



**United
Nations**

Committee for
Development
Policy

Crisis Assessment: Solomon Islands

29 March 2023

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I. Background

In 2021, the Committee for Development Policy (CDP) introduced an enhanced monitoring mechanism (EMM) for countries that are graduating and have recently graduated from the least developed country (LDC) category. CDP started its implementation in 2022. As a novel element, the EMM includes a crisis response process. This allows CDP to react to adverse situations in a graduating or graduated country at any time during the year rather than just at the time of the plenary session.

The crisis response process analyzes possible impacts of such situations on graduation and recommends potential support measures, including possible extensions of the preparatory period. The crisis response mechanism can be triggered in two different ways. The first and primary one is a written request by the Government. The second is triggered by the Secretariat when a country exceeds the thresholds of country-specific indicators both set in consultation with Governments. The crisis response process is linked to the other two elements of the EMM, namely the annual monitoring (which includes the submission of a report on progress in preparing for graduation by the Government, an annual virtual consultation between the Government and CDP and the preparation of the monitoring report by CDP) and strengthened support (on which CDP includes specific recommendations in its report and assessments).

Solomon Islands was recommended by CDP for graduation at its plenary session in March 2018, after the country met the criteria for graduation in two consecutive triennial reviews. The CDP recommendation took into account additional information as well as the views of the Government expressed in consultations. Subsequently, the Economic and Social Council of the United Nations (ECOSOC) endorsed the recommendation and the General Assembly took note, setting the scheduled date for graduation at 13 December 2024.¹

In November 2022, the Government of the Solomon Islands triggered the crisis response process of the EMM by sending a letter to the Secretary-General of the United Nations, as the first country to resort to the crisis response process. In its letter, it highlighted its concerns about negative growth trends since 2021. It cited three areas as the sources of the crises: a) the effects of the COVID-19 pandemic, b) riots in the capital, Honiara, in November 2021, c) the food and fuel crises driven by the war in Ukraine. On 19 February 2023, the Government sent a formal request to the Secretary-General for an extension of the preparatory period for graduation from the LDC category by three years, until December 2027.

As part of the crisis response process, the CDP country rapporteur prepares a brief crisis assessment with the support of the Secretariat. The present assessment is based on information collected by a United Nations mission to Honiara (a joint mission by the United Nations Resident Coordinator Office, the United Nations Department of Economic and Social Affairs and the United Nations Economic and Social Commission for Asia and the Pacific between 1 and 10 December 2022, a desk analysis of publicly available information and consultations held with the Government on 7 March 2023 in the margins of the Fifth United Nations Conference on LDCs in Doha, Qatar. It also benefitted from the discussions among CDP members during the CDP Plenary held from 20-24 February 2023 on the monitoring of graduating and graduated countries as well as from the written request by the Government of Solomon Islands for an extension of the preparatory period for graduation and the substantive exchange between CDP and Member States, including Solomon Islands, during the dedicated session at the CDP plenary. An interim

¹ The official reports and resolutions, the country statements and additional analytical documents are available at <https://www.un.org/development/desa/dpad/least-developed-country-category-solomon-islands.html>.

version of the report had been shared with the Government on 19 January 2023. This final crisis assessment report has been approved by the CDP Bureau and will be formally shared with the Government and transmitted to the ECOSOC President and the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States for further mobilization of support and action, if necessary.

I. The crises and main direct impacts

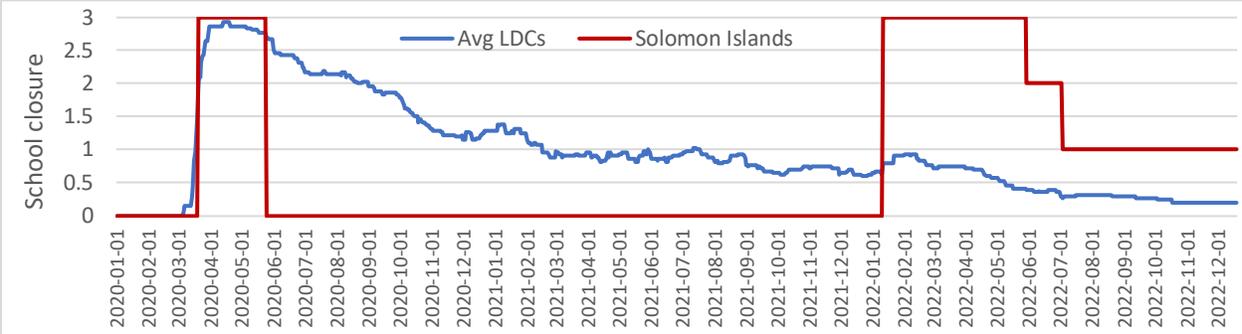
A. COVID-19

Like other Pacific countries, Solomon Islands avoided outbreaks of the global pandemic in 2020 and 2021 but was hit by a major wave in early 2022. Undoubtedly, the later arrival of COVID-19 helped the country to be better prepared than many other developing countries. However, the precautionary measures taken by the Government of Solomon Islands, particularly the closure of the country to international visitors between March 2020 and July 2022, had significant socio-economic impacts. Tourism came to an almost complete halt during that period and is yet to fully recover. The response measures taken to control the spread of COVID-19 also interrupted the implementation of major infrastructure projects that had the potential to contribute to export diversification. In addition, disruptions in global value chains may have had additional knock-on effects on trade flows, foreign exchange earnings, and the decline in growth rates that the Government of Solomon Islands highlighted in its letter to the Secretary-General (see also sections III and V below).

