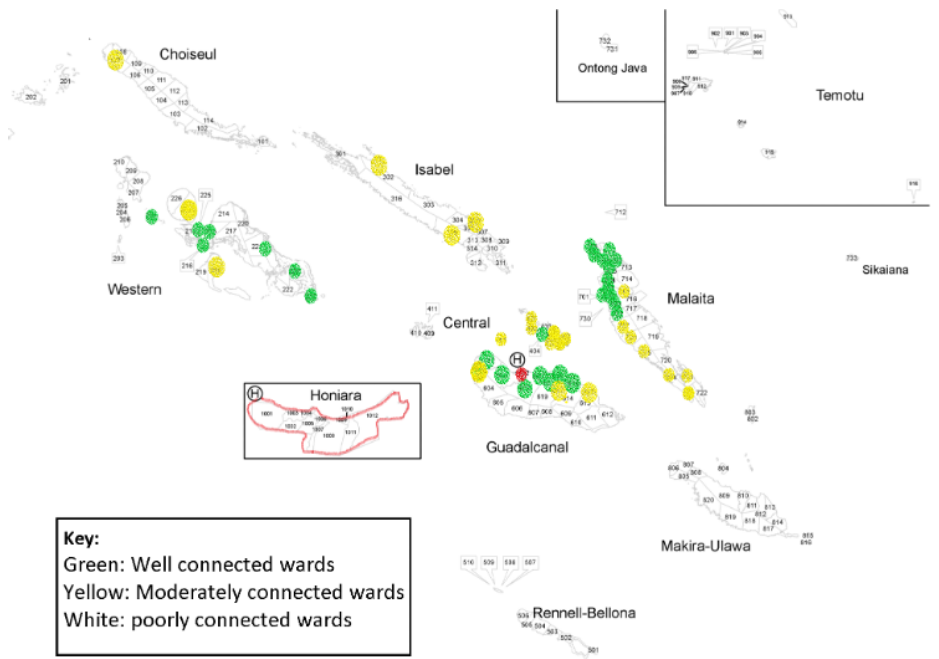
The specification for the difference-in-differences model is the following:

$$y_{i,t} = \beta_0 + \beta_1 D_{i,t} + \beta_2 T_t + \beta_3 T_t D_{i,t} + \varepsilon_{i,t}$$

With y the outcome variable of interest, D a treatment dummy, T a time period dummy, β_3 the difference-in-difference estimator, and ε a well-behaved error term. The treatment refers to the construction of twelve donor-supported wharf refurbishments completed in rural communities across 2014–2016, financed by the Asian Development Bank (project number 40263-022). Data and variables are at the ward-level and are based on the 2009 and 2019 census. Regression output is available upon request.

All non-Honiara wards are categorized according to how well connected they are with Honiara (Figure A3). In each case, connectivity is evaluated in reference to the spatial distribution of necessary connective infrastructure, the quality and regularity of services, costs and safety.

Figure A.3 Connectedness at the ward-level



- **Green = Well connected:** Includes wards situated on trunk shipping routes or with good road connection to such a location; also includes wards with good overland connection to Honiara.
- **Yellow = Moderately connected:** Includes wards situated on minor shipping routes, wards where access to Honiara or another well connected ward is possible with a short journey on a small boat; wards with road access to Honiara via a longer overland journey.
- **White = Poorly connected:** Includes wards with, at best, monthly maritime connection with Honiara; and wards where access to a moderately-connected ward is only possible via a longer journey on a small boat or overland.

Figure A.4 ADB-financed wharf investments



Land Registration and Land Recording in Solomon Islands

The most commonly used process for the registration of customary land is set out in the Lands and Titles Act, Part V, Division 1. It includes several steps, which are outlined in the table below. Alternatively, customary land can be registered by settlement (Part IV) or compulsory acquisition (Part V, Division II).

Table A.5: Land registration and acquisition under Division 1 of the Lands and Titles Act

