THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

Summary Report

Solomon Islands: Country Economic Memorandum

Unlocking New Sources of Economic Growth

ABSTRACT: The 'Solomon Islands: Country Economic Memorandum – Unlocking New Sources of Economic Growth' examines key barriers to sustainable economic development with a focus on cross-cutting challenges of economic geography and private sector development. Carried out from February 2023 to March 2024, the Country Economic Memorandum (CEM) also looks at constraints in 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 and Constraints

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 disproportionally costly. A small domestic economy, internal dispersion, 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.

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 Tensions[2] 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.

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, three 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.

Solomon Islands faces both cross-cutting and sectoral growth constraints. The abovementioned economic geography constraints are further amplified by poor quality roads and maritime infrastructure, irregular shipping services, and limited digitalization. Furthermore, the rapid but uncontrolled migration to Honiara has delivered few economic benefits and places stress on residents and services. Private sector growth is limited due to land use issues, labor market skills shortages, and a lack of access to finance and affordable energy. At the sectoral level, limited investment, low productivity, missing information, and climate change challenges are restricting growth in agriculture and fisheries. Finally, despite recognized potential, the tourism sector in Solomon Islands remains in a nascent stage.

[1] Structural peers are Comoros, Kiribati, Federated States of Micronesia, Samoa, Timor-Leste, and Vanuatu; these countries have been selected based on economic and geographic characteristics. Aspirational peers are Fiji, Grenada, and Maldives; these countries have reached a higher level of economic development.

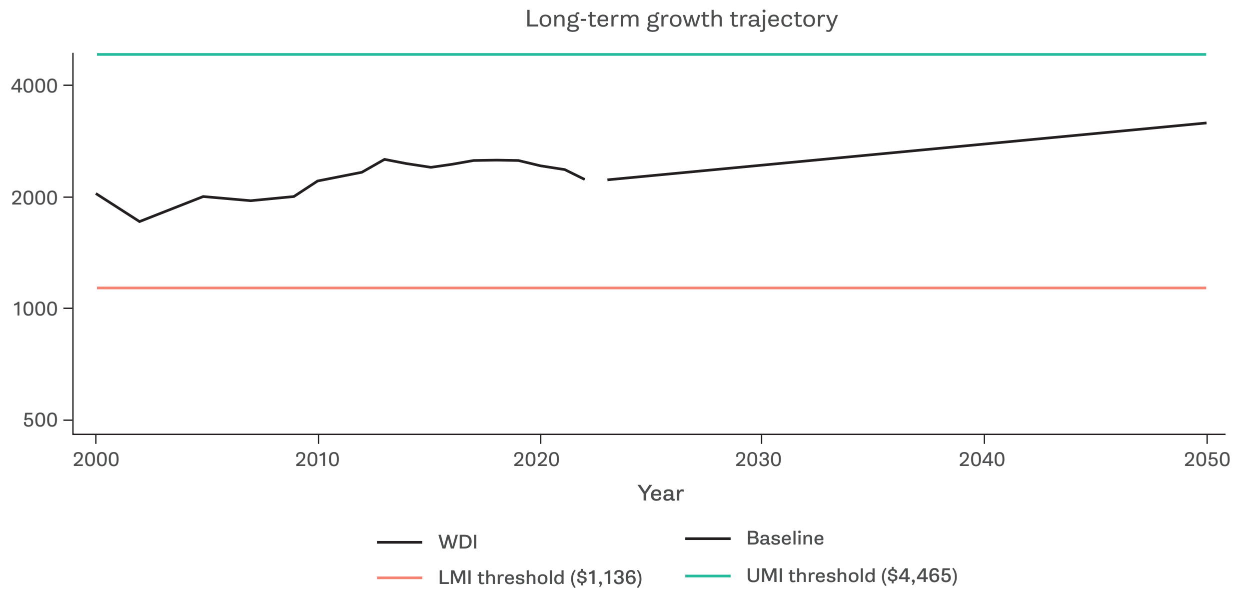
[2] The 'Tensions' is a term given to a period of civil unrest in the late 1990s in which inequities in resource distribution and economic opportunities sparked conflict between provincial ethnic groups.