As in many other LDCs, the pandemic had some impacts on health service delivery. For example, the percentage of infants receiving the recommended three doses against diphtheria, tetanus and pertussis (DTP3) fell from 94 per cent in 2019 to 87 per cent in 2021. As of 28 February 2023, the vaccination rate against COVID-19 in Solomon is 47.5 per cent, higher than the LDC average of 44 per cent but lower than in all other LDCs in the Asia-Pacific region except for Afghanistan, see annex.

In many countries, the lengthy period of school closures due to COVID-19 had a negative impact on long-term development. The experience of Solomon Islands is slightly different from many other LDCs. After a short-lived closure in early 2020, Solomon Islands kept its school open until early 2022, when the late COVID-19 outbreak forced a closure, with some restrictions maintained throughout 2022.

Figure 1: School closures during the COVID-19 pandemic



Note on measures: 0 - No measures; 1 - Recommend closing or all schools open with alterations resulting in significant differences compared to non-COVID-19 operations; 2 - Require closing (only some levels or categories, eg just high school, or just public schools); 3 - Require closing all levels.

Source: CDP Secretariat, calculated based on data from Oxford COVID-19 Government Response Tracker (<https://covidtracker.bsg.ox.ac.uk/>), accessed 19 December 2022.

B. Riots in Honiara in November 2021

On 24-27 November 2021, the capital Honiara was severely affected by civil unrest, which included widespread looting and burning down of property. The riots prompted the Government to request security assistance from Australia to stop the riots. Generally, deep-rooted grievances between different groups of islanders or ethnic groups and lack of development perspectives in rural areas are seen as the main underlying cause of conflict.

The riots had very high direct economic costs. In December 2021, the Central Bank estimated the economic damage to be SBD 534 million, the equivalent of 4 per cent of GDP. The retail and wholesale sector was the most affected. Almost 60 per cent of the estimated damages occurred to building infrastructure, while 40 per cent accounted for by the value of goods destroyed. Based on studies by the Asian Development Bank in April 2022, the Government revised the figures, estimating total costs of the riots to be even higher, SBD 811 million, more than 6 per cent of GDP.

C. War in Ukraine

Fuel, food and fertilizer prices significantly increased since the Ukraine war started in February 2022, fueling inflation and creating disruptions of markets in these essential items in both developed and developing countries. While prices on world markets have mostly returned to pre-war levels, the concurrent and related depreciation of most currencies against the United States Dollar (with currencies of oil-producing developing countries as the main exception) has continued to fuel inflation. Moreover, the need to protect populations against the impact of rising prices has led many countries to increase fiscal spending, reducing fiscal space already shrinking due to financing COVID-19 response measures.

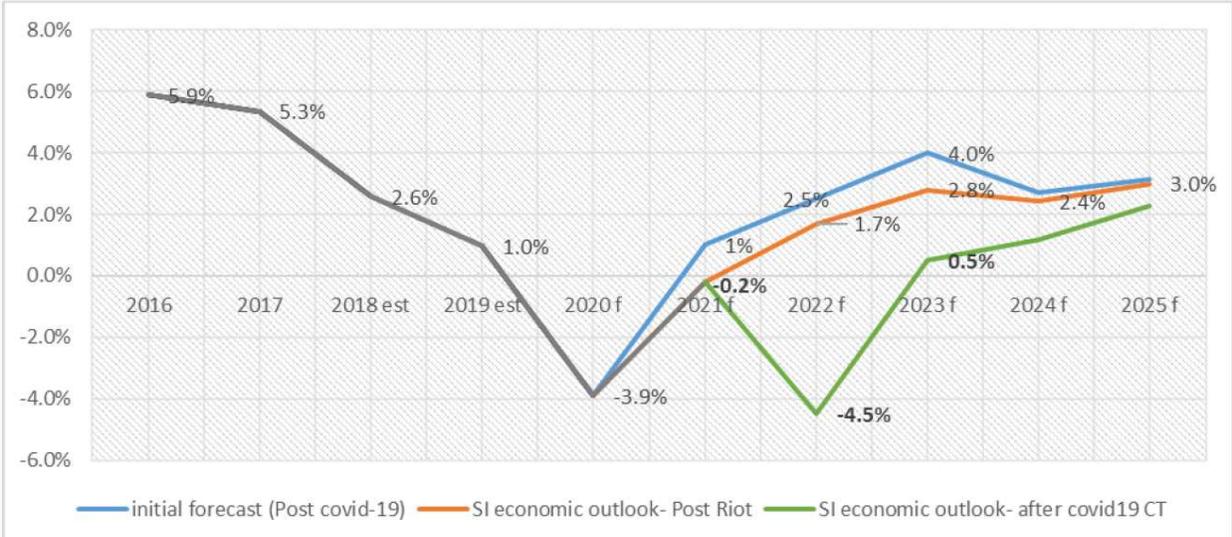
Solomon Islands is extremely dependent on imports for both food and fuel, with a cereal import dependency ratio of over 96 percent and fossil fuel import dependency of over 60 per cent. In particular, the higher oil price led to a rising import bill. As rice is the main staple, the country was not affected by the disruption of wheat markets after the invasion of Ukraine. However, the country is vulnerable to further proliferation of export restrictions affecting the rice markets and to possible price increases due to reduced future production in rice-exporting countries caused by higher fertilizer prices. There is no information on actual and planned fiscal expenditures to mitigate the impacts of the war on food security in Solomon Islands.