Phase 1	Land acquisition project proposal applications received from either the National Government or Provincial Assemblies.		
Phase 2	Land Acquisition Officer (LAO) appointed by either the Commissioner of Lands on behalf of the Government or Provincial Assemblies.		
Phase 3	LAO with the support of the MLHS Land Unit and Line Ministry or Provincial Assemblies conducts land acquisition following the Land Acquisition Project TOR		
Step 1	LAO Publish Notice for 1st Hearing to ID landowners and discuss land acquisition subject area		
Step 2	1st Hearing	Lease land or	LAO conducts a public hearing
		Purchase land	
Step 3	LAO produces an acquisition report outlining the determined landowners of the subject land area		
Step 4	90 days appeal period	If no appeal	Move to Step 7
		If appeal	Go to Magistrate Court (Step 5)
Step 5	Magistrate Court determines appeal – either affirms or nullifies LAO acquisition report. 90 days appeal period – appeal?	If the Magistrate affirms the LAO acquisition report and there is no appeal	Move to Step 7
		If the Magistrate affirms the LAO acquisition report and there is an appeal	Go to the High Court (Step 6)
		If the Magistrate nullifies the LAO acquisition report	Acquisition process ends
Step 6	High Court	Either affirms or overrules the Magistrate Court decision	High Court decision final If the High Court affirms LAO findings move to Step 7
Step 7	Cadastral Survey of the subject land area	MLHS Land Unit and Line Ministry assist in this process	
Step 8	Vesting Order	MLHS Land Unit assists in this process - by preparing VO and a declaration of trust document	
Step 9	Registration of the subject land area		
Step 10	Execution of land Lease or Purchase Agreement		

An alternative process is the recording – rather than the registration – of interests in customary land, as established by the Customary Land Records Act. The different steps of land recording are presented below.

Table A.6: Land recording under Customary Land Records Act

Step 1	Public Declaration of Recording Zone	An area can be declared a recording zone upon request from: (1) the National Government; (2) the Provincial Government; or (3) from three or more landowning groups within the area.
Step 2	Identification and Announcement of Recording Centres	Centres identified must be announced through media or written notices.
Step 3	Declaration of existing land units within recording zones	Existing land units within the declared recording zones must be declared by landowning groups and their communities at the respective Recording Centres. The declaration session is to be conducted by the Recording Officer.
Step 4	Application from Land Holding Groups claiming ownership of the declared land units	The application must be on the prescribed form and the following must be attached: (1) tribal genealogy; (2) land boundary (boundary agreement forms must be jointly signed by parties sharing common boundaries); (3) Land Trust Board.
Step 5	Application to be forwarded to House of Chiefs for verification and endorsement	The application must be forwarded to the House of Chiefs (or equivalent) serving the area, for verification and endorsement before submitting to the Land Recording Office. Fees if introduced will be paid upon submission of application.
Step 6	Three Months' Notice	The Three Months' Notice applies only if the application has not gone through stages 1, 2 and 3. If the application is disputed the recording process terminates.
Step 7	Recording begins	Documentation and recording of customary land data, tribal genealogy, survey of land boundaries, and records of established land trust boards.
Step 8	Storage of Records	Records shall be updated every two years.

Source: Sullivan (2007)

Summary of RSE and PALM

Table A.7: Summary of RSE and PALM

	RSE	SWP (now seasonal stream under PALM)	PLS (now long-term stream under PALM)
Host country	New Zealand	Australia	Australia
Year of establishment	2007	2012	2015
Eligible Pacific Island countries	Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Tuvalu, Vanuatu		
Annual cap on number of visas granted	First set at 5,000 in 2007 but has steadily increased to 16,000 for 2021/22 intakes.	No cap	
Visa duration and work entitlement	Up to 7 months during any 11-month period, except workers from Tuvalu and Kiribati, who can stay for 9 months because of the distance from New Zealand and the cost of travel.	Up to 9 months in any calendar year, except workers from Tuvalu and Kiribati, who can stay for 11 months because of the distance from Australia and the cost of travel.	1–4 years
Industrial sector	Horticulture and viticulture industries	Agriculture, tourism, accommodation, meat work, aged care	
Cost incurred by workers	50% of airfare, predeparture costs, health insurance while in host countries	Airfare, predeparture costs, health insurance while in host countries	
Cost incurred by employers	50% of airfare, quarantine costs during the COVID-19 pandemic	50% of airfare, quarantine costs during the COVID-19 pandemic	
Safeguard mechanism in place for workers		Vetting of employers and stringent criteria for participation, including meeting required accommodation standards, providing sufficient hours of work, pastoral care, and other provisions. Monitoring and compliance framework, including site visits and spot checks, regular reporting requirements, support service hotline. Pastoral care services provided by employers. Relationship managers in place.	
Wage rates	Employers are legally required to pay migrant workers the same wages as nationals.		

Sources: Immigration New Zealand; Australian Department of Foreign Affairs and Trade (DFAT).

Note: PALM = Pacific Australia Labour Mobility; PLS = Pacific Labour Scheme; RSE = Recognised Seasonal Employer scheme; SWP = Seasonal Worker Programme.