Table 1: Growth constraints

Cross-cutting	Sectoral
Economic geography: Remoteness from large export markets; a small and dispersed population	**Agriculture:** Elevated cost of finance; poor infrastructure; lack of mechanization; low coverage of extension services; challenges in land use; high utility prices; difficulties in trading within and across borders; low aspirations and limited skills; climate change
Connectivity: Transport difficulties due to ruggedness and adverse maritime conditions; below standard road and shipping networks; poor digital connectivity; lack of access to high-speed internet	**Fisheries:** Inefficient cold chains; poor transport links; lack of information
Urban planning: Uncontrolled migration to Honiara; lack of infrastructure and jobs	**Tourism:** Infrastructure gaps including transportation, accommodation and other facilities; weak tourism governance and costly business environment; difficulties accessing land, finance, and skilled labor
Private sector: Lack of skilled labor; high energy prices; land use issues; limited access to finance	**Labor mobility:** Poor quality basic education; skills shortages and mismatches; reduced working-age population and brain drain concerns; limited earning potential for average worker in Solomon Islands; lack of training and governance

Without reform, Solomon Islands is unlikely to achieve upper-middle-income status by 2050. Assuming historical growth fundamentals continue, GDP growth averages 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 (Figure 1). 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).

Figure 1: Solomon Islands historical growth performance and outlook



Source: World Development Indicators and authors' own calculations.

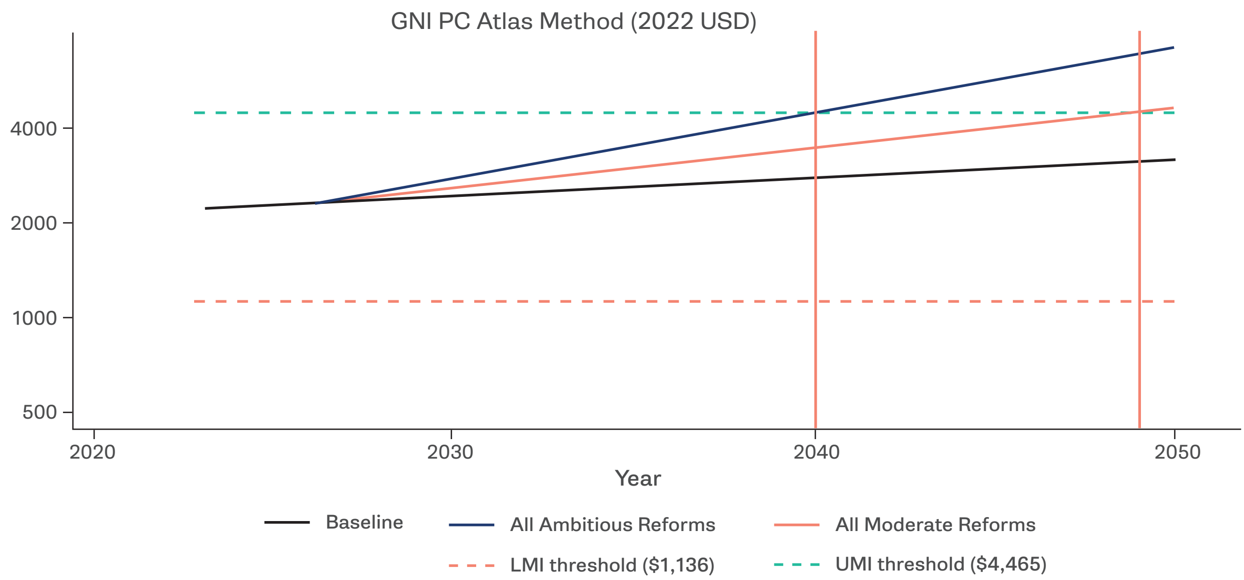
Note: Long-term growth trajectory of per capita Gross National Income (GNI), assuming historical growth fundamental to continue. The green line is the threshold for upper-middle-income countries, the red line is the threshold for lower-middle-income countries.