II. Macroeconomic impacts

The combined impact of COVID-19 and riots caused a major decline in GDP in 2022, following those already recorded in 2020 and 2021. The Government forecast included in the budget speech from April 2022 highlights both the lasting impact of the riots and the massive impact of the 2022 COVID wave. After the large decline in 2020 when the country was largely closed because of the global pandemic, the Government had expected a resumption to moderate growth for 2021 (grey line). However, after the riots in November 2021, the Government estimated growth to be stagnant in 2021 itself and cut forecasts for 2022 and 2023 by around one percentage points (orange line). After the local COVID outbreak in early 2022, forecasts indicated a massive deterioration in economic growth for 2022 (green line).

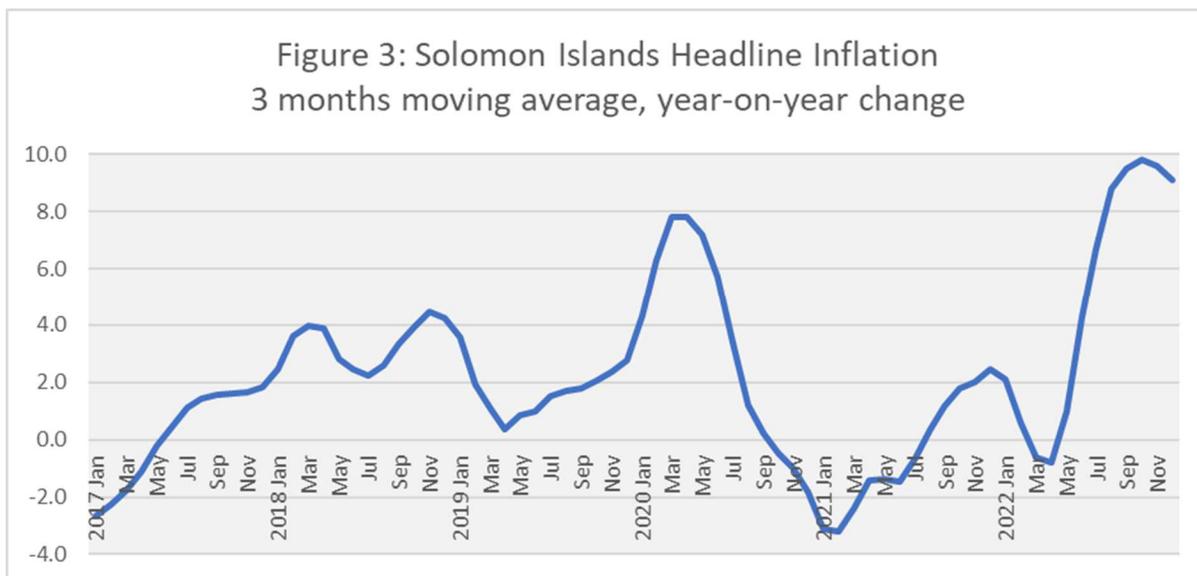
Nevertheless, current economic forecasts are positive, mainly driven by the 2023 Pacific Games hosted in the country. Forecasts by the IMF from October 2022 are slightly more favorable than the Government forecasts from April, with growth rebounding in 2023 to 2.6 per cent. However, growth rates remain below 3 per cent throughout the forecasting period until 2027, remaining in each year only slightly above population growth of slightly above 2 per cent. Currently, it is not clear whether these forecasts capture the full impact of the crises, particularly the very recent rise in inflation, other impacts of the war in Ukraine, and changes in global interest rates.

Figure 2: Solomon Islands - real GDP growth



Source: Government of Solomon Islands. The 2022 Budget Strategy and Operational Rules. 14 April 2022.

Inflation has increased significantly in recent months, though the increase remains lower than in most other LDCs and has slightly decreased since reaching a peak of 9.8 per cent in October 2022.