Tourism Investment and Comparisons

Table A.8: Tourism investment incentives

INVESTMENT CATEGORIES	INVESTMENT VALUE* *Solomon Islands Dollar (SBD)	INCENTIVE TYPE
NEW TOURISM INVESTMENTS Value = minimum investment requirement, excluding land cost.		
MAJOR	SBD 20 million	Tax Incentives: - Tax Free Period - Trading Loss Tax Offset Duty Exemptions: - Import Duty Exemption - Renewable Energy Generation Equipment Other Incentives: - Electricity Generation - Accelerated Depreciation Allowance
SMALL TO MEDIUM	SBD 1 million	Tax Incentives: - Investment Tax Allowance - Trading Loss Tax Offset Duty Exemptions: - Import Duty Exemption Other Incentives: - Electricity Generation - Accelerated Depreciation Allowance
TOURISM JOINT VENTURE INVESTMENTS Value = minimum investment requirement, excluding land cost	SBD 15 million	Tax Incentives: - Income Tax Exemption
EXISTING TOURISM OPERATORS Value = minimum investment requirement, excluding land cost	SBD 20 million	Tax Incentives: - Income Tax Exemption Duty Exemptions: - Import Duty Exemption - Renewable Energy Generation Equipment Other Incentives: - Marketing and Promotion Expenses
MARINE AND DIVE TOURISM INVESTMENTS Value = minimum cost of Marine Vessel	SBD 2 million	Tax Incentives: - Investment Tax Allowance Duty Exemptions: - Tourism Cruise Vessel and Dive Equipment
AVIATION INVESTMENTS Value = minimum investment requirement	SBD 5 million	Duty Exemptions: - Import Duty Exemption - Goods and Services Tax (GST) Exemption

Table A.9: Tourism investment process

STEP 1.	Investor has an introductory meeting with the Directors of InvestSolomons and the Tourism Division Investment Officer/s assigned to investor to provide support throughout the process Investable sites presented to investor	InvestSolomons Ministry of Commerce, Industry, Labour and Immigration (MCILU) Tourism Division - Director Ministry of Culture and Tourism (MCT)
STEP 2.	Investor to decide whether to engage a reputable local agent based in Honiara to assist in the investment registration process	Investor's Decision
STEP 3.	Investor to prepare the following documents in advance of Step 4: Letter from a bank proving that the investor has access to funds for the project Police Clearance Certificate and medical report from home/resident country	Investor's Responsibility
STEP 4.	a. Apply for Foreign Investment Certificate b. Prospective investors to open a bank account with any of the commercial banks in Solomon Islands* <small>*The timing of opening this bank account is subject to change. Investors should confirm with InvestSolomons the timing of when it is required.</small> c. Investor to show proof of its financial capacity to carry out the proposed project against which it has submitted its application	InvestSolomons - Director (MCILU) Investor's Responsibility Investor's Responsibility
STEP 5.	Incorporate Business <i>Constructing a new resort/tourism project?</i>	Company Registrar (MCIU)
	<i>Existing site/property?</i>	
	STEP 6. a. Source land	Various: including Tourism Division and Ministry of Lands, Housing and Survey (MLHS)
	b. Lease / register / pay Stamp Duty on Land	MLHS
	c. Obtain construction permit	Provincial Town & Country Planning Board and/or Ministry of Environment, Climate Change, Disaster Management and Meteorology
STEP 7.	Register for Taxes	Inland Revenue Division (IRD)
STEP 8.	Obtain Business License	Provincial Government
STEP 9.	<i>Employing foreign workers?</i> a. Obtain Work Permit → <i>Staying in the country?</i> b. Obtain Residence Permit	Labour Department and Immigration Division (MCILU)
STEP 10.	Obtain Tourism Operator's License	Tourism Solomons
STEP 11.	Register Pensions	Solomon Islands National Provident Fund (NPF)
STEP 12.	Activities and site specific licenses	Various: Provincial Government Departments (alcohol permit, boat license etc.)