Growth Opportunities

A comprehensive reform effort tackling cross-cutting growth constraints 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. For instance, results from analyzing the 2019 Census indicate that improved transport and digital connectivity are associated with a shift from subsistence farming to income-earning activities. 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. In a moderate reform scenario, this would take place by 2049 (Figure 2).

Furthermore, overcoming economic constraints may generate a growth dividend in agriculture, fisheries, tourism, and labor mobility programs. The primary sector and tourism have high growth potential,[3] but face several constraints. Addressing key constraints 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.

Figure 2: Long-term growth trajectory, reform scenarios



Source: Authors' own calculations.

Several opportunities exist to expand production in the primary sector. With large yield gaps, significant potential exists to increase domestic supply in agriculture, which would increase consumer surplus and allow for more export opportunities. Apart from the existing export commodities, the domestic market could consider import substitution 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. In terms of fisheries, linking small-scale fisheries with growing urban markets presents opportunities for sustainable and inclusive growth and for enhancing food security. Furthermore, the large and fertile Western and Central Pacific Ocean, which holds the largest tuna fisheries globally, puts the country in a good position to derive additional revenue from sales of fishing access and the further onshoring of tuna processing and ancillary activities.

With significant historical, natural, and cultural assets, Solomon Islands has the opportunity to develop niche markets in the tourism sector. 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 country. For example, tourism destinations targeting historical diving enthusiasts are differentiated from mass market segments, allowing destinations to better appropriate value. These 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.

[3] World Bank. (2017). Pacific Possible. World Bank, Washington, D.C.

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, neither did the country hold a large stock of long-term emigrants. However, participation in temporary mobility schemes has dramatically increased, while emigration has also 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 transfer, government accountability, and increased incentives to obtain higher education.

Policy Recommendations

To reap the benefits from internal migration, it is recommended to improve urban planning. 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 – e.g., investing in skills and vocational training – to facilitate job creation in the capital. Additionally, strategic investments in provincial urban centers could generate economic benefits and reduce migration push factors.

To enhance connectivity for increased growth, targeted infrastructure investments are required. 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, and create scale in inter-island shipping. More generally, transport sector reforms are needed to achieve long-term sustainability. However, it will be important to avoid infrastructure investments that lead to uncontrolled migration instead of rural development. 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.

To stimulate private sector development, a multi-pronged approach is needed, including:
- Strengthening land administration systems, creating a new customary land title, bringing down registration costs, and establishing effective dispute settlement systems.
- Improving access to finance by expanding financial market infrastructure (e.g., payment systems and the credit registry), digital connectivity, and digital financial literacy.
- Lowering electricity prices by improving energy sector regulation (e.g., independent regulator) and supporting private investment in renewable energy.
- Reducing barriers to trade in services such as transportation, logistics, freight handling, and finance.

Modernizing the agricultural sector, combined with measures to raise aspirations, could lead to a substantial growth dividend. Currently, smallholders are using only basic farming hand tools, which is demotivating and makes work arduous. 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. With digital connectivity set to expand, using Information and Communications 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 in the sector needs to increase.

To stimulate growth in the fisheries sector, an approach that focuses on the constraints of producers and environmental challenges is needed. Investments should address post-harvest challenges – as well as improving connectivity, information dissemination, and port and 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. Early warning systems are also essential to address climate-related challenges and depletion of resources.

To reap growth opportunities in the tourism sector, there is a need to build tourism infrastructure and improve governance. It is critical to develop the necessary transport infrastructure, 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. 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.

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, focusing on first language, and improving parental support. Furthermore, the development benefits of long-term migration depend on a high-quality education system. Even low-skilled workers need training to succeed in the overseas job market, including 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. Next, developing a strategic approach to emigration will help to reap the benefits of long-term migration. Finally, Solomon Islands would benefit from building a social protection and jobs system.

Table 2: Recommendations

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).