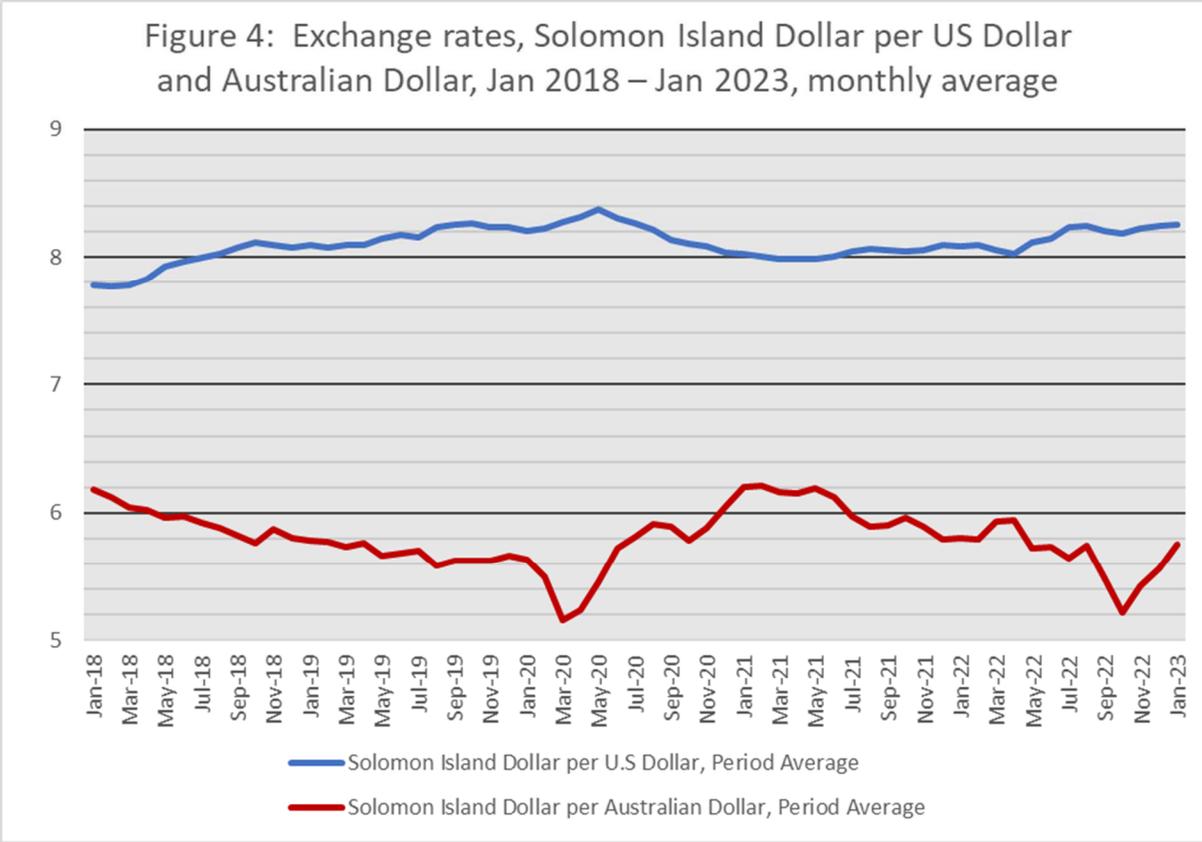
Source: Solomon Islands National Statistical Office (until March 2022) and Central Bank of Solomon Islands Monthly Economic Bulletins (April to December 2022)

While the Government received additional external budget support and direct assistance to address COVID-19 from its bilateral and multilateral partners, higher public expenditure caused increasing fiscal deficits and debt levels, though these remain far lower than in many other LDCs. Government deficit for 2022 is estimated by IMF to be 6.2 per cent of GDP, far higher than the pre-COVID deficit of -1.6 per cent in 2019. Gross central government debt stock in October 2022 stood at SBD 1,840 million, still less than 15 per cent of GDP (though much higher than in 2019 when Central Government debt was 8 per cent of GDP). Debt is predominantly long-term (93 per cent in the second quarter of 2022), with an increasing share of domestic debt (39 per cent in the second quarter of 2022, compared to 25 per cent in 2019). As of the second quarter of 2022, most domestic debt is held by public financial institutions, state-owned enterprises and commercial banks.

While the independent central bank kept an accommodating policy stance during 2022, in March 2023 it decided to tighten its monetary policy stance for the next six months in response to the economic recovery and elevated inflationary pressures.²

Amidst the challenging external macroeconomic conditions, foreign reserves are trending slightly downwards but remain relatively high, covering thirteen months of imports of goods and services in October 2022. The Solomon Islands dollar depreciated vis-à-vis the United States dollar but appreciated against the Australian Dollar and other international currencies such as Euro or Japanese Yen.

² <https://www.cbsi.com.sb/monetary-policy/current-monetary-policy-stance/>



Source: IMF, International Financial Statistics (<https://data.imf.org/>), accessed 25 Jan 2023, for data until Sept 2022; and CBSI. Monthly Economic Bulletin, December 2022, for Oct. to Jan 2023.