Table A.10: Tourism sector – Comparison with aspirational peer (Fiji)

Indicators	Fiji	Solomon Islands
Natural attractions	<ul style="list-style-type: none"> • Stunning palm-fringed white sand beaches • Clear waters • Lush rainforests • Vibrant coral reefs, lagoons • Cultural diversity • State-of-the-art conference facilities • Diverse landscape • Five-star hotels • World-class snorkeling and diving 	<ul style="list-style-type: none"> • Solomon Island is the third largest archipelago in the South Pacific with a group of 992 islands • World-class snorkeling and diving (5,750 square kilometers of reefs, a rich diversity of marine life) • World war II historical sites, in particular shipwrecks and fallen aircrafts • Unique cultural heritage-traditional art, woodcarvings, music, ancient hillforts, and ceremonial skull shrines. • Ecotourism-including birdwatching, dense native forests, rich biodiversity of flora and fauna, and natural features such as the spectacular Lake Tegano and the Arnavon Community Marine Conservation Area and turtle sanctuary
General attributes	<ul style="list-style-type: none"> • Volume of international visitor arrivals: High (>800,000) • Share of leisure tourist: Large (>55%) • Dominant leisure segment: Couples/family • Profile as a safe and secure destination: Yes 	<ul style="list-style-type: none"> • Volume of international visitor arrivals: Varying • Share of leisure tourist: Low (<30%) • Dominant leisure segment: Marine and adventure • Profile as a safe and secure destination: No
Accommodations	<ul style="list-style-type: none"> • No. of hotels and guest house: 421 (as of December 2023) • No. of International hotels: 31 • 80% of accommodation is on Viti Levu and 11% found in Yasawa and Mamanuca Island • No. of rooms: over 13,000 • Occupancy rates (2023): 90% 	<ul style="list-style-type: none"> • No. of hotels and guest house: 259 (as of December 2023), 5% of them are foreign owned • No. international hotel: Nil • No. of rooms: over 1,991 • No. of tourist operators: over 20 (at least 10 are foreign owned dive business) • Occupancy rates (2019): 70-80%
Infrastructure	<ul style="list-style-type: none"> • Road and other infrastructure quality is good • Well-maintained national parks • More than a dozen golf course • An extensive range of restaurants • A wide variety of accommodation- from budget to five-star, including many large all-inclusive resorts • Cruise arrivals grew significantly after COVID-19 	<ul style="list-style-type: none"> • Road and other infrastructure quality is low • Sea port: 3 (Honiara, Noro and Gizo) • Cruise arrivals (2019): 13

Indicators	Fiji	Solomon Islands
Air connectivity	<ul style="list-style-type: none"> • Key international get way: Nadi International Airport • National airline: Fiji Airways • Connected with over 20 international destinations • Before COVID 19 Nadi was connected to 26 international destinations. • Fiji Airports also manages the Nausori International Airport in Suva and the 13 outer-island airports 	<ul style="list-style-type: none"> • Key international get way: Honiara International Airport • National airline: Solomon Airlines • Connected with 4 international destinations (Brisbane, Australia; Nadi, Fiji; Port Moresby, PNG and Port Vila, Vanuatu) • Solomon airlines serves 21 domestic destinations
Tourism industry maturity	<ul style="list-style-type: none"> • Fiji has a wide range of tour options, covering land, air, and sea. Tours include island and snorkeling day trips, city tours, scenic flights, day hikes, cultural experiences, and longer dive expeditions • Package holidays to Fiji are commonly sold by international tour operators 	<ul style="list-style-type: none"> • Business travelers dominate
Marketing and promotion	<ul style="list-style-type: none"> • Fiji is marketed with the well-known brand “Fiji—Where Happiness Finds You” • Tourism Fiji is responsible for marketing Fiji as a tourism destination • The private sector drives Fiji’s tourism industry • Fiji has multiple regional tourism and destination marketing organizations 	<ul style="list-style-type: none"> • Solomon Islands is branded as “Solomon Is.” The brand was promoted in a 2019 campaign, developed by Tourism Solomons in partnership with Solomon Airlines and the Government of Australia • Tourism Solomons is responsible for marketing Solomon Islands as a tourism destination
Government support and policy	<ul style="list-style-type: none"> • The Ministry of Commerce, Trade, Tourism, and Transport is the lead government agency for tourism policy and planning • Fiji tourism development plan • Fijian tourism 2021 • Government implemented many incentives including tax free zones and tax holidays to attract investment in the hotel industry during early days 	<ul style="list-style-type: none"> • National Development Strategy 2016-2035 proposes an ambitious visitor target of 50,000 arrivals by 2025, it does not outline any specific initiatives, nor substantive plans in relation to tourism • Solomon Islands Tourism Recovery Plan 2021-2030 two main objectives: (i) to get the industry back to its 2019 position and (ii) to grow the industry with a target of 100,000 arrivals per annum by 2035. Achievement of the ambitious 100,000 visitor target relies on visitor arrivals reaching 2019 levels by 2023