III. Implications of crises for graduation

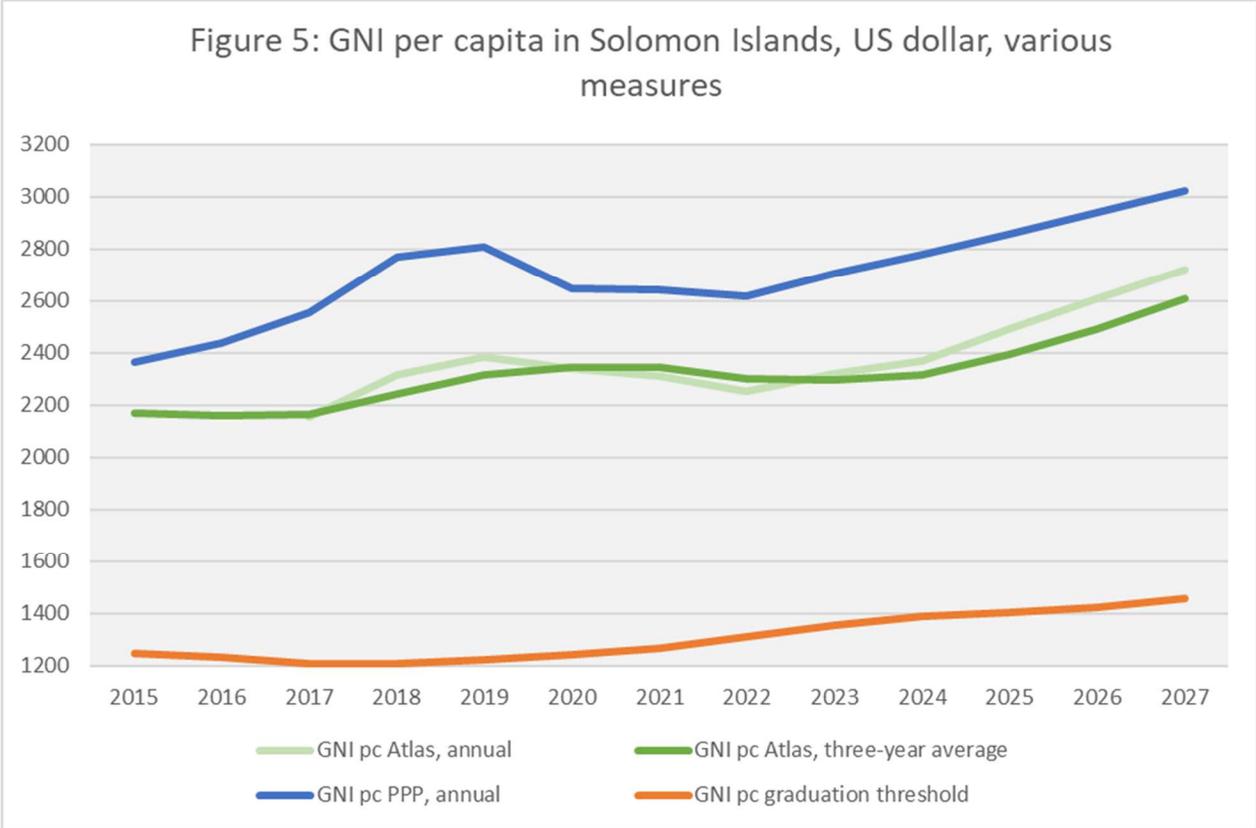
A. Impact on graduation eligibility as measured by the least developed country criteria

In 2018, Solomon Islands had been recommended to graduate based on its surpassing the graduation thresholds of two of the three LDC criteria, GNI per capita (using Atlas conversion factors to convert national currencies into United States dollars) and human assets index (HAI), in both the 2015 and 2018 triennial reviews. Solomon Islands continues to have a very high level of vulnerability as measured by the third LDC criterion, the economic and environmental vulnerability index (EVI). However, the crises outlined above are expected to have only a small impact on the very high vulnerability of Solomon Islands to economic and environmental shocks as measured by EVI.³

The decline in GDP since 2019 and the currently available forecasts translate into stagnating or slightly declining GNI per capita, but this is expected to remain far above the expected graduation threshold for

³ The EVI contains eight indicators, four on economic vulnerability (share of agriculture, forestry and fishing in GDP; remoteness and landlockedness; merchandise export concentration, instability of exports of goods and services) and four on environmental vulnerabilities (share of population living in low elevated coastal zones, share of population living in drylands, instability of agricultural production, victims of disasters). See <http://bit.ly/CDP-LDCs>.

the 2024 triennial review of US dollar 1,310. Given such margins, the GNI per capita of Solomon Islands would drop below the graduation threshold only as a result of either a massive currency depreciation – that has not happened so far, see above - or the recurrency of more dramatic real shocks (such as, e.g., experienced during the ‘tensions’ period in the late 1990s/early 2000s). GNI per capita with purchasing power parity (PPP) conversion factors, one of the CDP’s supplementary graduation indicators, is also stagnating with an expected slow recovery. While GNI per capita measured with PPP is higher than with Atlas conversion factors, the difference is markedly lower than in most other LDCs due to comparatively higher costs-of-living in island economies such as the Solomon Islands.



Source: CDP Secretariat, based on Time series estimates of the LDC criteria 2002-2022, and economic forecasts by IMF World Economic Outlook (October 2022).

Note: Years refer to calendar year. GNI criterion and threshold are applied two years later, e.g., the 2022 values will be applied in 2024.

There is little information currently available on the impacts of the crises on HAI. In its comprehensive study on the impact of COVID-19 on LDCs published in 2021, CDP found that COVID-19 is more likely to halt or reduce progress in the health indicators included in HAI (under-five mortality rate, maternal mortality ratio and stunting prevalence) than in significant and lasting deterioration of HAI scores. Available global estimates appear to confirm this early assessment, though it should be acknowledged that for Solomon Islands (as for many other LDCs) information through health surveys and administrative data is limited. Among the education indicators included in HAI, gross secondary school enrolment could react most strongly as a result of COVID-19 closures, but there is currently no information for 2021 and 2022 available from the Ministry of Education, neither on enrolment rates nor on related information on

completion and drop-outs rates. Overall, given the significant margins of Solomon Islands' HAI score to the graduation threshold, it is unlikely that the three crises would induce a drop in HAI below the graduation threshold. However, it should be noted that pre-COVID baseline information on mortality and literacy has relatively higher uncertainty than in many other countries, not least as the results of the 2019 census are yet to be made available to international organizations.

B. Impact on capacity to plan for graduation

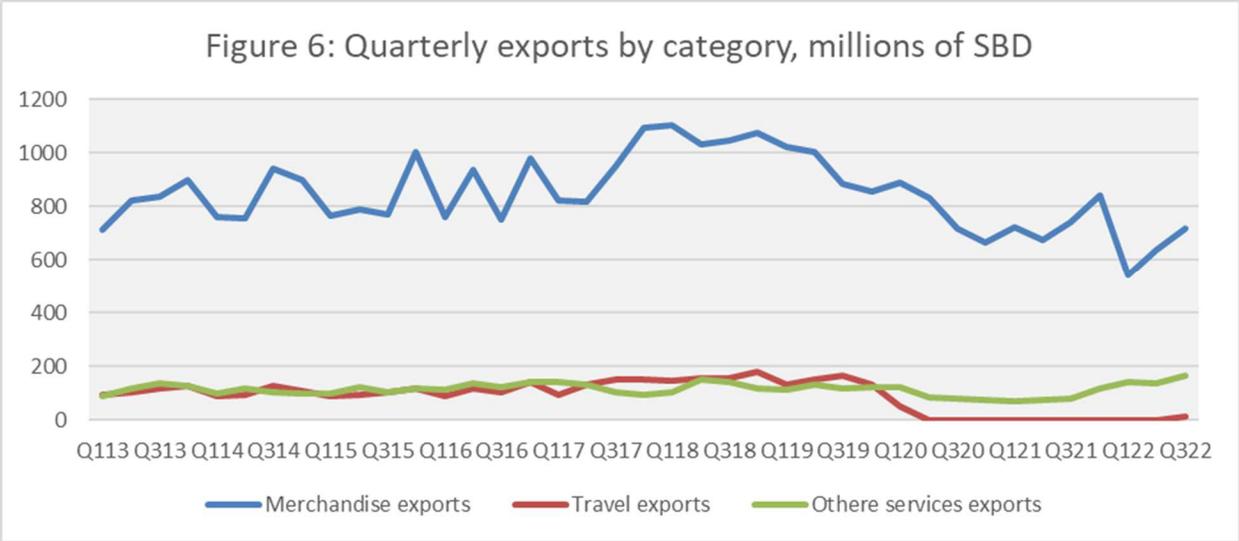
Graduation planning in Solomon Islands has been disrupted by COVID-19 and the riots. In December 2018, the General Assembly took note of the CDP recommendation to graduate Solomon Islands and set the graduation date as 23 December 2024. The Government initiated planning in 2019, setting up a graduation committee and preparing a roadmap to graduation, with support from the Inter-agency Task Force on graduation of the United Nations. However, during the time between the lockdown in March 2020 and the lifting of border and travel restrictions closures in July 2022, the planning for graduation appears to have come to a standstill, except for the country consultation between CDP and the Government in January 2022. Importantly, there was no possibility to conduct country-wide awareness campaigns and inclusive consultations since 2020, activities that appear to be of special importance for Solomon Island given the fragile social and political situation in the country.

Additional recent shocks have further affected the graduation planning capacity. For example, while overall damages from two earthquakes in November 2022 are limited (with costs initially estimated by the Central Bank to be less than SBD 2 million, around 0.02 per cent of GDP), they did require the temporary closure of the national planning office. For 2023 and 2024, the Government expects administrative and political activities to focus on the Pacific Games (2023) and the postponed general elections (2024).

IV. Impacts on external flows and international support in trade and development financing

A. Trade

Available data reveals that international tourism revenue completely evaporated between early 2020 and mid-2022. Merchandise exports also declined further, driven by lower exports of the main commodity, logs, to China. However, it is unclear whether this is caused by COVID-related supply constraints, improved sustainability of the logging industry, COVID-related demand decline in China, or other factors.



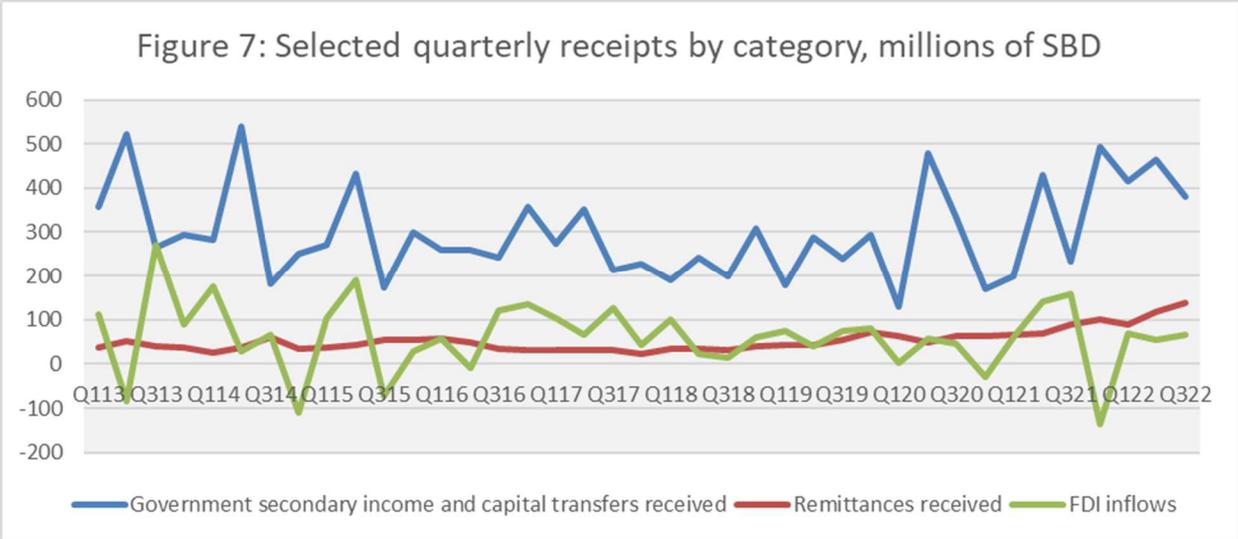
Source: CBSI. Balance of Payment Statistics. December 2022.

There have been two major trade policy changes since the graduation recommendation in 2018. First, in May 2020 Solomon Islands acceded to the interim Economic Partnership Agreement (EPA) with the European Union (and subsequently to a similar agreement with the United Kingdom). This agreement ensures post-graduation duty-free quota-free access to these markets, including for canned tuna, which had been identified as the largest possible negative impact of the LDC graduation. The EPA also allows for more favourable rules of origin than the LDC-specific scheme. Import data from the EU indicate stable overall exports of tuna over the past years.

Second, Solomon Islands acceded in 2021 to the DFQF-programme of China. While data on the utilization of China’s DFQF for 2021 is not available, Chinese import data reveal that imports from Solomon Islands continue to be dominated by logs (which were already duty-free before 2021). There have been some limited imports of seaweed to China, which could be related to the DFQF programme.

B. Development cooperation

The multiple crises have underscored the importance of development cooperation for the country. In fact, development partners have provided financial and technical support to assist the country in addressing the multiple crises, though additional support will most likely be required.



Source: CBSI. Balance of Payment Statistics. December 2022.

There is no information that graduation would have a significant impact on development cooperation. The main consequence would be losing access to the LDC Fund under the United Nations Framework Convention on Climate Change, though the country would keep priority status for the much larger Green Climate Fund as a Small Island Developing State.

The emergence of China as a new development partner is the main change since the recommendation for graduation in 2018, though information contained in the 2022 budget indicate that support through the budget from the new partner appears to remain smaller than support from traditional multilateral and bilateral partners. A second notable development has been the signing of an agreement by the Government with the United States Millennium Challenge Cooperation for a grant of over SBD 165 million, which will focus on management of the forestry sector and land access for tourism investment.

C. Other external flows

There is no notable impact of the crises on aggregate remittances evident in the balance of payment data, though remittances play a far smaller role in Solomon Islands than in other Pacific countries. Similarly, there is no clear trend in foreign direct investment, which is normally highly volatile during crisis. However, the development of a major new tuna canning plant on Malaita has commenced, supported by financing from the World Bank’s International Finance Corporation and the Government of New Zealand. The plant is expected to create employment opportunities for more than 5,500 persons, including 1,600 jobs mostly for women in the plant itself. It is not clear, though, if this investment is related to the improved market access in the European Union discussed above.

V. Support needs and suggested course of action

Based on the present analysis, the consultations with the Government and the discussion at the CDP plenary, the CDP finds that external and internal events have disrupted both the development progress and the graduation process. Therefore, CDP suggested the following course of action:

- **Extension of preparatory period:** CDP agrees with the Government that an extension for an additional three years is required to prepare for graduation due to the disruptions caused by the COVID-19 pandemic, the war in Ukraine, disasters from natural hazard such as the recent earthquake, and domestic civil unrest during the 2021 riots. In particular, the lockdown and border closures between March 2020 and July 2022 had halted the graduation preparations while the riots have highlighted the special importance of inclusive in-country consultations in Solomon Islands. CDP is of the view that, for the additional preparatory period to be effective, the Government should make a firm commitment to prepare a smooth transition strategy by the end of 2024 so as to have sufficient time for consultations and finalization. During the extended preparatory period, Solomon Islands is advised to also start implementing appropriate domestic policies to minimize the negative impacts of the external shocks and promote productive capacity. CDP refers to the High Representative for LDCs, LLDCs and SIDS to provide guidance to the Government on the process for Member States to grant the required extension of the preparatory period. It also emphasizes that in the upcoming report to the Economic and Social Council, CDP highlighted a need for clear guidance from the Council and the General Assembly on the process of extending the preparatory period preceding graduation.
- **Capacity-building for graduation planning:** The recently launched iGRAD (Sustainable Graduation Support Facility) should be the prime vehicle to arrange for and coordinate necessary capacity-building support for graduation planning. CDP welcomes that the Government has already requested support under the various service offering lines of iGRAD, and detailed discussions on concrete support have commenced. CDP encourages United Nations entities and other development partners to give priority attention to the implementation of support under iGRAD to Solomon Islands.
- **Participation in the enhanced monitoring mechanism:** Given the heightened challenges originating from multiple crises and the possibility of additional negative external events in the future, Solomon Islands would benefit from active participation in the EMM throughout the extended preparatory period and beyond, including by submitting annual reports to CDP and continuing to participate in regular consultations with CDP in line with relevant resolutions of the General Assembly of the United Nations and the Doha Programme of Action.
- **Development partners to support and help address current and deep-rooted challenges:** CDP notes that the current global circumstances expose pre-existing challenges in countries graduating from the LDC category. Hence, it expects development partners to fully and expediently utilize its existing support mechanisms to address immediate stabilization needs as well as deep-rooted structural challenges. The present analysis clearly highlights the importance of continued financial and technical support both for reacting to severe external and domestic shocks as well as for expanding the productive capacities of the country. The discussions with government officials revealed that country-wide awareness campaigns and inclusive consultations are of special importance for Solomon Island given the fragile social and political situation in the country. Moreover, CDP reiterates the importance of coordinating international support, both across providers and sectors, and notes the critical role of the United Nations Resident Coordinator in this regard, including through the organization of development partner roundtables.

COVID-19 vaccination in LDCs – status report of 28 Feb 2023

How many of the **46** LDCs have started vaccinating?

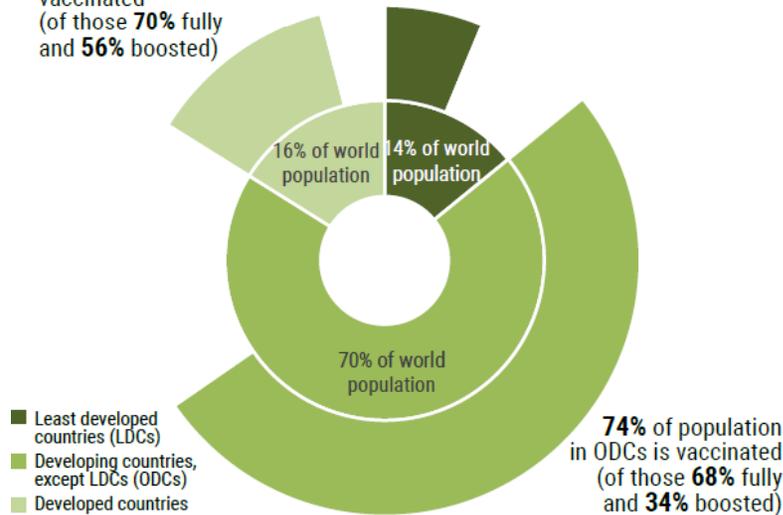


45 LDCs

Are vaccinations administered equally worldwide?

75% of population in developed countries is vaccinated (of those 70% fully and 56% boosted)

44% of population in LDCs is vaccinated (of those 38% fully and 11% boosted)



Source: CDP Secretariat, calculated based on data from *Our World in Data* (<https://ourworldindata.org/>)

What share of population in each LDC has received at least one shot?

